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BOSTON HERALD
THURSDAY, AUGUST 23, 1990

WARREN T. BROOKES

Gingrich to save Bush from Carterism

Last week, in the midst of a foreign policy tour de force, President Bush unaccountably assaulted congressional Democrats over the collapse of the now largely irrelevant budget summit.

This may not have arrested the attention of Bush's Democratic targets, but it might unintentionally have aroused an ally to re-examine the president's whole economic policy position.

House Minority Whip Newt Gingrich (R-Ga.) has been such a good soldier, even while the Bush domestic policy was coming unglued. Many worried those Tuesday Oval Office luncheons were getting to him.

But last Friday night, Gingrich called us to say he was thinking about using a talk to Heritage Foundation to ask Bush to change course from what he now believes has been a "slippery slope to Carterism."

"Refresh my memory," he said, "but during the Carter policy years (fiscal years 1977-1981), didn't we pursue a combination of tight fiscal policy, namely rising taxes, and very loose monetary policy? Wasn't that the Carter economic policy?"

Yes, we said. That is exactly the policy laid out for him by Wharton economist Lawrence Klein during the 1976 campaign.

"And wasn't the result of that policy runaway inflation and falling productivity growth?" Gingrich asked.

Yes, indeed. Inflation soared from 4.6 percent in 1976 to more than 13 percent in 1979, and from 1977 through 1981, we had the worst four years of manufacturing productivity growth in postwar history, with unit labor costs jumping over 8 percent a year and manufacturing productivity rising less than 1 percent. And real disposable income growth plunged to 1.2 percent per year.

"And since 1981, hasn't our policy been exactly the opposite of that — with tight monetary policy to fight inflation and tax cuts to boost supply?" Gingrich asked himself out loud.

Exactly so. The combination of Reagan tax cuts and, ironically, Carter deregulation in transportation plus Reagan deregulation of oil prices helped to offset otherwise stringent monetary policy coming from the Federal Reserve.

"And wasn't the result of that a rapid decline in inflation and a rapid recovery in incomes and manufacturing productivity and output? And a long job-filled expansion?"

Yes. Not only did average inflation fall from 10 percent to 4 percent, but real per-capita income growth nearly doubled, while gross national product growth improved nearly 30 percent. The Labor Department's recent release shows that after a disastrous collapse in U.S. competitiveness from 1977 through 1981, the U.S. manufacturing sector from 1981 to 1989 put on its best performance in U.S. postwar history, rising 3.8 percent per year, while unit labor costs rose only 0.7 percent each year.

"And doesn't this explain why exports may now be saving the U.S. economy from even worse damage?" Gingrich asked.

Yes. The most recent release shows that U.S. exports are still rising a husky 8 percent a year while imports are rising less than 3 percent. This means the trade deficit will come down another $20 billion to $30 billion this year.

"So, why are we now abandoning this strategy?" mused Gingrich. "Why are we suddenly trying to get the Democrats to agree to higher taxes and asking Fed Chairman Alan Greenspan to match those higher taxes with easier money? Isn't this a recipe for a replay of Jimmy Carter?"

Indeed it is. While George Bush has been looking like his idol Teddy Roosevelt in the Middle East and Panama, he has been looking more like the man from Plains on domestic policy.

What's worse, since Manuel Johnson effectively left the Federal Reserve Board last month, Greenspan has been telling Congress that he will match a deficit reduction deal with cheaper money. Meanwhile, Treasury Secretary Nicholas Brady hinted at the appointment of a Keynesian to the Fed and floated a stock-transfer tax, while his aides helped scuttle capital gains tax cut activity in the Senate.

So far, the market reaction has been all bad. Even before the Iraqi invasion, the dollar was falling out of bed, while long-bond rates were edging *up* not down. Nearly all of the hard won commodity deflation over the prior year began to evaporate as metals prices jumped on all fronts.

Above all, an economy that had been giving out mixed signals in May and June, before the budget summit telegraphed higher taxes ahead, was now suddenly flat on its back, with investors sitting on their hands, waiting for the hatchet to fall.

After nine years of modest relief from "taxflation" and regulation, Washington is once again putting its heavy hand on the economic brakes. The Bull Moose may be prowling the shores of the Persian Gulf, but killer rabbits are back at the Treasury and Office of Management and Budget.

The Washington Times

FRIDAY, AUGUST 24, 1990

GOP set to accept cuts in case budget talks fail

By Major Garrett
THE WASHINGTON TIMES

Should the budget talks fail, the GOP is prepared to accept more than $105 billion in across-the-board federal spending cuts on the chance that voters will blame Democrats for the resulting service disruptions, Republican National Committee spokesman Charles Black said yesterday.

"Either public pressure will bring the Democrats to the table . . . [or] the Democrats never negotiate seriously, we never get an agreement and the central theme of this fall's campaign will be the big-spending Democrats have refused to compromise," Mr. Black said during a luncheon with editors and reporters of The Washington Times.

"He's just wrong. He's dead wrong," said Ginny Terrzano, press secretary at the Democratic National Committee. "One of the issues in the fall campaign will be leadership. There has been no leadership from the Bush White House."

Mr. Black said the spending cuts, required by law if a budget deal is not reached by Oct. 1, would disrupt nearly all functions of government.

"This sequester is horrible across the board," he said.

Among other effects of a lengthy sequester, Mr. Black said, up to 75,000 children would be denied access to the Head Start program and most major U.S. airports would close due to a 25 percent cut in the number of air-traffic controllers and federal law-enforcement agencies would be severely hampered.

"We're preparing right now to manage a sequester," Mr. Black said, adding that President Bush "is totally prepared to do that."

His statements were typical of an increasingly aggressive GOP offense against Democrats during the congressional recess, when almost no Democrats are in Washington to defend themselves, and the president is riding high approval ratings for his handling of the Middle East conflict.

Mr. Bush interrupted his Maine vacation early last week to attack Democrats. On Wednesday, House Minority Whip Newt Gingrich, who claims partial credit for the White House offensive, said the talks have been useless, and Republicans should press for tax cuts instead of tax increases.

Bush administration officials are not willing to go as far as Mr. Gingrich, Georgia Republican, and neither was Mr. Black, who accused the Democrats of "playing games" in the talks, scheduled to resume Sept. 6.

Mr. Black said he hopes budget negotiators can reach a five-year deal worth $500 billion in deficit reduction, a herculean task that would dwarf the record $25 billion deficit reduction achieved in the 1987 budget summit.

A deal of this size would lower interest rates, revive the sluggish economy and forestall deeper cuts in defense spending, Mr. Black said. The fiscal 1991 budget deficit most recently has been estimated at $169.7 billion.

Without a budget agreement by Oct. 1 the automatic budget cuts — known under the Gramm-Rudman-Hollings budget law as a sequester — would begin.

The Office of Management and Budget calculates that a sequester would reduce spending for most government programs by 40 percent to 45 percent.

"It's the president's obligation to submit a budget to Congress and they vote on it and he can't hide from that anymore. He will have to make some real tough choices on budget priorities," the DNC's Miss Terrzano said.

"The crisis in the Middle East increases the urgency of getting a budget agreement," Mr. Black said. "The president and [Treasury] Secretary [Nicholas] Brady have warned since the spring that the economy is fragile that something could happen out of our control that might threaten a recession. Now something has happened."

It is unclear what effect the bellicose GOP strategy will have on Democrats, who hold the majority of votes in both chambers of Congress and who have warned that partisanship could sink the budget talks. Furthermore, House Republicans are divided on the tax question.

An aide to Mr. Gingrich acknowledged his new position on taxes will likely irritate those in the talks. Some in the Republican House leadership were already uncomfortable with his aggressive negotiating tactics even before he unveiled his tax cut plan, which aides estimate could cost $15 billion to $20 billion in revenues next year.

Mr. Black is acting as spokesman of the Republican National Committee while Chairman Lee Atwater battles a brain tumor found earlier this year.

Los Angeles Times

FRIDAY, AUGUST 24, 1990

Budget May Roil Benefits for Elderly

By BOB ROSENBLATT
TIMES STAFF WRITER

WASHINGTON—Despite widespread assurances that Social Security would be exempt from the automatic government budget cuts threatened for Oct. 1, those cuts would delay the processing of benefit claims and cause a "drastic falloff of service" to the nation's 40 million Social Security beneficiaries, a confidential agency memorandum says.

The Social Security Administration would be forced to furlough its employees for as much as 85 days during the year to achieve the savings of $1.3

Please see BUDGET, A35

BUDGET: Social Security Chaos Feared

Continued from A1

billion required under the Gramm-Rudman budget law, the memorandum says.

Social Security beneficiaries "will not understand how a drastic falloff of service is possible with the trust funds at a level of nearly $215 billion and growing," Social Security Commissioner Gwendolyn S. King wrote in a memorandum to Bush Administration budget officials. "They will be convinced that the government is stealing their money." A copy of the memorandum, issued on Tuesday, was obtained by The Times.

The common understanding that Social Security would be spared the Gramm-Rudman ax applies only to the size of the monthly checks mailed to millions of households. The amount of the benefit check remains unchanged. Instead, the budget-cutting burden would fall on the payroll, office expenses and administrative operations of the Social Security program.

"People will notice it when it's more difficult for their phone calls to go through," King said Thursday in response to questions about the memorandum. Social Security has eliminated local phone numbers in favor of a nationwide 800 line to handle calls for information and to schedule appointments. Callers will face "more and more busy signals," King said.

"When they call for an appointment, it will take longer and longer to fit them in," she said. Inside the Social Security offices, "the lines will be longer and longer," she said, and some offices may be shut if the budget cutbacks last a full year.

"It's going to be so upsetting to a work force now working with stability and a sense of direction and satisfaction," King said, referring to the 63,000 employees of her agency. "We have given confidence back to the general public, but I despair when I think of the turmoil we will put people through" if the full budget cuts take place.

"Things will be harder for anyone who has a need to communicate with Social Security," she said. Handling of claims could take as much as 30% longer. It now takes about three weeks to issue a Social Security card, 20 days to handle a new claim for retirement benefits and 60 days to process a new claim for disability benefits.

The Bush Administration has announced that mandatory budget cuts will be imposed Oct. 1 unless the President and Congress agree on a new package of spending reductions and revenue increases. Non-defense spending programs, including the Social Security Administration, would have to cut outlays by 32% to achieve the savings of $101.2 billion needed to meet the Gramm-Rudman deficit target.

The Middle East crisis, with a sharp increase in spending to transport and maintain troops in Saudi Arabia, may force Congress to alter or abandon the budget targets and avert the automatic spending cuts. Meanwhile, however, the Office of Management and Budget is asking all agencies for detailed plans on the "sequester," or automatic budget reduction.

The response from Social Security provides one view of an agency under fiscal siege. The required cutbacks of $1 billion "would be devastating to employees and would severely disrupt public confidence in the Social Security system," King wrote.

With workers on extensive furloughs, the Social Security Administration would fall far behind in the complex task of making millions of changes in records and benefit amounts. Benefit checks are changed when a disabled person goes back to work, when a person receiving retirement benefits earns more than $9,360 a year from working, when a spouse dies and in many other circumstances.

The "inability to keep pace with the routine changes to the benefit rolls could result in incorrect payments to beneficiaries in the range

Evening Sun®

BALTIMORE, FRIDAY, AUGUST 24, 1990

Budget cuts seen hobbling payments of Social Security

Los Angeles Times

WASHINGTON — Even though Social Security benefits are exempt from the automatic government budget cuts threatened for Oct. 1, those cuts would affect agency employees, probably delaying the processing of benefit claims and causing a "drastic fall-off of service" to the nation's 40 million Social Security beneficiaries, a confidential agency memorandum says.

The Social Security Administration would be forced to furlough its employees for as much as 85 days during the year to achieve the savings of $1.3 billion required under the Gramm-Rudman budget law, according to the memorandum.

Social Security beneficiaries "will not understand how a drastic fall-off of service is possible with the trust funds at a level of nearly $215 billion and growing," SSA Commissioner Gwendolyn S. King wrote in a memorandum to Bush administration budget officials. "They will be convinced that the government is stealing their money." A copy of the memorandum, issued yesterday, was obtained by the Los Angeles Times.

King has proposed to freeze all hiring, promotions, furloughs, travel and new contracts until Jan. 1. This would save $400 million. The amount of the benefit check remains unchanged. Instead, the budget cutting burden would fall on the payroll, office expenses, and administrative operations of the Social Security program.

"People will notice it when it's more difficult for their phone calls to go through," King said yesterday in response to questions about the memorandum. Social Security has eliminated local phone numbers in favor of a nationwide 800 line to handle calls for information and to schedule appointments.

"When they call for an appointment, it will take longer and longer to fit them in," she said. Inside the Social Security offices, "the lines will be longer and longer."

Some offices may be shut down if the budget cutbacks last a full year, she said.

"Things will be harder for anyone who has a need to communicate with Social Security," she said. Handling of claims could take as much as 30 percent longer. It now takes about three weeks to issue a Social Security card, 20 days to handle a new claim for retirement benefits, and 60 days to process a new claim for disability benefits.

With workers on extensive furloughs, the Social Security Administration would fall far behind in the complex task of making millions of changes in records and benefit amounts. Benefit checks are changed when a disabled person goes back to work, when a spouse dies, and in many other circumstances.

The "inability to keep pace with the routine changes to the benefit rolls could result in incorrect payments to beneficiaries in the range of $10 billion to $15 billion over the course of the year," the memorandum said.

The required cutbacks of $1 billion "would be devastating to employees and would severely disrupt public confidence in the Social Security system," King wrote in the memorandum.

Rocky Mountain News
Aug. 19, 1990

GOP faces deficit dilemma

Sen. Pat Moynihan ostensibly has applied the ointment of compromise to the abrasions caused by the budget unpleasantness. But he actually could be creating, from the unpromising material of his fellow Democrats, a serious opposition party.

George F. Will

Moynihan, the Senate's Sisyphus, recently applied his sore shoulder yet again to the rock that he has been trying to roll uphill. Many months ago he proposed cutting, in just two years, Social Security taxes, putting the system on a pay-as-you-go basis. This would have quickly shut the spigot from which now gush surpluses generated by the increases put in place in 1983.

Those increases were supposed to build "reserves" for when, around 2020, baby boomers retire. The "reserves," now flowing in at $1 billion a week, are scheduled to rise to $3 billion a week in 1997 and even more after that. But they are being used to finance government operations, thereby masking the real size of the deficit. (The real deficit is forecast to be $241.8 billion in fiscal 1991, not counting the cost of the savings-and-loan shambles.)

Moynihan's aim was — is — to force honesty in budgeting, and equity in taxation. However, his party, the conservative (meaning resistant to change) party, flinched from Moynihan's radicalism and from the need to think (about equitable taxes to replace the Social Security revenues). But now comes Moynihan's compromise: Phase the rate cuts over five years.

For someone earning the maximum income taxable for Social Security purposes (about $54,300 next year), the savings during 1991-1995 would be $1,900. In 1996, the wage earner would be saved $708. The tax rate would not rise again until 2010 and would not reach today's rate until 2015. Moynihan says 132 million Americans are paying a rate that is a quarter of a century premature, on a tax that is inequitable in its current use — financing the government's general operations.

This tax, which for 74% of taxpayers is a bigger burden than the income tax, is regressive: It has a flat rate and is not applicable on income above $51,300. Because of the 15.3% Social Security tax on earnings (including the employer's portion), most workers in the 15% income-tax bracket pay a total tax rate higher than paid by the richest Americans. The richest are in the 28% bracket, but any income in excess of $51,300 is exempt from Social Security taxes.

If this regressive tax is not cut, by the end of this decade it will slurp up $200 billion a year more than Social Security will pay out that year. Moynihan says the money is not needed now for Social Security, so leave it with the workers who do need it.

But consider the political consequences if Moynihan's tax cut for 132 million Americans were to pass in September with the support of most Democratic senators and opposed by most Republicans.

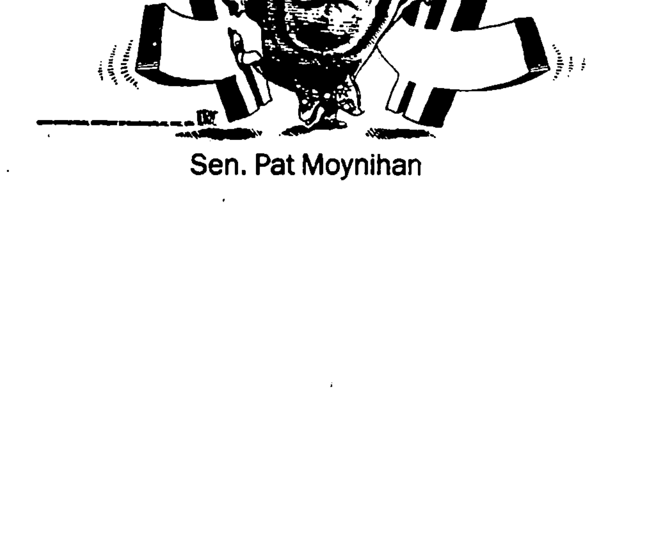
For a quarter of a century, since George Wallace got their attention, Republicans have celebrated Joe Six-pack, a fellow of hearty but simple appetites. The courtship of Joe Six-pack is going to be complicated enough if Republicans, busy campaigning for a capital-gains tax cut, vote against the cut in Social Security taxes. And that might not be Joe's only grievance.

Consider the surrealism of Washington these days. The estimate of the number of S&Ls that will fail has been doubled from 500 to (so far) 1,000. The Bush administration cannot say, within half a trillion dollars, the eventual cost of this black hole for money: Guesses range between $400 billion and $1 trillion, depending on the interest-rate assumptions.

And while these big numbers are bandied about, Republicans have floated an itsy-bitsy idea for helping to reduce the deficit by just $50 billion this year.

The Republicans' bright little idea for nibbling at the deficit? A new tax adding 75¢ to a six-pack of beer.

Washington Post Writers Group



Sen. Pat Moynihan

The Washington Post

THURSDAY. AUGUST 23, 1990

Gingrich Bars Tax Rise To Obtain Budget Deal

GOP Whip Seeks to Sway White House

By Thomas B. Edsall
Washington Post Staff Writer

House Minority Whip Newt Gingrich (R-Ga.) sought yesterday to move the White House away from any budget deal involving a tax hike and warned that an increase in government revenues would make a recession more likely and work to the advantage of the Democrats.

In a highly partisan assault, Gingrich called for several tax cuts and declared that the "number one goal of the Republican Party should be to help the economy avoid a recession despite the Democratic leadership of Congress."

In a comment sure to make bipartisan negotiations more difficult, Gingrich also strongly suggested that Senate Majority Leader George J. Mitchell (D-Maine) has actively sought to foster a major economic downturn. "We have an economy that is succumbing to a recession which I believe Senator Mitchell has frankly been planning for," he said.

Gingrich made his remarks at an afternoon news conference and elaborated on them in an evening speech at the Heritage Foundation.

The minority whip argued that the worsening condition of the economy and the increase in oil prices following the Iraqi invasion of Kuwait have changed the circumstances surrounding bipartisan budget negotiations since President Bush backed away from his "no new taxes" pledge in June.

Indicating that he is likely to oppose any tax increase, Gingrich yesterday called for five separate tax cuts to stimulate the economy.

These were a substantial increase in the $2,000 deduction for dependents, a revival of individual retirement accounts and a liberalization of their use to cover education and first-home down payment costs, a business equipment investment tax cut, a reduction in the capital gains tax rate to 15 percent and business tax credits for investments in urban "enterprise zones." Gingrich argued that the loss in revenues from these tax cuts, which he did not estimate, would be more than justified because a recession would cost the government much more.

While describing Bush's decision to abandon his "no new taxes" pledge as "throwing an interception," Gingrich as recently as last month said he was "prepared to sponsor and support raising taxes," according to participants in a GOP strategy session. Yesterday, however, he said "I would find it very hard to understand an argument for a tax increase in the face of the weak economy."

Gingrich justified his suggestion that the Democratic Senate leadership may be encouraging the onset of a recession by citing Mitchell's successful efforts last year to bar passage of a capital gains tax cut. "When the Democrats in the Senate killed the capital gains bill, they weakened the economy," he said.

In addition, he argued, "The Democrats in the Senate had a deliberate strategy of not reaching a budget agreement in June or July" and "in the process they are taking the risk that Americans will be put out of work to the advantage of the Democratic Party."

None of the Democratic leadership could be reached for comment yesterday.

DAILY NEWS

Thursday, August 23, 1990

Now's the time to tame the budget

PRESIDENT BUSH enjoys broad national support for his bold and skillful response in the Persian Gulf. Rightly so. Yet even in the midst of this international crisis, the President must give equal leadership to an urgent domestic problem: the deficit-ridden federal budget.

The next fiscal year begins on Oct. 1, less than six weeks from today. Clearly, it's impossible for Bush and Congress to get their dead-in-the-water budget talks going again and resolve their differences in the time remaining. That means they must resort to a disgraceful dodge: nullifying the Gramm-Rudman-Hollings deficit-reduction law. It's the only way they can avoid massive, automatic spending cuts, including a devastating hit on the Pentagon budget of more than $50 billion.

The emasculation of Gramm-Rudman may be inevitable, but it is no solution. The projected budget deficit for 1990-91 is already a whopping $230 billion, and the real number, when you add in off-budget items like the savings-and-loan bailout, is well over $300 billion.

Big as that number is, it could get bigger. The cost of the Persian Gulf operation is growing, and a shooting war would make it zoom. And the economy may be tipping into a recession (some think it's already there), which would drive the budget much deeper into red ink.

It will take forceful leadership to deal with the galloping deficit. Don't look to congressional Democrats for it — they refuse to get ahead of Bush and the GOP on items like a tax increase.

But Bush is uniquely positioned to take charge, especially because of the high he's now riding in the polls. The time is right for the President to explain to the nation the sacrifices that must be made — like cuts in farm subsidies, Medicare and Social Security COLAs. And the time is perfect for Bush to justify something that's long overdue: A hike in the gasoline tax to generate more revenues, cut gas consumption and reduce dependency on imported oil.

Some pundits argue that Bush will never risk his popularity that way. But Bush is a smart politician. He surely knows he cannot withstand the double threat of war *and* recession unless he brings the budget under control, and does it now.

The Washington Times
WASHINGTON, D.C.
WEDNESDAY, AUGUST 22, 1990

Into the transfer tax trap?

The Bush administration and key members of Congress are thinking of establishing a new foreign aid program. They would cripple the U.S. financial services industry and send a significant part of its business overseas.

Of course, official Washington really does not want to commit such a mindless economic crime. But it is so avid for higher revenue that it unwittingly is considering doing grave harm to American investors and institutions.

At first the White House-congressional tax-hikers were planning a stiffer levy on energy. But when Iraq hijacked Kuwait and oil prices jumped, this was seen as a bad idea. And with U.S. troops taking position in Saudi Arabia, even lawmakers noticed that further gleeful hacks at the defense budget were reckless.

So Washington moved to the front burner a "transfer tax" on every stock, bond, commodity, futures and option trade. The transaction tax has two beautiful sides. It can be falsely described as soaking the undeserving rich, and it would raise a heck of a lot of money.

The Congressional Budget Office estimates that a 0.5 percent tax on security transactions, a figure often mentioned, would bring in $8 billion in the first year and $58 billion over five years.

The CBO admitted there would be drawbacks. The tax would shrink trading volume by 8 percent, making markets more volatile. And it would hammer down stock prices by 9 percent, making investors poorer.

As a creature of Congress, the CBO is known to be biased toward what its masters want — more revenue — and thus it may have understated the tax's pernicious effects.

What of the demagogic claim the

The transaction tax has two beautiful sides. It can be falsely described as soaking the undeserving rich, and it would raise a heck of a lot of money.

levy would hit the wealthy? Untrue. It would be paid indirectly by every working person covered by a pension plan, holders of insurance policies, mutual fund investors, small stock-market plungers. The big ones know how to avoid the burden.

The argument that a "tiny" 0.5 percent tax would do no harm is dead wrong. A pension fund can buy a $50 stock for a commission of 5 cents a share. The tax would be 25 cents, five times the fund's commission cost. It would have to lower benefits to meet the added expense.

Trade union leaders, who never are averse to taxing fat cats, oppose the transaction tax. They know it would cause their members to receive lower benefits. In the case of state and municipal employees, local taxes would have to go up to pay their pensions.

In Sweden, where the socialist government has rarely met an impost it didn't like, the transaction tax has been abolished. Canny Swedes were trading in London, where the tax is not imposed on foreigners. Britain is about to eliminate the tax entirely, hoping to take business from Wall Street.

Canada, Greece, Luxembourg, the Netherlands and Portugal have no transfer taxes. West Germany and Ireland are eliminating theirs. Italy and Japan are lowering rates. France and Switzerland are under pressure to end the tax.

Only the United States, which we all know is led by omniscient statesmen, is heading in the other direction. Why?

Interestingly, the Treasury insists its securities be exempt from the tax, since the levy would cut the price of Treasury paper and lift its borrowing costs. Funny that something that's rotten for the Treasury isn't rotten for American industry.

B.J. Cutler is foreign affairs columnist for Scripps Howard News Service.

The Washington Post

WEDNESDAY, AUGUST 22, 1990

The Coming Budget Disaster

WITH AN enormous budget deficit now clearly in sight next year, the federal government has no possible way to get it down to the legally required target. Under the law, the alternative is to allow automatic spending cuts to do the job. That's now impossible. The automatic cutting formula would reduce the Defense Department's outlays by more than $50 billion—including a reduction of one-third in the money for operations and maintenance—at a time when it is engaged in airlifting tens of thousands of troops to Saudi Arabia.

Once again the president and Congress are going to have to rewrite the Gramm-Rudman-Hollings Act to accommodate the oversized deficits that they have been unwilling to manage rationally. That will be an opportunity for the people who want to abandon all limits on the deficit and ignore it—and there are plenty of those people on both right and left. It's also an opportunity for those people—fewer, but braver and more sensible—who are going to try again to get a grip on the deficit and put it on a downward track.

President Reagan, President Bush and successive Congresses wasted their opportunities to get the budget under control in the times when it would have been easier. When the economy was growing sturdily, when oil was cheap, when the world was peaceful and serene, they played games with the numbers, prevaricated and delayed. Now Mr. Bush and the congressional leadership are going to have to tackle the deficit with the possibility of either recession or war looming immediately ahead of them.

Both the White House and the Congressional Budget Office are warning that, under present policy, the budget deficit will be at least $230 billion in the fiscal year starting Oct. 1—compared with about $195 billion this year, and $157 billion last year. A recession next year would send it far higher, and if Iraq starts a war the consequences in dollars, as in every other respect, would be incalculable.

There's going to be a powerful temptation in high places to use the possibilities of war or recession as twin excuses to take a holiday from the budget deficit and let it fly. That would be extremely dangerous. If the world thinks that the U.S. government is unwilling to come to terms with its budget, that will make either a war or a recession much harder to fight. Either would require heavy borrowing by the government. Lenders' uneasiness is already being reflected in interest rates that are high and rising. In an uncertain time, the government has no higher priority than to get a grip on its budget, raise taxes, and gather its financial strength for the tests ahead.

Star Tribune

WEDNESDAY/August 22/1990

Don't forget deficits to worry about inflation

Inflation seems to be back in the news, and the federal deficit seems to have dropped out. That's too bad. Inflation and deficits belong together in people's minds like salt and pepper on the table. Yet the talk today is that the same events causing new worry about inflation — oil prices and a Mideast crisis — justify relaxing the worry about deficits. That's too bad, too.

Inflation hit the headlines last week with the Consumer Price Index (CPI) report for July: up 0.4 percent — before oil prices jumped. Indeed, the energy component of the CPI *fell* during July. So commentators warn that the August CPI will look worse and that damage will compound as oil-price increases affect other prices too. The assumption is: Expensive oil causes higher inflation.

Well, yes and no. Two points of perspective are important. A point of theory is that no single price rise — even oil — can truly cause inflation. If people spend more on gasoline this month, they'll have to spend less on other products. So other prices will have to fall, or else the other products won't get sold. A perfect CPI would not change at all. True, the CPI is flawed, and real-world prices are more complex than the theory suggests. But what theory teaches should not be forgotten: Inflation is a rise in overall prices, not just one; oil cannot cause it; oil cannot cure it.

A second point underlines the first. U.S. inflation was worrisome and getting worse even before the Mideast crisis. After three years around 4.5 percent it's been pushing this year toward 6 percent. The 4.5 rate was no cause to be complacent. Six would be alarming. So despite the weak theoretical connection, perhaps Iraq deserves thanks for thrusting inflation into the news. The crisis helps raise a crucial question: What accounts for the underlying inflationary pressure?

That's where deficits and the U.S. debt come in. They are not the sole cause of inflationary drift, but they certainly count among the most basic. Deficits and debt push interest rates higher, for example, which diminishes investment for genuine growth and adds to the pressure for "easy" money. Easy money is a synonym for inflation. And the higher the burden of national debt, the more politically attractive inflation becomes. It's a way to cut the debt by cutting the value of the money to be repaid. That's theory, too, but theory proved correct by practice many times.

So the Mideast oil crisis is no excuse for stopping thought about brakes on federal spending and increased federal taxes. Just the opposite. If the nation must spend more to protect oil supplies, it needs to spend less on other activities. If the crisis increases government spending, taxes should be sought to boost revenues too. If the crisis adds momentum to keep inflation up, all the more reason to get deficits down.

Evening Sun®

BALTIMORE, WEDNESDAY, AUGUST 22, 1990

SSA budget cuts eyed

WASHINGTON — Social Security Administration officials are reportedly working feverishly on a contingency plan for making a nearly one-third cut in fiscal 1991 spending if White House and congressional negotiators can't agree on deficit reduction methods.

With little budget summit progress reported before Congress left for the August recess, agency heads have until Aug. 27 to submit plans accounting for an automatic cut of 31.9 percent if an agreement on the deficit isn't reached.

SSA spokesman Phil Gambino said Commissioner Gwendolyn S. King has yet to sign off on a plan, which probably would include furloughs for some of the almost 14,000 employees at Woodlawn and at the Metro West building downtown. The agency has about 63,000 employees nationwide.


KING

But Gambino claims King is trying to come up with everything possible in order to avoid furloughs: elimination or delay of most purchases, not executing contracts, and caps on routine expenses.

"Needless to say, she is extremely opposed to furloughs. She's looking at everything," Gambino said of King, who has already made some efforts to shore up personnel numbers that some say dipped far too low during the cutbacks of the 1980s.

Twenty-two-day furloughs have been threatened in other agencies, which brought a stinging rebuke from John N. Sturdivant, president of the American Federation of Government Employees, which represents most SSA workers.

"It should have never come to this. The White House and Congress have abdicated their responsibility with reckless tax cuts, trite campaign promises and their refusal to make the tough decisions required to bring the deficit under control," Sturdivant said.

"This time the American people are going to quickly feel the sting of these cuts," he said. "Americans will just have to face up to the fact that there may not be anyone to answer the phones at neighborhood Social Security offices and that veterans may just not get the care they need and deserve at the VA hospital they could always count on."

Under the law, employees would have to be notified within 30 days of any furloughs taking effect, so whatever King is able to come up with would have to be announced by Aug. 31 — a month before the 1991 fiscal year starts Oct. 1.

Taking lumps: — With federal budget summit participants eyeing federal benefits covetously as a way to shave the deficit, employees who plan on retiring this year and who want to take the lump-sum annuity might want to declare their intentions by Aug. 31.

The current option is to take 50 percent a few months after retirement and the remainder a year later. The lump sum used to come all at once, as the name implies, but the size of some payments and the ease with which money could be saved within the next fiscal year led Congress to adopt the 50-50 formula.

Now budget summit rumblings indicate the White House and congressional negotiators may agree to further stretch out the "lump sum" to three payments over three years. The estimated savings would be $1 billion. The 50-50 split saves about $750 million.

The lump-sum law expires Oct. 1 and if Congress doesn't decide on the issue by then, it could adopt a change retroactively, which is why prospective retirees should consider acting now.

Federal Times reports that yet another option appears to be available. An employee who is eligible for voluntary retirement could separate and return to work as an "re-employed annuitant." This curious alternative would allow an employee to keep the lump sum, having it docked by the amount of the monthly annuity.

The newspaper quoted an Office of Personnel Management official as saying that she hadn't heard of such a situation, and that there seemed to be nothing to prevent it.

In the last four years about 200,000 retirees have chosen the lump sum total of mandatory contributions to their retirement accounts — three-fourths of those retiring. Total payments average about $25,000.

The Reagan and Bush administrations have sought to abolish lump sum payments.

Service attrition studied: Per the request of Maryland Rep. Beverly B. Byron, D-6th, the final General Accounting Office report on attrition rates of men and women in the armed services has found little difference.

Auditors said that overall attrition — failure of enlistees to finish their first term for whatever reason — was 48 percent for women and 44 percent for men. The survey covered 1980 through 1988 and included active duty personnel only.

Separation rates for both sexes were largely similar, but for much different reasons, GAO found. Men were lost involuntarily for misconduct, unsatisfactory performance and drug or alcohol abuse. Women separated voluntarily most often because of pregnancies.

—By Mick Rood
States News Service

Jack W. Germond and Jules Witcover are on vacation. Their column on politics will resume Sept. 4.

The Atlanta Journal
Covers Dixie Like the Dew
TUESDAY EVENING, AUGUST 21, 1990

Bush may have to cut budget 33% to rein in runaway 1991 deficit

By Mike Christensen
Journal-Constitution Washington Bureau

WASHINGTON — White House budget officials estimated Monday that the federal deficit next year will reach $149.4 billion, requiring President Bush to order a one-third cut in spending in October to meet deficit-reduction targets.

In the same breath, the Office of Management and Budget (OMB) and the Congressional Budget Office acknowledged that neither the figures nor the order means much.

The reports, released under a timetable required by the Gramm-Rudman deficit reduction law, are freeze-frame assessments based on legislation and economic conditions as of Aug. 15. As such, they are like snapshots of a car speeding toward an accident it may endure.

With Congress yet to pass its first appropriation bill, budget summit negotiations still under way, the cost of savings and loan failures up in the air and the economy unsettled, the forecast could fluctuate widely before fiscal 1991 begins Oct. 1.

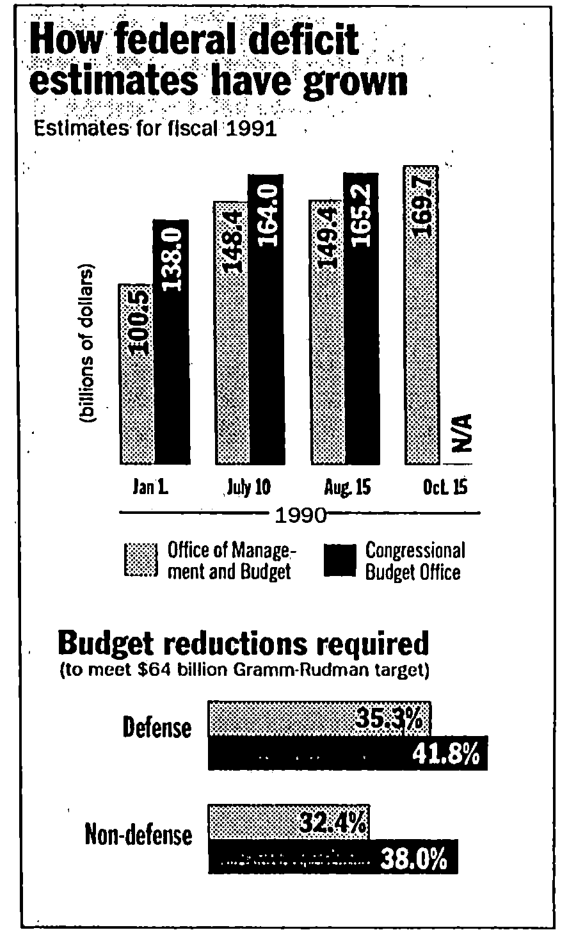
The Gramm-Rudman law requires a deficit next year not exceeding $64 billion, and White House budget director Richard G. Darman has warned of massive federal layoffs and program cuts if the administration must "sequester" — or prevent the spending of — enough money to meet that target.

Such cuts, however, would play havoc with the economy.

Most budget analysts expect Congress and the administration to come up with a package of spending cuts and tax increases that would cut the deficit $25 billion to $35 billion next year, then increase the Gramm-Rudman target to cover the difference.

In its report to the president Monday, the OMB estimates that an $85.4 billion sequester would be required to meet the Gramm-Rudman target.

In an unofficial aside, the agency forecasts that if Congress renews the food stamp program and takes other expected actions, the deficit estimate will hit $169.7 billion by October. That would mean a $105.7 billion sequester.



The Washington Post

A22 TUESDAY, AUGUST 21, 1990

Bush Warns Against Attacking Deficit by Slashing Military Budget

By John E. Yang
Washington Post Staff Writer

Against the backdrop of the massive U.S. military deployment in the Middle East, President Bush warned Congress yesterday against making deep cuts in military spending to reduce the federal budget deficit.

"We cannot attack the deficit by attacking the very heart of our armed forces—committed men and women," Bush told a receptive crowd at the Veterans of Foreign Wars annual convention in Baltimore. "I will oppose the defense budget slashers who are out of tune with what America needs to keep freedom secure and safe."

The events in the Persian Gulf over the last 18 days, Bush declared, reaffirmed "the need for a continued strong defense budget to support American troops."

But Rep. Dale E. Kildee (D-Mich.), one of the liberal Democrats on the House Budget Committee who successfully pushed for cuts in military spending in the House-approved budget, said the turmoil in the gulf should not be used as an argument to protect Pentagon accounts.

Proposed fiscal 1991 military spending reductions would still leave Bush "plenty of room to take care the special needs that have emerged in the Middle East," Kildee said by telephone from Flint, Mich. "The president and Congress will have to look at the big-ticket items that were designed for the Cold War and not this type of action," he said.

Military spending will be a key element in the budget negotiations between administration officials and congressional leaders that are set to resume early next month. Before the Middle East erupted, Democratic bargainers had hoped to avoid deep cuts in such programs as Medicare and Social Security by achieving larger savings from military programs than the administration supports.

Aboard Air Force One on his way from Baltimore to a GOP fund-raising speech in Rhode Island, Bush told reporters he is willing to discuss military savings in the budget talks. But "reckless Pentagon cuts" would not be negotiable, he said. "We just can't tolerate them, and I think most members of Congress . . . will understand that."

"Usually in a time of crisis, the Congress's inclination is to rally around the president—even if it's wrong," said Rep. Charles E. Schumer (D-N.Y.), another House Budget Committee liberal who fought for big cuts in military spending.

While the gulf crisis "certainly put the brakes under the drive to cut defense," House Armed Services Committee Chairman Les Aspin (D-Wis.) said, the Pentagon budget is still vulnerable to cuts in the budget talks.

The determining factor is likely to be the overall size of a deficit-reduction package. With Republicans adamant about preserving current income tax rates and Democrats determined to protect domestic programs, the military could end up bearing the brunt of the cuts. "It's still easier to cut defense than to raise taxes or cut domestic spending," Aspin said.

Earlier this summer, budget bargainers had been hoping to cut the deficit by about \$50 billion in fiscal 1991 and by \$500 billion over five years. But with rising oil prices putting a further drag on an already weakening economy, some have suggested a more modest goal of \$20 billion to \$30 billion in first-year savings and spreading the \$500 billion savings over seven years.

In his speech to the veterans, Bush criticized the House Armed Services Committee's fiscal 1991 military budget bill, saying it would make "unacceptable cuts." The measure, which would pare \$23.9 billion from Bush's Pentagon spending request, would end production of the B-2 "stealth" bomber and slow research on two strategic nuclear missile systems sought by the administration.

Most Americans, Bush said, "endorse giving the military the tools it needs to do its job," including the single-warhead Midgetman missile, the B-2 bomber and the space-based Strategic Defense Initiative (SDI).

But Rep. Dave McCurdy (D-Okla.), a pro-defense moderate on the committee, said those weapons are largely irrelevant in a military action such as the gulf operation. "What you need are land and naval capabilities that can fight a land effort," he said.

McCurdy defended the Armed Services Committee's decisions even though he opposed the spending level as too low. "We shifted the emphasis to more relevant and higher priority courses for the future," he said. "President Bush and [Defense] Secretary [Richard B.] Cheney seem to be hanging on to the Cold War priorities."

In January, Bush asked for \$306.9 billion in new spending authority for the Pentagon in the year beginning Oct. 1. The House Budget Committee trimmed that figure to \$283.0 billion. The Senate Budget Committee adopted a budget that called for \$285.6 billion in new military spending authority, but the full Senate, led by Armed Services Committee Chairman Sam Nunn (D-Ga.), approved a \$289-billion Pentagon spending plan.

Lawmakers expect the Pentagon to seek additional funds to cover the cost of its operations in the gulf, estimated to be \$1.2 billion through the end of the current fiscal year on Sept. 30. Aspin called that projection "crude" and "preliminary" and said it was sure to rise.

And the Office of Management and Budget yesterday said events in the gulf are having other effects on the budget deficit. OMB set its latest estimate of the fiscal 1991 deficit at \$169.7 billion, little changed from its July projection of \$168.8 billion.

CHATTANOOGA NEWS-FREE PRESS

Wednesday, August 15, 1990

Bush Blames Democrats For Stalemate On Budget

By BUD NEWMAN

WASHINGTON (UPI) — President Bush, blaming the budget stalemate on Congress, angrily challenged Democrats on Capitol Hill to put up or shut up in talks to cut the federal deficit and avoid catastrophic spending cuts.

"It is the Congress that must move now to bring this deficit under control," Bush told reporters at the White House on Tuesday.

"One hundred days after I called on Democrats and Republicans in Congress to work on a bipartisan solution ... the Democrats have yet to offer one full proposal at the budget summit," said Bush, who flew back from his Maine vacation home for 24 hours of meetings in Washington on the budget and the Persian Gulf crisis.

"I've been reluctant to go public in this matter," Bush said. "We've dealt in good faith with the leaders, we have played by the rules and now it is up to the Democrats who control Congress."

With a flash of emotion, Bush said Democrats have been "laughing all the way to what they think is the electoral bank, saying every time we throw up a proposal, they gun it down and rush off and tell the special interests of one kind or another, 'We're going to protect you.' Ha, ha. Now it's time for them to come forward."

Senate Democratic leader George Mitchell of Maine responded with a statement saying Bush's barrage "was not accurate and not helpful."

"If there has been an 'abdication of responsibilities' on the budget, it has been on the part of the president," Mitchell said. "The president's anger at the leak of the Republican plan to the press by a Republican negotiator should not serve as a justification for unfair and inaccurate criticism of Democrats."

The GOP plan — detailed after Bush revoked his "no new taxes" campaign pledge — included higher taxes on beer and wine and limits on the amount of state and local taxes that could be deducted from federal taxes. The plan was roundly condemned and drew especially harsh attacks from Republicans in the House.

House Democratic leader Richard Gephardt of Missouri, chairman of the budget talks that began May 15, issued a statement saying he was "saddened to see the president resort to partisan complaining on the budget."

Budget negotiators have been trying for months "to address a deficit that is the direct result of 10 years of Reagan-Bush economic and fiscal policies," Gephardt said.

"Surely, the president realizes that the nation is better served by our working together, with good faith on all sides, than by ill-timed and inaccurate partisan statements," House Budget Committee Chairman Leon Panetta, D-Calif., said in a statement.

At his news conference, Bush played down the fact that Sen. Bob Packwood, R-Ore., leaked to reporters the GOP proposal, which never was formally presented to Democrats.

As for GOP hostility to the plan, Bush said, "I can't find anybody elated over any facet of taxes."

Bush urged Democrats to produce their own proposal "and set aside politics because it's getting tough now. It's getting right down to the crunch."

The crunch comes Oct. 1, the start of fiscal year 1991. Failure to reach and implement a deficit reduction agreement by then would mean automatic spending cuts of about $100 billion in spending cuts, split between military and domestic programs.

Budget negotiators hope to develop a deficit reduction package of about $50 billion in fiscal 1991 and $500 billion over five years. Bush said Tuesday he wants to keep those targets despite the cost of sending tens of thousands of U.S. troops to the Middle East.

Also Tuesday, Rep. Bill Frenzel, R-Minn., a budget negotiator, said he was told that when talks resume on or about Sept. 5, they will be held at Andrews Air Force Base, about 15 miles east of Washington, instead of on Capitol Hill. He said he plans to sleep at Andrews.

"Gephardt's office called and said we're meeting at Andrews Air Force Base," Frenzel said in an interview.

Gephardt spokeswoman Deborah Johns said, however, that arrangements for the next round of talks are "still in the planning stages."

The location at Andrews, home base to Air Force One, could cut down on outside distractions for the negotiators and help them meet an unofficial deadline of Sept. 10.

Houston Chronicle

Tuesday, Aug. 21, 1990

Office urges budget cut of $105 billion

Houston Chronicle News Services

WASHINGTON — Echoing recent warnings of devastating cuts in federal programs, the White House budget office reported Monday that more than $105 billion may have to be slashed to meet the target for reducing the budget deficit in fiscal 1991.

Half the amount would have to come from defense programs and the other half from domestic programs. The deficit-reduction target for the fiscal year that begins Oct. 1 is $64 billion. The deficit is projected to be $169.7 billion.

Some economists have voiced concern that cutting spending that much could help bring on a recession. In the last quarter, according to the budget office, national economic growth slowed to 1.2 percent.

The figures released by the Office of Management and Budget appeared to be an effort by the administration to put more pressure on the Democratic-controlled Congress to reach a compromise on a new budget strategy.

President Bush, after meeting Monday with his budget negotiators, said "cooperation is still possible" with the Democrats and praised what he called a "good-faith effort" in the negotiations.

Bush used speeches in Baltimore, Md., and in North Kingstown, R.I., to call for a stronger defense budget, citing the Persian Gulf crisis as reason for the United States to maintain "a lean, mean fighting machine."

He called for the preservation of funding for the Midgetman mobile missile and the B-2 Stealth bomber, which are now in jeopardy.

He came close to turning his remarks to a Baltimore Veterans of Foreign Wars convention into a political attack on the Democrats. Without mentioning the other party by name, he implied that the Democratic leaders in Congress were intent on slashing the Pentagon budget and vowed "to oppose the defense budget-slashers who are out of tune with what America needs to keep freedom secure and safe."

Asked later why he had chosen to bash the Democrats in speeches about the Persian Gulf crisis, he said: "I don't feel like I've bashed Democrats too much. But life goes on."

In its latest estimates, OMB said Pentagon spending would have to be slashed by almost $50 billion, from $296.3 billion to $246.4 billion. Domestic programs would take an even bigger hit.

The Department of Health and Human Services, for instance, would be cut by $9.2 billion. The only major items spared would be Social Security and a handful of "safety net" programs, such as food stamps and aid to the disabled and to mothers with small children. Medicare for the aged would be cut by 2 percent.

Last month, OMB director Richard Darman provided several examples of specific programs that would suffer if the automatic reductions were enacted:

About 1 million college students would lose their Pell grants and another 2 million would sustain grant cuts of 22 percent, Darman said. Layoffs of air controllers could cause long delays in takeoffs and landings. Meat and poultry processing plants would have to shut down for lack of federal inspectors. And farmers could lose up to $4 billion in support payments.

Budget talks between the White House and Congress have dragged on over the summer with each side seeking political advantage.

Budget negotiators will resume their talks on Sept. 6, with a tentative deadline for agreement by Sept. 10.

The Philadelphia Inquirer

Saturday, August 18, 1990

Bush tax cuts help the rich get richer

By JULIANNE MALVEAUX

What will the U.S. troop deployment in the Middle East cost and how will it affect an already out-of-control federal budget? Preliminary estimates are that we'll pay $14.6 million for each day that 50,000 troops are deployed, or more than $440 million a month for these troops. Early on, President Bush warned that we'd pay whatever it cost.

But when President Bush says "we," he doesn't mean all taxpayers. Even as he talks of cutting programs and raising taxes, he had the temerity, at his press conference Tuesday, to propose a capital-gains-tax cut that is likely to reduce tax revenues by $11 billion — enough to keep 50,000 troops in Saudi Arabia for more than a year and still have change. Even as he acknowledged that the expenses we incur by sending troops to Saudi Arabia make a bad budget situation all the worse, and even as he exhorts the Democratic Congress to tighten belts on social programs, the President has not lost sight of the fact that he is committed to delivering tax breaks to the wealthy. The seriousness of our military situation aside, Bush seems to know where his bread is buttered.

As a result of Ronald Reagan's tax and spending policies, the gap between rich and poor Americans widened in the 1980s. The richest 1 percent of the population received 12.6 percent of all after-tax income, almost as much as the bottom 40 percent received. According to the Center on Budget and Policy Priorities, the income share of the top 1 percent almost doubled in the 1980s, partly because the wealthy earned more from capital gains.

In the face of this evidence, the President is asking that government help the rich grow even richer. He made a campaign promise to cut the capital-gains tax when he ran for office in 1988 and refuses to bury that promise in a grave next to the phrase "read my lips." His firm commitment to a capital-gains-tax cut, even as he proposes tax increases for the rest of us, is a slap at the concept of tax equity.

The President's loyalty to the rich would be offensive in even the best of times. But the average taxpayer, the family with an income of about $30,000, is taking it on the chin from every corner. The package of taxes proposed by the President will pick at the taxpayer's income, nicking away a dollar here, five dollars there. The inflation that comes with escalating oil prices further reduces real income. The S&L crisis will boost taxes. The cost of deploying troops in the Middle East means higher taxes and less income for the average taxpayer.

On one hand, many are being asked to tighten their belts. On the other hand, the President is committed to making the gift of $11 billion in tax cuts to a few. Even as the President turns up the budget heat on Congress, he needs to tone down his commitment to give the rich a tax break.

Julianne Malveaux is a syndicated columnist based in San Francisco.

The Miami Herald
FRIDAY, AUGUST 17, 1990

Budgetary bushwah!

SHAME ON BOTH PARTIES

THE MIDEAST crisis has put President Bush in a fighting mood. He displayed that pugnacity this week as he broke his so-called gentleman's agreement and criticized the presumed unwillingness of Congress's Democratic leadership to reach a budget agreement. Previously, Mr. Bush had refrained from making critical remarks about his fruitless, 10-week "budget summit" with the Democrats.

The President's criticisms are misplaced, however. Both the White House and Congress are guilty of serious dereliction of duty. During the budget "summit," both sides have been playing political chicken. Each side was simply waiting for the other to propose specific new taxes or cuts in order to use the proposals as ammunition in this fall's congressional elections.

After rereading his lips on "no new taxes" some weeks ago, the President may have felt that the Democrats had exploited the budget impasse with greater success than his own party. Republicans leaked their own proposal for a tax on securities and limitations on Federal deductions on state and local taxes. Democrats have not made counterproposals.

But the "budget process" has not fallen apart because Democrats in Congress "abdicated their responsibility," as the President said on Tuesday. *Both* sides have abdicated. Even before the spurt in oil prices and the likelihood of a recession stalked the economy, Mr. Bush had made no specific proposals for reducing the 1991 fiscal year's estimated $169-billion deficit to meet Gramm-Rudman targets.

Result: Neither side appears disposed to make difficult decisions on tax increases and deep cuts in spending. Given that stalemate, it's better to let Gramm-Rudman sequestrations take effect on Oct. 1 than to permit runaway deficits. Whatever the planned deficit, the unpredictable cost of the U.S. military action in the Persian Gulf is bound to increase it.

If the country's elected leaders won't act, then let Gramm-Rudman act for them by slashing $100 billion from nonmilitary spending. That would have a calamitous impact on most Federal programs only one month before November's elections. Maybe if outraged voters oust a few of the House incumbents seeking re-election, the rest — and the Senate and Mr. Bush — will summon the courage to stanch the Government's red-ink hemorrhage before it saps the nation's economic vitality.

AN INTERNATIONAL DAILY NEWSPAPER FRIDAY, AUGUST 17, 1990 50¢ ($1.00 CANADIAN)

THE CHRISTIAN SCIENCE MONITOR

Back to the Budget

PRESIDENT Bush is right. Congress should stop dawdling and come up with a budget proposal that will help get the stalled deficit-reduction process rolling again. Political posturing is nearly inevitable in an election year, but the importance of restoring fiscal discipline to the federal government should temper electoral instincts.

Politics takes two to play, of course, and the president isn't one to shy away from the game either. His sharp rebuke to congressional Democrats for failing to put forward a budget plan was a response to the criticism heaped on leaked portions of a prospective administration plan. Democratic leaders, predictably, returned Mr. Bush's volley by invoking their recent bipartisanship on the Gulf crisis and pointing out the administration's broken promise to reduce the deficit without raising taxes.

The exchange underscores how difficult, politically, completing the budget will be. No one wants to give fall opponents any campaign ammunition. But this concern is far outweighed by problems inherent in reducing federal spending.

The confrontation with Iraq shows how quickly an unforeseen circumstance can redraw the fiscal map. Bush acknowledged that the administration has no figure on how much the military operation in Saudi Arabia is going to cost. Sen. Bob Dole quipped that if anyone was wondering where the peace dividend was, it had left for the Gulf. Between direct costs of deployment, retrenchment on Pentagon trims, and the dampening impact of higher oil prices, that may not be much of an exaggeration.

A lot of hard thinking is at hand, and some of it involves honest assessments of defense needs. The current crisis should impel a restructuring of forces; it doesn't justify the military status quo.

The savings and loan crisis is claiming an ever larger chunk of federal spending. And other bailouts or cleanups may be near – nuclear weapons plants, the Medicare trust fund, the student loan program, to name some. These looming bills make the job of credible deficit-cutting even more urgent.

Some economists argue that deep spending cuts will further weaken a tottering economy. But Federal Reserve policies can help offset this effect.

The president says he's ready to let the Gramm-Rudman automatic cuts do their work if Congress won't do its. That would be an admission of failure all around that no one – least of all the voters – should tolerate.

The Dallas Morning News
Friday, August 17, 1990

BUDGET IMPASSE

President is right to chastise Democrats

It is understandable that President Bush is frustrated with the game of political footsie the Democratic leadership is playing with the federal budget process.

Especially now. The U.S. military involvement in the Middle East could be protracted and expensive. This unexpected, but necessary, military action will further strain the U.S. budget. It will require, as the president correctly pointed out in his press conference this week, a reprioritization of expenditures. That process is made increasingly difficult without a budget — and one that meets the president's deficit reduction goal of $50 billion for fiscal 1991.

Mr. Bush went to the congressional Democratic leaders in May to engage them in negotiations on next year's budget. When they appealed to him to put new taxes on the bargaining table, he did. While he lost some political clout by reversing himself on his "read my lips" campaign pledge, he nevertheless made the right policy move to tackle the deficit with a combination of cuts and taxes.

The president went on to devise his own budget proposal that included defense cuts and changes in the deductibility of state and local income taxes. Both Republicans and Democrats had problems with the plan, but at least the president put something on the table.

For serious negotiations to take place, each side had to table a proposal. In the more than three months since the budget negotiations began, not one single proposal has been offered by the Democrats.

And what has the president justifiably steamed, is that while the Democrats have offered no other budget cuts besides those on the defense, both the Democrat-controlled House and Senate have passed legislation *increasing* federal spending. As the president charged in his press conference, that is "an abdication of responsibility that endangers our economic viability."

Rather than reduce the budget, the House simply voted to increase the federal debt limit to $3.44 trillion before leaving on vacation. Such tactics will backfire on the Democrats if they don't act responsibly when the budget negotiations resume. But there won't be much time. If the $100 million across-the-board cuts in non-military spending, as mandated by the Gramm-Rudman-Hollings procedure, are allowed to go into effect on Oct. 1, it should be the Democrats that the American people will have to blame, not the president. That should negate any anticipated gains at the polls in November.

The Atlanta Journal

Covers Dixie Like the Dew

THURSDAY EVENING, AUGUST 16, 1990

Bush must get tough on budget

President Bush couldn't be faulted these days if he ignored domestic affairs entirely. The situation in the Middle East deserves full-time attention. He should be praised, however, for interrupting those concerns, and what strangely is called a vacation, to put some budget heat on Congress.

Mr. Bush was on point Tuesday when he said the failure of congressional Democrats to offer a plan to reduce the deficit "endangers our economic vitality." His news conference remarks served as a useful reminder that the president can veto bills that shatter budget targets.

It should be noted that the partisan debate over the budget summit meetings obscures a greater issue. Congress is up to its old tricks of running major budget decisions up to deadlines to force the president's hand. And it is spending as if a tax increase had been enacted and larger revenues were arriving in Washington.

Of 10 appropriations bills passed so far by the House for the budget beginning in October, eight exceed the president's budget request by a total of $14 billion. Such spending makes the difficult job of the budget summit almost impossible.

The farm bill, the "dire emergency appropriations bill," and others are loaded with frills. (The farm bill includes $400,000 to study methane emissions from cows and the emergency bill carries funds for a ferry for American Samoa).

Here is a Congress pledged to curtail the deficit and a Democratic Party that demanded the budget summit. The savings and loan fiasco has ballooned the deficit and strict Gramm-Rudman-Hollings targets await. Yet here is a House of Representatives that has approved spending at a rate of 11.4 percent over last year's figures. That's almost three times the rate of inflation and an increase at which even profitable businesses would frown.

We hope all this shows the president that he has been walking down a one-way tax street with the Democratic leadership. He made an effort to move the negotiations with his consideration of "tax revenue increases." Now let him face reality and face down the opposition.

THE CINCINNATI ENQUIRER

AUGUST 13, 1990

Taxes rest heavily on the poor

BY LEE HAMILTON
The Washington Post

Congress left for its August recess with no formal deficit-reduction proposals on the table, but it made some progress. The administration has admitted that a credible budget package requires both revenue increases and spending cuts. Also, the tax proposals floated by the administration — while not without problems — show a recognition of the need to shift more of the tax burden to wealthier Americans.

During the past decade, the cost of government has shifted to less well-off. The rich grew richer, and their tax rate declined. The poor grew poorer, and their tax rate rose. The overall tax burden — federal, state and local — has become more regressive, shifting to those least able to pay.

The 1981 tax cuts are mostly responsible for the shift. The 1986 tax reform was more fair, but it did not fully offset the 1981 changes. The poorest fifth of households will pay an average $85 less in federal income tax in 1990 than they would have had to pay at 1980 tax rates; the richest fifth of households will enjoy an average tax break of $1,578, and the top 1% will pay an average $13,175 less.

Measuring progress

Some argue that lower tax rates boosted growth, which explains why wealthier Americans now pay a greater share of federal taxes than 10 years ago. But this is not a good measure of progressivity. The affluent paid a somewhat bigger share of taxes during the 1980s, because they received a much bigger share of the income. The richest fifth of families saw their income rise an average 31.7%, while the poorest fifth's income dropped by 3.2%. The average income for households in the top 1% grew from $313,000 to almost $550,000 during the decade — an astounding 75% increase.

This disparity in income shares is the largest since these statistics were first compiled in 1947. Affluent people's share of the taxes went up a lot less than their share of the income, and thus their tax burden went down. Meanwhile, payroll taxes were going up, increasing the tax burden for most working Americans.

Lee Hamilton
. . . add fairness to taxes

Social Security payroll taxes are particularly regressive. They are levied at a flat percentage rate and apply only up to certain income levels (now $51,300). Only income from employment is taxed, not that from interest, dividends and capital gains-types of income that are more important to wealthier taxpayers. And Social Security taxes have continued to increase in recent years, from 12.6% (split between employee and employer) in 1980 to the present 15.3%. Most Americans — nearly 75% — now pay more Social Security tax than income tax, counting the employer's share.

State and local taxes have also increased during the past decade, largely to offset transfers of responsibility and declining contributions from the federal government. These taxes tend to be more regressive than federal taxes because of a heavy reliance on flat-rate sales tax and fees. Property taxes may often be passed on to renters.

My view is that more of the tax burden should be shifted from low- and middle-income Americans to wealthier Americans. This could be achieved in several ways. Some ways of limiting itemized deductions, for example, would affect mostly wealthy taxpayers without raising rates. A new tax bracket for higher-income Americans could be created. Corporate taxes, which dropped off sharply in the '80s, could be raised. No one wants to choke off income-producing activity; we accomplish nothing if we discourage upper-income taxpayers from making money and leave the less well-off stagnant. But that is not the choice. Since 1980, income tax rates on the most affluent have plunged dramatically (from 70% in 1980, to 50% in 1982, to 28% in 1988). A small reversal of that trend would discourage no one, but would exact a slightly greater contribution to our economic system from those who benefit most from it.

Low-income Americans

Social Security payroll taxes could be made more equitable by applying them to higher income levels or increasing an offsetting tax credit for low-income Americans. State and local officials could also consider drawing more revenues from income taxes rather than from sales and property taxes. The administration's proposal to cap deductions for state and local income taxes — while an effort to tax wealthier individuals — would penalize the states with the most progressive tax systems.

We should avoid tax changes that would worsen progressivity. President Bush's proposal to reduce the capital-gains tax would be a windfall for wealthy Americans. By one estimate, 83% of the tax-cut dollars would go to taxpayers with annual incomes of at least $100,000: two-thirds would accrue to those with $200,000 or more in annual income. Those families would receive an average annual tax reduction of $15,900 each. By contrast, families with annual incomes of $10,000 to $20,000 would get an average cut of $10.

Any measure to raise tax revenues should also aim to increase progressivity, not decrease it.

Lee Hamilton, a Democratic representative from Indiana, is chairman of the Joint Economic Committee.

The Washington Post
Sunday, August 19, 1990

George F. Will

A Beer Tax for Joe Sixpack

Do Democrats have the guts to heed Moynihan's call for cuts in the Social Security tax instead?

Sen. Pat Moynihan ostensibly has applied the ointment of compromise to the abrasions caused by the budget unpleasantness. But he actually could be creating, from the unpromising material of his fellow Democrats, a serious opposition party.

Moynihan, the Senate's Sisyphus, recently applied his sore shoulder yet again to the rock that he has been trying to roll up hill. Many months ago he proposed cutting, in just two years, Social Security taxes, putting the system on a pay-as-you-go basis. This would have quickly shut the spigot from which now gush surpluses generated by the increases put in place in 1983.

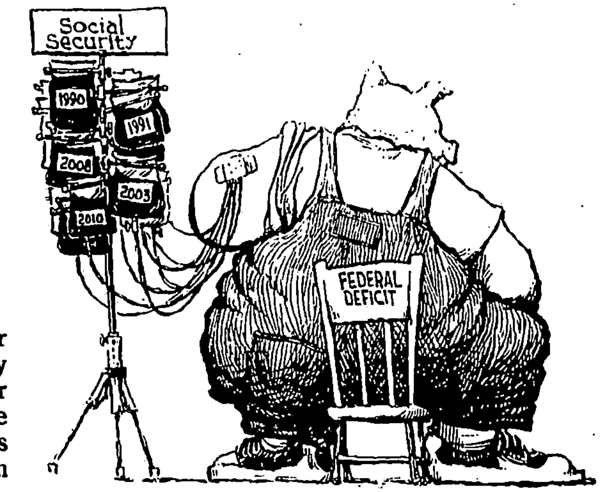
Those increases were supposed to build "reserves" for when, around 2020, baby boomers retire. The "reserves," now flowing in at $1 billion a week, are scheduled to rise to $3 billion a week in 1997 and even more after that. But they are being used to finance government operations, thereby masking the real size of the deficit. (The real deficit is forecast to be $241.8 billion in fiscal 1991, not counting the cost of the S&L shambles.)

Moynihan's aim was—is—to force honesty in budgeting and equity in taxation. However, his party, the conservative (meaning resistant to change) party, flinched from Moynihan's radicalism and from the need to think (about equitable taxes to replace the Social Security revenues). But now comes Moynihan's compromise: phase the rate cuts over five years.

For someone earning the maximum income taxable for Social Security purposes (about $54,300 next year), the savings during 1991-1995 would be $1,900. In 1996, the wage earner would be saved $708. The tax rate would not rise again until 2010 and would not reach today's rate until 2015. Moynihan says 132 million Americans are paying a rate that is a quarter of a century premature, on a tax that is inequitable in its current use—financing the government's general operations.

This tax, which for 74 percent of taxpayers is a bigger burden than the income tax, is regressive: It has a flat rate and is not applicable on income above $51,300. Because of the 15.3 percent Social Security tax on earnings (including the employer's portion), most workers in the 15 percent income-tax bracket pay a total tax rate higher than paid by the richest Americans. The richest are in the 28 percent bracket, but any income in excess of $51,300 is exempt from Social Security taxes.

C. Eugene Steuerle of the Urban Institute notes that if fringe benefits, such as employer-paid health insurance, are thought of (as they should be) as income, then two workers with equal incomes can have significantly unequal Social Security tax burdens. A worker with $30,000 cash wages will pay $1,200 per year more than a worker whose $30,000 in earnings include $8,000 in fringe benefits. That means a five-year difference of $6,000 in taxbills.



BY PACKINGHAM

If this regressive tax is not cut, by the end of this decade it will slurp up $200 billion a year more than Social Security will pay out that year. Moynihan says the money is not needed now for Social Security, so leave it with the workers who do need it: "The soul of the Democratic Party is at stake."

Talking about that party's soul is what philosophers call a category mistake, like talking about the wit of Brussels sprouts. But consider the political consequences if Moynihan's tax cut for 132 million Americans were to pass in September with the support of most Democratic senators and opposed by most Republicans.

For a quarter of a century, since George Wallace got their attention, Republicans have celebrated Joe Sixpack, a fellow of hearty but simple appetites—beer, not scotch. The courtship of Joe Sixpack is going to be complicated enough if Republicans, busy campaigning for a capital-gains tax cut, vote against the cut in Social Security taxes. And that might not be Joe's only grievance.

Consider the surrealism of Washington these days. The estimate of the number of S&Ls that will fail has been doubled from 500 to (so far) 1,000. The Bush administration cannot say, within half a trillion dollars, the eventual cost of this black hole for money. Guesses range between $400 billion and $1 trillion, depending on the interest-rate assumptions. And while these big numbers are bandied about, Republicans have floated an itsy-bitsy idea for helping to reduce the deficit by just $50 billion this year.

(Perspective: $50 billion is less than the deficit number will be increased by removing Social Security surpluses from the budget for deficit calculations. And $50 billion is just half of the additional sum sought last week just for this year's S&L spending.)

The Republicans' bright little idea for nibbling at the deficit? A new tax adding 75 cents to a sixpack of beer.

The Washington Post

Friday, August 17, 1990

Democrats Are Not Alone in Voting to 'Bust the Budget'

As Bush Criticizes Congress on Growing Deficit, Republican Lawmakers Support and Benefit From Some Projects

By John E. Yang
Washington Post Staff Writer

President Bush picked a familiar and convenient target this week when he blamed the Democrats in Congress for the burgeoning federal budget deficit.

But by attacking "internal congressional conflicts and a committee system that is so complex that . . . nearly all budget decisions are being finessed," Bush was battling centuries-old tendencies in Congress. Further, the "spending bills that would bust the budget" Bush carped about have been passed with strong GOP support—and include projects benefiting Republican lawmakers.

Congressional spending habits have long been a favorite whipping boy for presidents, lawmakers and congressional aides alike. President Reagan decried the budget process as "a sorry spectacle."

Stephen E. Bell, a former GOP staff director of the Senate Budget Committee, once likened the process to a "pagan cult" with "interpreters and high priests and their helpers and various incantations they mumble at appropriate times. . . . Meanwhile, most members of the Congress, and certainly almost every American outside the Beltway, have absolutely no idea what we are talking about."

But congressional budget-writing in an era of deficit reduction is complex because it involves complicated decisions about getting more revenue from taxpayers and giving less federal largess in the form of government programs—two actions that run counter to politicians' natural inclinations.

And Congress was never meant to be a smoothly functioning institution. James Madison purposely built inefficiencies into the system to protect against rash decisions.

It is further complicated by the decentralization of power resulting from the reforms of the 1970s. House Speaker Thomas S. Foley (D-Wash.) says running the House is now a process of consensus, not edicts. The oft-quoted adage of one of Foley's predecessors, the late Sam Rayburn (D-Tex.), that lawmakers should "go along to get along" has been replaced by "every man for himself."

Bush's complaint that lawmakers are approving spending bills even before a budget agreement is reached struck some on Capitol Hill as ironic. It is, after all, the complaint of another president that makes congressional leaders determined to pass the 13 measures funding the government before the new fiscal year begins on Oct. 1. They are haunted by the melodramatic sight of Reagan dropping a huge omnibus spending bill, known as a continuing resolution, on the speaker's rostrum during a State of the Union address.

"There was not agreement that we'd put the place on hold and not do our business," said House Budget Committee Chairman Leon E. Panetta (D-Calif.).

In addition, Republican fingerprints are prominent on the spending bills that Bush said would "bust the budget." Virtually all of the 10 measures that have passed the House—at levels that exceed Bush's budget requests by a total of $13 billion—have had strong GOP support. And amendments to pare the measures across-the-board have been beaten back with strong support from both sides of the aisle.

In June, for example, the House voted 355 to 59 to approve a measure that would spend $20.8 billion on energy and water projects, $575 million more than the president requested. A majority of Republicans voted for the bill and GOP lawmakers provided the margin of defeat for an amendment offered by Rep. Timothy J. Penny (D-Minn.) that would have cut all discretionary accounts in the bill by 2 percent.

Democrats may control Congress, but not all of the special provisions in the spending bills go to their districts.

For example, Rep. Robert S. Walker (R-Pa.), a frequent critic of Democrats' spending practices, won a $479,000 provision that would benefit Lebanon, Pa., in the spending bill covering veterans, housing and urban development programs.

Sen. Don Nickles (R-Okla.), who sought in the Senate Budget Committee to limit fiscal 1991 spending to current levels, requested $975,000 in the Senate's version of the energy and water spending bill to repair a Tulsa levee. The Senate Appropriations Committee approved the request after Chairman Robert C. Byrd (D-W.Va.) noted that the funding might not have been available had Nickles prevailed in the Budget Committee.

Further, the spending bills cover barely half, $686 billion, of the $1.39 trillion fiscal 1991 budget. Of that amount, $492 billion is controlled by lawmakers while $193 billion is for such programs as Medicaid, for which spending is dictated by permanent law. The rest finances such mandatory programs as Social Security that are not covered by the appropriations process.

Bush's complaints about internecine struggles between congressional committees and turf battles between powerful chairmen is nothing new—and somewhat surprising coming from a former House member who served under legendary Ways and Means Committee chairman Wilbur D. Mills (D-Ark.).

The power of committee chairmen has complicated deficit-reduction efforts. Attempts over the past few years to raise revenue by increasing Coast Guard fees and by auctioning radio frequencies, for instance, have not been able to overcome the opposition of Senate Commerce Committee Chairman Ernest F. Hollings (D-S.C.).

Last year's budget agreement between the Bush administration and Congress was severely criticized by lawmakers because the chairmen and ranking Republicans on the House and Senate Budget committees and then-House Majority Leader Foley were the only lawmakers involved. The bitterest complaints came from members of the House and Senate Appropriations committees, who protested that their spending decisions were being dictated by an agreement to which they were not a party.

In hopes of avoiding those problems this year, the bargaining teams were expanded to include the spending and taxing committees. In addition, the chairmen and ranking GOP members of committees that oversee programs likely to be targeted for spending cuts were invited to discuss their areas of jurisdiction.

But already, House Appropriations Committee Chairman Jamie L. Whitten (D-Miss.), the senior member of Congress, has taken the floor in the budget talks—he is the only participant who stands to speak—to complain that the whole process is an encroachment upon his panel's prerogatives, according to participants.

In meetings of the Democratic bargainers, Whitten has often complained about what he considers to be "instructions" from Panetta to other committee chairmen. Once, while voicing similar grievances, Byrd mistakenly called Leon Panetta "Leo."

Critics also point to the fact that the federal budget deficit has consistently been higher than the figure that has been projected by Congress's budget. In the last two fiscal years, for example, the spending plan adopted by Congress envisioned a shortfall of $135.3 billion. When fiscal 1989 ended last Sept. 30, the actual deficit was $152.1 billion, $16.8 billion higher.

But the difference, according to the Congressional Budget Office, was largely attributable to two unanticipated pieces of legislation: the $3.8 billion drought relief measure for farmers and the $10.3 billion down payment on the savings and loan cleanup.

Bush and his budget director, Richard G. Darman, are seeking such process changes as a line-item veto and a constitutional amendment to reform the system. Some lawmakers, though, say the fault lies not in the process, but in the participants. "I've never known of a process change that substituted for the guts and the political will to make the tough choices," said Panetta.

ST. LOUIS POST-DISPATCH

THURSDAY, AUGUST 16, 1990

Mr. Bush Passes The Buck

President Bush returned to Washington from his vacation for a budget discussion, among other things, but his two top budget officials did not participate, and he disclosed no fresh plans for dealing with the deficit. Nor did he say what effect the massive deployment of military forces in the Middle East would have on the budget. Instead, he launched a partisan attack on the Democrats for the inability of the White House and congressional leaders to reach a budget agreement so far.

If Mr. Bush were willing to assert the kind of leadership he has exhibited on the Middle East crisis, Washington would be a lot closer to a budget agreement. But he has eschewed leadership for buck passing. He tried to make it appear that Congress was solely responsible for the budget, though proposing one is the executive branch's responsibility. Mr. Bush did so, but later he declared his budget void because, he said, the economic assumptions on which it was based were no longer valid. Accordingly, it was up to him to prepare a revised budget plan.

That is what Democrats have been insisting he do. However, the revised budget the White House advanced late last month, which included alcohol tax increases and limitations on deductions for state taxes, was never formally proposed to the budget summit. Rather, it was sent up as a trial balloon and quickly shot down by both Republicans and Democrats. So Mr. Bush was being disingenuous to complain about Democrats' leaking the tax plan so as to make him look bad in the public eye.

This is not to say that the Democrats are blameless. They were supposed to have prepared a deficit reduction proposal of their own for the budget summit by the last week of July, but they decided to wait until after the August recess, leaving this important issue dangling.

Mr. Bush's partisan finger-pointing is not going to make matters any easier for the budget negotiators when they resume talks. Like it or not, he has got to take the leadership in resolving budget differences.

NEW YORK POST

THURSDAY, AUGUST 16, 1990

COMMENTARY

This is no time for Bush to jab at the Democrats

CARL T. ROWAN

PRESIDENT Bush has been brilliant, so far, in putting together an incredible military alliance to halt, or roll back, the cruel aggressions of Iraq's Saddam Hussein.

You could not ask for better personal diplomacy than Bush has given us in bringing Egypt, Syria, Turkey, Britain, the United Nations, the Soviet Union, China, Japan and others into some degree of active outrage over Iraq's rape of Kuwait.

But who talks our president into the foolish belief that this moment of popularity over his actions in the Persian Gulf area is the time for him to deliver a televised bashing of congressional Democrats about America's budget crisis?

Isn't Bush aware that his popularity can vanish in the smoke and flames of the first Exocet missile, or Iraqi mine, that blows up a U.S. ship?

Or the first battlefield report that thousands of U.S. boys have become victims of a nerve-gas attack?

Bush is going to need the backing of every member of Congress, of whatever political leaning, as he sends perhaps a quarter million men, myriad tanks, missiles and other weapons onto a desert 6,000 miles from home.

Even if no grenade is ever thrown in anger, these mobilization measures could soon become very unpalatable. Bush will need some powerful Democrats to say that the mobilization and possible warfare are vital to America's security — even survival.

Senate Majority Leader George J. Mitchell (D-Maine), House Speaker Thomas Foley (D-Wash.) and House Majority Leader Richard A. Gephardt (D-Mo.) are not likely to want to defend a president who has moved his lips mostly to portray them as the great villains of America's second worst crisis — a budget deficit that carries the threat of a recession that could be almost as devastating as war.

President Bush is trying to use the Persian Gulf crisis to brand Democrats as budget traitors if they refuse to back off deep cuts in Pentagon spending — even for wars on stars where as of now we know of no enemies.

Bush wants to use anti-Iraq passions to blind Americans to the fact that the Ronald Reagan policies he denounced as "voodoo," and then wallowed in as though they were doodoo, brought on a national debt of more than $48,000 for every family in the land.

Bush bashes Democrats in an effort to force them to pay for this Persian Gulf mess by bleeding more money out of programs that pay for food, medicine, housing and education for the poorest people in the land.

Democratic budget negotiators are supposed to zap the needy even as they turn blind eyes to bloated waste in the military, widespread corruption in Reagan's Department of Housing and Urban Development, incredible thievery in the savings and loan industry, and so much more.

We wish President Bush good fortune in his stance against Iraq and its crazy leader. We ought to wish him a shocking return to reality and fairness with regard to this nation's budget.

CHATTANOOGA NEWS-FREE PRESS

Sunday, August 12, 1990

Here's Spending To Cut

Not one cent of federal money can be spent without congressional votes. Blame Congress for all overspending. But even as President George Bush properly urges cuts, he is proposing some spending that is not absolutely necessary. If we let Congress do its unnecessary spending and the president do his unnecessary spending, we will have big reasons to complain about taxes and deficits.

We often refer to the Heritage Foundation in Washington, because it does such a good job calling some of these things to public attention. Here are some items it has picked up in the budget proposals:

- $175 million (an increase of $4 million) for the highly controversial and arrogant National Endowment for the Arts, that has foolishly sponsored some lewd and pornographic affronts to common sense and American pocketbooks.
- $165 million (up $8 million) for the National Endowment for the Humanities.
- $308 million (up $41 million) for the Smithsonian Institution.
- $24 million (up $1 million) for the Institute for Museum Services.
- $34 million (up $1.4 million) for the Historical Preservation Fund Program.
- $408 million in completely new spending for manned missions to the moon and Mars.
- $10 million in new spending for study of magnetic levitation technology.
- $1 billion in new spending to study global climate change.
- $1.5 billion in new spending for modernization of airports in just Los Angeles, Dallas and Denver.
- $230 million in new spending for operation of the Environmental Protection Agency.
- $4.5 billion in new spending for a variety of governmental research and development.

The list could go on.

Many of those are "good things." Many of them are desirable and wise — to some degree. Some of them are absolutely unjustified, foolish and even disadvantageous to the public interest and the pocketbooks of most taxpayers.

So why is it, at a time when there is pressing need to cut deficits and avoid tax increases, that these things are being pushed?

Ask your senators and representatives in Congress and they will tell you they are for cutting spending. So will the president.

But look at these items — and there are lots of others that ought to be reduced or eliminated, too.

Rocky Mountain News

August 10, 1990 **DENVER, COLORADO** 132nd year, No. 110

Plowing for dollars (cont.)

THE ISSUE: Congress refuses to cut farm subsidies.

OUR VIEW: No wonder the deficit is out of control.

How can anyone take Congress' deficit-cutting talk seriously when it conducts business as usual on farm legislation?

Bills working their way through the House and Senate contain agricultural programs estimated to cost American taxpayers $54 billion over the next five years. If past performance is a guide, the price could be expected to top that figure by many more billions. During the past five years, farm programs cost more than $110 billion, twice what was expected.

It's pathetic that in a time of severe federal financial problems, Congress has made no effort to reduce the cost of farm subsidies, most of which have outlived whatever usefulness they may have had.

The legislation would be almost a duplicate of the last five-year program. Grain, rice and cotton growers again will rake in billions of dollars a year in subsidies. Measures to keep up the price of milk will cost $650 million a year.

Not every member of Congress agrees with the profligate federal farm policy but opponents get squelched quickly when they try to change things. An effort to reduce price props on sugar was rejected, which means that American consumers will continue paying twice the world market price.

Rep. Dick Armey, R-Texas, tried to get the House to cut off subsidies for farmers whose annual gross income exceeds $100,000. A majority of the subsidy money goes to the wealthiest farmers, but his colleagues turned down Armey's proposal to cut some of them off the government dole.

Picking up the direct tab for farm legislation is not the only burden that federal agricultural policy places on Americans. The programs increase the price of food at the grocery stores by an estimated $10 billion a year. Congress even continues to subsidize tobacco production, when everyone knows that smoking is a health hazard.

How can Senate and House leaders insist that taxes be raised in order to reduce the budget deficit when they make so little effort to cut unnecessary spending? It's hard to say, though it is obvious that Washington is awash in gall, but not responsibility.

The Washington Post

WEDNESDAY, AUGUST 15, 1990

GOP Blushing Over President's Democrat-Bashing

By Ann Devroy
Washington Post Staff Writer

More than two weeks ago, when the Persian Gulf was quiet, White House and Republican Party officials met in a private dining room at the Hay Adams Hotel and agreed that President Bush had been outmaneuvered and embarrassed by the Democrats in the negotiations over the budget deficit. It was time to fight back, they decided.

Yesterday Bush executed the bash-the-Democrats plan that was hatched in the hotel discussions. But with the nation now embarked on the largest U.S. military mobilization since the Vietnam War, even some of the president's strongest supporters called the move ill-timed, politically inept and doomed.

"The only saving grace," said one Republican, "is that no one will pay attention because we're in the middle of a real crisis."

Some Democrats, however, did notice and expressed bewilderment and annoyance at Bush's decision to attack them on budget issues in a lengthy opening statement at his news conference yesterday. House Budget Committee Chairman Leon E. Panetta (D-Calif.) said in a statement, "In the midst of an economic and militry crisis, one might expect the president to have more important things to do than calling a press conference to make partisan attacks. Democrats have given the president the strong support he needs and deserves in this emergency; we don't see this as a time for partisanship."

That the budget meeting that brought Bush back to Washington from his Kennebunkport vacation had more to do with politics than fiscal matters was clear from the outset. Two of Bush's key budget advisers, Office of Management and Budget Director Richard G. Darman and Treasury Secretary Nicolas F. Brady, were both out of town and did not attend the session.

According to sources, the group spent only about 20 minutes on the budget, most of it to go over Bush's lengthy statement opening the news conference. Before he spoke, the White House distributed key "talking points" on the budget to GOP political operatives, and within minutes of the opening statement officials at the Republican National Committee and numerous White House-activated business groups began talking those points.

"The point of the budget meeting was the statement," said one official, "and the point of the statement was to put heat on the Democrats."

A Republican source, who said he was informed by the White House on Monday that Bush would take on the Democrats Tuesday, described himself as astonished. "I still can't believe this," he said. "This is the strategy of two weeks ago, even though we've now decided to sent a quarter-million troops 6,000 miles into the desert. They are just intent on sticking to it, even though they are shooting their bullets into their own feet."

A GOP source said that several party officials had warned the White House during the past 24 hours that the timing of the attack was wrong. The official said the case they made was that "now is the time we need bipartisan support in a situation that could go very bad very quickly. We need the Congress with us. I doubt whether you can find five people who care about this right now when the world's attention, as it should be, is on the gulf. If you're going to shoot at the Democrats, do it in September when they're here and the real budget work begins. On top of this, the whole thing looks like whining. They slam-dunk us, and we complain they aren't playing fair."

An administration official known for his uncritical loyalty to the White House said, "There are reasons for this, but no rational ones. [White House Chief of Staff John H.] Sununu is enraged they got rolled by the Democrats, and he feeds into Bush's inclinations anyway, and no one can tell them: 'Hey, things like invasions have a way of changing political strategies.' "

Charles Black, spokesman for the RNC, said he wished the president had been able to "put some heat on the Democrats earlier" but insisted that Bush had no choice but to make his case on the budget while congressional Democrats are away on vacation in their districts. "We want the voters to focus on this and tell their congressmen" to work with the president, Black said.

In his statement and later during the news conference, Bush accused the Democrats of failing to produce a proposal to deal with the budget deficit and of playing politics with the issue. "They're laughing all the way to what they think is the electoral bank," the president complained.

Bush also took a subtle swipe at Senate Majority Leader George J. Mitchell (D-Maine) by specifically noting that two key House Democrats, Speaker Thomas S. Foley (Wash.) and Majority Leader Richard A. Gephardt (Mo.), were not playing politics with the issue. Mitchell was deliberately excluded from this list, White House officicals said.

The president's remarks came when most Democratic budget bargainers were away from Washington. But from Maine, Mitchell called them "not accurate and not helpful. If there has been an abdication of responsibilities on the budget, it has been on the part of the president."

Gephardt, vacationing in Duck, N.C., issued a statement saying he was "saddened to see the president resort to partisan complaining on the budget." Gephardt blamed the deficit on "10 years of Reagan-Bush economic and fiscal policies."

Staff writers John E. Yang and Steve Mufson contributed to this report.

THE WALL STREET JOURNAL

WEDNESDAY, AUGUST 15, 1990

President Says Congress Failed On Deficit Vow

Bush Accuses the Democrats Of Giving Up on Pledge To Offer Plan to Cut Gap

By DAVID WESSEL
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON – President Bush accused congressional Democrats of reneging on a pledge to offer a deficit-reduction plan and vowed to veto any spending bill that "busts the budget."

Mr. Bush, interrupting his Maine vacation for a day in Washington, accused the Democratic-controlled Congress of "an abdication of responsibility that endangers our economic vitality and the jobs that go with it."

The president has been promising a public attack on the Democrats for more than two weeks, and he began a late afternoon news conference yesterday with a statement blaming Democrats for the lack of progress in the budget talks.

The talks, which began in mid-May and broke off at the end of July, are to resume immediately after Labor Day at Andrews Air Force Base just outside Washington, congressional aides said.

Without an agreement, about $84 billion in automatic spending cuts will be triggered under the Gramm-Rudman deficit-reduction law, and Mr. Bush insisted yesterday that "as painful as such deep cuts will be, I must uphold the law . . . knowing that I've done all in my power to avoid them."

Mr. Bush also strongly suggested he plans to veto any appropriations bills that exceed his budget request. He complained that the House already has passed 10 appropriations bills, eight of which exceeded his budget request by $14 billion.

He didn't mention, however, that Republicans voted for the bills in large numbers, in many cases overwhelmingly. Moreover, prominent Republicans–including, on the Senate side, Bob Dole of Kansas, the GOP leader, and Pete Domenici of New Mexico, the top Republican on the Budget Committee–have been conspicuous among those adding money for their home states to spending bills.

Mr. Bush said Democrats agreed at the last full meeting of the bipartisan budget negotiators on July 26 to exchange deficit-reduction proposals but didn't deliver. Democrats deny that. "There may have been some miscommunication about what was to happen," House Majority Leader Richard Gephardt said several days later.

Notes taken by participants in the talks show that although there was no explicit promise from Rep. Gephardt, who chairs the talks, he did indicate that the two sides would present offers within days. In a subsequent caucus, however, Democratic negotiators were unable to agree on the wisdom of putting forward a proposal just before the start of the monthlong congressional recess or on the precise details.

Senate Democrats were the primary obstacle, Democratic participants in the budget talks say. Mr. Bush suggested as much yesterday by specifically exempting Missouri's Rep. Gephardt and House Speaker Thomas Foley of Washington from his harshest criticism.

Although the Republicans didn't formally offer a plan, a plan quickly leaked and has been criticized ever since—by Republicans as well as Democrats—for suggesting higher taxes on beer, wine and liquor as well as a $10,000 limit on the deduction for state and local income taxes. Democrats sat back and enjoyed the Republican disarray.

"They've been laughing all the way to what they think is the electoral bank," Mr. Bush said. "What I'm trying to do now is to put it in focus so the American people will understand that it is the Congress that must move now to bring this deficit under control."

Senate Democratic Leader George Mitchell of Maine replied that "the president's anger at the leak of the Republican plan . . . should not serve as justification for unfair and inaccurate criticisms of Democrats."

Mr. Bush reiterated the administration's goal of reducing the deficit by $50 billion in the first year and $500 billion over five years. Administration officials acknowledge they don't want to lower the target, even though some congressional budget negotiators already are talking about a smaller package, at least in the first year.

All sides in the budget talks agree that the chances of getting the kind of deep cuts in defense spending that some Democrats have favored were reduced by the Iraqi invasion of Kuwait. Mr. Bush yesterday referred to this by saying that "our budget must maintain a defense posture consistent with the demands on American leadership in the world and in the dangers we face."

The president also restated his support for cutting capital gains taxes and his insistence on changing the congressional budget process, which he termed "an utter failure" at controlling spending.

House Budget Committee Chairman Leon Panetta (D., Calif.) replied that Congress isn't solely responsible for the deficits. "The policies of the Bush and Reagan administrations must bear at least as much of the blame," he said.

"In most years, including this year, Congress has spent less, not more, than President Bush or President Reagan requested," Mr. Panetta said. "The president doesn't consider it overspending when we spend on his priorities, only on ours."

THE SUN

WEDNESDAY
AUGUST 15, 1990

Bush assails Democrats on deficit

Come up with a plan, he tells Congress

WASHINGTON — In his most partisan attack on Congress so far, President Bush lashed out at Democrats yesterday for "an abdication of responsibility" in refusing to propose measures to cut the budget deficit, and he stated firmly that they now must shoulder the burden of coming up with a deficit reduction package.

Charging that politics had been "rearing its head" on Capitol Hill, the president said at a news conference that "a bunch of Democrats" seized last month on a deficit-cutting plan backed by the administration and congressional Republicans and went to "every special interest group, raising hell.

"And now it's time that the Congress, which has to pass the budget, must pass the budget, get going," said the president, who commented with a smile that he was "here in a nice, tranquil mood wanting to discuss it with them."

"After three full months, the Democrats have yet to offer one single proposal at the budget summit," he said.

Striking back in a foretaste of heavy partisan wrangling to come over the budget, Democratic National Chairman Ron Brown responded that "frankly, we are flabbergasted at the president's remarks."

One of the top Democratic budget negotiators, House Budget Committee Chairman Leon E. Panetta of California, said: "In the midst of an economic and military crisis one might expect the president to have more important things to do than calling a press conference to make partisan attacks."

Disputing Mr. Bush's shifting the blame to Congress for the deadlocked budget talks, he said, "Presidents and Congress both bear responsibility for budgets and for deficits. And the policies of the Bush and Reagan administrations must bear at least as much blame as the Congress for the huge deficits over the past decade."

President Bush, noting he had made a "very difficult decision" by putting tax increases on the negotiating table, said he still hoped the summit would produce a bipartisan agreement next month.

In view of the weakening economy caused by the oil-price spiral, the president indicated that he would settle for less than the contemplated deficit reduction of $50 billion in fiscal 1991, which starts Oct. 1. Administration officials are considering deficit cuts of $20 billion to $30 billion.

But he said he still wanted a package of $500 billion in deficit reductions over five years.

He also made it clear he would

See **BUDGET**, 8A, Col. 1

DAILY NEWS

Wednesday, August 15, 1990

Don't put blame on me: Bush

Tells Dems to cut budget

By JEROME CAHILL
News Washington Bureau

WASHINGTON — With the Mideast crisis casting a cloud over prospects for reducing the U.S. deficit, President Bush yesterday lashed out at Democrats for trying to cash in politically on the nation's mounting budget woes.

"We've had a bunch of Democrats going after me, going to every special interest, raising hell ... they have been laughing all the way to what they think is the electoral bank," Bush said at a news conference.

The President demanded that Democratic congressional leaders produce their own plan for slashing government red ink when the budget negotiations resume after Labor Day. If they don't, Bush warned he will veto "any and every" budget-busting bill and order across-the-board spending cuts.

He's caught heat

Bush has caught heat for his own proposals, such as the administration plan to cut the the deficit by $54 billion with higher beer and liquor taxes and scaled-back deductions for middle and upper-income taxpayers. He also was ridiculed for taking back his "no new taxes" campaign promise.

House Majority Leader Richard Gephardt (D-Mo.) dismissed Bush's attack as "partisan complaining" and said, "We will not be a party to an agreement that allows the wealthy to avoid paying their fair share, while shifting even more of the burden onto working families."

The bitterness over the budget came as analysts warned that the Mideast crisis would make it far more difficult for the White House and Congress to come up with the substantial savings required this year under the Gramm-Rudman budget-balancing law.

One option that budget negotiators were mulling as a way to cut the deficit is already far less likely as a result of the Iraqi crisis — a rise in gasoline taxes.

The ability to raise gas taxes or impose a new, broad-based energy tax is crimped by the prospect of higher oil prices and the recession that such price boosts may help trigger.

Some analysts have suggested the budget summit ought to set a smaller target for reducing this year's deficit.

However, Bush refused yesterday to retreat from the goal of $50 billion in the first year and $500 billion over five years.

The Philadelphia Inquirer

Wednesday, August 15, 1990

Bush: Democrats blocking deficit cuts

By R.A. Zaldivar
Inquirer Washington Bureau

WASHINGTON — President Bush yesterday angrily accused congressional Democrats of shirking their duty to cut the budget deficit and said they had taken advantage of his patience to score political points during three months of fruitless budget negotiations.

"The problem is a lack of action on the part of the Congress, an abdication of responsibility that endangers our economic vitality and the jobs that go with it," Bush said at a news conference after interrupting his Maine vacation to return to the White House.

If an agreement on cutting spending and raising taxes to reduce the budget is not reached soon, Bush promised to veto spending bills and enforce massive across-the-board cuts that would kick in if the deficit exceeded a certain level at the start of the fiscal year Oct. 1.

Bush said it is now up to the Democrats to issue their own proposal to lower the deficit.

"They've been laughing all the way to what they think is the electoral bank," Bush said of the Democrats. "Every time we throw up a proposal, they gun it down and rush off and tell the special interests. ... 'We're going to protect you.'"

"It is time," added Bush, "that the Congress, who has to pass the budget ... get going. I'm still here in a nice tranquil mood wanting to discuss it with them."

Bush's broadside came about 1½ weeks after most members of Congress abandoned the capital for their summer recess. Two of Bush's key lieutenants on the budget — Treasury Secretary Nicholas F. Brady and budget director Richard G. Darman — were also out of town and sent their aides to meet with the President yesterday.

Senate Democratic Leader George J. Mitchell — who was back home in Maine — responded to Bush in a statement.

"If there has been an 'abdication of responsibilities' on the budget, it has been on the part of the President," Mitchell said, noting that the Republicans leaked a budget plan to the media last month but never presented it in a negotiating session. That plan included new taxes on beer and wine, and limits on the deductibility of state income taxes.

"The President's anger at the leak of the Republican plan to the press by a Republican should not serve as justification for unfair and inaccurate criticisms of Democrats," Mitchell added.

Other Democrats were quick to join Mitchell in criticizing Bush's remarks.

"Surely the President realizes that the nation is better served by our working together, with good faith on all sides, than by ill-timed and inaccurate partisan statements," said Rep. Leon E. Panetta (D., Calif.) chairman of the House Budget Committee.

Rep. Sander M. Levin (D., Mich.) called Bush's statements "an exercise in finger-pointing rather than presidential leadership" that threatens to prolong the budget impasse.

Bush said he still intended to press for a plan that cuts the deficit by $50 billion next year and $500 billion over five years. Many economists fear that reducing the deficit by more than $50 billion next year would hurt the economy, which some consider to be on the edge of a recession.

However, Republican and Democratic congressional staffers involved in the budget negotiations say their bosses might want a plan that cuts less deeply in the next few years.

In addition to concerns over a recession, officials have said that the Middle East crisis could significantly alter efforts to reduce the deficit because of the possibility of continued higher oil prices and the cost of the U.S. military buildup in the Persian Gulf.

The cost of the military operation in gulf "may cause a rearrangement in how money is spent, because this is not a freebie," Bush said. He said he had no estimates yet of the military costs. But he said he was pressing Japan and Germany to help pay for the operation.

Experts outside the government estimate that the operation is costing $5 million to $20 million more a day than the Pentagon had budgeted to spend in 1990.

Democrats take tongue-lashing on budget issue

By Frank J. Murray
THE WASHINGTON TIMES

President Bush accused congressional Democrats yesterday of endangering the economy for political gain, outraging Democratic leaders.

"It's getting right down to the crunch," Mr. Bush said as he laid blame for the failure to reach a budget compromise squarely on the Democratic-controlled Congress.

"Our current budget, or lack thereof, constitutes a real threat to the economic well-being of this country," Mr. Bush said in a news conference statement calculated to shift public opinion against Democrats on the issue.

Somewhat tongue in cheek at times, Mr. Bush termed himself "reluctant to go public in this manner" but called it sad that Democrats offered no proposals over three months of budget summit talks.

"We have played by the rules. And now it is up to the Democrats who control Congress," he said, stressing that he had postponed a one-week trip to Latin America next month because of the pending fiscal deadlines.

"The problem is a lack of action on the part of the Congress, an abdication of responsibility that endangers our economic vitality and the jobs that go with it," Mr. Bush said in a planned broadside blaming the opposition party for reneging on deficit-reduction deals.

Democratic National Chairman Ron Brown said Democrats were "flabbergasted" by the president's remarks at a time when they were supporting him in the Persian Gulf crisis.

"All that came into focus today was George Bush scapegoating Democrats and refusing to stand up for anything except another tax cut for the rich," Mr. Brown said in a statement that faulted the Bush administration's increasing deficit projections.

Leon Panetta, House Budget Committee chairman, blasted Mr. Bush's "ill-timed and inaccurate partisan statements" and said there "is plenty of blame to go around" for the failure to finish the budget. But he added that Democrats have voted to spend less, not more, than Mr. Bush or President Reagan had requested.

"Our priorities sometimes differ. But the president doesn't consider it overspending when we spend on his priorities, only on ours," the California Democrat said. "It is Republicans who have been most critical of the president during the budget talks. It is Republicans who leaked the details of his budget proposal. And it is Republicans who have pronounced the budget talks dead."

Mr. Bush said automatic spending cuts of more than $100 billion would take effect Oct. 1 unless a deal was cut to trim $50 billion this year and $500 billion over five years. But he also demanded changes in the budgeting process "to straighten out this procedural monstrosity."

Photo by Don Preisler/The Washington Times
President Bush irked Democrats when he lambasted them for failing to reach a budget compromise.

In what may be only the first administration effort to dramatize the impact of automatic cuts, or sequestration, Education Secretary Lauro Cavazos ordered an emergency halt to outside hiring in his agency.

Advised by the Office of Management and Budget that it may lose 31.9 percent of its funds as of Oct. 1, Mr. Cavazos sent an internal memorandum to senior officers dated Aug. 10 that also warned: "It is possible that in the absolute worst case an involuntary furlough of up to 10 days per month for all employees will be required as a result of the sequester."

Mr. Bush opened the news conference by reading a lengthy statement on the failure of budget talks and sandwiched political charges on that issue between questions on the Middle East crisis, a scenario feared by some White House advisers who had counseled Mr. Bush to postpone the blast at Democrats.

During the exchange, Mr. Bush acknowledged for the first time the leaked July 26 Republican budget reduction plan that included increased taxes on beer, wine and liquor and capping deductions for state and local taxes at $10,000.

"We had a proposal. People know what was in it. We had an original proposal with detail. They've had none. And the deal was they were to have a proposal. Now, let's come forward with it and set aside politics because it's getting tough now. It's getting right down to the crunch," Mr. Bush said in reply to one question.

He said politics prevented the Democrats from responding to that plan with one of their own.

"I'm not going to accuse [House Speaker] Tom Foley [Washington Democrat] of this or [Missouri Democrat] Dick Gephardt of this. But I think there were some saying, 'Hey, we think we got the president over a barrel here. We've made him back away and give and give and give and get nothing,' " Mr. Bush said.

• *Carol Innerst contributed to this report.*

The Washington Times
WEDNESDAY, AUGUST 15, 1990

The New York Times

NEW YORK, WEDNESDAY, AUGUST 15, 1990

Bush Warns of Budget Impasse, Comparing Crisis to That of Persian Gulf

By MAUREEN DOWD

Special to The New York Times

WASHINGTON, Aug. 14 — Saying the budget impasse at home deserved the same urgent attention as the crisis in the Persian Gulf, President Bush today dropped his gentleman's agreement with the Democratic leaders in Congress and accused them of endangering the economy by playing politics with the Federal deficit.

Accusing Congress of "an abdication of responsibility that endangers our economic vitality and the jobs that go with it," the President termed the lack of a budget "a real threat to the economic well-being of this country."

Mr. Bush spoke at a news conference at the White House after a meeting with advisers who gave him an assessment of how the confrontation in the Middle East would affect budget negotiations between the Administration and Congress.

Trying to shift part of the nation's attention away from the the Persian Gulf, Mr. Bush began his news conference with a statement intended to satisfy the demands of his fellow Republicans that he take the offensive on the budget before the resumption of the talks early next month.

'Process Has Broken Down'

"We're getting right down to the crunch," Mr. Bush said. He added, "It is no secret to the American people that the Congressional budget process has broken down."

The President has been saying he feels "liberated" to criticize the Democrats since a confidential Administration plan on taxes appeared in news reports last month. He blames Democrats for the disclosure and said the breach of the agreement to keep details of the budget negotiations secret allows him to take the offensive.

The tartness of the President's attack surprises Democrats.

Presidential aides say Mr. Bush hesitated to do so last week because he did not want to strain the bipartisan support for his decision to send troops to Saudi Arabia.

The President has been smarting because the Democrats have managed to get an Administration proposal for taxes into the public debate without responding with any politically unpleasant proposals of their own.

Democrats Taken Aback

Democrats seemed taken aback by the tartness and timing of Mr. Bush's attack today.

"Frankly, we are flabbergasted at the President's remarks," said Ronald H. Brown, the chairman of the Democratic National Committee. "At a time when all Democrats are hoping and praying for the success of the Administration's Persian Gulf policy, we do not understand why the President wants to divide Americans along partisan lines."

Senator George J. Mitchell of Maine, the majority leader, said: "If there has been an 'abdication of responsibilities' on the budget, it has been on the part of the President."

"Just a few months ago," Mr. Mitchell said, "in his State of the Union address the President claimed that his proposed budget would reduce the deficit, meet the Gramm-Rudman target, and balance the budget by 1993, all with no new taxes. Every one of those statements was inaccurate, as he himself has now admitted."

Threat of Vetos

The President warned that if there is still no budget agreement by Oct. 1, there would be a "painful" $100 billion cut in non-military spending programs, as required by the Gramm-Rudman-Hollings deficit-reduction law. He also threatened to veto "any and every spending bill" that he believed would stretch the budget beyond the limits imposed by the law.

"While they have the power of the purse," the President said of Congress, he has "the power of the veto pen."

"I'm still here in a nice tranquil mood, wanting to discuss it with them," Mr. Bush said, with a grin. "But you see, we had this kind of a truce on this abiding by the Marquis of Queensberry's 'no comment' rules. And so, during this period of truce I'm going to put the focus where it belongs and where the American people year after year know it belongs, and that is on the party that controls the United States Congress."

Mr. Bush renewed his attack on the Congressional budget process, calling it a "procedural monstrosity," and arguing that "nobody cares" about Congress getting bogged down "in the jurisdiction of this committee or another."

Using a tried and true political technique, the President managed to blame the Democratic leadership of the House, including Speaker Thomas S. Foley and Richard A. Gephardt, the majority leader, by saying he was not going to do so.

"I'm not going to accuse Tom Foley of this or Dick Gephardt of this," he said, "but I think there were some saying, 'Hey, we think we got the President over a barrel here. We've made him back away and give and give and give and get nothing.' And my view is, 'Well, fine, if that's the game that some up there want to play.' "

Careful Selection of Facts

Both sides are carefully selecting their facts and emphasis to present the budget negotiations in the most favorable light for their side.

While the President asserted that Administration officials had refrained from "divisive rhetoric" on the budget, he was correct only in that they had not done so for public quotation. There have been several instances in which senior Bush Administration officials attacked Democrats in private sessions in which reporters had agreed not to quote them by name.

At the same time, the Democrats have yet to offer a specific alternative to the White House proposals.

Mr. Bush, who especially dislikes unauthorized policy disclosures, referred derisively today to the way an Administration plan that included some tax increases had "oozed" into news reports last month.

A gentleman's agreement with Democrats in Congress ends.

Senator Mitchell responded today by contending that it was a Republican negotiator who provided the information to reporters and noted that many Republicans as well as Democrats had criticized the plan.

"The President's anger at the leak of the Republican plan to the press by a Republican should not serve as justification for unfair and inaccurate criticisms of the Democrats," said Mr. Mitchell.

Top Budget Aides Absent

White House officials said Mr. Bush had returned to Washington from his vacation to discuss the budget with top advisers. But no new numbers or proposals were discussed at the meeting and the President could not answer afterward how much the deployment of American military forces to the Persian Gulf would cost.

Two of the pivotal figures on budget matters did not attend the meeting. Richard G. Darman, the budget director, was not at the White House and Nicholas F. Brady, the Treasury Secretary, did not come back from a Midwest campaign swing for Republican candidates.

The Dallas Morning News
Wednesday, August 15, 1990

Bush assails Democrats on deficit, budget talks

President demands plan to trim shortfall

By Robert Dodge
Washington Bureau of The Dallas Morning News

WASHINGTON — President Bush, saying the federal deficit crisis is "getting right down to the crunch," Tuesday turned up the heat on Democrats and demanded that they come up with a plan to cut the soaring shortfall.

The president blamed congressional Democrats for the deadlock in budget negotiations. He said taxpayers are fed up with political tactics that have prevented negotiators from finding a tax and spending package to reduce a deficit that may climb to $231.4 billion in 1991.

"They've been laughing all the way to what they think is the electoral bank," Mr. Bush said. "I think the American people understand it is the Congress that has to pass this budget. They're the ones that have the power of the purse."

Mr. Bush met with economic advisers before making remarks to reporters.

His statements drew a strong response from Democrats.

"Frankly, we are flabbergasted at the president's remarks," said Democratic National Chairman Ron Brown. "At a time when all Democrats are hoping and praying for the success of the administration's Persian Gulf policy, we do not understand why the president wants

Please see BUSH on Page 6A.

Bush assails Democrats on deficit, budget talks

Continued from Page 1A.

to divide Americans along partisan lines."

Solving the deficit problem has become decidedly more difficult since the budget talks ended Aug. 1.

The U.S. military response to Iraq's invasion of Kuwait, subsequent increases in oil prices, the rising cost of the savings and loan mess and new evidence showing the economy is weakening all are expected to make it more difficult to cut the deficit.

Moreover, a long-term U.S. military presence in the Middle East is expected to create added expenses for the government. Current military expenses will fall into the fiscal 1990 budget, but costs of an operation continuing after the new budget year begins Oct. 1 would exacerbate the budget problem.

Mr. Bush said he has not learned how much military operations in the Middle East are costing. But he expressed confidence that U.S. allies will help pick up the tab.

But he added that "our defense budget must maintain a defense posture consistent with the demands on American leadership in the world and in the dangers we face."

Despite the worsening economic picture, Mr. Bush said he still wants to cut the deficit by $50 billion in 1991 and by $500 billion during the next five years.

Analysts say they worry that a deficit reduction of that magnitude would choke the economy because it would require higher taxes and deep cuts in federal spending.

Even the president indicated that spending needs in the Middle East might require a reordering of priorities.

"It (Middle East) may (be) cause for a rearrangement in how money is spent because this is not a freebie out there in terms of the expenditure," Mr. Bush said. "But I don't want to move away from those (deficit-reduction) targets now."

Sen. Phil Gramm, R-Texas, said the president's remarks will "turn up the heat," and he praised Mr. Bush for taking his frustrations to the public.

"I think the president has turned the other cheek twice now," said Mr. Gramm, a budget negotiator. "He ran out of cheeks."

But House Majority Leader Dick Gephardt, D-Mo., said he was "saddened to see the president resort to partisan complaining on the budget."

Associated Press

President Bush meets with Michael Boskin, chairman of the Council of Economic Advisers, in the Oval Office on Tuesday. The president interrupted his Maine vacation to meet with advisers on the Mideast crisis and the budget.

Rep. Leon Panetta, D-Calif., chairman of the House Budget Committee, expressed surprise at Mr. Bush's remarks.

"In the midst of an economic and military crisis, one might expect the president to have more important things to do than calling a press conference to make partisan attacks," said Mr. Panetta.

Sen. Lloyd Bentsen, D-Texas, also a budget negotiator, was vacationing and could not be reached for comment, said his spokesman, Jack DeVore.

In addition to maintaining a hard line on the level of deficit reduction, Mr. Bush continued to threaten Democrats with mandatory spending cuts of about $100 billion under the Gramm-Rudman law. Those across-the-board cuts would automatically occur if a tax and spending package is not developed for fiscal 1991.

The president charged that as he and administration economic experts participated in good faith during the budget negotiations, the Democrat-controlled Congress continued to spend. He noted that the House approved 10 appropriations measures, eight of which exceeded his requests by $14 billion and represented a $25 billion increase from the previous year.

The budget negotiations ended after 84 days when Congress adjourned for its summer recess.

The talks disintegrated after the administration offered a deficit-reduction proposal that was harshly criticized by both Democrats and Republicans. The plan, which was not met by a similar package from Democrats, called for $54 billion in spending cuts, new taxes on alcohol and limits on federal deductions for state and local income tax payments.

Political analysts said that Democrats intended to leave Mr. Bush shouldering the blame for the deficit and worsening economy when they didn't offer their proposal before leaving for summer vacation.

"I think there were some saying, 'Hey, we think we got the president over a barrel here. We've made him back away and give and give and get nothing,' " Mr. Bush said Tuesday. "Now it's time for them to come forward, and we will be more statesmanlike and try to resolve this national problem."

Staff writer Susan Feeney contributed to this report.

BOSTON HERALD

WEDNESDAY AUGUST 15, 1990

President issues ultimatum on stalled budget summit

WASHINGTON President Bush, blaming the budget stalemate on congressional Democrats, yesterday angrily challenged them to put up or shut up in talks to cut the federal deficit and avoid catastrophic spending cuts.

"One hundred days after I called on Democrats and Republicans in Congress to work on a bipartisan solution ... the Democrats have yet to offer one full proposal at the budget summit," said Bush, who flew back to Washington from his Maine vacation home for meetings on the budget and the Persian Gulf crisis.

The president said until the Democrats cooperate, he would veto every spending bill that exceeds his spending requests. And he made clear he would follow the mandate of the Gramm-Rudman deficit-reduction law and impose $100 billion in across-the-government spending cuts if no agreement is reached.

"I've been reluctant to go public in this matter," Bush said. "We've dealt in good faith with the leaders; we have played by the rules, and now it is up to the Democrats who control Congress."

With a flash of emotion, Bush said Democrats have been "laughing all the way to what they think is the electoral bank. Every time we throw up a proposal, they gun it down and rush off and tell the special interests of one kind or another, 'We're going to protect you.' Ha, ha.

Senate Majority Leader George Mitchell (D-Maine) said Bush's barrage "was not accurate and not helpful."

"If there has been an 'abdication of responsibilities' on the budget, it has been on the part of the president," Mitchell said. "The president's anger at the leak of the Republican plan to the press by a Republican negotiator should not serve as a justification for unfair and inaccurate criticism of Democrats."

—Herald Wire Services

PLAIN DEALER

OHIO'S LARGEST NEWSPAPER CLEVELAND, WEDNESDAY, AUGUST 15, 1990

Bush bashes Democrats over budget deadlock

WASHINGTON (AP) -- President Bush blasted congressional Democrats yesterday for attacking his every budget proposal and then "laughing all the way to what they think is the electoral bank."

"Every time we ... throw up a proposal, they gun it down and rush off and tell the special interests of one kind or another, 'We're going to protect you. Ha, ha.'" the president said at a news conference.

"Now it's time for them to come forward."

The president said until the Democrats cooperated, he would veto every spending bill that exceeded his spending requests. And he made clear he would follow the mandate of the Gramm-Rudman deficit-reduction law and impose $100 billion in across-the-government spending cuts if no agreement was reached.

"They've been laughing all the way to what they think is the electoral bank," he said. But if the automatic spending cuts take effect, "They will bear heavy responsibility for the consequences."

Shortly after Bush spoke, House Majority Leader Richard Gephardt, D-Mo., said he was "saddened to see the president resort to partisan complaining on the budget."

"For months, the budget summit has been meeting in good faith to address a deficit that is the direct result of ten years of Reagan-Bush economic and fiscal policies," he said.

Senate Majority Leader George Mitchell said, "If there has been an abdication of responsibilities on the budget, it has been on the part of the president.

"The president's anger at the leak of the Republican plan to the press by a Republican should not serve as justification for unfair and inaccurate criticisms of Democrats," the Maine Democrat said.

The president met with reporters shortly after returning to Washington from his Maine vacation home for two days of talks and briefings. Before his news conference, the president gathered with his budget advisers. He planned to devote most of his time to the situation in the Middle East.

The two issues are related because the rapid increase in oil prices sparked by the Iraqi aggression has the potential of tripping up an already weak economy. In addition, maintaining the huge U.S. force in Saudi Arabia could add billions of dollars to the Pentagon's budget.

Bush repeated the Republican assertion that Democrats had reneged on an agreement to put a proposal on the table before Congress left for its summer recess. He conceded Republicans didn't exactly put theirs on the table either.

"It wasn't totally on the table; it's kind of oozed out on the side. And all we did was have a bunch of Democrats going after me, going to every special interest raising hell," the president said.

Bush said he was "going to put the focus where it belongs, and where the American people year after year know it belongs, and that's on the party that controls the United States Congress."

Treasury Secretary Nicholas Brady, while not predicting a recession, has said the slow growth rate of the American economy could fall "closer to zero" as the higher oil prices took full effect.

The Boston Globe

Founded 1872

THE BOSTON GLOBE • WEDNESDAY, AUGUST 15, 1990

Bush ire on budget aimed at Democrats

By Michael Kranish
GLOBE STAFF

WASHINGTON – President Bush, firing what may have been his most partisan salvo since the 1988 election, said yesterday that Democrats will "bear heavy responsibility" for across-the-board budget cuts unless they come up with a deficit reduction plan soon.

"Democrats sought to hold the talks hostage over new revenues," Bush said, adding that even when he broke his famous "read my lips" pledge and endorsed higher taxes, Democrats put "nothing on the table."

"They've been laughing all the way to what they think is the electoral bank," Bush said of the Democrats. "Every time we . . . throw up a proposal, they gun it down and rush off and tell the special interests of one kind or another, 'We're going to protect you. Ha, ha.' "

Bush said the result has been a congressional "abdication of responsibility that endangers our economic vitality and the jobs that go with it."

The president interrupted his vacation in Kennebunkport, Maine, to fly to Washington to meet with his economic advisers on the budget and ways to reduce the deficit.

Democrats reacted angrily to Bush's comments, calling them inaccurate and an impediment to striking a budget deal.

"If there has been an 'abdication of responsibility' on the budget, it has been on the part of the president," said the Senate majority leader, George Mitchell of Maine. He said a Bush plan to raise alcohol taxes and limit the deductibility of state taxes was never formally presented

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Bush hits Democrats on budget talks

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to Democrats but instead was leaked by a Republican and then was criticized by Republicans.

"The president's anger at the leak of the Republican plan to the press by a Republican should not serve as justification for unfair and inaccurate criticisms of Democrats," Mitchell said.

Democrats "flabbergasted"

Ron Brown, chairman of the Democratic National Committee, said: "Frankly, we are flabbergasted at the president's remarks. At a time when all Democrats are hoping and praying for the success of the administration's Persian Gulf policy, we do not understand why the president wants to divide Americans along partisan lines."

Bush acknowledged he had not formally put his budget plan on the table but said everyone knew about it because it "oozed out" through leaks from some Republicans. Bush did not confirm widespread reports that it included higher taxes on alcohol and a limitation of deductions for state and local taxes. Nor did he mention the fact that congressional Republicans have opposed the Bush plan perhaps more loudly than have Democrats.

At the beginning of a White House press conference that otherwise dwelled on the Middle East, Bush launched a general attack on Congress for failing to deal with the budget. He did not criticize Democrats directly. Acknowledging that media attention is more focused on the Middle East, he said the budget is a "longstanding crisis at home" that "constitutes a real threat to the economic well-being of this country."

REUTERS PHOTO

President Bush meets yesterday with Michael Boskin (left), chairman of the Council of Economic Advisers, and John Robinson, the deputy Treasury secretary.

Bush says he kept bargain

Bush said that after he broke his no-tax pledge and refrained from partisan rhetoric during the three months of budget talks, "I feel I kept my share of the bargain."

But, he said, "one hundred days after I called on Democrats and Republicans in the Congress to work with me toward a bipartisan solution, I note, frankly in sadness, that after three full months the Democrats have yet to offer one single proposal at the budget summit."

Bush said he was "reluctant" to launch such a partisan attack but said "we've dealt in good faith."

"now it is up to the Democrats who control Congress," he said. He added that he stands "ready to work on this process as long as it takes."

The president said he wanted to strike a $500 billion, five-year deal that would eliminate the deficit. Under his proposal, in the first year that would include $25 billion in spending cuts and $25 billion in new taxes as well as a postponement of the remaining $50 billion that is supposed to be cut under the Gramm-Rudman-Hollings deficit reduction law.

Bush said the gulf crisis could prompt a reworking of budget proposals, including reduced cutbacks in defense.

The deficit reduction law says that unless a deal is reached by Oct. 1, a $100 billion across-the-board automatic cutback will occur that would reduce many defense and domestic programs by more than one-third. Citing the deployment of US troops in Saudi Arabia, Bush has exempted military personnel from those cutbacks. But that exemption means that Pentagon programs will have to be cut more deeply.

Sept. 10 deadline set

The White House and congressional negotiators are scheduled to resume their negotiations on Sept. 6, and under an ambitious schedule proposed by the White House, they would reach tentative agreement by Sept. 10.

Bush warned that "we're getting down to the crunch" and vowed to invoke the "painful" across-the-board cuts unless a deal was struck by Oct. 1.

Democrats "will bear heavy responsibility for the consequences," Bush said.

The Washington Post

WEDNESDAY, AUGUST 15, 1990

Meanwhile, Back at the Budget

PRESIDENT BUSH is right to consider the federal budget—much too big and growing—to be a real threat. He is also right to be concerned that the events in the Persian Gulf are distracting attention from the budget and diminishing chances of a rational agreement. But he is only about one-third right in blaming the deadlock on the Democrats in Congress.

You are watching an elaborate game in which the goal has less to do with money than with the audience's reactions. Both sides now acknowledge the need for higher taxes as well as some spending cuts—and that's real progress. But having acknowledged it, and being reconciled to the necessity of carrying at least some of the blame for it, each side is now maneuvering to push as much blame as possible onto the other. Is that surprising? Strategy on each side is cautious and defensive.

In his press conference yesterday, Mr. Bush sought to remind the country that the Democratic leadership has yet to come up with a coherent budget plan of its own. This is true. But the idea of a congressional budget is inevitably pretty dubious. A body of 535 independently elected people will always have trouble coming forward with the kind of specific commitments that Mr. Bush wants. Common practice, as it has developed over the past half-century, assumes that the budget process begins with a firm presidential proposal. Mr. Bush invited the present embarrassment when he declined to offer a realistic budget last January, just as he declines to do it publicly now before the Democrats join him.

For the good of the country, to manage and contain a corrosive quarrel, the Democrats ought to give him some help. They seem to have decided that they will. The question is how much. Mr. Bush is trying to push them a bit harder. But they are off on vacation. An answer is likely to be left, in the classic high-risk congressional style, to the middle of some night a couple of days after the absolute last deadline.

Speaking of deadlines, the commitment of American forces to Saudi Arabia does indeed change the odds for a budget solution. Earlier in the year it was common wisdom that both sides were willing to contemplate automatic cuts—even huge ones—inflicted by the Gramm-Rudman-Hollings Act because the chief victim, the Defense Department, was in for big reductions anyway. But leaving military spending to the blind workings of an automatic formula suddenly seems like a much less attractive idea to a lot of people. If there are grounds for hope in this year's budget spectacle, it probably lies there.

ST. LOUIS POST-DISPATCH

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Bush Rips Democrats Over Budget Impasse

By Margaret Wolf Freivogel
Post-Dispatch Washington Bureau

WASHINGTON — President George Bush bludgeoned Democratic congressional leaders with unusually blunt language Wednesday, saying they were playing politics with budget negotiations.

Bush accused Democrats of "going to every special interest and raising hell" following indications that the president was willing to consider raising taxes.

In an apparent attempt to recoup some of the political costs of his tax position, the president blamed congressional leaders for the budget deficit and the budget negotiation stalemate. He threatened to veto "any and every spending bill that busts the budget."

"The problem is a lack of action on the part of the Congress, an abdication of responsibility that endangers our economic vitality and the jobs that go with it," Bush said.

House Majority Leader Richard A. Gephardt, D-Mo., said he was "saddened to see the president resort to partisan complaining on the budget."

"We intend to continue working with the president toward a solution to the deficit," Gephardt said in a statement released in response to Bush's comments. "But we will not be a party to an agreement that allows the wealthy to avoid paying their fair share, while shifting even more of the burden onto working families." Gephardt is leading the congressional Democrats in their negotiations with Bush on the budget.

Bush broached the budget issue in

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Budget

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opening remarks at a White House press conference after returning from his vacation home in Maine. In a sometimes testy discussion, he mentioned Gephardt and House Speaker Thomas S. Foley, D-Wash., by name.

Regarding the Democrats' failure to produce a proposal, Bush said: "I think there was some politics in it. I'm not going to accuse Tom Foley of this or Dick Gephardt of this. But I think there were some saying, 'Hey, we think we got the president over a barrel here.' "

Bush said Democrats had been "laughing all the way to what they think is the electoral bank."

He said, "What I'm trying to do now is to put it in focus so the American people will understand that it is the Congress that must move now to bring this deficit under control."

Senate Majority Leader George Mitchell, D-Maine, and Ron Brown, chairman of the Democratic Party, also disputed the president's views.

"If there has been an 'abdication of responsibilities' on the budget, it has been on the part of the president," Mitchell said.

Bush has claimed that he would reduce the deficit and balance the budget with no new taxes, Mitchell said. "Every one of those statements was inaccurate, as he himself has now admitted," Mitchell said.

Noting that even Republicans criticized Bush's willingness to raise taxes, Mitchell said, "The president's anger at the leak of the Republican plan to the press by a Republican should not serve as justification for unfair and inaccurate criticisms of Democrats."

Brown said that Bush "might better spend time giving the American people an accurate estimate of what he wants them to spend at the gas pump and a lot less time trying to make Democrats pay phony political costs."

Bush called on congressional leaders not only to produce a budget proposal but to overhaul the budget process. "The Congress must recognize the utter failure of its budget process to control spending," he said.

Star Tribune

WEDNESDAY/August 15/1990

Bush says Democrats dragging feet in budget talks

By Cliff Haas
Washington Bureau Correspondent

Washington, D.C.
Following the advice of restive Republicans, President Bush chewed out congressional Democrats Tuesday for what he said was foot-dragging in deficit-reduction negotiations to achieve political advantage.

"Every time we . . . throw up a proposal, they gun it down and rush off and tell the special interests of one kind or another, 'We're going to protect you. Ha, ha'," Bush said during a White House news conference. "Now it's time for them to come forward."

He said that until the Democrats cooperate in the budget talks, which began in May, he would veto every appropriations bill the Democratic-controlled Congress passes that exceeds his spending requests. He also threatened to follow the mandate of the Gramm-Rudman-Hollings deficit-reduction law, which could trigger $100 billion or more in automatic, across-the-board spending cuts if there is no budget deal by Oct. 15.

"They've been laughing all the way to what they think is the electoral bank," Bush said of the Democrats. But if the automatic spending cuts take effect, "They will bear heavy responsibility for the consequences."

Soon after Bush spoke, House Majority Leader Richard Gephardt of Missouri, the Democrats' chief negotiator in the budget talks, said he was "saddened to see the president resort to partisan complaining on the budget."

"For months the budget summit has been meeting in good faith to address a deficit that is the direct result of ten years of Reagan-Bush economic and fiscal policies," Gephardt said.

In the same vein, Senate Majority Leader George Mitchell of Maine said, "If there has been an abdication of responsibilities on the budget, it has been on the part of the president.

"The president's anger at the leak of the Republican plan to the press by a Republican should not serve as justification for unfair and inaccurate criticisms of Democrats," Mitchell said.

Before Congress began its recess earlier this month, congressional Republicans met with Bush to express their frustration over the talks and warn that the GOP is losing the initiative on the budget issue since Bush agreed to abandon his "no new taxes" campaign pledge as part of the effort to get the bargaining going.

Bush and the Republicans then were criticized after the leak of a GOP suggestion for higher taxes on alcoholic beverages and a proposal to limit the income-tax deduction for state and local taxes. The Democrats, meanwhile, refrained from putting forward any substantive budget proposals.

Yesterday Bush repeated the Republican assertion that Democrats had reneged on an agreement to offer a proposal before Congress adjourned, although he conceded Republicans had not really put one on the table, either.

"It wasn't totally on the table; it's kind of oozed out on the side. And all we did was have a bunch of Democrats going after me, going to every special interest raising hell," the president said.

Bush said that now he is "going to put the focus where it belongs, and where the American people year after year know it belongs, and that's on the party that controls the United States Congress."

"The success of this summit is essential to assure the economic health of the nation," he said.

There was more than a touch of political theatrics involved in Bush's appearance. Administration and congressional negotiators agreed to suspend the budget talks during Congress' month-long August recess and resume after Labor Day with an ambitious schedule of bargaining aimed at achieving an agreement by Sept. 10.

But that agreement was made before Iraq invaded Kuwait two weeks ago.

The U.S. economy has been slowing. It grew just 1.2 percent over the past 12 months, the smallest increase since the end of the last recession more than seven years ago. And civilian unemployment rose to 5.5 percent in July.

Meanwhile, an embargo of Iraq and Kuwait was called for by the United States and endorsed by the U.N. Security Council. If successful, it would push up oil prices — and the prospect of recession.

While there is a consensus among economists on the long-term need for deficit reduction, expert opinion is

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Congress Continued from page 7A

split on whether this would be the time to further burden the economy with higher taxes and reduced federal spending.

Some argue against cutting the deficit, and removing some fiscal stimulus, while the economy is slowing; others insist that the long-term benefit of reducing federal red ink is worth any short-term risks.

Meanwhile, budget negotiators also must contend with political considerations in an election year.

"I think people who didn't want to do it before now have some excuses that weren't available to them before, so I think it has become more difficult," said Rep. Bill Frenzel of Minnesota, the senior Republican on the House Budget Committee and one of the budget negotiators.

Before the upheaval in the Middle East, the negotiators had generally agreed to aim for a deficit-reduction plan of about $50 billion for 1991 and $500 billion over five years.

Frenzel also said that while he still hopes to achieve those targets, the softness in the economy along with the uncertainty about the Middle East adds to the difficulty in sticking to those goals.

Achieving savings of $500 billion over five years "presupposes a pretty good economy in those five years," he said. "If we are starting from a very low (economic growth) rate it may be that we could go ahead with that kind of a program and not be able to achieve it."

The Washington Post

Wednesday, August 15, 1990

Meanwhile, Back at the Budget

PRESIDENT BUSH is right to consider the federal budget—much too big and growing—to be a real threat. He is also right to be concerned that the events in the Persian Gulf are distracting attention from the budget and diminishing chances of a rational agreement. But he is only about one-third right in blaming the deadlock on the Democrats in Congress.

You are watching an elaborate game in which the goal has less to do with money than with the audience's reactions. Both sides now acknowledge the need for higher taxes as well as some spending cuts—and that's real progress. But having acknowledged it, and being reconciled to the necessity of carrying at least some of the blame for it, each side is now maneuvering to push as much blame as possible onto the other. Is that surprising? Strategy on each side is cautious and defensive.

In his press conference yesterday, Mr. Bush sought to remind the country that the Democratic leadership has yet to come up with a coherent budget plan of its own. This is true. But the idea of a congressional budget is inevitably pretty dubious. A body of 535 independently elected people will always have trouble coming forward with the kind of specific commitments that Mr. Bush wants. Common practice, as it has developed over the past half-century, assumes that the budget process begins with a firm presidential proposal. Mr. Bush invited the present embarrassment when he declined to offer a realistic budget last January, just as he declines to do it publicly now before the Democrats join him.

For the good of the country, to manage and contain a corrosive quarrel, the Democrats ought to give him some help. They seem to have decided that they will. The question is how much. Mr. Bush is trying to push them a bit harder. But they are off on vacation. An answer is likely to be left, in the classic high-risk congressional style, to the middle of some night a couple of days after the absolute last deadline.

Speaking of deadlines, the commitment of American forces to Saudi Arabia does indeed change the odds for a budget solution. Earlier in the year it was common wisdom that both sides were willing to contemplate automatic cuts—even huge ones—inflicted by the Gramm-Rudman-Hollings Act because the chief victim, the Defense Department, was in for big reductions anyway. But leaving military spending to the blind workings of an automatic formula suddenly seems like a much less attractive idea to a lot of people. If there are grounds for hope in this year's budget spectacle, it probably lies there.

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(3grafld; picksup3rdgraf: frenzel said _ adding aush return to washington for budget meeting)
Budget talks to move to Andrews Air Force Base
By BUD NEWMAN

WASHINGTON (UPI) _ Bipartisan budget talks will move about Sept. 5 from Capitol Hill to suburban Andrews Air Force Base, and at least one negotiator said Tuesday he plans to sleep there during the talks.

" We are offered a bed if we want it or transportation to or from (Capitol) Hill, " Rep. Bill Frenzel, R-Minn., a budget negotiator, said in an interview. " My guess is that eventually a lot of the deals are going to be made after sundown and I think I'm going to apply for a bed. "

The word came as President Bush interrupted his Maine vacation to return to Washington to confer with his economic and budget advisers and to hold a news conference.

Frenzel said his office heard about the decision to move the talks to Andrews, about 15 miles east of Washington, from the office of House Democratic leader Richard Gephardt of Missouri, chairman of the negotiations.

" Gephardt's office called and said we're meeting at Andrews Air Force Base, " Frenzel said.

But Deborah Johns, a spokeswoman for Gephardt, said no final decisions have been made " at this point " about where the final round of budget talks would take place.

" We are working on arrangements and we will continue to do so and there'll be a formal statement later as to the final plans, " Johns said. " It's still in the planning stages. "

A switch from Capitol Hill to a more isolated location was expected after talks broke down in a partisan stalemate last month. Bush had even offered negotiators the use of Camp David, the presidential retreat in the Maryland mountains about 50 miles north of Washington.

The new location at Andrews, home base to Air Force One, was expected to free up negotiators from outside distractions, such as meetings with constituents and questions from reporters, who waited outside the Capitol Hill meeting rooms previously used for budget talks.

The isolated location is intended to help negotiators concentrate more fully on reaching a deficit reduction agreement by their unofficial deadline of Sept. 10, three weeks before the Oct. 1 start of fiscal year 1991.

" I think we can make the (Sept.) 10th deadline, " Frenzel said.

Failure to reach and implement a deficit reduction agreement by Oct. 1 would result in the automatic imposition on that date of about $100 billion in spending cuts, split between defense and domestic programs.

Both sides have said they want to avoid those cuts because they would be devastating to the economy and many non-exempt federal programs.

It was not immediately known how many of the roughly two dozen administration and congressional budget negotiators, plus their staff members, would sleep at the military base.

It also was not known whether there would be briefings for reporters on the talks, or whether negotiators would remain in total isolation from the media until an agreement is reached and announced.

The Washington Post

Tuesday, August 14, 1990

Bush Returns to Talk Budget

Democrats Under Pressure to Ease Defense Cuts

By Ann Devroy and Dan Balz
Washington Post Staff Writers

President Bush plans to renew pressure on congressional Democrats to reach a budget agreement by staging a highly visible return to Washington today for a meeting with his economic advisers and a public statement calling on Democrats to negotiate in good faith.

White House spokesman Marlin Fitzwater, briefing reporters at Bush's vacation resort in Kennebunkport, Maine, said the president would return to the White House today and remain in Washington for a Pentagon meeting Wednesday before returning to Kennebunkport.

"We think it's even more important that we reach an agreement now because there needs to be a unity of purpose in this country, not only about the conflict in the Gulf, but also about our spending issues and about where the budget is going," Fitzwater said.

Bush has been itching to come out swinging at the Democrats who manuevered the White House into weeks of pained defensiveness on the budget, but several of his advisers question the effectiveness of a strident attack in the wake of the Gulf crisis. "You can't act like that didn't change everything," one official said. "Our budget plan is no good any more, their budget plan is no good anymore. The world is totally changed."

Wednesday, the day Bush announced the U.S. military deployment to Saudia Arabia, he also threatened a political counterattack over the budget. Saying he felt "liberated" from a prior non-aggression pact between himself and the Democrats, Bush said, "I want to tell you exactly how strongly I feel about it, but I don't want to do it" on that day.

Fitzwater said the White House meeting today is to include Office of Management and Budget Director Richard G. Darman and Treasury Secretary Nicholas F. Brady. Neither, however, is in Washington and aides to each said their deputies were more likely to attend. The chief administration economist, Michael J. Boskin, is the only one of Bush's top three economic advisers expected at the meeting.

Some administration officials believe the gulf conflict will make it politically difficult for Democrats to press for larger cuts in the defense budget and indicated that the administration is prepared to wage a public fight.

Administration officials are attempting to put a price tag on the Gulf operation, but Fitzwater insisted no good estimate exists. Bush said last week that military personnel will be exempted from across-the-board budget cuts that could be implemented Oct. 15 under the Gramm-Rudman-Hollings budget law if negotiators have not reached a budget agreement.

Fitzwater said Bush was considering altering a Republican plan prepared before the recess as part of a proposed overall agreement to cut $500 billion over five years. But he said so far there has been no official change in administration economic forecasts to account for the impact of Mideast events.

Bush is under pressure from Republicans to lash out at the Democrats for failing to offer their own plan to cut the deficit. Although the White House plan was never formally offered, the details quickly became public, including higher taxes on alcohol and limits on federal deductions for state and local taxes.

Staff writer Steven Mufson contributed to this report. Balz reported from Kennebunkport.

The Washington Times

TUESDAY, AUGUST 14, 1990

Bush interrupts vacation to whack budget opponents

By Frank J. Murray
THE WASHINGTON TIMES

KENNEBUNKPORT, Maine — President Bush returns to Washington today, a day earlier than planned, chafing to lambaste Democrats for the growing budget deficit.

Mr. Bush is expected to cast vacationing congressional budget managers — particularly Democrats — in the role of spoilers at a time when the Middle East crisis calls for national unity.

Although he smilingly conceded his statements could be read politically, White House Press Secretary Marlin Fitzwater said, "This [the budget] is an important issue, made more important by the situation in the Persian Gulf."

Mr. Fitzwater said, "We think it's even more important that we reach an agreement now because there needs to be a unity of purpose in this country, not only about the conflict in the Gulf, but also about our spending issues and about where the budget is going."

Asked whether "unity of purpose" did not exist before the Iraq confrontation, Mr. Fitzwater said, "Unity of purpose in discussing two political parties is always a shaky proposition."

Mr. Bush will hold a news conference on the budget after meeting today with Budget Director Richard Darman, economic adviser Michael Boskin and Chief of Staff John Sununu. They will deal with spending cuts, tax policy and revisions forced by the still-untabulated costs of higher oil prices and the growing U.S. military involvement in the Middle East.

Mr. Bush, who will resume his Maine vacation Thursday, gave clues to his intentions last Wednesday. He said then he would hold off talking about his rising anger over the budget because of concern over Iraq's invasion of Kuwait.

But he declared his deal with Congress dead. "I feel like a liberated human being now," Mr. Bush said. "I don't feel bound by an agreement that I've told the congressional leaders is no longer in effect.

"We've been getting one side of that, mainly from the Democrats in Congress. Now you're fixing to get the other," he said.

The White House and Republicans have fed the rhetorical fires while Democrats kept an uncharacteristically low profile, even after Mr. Bush reversed his no-new-taxes pledge.

Budget summit negotiations to reduce the deficit, estimated at almost $169 billion before the massive Middle East military deployment, became deadlocked because the White House and Congress did not lay their plans on the table simultaneously.

White House officials say they've been ready for weeks to put forward a plan, but Democrats wouldn't respond.

The cost of sending forces to Saudi Arabia and mounting a blockade against Iraqi oil and food shipments has been exempted from Gramm-Rudman-Hollings provisions, a move that could increase the impact of automatic cuts on other spending.

When it became apparent no deal could be finalized before the congressional recess, talks were postponed until September. But the Gramm-Rudman deadline of Oct. 1 is fast approaching.

Generally, the two sides agreed to stretch out the deficit-reduction deadlines by at least one year and cut only $50 billion to $55 billion from this year's deficit.

Mr. Bush said he would accept that only if it were coupled with a five-year budget plan.

White House officials say they've been ready for weeks to put forward a plan, but Democrats wouldn't respond.

"The plan that we had ready to put on the table still represents our best view, but we're prepared to make changes if we think it's necessary," Mr. Fitzwater said.

Hussein makes Pentagon's points on budget

By Paul Bedard
THE WASHINGTON TIMES

Iraqi President Saddam Hussein has made points with Congress that the Pentagon and the rest of the U.S. defense establishment have tried to make and failed.

By invading Kuwait, he has throttled congressional attacks on President Bush's defense budget and provided new ammunition to keep controversial weapon programs on track, according to administration officials.

Iraq's invasion "sure does demonstrate why the military capability is needed. It augurs well for arguing for more money," said a defense aide.

"You've got to give the devil his due," said one key Pentagon official.

To take advantage of public support for the U.S. military buildup in the Middle East, the Defense Department is drawing up plans to show the defense budget and strategy are aimed at such a flare-up.

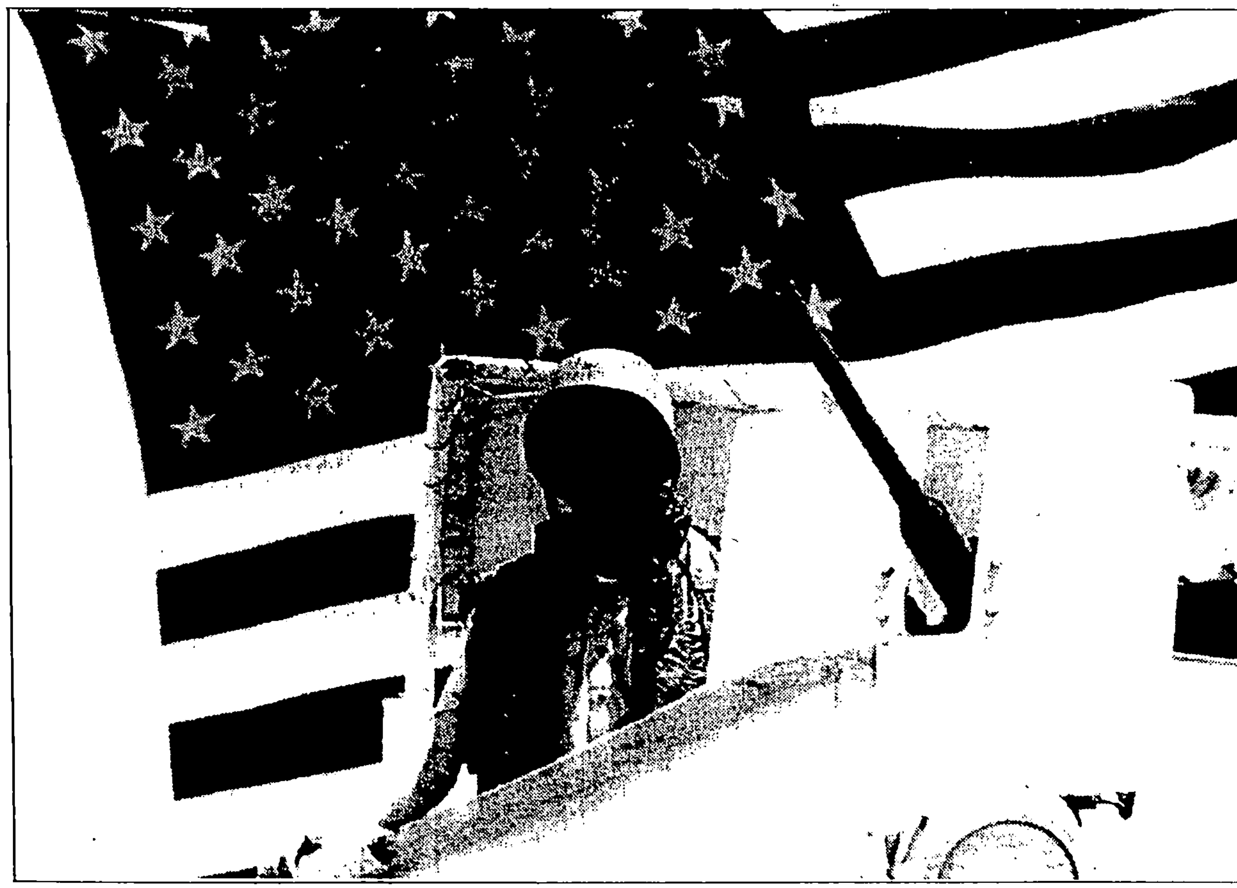
Because the subject is so sensitive, administration officials detailed their plans only on condition of anonymity.

"A stalemate is the most damaging budget situation we can get into. It's easier if you get into a war," said a senior official.

Administration officials said the Gulf crisis arrived "in time" to mute attacks on the defense budget by Rep. Les Aspin of Wisconsin, the Democratic chairman of the House Armed Services Committee, and Sen. Sam Nunn of Georgia, the Democratic chairman of the Senate Armed Services Committee.

The military crisis also ends Democratic moves to force the Defense Department to absorb the lion's share of cuts in the budget negotiations between the White House and Congress, officials said.

However, because of the declining threat from the Soviet Union, Defense Secretary Richard Cheney ordered a cutback yesterday in production of the Seawolf attack submarine and the Arleigh Burke destroyer in an attempt to save $7 billion over the next four fiscal years.



AP

An unidentified American lookout aboard the USS LaSalle scans the skies above the Persian Gulf.

In announcing the cuts, the secretary cautioned that the Persian Gulf crisis demonstrates the need for an up-to-date Navy.

A top aide to Mr. Aspin said Pentagon spending will be spared deep cuts and predicted wide congressional support for creating a new and separate spending account to cover costs of the Gulf operation.

The Gulf crisis forces Congress to "hold the line on further cuts and brings us back to the middle of the road," said one arms merchant.

The Senate has voted to cut $18 billion from President Bush's request of $307 billion for defense. The House was expected to pass an even deeper $24 billion slays. Mr. Cheney is expected to recommend that Mr. Bush veto any cut.

Before the Gulf crisis, many congressional Democrats were confident of winning a showdown with Mr. Bush over defense spending. Mr. Nunn even proposed a new military strategy dubbed "flexible readiness," which provides only that the first forces to face combat be kept fully prepared for war. It is based on the belief the United States will have ample warning before a military strike.

"All that went out the door with Iraq," said a senior Pentagon official. The official explained that the Iraqi invasion was unexpected but the U.S. response was quick.

"We couldn't have done that under Nunn's plan," said the official, noting that it would have taken weeks to man and supply just one aircraft carrier. The carrier Kennedy, initially scheduled to undergo repairs this month, was manned and supplied in just days for its trip to the Gulf region, which was announced yesterday.

Mr. Nunn's plan also would have gutted maintenance spending and operations costs since fewer forces would be stationed in forward zones.

"Everybody was bowing to this philosophy 30 days ago. Now they'll put that stuff in the trash can so fast it won't even be a memory," said another administration official.

Mr. Nunn and his aides were unavailable for comment yesterday.

The Nunn plan, approved by the Senate Armed Services Committee before Congress' August recess, originally called for a smaller Persian Gulf force.

Republicans on the panel rejected that, writing in the committee report approved in July but just released: "Tensions in the region remain high, making very real the possibility that U.S. forces may be called on in the near future to once again protect the sea lanes in the Gulf. Now is not the time to further decrease our ability to respond to such a call."

Many congressional attacks on the Pentagon budget had been based on the lessened Soviet threat. "Everybody is prepared to throw up their hands and declare victory and say, 'Why have guys ready?' " a Bush defense official said at the time.

Since the Iraqi attack on Kuwait, Mr. Aspin and Mr. Nunn have joined other congressional leaders in calling for strong U.S. military action. Mr. Aspin has called for smaller and quicker forces and argued against cuts in Persian Gulf forces.

AN INTERNATIONAL DAILY NEWSPAPER TUESDAY, AUGUST 14, 1990 50¢ ($1.00 CANADIAN)

THE CHRISTIAN SCIENCE MONITOR

Gulf Crisis Scrambles US Budget Equation

By Marshall Ingwerson

Staff writer of The Christian Science Monitor

WASHINGTON

IRAQ is altering the arithmetic of budget negotiations in Washington.

The cost of sending US troops to the Gulf will make it very difficult for the White House and Congress to make serious cuts in the federal budget deficit this year.

Budget Director Richard Darman has ordered federal agencies – except the military – to submit plans by Aug. 27 for cutting 31.9 percent from their fiscal 1991 budgets.

If no action is taken on the budget, the Gramm-Rudman anti-deficit law cuts $100 billion from a broad range of programs, beginning in October. Defense cuts would amount to about 25 percent of the Pentagon's $300 billion budget.

President Bush, however, will use his option to exempt military personnel needed to counter Iraq in the Gulf region, according to the White House. This means that other defense programs would be cut deeper – some by as much as 42 percent.

Negotiators agree that a $100 billion, across-the-board cut in federal spending would endanger economic growth, however. House Budget Committee chairman Leon Panetta (D) of California has acknowledged the new political difficulties for a deal, but still hopes that the deficit can be cut by at least $40 billion.

The budget summiteers had loosely agreed to relax the Gramm-Rudman deficit limits by $50 billion in any deal, leaving them $50 billion to close up through spending cuts and tax increases.

Now the $50 billion in deficit closing looks further from reach, for three reasons:

• Iraq has made the defense budget suddenly relevant.

• Oil prices are making energy tax increases less popular. Congressional aides had been working on proposals for a broad-based energy tax as part of the deficit package before the Iraqi invasion of Kuwait. The plan reportedly would have raised $12 billion to $14 billion a year.

• The weak economy makes deficit-cutting more dangerous to growth. Growth has averaged 1.3 percent for the last 15 months, a slide from the approximately 2.5 percent rate during the Reagan years.

After the Iraq crisis began, White House spokesman Marlin Fitzwater said, "We may need to amend our proposal" on how to cut the budget. He has not discussed new deficit numbers.

Alice Rivlin, former director of the Congressional Budget Office, says she is still optimistic for a significant deficit-cutting deal, though less so than before the crisis.

"Politicians like any excuse they can find not to do difficult things," she told reporters last week. "Now they've been handed two" – Iraq and an economy blurring into recession.

House Speaker Thomas Foley (D) of Washington predicts that no deal will appear until a couple weeks before the Oct. 1 automatic cuts are triggered. Any earlier, he said at a Monitor breakfast, and special interests have time to gear up political offensives against it. "There will be arguments that the economy is simply too weak for any kind of a budget agreement," he said, adding that the Iraq situation may make the argument more appealing.

"That's the easy course, and I'm worried about us taking easy courses."

The Dallas Morning News
Monday, August 13, 1990

Crisis could hearten defense backers in budget talks

Stationing forces in Saudi Arabia will cause military spending to soar

By Robert Dodge
Washington Bureau of The Dallas Morning News

WASHINGTON — Sentinels of defense spending may find new inspiration in the unfolding Middle East conflict. But budget negotiators returning to the bargaining table next month will find that any new support for military spending could make it more difficult to cut the deficit.

Sending U.S. military forces to Saudi Arabia by itself will cause current defense spending to balloon.

Defense analysts told the Associated Press on Sunday that it will cost the government an additional $300 million to $440 million a month.

Figuring the cost of deploying troops to Saudi Arabia has been a slippery exercise because of several uncertainties, beginning with how many troops the Pentagon intends to send — 50,000, 100,000 or 250,000.

Pentagon spokesman Pete Williams said simply, "I have no idea how much it's costing a day."

Lawrence Korb, a former assistant secretary of defense who is now a defense analyst with the Brookings Institution, estimated the cost at $10 million a day for 50,000 troops and three aircraft carriers, or $300 million a month.

The Center for Defense Information, a group of retired military officials that often has criticized U.S. military spending as excessive, estimated that deploying 50,000 troops would cost about $440 million a month. If the Pentagon commits 250,000 soldiers, it would cost $1.69 billion a month, the center estimated.

On top of those unexpected expenses, the Iraq crisis is adding higher energy costs to an already weakened economy. Military and budget experts said budget negotiators will find their task more complicated than ever because a weakening economy makes it nearly impossible to offset defense spending with higher taxes.

"There is no question that things like energy taxes become more difficult in the middle of an embargo," House Speaker Thomas Foley told reporters recently.

Pressure is growing on President Bush to use his authority to forecast a recession and waive the deficit targets in the Gramm-Rudman law.

"I think Gramm-Rudman just went out the window," said Rep. Albert Bustamante, D-San Antonio, a member of the House Armed Services Committee.

Rep. Martin Frost, D-Dallas, said he believes that the Bush administration will trim the $50 billion in deficit reductions that it proposed recently to between $25 billion and $30 billion.

"If we are not talking about as much in deficit reduction," Mr. Frost said, "that takes some of the heat off defense."

Last month, before there was any indication of Iraq's intentions, the Armed Services Committee voted to end production of the B-2 bomber and slashed $24 billion from the president's defense budget. That would set military spending at $283 billion, not much less than the $289 billion approved by the Senate Armed Services Committee, which voted earlier this month to continue production of the B-2.

With Iraqi President Saddam Hussein calling for an Arab holy war against the United States, budget experts expect military spending supporters to make a new push for big-ticket weaponry such as the B-2 Stealth long-range bomber, the V-22 Osprey tilt-rotor plane and the C-17 cargo transport.

In the past, the military has characterized the C-17 and the Osprey as vital to its efforts to project U.S. forces into the Persian Gulf region.

"Walk softly and carry a big B-2," said Rep. Robert Dornan, R-Calif.

Rep. Dick Armey, R-Euless, said, "This turn of events is going to mitigate against all those people who feel like peace has broken out all over the world and we can disarm."

But Stuart Eizenstat, chief domestic policy adviser to former President Jimmy Carter, said he doubted that the Republicans would draw enough strength from the conflict to get the upper hand in the defense debate.

"I don't think it helps them gain the issue back," he said, "but it does help turn around any deeper cuts in defense. It shows it's a dangerous world out there."

Indeed, many defense experts said Iraq's annexation of Kuwait and rising tensions with the United States and its allies do not argue for weapon systems that were designed to penetrate the Soviet Union or protect Western Europe.

"The idea that you are literally hamstrung against a Third World country like Iraq without a B-2 bomber is outrageous," said Joshua Epstein, a senior fellow at the Brookings Institution.

Instead, analysts and some in Congress are hopeful that the Middle East crisis will give a boost to policy makers like Rep. Les Aspin, D-Wis., chairman of the Armed Services Committee. He already has proposed that the country needs a military force more capable of responding to regional conflicts.

"How do we redirect the defense establishment to meet the sort of threats that we really face?" said a committee aide, who asked not to be identified. "That debate ought to start immediately."

The Washington Times

MONDAY, AUGUST 13, 1990

A new chance for capital gains cut

The Iraqi invasion of Kuwait, which sent shock waves through the global economy, may have changed America's political climate in ways that President Bush and the Republicans could not have anticipated.

With the economy virtually standing still, after nearly eight years of uninterrupted growth, a mood of gloom and doom permeated the financial markets last week. Even the usually bullish Richard Rahn, the U.S. Chamber of Commerce's chief economist, was publicly expressing fears of a recession.

Yet there were also signs that the economic growth issues of lower taxes and restraint in spending that have worked so well for Republicans throughout the 1980s may prove to be their political salvation in a time of great uncertainty.

The U.S. economic picture was worsening even before Iraq's seizure of Kuwait sent world markets into a tailspin. Last month's unemployment rate shot up to 5.5 percent, but that was only the latest in a string of bad figures. Among them:

- The economy grew by an anemic 1.2 percent in the second quarter, a rate that is not going to produce the level of new jobs needed to meet a growing work force.
- Factory orders for manufactured goods dropped in June by 1.5 percent. This is the third time this year that orders have fallen, suggesting that we may be in store for more job layoffs and production cutbacks.
- Meantime, the government's Index of Leading Economic Indicators continued to show a weak economy that was barely limping through the third quarter, while construction spending remained unchanged in June following declines in the previous two months.

The economy "is not going to hang on much longer," Mr. Rahn said as the gloomy numbers rolled in. "It is headed directly into a recession."

The economy's precipitous decline in the past week may have given Mr. Bush and the Republicans a golden opportunity to begin selling the capital-gains tax cut.

Mr. Bush's risky military stand in Saudi Arabia to stop Iraqi President Saddam Hussein's drive to dominate the oil-rich Persian Gulf, together with his skillfully coordinated global effort to cut off Iraq from the world market, may stabilize events in the Middle East and give Western powers a temporary breather.

But that alone is not going to be enough to reinvigorate a deflated U.S. economy, which needs the healthy stimulus of new capital investment to get itself moving again.

While the Democrats will be returning after the August recess with new budget proposals to raise taxes, the economy's precipitous decline in the past week may have given Mr. Bush and the Republicans a golden opportunity to begin selling the politics of economic growth in the form of a capital-gains tax cut.

Congress will have a chance to vote for just such a proposal next month when Sens. Robert Kasten of Wisconsin and Connie Mack of Florida, both Republicans, and Richard Shelby of Alabama, a Democrat, offer their capital-gains amendment to the debt-ceiling bill or some other legislative vehicle.

The measure would set a maximum tax rate of 15 percent on all capital gains for both individuals and corporations. (The top rate is now 28 percent.) And in an effort to deflect Democratic criticism that it would help only the rich, the Kasten-Mack-Shelby bill would cut capital-gains taxes for low and middle-income taxpayers down to 7.5 percent.

Will it work? Dr. Allen Sinai, chief economist for the Boston Company Economic Advisers, says that over the next five years, a 15 percent capital-gains tax cut would boost economic growth by 2.8 percent, create 2.5 million new jobs, and bring in $30 billion to $40 billion in new federal tax revenue from increased asset sales.

Unfortunately, the political obstacle to all this is Senate Democratic leader George Mitchell of Maine who has prevented senators from having an up-or-down vote on the proposal. Even when the economy was showing signs of weakness last year, Mr. Mitchell forced capital-gains supporters to have to come up with a three-fifths majority to cut off unlimited debate. Republicans and Democrats managed to come up with 51 votes on a procedural motion but that was not enough to overcome Mr. Mitchell's unyielding opposition.

"George Mitchell's single-handed blocking of the capital-gains tax cut in 1989 is the greatest blow this economy has received in the last two years," says John Buckley, a former spokesman for the National Republican Campaign Committee.

But the events of the past week have sharply changed the political and economic context in which issues like capital gains are going to be fought. Next month, with the economy in worse shape than ever as a result of the Middle East crisis, Mr. Mitchell and his anti-growth crowd are going to have a much more difficult time blocking a capital-gains tax cut intended to strengthen America's economy.

In the end, it will come down to a battle between a proposal that will cut the deficit while creating new jobs and new investment to maintain our economic leadership in the world, and George Mitchell's zealous drive to raise taxes and spend more money.

Under those circumstances, the capital-gains gang should win — but only if Mr. Mitchell ends his obstructionism and allows the Senate to vote its will.

Donald Lambro, chief political correspondent of The Washington Times, is a nationally syndicated columnist.

The Atlanta Journal

Covers Dixie Like the Dew

MONDAY EVENING, AUGUST 13, 1990

George Will

Crisis will be used as an excuse to ignore the deficit

WASHINGTON — The eruption into our lives of Saddam Hussein, glowing with energy and pawing the ground, shows how one man's audacity can cause many variables to dance unpredictably. What he has done in the desert and, perhaps more important, what as a result will not be done in Washington, jeopardize that which is the controlling concern in this crisis: the economy.

In his address to the nation, the president stressed the "wholly defensive" nature of the deployment to protect "the integrity" of Saudi Arabia. Events, he said, demand that we "define who we are and what we believe." He said "America has never wavered when her purpose is driven by principle." That is principle, spelled p-e-t-r-o-l-e-u-m.

Far over the horizon is the principle of defending democracy, which here means Israel. Hovering in the ether is the principle of acting against aggression. But the principle that drives our purpose here is: We will defend, with force if necessary, our economy.

This is not a contemptible principle. Prosperity is a necessary (not a sufficient) condition of civilization's progress. But it is a stark, chilly principle, from the frank expression of which political leaders flinch.

It is a principle that should be stated clearly in order to make the following clear: We are assembling fleets and airlifting troops — rightly — to protect our economy. But the economy is more jeopardized by political cowardice at home than by anything done in Arabia. If Arabia's great product were agricultural — if it were a prodigious source of, say, wheat — Iraq's aggression would be vigorously denounced, but fleets would not assemble. The fact that the U.S. intervention has been almost universally approved does indeed define us. The purpose Americans rally 'round is that of keeping the industrial world's economy humming.

The Saudi decision to increase production may minimize the impact of this crisis. But already Saddam is being exploited as an alibi and an excuse. He is to be the alibi for any recession and the excuse for evading disagreeable decisions that would serve the goal for which we have sent the fleet: prosperity.

In spite of economic sluggishness, inflation is still between 4 and 5 percent. So the lowering of interest rates has seemed contingent on deficit reduction. But even before Saddam Hussein changed the subject, the subject of deficit reduction was being discussed in inadequate terms.

Counting the year's cost of the S&L debacle, and subtracting from revenue calculations the Social Security surplus, the fiscal 1991 deficit will be approximately $250 billion — without assuming a recession.

But now the plan to nibble even just $50 billion from that deficit may be shelved, with sighs of relief all around the political system. The shelving will be because the economy already is sagging, and because Saddam has made two important components of deficit reduction, defense cuts and energy taxes, suddenly seem more problematic.

Americans spend a smaller portion of their income on oil than they did in 1973 when the first oil shock shattered the illusion that economic growth had become automatic. Because of price-induced efficiencies, Americans use less energy per unit of GNP than they did then. And because Iraq is so isolated and so many oil-exporting nations have strong political and economic interests in exporting, today's oil-price spike may last only long enough to have one long-lasting effect: It will be used to justify inaction on the U.S. budget deficit.

Without any help from Saddam Hussein, the auto and housing markets were already depressed, the economy was littered with firms loaded with debt, corporate profits have been declining since the fourth quarter of 1988, and almost half the states report revenue collections only equal to or below the inflation rate. We do not know the 30-year cost of the S&L salvage. We do know that even a mild recession will make it worse. And both inflation and recession trigger entitlement spending by government.

Think about it: a recession that starts, not ends, with a deficit approaching $300 billion, and the banking system fragile, and the political system exploiting a foreign-policy crisis as the latest in an endless line of excuses for not dealing with a larger domestic crisis.

Like a stone thrown into a lagoon, Saddam has produced many ripples. The ripples may roil America's political waters longer than he dominates headlines.—(c1990.)

The Atlanta Journal

Covers Dixie Like the Dew

THURSDAY EVENING, AUGUST 9, 1990

Jack Germond/Jules Witcover

After 18 months of smooth sailing, it's testing time for Bush

WASHINGTON — During his campaign for the 1980 Republican presidential nomination, Howard Baker delivered a thoughtful speech on the nature of the presidency in which he argued that voters shouldn't decide on their choice by comparing each candidate against a list of specific issues. Instead, said Baker, the electorate should try to decide which candidate would be most capable of handling totally unforeseen circumstances.

Baker's thesis had some obvious application a decade ago. President Carter was being measured by his handling of the hostage crisis in Iran, an issue that ultimately crystallized all the doubts about his strength. But Baker's argument is also appropriate to the situation that President Bush confronts in dealing with the crisis in the Persian Gulf. After 18 months of sailing along on a smile and shoeshine, Bush has reached a time of testing.

It is clear that those who judged Bush on the specific issue positions he took during the 1988 campaign made a serious mistake. All his rhetoric about the death penalty, drug "kingpins" and prison furlough programs has not been translated into any diminution of the problem of crime and drugs in America. And the single most specific campaign promise he made during the 1988 campaign, that he would not raise taxes, has been abandoned.

There was, however, no way in 1988 to anticipate that Saddam Hussein would send his tanks into Kuwait. The question now is whether Bush can deal effectively with the kind of unforeseen situation that Howard Baker warned any president might face. Bush has made the stakes even higher in the last few days by insisting that Iraq's installation of a puppet government in Kuwait "will not stand" and by delivering obvious threats to use U.S. military force in the region.

The immediate danger to confidence in the president lies in the possibility that he cannot deliver on those threats. Without support from U.S. allies, a blockade on Iraqi oil shipments cannot succeed. And few military experts believe the U.S. can conduct a unilateral military mission to save Saudi Arabia or to drive the Iraqis out of Kuwait. The second hazard is the possibility of a new oil shock that will send the economies of both the United States and its allies into deep recessions.

These new threats to the political health of the Bush presidency have been made more menacing because they come at a time when many things seem to be going wrong for a president who, it seemed, could do no wrong during his first 18 months. The failure of the negotiations on the deficit, the angry reaction of conservatives to Bush's reversal on taxes, the S&L disaster — all of these elements have created a situation in which Bush must show some leadership or suffer the consequences in the opinion surveys.

The questions about George Bush have been essentially unchanged since he first ran for the presidency a decade ago. He has been peculiarly resistant to spelling out either his bedrock values. The crisis in the Persian Gulf — coupled with staggering domestic problems — will provide some answers to fundamental questions about whether "there is a there there."

As Howard Baker said, the way to measure a president is by his performance in circumstances that could not have been foreseen.—(c1990.)

THE TAMPA TRIBUNE

Tampa, Florida, Wednesday, August 8, 1990

So-called tax bubble is a myth but importance of indexing isn't

Taxes will go up. But whose? How much?

Taxpayers who don't care about the second question as long as the answer to the first is "somebody else's" should watch Washington closely in coming weeks. Amid the misleading talk of bursting tax bubbles, capping deductions, and readjusting indexes are sly ways to sap more money from most taxpayers.

Changes in the index should be watched closest because the biggest tax deceit is based on inflation. Income-tax rates increase as income increases. Prices have risen every year for the past 30 years. Without an index, taxpayers whose wages only keep pace with inflation must pay an ever higher percentage to the government. This is called "bracket creep."

A politician's dream

Because of the creep, Congress can slightly lower tax rates, take credit for a tax cut, and still have more tax dollars to spend — a politician's dream. The Institute for Research on the Economics of Taxation estimates that between 1965 and 1980 taxes rose 17 percent for each 10 percent of inflation.

The outrage was corrected by indexing, perhaps the most important element in Reagan's tax reform. Tax rates now are inflation-adjusted. The index works. A taxpayer earning $30,000 both in this year and last year will pay about $50 less in 1990 than in 1989. Some taxpayers in higher brackets can save almost $500.

Reducing the inflation index would raise the tax bill for all taxpayers, but in a dishonest way. The index puts Congress on the spot to either raise taxes or cut spending, a tough decision its members are paid to make. The proposal to freeze the inflation adjustment is more than just another way of raising all tax rates; it signals the return of the secret tax increase.

Another source of intentional confusion is the so-called tax bubble. A recent Newsday editorial echoed key Democrats, calling the bubble, "the infamous glitch in the tax code, created in the 1986 tax overhaul, that has many upper-income taxpayers paying a 33 percent marginal rate on some of their income, while wealthier taxpayers pay 28 percent. The 'bubble' must indeed be punctured, and the 33 percent rate made explicit ... The tax system just isn't as fair as it used to be."

A reader is left with the false impression that wealthier taxpayers pay a lower tax rate than lower-income taxpayers. The confusion is in the term "marginal." A couple filing jointly, who earn between $78,400 and $185,730, pay 33 percent on each additional dollar they earn, while higher-income taxpayers pay only 28 percent on each additional dollar of income. But that doesn't mean the said couple pays more total taxes or a higher total rate, even though key Democrats call the arrangement "absolutely ludicrous."

The real tax rates, the percentage of taxes paid out of total income, progress slowly and steadily. No bubble exists in total taxes paid. Consider these tax rates for a couple taking standard deductions: At $5,000, a couple pays no taxes. At $10,000, the tax bill is 1.2 percent. At $20,000, it's 8.1 percent. At $30,000, it's 10.2 percent. At $50,000, it's 14.2 percent. At $100,000, it's 21.1 percent. At $150,000, it's 25.5 percent. At $200,000, it's 27.2 percent, *and it never exceeds 28 percent.*

One may argue the rich should pay more. One may complain that the system of marginal rates — 15 percent, 28 percent, 33 percent, then 28 percent again — is unnecessarily confusing. But it is untrue to imply that the wealthy pay less because of a glitch. And it is misleading to say, as Republicans do, that the code has only a few simple tax rates. The code yields an infinite number of rates that increase progressively as income increases.

Another tax-raising plan would reduce the federal tax exemption for state income taxes. That won't bother Floridians but it should. Support for the change is building. The New York Times editorialized on July 25: "Why should the federal tax code lessen the impact of state and local income taxes? After all, residents reap the advantage of these taxes in the form of improved schools and other public services."

One reason is that it is double taxation. Income taken by the state is not income a taxpayer receives.

Another reason is that it is sound policy to encourage states to raise needed resources. Cutting the exemption for state income taxes would make it hard for any state to increase such taxes and would make it next to impossible for a state, such as Florida, to introduce an income tax.

Shifting the tax problem to the states is not the way to get the improved schools, highways, and other public services that most states so badly need, and the shift would help the federal government dodge fiscal responsibility.

A great many other ideas are in the wind to increase taxes to cope with the mounting deficit and the savings-and-loan bailout. Whatever is done, the least taxpayers must demand of Congress is honesty.

That means the high taxes that lower-income Americans pay to Social Security must be considered in any tax reform. The Social Security tax is subtracted from wages up to $51,300 at a flat rate. This bottom-heavy collection system works against the progressive structure of the income tax rates.

A family earning less than $20,000 is hit harder by Social Security than by income taxes.

Squeezing the working class

Including the Social Security bite, a family earning in the $40,000s pays about 20 percent of total income to the government. A family earning in the $300,000s pays between 28 and 29 percent.

The working-class taxpayers are being squeezed. It is easy to imagine where a tax increase would hurt the family budget — it would come straight out of meager savings for retirement and college and from consumer purchases. The economy would suffer.

Congress must be very careful how and where it squeezes. Above all, it must avoid the temptation to slyly pick pockets. That means hands off the inflation index.

THE CINCINNATI ENQUIRER

TUESDAY, AUGUST 7, 1990

The deficit

The supremacy of partisanship seems to have sunk the summit

What began with the earmarks of an honest and earnest bipartisan effort to unravel the deficit riddle has wound up as a bitter and unproductive exercise in politics as usual.

President Bush sent his emissaries into the budget summit with every budget-related issue on the table. He was even willing to consider new taxes, despite his frequently reiterated promises to the contrary. He asked only that congressional Democrats be equally open-minded on the subject of reducing capital-gains taxes and taking a fresh look at entitlements.

Now, however, the summer-recess season has arrived, the budget deliberations have broken down and the American people are left with the conclusion that Washington sees partisan advantage as more important than national solvency.

As they try to determine why it is that their elected representatives find it impossible to come to grips with a financial challenge that dwarfs every other domestic issue, the American people need to consider the political composition of the House of Representatives. It is not simply that the Democrats have a majority in the House, or even that they have controlled the House for 66 years in the last 70. It is rather that the Democratic margin in the House is so large — 60% — that party leaders recognize no need to compromise or even to negotiate productively.

House defenders will say, of course, that the Democrats control 60% of the House because that's what the American people decided when they went to the polls in November, 1988. But is lopsided Democratic mastery of the House really an expression of popular sovereignty? Or is it the result of several generations of relentless gerrymandering, which draws congressional districts in a way that assures disproportionate Democratic control?

How else can anyone explain why Ronald Reagan could have carried 49 states in 1984 while 95.3% of all House members were being re-elected to keep Democratic domination all but unchanged?

Today's deadlock is attributable to the fact that too many congressional elections across the country are decided by voters who ask which candidate can do most for them — at the taxpayers' expense.

The time has come for voters to begin asking which candidate can do most for their country and its economic future.

CHATTANOOGA NEWS-FREE PRESS

Saturday, August 4, 1990

Spending Cuts? Really?

As Congress prepares to raise some taxes on you and talks about holding down the national debt and reducing annual budget deficits, are you convinced that the members of Congress really mean what they are saying?

Or do you think they are really planning more spending?

The truth is that while some cuts may be made, Congress is voting lots of new spending for huge programs that will balloon into many more billions of dollars of obligations in the years to come.

At the same time, Congress is adding spending for some existing programs.

The Heritage Foundation has performed a service by adding up some of the spending items Congress is approving — many of them including "pork barrel" favors for various constituencies.

In recent weeks, Heritage Foundation economist Scott Hodge says, appropriations bills for $182 billion have been approved.

Included in $31 billion earmarked for the Department of Transportation were: $118 million for airports in major cities, $12 million for a study of intelligent vehicle/highway systems, $108 million for new spending and $52 million in interest payments on the Washington, D.C., subway, $6.7 million foi bicycle-program planning, jet-lag research and other transportation-related programs.

The National Aeronautics and Space Administration got $6.5 billion for research and development, including $1.7 billion for space-station research and $6 million to search for extraterrestrial life.

There was a $1.9 billion tack-on to the State Department appropriation, including such things as $214,000 for a Christopher Columbus Quincentenary Jubilee Commission, $15 million for the Commission for the Bicentennial of the Constitution and $1 million for the Marine Mammal Commission.

Energy supply, research and development got $2.7 billion, including $130 million for solar energy programs, $325 million for magnetic fusion research and $318 for a superconducting supercollider.

The National Oceanic and Atmospheric Administration got $6 million, including $1 million for zebra mussel research and $2.8 million for a fish farm in Arkansas.

Various international organizations got $788 million, including $261 million for the International Sugar Organization and $62,000 for the International Office of Epizootics.

There are more, of course.

Do these things make you "feel good" as Congress presses for tax increases and budget deficits continue?

The Philadelphia Inquirer

Monday, August 13, 1990

An early casualty

Has the Middle East confrontation killed the efforts to cut the deficit?

How small will the next round of deficit reduction be now that an oil crisis is leading the news and sapping the economy? Well, even with the kind of microscope Woody Allen recommends for soul-searching ("one of those very good ones with two eyepieces"), you still might not see it. Watch out for a do-nothing year, with politicians sighing that the economy's too weak for major belt-tightening.

But as President Bush warned last week, inaction on the deficit would be irresponsible. The nation needs a strong, enforceable plan to balance the budget within several years. This carefree attitude toward debt, like the carefree attitude on oil, has to end.

Advocates for taking a kinder, gentler approach on the deficit are right about one thing: This is the dicey, risky dilemma that experts over and again warned the nation's leaders to avoid. A sharp recession now, instead of involving a small deficit, could drive next year's $231 billion deficit (including S&L costs) toward ***$300 billion***. But there's always a risk that higher taxes and lower spending might slow the economy so much that the expected revenue wouldn't come in. With such a slowdown, the projected savings could be wiped out by the rising costs of food stamps, welfare and other safety-net programs. This gives politicians a plausible excuse for doing what comes naturally — nothing — while calling it a modest step forward.

Instead, Congress and the President should follow through on the trade-off that the Federal Reserve Board has sought for years. If and when the politicians come up with a trustworthy package of tax increases and spending cuts — phased in over several years, but enacted now — the Fed will nudge interest rates lower to coax economic growth. This task is all the more delicate now because the rising price of oil is inflating the cost of everything, including the cost of borrowing. But the alternative — a looser budget and tighter money — doesn't offer a lot more hope of avoiding economic hardship in the near term and holds less promise of restoring the economy's fundamental strength.

Of course, the argument for doing next to nothing on the deficit also involves the effect of the oil crisis on major categories of federal spending. How can the United States scale back on defense, for example, when it's facing off militarily with Iraq? But this U.S. military intervention, whose substantial cost can't be known, doesn't suddenly eliminate the prospect of major savings from scaling back a defense structure designed to defend Western Europe against the erstwhile Evil Empire. And while an economic slowdown inevitably raises the cost of safety-net programs, it does not fundamentally undercut the case for reducing the generosity of programs such as agricultural subsidies, Social Security and NASA.

Or take the biggest single item being discussed on the tax side: a heavy tax on energy. There's a political reluctance to hit consumers of gasoline, heating oil and other energy products with another jolt now that Saddam Hussein has hit them already. But such a tax, ratcheted up over several years, is the best single policy for reducing energy waste and U.S. dependence on imported oil.

We prefer to believe that the Persian Gulf crisis is making citizens more accepting of the financial burden of new federal taxes on energy. Perhaps this threat to U.S. security might foster a new willingness to endure some belt-tightening throughout the budget. But regardless of upcoming polls and the prospect of angry voters in November, it is time for politicians to act like leaders. Now that the oil crisis has dramatized the boring issues of energy and deficits, the soundest cause for outrage is that these leaders for so long did so little.

The Philadelphia Inquirer

Saturday, August 11, 1990

Remember the deficit?

Well, guess what — it hasn't shrunk while Americans have been focused on Iraq

Let's take a timeout from the threat of an oil war in the Mideast — which politicians finally stopped disregarding a few days ago — to remember another chronic danger that politicians love to ignore: the deficit. It's only fair to note that, in the most recent rounds of this year's deficit games, the initiative has come from President Bush.

After eating his words (biting his lips?) on that "no new taxes" pledge, he went on to endure potshots for floating two *specific* tax hikes. Having done his part, Mr. Bush was absolutely right last week to demand that congressional Democrats offer their own specifics for cutting the deficit. Instead, they did nothing, leaving the President out on a limb.

According to the conventional wisdom, this was a political blunder by Mr. Bush and at least one of his tax ideas was wretched. We disagree.

In terms of the politics, Mr. Bush's tax suggestions fall within the relatively popular categories of "sin taxes" and taxes on the wealthy. In fact, the proposals could counter the popular caricature of him as protector of the well-to-do resulting from his preoccupation with cutting a tax that falls primarily on the well-to-do: the tax on capital gains.

As for substance, some Democrats blasted the White House's support for a major increase in the taxes on beer and booze — which would raise about $7 billion annually — as an unfair burden on Joe Sixpack. Presumably, these critics would favor a higher tax on a $500 bottle of Chateau Lafite but not on a $2 bottle of Thunderbird. But to raise a substantial amount of money, it's essential to tax the full price range. That's also consistent with the tax's basic rationale as a way to recoup some of the government's costs from alcohol abuse. People get drunk by the ounce, not by the dollar.

Democrats and many Republicans have been more antagonistic toward the administration's specific idea for doing something that two-thirds of the public supports: making the rich pay more. The Bush plan would limit the deductibility of state and local income taxes to $10,000 per couple per year (and to a lower amount, presumably, for individual filers). Nearly all of the taxpayers affected by the limit would be earning of more than $100,000 a year.

By the same token, because this indirect tax increase would hit so narrow a group, it would raise only $3 billion a year. That would hardly dent a 1991 deficit estimated at $169 billion.

This $10,000 limit, moreover, is not the best way to recreate some of the progressivity of the tax code that was abandoned in the 1980s. For one thing, while it would raise taxes on a millionaire in Philadelphia (whose income is taxed at slightly more than 7 percent by the city and the state), it wouldn't affect a millionaire in Miami (where there is no state or local income tax).

Another weakness of the $10,000 limit is the inconsistency of limiting the deduction for state and local taxes on income, but putting no limit on the deductions for property taxes or for taxes on financial assets such as stocks.

By contrast, applying a 33 percent tax rate to high-income households that pay 28 percent at present (these are people at the highest end of the high income spectrum) would raise an average of $8 billion a year over the next five years. What's more, it would spread the burden equitably among all wealthy Americans. Unfortunately, Mr. Bush seems dead-set against any direct increase in the tax rate on affluent Americans.

The most obvious omission from Mr. Bush's recent tax list is an increase in the cigarette tax — the only other option that has strong public support. The most likely reason: Republican Sen. Jesse Helms is running again this year in North Carolina (a/k/a Tobacco Country). Still, doubling that tax to 32 cents a pack would raise less than $3 billion a year.

Which should bring the budget summiteers to the most important option that White House omitted — additional taxes on energy — which would help to reduce energy waste and dependence on imported oil. There's a basic fairness to such a policy because it would spare no one.

Thus as politicians talk about raising the tax burden on drinkers, smokers and fat cats, they are implying that huge deficits can be slashed without raising the taxes on the average American. That is a lie.

THE SUN
LIGHT FOR ALL
FRIDAY
AUGUST 10, 1990

Bush Says All Bets Are Off

Washington.

IF PRESIDENT BUSH ever needed bipartisan support, he needs it now in dealing with the Middle East crisis. Thus it seemed strange when — right in the middle of explaining U.S. intentions there — he dropped a gratuitous promise to start beating up on the Democrats again.

In the news conference that followed his speech on the Persian Gulf emergency, someone asked whether in this atmosphere deficit-cutting measures might push the country into recession. Of course

By Ernest B. Furgurson

not, Mr. Bush said; a budget agreement is "absolutely essential" — which is exactly what Democratic leaders said earlier.

But, said the president, he no longer felt bound by the gentleman's agreement to hold off partisan sniping while the long-running budget "summit" sought a compromise solution.

He already has told congressional leaders that the deal is over, he added, suggesting that he would like to take a few shots at the Democrats at that moment if the session were not devoted to the foreign crisis.

The president's promise, or threat, was totally out of tune with what has come from the Democrats since Saddam Hussein sent his tanks into Kuwait last week. There has been no hint of dissent, but uniform support from the congressional majority.

Speaker Tom Foley made that clear as many ways as possible when he met reporters early in the week. "There's no problem if the president uses military force," he said, adding:

"We would support military intervention if necessary to protect Saudi Arabia . . . I'm not concerned that the president might go too far. He has to take risks.

"I don't want remotely to second-guess him . . . He has very strong support not just from me, but from the whole Congress . . . The administration didn't have to ask my support; I've been offering it all along . . . "

Asked whether he thought U.S. intelligence had fallen down in not predicting the Iraqi invasion of Kuwait, Mr. Foley brushed the question aside. He would not be drawn into criticism, however the invitation was worded.

Why Mr. Bush chooses to reopen partisan bickering over the budget is uncertain. Conceivably, the traditional wave of public backing for a president confronting a foreign crisis makes him feel politically strong enough to provoke the Democrats, and hope they will over-react. Any ill-considered opposition response amid the current emergency would be likely to boost Mr. Bush's standing rather than hurt it.

But in fact, the rhetorical cease-fire around the budget negotiations is already a dead letter. The president didn't have to advise GOP congressional leaders that it was over; they had already broken it. Newt Gingrich, the Republican whip and one of his party's participants in the "summit" meetings, was lashing the Democrats days before Mr. Bush pretended that presidential permission was necessary.

To be sure, Speaker Foley had his own thoughts about the deficit talks. The Mideast situation adds "complicating reality" to those talks, he said.

Added energy taxes were one of the ingredients of a budget package on which there was potential agreement, but rocketing oil prices make that more difficult.

Mr. Foley hoped that the budget impasse would not lead to a "horrendous . . . damaging" sequestration under the Gramm-Rudman act, which would force spending cuts across the board. But so far there has been no formal proposal from either side, despite Mr. Bush's conceding that "tax revenue increases" will have to be part of any solution.

The current crisis may have a marginal, but not dramatic effect on attempts to reduce defense spending, the speaker said. It is more likely to cause re-examination of the kind of forces needed in a post-Cold War world.

Anyone seeking encouragement on the deficit from Mr. Bush's comments about the Mideast had to look hard. But when asked about the possible impact of the crisis on the budget, the president acknowledged that such an operation "has considerable expense associated with it." He didn't know how much it would cost. "But whatever it is, we're going to have to pay it."

Coming from an administration that has steadily put off today's debts onto tomorrow's taxpayers, that sounded like a major concession.

THE CINCINNATI ENQUIRER

Tuesday, August 7

The deficit

The supremacy of partisanship seems to have sunk the summit

What began with the earmarks of an honest and earnest bipartisan effort to unravel the deficit riddle has wound up as a bitter and unproductive exercise in politics as usual.

President Bush sent his emissaries into the budget summit with every budget-related issue on the table. He was even willing to consider new taxes, despite his frequently reiterated promises to the contrary. He asked only that congressional Democrats be equally open-minded on the subject of reducing capital-gains taxes and taking a fresh look at entitlements.

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The Washington Times

MONDAY, AUGUST 13, 1990

A new chance for capital gains cut

The Iraqi invasion of Kuwait, which sent shock waves through the global economy, may have changed America's political climate in ways that President Bush and the Republicans could not have anticipated.

With the economy virtually standing still, after nearly eight years of uninterrupted growth, a mood of gloom and doom permeated the financial markets last week. Even the usually bullish Richard Rahn, the U.S. Chamber of Commerce's chief economist, was publicly expressing fears of a recession.

Yet there were also signs that the economic growth issues of lower taxes and restraint in spending that have worked so well for Republicans throughout the 1980s may prove to be their political salvation in a time of great uncertainty.

The U.S. economic picture was worsening even before Iraq's seizure of Kuwait sent world markets into a tailspin. Last month's unemployment rate shot up to 5.5 percent, but that was only the latest in a string of bad figures. Among them:

- The economy grew by an anemic 1.2 percent in the second quarter, a rate that is not going to produce the level of new jobs needed to meet a growing work force.
- Factory orders for manufactured goods dropped in June by 1.5 percent. This is the third time this year that orders have fallen, suggesting that we may be in store for more job layoffs and production cutbacks.
- Meantime, the government's Index of Leading Economic Indicators continued to show a weak economy that was barely limping through the third quarter, while construction spending remained unchanged in June following declines in the previous two months.

The economy "is not going to hang on much longer," Mr. Rahn said as the gloomy numbers rolled in. "It is headed directly into a recession."

Mr. Bush's risky military stand in Saudi Arabia to stop Iraqi President Saddam Hussein's drive to dominate the oil-rich Persian Gulf, together with his skillfully coordinated global effort to cut off Iraq from the world market, may stabilize events in the Middle East and give Western powers a temporary breather.

But that alone is not going to be enough to reinvigorate a deflated U.S. economy, which needs the healthy stimulus of new capital investment to get itself moving again.

While the Democrats will be returning after the August recess with new budget proposals to raise taxes, the economy's precipitous decline in the past week may have given Mr. Bush and the Republicans a golden opportunity to begin selling the politics of economic growth in the form of a capital-gains tax cut.

Congress will have a chance to vote for just such a proposal next month when Sens. Robert Kasten of Wisconsin and Connie Mack of Florida, both Republicans, and Richard Shelby of Alabama, a Democrat, offer their capital-gains amendment to the debt-ceiling bill or some other legislative vehicle.

The measure would set a maximum tax rate of 15 percent on all capital gains for both individuals and corporations. (The top rate is now 28 percent.) And in an effort to deflect Democratic criticism that it would help only the rich, the Kasten-Mack-Shelby bill would cut capital-gains taxes for low and middle-income taxpayers down to 7.5 percent.

Will it work? Dr. Allen Sinai, chief economist for the Boston Company Economic Advisers, says that over the next five years, a 15 percent capital-gains tax cut would boost economic growth by 2.8 percent, create 2.5 million new jobs, and bring in $30 billion to $40 billion in new federal tax revenue from increased asset sales.

Unfortunately, the political obstacle to all this is Senate Democratic leader George Mitchell of Maine who has prevented senators from having an up-or-down vote on the proposal. Even when the economy was showing signs of weakness last year, Mr. Mitchell forced capital-gains supporters to have to come up with a three-fifths majority to cut off unlimited debate. Republicans and Democrats managed to come up with 51 votes on a procedural motion but that was not enough to overcome Mr. Mitchell's unyielding opposition.

"George Mitchell's single-handed blocking of the capital-gains tax cut in 1989 is the greatest blow this economy has received in the last two years," says John Buckley, a former spokesman for the National Republican Campaign Committee.

But the events of the past week have sharply changed the political and economic context in which issues like capital gains are going to be fought. Next month, with the economy in worse shape than ever as a result of the Middle East crisis, Mr. Mitchell and his anti-growth crowd are going to have a much more difficult time blocking a capital-gains tax cut intended to strengthen America's economy.

In the end, it will come down to a battle between a proposal that will cut the deficit while creating new jobs and new investment to maintain our economic leadership in the world, and George Mitchell's zealous drive to raise taxes and spend more money.

Under those circumstances, the capital-gains gang should win — but only if Mr. Mitchell ends his obstructionism and allows the Senate to vote its will.

The Washington Post

SUNDAY, AUGUST 12, 1990

Deposit Insurance Needs Reform

Democrats can declaim about President Bush's son Neil as a symbol of what went wrong with the S&Ls. Republicans can spew their venom on former House speaker Jim Wright and the four Democratic senators out of the "Keating Five" being investigated by the Ethics Committee.

Neil Bush, Wright and Sens. Alan Cranston, Donald W. Riegle Jr., Dennis DeConcini, John Glenn and John McCain (the Republican among the Keating Five) can be left to the proper authorities. In the case of the senators, this will include voters in their states.

Congress is also about to legislate tough penalties against S&L executives who plundered their institutions.

But rounding up the criminals, while good for the soul, won't get to the root of the problem.

The problem is the federal deposit insurance system itself.

The public is under the impression that there has been a $100,000 insurance limit. Not true. Wealthy persons are not limited to the $100,000 ceiling, because—whatever Congress may have intended—the limit is $100,000 per deposit, not per person.

Even as the bailout cost escalates toward an incredible half-trillion dollars, there have been no basic changes made in Federal Deposit Insurance Corp. rules to limit taxpayers' exposure.

This week, I received a brochure from a thrift institution explaining how a family of four can legally get insurance of up to $1.4 million in a single S&L, in part by designating some accounts to be in trust for other family members.

But wait, there's more:

The government has pursued a "too big to fail" policy for banks, in the mistaken belief that it thereby protects the financial system as a whole. "Too big to fail," in actual practice, has meant that in all but the very smallest of bankrupt banks and thrifts, the government protects every deposit, no matter how large. By folding weak institutions into stronger ones, the FDIC becomes a de facto insurance system covering every deposit against every risk.

The federal system has been allowed to degenerate, through interpretation by the regulators, into an absurd guarantee without limit.

See ROWEN, H5, Col. 1

HOBART ROWEN

Government Should Drop Idea That Some Banks and Thrifts Are 'Too Big to Fail'

ROWEN, From H1

According to the American Bankers Association, the FDIC has protected 99.5 percent of the value of all uninsured deposits in closed banks since 1985.

There's still more:

The records of some failed S&Ls, such as the Lincoln Savings and Loan Association (of Keating Five notoriety), demonstrate that they solicited packages of $100,000 units, combining savings of small depositors, put together by brokerage houses looking for the highest interest payments. The broker-hucksters and their clients knew that the highest rates were being paid by the weakest institutions, some about to go belly up.

Melanie S. Tammen of the Competitive Enterprise Institute (CEI) observes: "For S&L operators, their ability to jack up deposit rates to wild levels and instantly receive fresh funds [from brokers] was like sitting at a blackjack table, going deeper into debt, but all the while being able to yell, 'Hit me again!' "

And finally, a big new shocker:

Since 1987, banks have been allowed by the FDIC to offer full insurance to pension plans holding as much as $100 million. The gimmick is a "bank investment contract" (BIC) under which the $100,000 insurance limit is "passed through" to each pension-plan participant when the total fund is deposited in a bank.

A low-rated Seattle mutual savings bank, an aggressive BIC promoter, told a trade journal that "FDIC insurance . . . eliminates the need to review [a bank's] credit rating. . . ." The bank's advertising carried the assurance: "Our BIC Offers the Backing of a Higher Authority."

According to the CEI, which has done much to surface this new threat, BICs have added about $30 billion in liabilities to an already overloaded system. This extravagant extension of FDIC insurance must be phased down and out.

In general, the federal deposit insurance system has been allowed to degenerate, through interpretation by the regulators, into an absurd guarantee without limit. That is a basic cause of the S&L disaster, and the Bush administration and Congress until now have not faced up to it. Treasury Secretary Nicholas F. Brady is studying the problem, but told Congress that making banks more profitable and competitive—presumably by letting them enter the securities, insurance and other businesses—may be as important as changing deposit insurance rules. I doubt it.

FDIC Chairman L. William Seidman suggested that banks could be limited to using their insured deposits to "reasonable, conservative and safe investments." Fred Smith and Thomas Miller of the CEI recommend a more thorough overhaul, limiting insurance to $100,000 per depositor, with private coinsurance available above that level for fat-cat depositors ready to pay substantial premiums.

And above all else, as the American Bankers Association says, the government should abandon the doctrine of "too big to fail." It has outlived its usefulness (if it ever had any) and endangers rather than protects the financial system.

The Bush administration should be working hard at providing a cap on the growing liabilities taxpayers face in the S&L-and-bank crisis, now about $3 trillion, and in an additional near-$3 trillion in exposure through government-chartered enterprises such as Fannie Mae and other credit programs.

There is still something to protect by locking the barn door.

Chicago Tribune

Friday, August 10, 1990

First goal is getting the S&L crooks

WASHINGTON—I was surprised and disappointed when I read the column by Mona Charen (July 16) on the savings and loan disaster. She apparently does not even read the Chicago Tribune because her entire column is rebutted in a news story by staffer James Coates (July 15).

Ms. Charen writes that the president's son, Neil Bush, was being railroaded by Democrats because he is the president's son. She particularly includes me among the group.

First, at a hearing of the House Banking Committee on the demise of the Silverado Banking, Savings and Loan Association, Neil Bush said he was not naive and became an outside director of the S&L at age 30 and with no experience in the financial services industry because he was the president's son. During his term as a director, according to Mr. Coates, the federal office of Thrift Supervision has leveled charges in closed hearings against Bush and several other Silverado directors, accusing them of violating numerous rules governing S&L board members, the people who are supposed to oversee savings and loans that have deposits insured by a federal agency.

Federal regulators have posed some hard questions about Neil Bush's role in loans to Bill Walters and Kenneth Good, two big land developers who got hefty loans from Silverado that were not repaid. These unpaid loans were a prime cause why Silverado became insolvent in 1988, and will probably cost the American taxpayers $1 billion.

For the record, I want to correct Ms. Charen's figures about me. In 1987, I received a $1,000 legal donation from Charles Keating, not $6,000, and it was duly reported and made public. Neil Bush never told his fellow directors that Good and Walters were his business partners, nor did he tell them that Good lent him $100,000 in 1984, with the instructions that he never had to repay it if his investments went bad.

No one is blaming Neil Bush for the $500 billion debacle of the savings and loan industry. When the House Banking Committee started looking into some of the more flagrant failures, the first hearings were on Lincoln Savings and Loan, and I asked the tough questions about Mr. Keating's dealings. The next institution was CenTrust, and I had similar queries about David Paul. When Silverado came before the committee, I not only questioned Neil Bush, but the other directors and officers.

In 1980, when the Congress deregulated the S&Ls, at the request of the Reagan-Bush administration, and increased the insurance on deposits from $40,000 to $100,000, I was a member of the House-Senate Conference Committee which came up with the legislation. I was the only conferee who refused to sign the report. When the bill came up on the House floor, I was one of 13 members who voted against it because I rightly predicted, unfortunately, that the crooks would come out of the woodwork and prey on the nation's taxpayers.

Congress tried to tighten the deregulation law in the mid-1980s but the Reagan administration's Donald Regan fought the move.

Since the S&L bailout bill was signed into law last August, I have made every effort to get the Bush administration, especially the Justice Department, to investigate and prosecute the crooks and try to get the taxpayers' money back. At my behest, Congress authorized $75 million a year for three years for this purpose. The administration asked for only $50 million this year.

Now the president has asked Congress for increased funds and tools to do the job. The House Financial Institutions Subcommittee, which I chair, approved, on June 28 by a vote of 47-0, a package containing many of the items requested by President Bush, in addition to doubling the amount of money for investigations and prosecutions. There is only one thing I seek: Put the crooks in jail.

Rep. Frank Annunzio
Chairman, House Financial Institutions Subcommittee

The Detroit News

August 10, 1990

S&L Scandal Looms 'Big-Time Major'

By Mark Shields

How major an issue is the savings and loan scandal in this political year 1990? Based upon the evidence of two reluctant U-turns publicly taken respectively (and unhappily) by the Republican in the White House and the Democrats on Capitol Hill, the answer is: big-time major.

So enormous is the price tag for the S&L bailout that President Bush was forced to abandon his no-new-taxes oath; while, to tranquilize the voters' rage at the scandal's cost and corruption, congressional Democrats warily voted to reform the rigged campaign-financing system.

The only question remaining about the S&L saga and the upcoming fall campaign is whether this scandal will be *a* principal issue or *the* principal issue on voters' minds.

Republicans, who stand to suffer most, can only pray for neither of the above. Recent national polls, following publicity about Neil Bush's "incredibly sweet deal" and his performance as director of the failed Silverado Savings and Loan, have given the president 2-to-1 negative scores on his handling of the S&L situation. By a similar 2-to-1 margin, voters blame the crisis scandal on the Republicans rather than on the Democrats.

THE POLITICAL problem for the Republicans is that by 1992 they will have held the White House for 20 of the last 24 years — and for all of the last 10. The iron rule of credit/blame in American politics holds that you can take bows for everything good — the fall of the Berlin Wall, the collapse of the Soviet Union, economic good times — that happens on your watch. The down side is what hurts. A hostage crisis, an oil embargo and government scandals leave the guy in charge with a political black eye and a fat lip.

The Republican defense of blaming everything on an omnipotent Democratic Congress is fatally flawed. That Ronald Reagan was a strong leader and a successful two-term president is almost universally stipulated. Now we are supposed to believe that the same Gipper who brought the Red Menace to its knees and to the negotiating table somehow trembled in the legislative company of defeated House banking chairman Rep. Ferdinand St. Germain, D-R.I. No, sir, that's not the Ronald Reagan we watched destroy the air traffic controllers union and tame a sullen Congress into doubling the defense budget and cutting taxes by a third.

This is not to suggest that all Democrats were innocent bystanders in this seamy story. They weren't.

Congressional Democrats were far from unfriendly to the savings and loan interest whose campaign contributions during the 1980s went to incumbents over challengers by a margin of 19-to-1.

In 1933, every city in the nation had banks with closed doors. Millions of Americans lost their life's savings.

The Democrats' answer was to federally insure citizens' savings and to strictly regulate the financial institutions. Conservative Republicans put their faith instead in the market: If enough depositors wanted insurance on their savings, the banks would provide it at a competitive price. For Republicans, regulation was a euphemism for anti-business bureaucratic meddling.

What we got in the 1980s was the worst of both worlds. We, the taxpayers, guaranteed and insured all deposits while the Republican administration all but eliminated federal monitoring. It was a guaranteed formula for disaster.

For the recent Senate passage of authentic campaign finance reform, Sen. Mitchell deserves credit and co-billing with the S&L scandal. Recognition is also due to Sen. David Boren, D-Okla., who began this battle seven years ago in a joint effort with the now retired Arizona conservative Barry Goldwater. The resistance of incumbents to any tampering with a divinely inspired system that keeps turnover to a minimum could only be shaken by a big scandal and an effective leader. Too many House Democrats who were fiery reformers in the 1970s have become today's subcommittee chairmen and grumpy defenders of the status quo. What our politics desperately needs is competition. And in American business and politics, one's enthusiasm for competition is in inverse ratio to his percentage share of the market.

In 1990, the early returns already indicate that S&Ls are really big.

Chicago Sun-Times
FRIDAY, AUGUST 10, 1990

Bush's men won't say it, but we're in a recession

Rowland Evans & Robert Novak

As Tuesday's Cabinet meeting convened in a war crisis atmosphere, Housing Secretary Jack Kemp offered unwelcome advice on how to combat a recession that everybody except President Bush's advisers admits is here.

Instead of denying the slump is finally at hand, coinciding with the oil-price spike, Kemp said, the administration should fix the blame on Senate Majority Leader George Mitchell for blocking reduced capital gains rates last year. The secretary went on to urge that this proposal be substituted for the Bush team's recession-fighting formula of higher taxes enacted by Congress and easier money pumped out by the Federal Reserve Board.

Not for the first time, Kemp played the skunk's role at the Cabinet picnic. Nobody applauded. Despite deepened economic deterioration in the economic aftermath of Iraq's absorption of Kuwait, Bush's plan is unchanged. That means he is responding to recession like Herbert Hoover (with higher taxes) and Jimmy Carter (with easier money).

There was no sign of changing this policy at Tuesday's Cabinet session as Michael Boskin, chairman of the Council of Economic Advisers, delivered an upbeat overview of the economy with no definite sighting of recession. That provoked Kemp into complaining the scenario was too rosy the day before the U.S. Chamber of Commerce would announce the arrival of the recession.

We were alerted to what followed by neither Kemp nor his staff but by others in the room. Kemp praised the president for courage and skill in responding to Saddam Hussein's aggression. But he faulted Boskin, Kemp's frequent free-market collaborator, for failing to scold Mitchell and the Democrats for provoking the recession.

Kemp asserted it would be folly to meet the $64 billion deficit target under the Gramm-Rudman Act. Revenue needed to do that would mean higher taxes, he continued. Such a tight fiscal policy, accompanied by looser money demanded by the administration, recalled for Kemp the bad old days of the Carter administration. Dubbing himself an old hand at "bashing the Fed," Kemp asked: "Do you really want the Fed to inflate?"

In the ensuing discussion, nobody backed Kemp. Budget Director Richard Darman conceded some points but stressed that the federal government's overriding problem is debt—mountains of it, ever rising higher—that makes a budget settlement imperative after what he termed years of profligacy. Treasury Secretary Nicholas Brady chimed in that if $200 billion in additional annual debt were to double in the wake of Iraq, the U.S. government would be hard put to find lenders at an acceptable price.

But higher taxes in the teeth of recession was derided the next day in the rare official U.S. Chamber of Commerce news conference, conducted by its chief economist, Richard Rahn. In predicting a mild recession under present conditions, he said a tax increase piled on top would be an "unmitigated disaster." While berating the Federal Reserve for suffocating growth the last two years, Rahn stressed that he does not want the central bank to "dramatically loosen monetary policy to jump-start the economy."

Like Kemp, Rahn argues a capital gains rate of 15 percent (down from the current 28 percent) is essential to growth. Since Democrats call that a tax benefit for the rich, he would balance it by adopting part of Democratic Sen. Daniel P. Moynihan's proposal to cut back massive increases in Social Security payroll taxes (a proposal not mentioned by Kemp to the Cabinet but surely supported by him). Rahn's combination frees capital and labor.

But Bush policy seems frozen, inflexible and flawed. The president long ago put himself in concrete against any Moynihan-style cut. His own officials privately echo the Democratic dirge that the capital gains reduction is for rich men and cannot be sold to the public, forgetting that it was one of George Bush's few substantive issues in the 1988 campaign.

The president's men hope the crisis will make Democrats more forthcoming on a budget agreement and the Fed willing to accommodate that with easy money. They may be disappointed on both counts. Democratic budget summiteers show no weakening because of the Mideast. At the Fed, there is substantial feeling that easier money will only feed inflation.

Bush has moved boldly, though with great risk, against Iraq. But the greater danger to his presidency may stem from deciding to stay the tight-fiscal, easy-money course. Kemp's admonitions to his colleagues won him no Cabinet popularity prize but are worth pondering.

Evans & Novak are nationally syndicated columnists of the Chicago Sun-Times.

Star Tribune

FRIDAY/August 10/1990

The sorry search for S&L villains

By Jim Wright

Fort Worth, Texas
The glee with which some of my fellow Democrats have seized upon the involvement of President Bush's son Neil in a failed Colorado savings and loan company is symptomatic of a sickness in our political society. That malady is contagious. It has invaded both political parties. It is every bit as pervasive and destructive as the human weaknesses that underlie the virtual collapse of the nation's thrift industry.

The most prominent symptom of the illness is the incessant search for scapegoats — not for causes and solutions, but for villains in order to personalize the blame. A year ago, I called this tendency "mindless cannibalism." We see it in the eagerness of party members to scandalize leaders in the opposition party by attacking not their philosophy but their personal character.

We see it also in the prevalence of negative campaign advertisements that pollute the airwaves and degrade the political process. Slander begets slander, and this begets public disgust. One obvious result is a marked decline in voting.

Of Neil Bush's problems, I know very little. From all I have read, I infer that his sins, if any, were mainly of omission rather than commission. Gullibility rather than culpability. Inattentiveness rather than fraud. If his name were Neil Jones, there would be no public outcry and surely no call for a special prosecutor.

Perhaps I can sympathize with Neil Bush better than most. While House speaker, my name became a target for various charges in the finger-pointing frenzy involving the S&L industry. While most of the charges were either untrue or grossly exaggerated, I do hold myself to account that I, like many others, failed to see the scope of the looming crisis in time to head it off.

openly encouraged them to abandon their historic mission to family homeowners and look instead for speculative borrowers who would pay them higher rates of interest.

The result should have been predictable. Spurred by 40 years of steadily rising land values, speculators borrowed and thrifts scrambled to lend at high interest rates on every sort of land and real-estate venture — office buildings, shopping centers, high-rise apartments, commercial subdivisions. Then came the fall.

My state of Texas was the first to feel the pinch. For the first time in 50 years, land prices dropped. Office buildings stood vacant. Rentals fell. Entrepreneurs who put the deals together could not meet their payments. Bankruptcies rose to the highest level since the Great Depression. Lending institutions held paper based on old, inflated values. Foreclosures would no longer pay off the debts.

Most of this was not the result of fraud but of greed and overreaching by businesspeople and bad judgment by public officialdom. We should not have deregulated the thrifts.

Another major factor was the skyrocketing increase in home foreclosures that began in the mid-1980s. An epidemic in foreclosed homes was precipitated by the adjustable rate mortgage and its pernicious handmaiden, negative amortization. The Home Loan Bank Board should never have authorized that. Congress should never have permitted it.

A lot of naive borrowers, particularly young families, were lured into insolvency by deals with low down payments and graduating rates of interest. Disillusioned purchasers discovered to their dismay after a couple of years that they owed more than when they started. Their monthly payments meanwhile had escalated far beyond their ability to pay. Left no alternative, they walked away from their obligations in great numbers, leaving the once-eager lenders holding their abandoned properties.

The obsession with scapegoating is worse than childish. In this case, it is dangerously distracting. It diverts attention from the economic failures and policy misjudgments that caused the S&L industry's downfall.

People understandably resent the gargantuan price tag of bailing out millions of innocent depositors. Much of that cost, now estimated at $500 billion, will have to come from the taxpayers. But it is escapist folly to suppose that any major part of this tragic cost is due to "crooks" and political charlatans in either party.

In truth, the causes of the monumental collapse were more economic than moral. There were plenty of human errors and mistakes on all sides. Lenders and borrowers made flawed business judgments. Public officials in both political parties erred in policy judgments.

The most obvious error was the headlong rush in both the administration and Congress to deregulate an industry whose deposits are insured by the public and to cut it loose from its fundamental public purpose. The thrifts were created to perform a very basic and necessary service: to make home loans to American families at interest rates they could afford.

In 1982, when interest rates rose to an unhealthy level and S&Ls were stuck with a lot of old mortgages paying traditional rates, both White House and Congress took the easy way out. At the urging of then-President Ronald Reagan, and by big majorities in both parties, Congress deregulated the thrifts. The new law

There was some outright fraud, to be sure. The guilty must pay the price of their misdeeds. But most of the loss was not due to theft or fraud or criminal activity, and it is a great disservice to the public to pretend that it was.

Most of the bailout cost for which the public will have to cough up money is the result of bad policy judgments. The taxpayers will be served not by a strident political finger-pointing contest but by a rectification of those policy errors.

Government can start by putting a premium on solvency and setting the example. It should show the courage to raise taxes and to pay as we go.

With a balanced budget, government can and should insist on steadily declining rates of interest. The goal must be to make it possible for people to get out of debt.

The thrift industry should return to the historic role in which it and the taxpayers suffered no losses for 50 years: helping families own homes.

And surely we must put brakes on the mania to deregulate. If government is to guarantee deposits, it owes it to the citizens to make sure that publicly insured institutions are serving the public weal.

Jim Wright, former speaker of the House, was a congressman from Texas for 34 years. He wrote this article for the Fort Worth Star-Telegram.

The Boston Globe

FRIDAY, AUGUST 10, 1990

An S&L sugarcoating

The more Washington officialdom tries to justify its handling of the saving and loan imbroglio, the worse the nation's most egregious financial scandal seems to get.

One year after President Bush signed the S&L-bailout legislation, the administration is still attempting to put a happy face on what it cynically believes the American public will consider the government's deft treatment of an appalling mess.

Trying to emphasize the positive, Treasury Secretary Nicholas F. Brady noted that the Financial Reform, Recovery and Enforcement Act of 1989, as the bailout bill is euphemistically called, has protected 6.4 million deposit accounts.

"Our job is to conduct the massive cleanup operation effectively and responsibly, to rise above the political blame game, and to work steadily and professionally to get the job done," said Brady with a straight face.

But the S&L cleanup is much wider and its projected cost a lot steeper than when Bush signed the law. The total cost of the cleanup could amount to $500 billion.

Further, the bailout threatens to create a credit crunch in the general economy. Real estate developers and small businesses already are complaining that they can't get loans.

The Resolution Trust Corp., created to handle the bailout, has closed or sold 211 insolvent thrifts and plans to deal with 126 more this year. That still leaves it operating 135 failed thrifts and looking forward to an additional 230 to 550 collapses among the remaining 2,430 privately run S&Ls.

What all of this administration blather amounts to is a pitch to extract more money from taxpayers to finance the cleanup of a scandal that never should have been allowed to happen.

With congressional contests coming up this year, voters will have an excellent opportunity to register their disgust with the scandal and the $100 billion bailout by voting against incumbents who accepted contributions from the industry.

The Washington Post

SUNDAY, AUGUST 12, 1990

S&L Scandal Fueling Underdog's Senate Bid

Attacks on 'Silverado Desperadoes' Revitalize Democrat's Primary Campaign in Colorado

By John E. Yang
Washington Post Staff Writer

DENVER, Aug. 11—Carlos Lucero, dismissed just weeks ago as a certain loser in the race for the Democratic Senate nomination in Colorado, has revitalized his underdog campaign with the help of a president's son and a failed Denver savings and loan.

The 49-year-old attorney has been far outspent and out-organized by his opponent, Josie Heath. He cannot afford consultants, polls or television commercials. His campaign manager just turned 22 and was promoted in June from being his driver.

Although still trailing Heath by a significant margin going into Tuesday's primary, Lucero appears in newspaper polls to be faring better than his mismatched resources might suggest. A Denver Post survey, conducted with Denver television station KCNC and published in Sunday's editions, showed Heath leading 36 percent to 20 percent, with 49 percent undecided. The poll's margin of error is 4.5 percentage points either way.

Schroeder (D-Colo.) called for a Federal Election Commission investigation into the matter.

Lucero, a former director of a thrift in his hometown of Alamosa, has dubbed his investigators "The Untouchables," after the famed federal agents who fought organized crime in prohibition-era Chicago. They are led by Ed Graham, a Denver direct-marketing consultant who approached the campaign in search of a vehicle for pursuing the S&L scandal.

Although Denver newspapers have lately become more aggressive—it was the Denver Post that broke the campaign contribution story—it was the Lucero campaign that made some of the early disclosures in the Silverado scandal.

"He's not just getting the press; he's doing the investigative reporting," said Colorado poll-taker Paul Talmey, who is neutral in the race.

Heath, a 52-year-old former schoolteacher and Boulder County commissioner, complained that Lucero is a "Johnny-One-Note. . . . We need to elect people who have talked about the issues." The S&L scandal, she said, "ought not be trivialized by grabbing whatever is the political headline."

Heath was well-positioned to benefit from public outrage over the S&L mess with her suburban, good-government image.

But "Lucero took on the Silverado issue and made it his own," said Marshall Kaplan, dean of the University of Colorado at Denver's Graduate School of Public Affairs. "He captured a wave."

Now, the furor over Silverado all but drowns out Heath's discussions of environmental, education and health care policy.

This week, for instance, she used the turmoil in the Middle East to call for a national energy policy. The Denver Post reported it in a short story relegated to an inside page while the uproar over the campaign contribution scandal dominated page one.

On paper, this race should be no contest. Heath, the more polished of the two, has drawn on her long involvement in environmental and women's issues to develop a strong organization of workers commanded by campaign manager Susan Casey, who presided over Gary Hart's surprise victory over Walter F. Mondale in the 1984 New Hampshire presidential primary.

Lucero has a much more modest operation. Campaign manager Calisher is a novice who said his ambition is to go to law school. "I'm just a punk kid," he said with a self-deprecating shrug.

Further, Heath had raised more than three times as much money as Lucero and had nearly five times as much money in the bank by late last month. That has allowed her to air television commercials in the campaign's two closing weeks, while Lucero has been able to afford only radio advertising for the final five days.

While Lucero has captured the public's imagination, it is not clear whether that will bring victory in a primary election, when voter turnout is usually very low. It could be that Lucero's one-issue campaign appeals most to disaffected voters unlikely to go to the polls Tuesday and that Heath's organization will get more of her supporters to voting booths.

"I don't know if this is all going to translate into votes," Calisher said as he juggled telephone calls from reporters around the country. "But we're doing something right."

Lucero's challenge is fueled by the fumes of scandal that surround the ruins of the bankrupt, high-flying Silverado Banking, Savings and Loan Association and its best-known director, President Bush's son, Neil. With the zeal of a crusading district attorney and armed with volunteer investigators, Lucero has been grabbing headlines and television time with his attacks on the "Silverado desperados."

His rallying cry: "I don't care who they are, I don't care if their father is the president of the United States—if they did the crime, they're going to do the time."

"It has been a most unorthodox campaign," Lucero said as his red Jeep Cherokee rolled along farmland to the Adams County Fair and Rodeo in nearby Henderson, Colo. "It's become a cause."

The balloting may not only decide which Democrat will vie with Rep. Hank Brown (R) this fall to succeed Sen. William L. Armstrong (R), who is retiring. It could be an indication of the power of the savings and loan debacle as a political issue. It has been estimated that it will cost the federal government $300 billion to clean up the failed savings and loan industry nationwide.

By pounding away at Silverado, Lucero has struck a nerve in a state noted for clean-government attitudes, where the excesses of the energy boom of the 1970s that went bust in the 1980s are as evident as the half-empty skyscrapers that dot Denver's skyline.

Lucero, who narrowly lost the Democratic Senate nomination in 1984, talks about little else. It is the sole theme of his radio commercials.

"We're riding the S&L issue right now because that's what people are interested in," said campaign manager Dan Calisher.

That judgment was reinforced when Lucero arrived at the county fair. "I'm with you; go get those sons-of-guns," Mary Arnold, a sprightly 70-year-old Commerce City, Colo., resident told him as she finished last bites of her pancakes and sausage. "That thing stinks."

Other Colorado politicians are picking up on the S&L theme, too. Brown, who has no competition in the GOP primary, called this week for tighter federal regulation of thrifts.

Also this week, Gov. Roy Romer (D), who is running for reelection, called for a state grand jury to look into reports that a home builder with ties to Silverado made illegal contributions to campaigns, including his own. Romer gave $32,900 in Silverado-tainted donations to the Resolution Trust Corp., the federal agency overseeing the S&L cleanup. On Friday, Rep. Patricia

The New York Times
NEW YORK, MONDAY, AUGUST 13, 1990

The S.& L. Cleanup Advances — Slowly

The first anniversary of the savings and loan bailout bill has brought forth a predictable one-two punch from Republicans. Treasury Secretary Nicholas Brady proclaimed that everyone should "rise above the political blame game." And the Republican National Committee ran ads blaming the Democrats.

Republicans and Democrats can be expected to continue the blame game through this year's Congressional elections and on to 1992. But unless they want to drive the electorate to total disgust, they had better concentrate on managing the crisis without wasting more public money.

The bailout has turned out to be more difficult and vastly more expensive than anyone anticipated. The final bill is now projected at $160 billion, plus twice as much again in interest. That's $2,000 per taxpayer. But even as the Administration trumpeted the headway it has made, the Federal Deposit Insurance Corporation's chairman, L. William Seidman, told Congress that outlays to bail out S.& L.'s in the coming fiscal year would be double the earlier estimates, and that bank losses are mounting, too.

The Administration's progress report started with Attorney General Dick Thornburgh's report that the Justice Department had got indictments of more than 300 S.& L. executives and employees, and, so far, 231 convictions. Three-quarters have been sentenced to prison, and convicted executives have been ordered to pay $56 million in restitution — but that's a mere trace of what they squandered or stole.

The Treasury followed with a report that six million savings accounts, averaging $10,000 apiece, have been "made whole"; that adds up to $60 billion. The Government has taken over 472 bankrupt institutions and closed or sold 211. At least 500 more are teetering and likely to be taken over, shut down or sold.

The Administration's score card looks better than it did a few months ago, but no amount of success can erase its embarrassment over the cleanup's slow start, the bureaucratic feuding over who was in charge of what, the gross miscalculation of the eventual cost, and some obviously questionable sales of bankrupt savings institutions.

Scrambling to cover its own embarrassment, Congress is now moving legislation to stiffen penalties for S.& L. crooks, curb political contributions and launch yet another inquiry into how this scandal happened.

That's all well and good. But Congress and, especially, President Bush must now focus on managing the bailout and avoiding a second scandal.

The Journal of Commerce
and Commercial
MONDAY, AUGUST 13, 1990

Less Political

CONGRESS HAS DONE MORE than its share to bring about the thrift industry crisis, which will end up costing taxpayers half a billion dollars. And having learned from their experience with the thrifts, some representatives want to do the same with commercial banks. The latest idea being floated on Capitol Hill, to make the Office of the Comptroller of the Currency into an independent regulatory agency, should be sunk straightaway.

The Office of the Comptroller is one of three federal agencies charged with regulating the banking system, along with the Federal Reserve Board and the Federal Deposit Insurance Corp. The comptroller's particular responsibility is national banks — those institutions chartered by the federal government rather than a particular state. The agency is part of the Treasury Department.

There's a good argument for doing away with the Comptroller's Office altogether and letting the Fed take charge of the national banks. Congress, however, wouldn't dream of doing that, because the banking industry loves to be able to choose which regulator it does business with. Instead, certain congressional Democrats want to remove the Office of the Comptroller from the Treasury Department and let it function on its own, in order to make bank regulation less political.

There's not much in Washington that's non-political, and an independent Office of the Comptroller surely will not be. Politics abhores a vacuum. If the reorganized Office of the Comptroller is less dominated by the White House, it will be more dominated by the members of Congress on whom its survival depends. And we've seen what happens when that occurs: the Federal Home Loan Bank Board, the agency that supervised the entire savings and loan industry debacle, was an independent agency.

In fact, if we recall correctly, Congress "solved" the thrift crisis last year by stripping the bank board of its independent status and putting it under the thumb of the Treasury Department. Apparently there's nothing wrong with politicizing bank regulation when it means tossing the other party a grenade.

The Houston Post

August 6, 1990

TOUGH — BUT LATE

Stiff penalties for S&L crooks only part of solution

NOT TO BE OUTDONE by the Senate, the House passed its own tough bill to punish savings and loan thieves as Congress packed for its August vacation. While this belated interest in seeing that thrift crooks get justice is welcome, both houses' bills amount to locking the barn door long after the horse has been stolen.

This is an election year. So there was bipartisan urgency in passing the bills before the lawmakers headed home to face their constituents. These voter/taxpayers are quite justifiably angry about having to pay most of the thrift industry's $500 billion bailout costs.

Don't be too impressed by the stiff penalties in either the House bill or its Senate counterpart, which is incorporated in an omnibus crime bill passed July 27. As House Banking Committee Chairman Henry Gonzalez, D-Texas, a critic of the House measure, observed: "This bill is touted as addressing the thrift crisis, but it will not deal with those who brought the thrifts to insolvency, because their crimes were committed several years ago."

The Bush administration rightly opposes the House bill's creation of a bipartisan commission to study the causes of the S&L fiasco on the grounds that it could interfere with thrift fraud prosecutions. Yet the administration has dropped its opposition to a similar but (it claims) less-intrusive Senate proposal.

Among the House bill's penalties are life sentences for so-called kingpins in financial institution fraud. This is identical to a provision of the Senate bill. (The statute of limitations would be extended from five to 10 years for a series of crimes involving financial institutions to permit prosecution, even if the crimes were committed in the early 1980s.)

Both bills' tougher penalties for white-collar crime are overdue. But we will have to see how many of them survive after the House and Senate consolidate their respective measures into a single piece of legislation.

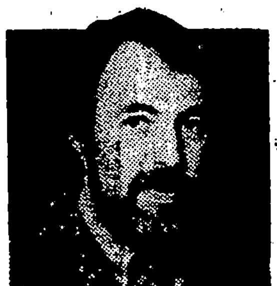
Another test of our lawmakers' determination to clean up the thrift mess also awaits them when they return to work in September: Will they try to duck a vote on $100 billion needed for the S&L bailout and pass a stopgap measure of $10 billion or less? That possibility was mentioned by a Treasury official last week. It would be a way to finesse a politically unpopular task until after the election.

It is much easier to pass bills getting tough on S&L crime than it is to burden the taxpayers with more debt. But the longer hundreds of failed thrifts remain open, the more they will cost finally to liquidate or to sell.

DAILY NEWS

Monday, August 13, 1990

How to 'parlay' in language of S&Ls



LARS-ERIK NELSON

Washington — James Fail took $1,000 cash money and a bunch of promises to federal banking authorities in December 1988 and wound up with both the most profitable savings bank in Texas and the prospect of $3 billion in federal subsidies.

This is one of the greatest parlays in the history of finance — and, as it happens, one of the most entertaining. Fail is by far the most engaging character to emerge from this savings and loan scandal, a good ol' boy from the backwoods who needed help in negotiating the murky ways of Washington. If you made a movie of his operations, it would have had to star W.C. Fields. Unfortunately, it would be extremely expensive.

In 1976, Fail was indicted for insurance fraud in Alabama, but pleaded his company — not himself — guilty. This indictment would have been enough to disqualify him from taking over the Texas banks, but somehow he never quite disclosed it on the application forms. By his own admission, Fail is not too good with little details like filling out forms that list a man's criminal record. He checked the wrong box where it said, "Have you ever been indicted?" He checked "No."

He is not too good at big details, either.

In 1989, the federal government gave him $275 million in subsidies for his new bank, Bluebonnet Savings and Loan. Sen. Howard Metzenbaum (D-Ohio) asked him about that: "How much did the federal government put into Bluebonnet in 1989?"

Fail: "Senator, I'm not an accountant." Who keeps track of little things like a quarter of a billion dollar gift from the government?

Metzenbaum: "The amazing thing to me is that you're not an accountant but you're sure wonderful about handling figures."

Fail (modestly): "Thank you."

How does Fail operate? One transaction gives a clue. In early 1989, Fail, who had just taken over the group of defunct savings and loans that he combined into Bluebonnet S&L, owed one of his backers $5 million. At the time, however, Fail had only $25,000 in his banking account.

This is what he did: He had an insurance company that he controlled lend the backer, Robert Shaw, $5 million. Shaw then lent Fail back the $5 million as a personal loan with no collateral. Fail then used this $5 million to pay Shaw the interest.

Does this make sense? No? Then clearly you are not equipped to run a federally subsidized savings and loan. Metzenbaum wondered why Fail didn't simply borrow the money from his own insurance companies to pay Shaw.

Fail's eyes widened in wonder at this suggestion. "Senator," he said, "I would not make the loan to myself directly. I was not credit-worthy at that point." In proof of this, he never repaid the $5 million he borrowed from Shaw. Somebody is out $5 million on this transaction, and I suspect it will not be Jim Fail.

How did this impoverished, absent-minded, slightly disreputable fellow ever get control of a federally insured, federally subsidized S&L? After all, this is a man who is too smart to lend himself money — but the U.S. government trusted him enough to give him a bank.

The answer is he hired an intermediary, Robert Thompson, a former aide to then-Vice President Bush, who knew all the right people. Fail said Thompson made the paper work flow.

And indeed it did. To acquire Bluebonnet, Fail took $35 million from one of his insurance companies — an action that has prompted an investigation by Arizona insurance regulators. He borrowed another $35 million from Shaw by pledging all his personal wealth to a company controlled by Shaw. In fact, Shaw did not come up with the $35 million until Fail offered as collateral 100% of the stock of the holding company that owns Bluebonnet.

This appears to be against the law. You can't use the stock of a bank as collateral to raise the money to take over the bank. Fail did it. With Thompson's Ronald Reagan-administration contacts, Fail accomplished a $1,000-down, leveraged buyout of Bluebonnet, a money-making machine that will be subsidized by your taxes. Jim Fail, you remember, is not the cause of the savings and loan scandal. On the contrary, as he points out, he is the solution.

THE TAMPA TRIBUNE
August 7, 1990

S&L bailout helps the rich get richer

WILLIAM RASPBERRY

WASHINGTON — Treasury Undersecretary Robert R. Glauber, pressed by increasingly testy members of the House Banking Committee to put a high-end figure on the cost of the savings-and-loan bailout last week, finally became testy himself.

"It's going to cost what it will cost," he said.

It was an underestimate. Whatever the taxpayers' bill for the S&L scandal — at least $100 billion in the next fiscal year, with final estimates ranging from a third of a billion dollars to more than a trillion — it will cost more. One additional cost is in the failure of the Resolution Trust Corp., the agency charged with overseeing the bailout, to use the disaster to relieve the housing problems of the poor.

The law creating the RTC authorizes it to sell low-priced homes in its inventory at reduced prices and financing. But advocacy groups say the agency has refused to make available the information necessary to implement that provision of the law.

One of them, the Association of Community Organizations for Reform Now (ACORN), is suing the RTC in an attempt to force compliance with the affordable-housing provision.

"Congress intended that the bailout be used to begin to solve the housing crisis." ACORN's national president Maude Hurd said at a Chicago press conference announcing the suit. "The RTC has turned a deaf ear to our pleas to be included in that process, as the law allows. It will have to listen to the court."

Under the bailout legislation, certain foreclosed properties are reserved for purchase by low- and moderate-income families. It further requires that access to those properties be limited to low-income families and nonprofit organizations — like ACORN — for 90 days and specifies that information on the properties be disseminated through nonprofits.

"Despite ACORN's repeated efforts to ensure compliance," ACORN said at its press conference, "the RTC is disposing of eligible properties without following the procedures of the law. In addition, the RTC has continued to do nothing about appointing ACORN or other organizations as clearinghouses, and the agency seems unwilling or unable to provide ACORN with the information it needs to bring affordable housing to low- and moderate-income people."

It's probably true, as Glauber said, that it's impossible to come up with a reliable figure for the bailout's final cost. Not only are the thrifts continuing to fail, but it is impossible to know how much money will be recaptured by the sale of foreclosed real estate, or how much will be needed to cover unpaid real estate taxes on many of the properties. That will "cost what it will cost."

But the added cost of failing to use the provisions of the law to assist low-income families is avoidable — at least in the case of those properties remaining in the RTC inventory. ACORN hopes its suit will force the RTC to do the right thing.

ACORN, a nationwide organization of low- and moderate-income people, has been in the forefront of the fight for affordable housing. It is seeking a preliminary injunction to stop the sale of eligible houses until the suit is settled.

Thursday's announcement was made at a house seized by ACORN activists in the repeat of a tactic that already has landed four members in jail. The members had squatted in three RTC-owned houses last month, in an attempt to force the RTC's hand. Later the agency announced that one of the homes had been sold to an investor.

Which makes ACORN's point. The organization and other advocacy groups, including the Financial Democracy Campaign, have argued that it was principally the rich who benefited from the deregulation that brought on the S&L crisis in the first place. And now, they say, the rich are benefiting from the crisis, as investors snap up foreclosed properties at fire-sale prices.

The law, which ACORN worked to pass, anticipated that wealthy investors could reap windfall profits from the resale of foreclosed houses. For that reason, the low- and moderate-income provision was included as a way of gaining some social good from an economic disaster.

For example, an estimated 70 percent of the RTC holdings in hard-hit Texas could be offered to low-income buyers. "There's tremendous opportunity here, but the program is being set up to fail," said Thomas Smith, director of Texas Public Citizen. "They are not providing concessionary financing or discounting housing, but they are providing those benefits for people who want to buy commercial real estate."

ACORN is demanding not only that it be given timely access to RTC's residential listings. It also demands that damages be paid for homes RTC sold to speculators without first offering them to low-income buyers and nonprofits.

PLAIN DEALER

CLEVELAND, FRIDAY, AUGUST 10, 1990

Budgeteers look for ways to soak rich

CONGRESSIONAL QUARTERLY

WASHINGTON — For a time, the midsummer's hot topic in federal fiscal conversation was a tax on the sale of stocks and bonds. Then talk turned to a Republican suggestion for capping deductions for state and local taxes at $10,000.

Both ideas were quickly shredded, but there are more proposals where those came from.

The real estate industry, for example, has begun to fear fresh inroads on the deduction for home mortgage interest. Too popular to assault frontally, the mortgage interest break could be restricted to one home (it can now apply to two). Or it could have the current "mansion cap" on the mortgage value lowered (it is now $1 million).

All of these have a common theme: Soak the rich.

Democrats have demanded that any tax changes made as part of a budget deal make the overall federal tax burden more progressive — more sensitive to taxpayers' income. At a minimum, they do not want a package that relies exclusively on such changes as higher taxes for beer, wine, tobacco and possibly energy — all regressive taxes that have been floated during the summit.

Democrats have demanded that any tax changes made as part of a budget deal make the overall federal tax burden more progressive — more sensitive to taxpayers' income.

And members from both parties are concerned about selling a budget-reduction package that actually makes the tax code more onerous for the middle class.

"The obvious way to address that is to raise the top rate on the personal income tax," says Robert S. McIntyre, director of Citizens for Tax Justice.

But a higher top rate has remained the Rubicon that Republicans refuse to cross.

Stephen Bell, a former top Senate budget aide who is a partner in the investment firm of Salomon Brothers, says Republican budget summit participants discussed raising the top rate from 28% to 33% in mid-July in exchange for a lower rate on capital gains.

The response from GOP senators was "over my dead body," Bell says. And the House Republican Conference, deeply disturbed at hearing the top rate was on the table, voted July 18 to disown any tax increase.

Bell says that recent suggestions for raising revenue from higher-income groups are neither trial balloons nor attempts to lure Democrats into a deal.

"They're not trying to get Democratic acquiescence: they're trying to get Republican acquiescence," says Bell. "They're not trying to see how the public reacts; they're trying to see whether Republicans themselves can coalesce."

A tax on the sale of stocks and bonds would seem an unlikely choice for spurring GOP coalescence, given the party's commitment to encouraging investment.

But then the excise tax on securities transactions has had an unlikely champion — Treasury Secretary Nicholas F. Brady, who came to government from a career on Wall Street.

The tax would serve several objectives. It would raise revenue, it would at least appear to "soak the rich," and it would be structured to discourage the rapid turnover or "churning" of assets — a longstanding Brady policy goal.

As proposed by Brady, the tax would equal one-half of 1% of the sale price on all stocks and bonds other than securities issued by the U.S. Treasury. It would not matter whether the seller realized a profit or suffered a loss in the transaction.

The Congressional Budget Office has estimated such a tax would yield about $12 billion in new revenue annually, or about half the revenue target of the current budget summit.

But opponents — including many economists as well as investors, brokers and pension fund managers — say revenue would be disappointing because the tax would discourage asset sales and some investors would shift to foreign exchanges. Economists say this would hamper the flow of capital to its most efficient uses and raise the cost of capital to U.S. enterprises.

If the securities transaction tax has few friends, the idea of limiting deductions for state and local income taxes summons a host of old enemies.

S&L issue changes Colorado primary

By James Coates
Chicago Tribune

DENVER—An underdog's primary election campaign in Colorado could mark the first time a politician has translated public anger over the savings and loan scandal into success at the polls.

In two months, Carlos Lucero, a political unknown, has ridden the S&L issue to come from 30 points behind front-runner Josie Heath and become a contender for the Democratic Senate nomination in Tuesday's primary that pollsters now say is too close to call.

Both campaigns attribute Lucero's success to a series of headline-grabbing disclosures he made about some of the thrift scandal's most flamboyant targets.

Many of Lucero's blatantly partisan investigative efforts have focused on President Bush's son, Neil, and his actions as a director of Silverado Banking, Savings and Loan Association, which was taken over by federal regulators in 1988 in one of the worst S&L collapses to date.

Lucero, with the help of a group of aides who call themselves "The Untouchables," develops information the way investigative reporters operate: poring over public records for details about business transactions, analyzing public lists of political contributions and interviewing sources.

The resulting disclosures, often announced at news conferences on the sidewalk in front of Neil Bush's office in downtown Denver, have won Lucero substantial name recogniton in Colorado and have prompted congressional investigations in Washington, nationwide FBI probes and at least one Colorado grand jury investigation.

Lucero, 49, a lawyer from the small town of Alamosa, and Heath, 52, a well-known Boulder County commissioner and one of six women seeking Senate seats nationwide this year, are vying for the Democratic nomination to fill the seat being vacated by Republican Sen. Bill Armstrong, a popular conservative. The winner of Tuesday's primary will face Republican Rep. Hank Brown in November.

Heath, who has raised almost $4 for every $1 donated to Lucero's campaign, has focused on social and economic issues but has consistently made her own strong statements demanding full disclosures about S&L wrongdoing.

To counter Lucero's challenge, Health this weekend is sending out TV and radio spots underscoring her substantial political record and her nationwide support. She hopes to overcome Lucero's Silverado-based headlines by hammering away on the fact that Lucero has become a one-issue candidate.

Some of Lucero's disclosures:

● Last week FBI officials acknowledged a criminal investigation is under way into charges first leveled by Lucero that officials at Silverado and executives of a large real estate development company, M.D.C. Holdings Inc., improperly pressured subcontractors to make political donations to candidates who favored building Denver's new airport on and near land owned by Silverado and M.D.C.

Colorado's Democratic Gov. Roy

Lucero

Heath

Romer, an airport supporter who acknowledged receiving donations from the subcontractors, also ordered a grand jury investigation into the allegations.

● Two weeks ago Lucero disclosed the existence of 174 secret trusts established by Silverado figure Kenneth Good in far-flung rural Colorado counties. Good is a flamboyant Denver real estate developer and a major business partner of Neil Bush's in a defunct energy company.

Good has said most of the trusts are worthless and all were created before 1981, well before he borrowed any money from Silverado.

● Earlier, Lucero produced documents to show that Good donated $100,000 to the Republican National Committee after he defaulted on more than $32 million in Silverado loans, pleading bankruptcy. Lucero said Good also maintains homes in Florida and Manhattan.

At one point, Bush urged fellow directors to issue Good a $900,000 letter of credit, a move federal regulators now charge was improper.

● Lucero followed the disclosure of Good's trusts by showing that Neil Bush had bought a $550,000 house in Denver from M.D.C. in April and had placed it in the name of his wife, Sharon.

Bush said he put the house in his wife's name for "estate planning purposes." His assets could be seized by the government if there is a finding of wrongdoing in his Silverado actions.

Throughout the controversy, Bush has insisted that he acted properly at all times, but federal regulators will hold a hearing in Denver in September to examine charges that he engaged in "unsafe and unsound" banking practices.

Meanwhile, as a result of Lucero's disclosures, House Banking Subcommittee Chairman Frank Annunzio (D-Ill.) has summoned Good to Washington hearings that will explore whether Good and another Neil Bush associate, developer Bill Walters, concealed trusts and lied when they testified this spring that they were broke.

News reports in California show Walters living in a $1.9 million Los Angeles mansion and driving expensive cars, all owned by a trust in his wife's name. Walters defaulted on $100 million in loans, many of which Neil Bush voted to approve, after the two became business partners.

Political columnists at the Denver Post and Rocky Mountain News have called Lucero's Silverado-driven media coverage "free press."

But Dan Calisher, the Lucero campaign manager countered, "What Carlos has to say is news, and it is very important news at that. He earns the time he gets in the media."

Chicago Tribune
Sunday, August 12, 1990

The Washington Post

Thursday, August 9, 1990

Bush Urges Reductions In Budget

Brady Joins Chorus, Despite Gulf Crisis

By Steven Mufson
Washington Post Staff Writer

The Persian Gulf crisis and the prospect of rising oil prices should not deter Congress and the administration from reducing the size of the federal budget deficit, President Bush said yesterday, echoing the views of congressional leaders.

"I still think it's absolutely essential to get a budget agreement," the president said at a press conference that dealt mainly with the Gulf crisis.

At the same time, Bush again signaled that he might renew partisan attacks on Democrats for the budget stalemate. In reference to an earlier truce in political jousting over the budget talks, Bush said, "I don't feel bound by an agreement that I've told the congressional leaders is no longer in effect." He added, "I feel like a liberated human being now."

Bush's comments came amid speculation among some economists and business leaders that the prospect of a recession should make lawmakers more cautious about deep cuts in government spending this year.

But in a speech before the National Press Club yesterday, Treasury Secretary Nicholas F. Brady also called for budget cuts, declaring "the problems facing the U.S. can be better handled if we have the budget deficit under control."

Brady hinted that the Bush administration might favor a smaller deficit reduction in the first year of the five-year package that is being negotiated. "I'm not sure that the first year figure [for cuts] will come out to exactly $50 billion," Brady said in reference to the target set at the budget summit. But, he added, "We cannot be strong when the budget deficit is where it is."

With the conflict in the Persian Gulf making business leaders increasingly skittish about the economic outlook, attention focused yesterday on the health of the economy.

The U.S. Chamber of Commerce said that the economy is sliding into a recession and it accused the Federal Reserve Board of being the

See ECONOMY, E3, Col. 4

ECONOMY, From E1

chief culprit. But a report by the Federal Reserve Board said there is "continued economic growth," even though "the pace was slow or had slackened recently."

The Fed's so-called "beige book," a summary of economic activity prepared for use by the central bank's main policy-making body at its next open market committee meeting, scheduled for Aug. 21, surveyed the central bank's regional offices. In breaking down the economy's performance, the central bank's report said that retail sales are "a little better than a year ago or soft, with weaker-than-expected demand for big ticket items."

The Federal Reserve added that manufacturing activity is flat, though in some regions there was growth in tradable good.

The beige book noted that real estate construction and sales and housing activity in general remained below that of 1989 as the inventory of unsold housing stock remained high.

The Chamber of Commerce said, however, that the economy will stall in the third quarter of this year and slide into negative growth rates in the final quarter of 1990 and first quarter of 1991, according to Richard Rahn, vice president and chief economist of the chamber.

While the Persian Gulf crisis and the prospect of rising oil prices could hurt the economy, Rahn put most of the blame for the slowdown on the Federal Reserve. "The impending recession is not the result of Iraqi adventurism in the Middle East," Rahn said. "It is due to bad economic policy by the U.S. government. The Federal Reserve has left the economy no margin of error. . . . The Iraqi invasion of Kuwait only makes a bad situation worse."

Brady also called for lower interest rates yesterday. Unlike Rahn, Brady asserted that the economy is continuing to grow, albeit at a slow rate. Brady said that "economic growth in this country is still going up. Not as fast as we would want, but it is still going up."

While Brady admitted that an increase in the price of oil would "impose additional hardship," he said the Bush administration is "not contemplating a recession."

The Washington Post

Thursday, August 9, 1990

Hill Leaders Press for Deficit Cuts

Budget Negotiations Urged Despite Mideast Crisis, Recession Threat

By John E. Yang and Steven Mufson
Washington Post Staff Writers

Congressional leaders said yesterday that the threat of a recession, which has been aggravated by the turmoil in the Middle East, should not deter White House and congressional negotiators from seeking a substantial cut in the federal budget deficit.

House Speaker Thomas S. Foley (D-Wash.) told reporters that lawmakers should resist the "beguiling" arguments that "the economy will be too weak for" the $50 billion in spending cuts and tax increases the bargainers hope to achieve.

"It is tremendously attractive to members of Congress to think that this whole problem of the budget summit might just conveniently disappear a month before elections," Foley said. "We ought not let the easy decisions predominate."

Even before the Persian Gulf crisis, the economy had been lackluster: The civilian unemployment rate rose sharply in July to 5.5 percent and the economy grew only 1.2 percent in the past 12 months, the smallest increase since the last recession ended more than seven years ago.

And if the U.N. Security Council succeeds in implementing the total embargo on Iraq and Kuwait it approved yesterday, oil prices will likely skyrocket—along with the chances of recession in the United States. That would make it a bad time to put a further drag on the economy with new taxes and reduced federal spending, some economists argue.

"The best time to have cut the deficit would have been when the economy was doing well and oil prices were falling, like they were in 1986," said Harvard University economics professor N. Gregory Mankiw.

But Senate Budget Committee Chairman Jim Sasser (D-Tenn.) said that the price of not cutting the deficit would be greater than the price of making the cuts. "We still need to go ahead with a significant deficit-reduction package," he said. "That's the only way the Federal Reserve Board is going to be able to lower interest rates."

Depending on what happens to oil prices in the next three weeks, an administration official suggested it might be wiser to seek a small deficit cut in fiscal 1991 and larger cuts later on.

The Gramm-Rudman-Hollings deficit-reduction law allows Congress to suspend the statute's mechanism for automatic, across-the-board cuts if the administration either projects two consecutive quarters without economic growth or reports two back-to-back quarters in which the economy grew less than 1 percent in each period.

The turbulence in the Mideast could limit the budget negotiators' options. With gasoline prices already rising by as much as 15 cents a gallon, bargainers are less likely to look to an increase in energy taxes as part of the deficit solution.

"Things like energy taxes become more difficult in the middle of an embargo," Foley said. "It makes acceptance of energy taxes more difficult—not necessarily less desirable, but politically more difficult."

"If you get a substantial increase in the price of oil, you don't want to further escalate the price of energy and put more inflationary pressure on the economy," Sasser said.

Meanwhile, 18 senators urged President Bush to appoint a task force to investigate what they described as "unwarranted" increases in oil and gasoline prices, and Senate Minority Leader Robert J. Dole (R-Kan.) called for a Justice Department probe into possible violations of price-fixing laws.

Sen. Joseph I. Lieberman (D-Conn.) said Bush should call on the oil industry to roll back its price increases, which he said amount to overcharges of $12 million to $42 million a day.

Staff writers Helen Dewar and Tom Kenworthy contributed to this report.

The Washington Times

THURSDAY, AUGUST 9, 1990

Bush will resume hard push for deficit reduction package

By Karen Riley
THE WASHINGTON TIMES

Crisis in the Middle East, higher oil prices and signs of growing economic weakness give all the more reason to negotiate a deficit reduction package, participants in the budget summit said yesterday.

"I still think it's absolutely essential to get a budget agreement [with Congress], and that's going to require a lot of principle," Mr. Bush told a news conference.

The president hinted he soon will resume public criticism of Democrats' negotiating posture, abandoning his pledge to congressional budgeteers that he would not discuss the negotiations publicly.

"I don't feel bound by an agreement that I've told the congressional leaders is no longer in effect," he said.

Treasury Secretary Nicholas Brady said the Iraqi-Kuwait situation underscores the need to address the government's fiscal problems now when sacrifices are still possible. Not to do so could deny the nation much-needed flexibility in crisis situations, he said.

"The budget deficit does not help when you're trying to do that job," Mr. Brady said in answer to questions following his speech to the National Press Club.

Enacting a credible plan could give the economy a welcome boost by lowering interest rates, he said.

While Mr. Brady said the White House still supported slashing the deficit by about $50 billion in fiscal 1991, he said the final figure could be a subject of negotiation, the first indication that the summitteers might scale down their efforts in light of recent events.

But Senate Minority Leader Robert Dole said the White House still advocates cutting the deficit by $500 billion over five years, but he conceded they may "go back and review the mix."

The participants are scheduled to reconvene sometime around Sept. 5 to try to reach an agreement before Congress returns from its summer recess Sept. 10.

A spokesman for Mr. Brady said there have been no discussions about moving up the date for the talks.

Congressional participants in the budget talks echoed the administration's views yesterday. "What has occurred does not change my view that a budget agreement is important, is indeed necessary,"said Senate Majority Leader George Mitchell.

If anything, he said, current conditions contribute a sense of urgency that might assist in reaching an agreement.

"I still think we ought to proceed," said Mr. Dole.

The Office of Management and Budget has predicted that the deficit should amount to $168.8 billion in 1991, but the budget gap would climb to $231.4 billion when the cost of the savings and loan bailout is included.

Many private analysts fear that any attempt at serious deficit reduction at this time would only push the already shaky economy into a recession.

Federal spending is one of the components that make up the nation's gross national product, and any reduction could lower the GNP.

And an economic contraction would only worsen the deficit problem.

OMB calculates that a 1 percent reduction in the nation's gross national product would add $5.6 billion to the federal deficit in 1990 and $14.2 billion in 1991.

Richard Rahn, chief economist of the U.S. Chamber of Commerce, released a forecast yesterday predicting a recession will begin this year and carry into 1991. Such a contraction will raise the deficit by reducing tax revenues and automatically increasing some safety-net expenditures, he said.

"I think that given the uncertainty at the moment, this notion of trying to do the great deficit reduction probably ought to be put on hold," Mr. Rahn said. He urged Congress and the White House to adopt more modest deficit reduction goals and by no means to raise taxes.

On Tuesday, House Budget Director Leon Panetta, California Democrat, was quoted as saying that "anybody who thinks we're not being forced into a re-evalution these next few weeks is kidding themselves."

He indicated that the negotiators might want to consider lower targets for tax increases and budget cuts and put more emphasis on reducing the deficit in fiscal years beyond 1991.

The Washington Times

THURSDAY, AUGUST 9, 1990

Economy was mired long before oil mess

By John D. McClain
THE ASSOCIATED PRESS

The U.S. economy was slackening well before higher oil prices resulting from the Iraqi invasion of Kuwait threatened to push it closer to a recession, the Federal Reserve reported yesterday.

While a survey of the 12 Fed districts found the nation's economy continuing to grow, "most noted that the pace was slow or had slackened recently," the central bank said.

Many economists fear higher energy costs could shock an already soft economy into recession.

see **MESS**, *page A5*

• *Changes of the '80s put D.C. area in unfamiliar position. Page C1*

From page A1

The U.S. Chamber of Commerce predicted yesterday that even without higher energy costs, the economy would grind to a standstill during the current quarter and then fall into a recession starting in the fourth quarter.

Richard W. Rahn, chamber vice president and chief economist, blamed the Middle East crisis less than the Fed's policies on credit and interest rates, which he called "misguided economic policy."

And Treasury Secretary Nicholas F. Brady said he and President Bush also want the Fed to give economic growth a boost by lowering interest rates, observing that strong growth is particularly important as the United States responds to Iraq's invasion.

"Everybody wants lower interest rates.... At this point in time in the United States, economic growth is very important," he said at a news conference.

The Federal Reserve Bank of Atlanta completed its survey July 27 for use at the Aug. 21 meeting of the central bank's Federal Open Market Committee. Its results were released in its Beige Book, a periodic economic summary.

The committee, which establishes U.S. monetary policy, adopted a tight credit policy more than a year ago to slow the economy and lessen inflationary pressures. But as evidence of a weakening economy mounted even before the Middle East eruption, many officials and economists were calling for a looser grip to stimulate growth.

Meanwhile, the chairman of the President's Council on Economic Advisers said it was too soon to forecast accurately the potential effects of recent oil price increases on the nation's economy.

"It could be significant and it could be modest," Michael Boskin said in Traverse City, Mich., while attending a management seminar. "For the kinds of price increases we've seen thus far, it's likely that the economy would be able to absorb them."

But he said if the price of crude oil settles in a $25- to $28-a-barrel range, as has been estimated, it would shave 0.5 to 0.7 percentage points off of increases in the gross national product and would add one percentage point to the consumer price index.

"Then the inflation rate would drift back down," he said.

The Commerce Department reported the economy grew at a meager 1.2 percent annual rate in the quarter ending June 30 and just 1.7 percent in the previous three-month period. Another sign of a slowing economy came last Friday when the Labor Department reported that unemployment rose to 5.5 percent, the highest level in two years.

Mr. Rahn of the U.S. Chamber of Commerce predicted "the economy will grind to a virtual standstill during the third quarter of this year and actually contract by 1.4 percent in the fourth quarter."

He added, "Our forecast shows the economy continuing to experience negative real growth in the first quarter of 1991 and practically no growth in the second quarter."

While the Fed's latest survey found sluggish growth continuing in the third quarter, it also indicated inflation was not subsiding.

It said wages in some districts were rising between 3 percent and 5 percent, in most cases excluding benefits. At the same time, some districts reported widespread price increases while other said businesses were having to absorb higher costs at the expense of profit margins.

"Retail sales were generally described as a little better than a year ago or soft, with weaker-than-expected demand for big-ticket items cited most often," the survey said.

"Retailers in New York City are less optimistic about the outlook given the continuing layoffs at banks and brokerage firms, while those in St. Louis expressed similar views in light of anticipated defense cutbacks," it added.

Residential real estate construction and sales were below their 1989 pace, often because of high inventories which in many cases caused falling prices, the survey found. The soft housing industry also was causing weak sales of home furnishings and appliances.

Overall manufacturing activity was flat, the survey found, although it varied from industry to industry.

Demand for domestic steel was up, partly due to auto production. At the same time, the survey found vehicle sales either flat or below year-ago levels.

But with the exception of steel and commercial aircraft, manufacturing inventories and lead times were said to be slowing.

Most districts also reported employment was either flat or likely to weaken based on announced layoffs.

"Several districts report that the pace of commercial loan growth has recently slowed and some indicate that its levels are below those of a year ago," the survey found.

Lending to consumers also was off, but not to the extent of commercial loans.

The survey found the outlook for agricultural production generally good, although poor weather conditions were hurting crops in some areas.

The Washington Times
THURSDAY, AUGUST 9 1990

S&L reformers still unable to silence critics

By David R. Sands
THE WASHINGTON TIMES

One year to the day after President Bush signed the most far-reaching and expansive financial institution reform bill since the Great Depression, the looming question is: Has the government destroyed the savings and loan industry in order to save it?

Key architects of the Financial Institutions Reform, Recovery and Enforcement Act in recent days have taken credit for a number of short-term results in the 365 days since the bill was signed.

Calling the bill a "depositor rescue bill," Treasury Secretary Nicholas Brady said yesterday that the administration has made considerable progress closing bankrupt thrifts, imposing tough new operating and capital requirements on surviving thrifts, and putting S&L crooks behind bars.

"The problem is immense and the solution isn't painless, but the job is getting done," Mr. Brady said.

But critics of FIRREA, of which there is no shortage, have attacked the bill from all sides — for doing too much, for not doing enough and for costing too much in what it has done.

James Barth, a former chief economist with the Federal Home Loan Bank Board and now a finance professor at the University of Auburn, warned that unless key provisions of the bill are changed to allow S&Ls to diversify and to impose market discipline on both S&L owners and customers, "the savings and loan disaster will only get worse."

For what was once a sleepy backwater financial service industry dealing almost exclusively in residential mortgages, the S&L crisis of the 1980s has had huge economic, regulatory, budgetary and political consequences. The bill for the cleanup will certainly exceed the $166 billion called for by FIRREA, and could go as high as $200 billion in 1990 dollars, according to the Federal Deposit Insurance Corp.

The rising losses are forcing the pace of delicate budget deficit negotiations underway between the administration and Congress. And the searing question of who's to blame for the debacle is already shaping up as a key issue in the upcoming November elections.

> *"You are going to see more failures in the future because thrifts are going to be put back in the same old box where they can't diversify."*

The savings and loan industry is a far different one from even a year ago. The mammoth new Resolution Trust Corp., the principal government agency supervising the bailout, has seized control of 472 insolvent S&Ls, closing 211 through yesterday. The RTC has sold or liquidated $73 billion in assets from these thrifts and paid off 6 million insured S&L accounts worth $62.8 billion.

Many surviving S&Ls — including regional giants such as Perpetual Savings Bank and Trustbank Savings — have had to sell some of their best assets to meet tougher new capital-to-asset ratios imposed by FIRREA. Many of these assets have been snapped up by commercial banks, who have also moved heavily into the thrifts' traditional mortgage business.

Turning film critic, Deputy Treasury Secretary John Robson calls the S&L bailout effort "a movie in which no Oscars are going to be awarded," but adds, "I really think we can look back on the past year with satisfaction."

That's not a unanimous position. Critics fault the rescue bill both for what it did and what it failed to do.

Mr. Barth said the key failing of the bill is an obscure provision called the "qualified thrift lender" test, or QTL. FIRREA mandated S&Ls must have 70 percent of their assets in residential mortgage assets.

"You are going to see more failures in the future because thrifts are going to be put back in the same old box where they can't diversify," Mr. Barth said.

More fundamentally, critics say, FIRREA postponed a serious debate on a key piece of the S&L puzzle — the role of federal deposit insurance in ballooning the losses. FIRREA called for a study of deposit insurance — due out in February — but the critics say another S&L or bank bailout is inevitable unless the system is changed.

Bert Ely, the Alexandria analyst who emerged as the most prescient forecaster of mounting S&L losses, credited the Bush administration and FIRREA for "finally putting serious money on the table" to deal with S&L losses. But he immediately adds that deposit insurance reform remains vital.

S&L high-flyers felt no compunction about the risks they were taking, he argued, because of the explicit federal guarantee that depositors would not lose their insured funds. Depositors had no reason to shun risk-taking thrifts for the same reason. And prudent bankers were in effect penalized because they had to pay the same rates as their reckless competitors for deposit insurance.

Mr. Ely, who favors a privatized deposit insurance system, said, "It has become absolutely imperative to get the federal government out of the deposit insurance business, a business which the government had no business getting into in the first place."

The administration is pressing Congress to finance a second round of funding for the RTC to keep the bailout going into the new fiscal year. More far-reaching reforms of FIRREA may come in 1991, said Tom Miller, senior policy analyst at the Competitive Enterprise Institute.

"If we see some key incumbents losing their seats in Congress this fall, we'll see a lot of open minds next year on the Hill," he said.

THE WALL STREET JOURNAL

THURSDAY, AUGUST 9, 1990

FDIC Considers Raising Premiums On Banks' Fund

By PAUL DUKE JR.
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON – The Federal Deposit Insurance Corp. is expected next week to consider raising the premiums paid by banks into the fund that backs up their deposits.

Amid all the controversy over the savings and loan crisis, in which taxpayers will be called on to pay at least $150 billion to cover the insolvent insurance fund for thrift institutions, the adequacy of the fund for banks has also raised some concern.

FDIC officials have said they expect the bank fund could suffer a loss this year as big as $2 billion, which would reduce the fund to about $11.2 billion. The fund backs up about $2 trillion in insured deposits at the nation's banks.

The FDIC's chairman, William Seidman, said he has asked the FDIC staff to review the agency's financial outlook for 1990 and 1991 to determine whether a premium increase may be necessary. Depending on the outcome of the review, the increase would be considered and possibly voted on at a Tuesday FDIC board meeting, Mr. Seidman said.

The FDIC chief said he hadn't yet decided whether he believed the premiums should be increased. But his comments suggested that a boost may be in the offing.

"It's a judgment matter and we'll be discussing it," Mr. Seidman said. "If the indications are that the fund will be reaching all-time lows and we have concerns about what we might be facing, we'd have to do everything we could to increase our resources."

The bank premiums have already been nearly doubled by the S&L bailout law, signed by President Bush a year ago today. That law raised the annual premiums from 8.3 cents per $100 of deposits to 12 cents this year and 15 cents in 1991.

The law also gave the FDIC the power to raise premiums on its own, but not more than 7.5 cents in any one year. Thus the FDIC could raise the premiums as high as 19.5 cents per $100 of deposits next year.

Just last week, Mr. Seidman told the Senate Banking Committee that the $13.2 billion currently in the fund translates to about 70 cents for each $100 of insured deposits, the lowest level in "modern history," he said. While the FDIC believes $1.25 for each $100 is a healthy level, a $2 billion loss this year would drop the fund to about 60 cents per $100.

"Some of the statements I've been making could be said to be paving the way [for a premium increase] if our review shows it's necessary," Mr. Seidman said. He has also said he believes the FDIC fund is sufficient to handle the banking industry's problems without taxpayer funds, disputing assertions by some outside analysts.

Other factors would seem to suggest that the FDIC will have to raise premiums. Recent statistics point to a slowing economy, and the oil price hikes following Iraq's invasion of Kuwait add to the threat that the economy could tumble into a recession. Moreover, real estate values in many areas of the country are weakening just as banks are finishing a binge of real estate lending. All these ingredients could produce more bank failures for the FDIC to handle.

Premium income this year is expected to be just over $3 billion, said John Bovenzi, a top aide to Mr. Seidman. Next year's increase to 15 cents would bring in another $750 million, because each one cent increase generates about $250 million in premiums for the FDIC.

Troubles in the banking industry, particularly in Texas and the rest of the Southwest, over the past few years have depleted the strength of the bank fund. In the past two years it has suffered the first losses in its history: $4.24 billion in 1988 and $851 million last year.

THE PLAIN DEALER

WEDNESDAY, AUGUST 8, 1990

Fed must halt real recession

By GEORGE L. PERRY

The most overpredicted recession in modern memory may finally be on the horizon — and it could hardly come at a worse time.

Sagging consumer demand, weak business profits and investment and mounting inventories provide the classic conditions for an economic downturn.

To these must be added the fragility of many parts of the financial system and now a surge in oil prices arising from Iraq's attack on Kuwait.

These factors both add to the likelihood of a downturn and make it more urgent to avoid one.

But a full-blown recession is not inevitable: The Federal Reserve can reduce the risk of its occurring — and minimize the likely damage if it does occur — by actively pushing down interest rates now.

The case for easing monetary policy is not just that the risk of recession is high enough to be worrisome. It is also that many parts of the economy have become financially shaky, so that a recession would be exceptionally damaging while lower interest rates would be exceptionally helpful.

Moreover, reducing rates could even keep alive hopes for deficit reduction.

To be sure, the Mideast situation further clouds the economic outlook and complicates the Fed's conduct of monetary policy. Analysts will draw parallels with 1973-74, when the first big OPEC price increase contributed to a surge in overall inflation.

But that episode occurred in a very different environment. In 1973 price and wage controls were being lifted, and the consumer price index was already rising at double-digit rates. These price developments, together with the tight monetary policy used to fight them, brought on a massive recession.

It is too early to know what the Iraqi invasion will ultimately mean for oil prices this time. But it adds to the likelihood of recession to the extent that the prospect of added inflationary pressure inhibits the Federal Reserve from reducing interest rates.

The economy is not yet in a recession by any accepted statistical indicators. Unemployment is still relatively low — despite last month's jump in the unemployment rate to 5.5%. And real gross national product and industrial production both rose, albeit modestly, in the second quarter. But a close look at recent economic developments points to growing weakness in the expansion:

■ Consumers have run out of steam. Buying by consumers accounts for about two-thirds of total demand in the U.S. economy. Except for volatile automobile sales, consumer spending generally neither leads nor causes declines in total GNP.

Yet by the second quarter of this year, real consumer spending on all major categories of both durable and non-durable goods was down, and only spending on services was still rising. When consumers get worried, they tend to cut back discretionary spending — even if their own pocketbooks have not yet been affected.

Although consumer surveys are inconclusive on this point, this unusually pervasive weakness in consumer buying may reflect worries both about national developments such as the thrift crisis and about developments closer to personal experience, such as weakening house prices. Nothing is likely to cure either worry soon.

■ Business buying is sluggish. Spending by business on new plants and equipment declined in the second quarter. Capital appropriations, orders for capital goods, and construction contracts and declining profits all suggest weaker, not stronger, demand from this sector during the second half of the year.

Commercial construction has gotten well ahead of need for office and retail space in most areas, to the point where its financing has become a serious problem for banks and other lenders. Residential construction declined in the second quarter and is heading down further. Some continued growth in exports is the only clear plus on the economic horizon.

■ Inventories are growing while sales are weak. The contrast between these weak final sales in most sectors and a considerable buildup of inventories in recent months is especially worrisome. Total final sales — sum of sales in these sectors plus purchases by government — rose at an average annual rate of only 0.7% over the past three quarters, and actually declined at a 2.2% annual rate in the latest quarter.

Since sales have been so disappointing, businesses are not eager to stock up. So the recent buildup of inventories has to be seen as largely unintended: Inventories rose because goods weren't selling, not because businesses wanted to be sure they'd be able to meet demand. Barring a renewed pickup in final sales, firms may soon cut production in order to keep inventories in line, and this in turn will reduce economywide employment, incomes and profits and weaken final sales still further.

So far, I have described a classic business cycle in the making. At some previous times, the economy has marched up to the edge of such a downturn but not actually fallen over the cliff. When it has escaped it has generally been because the Federal Reserve aggressively reduced interest rates, as in 1985-86.

Maybe this time final sales will strengthen spontaneously and interrupt the process even without lower rates. Maybe demands from abroad will expand our exports enough to overcome other weaknesses. But rather than relying on such hopes, a realistic appraisal should recognize that this time financial problems in the economy make a downturn both more likely and more damaging.

One major economic legacy of the 1980s is the high level of debt and leverage of many firms and the weak balance sheets of many financial institutions.

The insolvencies that have overwhelmed the savings and loan industry are a well documented disaster. The problems at major banks are emerging as the next bad surprise. And the bankruptcies of leveraged firms would be a feature of any future recession.

The problems of banks and related institutions are especially important now, because they add to the chances of a recession.

Despite the picture of a growing recession risk and a pressing need for reduced interest rates, the Federal Reserve has been reluctant to lower rates. It did reduce the key federal-funds rate by a tiny one-quarter percent.

But Chairman Alan Greenspan emphasized that it did so only to offset some credit rationing by banks and not for the traditional reason of stabilizing a weak economy.

I can think of three reasons for the Fed's reluctance to ease.

First, Greenspan and his board may simply see the outlook differently than I do, with little risk of recession if present interest rates are maintained.

Second, they may believe that cutting interest rates now would add unacceptably to inflation, or at least interfere with the eventual slowing of inflation that they regard as their main goal.

Third, having all but promised lower interest rates in return for convincing reductions in the budget deficit, they may now feel they cannot lower rates without a budget compromise.

Inflation is a legitimate concern. The underlying inflation rate has been on a plateau of 4% to 5% for at least five years now, with actual inflation varying from this mainly as oil or food prices fluctuated. The sluggishness of the expansion in recent quarters was not accompanied by lower inflation and now, with oil prices rising sharply, actual inflation rates will almost surely be up for a few months.

If the economy were stronger, this inflation outlook would justify keeping policy tight. But with present weak economic prospects, and presently fragile financial conditions, inflation fighting should not be the top priority.

Finally, lower interest rates should also contribute to the objective of encouraging deficit reduction. The budget negotiations are dragging and even an optimist has to believe that the earliest any measures could be debated and voted on is November, in a post-election session.

If the economy is clearly turning down at that time, legislators, who are not anxious to cast unpopular votes to cut the deficit anyhow, will be susceptible to arguments that the economy is too weak to withstand tax hikes or spending cuts.

Reducing interest rates so as to keep the economy as healthy as possible — and out of the budget debate — is now the best help that the Fed can give to the deficit-reduction cause.

Perry is a senior fellow at the Brookings Institution, Washington, D.C.

WASHINGTON POST

THE CINCINNATI ENQUIRER
THURSDAY
AUGUST 2, 1990

S&Ls

It may be too late to consider revisions in deposit insurance

It probably will take a battery of economists and financiers with advanced degrees in soothsaying to determine whether the nation will benefit *now* from a fresh look at federal deposit insurance. The operative word is "now," and the logical question is whether it's too late to expect any benefit from lowering the $100,000 limit on deposit insurance or restricting the number of accounts one person may have federally insured.

The Senate Banking Committee is delving into that and related questions, and Secretary of the Treasury Nicholas F. Brady told senators the other day that the administration may wind up proposing that no one can have more than one savings account insured for $100,000. It may be the end of the year before the administration is ready with its recommendations.

The American people, meanwhile, should have learned by now about the role federal deposit insurance has played in the whole savings-and-loan debacle.

Perhaps the most damaging single incident in the chain of events that produced the debacle came during the closing weeks of the Carter administration when, without debate, four members of Congress simply agreed that the ceiling on deposit insurance should be raised from $40,000 for each account to $100,000.

That invited depositors — particularly financial speculators — to seek out the S&Ls paying the highest interest without looking into their safety or good management. Almost nowhere else in the world was it possible for an American to invest his savings in units of $100,000 at, say, 7.5% interest and have all his investments guaranteed by the federal government.

Small wonder that the S&Ls had to keep raising interest rates and saddle themselves with high-risk investments in the hope of making enough to cover the interest they had to pay.

In the post-Depression years, deposit insurance was a method of rebuilding confidence in the banking system; in the years of runaway inflation in the late 1970s, it became an invitation to financial disaster, for which, it turns out, many generations of Americans will be paying.

It may be too late to achieve any real benefit from a new look at deposit insurance. But assessing the impact may at least help to fix responsibility for the whole S&L mess.

THE DENVER POST

Thursday, August 2, 1990

People raging over hungry S&L Monster

"YOU DON'T realize it until you get out and walk the streets," said Rep. Toby Roth, a Wisconsin Republican. "People are very frustrated." He's talking about the Monster Who Ate the Treasury. But frustrated is a mild adjective for the fury about the savings-and-loan scandal that will soak each American at least $2,000. People are flat-out, butt-kicking mad.

They're furious at S&L high rollers who ripped off the thrifts but still live like Arab oil sultans. They're sizzling at Sun Belt states like Texas that sop up bailout billions. And they're boiling at congressmen who took $11 million in campaign cash from the S&L industry, stalled investigations, and now bleat, "There's enough blame to go around."

SANDY GRADY

The anger was palpable Monday when two feds — L. William Seidman of the Resolution Trust Corp. and Treasury Undersecretary Robert Glauber — showed up on the Hill with more bad news.

They carried tin cups, because the S&L bailout cupboard is bare again. They've spent last year's $50 billion and need a fresh $100 billion.

You expected good news?

Naturally, congressfolk caught in a taxpayer revolt were appalled. "Too much time and money have been flushed down the drain," grumbled Rep. Bruce Vento, D-Minn.

But there was more ominous news. The government has taken over 400 gutted S&Ls, with maybe 400 still to come. So neither Seidman nor Glauber could tell what the S&L monster will cost. Half a trillion? Who knows?

"This is like Vietnam," said Toby Roth. "No light at the end of the tunnel."

"It's going to cost what it's going to cost," said Glauber.

"Translated, a bottomless pit for taxpayers," said Roth.

"The payments are mandatory," retorted Glauber. "We have no choice."

"Talk's cheap up here," flared Roth. "But I don't think Congress is going to give you the money because the people aren't going to stand for it."

Congressfolk, hungry for villains, raged against hustlers, who bankrupted S&Ls but got $700,000 golden parachutes. Or fat cats, like Neil Bush's pals at Silverado, who defaulted on loans but live in posh digs with swimming pools. "That kills me," said Rep. Mary Rose Oakar, D-Ohio. "I hear people yelling, 'Gimme a break! I'm not paying for those people!' "

Unflappable Seidman promised to crack down on escape artists. But he had no answer for the civil war brewing against Sun Belt states. Texans will get 40 percent of the S&L bailout money ($3,510 per capita) while Northeastern states will be big losers.

"We shouldn't pit one section of the country against another," said Treasury man Glauber serenely. Tell that to Yankee states who remember oil-rich Texans flaunting bumper stickers, "Let the bastards freeze in the dark."

That's the mood: free-floating anger. It's eroding George Bush's popularity and eating away at a Capitol Hill consensus to raise taxes. Cynical voters sense new taxes would be sucked into the S&L maw. Rep. Lynn Martin, R-Ill., running for the Senate, hears one message: "No taxes for S&L bums!"

Ah, but wait. The nervous Honorables were offered a typical Washington gimmick: Put up a stopgap $10 billion for the S&L bailout this election year, then pay the rest some day. That's a deal any car salesman would understand.

Fear, trembling and hypocrisy grip Capitol Hill. And with good reason — at least 61 senators and 333 House members took hefty campaign donations from S&L tycoons. Some, like Rep. Frank Annunzio, D-Ill., who wears a button, "Put S&L Crooks In Jail," shout the loudest. Will voters throw some of the rascals out?

If George Steinbrenner can get the boot, there's still a chance for justice.

THE DENVER POST

Thursday, August 2, 1990

Who will pay to cut the budget deficit?

IT'S TOO EARLY to say who'll have the last laugh, but the Democratic leaders in the Congress are splitting their sides over the White House dilemma in the current budget discussions.

"For 11 weeks we've driven President Bush and his aides up the wall because we didn't jump to the bait when they put tax increases on the table," a key House member told me. "So the White House has had to propose taxes on beer and wine, and try to wipe out the federal deduction of state and local income tax payments."

As of now, the Democrats do seem to have reason to chuckle. When President Bush moved his lips, no Democratic leader would give him a kiss. The Democrats know that Bush, some of his aides other than Chief of Staff John Sununu, and most GOP leaders in the Congress are scared to death of a recession that could doom dozens of congressional Republicans to defeat this fall and becloud Bush's hopes for reelection in 1992.

CARL ROWAN

Republican desperation is manifest in their floating of a proposal to raise the 16-cent tax on a six-pack of beer to 81 cents, the 3-cent tax on a bottle of table wine to 76 cents and the $1.98 tax on a fifth of 80-proof vodka to $2.54 cents. These taxes would hit low- and middle-income families hardest, and Democrats are salivating over the chance to campaign on the claim that Bush & Company have only contempt for the families of Joe Sixpack and Sam Winery.

The limit on the amount of state and local taxes that can be deducted on a federal return is being viewed as a dagger aimed at the heart of big cities and states already burdened with colossal costs of aiding poor families that have been abandoned by the federal government. Even Republican mayors and governors rebel against this deductions cap — as proposed.

I talked to Sen. James Sasser, D.-Tenn., chairman of the Senate Budget Committee, whom White House operatives cite as the villain of the Budget Summit discussions. Sasser talks for the record:

"The deficit-reduction talks last year amounted to nothing. All we got were bigger deficits. I vowed that never again would I accept a blue-smoke-and-mirrors deal. I saw how regressive and unfair the tax structure has become. I insist that we cannot cure America's budget problems by cutting mostly domestic programs and entitlement spending — we must reduce defense spending substantially. We can't just raise taxes on beer! We've got to raise taxes on fur coats, diamond rings and Mercedes-Benzes."

Both parties seem agreed that there must be a package of deficit-reduction items totaling at least $50 billion this year, and more than $500 billion over the next five years. Democratic leaders seem to think that this time they are "driving the Republicans bats."

When the Democrats stop laughing and the Republicans face up to a national crisis, where will the haggling come out? One House Democrat says there will be a deal of $25 billion in spending cuts and $25 billion in higher taxes, or "revenues."

Of the spending cuts, half will come from domestic programs and at least half from defense programs. That could mean defense cuts of at least $12.5 billion this year, which the White House and Pentagon say is unacceptable. But it is peanuts compared with the $94 billion in defense cuts that might be mandated under the sweeping Gramm-Rudman Act knife.

As for that $25 billion in increased taxes, we won't know who gets zapped until the lobbyists engage in their holy war and we see who is the bleeding but standing survivor. The beer and tobacco people already have launched campaigns against huge tax increases on their industries.

So far, the great "budget summit" of 1990 has produced nothing — except leaked schemes to sock it to the same people who bore the burdens of the 1980s: the poor and middle-class families.

The Miami Herald

WEDNESDAY, AUGUST 8, 1990

S&L scam on the house? In a manner of speaking . . .

ELLEN GOODMAN

LET ME SAY up front that I am a passionate devotee of sales. I was taught the value of a dollar at my mother's knee, or at least at her side, in the dungeons of Filene's Basement, where Fifth Avenue fashion could be had for First Avenue prices. To this day, I believe that buying any item at its original price is an indication of serious moral failing.

So, like other inveterate bargain hunters, I felt my blood begin to race when it was announced last Wednesday that a giant national corporation planned to hold a truly massive clearance sale, an inventory reduction of unprecedented dimensions.

This all-point shoppers' alert came from the Resolution Trust Corp. (RTC). This name may not be quite as familiar yet as Loehmann's, but wait a while. The RTC is the agency set up by Congress to manage the failed savings-and-loan banks and their assets. Each time that we bail out a bank, it appears, we are left holding its holdings. Now, according to the RTC, Everything Must Go!

So we have an event this fall that promises to be more than your ordinary yard sale. Banks don't do yards. They do houses, hotels, shopping centers, skyscrapers. The owners also do quite well for themselves, thank you, but that is another matter.

Get 'em while they last

The centerpiece of this sale is going to be an international auction televised in Tokyo, London, and across the United States. Seventy-one properties, valued at $300 million, will be going, going, gone. Get 'em while they last.

The theory is that the more the RTC sells off, the less the average person will have to pay for the entire debacle. The numbers are, after all, slowly penetrating our national innumeracy. With the banks deregulated and the deposits insured, high-rolling managers spent the 1980s playing with house money. Now we all are paying their gambling debts — somewhere between $90 billion and $350 billion.

But despite my enormous love for a good sale, I am not at all sure that having bought so dear, the Government should begin selling cheap. It finally occurs to me that this stuff being sold in November is *ours*. Ours, as in the taxpayers.

In the coming years, every American is going to pay somewhere between $2,000 and $5,000 for the bailout. If it's going to cost us that much, we ought to get something out of it. Why not hang on to the Kings Crossing Golf Course in Corpus Christi? Every American should be allotted 18 holes for his troubles.

OK, you don't play golf. Neither do I. How about one night with the kids at the Rolling Hills Hotel in Davie, Fla.? A nap at the Monroe Inn in Monroe, La.? Lunch at the Radisson in San Antonio? Why not? We paid for it.

There are other things to be considered before we sell. Last week, at their annual conference, the governors said that the taxpayers in the North and East are angry at paying for mismanagement in the South and West. Why not give Illinois a neat little building in Austin as a way of saying howdy and thanks? If there are some Disney fans in New Jersey, let's hand them the keys to a professional building in Orlando.

The worst effect of the S&L scandal is that it's coming out of the peace dividend. We may not have any more money for the homeless, for child care, for social programs. But we will have buildings.

Why auction them off to the Brits or the Japanese? Why not make The American Street People's shelter out of the Knights Inn in North Fort Myers, Fla.? Why not have a Bide-a-Wee Childcare Center instead of a Cedar Park Plaza in Lakewood, Col.? A Go-Straight Rehab Center in the Centax Business Park in Dallas?

The National Park Service might even add an urban ranger to accommodate visitors to our office parks. As for the repossessed houses in the RTC, we could give every low- and moderate-income taxpayer one lottery ticket to win a home of his own.

The bailout of the banks is a worst-case example of private and public partnership. Having been stuck holding the bag (not to mention the clubs and the golf course), we are going to get rid of it all at a tag-sale price to another set of private owners. They will try to turn a profit, the taxpayer will pay the difference, and we'll get nothing except the right to be banned from the golf course.

May I suggest that we save at least one building? The Western Savings Corporate Center in Phoenix is a honey. A few bars on the walls, an extra set of keys or two, and we'll have a place to stash all those swell bank managers who got us into this mess. We'll call it the S&L Memorial Incarceration Center.

A good buy at any price.

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THE TAMPA TRIBUNE

Tampa, Florida, Saturday, August 4, 1990

Lobbying firm aids raider in S&L grab

By RAY LOCKER
Tribune Staff Writer

WASHINGTON — A top Republican lobbying firm aided a major Bush campaign contributor with a 1988 deal for five bankrupt Texas savings and loan institutions that cost taxpayers at least $10 billion in federal subsidies and tax breaks.

The lobbying firm, Black, Manafort, Stone & Kelly, is run by Charles Black, the chief spokesman for the Republican Party who also runs a political advertising firm handling the campaign of Gov. Bob Martinez.

Lobbying registration forms filed with the Secretary of the Senate's office show that corporate raider Ronald Perelman's investment company, MacAndrews & Forbes, retained Black, Manafort to lobby on its behalf on "hearings and legislation affecting the savings and loan industry including, but not limited to, S. 413, the 'Financial Institutions Reform, Recovery and Enforcement Act of 1989.'"

In December 1988, when federal regulators were selling off bankrupt S&Ls at what were called fire sale prices, MacAndrews & Forbes bought five crippled Texas thrifts with more than $9 billion in assets for $315 million — $160 million of MacAndrews & Forbes' money and $155 million in money borrowed from Shearson Lehman Hutton.

That made the deal a leveraged buyout, a financial maneuver in which Perelman is an acknowledged master. Over 10 years, the deal would cost the federal government $10.4 billion, $8.9 billion in cash payments and $1.5 billion in tax breaks for MacAndrews & Forbes.

Records of lobbying expenses incurred on behalf of MacAndrews & Forbes indicate Black, Manafort performed S&L-related work in late 1988 and throughout 1989.

In December 1988, when the final details of Perelman's purchase were being completed, Black, Manafort expense forms show firm officials took the Pan Am shuttle to New York on MacAndrews & Forbes business, recorded meal expenses on behalf of the firm and ran up a $271.48 long-distance telephone bill for related business.

Expenses also included a $1,450 bill for tickets to President Bush's Jan. 20, 1989, inaugural ball. Perelman had contributed at least $100,000 to Team 100, a Republican National Committee fund-raising venture to aid Bush's presidential campaign.

During the final week of June 1989, when a joint House-Senate committee was working on the final details of the S&L bailout bill, Black, Manafort lobbyists recorded MacAndrews & Forbes-related meal expenses at Capitol Hill restaurants frequented by lobbyists on four of the week's five working days.

Bank board officials had said closing the five thrifts would have been more expensive than selling them to Perelman, but a memorandum by analyst Jeff Potter said poor management of the sale "raises the distinct possibility that the cost of the bid is actually more than the cost of liquidation."

Perelman used Democratic lobbyist J.D. Williams to lobby Democratic senators on the S&L bailout bill, said Leslie Woolley, legislative director to U.S. Sen. Bob Graham, a Miami Lakes Democrat and a member of the Senate Banking, Housing and Urban Affairs Committee.

Most of that lobbying was concentrated in the Senate, not the House, said James Hyland, a Republican staff member of the House Banking, Finance and Urban Affairs Committee.

Black, Manafort's S&L-related work is another link in the chain of aides, associates and family members of President Bush involved in the thrift controversy.

Perelman, Bass and Charles Keating, the owner of Lincoln Savings, a California-based S&L, all contributed $100,000 or more to Team 100. Bass and Perelman also contributed at least $100,000 to a similar Democratic fund-raising campaign in 1988.

Black was a key strategist in the 1988 Bush campaign and has taken over many of the duties at the Republican National Committee once performed by Lee Atwater, Bush's 1988 campaign manager who is recuperating from treatment for a brain tumor.

Tribune correspondent Steve Goldberg contributed to this report.

San Francisco Chronicle
THE LARGEST DAILY CIRCULATION IN NORTHERN CALIFORNIA
WEDNESDAY, AUGUST 1, 1990

Thrift Bailout

THE LATEST WORD on what it will cost the government to remedy the savings and loan debacle is plenty grim. The agency in charge of selling off failed S&Ls asked on Monday for an additional $100 billion in financing from taxpayers next year — while predicting it will lose up to half of that.

And, as William Seidman, chairman of the Resolution Trust Corp., which is in charge of shutting down insolvent thrifts, added: "Unfortunately, that does not cover the entire cost of this rescue."

The bill goes up and up as taxpayers fume.

As a result, with the increased spending predicted, the government will seemingly have to pay out in the first two years of the rescue more than it had initially planned to spend over the full, five-year span of the effort.

It is a year since the Bush administration announced resolution of the mess. "By this point, it was supposed to be a matter for accountants and bureaucrats only," said Representative Charles Shumer, D-Brooklyn, "Yet it remains the country's No. 1 problem, and the country's No. 1 concern."

THE ONLY SOLACE in the current figures is the sense that comes through of Seidman's forthrightness and realism. He, at least, has discarded the rose-colored glasses used by too many bureaucrats and politicians in the past. Seidman is looking squarely at an appalling situation. The taxpayers deserve no less.

CHATTANOOGA NEWS-FREE PRESS CITY EDITION

Full Associated Press and United Press International Wirephoto and News Service

CHATTANOOGA, TENN. 37401, THURSDAY, AUGUST 2, 1990

Who's Lying? Who's Trying?

President George Bush let himself be sucked in by Democratic tax-raisers, to repudiate his oft-repeated "No new taxes" pledge in return — he thought — for substantial spending cuts to reduce the huge federal budget deficit. But now the president finds himself embarrassed and hung out to dry by Democrats who laugh at his agreement to raise some taxes while they spend more, not less.

That prompted Mr. Bush yesterday to demand that the Democrats come up with big spending cut proposals within 48 hours — or else. But the "or else" apparently amounts to little more than having Mr. Bush take the case to the people to excoriate the Democrats for wanting tax increases without spending cuts, leaving the deficit too big.

The basic trouble is in Congress.

If Congress, dominated by Democratic majorites in both houses, really wanted spending cuts, why has Congress passed spending *increases* of $41 billion on bills in recent weeks?

That's right. Congress has voted to appropriate $403.1 billion — which is $41 billion more than was set aside for the same purposes last year!

If there is real desire to reduce excess spending, shouldn't it begin with just holding the line — at least not increasing spending?

Congress is not holding the line. Congress is not cutting back. Congress is voting to spend more.

And then the congressional Democrats want Mr. Bush and the country to go along with higher taxes to cover some of the congressional profligacy.

The trouble is not that taxes are too low. The trouble is that spending is too high.

In 1981, the federal government took in $599 billion in taxes.

In 1990, the tax take was $1.074 *trillion* — meaning tax collections had nearly *doubled.*

But spending grew, too, from $678 billion in 1981 to a horrible $1.197 trillion in 1990.

And Congress is voting now to spend even more in the 1991 fiscal year.

If we really mean business, the need is to cut spending, not raise taxing. The higher taxes go, the less pressure there is on Congress to hold down spending.

It is shameful that President Bush has abandoned his "No new taxes" pledge. It is even more shameful that the Democrats are trying to hold him hostage while spending more.

Yet representatives and senators sail back into office with easy re-election and the spending goes on.

It's overdue for the American people to ask: Who wants to cut deficits? Who wants to raise taxes? Who's spending more of the people's money and piling up more debt for our children and grandchildren to pay, after we pay interest on it?

Who's lying? Who's trying? And what are we going to do about it?

The Debt Limit (Ha!) Goes Up

Why does Congress vote a "debt limit"? It never really limits debt. That being so, just think how bad the national debt would be if there were no "limit."

Congressional spending has pushed the debt precariously close to the present "limit" so the House of Representatives voted to raise it to $3.44 *trillion* by Sept 30, just enough to keep government checks from bouncing.

Some in Congress voted against raising the limit. It was a good show-off position. Congress votes more spending. Voting belatedly to hold down the debt limit is a sham. It doesn't reflect determination for real economy. Only voting for less spending would do that.

The deficit is growing because Congress is spending more. Watch as Oct. 1 approaches — and we will need to raise the debt "limit" again.

The Atlanta Journal
Covers Dixie Like the Dew
TUESDAY EVENING, AUGUST 7, 1990

House speaker hopes to force Republicans to choose a budget

By Andrew J. Glass
Journal-Constitution Washington Bureau

WASHINGTON — Come September, House Speaker Thomas S. Foley (D-Wash.) wants to strike a quick $50 billion budget bargain with President Bush to outfox those on the Republican side of the aisle.

Mr. Foley's plan, as he explained Monday, would force lawmakers either to vote for a bipartisan compromise to cut spending and raise taxes or vote for deep cuts, to be triggered automatically with the start of the new fiscal year Oct. 1.

"If I can help it, it's going to be an 'either-or' proposition," Mr. Foley said. "We won't allow them to have two 'no' votes — one against the summit compromise and the other against deep automatic cuts."

The Kuwaiti crisis may spur a budget agreement, which appeared stalled last month, because it has created a sense of national unity in the face of a major external national threat.

The president "has very strong support from the Congress," Mr. Foley said, "and not only from me."

But, Mr. Foley noted, it may prove more difficult to tax domestic energy consumption because oil prices have risen dramatically.

Mr. Foley said such a tax would be "justified" because it would raise revenue and help wean the nation away from increasing dependence on foreign oil. But, he acknowledged, it would be more difficult to achieve politically.

The Washington Post

WEDNESDAY, AUGUST 8, 1990

Thornburgh Modifies S&L Tactics

Change Is Designed To Ease Prosecution

By Jerry Knight
Washington Post Staff Writer

The Justice Department has decided to prosecute savings and loan officials for specific, case-by-case violations rather than trying to pursue more complex criminal conspiracies to loot failed thrifts, Attorney General Richard Thornburgh and his top S&L prosecutor said yesterday.

The new strategy is meant to speed up enforcement and put wrongdoers in jail without tying up teams of FBI agents and prosecutors on massive cases that could take months to investigate and perplex jurors, said James Richmond, special counsel for financial institutions.

"The public would like us to tie the entire situation into one giant conspiracy," Richmond said, but "it's easier for the jury to understand" charges that a specific banking law was violated.

Thornburgh said the FBI is investigating 234 S&Ls for criminal violations and has probes underway at another 300 banks, credit unions and other financial institutions.

Congressional investigations of major S&L failures have discovered evidence of intricate chains of transactions in which borrowers and officials of several thrifts apparently worked together to siphon off millions of dollars and hide the losses from federal regulators. But for the most part, the Justice Department does not plan to prosecute those cases using the Racketeering Influenced Criminal Organizations (RICO) law, its most potent weapon against such conspiracies, Richmond and Thornburgh said at a lunch with reporters.

"It's just not productive," to try to tie together hundreds of transactions in an elaborate conspiracy case, Thornburgh said, because such cases take so long to prove that "you reach the point of no return" on the investment of resources required to bring them to trial.

Many of the criminal investigations of thrift fraud now underway are likely to lead to civil lawsuits to recover damages from thrift officials, their accountants, lawyers and others responsible for losses that end up being paid by taxpayers, the attorney general predicted.

"A very important part of the work is on the civil side as well," Thornburgh said.

In many cases the government

See THRIFT, D2, Col. 4

THRIFT, From D1

will take both civil and criminal actions, seeking not only to put wrongdoers in jail but also to take away their ill-gotten gains.

It may be futile to seek civil damages from many thrift officials, because they've already gone bankrupt, the attorney general acknowledged.

Noting that the government does not have to prove criminal conduct in order to recover damages from thrift officers, directors and others, Thornburgh said, "Some of these cases, in the course of examining for criminal conduct, will shake out into civil cases," that are easier to prove.

The frequently quoted statistic that the Justice Department has received 21,000 criminal referrals from S&L investigations overstates the extent of S&L crimes, the two officials said. More than 16,000 of the cases came from Southern California, where an experimental case-tracking system produced a vastly increased number of complaints.

Most cases referred to the FBI for investigation are internally generated complaints from financial institutions themselves, not cases turned over to prosecutors by government regulators. Those referrals range from tellers suspected by their employers of slipping $20 into their pockets to executives accused by regulators of stealing millions, they noted. Nationwide, 83 percent of the cases involve losses of less than $25,000.

Yesterday, the Justice Department announced that the former chairman of a small-town Texas thrift has been indicted by a grand jury on 31 charges of bank fraud, embezzlement, giving false information to federal banking examiners and other charges. The indictments accused Alan Ross Rothery, who once headed Trinity Valley S&L of Trinity Valley of embezzling more than $4 million from the association, whose losses are projected to cost taxpayers $33 million.

The Washington Post

WEDNESDAY, AUGUST 8, 1990

A Bittersweet Deficit Triumph For the Postmaster General

By Dana Priest
Washington Post Staff Writer

Postmaster General Anthony M. Frank claimed a bittersweet victory yesterday: The U.S. Postal Service will show a less than $1 billion deficit this fiscal year, erasing more than $300 million in anticipated red ink with productivity gains and a cut in the work force.

"I never thought I'd see the day I would be bragging about potentially losing 'only' a billion dollars, but I guess that day has arrived," Frank told a meeting of the Postal Board of Governors.

He quickly cautioned, however, that he may need to ask the Postal Rate Commission for an even larger rate increase than the one under consideration to offset an Office of Management and Budget proposal to take $1.3 billion from the service's budget to help reduce the federal deficit.

The Postal Service has applied for a rate increase that will push the cost of mailing a first-class letter from 25 to 30 cents and has said it needs the money to break even. Postal costs have increased about 19 percent since 1988, and postage is the only significant source of revenue.

Frank's announcement comes at a touchy time for the Postal Service. It is entering into what are expected to be arduous labor negotiations, is under fire from business mailers for the size of its proposed rate increase and has taken much criticism in the last several years for spending hundreds of millions of dollars on automation without any significant productivity gains.

Frank reported yesterday, however, that productivity increased 2.9 percent during the year, more than double what had been anticipated. He credited automation and a reduced work force for the good news.

ANTHONY M. FRANK
. . . "losing 'only' a billion dollars"

Through attrition and reorganization, there are 20,000 fewer employees this year in the 750,000-member work force. There were no layoffs.

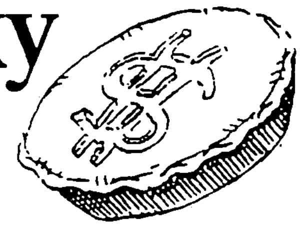
"What we're really doing is going from a disastrous situation to a decent situation," said Van Seagraves, publisher of the Business Mailers Review. "They're tightening up the place."

The Postal Service moves about 540 million pieces of mail each day.

The Washington Times

WEDNESDAY, AUGUST 8, 1990

Farm bill pie in the deficit sky



In the food chain of congressional farm politics, some fear that the weak and poor will be eaten by the rich and strong.

A chicken farmer from Eureka Springs, Ark., was going to market one day when he came to a steep grade and his broken-down 1959 truck slowed almost to a stop, radiator steaming and engine groaning.

The farmer reached out the window and began beating the top of the truck with a lead pipe.

A neighbor pulled up beside him and asked why.

"I have a 2-ton truck," the farmer explained. "And I have 4 tons of chickens on this truck. To get over that hill, I have to keep half of them in the air at the same time."

Sen., David Pryor, Arkansas Democrat, told this story after the final vote on the farm bill last week. It more or less summed up this measure, an overweight truckload of squawking and flopping poultry that wobbled up and over Capitol Hill in defiance of gravity, logic and the budget deficit.

The farm bill over the next five years calls for around $18 billion in deficit spending for producer programs alone, although there has been so much fiscal legerdemain involved it is difficult to tell what the price tag is.

For instance, the Senate this year decided not to include the huge food-stamp program in the bill, which makes it look like the total cost for five years will only be $55 billion.

Whatever the cost, Republicans and Democrats, farm-state members and urban dwellers alike acknowledged the bill's dizzying array of federal subsidies busts the budget and violates existing deficit-reduction laws. Nevertheless, both houses went ahead and passed it anyway.

The idea is to give members an opportunity to vote for home-state goodies before the election, even though the Gramm-Rudman Act will take a lot of them away in October.

But a second, and perhaps more important, purpose is to put pressure on the current White House-congressional budget "summit" at which a grand compromise of taxes and spending cuts is to be devised in order to avert the mandatory "sequester" required by Gramm-Rudman.

More or less, that same pattern is being repeated across Capitol Hill with spending and authorization bills that are going through this summer. The various committees each week cough up bills containing projects, from bombers to sheep subsidies, get them passed and then tell members in so many words "Of course, you realize you won't really get this money because the budget summit will have to reduce these figures. Sorry."

The effect is to make meaningful spending cuts less and less likely with each passing day. Defense cuts probably are the ripest possibilities, because of a change in the nature of the Soviet threat, but veteran watchers of the budget process are still betting that not a single weapons system will be eliminated by this Congress when the final score is in.

The farm bill is as usual a wonder of backroom compromise. The "one for all, all for one" balance of farm bills, in which the rice lobby stands up for the wheat lobby and vice versa, makes it unlikely that much can be done this year — or for the next five years, for that matter — to stop the profligacy of price supports and other subsidies.

Some members tried to get at farm spending by denying subsidies to rich farmers who don't need the money, but all were defeated no matter how the rich were defined — by adjusted gross incomes of $100,000 a year, $500,000 or even a million.

Rep. Silvio Conte, Massachusetts Republican, thought it was reasonable to limit any single producer to $50,000 a year in farm subsidies from the U.S. taxpayer — a move that would have affected only 33,000 of the very richest out of 800,000 farmers who take part in farm programs. But that was defeated too.

Drubbed by even greater margins were efforts to single out any single commodity program for reform. Amendments to cut the loan rate for sugar by 2 cents were attacked by dairy-state legislators as if their own crop was at stake. Landlocked Midwesterners went to the aid of the cargo-preference laws, which cost taxpayers nearly $100 million a year, as if their re-elections depended on requiring agriculture commodities to be shipped in American bottoms.

"Do not disrupt the food chain," said Rep. Kika de la Garza, Texas Democrat, chairman of the House Agriculture Committee.

In the food chain of congressional farm politics, some fear that the weak and poor will be eaten by the rich and strong. The reason is that, to meet the problem of the deficit, farm subsidies will now have to be cut across the board. That means that the small and poorer producers who really need those subsidies to make a go of it will be gouged just like the rich, irrespective either of need or of national necessity.

To get the farm bill truck over Capitol Hill, a few chickens had to be in the air at all time. A few may yet fall under the wheels.

John Hall is a columnist for Media General Newspapers, from which this article was distributed by Scripps Howard News Service.

The Washington Times

WEDNESDAY, AUGUST 8, 1990

Regulatory witch hunt for 'crooks'

The Iraq invasion has dramatically raised the risk of recession. That could wreak still more havoc in a banking system whose deteriorating capital is the direct result of turning the thrift industry bailout into a regulatory witch hunt.

That in turn is being caused by the attempt of politicians from both parties trying to blame "crooks" for their own collective $150 billion mistake. (Never mind all those $1 trillion estimates: which are based on 30-year compounded interest on debt that will actually be wiped out by inflation and never paid.)

But as thrift and banking consultant Bert Ely points out "claims that crooks stole a big chunk of the money is pure hogwash." His analysis shows "crime at most cost insolvent S&L's $5 billion or approximately 3 percent of the cost."

Mr. Ely's analysis shows that the problem was already $25 billion large in 1983, and that virtually all of the rest results from the unwillingness of both Congress and the administration to shut down insolvent savings and loans for at least four to six years.

It results from the unwillingness of Congress and the administration to shut down insolvent savings and loans for four to six years.

For the first problem (1979-83), the blame rests mostly with Democrats. Remember in 1979 and 1980, with inflation soaring to 13 percent the prime interest rate soared to 21.5 percent. With savings and loans limited *by law* to offering 5.5 percent on passbook savings, the entire savings-and-loan industry was in the tank.

Congress and President Carter compounded this problem in 1980 when they took off the ceiling on passbook interest rates and at the same time raised deposit insurance from $40,000 to $100,000 per *account* without raising the premium on that insurance!

While that temporarily staunched the massive hemorrhage of deposits out of the savings and loans, it also set up a major mismatch between the interest they were receiving on loans (under 8 percent) and what they were having to pay for new money (as high as 12 percent to 14 percent).

By January 1981, 85 percent of this industry was losing money and by 1983 at least 400 of the 600 eventual deadbeat savings and loans were already $25 billion insolvent. But no one, Congress or the administration had the guts to shut them down.

Now you know why Democrats see Neil Bush as an answer to their prayers and Republicans are trying to "Keep the Keating Five Alive." Nevertheless, neither "Bushwhacking" or Keating-carping will solve the underlying U.S. banking crisis.

That's the message now being delivered by Rep. John LaFalce, New York Democrat, chairman of the Task Force on International Competitiveness of U.S. Financial Institutions, and a member of the House Banking Committee. Mr. LaFalce's credibility stems not only from his willingness to buck the thrift industry in 1986 and 1987 to push for unrestricted recapitalization of the Federal Savings and Loan Insurance Corp. but his efforts to repeal laws preventing the expansion of "non-bank" financial institutions into the banking and thrift turf.

Not only would Mr. LaFalce like states to repeal all laws against branch and interstate banking, but he would like to allow well-capitalized non-bank institutions, everyone from American Express and Sears and Roebuck to Ford and General Motors, to go into the financial services business, and let present well-capitalized banks go into other financial services including equity financing.

Mr. LaFalce says Congress and the states have protected that industry too much for 55 years from both interstate and global competition. "That's why American financial institutions lost their competitive edge. As recently as 1983, two of the top three world banks ranked by assets were U.S. banks; now the largest ranks 24th."

Worse, "Increasingly banks are at risk. In 1980, Moody's rated four U.S. banking companies triple A. By 1988, no U.S. banking organization was ranked triple A." Mr. LaFalce says laws passed in the 1930s — notably the Glass-Steagall and McFadden-Douglas Acts — designed to protect us against too much financial concentration, are obsolete in a global market place: "With globalization, we are seeing the same phenomenon in financial services we have seen in our manufacturing sector — foreign firms challenging the historical pre-eminence of U.S. firms, and winning."

In England, France, Germany, Japan, not to mention Canada, even the smallest community has direct access to branches of world-class banking institutions and world-class services.

Bluntly, what you have in the United States is far too many under-capitalized banks and thrifts run by too many inexperienced people like Neil Bush, simply because they are politically connected.

Mr. LaFalce says that while everyone must share the blame for this system, the Bush administration's bailout compounded the problem by refusing to deal with basic reform and resting its entire case on "tougher capital standards" and stronger regulation.

Yet that regulatory regime discourages capital investment. When the regulatory regime was installed in 1935, the banking industry had more than 13 percent capital. Now it has less than 6 percent. But who wants to invest in an industry where failure is as guaranteed as success and where regulation prevents sensible diversification of risk?

It was just this desperate need for capital infusions that prompted Massachusetts last month to become the 28th state to allow banks to come into the state and buy or open branches. States are now "deregulating" even as Washington is re-regulating.

As Mr. LaFalce told us, "The irony is that even after deregulation this is still the most regulated industry in the nation. We are the only major nation in the world without a banking institution that reflects the economic strengths of *all* of our country. Instead, we are now insuring thousands of small separate institutions without enough capital or capacity to compete or survive."

Yet Mr. LaFalce may have forgotten that *everything* he is now saying was said in spades by the 1984 Administration Task Force on The Regulation of Financial Services headed by then Vice President George Bush. Its thorough 120-page "Blueprint For Reform" was virtually ignored by then House Banking Committee Chairman Fernand St Germain, who was too busy being schmoozed by the U.S. Savings League. It was also largely ignored by The Washington Post, which was then too busy inadvertently reinforcing Charlie Keating's witch hunt against the only real whistleblower, then Federal Home Loan Bank Board Chairman Ed Gray.

It's time for both the media and the politicians to stop the posturing and get down to serious reform before the entire U.S. financial system collapses from regulatory overkill.

THE WALL STREET JOURNAL

WEDNESDAY, AUGUST 8, 1990

Quicker Agreement Is Expected on Budget Deficit

However, Smaller First-Year Package Is Probable, Negotiators Say

By DAVID WESSEL
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—The growing sense of economic crisis, the result of spurting oil prices and the newly evident slowing of the U.S. economy, is likely to hasten an agreement on the budget deficit but shrink the size of the first-year package, participants in the budget talks say.

When negotiators settled on a goal of reducing the fiscal 1991 deficit by $50 billion in the spring, the economy appeared substantially stronger. Some negotiators, in Congress and the Bush administration, now are resigned to the fact that the objective will be reduced when talks resume after Labor Day. "With the economy in a state of slow growth, people get worried that any adjustment will tip us over," said Rep. Bill Frenzel (R., Minn.).

House Budget Committee Chairman Leon Panetta (D., Calif.), among the Democrats who is the strongest advocate of negotiating a compromise with the administration, said: "Obviously, we are going to have to make some adjustments based on what is happening with the economy."

Firm Decisions Must Wait

Negotiators and their staffs caution, however, that developments in the Middle East and in the economy during the next month will be important. No firm decisions are likely to be made before Labor Day. "If you have an accumulation of events—both in terms of the Middle East as well as the economy—that indicate increasing trouble, that would be added impetus to arrive at some kind of agreement," Rep. Panetta said.

One solution, negotiators say, may be an agreement that falls short of the $50 billion first-year objective, but raises taxes and cuts government benefit programs in subsequent years. Congress could enact a law this fall, but delay the effectiveness of some aspects of it.

The risk, of course, is that such an agreement won't be seen as credible by financial markets and the Federal Reserve. There is no point in approving politically costly tax increases and spending cuts unless interest rates fall as a result, one Democratic congressional strategist said yesterday.

Some economists say that this option might be the most prudent. "Make a commitment, but don't cut too drastically all at once," advised Victor Zarnowitz, a University of Chicago economist. He emphasized that simply pledging deficit reduction in the future won't suffice.

A weak economy "might be an argument for lowering your sights for fiscal 1991," says Robert Reischauer, director of the Congressional Budget Office, "but it shouldn't result in any easing of the five-year effort."

Several budget negotiators said—with hindsight, of course—that the best moment to strike a significant deficit-reduction accord was last fall or early this spring. "I told the administration last year to get their deficit reduction then," said Sen. Jim Sasser (D., Tenn.), chairman of the Senate Budget Committee. "If you get to the point where you're entering a recession or in a recession, it's going to make it more difficult."

At least in the minds of important members of Congress, the weak economy and the turmoil in the Middle East are removing what little credibility remained in the administration's threat to allow $84 billion in automatic spending cuts to take effect on Oct. 1. The Gramm-Rudman deficit-reduction law requires the cuts unless an agreement is reached to bring the projected fiscal 1991 deficit below $74 billion—or the law is altered, as some in Congress predict.

Gramm-Rudman Saber

"Those cuts would produce nothing less than sheer disaster," says Rep. Panetta. "Nobody is going to select that out of choice."

Nevertheless, the administration continues to rattle the Gramm-Rudman saber. White House Budget Director Richard Darman yesterday briefed the cabinet on the Gramm-Rudman cuts, and asked all federal agencies to submit plans for carrying out such cuts by Aug. 27.

"You will likely need to initiate a number of personnel actions, including elimination of overtime, hiring limitations or freezes, furloughs of temporary employees, and finally furloughs of permanent employees," Mr. Darman said in a memo sent to all federal agencies yesterday.

Layoff notices would be issued in September, perhaps in the midst of congressional debate over a deficit-reduction accord, administration officials said.

Mr. Darman estimated that the Gramm-Rudman cuts, if put into effect, would slash spending in affected non-defense agencies by 31.9% as of Oct. 1. President Bush must decide by next Wednesday whether to exempt military personnel from the Gramm-Rudman cuts. If he does, as seems likely in the current situation, other defense accounts would be cut by 34.9%, Mr. Darman said.

Without congressional action of some sort, agencies must carry out the spending cuts. "This is enforceable by criminal penalties," Mr. Darman warned.

The New York Times

NEW YORK, WEDNESDAY, AUGUST 8, 1990

Faltering Hopes for Accord on Deficit Are Dimmed Further by Gulf Crisis

By SUSAN F. RASKY

Special to The New York Times

WASHINGTON, Aug 7 — Democratic and Republican lawmakers said today that Iraq's invasion of Kuwait is a serious setback for already troubled budget talks between Congress and the White House and will probably scuttle any deficit reduction for the coming year.

While the negotiators stressed that they had not given up on a budget agreement, the tone of their comments made plain how pessimistic many of them had become. The situation in the Persian Gulf, they said, created new difficulties — political and substantive — in reaching agreement on a package of spending cuts and tax increases to trim $50 billion from the deficit for the 1991 fiscal year, which begins Oct. 1.

In policy terms, there are growing doubts about whether an economy that is showing signs of weakness can withstand $50 billion in belt tightening, while political options like energy tax increases and deep cuts in the Pentagon budget now become more difficult to sell to the rest of Congress.

"The bottom line is that those who have been looking for an excuse to avoid making tough decisions on the budget may have found in the Persian Gulf their salvation," said Senator Pete V. Domenici of New Mexico, the senior Republican on the Senate Budget Committee. "The outcome of the budget negotiations this fall will be determined by the events in the Persian Gulf over the next few weeks."

After two months of talks that have yielded only partisan bickering, the negotiators are planning to meet in a secluded setting outside Washington in the first week in September to push for an agreement. Lawmakers in both parties have repeatedly said that what the budget debate needed was a sense of crisis about the deficit to overcome political resistance.

"We now certainly have a sense of crisis; the only problem is that it is the wrong crisis," said Representative Leon E. Panetta, the California Democrat who heads the House Budget Committee. "The one we have simply feeds into a basic resistance on deficit reduction."

> Fiscal and military worries compound 'a basic resistance.'

But even before the situation in the gulf arose, negotiators had become concerned that a $50 billion deficit package could tip a fragile economy into recession and were wondering if a smaller package might make more sense. With the price of oil already up by $5 a barrel, and further increases possible if tensions remain high, the recession fear has become more pronounced and the likelihood of a smaller package is now discussed openly.

"If the oil price stays at that level, it slows the economy more by contributing to inflation," said Senator Lloyd Bentsen, the Texas Democrat who heads the Senate Finance Committee. "It would be like pulling $60 billion out of the economy before you even get to budget cuts."

Mr. Bentsen, like other budget negotiators, said those involved in the talks will want to re-examine the economy and the situation in the gulf in September before making a decision about scaling back the deficit package. "The dilemma we face on the other side is what happens to the financial markets if don't do enough on the deficit," he said, adding that actions by the Federal Reserve Board on interest rates will also have a major effect on what the negotiators decide.

Less Room to Maneuver

The talks so far are based on the premise that cutting a sizeable chunk from the deficit would produce a favorable reaction from financial markets and permit the Federal Reserve to lower interest rates. But with higher oil prices adding to inflation, budget negotiators worry that the board may have less maneuvering room.

The higher oil prices also mean that increases in energy taxes, which had seemed a likely possibility for the tax portion of the deficit package, are now a much less attractive option.

"There's no question that things like energy taxes become more difficult if you're in the middle of an embargo or blockade," the House Speaker, Thomas S. Foley of Washington, said Monday. "It makes the acceptance of energy taxes more politically difficult, though not necessarily less desirable."

On the spending side, cuts in the military budget and in large Government benefit programs like Medicare, Medicaid and Social Security become more politically difficult. Moreover, attempting to cut the benefit programs may be futile because they include provisions for automatic increases when inflation goes up or the economy goes into recession.

"I'm pessimistic," said Representative Bill Frenzel of Minnesota, the senior Republican on the House Budget Committee. "When you combine a slower economy with Iraq and the hastening date of the November elections, it seems to me the momentum has turned the other way. Whenever there is turmoil and confusion, you can always expect Congress to do as little as possible."

Pessimistic View Is Unchanged

Senator Bob Packwood of Oregon, the senior Republican on the Senate Finance Committee, has long predicted that even if the budget negotiators could agree on the ingredients for a deficit reduction plan they would be unable to sell it to the rest of Congress before the November elections. Mr. Packwood said today that nothing has happened to change his view.

"I don't know what the impact of the Persian Gulf is; I haven't been able to figure it out yet," he said. "But if the argument has been that the deficit is our most important problem and we need to agree on cutting it, I don't see that the situation in the Persian Gulf has changed that problem."

Negotiators have been deeply divided over how the spending cuts should be divided between military and domestic spending, and the Persian Gulf flare-up will do little to resolve those differences. While lawmakers say events in the gulf should theoretically have little to do with cutting the elements of the military budget that involved countering a Soviet threat, they agreed that the psychological effect of gulf tension could weigh against Pentagon cuts.

"If there is an Iraqi invasion of Saudi Arabia, all bets are off on defense cuts," Mr. Packwood said.

Escape Clauses in Budget Law

In fact, all bets may be off in any event, due to some provisions in the balanced-budget law. The automatic spending cuts that are due to take effect under the Gramm-Rudman-Hollings law on Oct. 1 if agreement is not reached on cutting the deficit can be waived by the President, with the consent of Congress, if there is a recession or if economic projections predict two consecutive quarters of economic contraction.

The automatic cuts would also be immediately suspended if Congress declared war.

But lawmakers in both parties said it was hard to imagine that anyone at the White House was paying a great deal of attention to the fine points of the budget law right now. As a senior Congressional budget aide said, "For the time being, I have taken my budget charts and graphs off the wall and replaced them with a map of the Persian Gulf."

The New York Times

NEW YORK, WEDNESDAY, AUGUST 8, 1990

Congress Completes Agenda, but Obstacles Remain

By RICHARD L. BERKE

Special to The New York Times

WASHINGTON, Aug. 7 — Before its monthlong recess, Congress moved toward completing an unfinished legislative agenda of the 1980's by passing the first major bills in years on child care, housing, civil rights and the environment. But these ambitious proposals are threatened by legislative, financial and political obstacles.

Simply put, there is far less money available than is called for in many of these bills, and there is the added uncertainty created by the crisis in the Middle East.

But beyond the maneuvering over fiscal concerns lies yet another obstacle: veto threats. President Bush has a string of 13 vetoes that have not been overridden, and he has already warned that he will veto the civil rights and campaign finance bills unless they are fundamentally changed in conference.

Administration officials contend that the civil rights bill is unacceptable because, they say, it would lead to quotas in hiring. Their complaint with the campaign finance legislation involves the use of some public money and voluntary spending limits.

Time Is Short

Another obstacle is presented by the shortness of time. No votes are scheduled in either chamber until the week of Sept. 10, leaving members less than a month to sort all this out before their scheduled adjournment for the year, on Oct. 5, when lawmakers will return home for their re-election campaigns.

How these obstacles play out will determine whether the 101st Congress emerges with a record of great legislative achievement or hollow efforts that do not become law, according to political analysts, lawmakers and others.

Senator Bob Dole of Kansas, the Republican leader, said it would not be possible for the Senate to complete action on all the major pending bills. Speaking of Senator George J. Mitchell of Maine, the Democratic leader, he said, "I sat down with Mitchell on Monday and we went over the calendar between now and Oct.6. He's got a big long wish list, but obviously he can't take it all up.

"I think there have been some significant pieces of legislation passed," Mr. Dole added, "but the bottom line is, 'Are we going to pay for them or charge them up to the next generation?' "

"The reality is that we will be facing gridlock," said Senator Tom Daschle of South Dakota, co-chairman of the Democratic Policy Committee. "The question is: How do we break out of the gridlock and make the most out of the tremendous amount of accomplishment we've already witnessed?"

'Good Progress'

One lawmaker who is already pronouncing the session a success is Mr. Mitchell. Before the recess he spoke of "good progress," citing more than a dozen bills approved by the Senate.

"We can look with satisfaction on the quantity and quality of our work so far in this session," Mr. Mitchell said. "But we all know the greatest challenge lies ahead."

For Mr. Mitchell and the House Speaker, Thomas S. Foley of Washington, the session has served as a political test of whether the new leaders have the political know-how to push through their legislative priorities. After the first 18 months, which saw relatively little action, both chambers made significant strides in the last several weeks.

> 'The legislative trains will stop' if budget issues aren't resolved, a lawmaker warns.

But the true success or failure of new leaders, and Congress itself, will become more clear in the fall.

"Both Mitchell and Foley were determined to build a record of activity and accomplishment before the August recess, and they moved mountains to do just that," said Thomas E. Mann, director of governmental studies for the Brookings Institution, a research center. "They gradually moved to attain some tactical advantage over Bush."

The Deficit Looms

Butt he warned that the deficit could undermine those accomplishments. "Even if you get a dozen pieces of significant legislation passed," Mr. Mann said, "if you fail to deal with the deficit, there's the inevitable letdown that 'We didn't do anything.' "

All of the anxiety over the budget will come at a time when House members and many Senators are distracted by re-election campaigns. They will also have to confront the crisis in the Persian Gulf, and, in the Senate, a possible confirmation battle over Judge David H. Souter, the Supreme Court nominee, and ethics committee investigations of six Senators accused of improperly using their offices to help political or financial supporters.

There is growing doubt that all of these issues can be addressed in less than a month. Although the leadership dismisses the idea, there has been increasing talk among members in recent weeks about returning after the elections to complete unfinished business. These "lame duck" sessions are unpopular among members. There has not been such a session since 1982.

"If there is no budget agreement, things are going to evolve into rancor and bitterness and inevitably lead to a lame-duck session," said Representative Les AuCoin, an Oregon Democrat. "But only with a lot of blood on the floor — you've got a Democratic majority that's simply not going to take a fall for George Bush, an open revolt in Republican ranks and sweeping decisions to make on fiscal policy."

Talk of Blame

Democratic leaders in Congress say they intend to point the blame at the White House if some of the measures approved by Congress do not become law. As an example, some say that after all of Mr. Bush's campaign oratory about the environment, he should have been more forceful in protecting legislation to create a Department of the Environment. That legislation passed the House and is now stalled.

"The real problem we have with the budget is that the President hasn't been able to explain it to the American people," said Representative William H. Gray 3d of Pennsylvania, the Democratic whip.

"There is a risk that if we don't resolve the budget situation when we go back all of the legislative trains will stop," he added. "The summit impacts on all those trains — defense, child care, housing, agriculture."

But Frederick D. McClure, the White House legislative liaison, insists that the Administration has taken the leadership on the budget and worked closely with Congress on many pending measures, and that it refuses to take the fall for any legislative failures.

"Everyone has their own particular issues that they'd like the President to get out front on every day," he said. "That's not realistic."

AN INTERNATIONAL DAILY NEWSPAPER WEDNESDAY, AUGUST 8, 1990 50¢ ($1.00 CANADIAN)
THE CHRISTIAN SCIENCE MONITOR

Our Next Banking Crisis

By Matthew Miller

IF the $150 billion tab for the savings-and-loan bailout seems like a big number to you, keep counting. For while our leaders pretend to "get tough" with thrift villains and ready the noose for hapless Neil Bush, a banking crisis that could make the S&L fiasco look pint-sized is just a few bad loans away.

The problem is with the United States's 13,000 commercial banks. With $3 trillion, these institutions sport more than three times the deposits of our S&Ls. And they are more vulnerable today than at any time since the Great Depression.

More commercial banks failed in the last two years than ever before. They have written off $75 billion in bad loans since 1986 – when the economy has been strong – compared with just $28 billion throughout the 1950s, '60s, and '70s put together. Absorbing these hits in the past two years has dealt the FDIC insurance fund its first losses ever, and left the fund holding a historic low of 70 cents for every $100 of insured deposits. A mild recession could now bankrupt the fund completely – and then guess who's on the hook again?

There's no mystery to how banks got into this state. They were victims of a slower burning version of the same economic fuse that detonated our S&Ls.

In the old days banks, like S&Ls, had a nice little operation. New Deal legislation placed geographic limits on bank expansion, guaranteeing every bank an uncontested home turf. Commercial banks got the exclusive right to offer checking accounts, which everyone needs. Congress slapped ceilings on the interest rates banks could offer, to make sure no ruinous bidding for deposits would threaten everyone's margins. With newly enacted deposit insurance thrown in, every bank, whatever its size or pedigree, was as good as every other.

The result was a series of regional cartels in which even comatose bankers were sure to be moneymakers. The system relied on its stranglehold on individual depositors and business borrowers. Since most borrowers had few alternative sources of capital, being a successful banker didn't take a genius – you took in money below the mandated interest ceilings and lent it out at a few points more.

This basic structure worked well for decades. Banking failures seemed to be a relic of some bygone era. But beginning in the 1970s, the world changed. First, commercial banks woke up to find their dependable monopolies threatened at every turn. Big businesses got smart and found they could raise funds more cheaply by issuing their commercial paper directly to the markets – they didn't need a middleman to assess how creditworthy they were. Meanwhile, the banks' consumer businesses got squeezed as companies like Chrysler, Ford, and General Motors formed finance subsidiaries to make cheap credit an attractive part of their marketing strategies.

The crowning blow, however, was the takeoff of inflation. This brought higher interest rates as lenders demanded compensation for the value their money lost before repayment.

As market rates hit the ceilings banks could legally offer, investment management firms launched money market funds promising higher returns. Bank depositors fled in droves, removing the captive source of funds that had kept banks fat and happy for decades. When the old interest rate ceilings were phased out in 1980, that at least helped banks compete. But since all of us had learned that we could safely keep our money elsewhere, the damage had been done.

Thus jilted by more creditworthy borrowers and squeezed by new competitors, banks were forced to take on riskier business. Commercial banks now have $150 billion invested in high-flying merger and buyout loans, and $400 billion in risky commercial real estate. Another $60 billion in third-world debts sit like time bombs on balance sheets.

With portfolios like these, it's no wonder the FDIC's list of "problem" banks (though down from its 1987 peak) hovers at five times its early 1980s level. Or that the big rating agencies downgraded Citicorp's once invulnerable debt rating this spring. Meanwhile, the Bush administration's obsession with containing the political damage on the S&L front has left more rookies minding the store on the bank side.

What's to be done? Four things for starters. Banks now teetering on the edge of insolvency should be closed fast before losses mount. Banks should be given the power to enter new and profitable businesses, like insurance and securities underwriting, that arcane rules now forbid. At the same time, federal deposit insurance must be modified, so that Uncle Sam's credit-card doesn't stand behind these new banking activities. And a deductible should be introduced into deposit insurance – just like the ones we have for car and health insurance – so we'll all have a stake in looking more closely at the kinds of risks our banks are taking.

There's still time to prevent today's warning signs from becoming tomorrow's bleak headlines. But only an active public – informed by an energetic media determined not to be blindsided again – can force our leaders to take action before we stick our children with yet another titanic debt to pay.

■ *Matthew Miller is a New York management consultant. This piece is adapted from an article in the current Washington Monthly.*

The Philadelphia Inquirer

Wednesday, August 8, 1990

Let taxpayers enjoy some of the S&L spoils

By **ELLEN GOODMAN**

BOSTON — Let me say up front that I am a passionate devotee of sales. I was taught the value of a dollar at my mother's knee, or at least at her side, in the dungeons of Filene's Basement where Fifth Avenue fashion could be had for First Avenue prices. To this day, I believe that buying any item at its original price is an indication of serious moral failing.

So, like other inveterate bargain hunters, I felt my blood begin to race when it was announced last Wednesday that a giant national corporation planned to hold a truly massive clearance sale, an inventory reduction of unprecedented dimensions.

This all-point shoppers alert came from the Resolution Trust Corp. This name may not be quite as familiar yet as Loehmann's, but wait a while. The RTC is the agency set up by Congress to manage the failed savings and loan banks and their assets. Each time we bail out a bank, it appears, we are left holding their holdings. Now, according to the RTC, Everything Must Go!

So we have an event this fall that promises to be more than your ordinary yard sale. Banks don't do yards. They do houses, hotels, shopping centers, skyscrapers. The owners also do quite well for themselves, thank you, but that is another matter.

The centerpiece of this sale is going to be an international auction televised in Tokyo, London and across the United States. Seventy-one properties, valued at $300 million, will be going, going, gone. Get 'em while they last.

The theory is that, the more the RTC sells off, the less the average person will have to pay for the entire debacle. The numbers are, after all, slowly penetrating our national innumeracy. With the banks deregulated and the deposits insured, high-rolling managers spent the 1980s playing with house money. Now we all are paying their gambling debts — somewhere between $90 billion and $350 billion.

But despite my enormous love for a good sale, I am not at all sure that having bought so dear, the government should begin selling cheap. It finally occurs to me that this stuff being sold in November is *ours*. Ours, as in the taxpayers.

In the coming years, every American is going to pay somewhere between $2,000 and $5,000 for the bailout. If it's going to cost us that much, we ought to get something out of it. Why not hang on to the Kings Crossing Golf Course in Corpus Christi, Texas? Every American should be allotted 18 holes for their troubles.

OK, you don't play golf. Neither do I. How about one night with the kids at the Rolling Hills Hotel in Davie, Fla.? A nap at the Monroe Inn in Monroe, La.? Lunch at the Radisson in San Antonio? Why not? We paid for it.

There are other things to be considered before we sell. Last week, at their annual conference, the governors said that the taxpayers in the North and East are angry at paying for mismanagement in the South and West. Why not give Illinois a neat little building in Austin, Texas, as a way of saying howdy and thanks? If there are some Disney fans in New Jersey, let's hand them the keys to a professional building in Orlando, Fla.

How about giving every American a free weekend at a Florida resort?

The worst effect of the S&L scandal is that it's coming out of the peace dividend. We may not have any more money for the homeless, for child care, for social programs. But we will have buildings.

Why auction them off to the Brits or the Japanese? Why not make the American Street People's shelter out of the Knights Inn in North Fort Myers, Fla.? Why not have a Bide-a-Wee Childcare Center instead of a Cedar Park Plaza in Lakewood, Colo.? A Go-Straight Rehab Center in the Centax Business Park in Dallas?

The National Park Service might even add an urban ranger to accommodate visitors to our office parks. As for the repossessed houses in the RTC, we could give every low- and moderate-income taxpayer one lottery ticket to win a home of their own.

The bailout of the banks is a worst case example of private and public partnership. Having been stuck holding the bag (not to mention the clubs and the golf course), we are going to get rid of it all at a tag sale price to another set of private owners. They will try to turn a profit, the taxpayer will pay the difference, and we'll get nothing except the right to be banned from the golf course.

May I suggest we save at least one building? The Western Savings Corporate Center in Phoenix is a honey. A few bars on the walls, an extra set of keys or two and we'll have a place to stash all those swell bank managers who got us into this mess. We'll call it the S&L Memorial Incarceration Center.

A good buy at any price.

Ellen Goodman's column originates at the Boston Globe.

Rocky Mountain News

August 2, 1990 DENVER, COLORADO 132nd year, No. 102

Jilted George may have the last laugh on the budget

Many a man has retired to the mountains to recover from a jilting, which we assume is one of the benefits George Bush will receive from this week's retreat to Aspen.

Everyone knows the story: The president got down on his knees and promised Democrats he'd do anything — anything, including raising taxes — if they'd just go along with a reasonable deficit reduction plan. In return, delighted Democrats and betrayed Republicans took Bush by the back of the head and rubbed his nose in the old cow pie. We do mean everyone, including Fritz Mondale, whose tax-raising pledge in 1984 fared him well in the District of Columbia but hardly anywhere else.

Bush's anti-tax pledge was "probably the most basic, deliberate, horrible economic mistake in American history and it was all driven by disingenuous, political strategy that has cost our nation terribly," Mondale crowed. "Let's hope we learn our lesson and start to talk honestly and openly in these campaigns."

Talk about being brayed at by the town nag. But the president can recover from this disaster, if he'll only follow a few basic rules.

First off, stay away from higher taxes on gas and liquor. The president may not be aware of it, but he's hurting common folks with such ideas, the ones living in the shotgun houses he rhapsodized about in his convention acceptance speech. The Congressional Budget Office points out that the 20% of Americans with the lowest incomes spend 3.7% on liquor, while the top fifth spend 1.6%. An 81¢-a-sixpack hike might not be much to the president, but it all adds up.

If it's necessary to push a tax idea, concentrate on closing loopholes and deductions that primarily benefit the rich. Limiting the federal deduction for state and local income taxes is a good place to start, since almost all the targeted benefits go to those making more than $200,000. We happen to believe that raising taxes, especially with a recession looming, is a bad idea. But in the budget game, sometimes you've got to concede a bit to gain a concession yourself.

If Congress refuses to play along, fine: Its leaders will find themselves in the position of protecting the wealthy. A nice role reversal, at the least.

If the negotiations turn out to be a farce, the president can point out that he was willing to go the extra mile, but his opponents were not. He might also point out that Congress this year is boosting spending at over twice the rate of inflation. Congress may cry about the deficit, but that doesn't keep our representatives from driving herds of pigs into that insatiable python. The pigs, of course, aren't paid for.

Americans would support a tax increase if they really believed the money would go to deficit reduction. But looking back on where revenue from recent tax hikes went, and watching Congress balk at making significant concessions while it spends the country into deeper penury, produces a certain wariness. Bush's pledge-breaking was a serious blow to his credibility, but the larger debate is now his to lose.

THE CINCINNATI ENQUIRER

JULY 31, 1990

The deficit

Congress shows no readiness to duplicate Bush's sacrifice

President Bush by now may be regretting his reluctant decision to abandon his "No new taxes!" campaign promise — not because it has been shown to be unnecessary, not because of the criticism it has brought from conservatives in his own party, but because it seems not to have inspired any comparable willingness among congressional Democrats to make a real assault on the deficit.

President Bush

The president offered to consider some kinds of tax increases as a means of getting the deficit negotiations off dead center. His hope was that congressional Democrats would thereby be inspired to be equally forthcoming.

That, unhappily, is not the way it has turned out.

In the four weeks since President Bush conceded that new taxes might be needed, the House of Representatives has passed six appropriations bills totaling more than $182 billion. That total was $19 billion over the same appropriations measures last year. If the same level of increases prevails in the seven appropriations bills still before Congress, total federal spending will be up more than $75 billion for the fiscal year that begins Oct. 1. The Heritage Foundation figures that amounts ~~to $750~~ in additional spending for every American household.

Congressional Democrats, unwittingly, have demonstrated why President Bush and President Reagan before him have been so reluctant to talk in terms of raising taxes. Higher taxes, the record shows, are not the key to reduced deficits: they are the key to more spending.

As long as the spenders command majorities in Congress, the budget deficit is going to grow.

THE INDIANAPOLIS STAR

THURSDAY, AUGUST 2, 1990

Bush rips Demos in budget talks

By TOM REDBURN
LOS ANGELES TIMES

Washington — The federal budget talks turned into a partisan brawl Wednesday as President Bush unleashed Republican lawmakers to attack Democrats on Capitol Hill for failing to offer their own deficit-reduction plan.

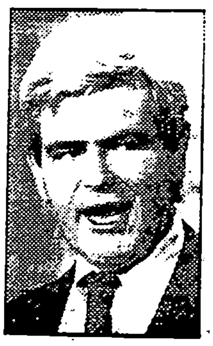
At a White House breakfast with congressional Republicans, Bush expressed frustration at the stalled negotiations and vowed to veto budget-busting spending bills this fall if no compromise is reached on how to slice about $50 billion from next year's deficit.

House Republican leader Bob Michel of Illinois said Bush is "a very kind, gentle individual; but, brother, he's got fire in his belly" over the lack of progress during nearly three months of budget negotiations.

But in a bid to maintain the high ground, the White House promised to continue the talks when Congress returns in September from a monthlong break and held out the possibility of calling congressional leaders to Kennebunkport, Maine, during Bush's vacation there.

Bush "reached out a hand to be as as reasonable and as decent . . . as he could be," complained assistant House GOP leader Newt Gingrich of Georgia, "and the Democrats bit his hand."

At the same time, however, administration officials undercut GOP lawmakers who told reporters that Bush was demanding that Democrats present their own budget proposal within 48 hours to avoid public sniping from the president. A White House spokesman said no deadline had been imposed.



Newt Gingrich says President Bush "reached out a hand" to the Democrats and they bit it.

The White House has been under fire from Democrats and Republicans alike for its latest budget plan, which calls for sharply boosting taxes on alcoholic beverages, limiting tax deductions for state and local taxes, and cutting federal benefit programs.

Democrats, arguing that they prefer to wait until after the August recess to present their own deficit-cutting measures, continued to revel in the political advantages they foresee from the White House's current troubles.

"We didn't pledge that every time the Republicans slit their wrists that we would slit ours," said Rep. Leon Panetta, D-Calif., chairman of the House Budget Committee.

Despite the escalating war of words, both sides still face the need to forge some sort of deficit compromise this fall if they are to avoid more than $100 billion in domestic and military spending cuts scheduled to take effect in October under the Gramm-Rudman budget law.

"Nobody took the August deadline seriously because the only real deadline that matters is when Gramm-Rudman hits in October," said Joseph White, a Brookings Institution scholar and co-author of a recent book on the deficit politics of the last decade. "But if they care about actually running the federal government, they are going to have to a deal before the election."

Unless changed, the Gramm-Rudman budget law requires the White House to impose on Oct. 1 cutbacks of as much as 40 percent in a wide variety of domestic and military programs. Worried that such spending cuts would be politically and economically suicidal, budget negotiators share a common goal of reaching a compromise that would provide justification for legislation to again postpone Gramm-Rudman's day of reckoning.

At the White House meeting with about 150 congressional Republicans, Bush, according to a senior administration official, told the lawmakers that "we had agreed to a Democratic proposal to exchange budget deficit plans. We are prepared to do that and have been for days. The Democrats are not prepared to."

Democrats, who are finding it difficult to develop their own specific budget proposal, deny that they agreed to present a plan before the congressional break, which is scheduled to start Saturday.

Bush, the official added, "said he still wants to hear from them before the recess because, come the recess, we will make it abundantly clear to the American people how we feel about it."

House Democrats, following the GOP meeting at the White House, met in a similar strategy session of their own.

"The Republicans are in disarray and fighting with each other, so they are pointing the finger (of blame) at Democrats," said Rep. Charles Schumer, D-N.Y. When lawmakers return home in August, he added, "there's going to be a nice blame game going on."

The Evening Sun

Baltimore, Monday, August 6, 1990

Bush's fiscal politics

PRESIDENT BUSH is beginning to reap the punishment he deserves on the tax issue. For eight years, he was part of the Reagan "more-guns-for-lower-taxes" scam. Then, early in 1988, he chose to base his presidential campaign on a no-tax-increase pledge, despite the fact that the public debt had trebled to $3 trillion.

Jim Fain

For once, the Democrats got it right. They're letting him stew until he's forced to come clean.

Bush knew all along his lips were lying, but winning his lifetime goal of the Oval Office was more important to him than honor. His technicians told him he could get away with classic demagoguery. Just yell against taxes loud enough and long enough, they said. Then, when the inevitable comes, blame Democrats.

For two years, like Charlie Brown trying to kick Lucy's football, the Dems obliged. In each crisis, one would rise and say, "we'll just have to raise taxes."

"No way," Bush would reply.

Finally, with the S&L bailout ballooning the deficit out of sight, he was cornered. If Gramm-Rudman cuts were imposed, he would face a total government breakdown. In fact, the deficit had soared so high, his economists said, getting it down to the Gramm-Rudman level would sink the country into recession.

Reluctantly, still placing politics over the national welfare, he took a typical Bush half-step. He invited congressional leaders to bail him out at a budget summit. Under pressure, he even agreed to include the words, "tax revenue increases." He put them in a three-sentence press release at the height of the Mandela hoopla, hoping no one would notice.

Then he sat back to let the Democrats take the fall. To his surprise, and the consternation of the Republican members of Congress, they out-sat him. "It's the president's job to lead," they said.

"Not on taxes," he demurred. "That's what Congress is for."

In the crunch, however, Americans always look to their president for leadership. He's the only person elected by all the people. It's his responsibility to keep the nation on track. When he fails, we throw him out.

The Republicans have been getting away with fiscal insanity for 10 years, financing a modest prosperity by running up mountainous debts and fueling ruinous speculation with such scandals as the S&L rip-off and Wall Street's junk-bond spree.

What we need now is a clear lead from the White House to put this mess straight. This involves, first of all, a budget that constricts spending and raises taxes on a progressive basis so some of the load President Reagan shifted to the middle class is put back on the well-to-do. It also should include revision of the regulatory structure and rules of the banking system. The nation is sick of being ripped off by billionaires who support politicians and lobbyists out of their petty-cash drawers.

There's lots more. Campaign finance, influence-peddling, HUD scandals, you name it. But budget sanity is where it all begins.

President Bush ought to put a sensible fiscal plan before the country without trying to make Congress his stalking horse. But don't hold your breath. His kind of prudence doesn't mix with the leadership thing.

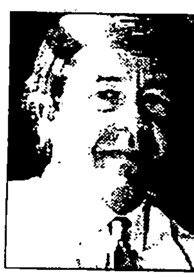
THE NATION'S NEWSPAPER

USA TODAY

NO. 1 IN THE USA . . . NEARLY 6 MILLION READERS A DAY

TUESDAY, AUGUST 7, 1990

S&L lobbyist 'just tries to do a good job for clients'



USA TODAY
Thompson

Being in the spotlight is new for Robert Thompson and, if he had his way, he'd go back to being in the shadows.

"I kind of went from zero to a high level of exposure very quickly, and I'm someone who's generally a private person," said the S&L lobbyist. "It's obviously upsetting — I would just say it's disturbing."

Thompson, who has refused to testify before the Senate subcommittee investigating S&Ls and his client James Fail, who took over 15 S&Ls with only $1,000, said he values doing a "good job" and has not lost clients despite his new notoriety.

"I think performance probably sells better than anything else. I just try to do a good job for clients. And that's regardless of the business you're in — if you're going to be average to above average in terms of success, you have to work hard and you have to produce and perform."

Thompson started his first business in Oklahoma in 1969, renting 40,000 compact refrigerators to college students for $60 a year. Today, he's a prosperous lobbyist in Washington, D.C. But he said he has no Midas touch.

"I wish I had 20% of what people say I have.

"I don't know whether I would say that I have a particular area of expertise unless, if anything, it would be in the process. I try to understand the process and interpret that to people who don't live and breathe Washington."

Has he had a change of heart about the subcommittee?

"No, it's not a contempt of Congress question, it's a civil procedure and what I'm attempting to do is get into a fair arena. I just think that somebody has to stand up to this process."

Thompson appeared before the subcommittee Monday to deliver 1,000 documents and read a prepared statement in which he said his work for Fail "followed all rules of propriety."

— *Lee Michael Katz and Cynthia Hopson*

▶ **Fail's testimony, 7B**

The scandal that won't go away

Charles Keating Jr. gave a group of U.S. senators an infamous name: The Keating Five. They are under ethics fire for their contacts with federal officials probing questionable activities by Keating's Lincoln Savings and Loan in Southern California.

The group that took $1.4 million in Keating-related campaign contributions: Republican John McCain of Arizona and four Democrats: Alan Cranston, California; Donald Riegle, Michigan; Dennis DeConcini, Arizona; and John Glenn, Ohio. Some of the money has been returned.

Keating claimed, "I never walked into any congressman or senator's office and said, 'Here's my money and here's what I want.' I never volunteered money to any politician. They usually asked."

But former Federal Home Loan Bank Board Chairman Edwin Gray responded: "I don't yet believe in the tooth fairy. It seems more likely . . . that Mr. Keating wanted and needed their help and and they were more than willing to give it."

Keating's dealings and junk-bond arrangements between Lincoln and its parent company, American Continental Corp., are the subject of investigations or court actions by the U.S. government, with a $1.1 billion racketeering suit; the Securities and Exchange Commission; the state of California; and Congress.

California Deputy Attorney General James Schwartz said "a majority" of the junk-bond customers were elderly and "some say they understood it was insured" in the same manner as a federal bank deposit.

While the bonds weren't insured, Lincoln S&L was. By the taxpayers.

— *Lee Michael Katz*

THE PLAIN DEALER

SUNDAY, AUGUST 5, 1990

More heat than light on S&Ls

Everybody is in favor of throwing the book at anyone found guilty of defrauding a savings-and-loan institution. What taxpayer, dreading the $500 billion (or more) tab for the federal S&L salvage operation, could possibly oppose such a crackdown? Prosecuting white-collar criminals must be part of the S&L cleanup, even if banking experts estimate that fraud caused only 3% of the S&L rescue's cost: about $5 billion of the $150 billion in S&L losses.

But this furor threatens to distract the voters from the longer-term issues within the S&L debacle. Many members of Congress — knowing that they will face hostile questions from constituents when they go home for their August recess — are stoking the outcry over S&L fraud to deflect any blame from themselves.

The politicians are not entirely wrong in their catch-the-crooks mania. But that focus is just the starting point. Congress' get-tough-on-crime oratory is so obvious, and has become so overheated, that it is diverting attention from Washington's more important task: making the complicated regulatory-policy decisions that may prevent more S&L-style scandals in the future.

The latest example of Congress' S&L panic came this week when the House voted, 424-4, to stiffen penalties for financial fraud and to strengthen regulators' enforcement powers. The vote followed the recent Senate approval, 99-1, of a similar provision that includes life imprisonment for S&L "kingpins" (borrowing a phrase usually reserved for top narcotics racketeers). Endorsing stiffer sentences is a crowd-pleasing but dubious gesture: Any sentencing guideline passed ex post facto in 1990 will be legally difficult to apply to S&L crimes committed in the mid-1980s. Moreover, the White House properly chides Congress' call for another "blue-ribbon" S&L commission, which would duplicate several probes already under way within Congress and the Justice Department.

One of the lonely, principled opponents of the House measure was the man who knows the S&L problem best: Rep. Henry Gonzalez of Texas, who as chairman of the House Banking Committee strengthened last year's S&L law. "Who do we think we're kidding?" asked Gonzalez. "This bill has been touted as addressing the thrift crisis, but it will not deal with those who brought the thrifts to insolvency, because their crimes were committed several years ago."

It was disappointing to see many usually sensible members of the House Banking panel — including Rep. Mary Rose Oakar of Cleveland — reject their chairman's advice and vote for this week's anti-fraud hyperbole. To her credit, however, Oakar suggested a sound amendment that would have limited the "golden parachutes" taken by some executives of bankrupt S&Ls and would have tried to recoup S&L officials' excessive benefits.

Oakar surely knows that her constituents will question her closely about the S&L disaster, for she served on the banking panel while it was succumbing to the Reagan administration's demands for looser S&L regulation. Incumbents like Oakar, who voted for the seriously flawed Garn-St. Germain deregulation package in 1982, will be hard pressed to explain their support for a measure that, in retrospect, looks like a federal invitation to S&L recklessness.

Congress correctly senses that the voters are hopping mad about the S&L disaster. But instead of covering their tracks with tough-on-crime posturing, lawmakers should focus on fundamental changes in banking policy — like deposit-insurance reform — to limit taxpayers' exposure to future billions in losses.

Chicago Tribune
35¢ Monday, August 6, 1990

Voice of the people

Government meddled into S&L mess

AURORA—John McCutcheon's guest commentary (July 26) on the savings and loan crisis could not be more wrong. This crisis is not a black eye for capitalism; it is a black eye for government intervention in the marketplace.

When he ran for president in 1932, Franklin D. Roosevelt denounced the idea that the government should insure private bank deposits. After he became president, the New Deal created the FDIC. It then fostered the creation of the savings and loan industry and created the FSLIC to insure S&L deposits. All of this, along with the earlier creation of the Federal Reserve System under the Wilson administration, spelled the end of free banking in America.

Bank panics would no longer be allowed to run their natural course, with the closing of insolvent banks. Instead, the taxpayers would be committed to propping them up, thus socializing their losses and prolonging the necessary period of market adjustment.

Instead of attempting to deregulate it while continuing to insure it, the S&L industry should have been liquidated. The price of money should be set by the market, not by government fiat. As it was, because of government regulation, the S&Ls were not permitted to let their interest rates rise with the increasing price of money during the inflationary '70s. Therefore, they could not make enough money to stay in business.

In order to rescue them, the Carter administration proposed deregulation without, however, going far enough. Government deposit insurance should also have been abolished. Instead, Congress raised it to $100,000. The result was that the S&L managers were encouraged to take unprecedented risks because they knew the taxpayers would be forced to pick up the tab for their indiscretions.

As a number of prominent free-market economists have repeatedly urged, the Federal Reserve ought to be abolished and federal deposit insurance for banks and S&Ls ought to be eliminated. Then, when financial institutions go bad, they will have to liquidate themselves and divide their assets among their stockholders and depositors.

People who invest in unsound institutions deserve to lose their money; the rest of us do not deserve to pay for their mistakes.

David R. Wade

Fort Worth Star-Telegram

Monday, August 6, 1990

A voter's guide to the S&L collaborators

Mary Fricker
Stephen Pizzo

Like a herd of wildebeest sniffing a range fire yet unseen, Congress has stampeded. The savings-and-loan scandal to many in Washington seemed at first just an other routine spin-control problem. After all, Congress makes expensive mistakes all the time, and there's rarely hell to pay for it. But this is different, and now they know it.

Terrifying images of angry voters behind closed curtains fill their sleepless nights. And like embezzlers fearing exposure, they spend their days feverishly shredding history.

There was Rep. Frank Annunzio, D-Ill., talking tough and sporting his new "Put the S&L Crooks in Jail" lapel button. How very odd. Could this be the same Frank Annunzio who, in January 1985, introduced a resolution opposing implementation of a regulation to control wild investments by thrifts?

And was this the same Frank Annunzio who found 225 co-sponsors for that House resolution — including Republicans Bill Lowery of California and Newt Gingrich of Georgia, and Democrats Jim Wright of Texas and Richard Gephardt of Missouri?

And was it the same Frank Annunzio who during hearings on that regulation in 1985 stormed from the hearing room when Ed Gray, the Federal Home Loan Bank Board chairman, refused to withdraw it?

And, come to think of it, wasn't it Frank Annunzio who, in 1987, when Gray closed fraud-ridden Vernon Savings in Dallas, rushed to the side of Vernon's loyal friend, House Speaker Jim Wright, and warned, "If this is an attempt to embarrass Jim Wright, then Gray is lucky that the speaker is an advocate for the homeless, because after June, he may be sleeping on a grate."

Not that Republicans are shouldering any shame. Recently, Ed Rollins, a Republican party official and its resident pit bull, launched a vitriolic and sophomoric attack against the Democrats' record. It was an ugly little speech thick with demagoguery and childish cheap shots.

Only Rollins could refer to the infamous Keating Five but list just the four Democratic senators: Alan Cranston of California, Don Riegle of Michigan, Dennis DeConcini of Arizona and John Glenn of Ohio. He left out Republican John McCain of Arizona, who received more than $112,000 in campaign contributions and a couple of free vacations in the Caribbean, compliments of Charles Keating Jr.

Rollins reveled in his revisionist history of Vernon Savings, where 96 percent of the loans went bad. Plenty of Democratic representatives — such as Jim Wright, Tony Coelho, Jake Pickle and Jim Chapman — got campaign money from Vernon or rode on its jets or partied on its yacht, the High Spirits.

But absent from Rollins' reading of the flight logs and the ship's manifest were Republicans such as Jack Kemp, Paul Laxalt and Gerald Ford.

Rollins' attack was followed by "you should talk!" from the Democratic National Committtee head, Ron Brown. He released the list of Republicans whose campaigns were fertilized by S&L money, those so absent from Rollins's tirade. Chief among them was Sen. Pete Wilson of California, who got more than anyone else in Congress.

In 1986, while thrifts hemorrhaged $35 million a day, Wright, the House majority leader, and Sen. David Pryor of Arkansas, another Democrat, told Gray that key thrift-reform legislation would be on hold until Gray eased up on their savings-and-loan friends back home.

And at a Texas barbecue in Wright's office, Reps. Steve Bartlett, a Republican, John Bryant and Martin Frost, both Democrats, grilled Gray for trying to shut down the worst rogue thrifts. Meanwhile, Rep. Larry Smith, D-Fla., was writing letters to Gray demanding slack for a thrift where he served as a director.

When the reform legislation finally did pass, after an 18-month delay, Rep. Bartlett and Sen. Phil Gramm, Texas Republicans, hobbled the bill with "forbearance" amendments that made it nearly impossible for regulators to seize bankrupt thrifts.

A House Banking subcommittee had hearings about junk bonds and thrift portfolios, then turned out the lights and went home. More than $14 billion in junk bonds ended up in thrifts. Sen. Timothy Wirth, D-Colo., also studied the issue and decided Congress shouldn't intervene. Now, like many other nervous Democrats, he's busily returning his savings-and-loan contributions.

Hundreds of politicians had their hands in savings-and-loan cookie jars. As late as 1988, 333 House members and 61 Senators listed significant donations from the industry.

Small wonder, then, that when Rep. Jim Leach, R-Iowa, introduced an amendment in May 1987 to place limits on thrift investments, it lost, 17 to 391. Small wonder, too, that the House Ethics Committee last year ignored an outside counsel's conclusion that Speaker Wright broke House rules four times regarding savings-and-loan matters, even though they agreed with the counsel on 69 other violations. No one dared cast the first stone, so Wright skipped out on those charges.

Even today, as the born-again parade before C-Span cameras, members of Congress continue to act as an S&L-ABM system, intercepting regulators on behalf of bankers. In recent months, Republican Sens. Orrin Hatch of Utah, Ted Stevens of Alaska and Tom Harkin of Iowa have — like Republican Rep. Denny Smith of Oregon and Democratic Sen. J. Bennett Johnston of Louisiana — tried to get regulators off the backs of financial institutions.

And while the House Banking Committee has conducted hard-hitting savings-and-loan hearings, the Senate Banking Committee remains strangely quiet. Chairman Riegle and senators Garn, Cranston, Wirth and Gramm fear that any hearings on the thift mess might embarrass them.

If the two parties want to get out of this sorry drama with even a shred of integrity or a faint hope of regaining public confidence, then this unseemly scramble for political high ground atop the mountain of dead thrifts is exactly the wrong way to go about it.

Instead, the leadership of both the Republican and Democratic National Committees should spend the summer recess identifying those who are most soiled and withdraw the party's support — publicly. Party purges are all the rage in Eastern Europe this year. If ever one was justified here, this is the time.

So, members of Congress, take time out this summer and go someplace quiet. Stand aside and take a long look at yourselves: at how you're acting; at what you're saying. Think about what savings-and-loan interests bought with the $11 million they contributed to you in the 1980s.

Then go back to Washington this fall and pry that "For Sale" sign off your office door.

The Detroit News

August 7, 1990

S&L Properties: Everything Must Go!

By Ellen Goodman

Let me say up front that I am a passionate devotee of sales. I was taught the value of a dollar at my mother's knee, or at least at her side, in the dungeons of Filene's Basement where Fifth Avenue fashion could be had for First Avenue prices. To this day, I believe that buying any item at its original price is an indication of serious moral failing.

Goodman

So, like other inveterate bargain hunters, I felt my blood begin to race when it was announced last Wednesday that a giant national corporation planned to hold a truly massive clearance sale, an inventory reduction of unprecedented dimensions.

This all-point shoppers alert came from the Resolution Trust Corp. (RTC). This name may not be quite as familiar yet as Loehmann's, but wait a while. The RTC is the agency set up by Congress to manage the failed savings and loan banks and their assets. Each time we bail out a bank, it appears, we are left holding their holdings. Now, according to the RTC, Everything Must Go!

SO WE HAVE an event this fall that promises to be more than your ordinary yard sale. Banks don't do yards. They do houses, hotels, shopping centers, skyscrapers. The owners also do quite well for themselves, thank you, but that is another matter.

The centerpiece of this sale is going to be an international auction televised in Tokyo, London and across the United States. Seventy-one properties, valued at $300 million, will be going, going, gone. Get 'em while they last.

The theory is that the more the RTC sells off, the less the average person will have to pay for the entire debacle.

But despite my enormous love for a good sale, I am not at all sure that having bought so dear, the government should begin selling cheap. It finally occurs to me that this stuff being sold in November is OURS. Ours, as in the taxpayers.

IN THE COMING YEARS, every American is going to pay somewhere between $2,000 and $5,000 for the bailout. If it's going to cost us that much, we ought to get something out of it. Why not hang on to the Kings Crossing Golf Course in Corpus Christi? Every American should be allotted 18 holes for their troubles.

OK; you don't play golf. Neither do I. How about one night with the kids at the Rolling Hills Hotel in Davie, Fla.? A nap at the Monroe Inn in Monroe, La.? Lunch at the Radisson in San Antonio? Why not? We paid for it.

The worst effect of the S&L scandal is that it's coming out of the peace dividend. We may not have any more money for the homeless, for child care, for social programs. But we will have buildings.

Why auction them off to the Brits or the Japanese? Why not make The American Street People's shelter out of the Knights Inn in North Ft. Myers, Fla.? A Go-Straight Rehab Center in the Centax Business Park in Dallas.

As for the repossessed houses in the RTC, we could give every low- and moderate-income taxpayer one lottery ticket to win a home of their own.

THE BAILOUT of the banks is a worst case example of private and public partnership. Having been stuck holding the bag (not to mention the clubs and the golf course), we are going to get rid of it all at a tag sale price to another set of private owners. They will try to turn a profit, the taxpayer will pay the difference and we'll get nothing except the right to be banned from the golf course.

May I suggest we save at least one building? The Western Savings Corporate Center in Phoenix is a honey. A few bars on the walls, an extra set of keys or two and we'll have a place to stash all those swell bank managers who got us into this mess. We'll call it the S&L Memorial Incarceration Center.

A good buy at any price.

Star Tribune

MONDAY/August 6/1990

Silverado collapse merits a probe by special counsel

By Patricia Schroeder

Washington
When reporters raise the subject of the Silverado scandal with Attorney General Dick Thornburgh, he sounds more like a defense attorney than the chief law enforcement officer of the United States.

The case in question is the collapse of the Silverado Banking, Savings and Loan Association in Denver. With the taxpayers shelling out upwards of $1 billion, Silverado is one of the costliest savings and loan failures in the United States and the worst financial disaster in the history of Colorado.

Thornburgh's see-no-evil attitude contrasts sharply with what other observers have concluded. "In the Silverado case," says the usually low-key Bert Ely, a nationally recognized thrift expert, "the transactions were fraudulent as hell. The question is not whether you indict, but whom you indict."

Silverado was a carnival of fraud, quid-pro-quo loans, inflated appraisals and insider dealings. The government's inaction on the case is even more outrageous because high government officials reportedly blocked closing Silverado until after the 1988 elections, thereby costing the taxpayers additional millions.

The principals in the Silverado collapse are unrepentant. Kenneth Good, a land developer who defaulted on more than $30 million in Silverado loans, remarked, "I feel no shame." Another developer, Bill Walters, who welshed on more than $100 million in loans, recently told a congressional committee, under oath, that he was broke. In fact, he has three California homes (conveniently stashed in his wife's name) valued at several million dollars. Both have been asked to testify Sept. 6 before a House Banking subcommittee on their assets.

Silverado board member Neil Bush, the president's son, approved or acquiesced in shaky loans to Good and Walters, his business partners, then bragged that if he had it to do over again, he wouldn't act any differently. Bush said defiantly that the $1 billion Silverado collapse was "insignificant" compared to other thrift failures. In fact, Silverado was one of the largest. When asked about a $100,000 gift Good gave him, Bush said with a straight face, "I wasn't going to deny him his chance of having fun."

Federal Deposit Insurance Corp. Director L. William Seidman might file a $200 million civil lawsuit against the Silverado gang to try to recoup some of the government's losses. White House officials are, however, reportedly trying to force him out.

In Denver, a low-level and understaffed Department of Justice team putters away at the Silverado case, under the supervision of U.S. Attorney Michael Norton, a twice-failed congressional candidate who got a campaign contribution from a potential target of the investigation. Norton reports to Thornburgh, who makes exculpatory comments about the Silverado case whenever the cameras roll. It's as if he is sending a subliminal message to George Bush: "Don't worry, Mr. President, everything is under control." Meanwhile, the Silverado gang has scattered.

Implicated in the Silverado collapse are some of the most politically powerful people in America. They raised millions for both political parties and dozens of candidates — $1 million at a single lunch!

Both Bush and House Republican Whip Newt Gingrich oppose the appointment of a special counsel to investigate the Silverado failure. I fail to understand their opposition.

The special-counsel law, which was written in the aftermath of the Watergate scandal, was intended to insulate the Department of Justice from "political, personal and financial conflicts of interest." The Silverado case is rife with those conflicts.

The special-counsel law was also intended to cover cases involving a member of the president's family — not to single them out for prosecution, but to make certain that any investigation is handled impartially. In 1982, then-Associate Attorney General Rudolph Giuliani testified:

"Evidence has shown that the target of a federal criminal investigation can be someone close to the president or attorney general (e.g., a relative, business associate, friend) yet not be covered by the statute." He added that in such cases, the appearance of conflict-of-interest problems is "often more aggravated than those presented in the majority of situations now covered by the act."

A special counsel would have the resources to expeditiously and impartially investigate and, if necessary, prosecute the Silverado case. With the Bush administration in charge of the investigation, however, we shall see ice hockey in hell before we see the Silverado gang in court.

CITY EDITION
THE BUFFALO NEWS
TUESDAY, JULY 31, 1990

Federally insured — to a limit

A healthy FDIC can't protect multiple deposits

THE FEDERAL Deposit Insurance Corporation: It's a title that gladdens the hearts of millions of bank depositors every day. That's because the FDIC guarantees that the money they tuck in their savings accounts is insured — and thus safe — up to $100,000.

How reassuring that can be when hundreds of faltering savings and loan institutions, and some other thrifts, are going under. A financial institution may close or be sold, but the individual accounts in those banks are safe. The average depositor won't lose a dime.

Multiply those $100,000 accounts by millions of depositors in the country, however, which is the way Washington looks at the FDIC, and you see the problem.

Today, as things stand, virtually all savings of any amount are insured by guarantees that ultimately depend on taxpayers. And how much is that? At the end of last year, between $3 trillion and $4 trillion. That's about the size of the entire national debt.

So decisions on what to do about the $100,000 FDIC guarantee must be made if the country is to prevent a recurrence of the S&L bailout, which often means paying off the depositors with money the failed S&L doesn't have. So borrowed money that taxpayers must repay comes into play to help redeem the FDIC pledge.

The Bush administration is studying the problem, but Treasury Secretary Nicholas F. Brady suggested one promising approach informally to Congress the other day.

Brady does not favor lowering the $100,000 figure. That, he believes, might further weaken a public confidence already unsettled by the S&L fiasco. So he would oppose those who want to lower the ceiling to perhaps $50,000.

What he does support is a limit on how many of these $100,000 accounts a person or business can benefit from.

Now, under existing law, a person can create an almost unlimited number of accounts where the deposits are insured up to $100,000: a personal account, plus joint accounts all over (with a spouse, say, or children or parents.) That, coupled with a bailout policy that says some banks are too big to fail, suggests strongly that fresh thinking ought to be focused on the problem.

The administration has not worked out all the details yet, and questions abound. Would the limit be one insured account per person per bank? One in several banks? Would banks have to offer higher interest rates on accounts with uninsured funds in them? What about a strict limit, promising to us, of one insured FDIC account per Social Security number? What about giving depositors options to choose from?

Despite the loose ends, the administration pursues the right course. It is not easy to discuss new limits on traditional kinds of government benefits and protections long in force.

But tight limits on what accounts to apply the $100,000 guarantee to would lessen the exposure of Washington to future S&L-type dangers and return FDIC policy to its original intent: not protecting all savings of everybody, but those of modest-income, relatively unsophisticated depositors and thus bolstering their confidence in the nation's system of thrift.

Rocky Mountain News

July 31, 1990 DENVER, COLORADO 132nd year, No. 100

Lucero: Good stashed wealth

By John Accola

Rocky Mountain News Staff Writer

Kenneth M. Good — a former Denver developer and Republican contributor who defaulted on tens of millions of dollars in loans from Silverado Banking, Savings and Loan — has hidden his true wealth in a series of obscure trust accounts, Carlos Lucero charged yesterday.

Lucero, the Democratic candidate for the U.S. Senate who has made Silverado and the S&L crisis the centerpiece of his campaign, announced at a press conference that his investigators had uncovered 174 trust accounts that he says are controlled directly or indirectly by Good.

Lucero provided documentation showing that one trust account, called the

SILVERADO CASE

- Bush, OTS agree on some facts/**13-B**
- Good agrees to go before panel/**13-B**
- Trusts can be simple, complex/**13-B**

Kenneth M. Good Irrevocable Trust, includes 1,383 acres in Garfield County valued at approximately $1.3 million.

Most of the trusts were created in the late 1970s and early 1980s and identify as trust managers Good's lawyer and longtime friend Norman Brownstein or James S. Mandel, a partner in Brownstein's Denver law firm.

"Where did some of the money from Silverado go?" Lucero asked. "Where did it disappear? I believe the answer lies somewhere in these 174 trusts . . . which are shielded from public scrutiny."

Lucero, however, was unable to provide additional documentation of assets in other trust accounts.

"I wish I could make it simpler, but people don't set up 174 trusts with the idea of making it simple for the rest of us to track them down," he said.

Lucero, 49, said one of the most mysterious trusts uncovered was an account called the President Support Trust, which he suggested was linked to the $100,000 Good contributed to the Republican National Committee about the same time he had defaulted on $32 million in Silverado loans.

Contacted by phone in New York,

See **GOOD** on **12-B**

GOOD from **1-B**

Good said, "I'm not going to comment on anything Carlos Lucero says . . . and I don't conduct my business in the press."

Brownstein also declined comment, noting it would be a breach of confidentiality to discuss a client's business.

Lucero, a lawyer, said he had no hard evidence that any of the trusts hold Silverado-gained funds. But he said their existence shows Good, 46, misled a U.S. House committee investigating alleged fraud and abuse at Silverado when he testified in June that he had a negative net worth.

A week ago Sunday, it was reported in the *Rocky Mountain News* that Good still held title to his $600,000-plus home in Tampa Palms and often jets to Florida from New York City, where he leases a condo.

"A great many people want to know where Mr. Good . . . is getting the money to support such a lavish lifestyle only a month after pleading poverty before the House banking committee," Lucero said.

Lucero said his five-member investigative team — referred to by office staffers as "The Untouchables," in reference Chicago's famed Treasury investigator, Elliot Ness — started their probe in Rifle, where they were led to a lawsuit filed against Good that listed the 174 trusts.

By Friday, Lucero said the team and his campaign manager, Dan Calisher, had contacted the county clerks and recorders in all 63 of Colorado's counties.

The probe will continue, but Lucero challenged members of the press to follow his lead and rapped federal investigators for not doing more.

"The Carlos Lucero campaign is a band of small staff and volunteers," Lucero said. "If we, by exercising diligence, can go out and find public records that lead us to this paper trail, why can't the federal government?"

Good has received much attention for his business relationship with Neil Bush, a son of President Bush and a former Silverado board member.

The Washington Post
SATURDAY, AUGUST 4, 1990

Sept. 10 Is Target for Budget Accord

Savings of $500 Billion Over Five Years Sought by Negotiators

By John E. Yang
Washington Post Staff Writer

White House and congressional budget negotiators have set Sept. 10 as a target date for reaching agreement on a package of spending cuts and tax increases that would save $500 billion over five years, participants in the talks said yesterday.

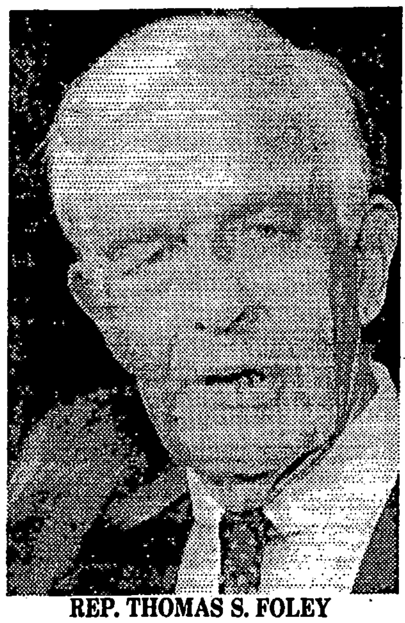
The talks, which faltered late last month amid partisan sniping, could resume as early as Sept. 5 with bargaining sessions beginning in the morning and running into the night, the participants said. The negotiations are likely to be held somewhere other than their usual location on Capitol Hill, they said.

The ambitious timetable envisions lawmakers implementing a hoped-for budget agreement by Oct. 1, the beginning of fiscal 1991.

Negotiators hope that moving the talks will sharpen the bargainers' focus on their task of devising a five-year, $500-billion deficit-reduction package that would save $50 billion in the first year.

Meeting in the Capitol, lawmakers are often interrupted by House and Senate votes, aides and visiting constituents. The press of other congressional business has often limited the sessions to only two or three hours a day.

Richard G. Darman, director of the Office of Management and Budget, suggested going to Camp David, the presidential retreat, and not returning until either agreement is reached or the talks fail. But lawmakers complained that the facility does not have enough accommodations for staff. Other options under discussion include Wye Plantation, a conference center on Maryland's Eastern Shore, and Andrews Air Force Base in Maryland.



REP. THOMAS S. FOLEY
... "a side benefit" in moving talks

The eventual site, to be settled on later this month, is expected to be a federal facility in or close to the District. Many congressional negotiators have said they would like to be able to return home each night.

"It is very unimportant where we go," said Rep. Bill Frenzel (Minn.), the House Budget Committee's ranking Republican. "It is important we go somewhere our staffs and telephone calls cannot interrupt."

House Budget Committee Chairman Leon E. Panetta (D-Calif.) agreed. "It's not the physical location, it's the will of the people who are participating that counts," he said.

House Speaker Thomas S. Foley (D-Wash.) said he thought moving the talks from the Capitol would be a good idea because lawmakers' "attention is constantly being sought by other events if they are not in some more-secluded environment."

Foley denied that the real purpose was to avoid reporters, but grinned and added, "It might be a side benefit."

The full negotiating group last met July 24.

Meanwhile, the House yesterday approved legislation that would raise the federal government's borrowing limit to $3.19 trillion through Oct. 2. The vote was 247 to 172. The Senate is expected to approve the measure before leaving for its August recess.

The current debt limit of $3.12 trillion will be exhausted Aug. 15 when $20 billion of government notes mature and $21 billion of interest payments fall due, according to Treasury Department estimates.

The short-term extension is designed to give lawmakers time to deal with a longer-term measure, which the House passed on Tuesday. Because debt legislation must be enacted in order to avoid government default, it usually attracts a broad range of often-contentious amendments.

The Washington Post

SATURDAY, AUGUST 4

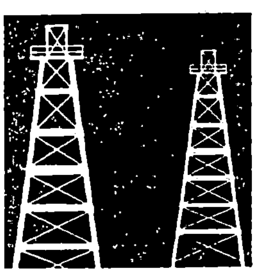
Damage Unlikely to Hit Levels Reached After '73, '79 Shocks

By John M. Berry
Washington Post Staff Writer

When Royce Drake of Alexandria headed north yesterday for a week at a sculling camp in Vermont, the Iraqi invasion of Kuwait began to cost him money. Like millions of his vacationing counterparts across the United States, Drake paid more than he would have a few days ago each time he pulled into a service station for gasoline.

The added cost for the 1,500 miles Drake plans to drive while he's gone won't be much, probably only about \$5 or \$6, based on the increases in pump prices so far. That amount is only a tiny addition to the cost of his vacation, but it will be \$5 Drake can't spend on something else.

Multiply Drake's \$5 or \$6 by the huge number of other motorists on the road during America's peak driving season and the impact of higher gasoline prices, and all the small purchases perhaps not made as a result, begins to take shape.



With the U.S. economy already virtually dead in the water, that shape may turn out to be one of recession.

Even if world crude oil prices stick close to \$25 a barrel, about where they were on Friday, there appeared to be little likelihood, however, that any slump in the economy would approach the severity of the one that followed the first oil price shock in 1973, or the one that ultimately followed the second price shock in 1979.

Both of the earlier price shocks hit the United States at a time when the economy was gripped by inflationary booms. The impact of rising energy prices also was magnified on both those occasions by soaring food prices.

In contrast, this time the economy seems to have been slowly coasting to a stop rather than being in a boom, although the civilian unemployment rate, even after the July rise to 5.5 percent reported Friday, has been at levels most economists regard as full employment. Most important, there is no large overhang of unsold goods on businesses' shelves that is likely to mean big cuts in future factory production schedules. The buildup of unwanted inventories, and the production cutbacks to get rid of them, have usually been the key to the severity of U.S. recessions.

Nevertheless, each \$1 per barrel increase in crude oil prices has the same depressing effect on consumer spending, at least in the short run, as a \$1 per barrel excise tax imposed by the government. With current U.S. oil consumption running about 17 million barrels a day, a \$1 tax or price increase costs oil users about \$6 billion a year.

A \$5 or \$6 per barrel increase, which is what has occurred in spot markets, would be the equivalent of a \$30 billion or \$35 billion tax increase. What's more, as oil prices go up, so does the cost of other forms of energy such as natural gas and coal, although not necessarily by as much and usually only after a lag. Still, those increases magnify the impact of higher oil costs.

Altogether, the short-term depressing effect is probably on the order of \$50 billion or more, or about 1 percent of the gross national product.

This prospect poses an acute problem both for the Bush administration, which has been trying to strike a deal with

See ECONOMY, H3, Col. 1

ECONOMY, From H1

congressional leaders to reduce future federal budget deficits, and for the Federal Reserve, which will have to decide how to respond to the simultaneous threat of recession and worsening inflation.

Since any attempt to cut federal spending and raise taxes would also tend to depress the economy, the already difficult chore of striking a budget agreement could become even harder to achieve if oil prices stay high.

One congressional source close to the negotiations suggested that it might be appropriate to change the "configuration" of the planned deficit reduction by having less of it in fiscal 1991, when the impact of higher oil prices is being felt keenly, and more of it in later years.

It is far from clear, however, how already skeptical financial markets would respond to such a deal. Postponement of the anticipated \$50 billion to \$60 billion cut in the deficit for next year could lead investors to questionthe seriousness of a budget deal. If this happens, then long-term interest rates likely would not come down, regardless of the deal or of Fed attempts to lower them.

The administration is counting on the Fed to cut interest rates to offset any significant tightening of fiscal policy, and Fed Chairman Alan Greenspan has indicated the central bank will do so. But the Fed has far more influence over short-term rates than long-term rates, and if investors balk, there is little it can do.

With oil prices surging, the whole exercise is much more complicated from the Fed's point of view. If the Fed tries to lower short-term rates significantly to offset recessionary pressures just as inflation is getting worse, investors might decide that the central bank was giving up on its long-running fight to control inflation.

On the other hand, officials at the central bank have been carefully trying to avoid a recession, partly out of fear of what a downturn could do to debt-laden businesses and the sometimes shaky banks that have lent to them. The oil price hikes just make those concerns more acute.

The question is whether investors believe that the Fed's longer-term goal would still be to reduce inflation even if it eases rates to deal with a shorter-term problem.

"It comes back quickly to what we call the credibility of the central bank," said one Fed official. "We can do it better now than in the '70s" when financial market trust in the Fed as an inflation fighter was not high. "But we do not have an overabundance of credibility."

Not all the impact of higher energy prices is negative, however.

Part of the impact of higher crude oil prices should be offset down the road by more investment by the oil industry and by businesses and consumers seeking to use less energy. Even in the short run, some parts of the country and some sectors of the economy will be boosted rather than hurt by higher oil prices.

While all U.S. oil users will be paying more, U.S. oil producers will be getting more for their crude. In the first 200 days of this year, net oil imports averaged 7.8 million barrels daily, or just over half of what is consumed. That means that foreign and domestic oil producers each probably will end up with about $15 billion to $17 billion more income. The bulk of the income associated with higher prices for natural gas and coal would also flow to U.S. firms.

Not all the impact of higher energy prices is negative.

The fact that domestic energy producers get more than half of the added amounts oil users will pay softens the depressing impact on the economy. Higher oil prices likely will stimulate oil and gas drilling in states such as Texas and Louisiana, which have still not recovered from the devasting decline in oil prices in 1985 and 1986.

A healthier economy in the Southwest could even save the federal government some money by increasing the value of some of the real estate and other assets the government now owns as a result of having taken over hundreds of insolvent banks and thrift institutions there.

But the stimulus to the oil patch will build slowly because it takes time to make and execute new drilling plans, and having been badly burned once by falling prices, both independent oil drillers and major companies alike are apt to be cautious until they can be sure prices will stay up.

Meanwhile, energy-short Northeastern states, some of which are already clearly in a slump, will be hard hit right away because of their high dependence on oil.

But the impact in the Northeast, as in the nation as a whole, will not be as severe as in the 1970s, both because the oil price increase is far smaller—in 1973-74 prices quadrupled rather than merely rising by one-third, if they stay around $25—and because the U.S. economy uses considerably less energy per dollar of GNP than it did then. Furthermore, in both previous episodes, energy prices were subject to price controls, which slowed the process of adjusting to the increase in energy prices.

"Energy is very important to the economy," said one government analyst, "but it is much less important than it used to be. There is more flexibility, and there is more business knowledge about how to handle a big increase in the relative price of oil.

"But having said that, it is important to understand just how important energy is," he continued. "It works its way through every nook and cranny of the economy. When you change the cost structure of something as large as that, it shakes the rafters."

That shaking would be much greater had the earlier price shocks not occurred. For instance, while the number of cars on U.S. highways has risen steadily, gasoline consumption has not because the average mileage each car gets per gallon has gone up, too.

For instance, after adjusting for inflation, consumers so far this year have been spending no more for gasoline and oil than they did five years ago, according to Commerce Department figures.

According to one government agency's assessment, a $5 rise in crude oil prices will cause consumer prices to be 1 percent higher 12 months later as the effects work their way through the economy. The usual rule of thumb is that GNP will be half a percentage point lower at the end of a year than it otherwise would have been if consumer prices go up 1 percent over the same period.

A half a percentage point decline in the output of goods and services in the United States would represent a very mild recession. If the economy otherwise were growing even modestly, GNP might not go down at all.

On the other hand, the invasion of Kuwait has added a new level of uncertainty about the economy, and uncertainty itself can depress spending.

On Friday, White House spokesman Marlin Fitzwater told reporters the administration still does not expect a recession despite the bad news on employment and oil prices. But Fitzwater also acknowledged that the administration's outlook is based on its assumption that the increase in oil prices will be moderate.

"The possibility of extreme change and damage is very great," Fitzwater noted. "It's a large concern and a growing concern."

The Washington Times

MONDAY, AUGUST 6, 1990

Budget talks to resume when Congress returns

By Donald Lambro
THE WASHINGTON TIMES

Budget negotiations between the White House and Congress will start up again when lawmakers return from their monthlong August recess, congressional and administration officials agreed over the weekend.

House Democratic Leader Richard Gephardt, chairman of the negotiations, and White House Budget Director Richard Darman agreed to resume negotiations shortly after the Labor Day weekend, with a Sept. 10 deadline for an agreement.

Despite the ambitious timetable, legislative advisers to the negotiators cautioned that both sides were still far apart from reaching agreement on the difficult tax and spending issues that have divided them since President Bush called the summit together in May.

"We haven't had any movement on either side," said Larry Stein, a chief budget aide to Senate Budget Committee Chairman James Sasser, Tennessee Democrat. "The problem is that on fundamental issues we remain radically divided."

Yet House Budget Committee Chairman Leon Panetta, California Democrat, said he believed that if "serious offers are made," the negotiatiators could meet the deadline.

The entire negotiating group has not met since July 24, and the only substantive agreement has been to try to come up with a first year package of spending cuts and tax increases totaling $50 billion as part of an overall five-year, $500 billion plan to eliminate the deficit.

While Republicans have accused the Democrats of using the budget talks to their own political advantage and failing to propose a plan of their own to reduce the deficit, Democrats respond that the White House has not proposed its plan either.

"The Republicans have yet to come forth with a plan," said a chief aide to Mr. Gephardt. "They haven't put anything on the table."

Democrats maintain that the package of tax increases leaked to the press by Sen. Bob Packwood of Oregon, ranking Republican on the tax-writing Finance Committee, has never been formally proposed by the Republicans or the White House.

Republicans counter that the president has gone the "extra mile" by agreeing to consider some "tax revenue increases" and say Democrats have failed to reciprocate by making any concessions of their own.

Mr. Stein, however, noted that there was still strong opposition among House Republicans to the negotiations. In fact, GOP House members on Friday blocked consideration of an attempt by congressional leaders to enact the new budget deadline into law.

"The Republican caucus in the House has made clear that they don't want to deal," Mr. Stein said. "We do want to deal. The economic circumstances of the country demand that we reach an agreement."

But Democrats in the negotiations admit that the wide gulf that remains between the two sides has not been narrowed in any substantive area. "It's less about political advantage than about deep policy disagreements," Mr. Stein said.

Meantime, some legislative aides on both sides of the aisle believe no progress will be made in the talks until lawmakers feel the political heat from automatic across-the-board budget cuts that will be inflicted under the Gramm-Rudman-Hollings deficit-reduction law if a budget is not agreed to before Oct. 15. But Democrats say they are not going to be intimidated by that strategy.

"From our perspective, we're not going to be frightened into any deal that perpetuates the failed policies of the 1980s," Mr. Stein said.

USA TODAY

MONDAY, AUGUST 6, 1990

Get S&L answers; skip the commission

Too little, too late.

Those four words describe years of bumbling by Congress and two administrations in the $500 billion savings and loan debacle — at a cost to the average taxpayer of $240 a year through 2030.

Too little, too late.

Those words describe a bill approved by the House last week to create a $1 million special commission to investigate the causes of the S&L mess and to sentence the worst S&L crooks to life in prison — a penalty that by law can only be applied to future crooks, not those who created the mess.

Too little, too late.

Those words should be shouted by voters any time members of Congress, now home for the August recess, tout their votes on such bills as "getting tough" on this scandal.

The congressman across this page, who has long sought tougher regulation of S&Ls, argues that voters deserve straight answers about the S&L mess. He says a bipartisan commission can provide them.

And the White House over the weekend signed on to a Senate proposal for an eight-member commission, after opposing a similar plan earlier by the nation's governors.

The White House was wrong to change its mind. The commission is a bad idea, for now.

A commission now is a bad idea because it would duplicate congressional committees looking into S&L issues, such as that reviewing possibly cushy deals made by S&L regulators in 1987-88 in trying to get rid of insolvent thrifts.

A commission now would be a bad idea because it could interfere with ongoing investigations of potential S&L fraud, such as that into the activities of President Bush's son Neil, with a Colorado savings and loan.

Most of all, a commission now is a bad idea because it wouldn't report until next year. And voters this fall shouldn't be told, "Wait 'til next year" to find out their representatives' roles in creating this scandal.

Voters need answers now to their questions about where their representatives were in the early 1980s — when deposit insurance was hiked from $40,000 to $100,000, when ceilings were lifted on interest charged on deposits, when thrifts were allowed to make risky investments in real estate and junk bonds, when accounting rules were eased and the number of regulators cut.

Voters need to know now where the 424 House members who voted to investigate and get tough on S&Ls last week were in the 1980s when S&L operators were giving out millions in campaign funds. Did they have their hands out?

And they need to know now where those House members were on May 5, 1987.

That's the day 258 House members killed a proposal that would have put up $15 billion, paid for by the S&L industry, to close insolvent thrifts. Instead, the House approved a $5 billion package pushed by the S&L industry. It was way too little and too late.

The commission can't answer those questions in time for the election. It may never answer them at all.

We can't wait until after we've voted to get those answers.

That would be too little, too late, again.

USA TODAY

MONDAY, AUGUST 6, 1990

Name a commission to find S&L answers

WASHINGTON — The American public, after doing a slow burn, has reached the end of its rope concerning the savings and loan crisis. The anger and animosity spreading throughout America in response to this $500 billion disaster carry the kind of fury usually reserved for the likes of Iraq's Saddam Hussein and Libya's Moammar Gadhafi.

The fact that the S&L crisis has generated such a nationwide outcry is the very reason that a National Commission on Financial Institutions Reform, Recovery and Enforcement should be established. Though it sometimes appears impossible to fully grasp, there *is* a bottom to this mess.

It is absolutely essential that we get all the answers, and we simply cannot do that through a highly charged political debate. We need a national commission to look beyond the current political heat and shed expert, bipartisan light on the causes of this disaster and how we can best and most quickly bring an end to it.

AP

Rep. Charles E. Schumer, D-N.Y., is a member of the House Banking Committee and its Subcommittee on Financial Institutions Supervision.

The National S&L Commission is modeled along the lines of the Warren Commission, which looked into the assassination of President John F. Kennedy, and the Kerner Commission, which probed the race riots of the 1960s.

Given cost estimates of $500 billion and up, uncertainty over the scandal's causes and insufficient progress toward real solutions, the magnitude of this disaster is clearly at that level.

Nor will the commission be a mere paper tiger. It is granted broad authority, including subpoena powers, to look beyond the pieces of the puzzle and confront the whole picture at one time.

With a mandate to examine the past, the present and the future, only a national commission can give the American people a clear, unfettered look at what brought us to this point and how best to emerge from it.

It is important to note that the commission will not duplicate any ongoing efforts, nor will it have any involvement in criminal investigations. Such responsibility resides in the Department of Justice, and it will remain there.

The National S&L Commission will require $1 million to conduct its business. The amount of benefit the country can gain from spending this tiny amount of money on a half-trillion-dollar crisis is enormous.

The only thing we can't afford to do is bequeath a heritage of staggering S&L debts to future generations. Americans have a proud history of confronting and defeating tough problems when we can be unified behind a single purpose.

The commission can sweep away the current confusion, channel the outrage and establish this sense of purpose.

USA TODAY

MONDAY, AUGUST 6, 1990

S&L probe? Let George do it

SAN FRANCISCO — So Congress may decide to play hardball, establish a commission to investigate the savings and loan fiasco and — golly darn it — enact tough penalties for any financial hooligans who might try the shenanigans again.

Hmmm. Isn't that sort of like passing a law strictly prohibiting foreign countries from attacking Pearl Harbor — on Dec. 8, 1941?

Sure, we need a commission to tell us our money's missing, just like baseball needs a commissioner to tell us the Yankees are missing.

And since we're playing hardball, maybe Congress should look to our national pastime for guidance. Following are the conclusions drawn by the Steinbrenner Commission (he's practically unemployed now anyway) after months of droning S&L testimony from wincing witnesses and self-serving sound bites from blue-ribbon buffoons. And a few wild pitches as well.

▶ Fire the manager (the Bush administration didn't like this proposal, with '92 approaching).

▶ Hire your son. (*now* we're talking — this could give Neil Bush an all-new image).

▶ Rehire the guy you earlier fired (funny, that's what Richard Nixon was about to suggest).

▶ Sign useless free agents for lots of money (borrow millions if you have to; heck, they're federally insured, aren't they?).

▶ Pay spies for bad information (the CIA endorsed this one), then pay people so they won't bug you (we hear some senators will even assist you), and make up 16 different stories about what happened (gives press secretaries work).

Steve Baker is executive producer of the Duck's Breath Radio Theatre series, Ask Dr. Science.

▶ End the arms race (most of the Yankees' limbs have been dead for years anyway).

Most important, don't sell the franchise. Expand. We're not talking imperialism, just a federal surcharge of, say, 25% on fees for new franchises. With $100 million the going rate for ball clubs, the majors need only add 20,000 or so teams and we'll have this S&L tab ($500 billion) practically licked. That's just about the number of places that say they deserve a franchise, anyway.

Besides, think of all the childhood fantasies of playing in the majors that'll come true, not to mention the salaries. And it'll take a lot of new stadiums for all the teams, meaning a lot of bond issues to borrow money — from a lot of S&Ls.

It's an economic field of dreams, courtesy of The Boss and another government commission.

The Boston Globe

SATURDAY, AUGUST 4

MARY McGRORY

An S&L straight shooter

WASHINGTON – L. William Seidman, the chairman of the Resolution Trust Corp., the elegant name for the savings and loan bailout, described his job to a rapt audience at the International Platform Association as "undertaker, tax collector and garbage man – any one of those is all right, but together . . . "

Nonetheless, he appears to be willing to soldier on, despite the fact that for months the White House has been hinting that his departure is imminent. His crime? From the first, he has insisted that the bailout will cost money, and once he suggested that a fee from insured depositors might be required.

Seidman is metaphorically as well as actually on crutches: He lost an argument with a bucking horse in New Mexico. But he has many fans, especially on Capitol Hill, where his straight shooting is much appreciated. He is a veteran of Washington wars, having served in the Ford White House, and the people at the White House obviously thought they were getting a team player. Alas for them, he turned out to be an independent with bristling care for his reputation as an honest man. He does not wish to be driven out of town.

The rush to be rid of him is somewhat baffling, since he is the best known and most respected administration player in the S&L quagmire, which political analyst Patrick Caddell calls "an economic Vietnam."

Says Rep. Charles Schumer (D-N.Y.), an S&L specialist, "They should be down on their knees begging him to stay on, but instead they are sniping at him."

Some measure of the national rage was visible during Seidman's talk, when he was asked repeatedly how a furious electorate could punish the malefactors. He told them that the mess was pretty much their own fault. They had elected people to Congress who insured deposits without regulating banks.

Seidman told them ruefully of Texans who have taken their S&L winnings and invested them in homes that cost between $10 million and $12 million, which cannot be seized because of a state law that forbids taking a man's home in a judgment.

Rep. Howard Wolpe (D-Mich.) thinks Texas should be punished for its greed. He has introduced a bill that raises the possibility of regional enmities to add to the brew. His bill would require Texas to pay an additional insurance premium of $2.8 billion. His reasoning is that it has cost $21 billion to clean up state-chartered Texas thrifts, while virtuous states of the Northeast and Midwest have cost only $1.3 billion. Texas, of course, lifted restrictions from state-chartered and federally insured S&Ls.

Seidman was asked if the massive amounts being used to scrub the S&Ls did not amount in fact to a "tremendous transfer payment from the North of the country to the South."

"In a way it is, and in a way it isn't," said Seidman, who has enough conflict on his hands. "The money is going to depositors from all over the country, some of whom simply gave their money to Merrill Lynch for deposit."

Wolpe says it doesn't matter where the money came from but where it was spent. Texas S&Ls were used as private banks by high-rolling developers.

One thoroughly exercised woman from Chicago said she didn't mind paying taxes to run the country, "but what I want to know is why the taxpayers have to pay the tab for people cheating."

This is a sentiment that is heard all over the land in the current campaign, and it makes incumbents shudder.

Seidman said none of it would have happened if bureaucrats had read the Bible. Proverbs 11:15: "Who insures a stranger will surely suffer for it."

Mary McGrory is a syndicated columnist.

Seattle Post-Intelligencer
A HEARST NEWSPAPER
JULY 31, 1990

More charades in budget talks

In keeping with the Reagan tradition, President George Bush and congressional Republicans are attempting to help balance the federal budget by imposing new burdens on the backs of state and local governments.

The nation's governors and local officials, Republicans and Democrats alike, are right to squawk.

For almost a decade, Reagan shifted responsibility for social programs from the federal down to the state and local levels. Now Bush and congressional Republicans would lean on them again, fattening the treasury by slapping a lid on the amount of state and local income tax individuals can deduct on their federal tax return.

This approach is wrong on several counts.

It poses serious threats to state and local governments' ability to generate revenue: Tax-weary citizens would be more likely to reject hikes in local taxes. Their deductibility has long been a selling point for state and local tax proposals. By tradition, Americans want to keep our tax money close to home. The elimination of the deduction for sales taxes did enough damage on its own. This measure would further dull voter enthusiasm for meeting what are often sorely needed state and local tax needs.

It's unfair to both governments and individuals. More tax revenue would be going to the federal government at the expense of state and local governments which need more revenue, not less. Even though its greatest effect would be among Americans who make more than $100,000 a year, it is fundamentally unfair in that by limiting deductions for local taxes it would tax individuals on money they never actually received — money that went to pay local taxes.

It won't generate all that much money. The yield is estimated at $3 billion a year. That's a pittance when held up against a federal budget deficit for this fiscal year alone of some $170 billion. And that's not even counting the year's cost for the savings-and-loan bailout.

Worst of all, it's a timid, tepid little effort that does hardly more than pass the buck. In a fiscal crisis that demands bold ideas and tough decisions it represents neither. Like other Bush administration initiatives, such as increased "sin" taxes on cigarettes and alcohol, it constitutes little more than nibbling around the edges of the real problem, and the real solution.

The problem is that the nation faces a huge fiscal deficit. Any gains from decreased defense spending must be committed to rebuilding the country's physical and social infrastructures, both sadly neglected during the Reagan-congressional military spending binge.

The solution, then, is for us to pay more in taxes — some of us more than others, to be sure, but all but the poorest among us must share in the burden. The stark alternative is to continue the self-deluding policy of believing we can repair the fiscal damage without sacrifice.

Bush is still too busy hearing the echoes of his election-campaign lips. What is needed are cuts in spending coupled with an increase in federal income taxes, not petty pilfering of state and local coffers.

Richmond Times-Dispatch

Sunday, August 5, 1990

Who Robbed the Thrifts? Congress

By Jim Leach

WASHINGTON — The most captivating news story in my home state last year concerned an attempted robbery of tragicomic proportions.

At the end of the basketball season a star forward on the Iowa State University team walked into the campus Burger King, without a mask, carrying a rifle. He asked the high school sophomore at the counter to hand over the money in the cash register.

The team's picture featuring this strapping athlete was on the wall. The teen-ager recognized him with a "Hi, Sam." He looked up and responded, "It's not me!"

The savings and loan scandal is another kind of robbery, the biggest bank heist in history — one that goes beyond the bank vaults to pick the pocket of every American. And the picture of another pin-striped team is on the wall: It is the biannual official photograph of Congress.

The savings and loan debacle symbolizes the breakdown in discipline in legislative bodies, especially at the committee level, where interest groups target their attention and dollars. Committees are designed to be delegated centers of legislative expertise. Too often they have become advocacy rather than oversight oriented, failing to provide stop signals for the inevitable train wrecks.

In modern politics legislative reputations are generally made by extremists, those who push the biggest programs or tax cuts or who advocate the greatest new powers for government or the private sector.

In the case of the savings and loan debacle the committees of jurisdiction in Congress failed to rein in the powers that regulators had allowed the thrifts — to over-leverage capital, buy junk bonds and make speculative investments. They chose instead to encourage forbearance toward patently imprudent practices.

During the 1980s the two costliest code words in the legislative lexicon became "direct investments." Thrifts were released from their social contract to make home loans — the historical quid pro quo for receipt of federal deposit insurance — and given license to speculate in commercial real estate and leveraged buy outs.

Instead of following the Wall Street precept that "first loss is best loss," gullible legislators bought the claim of Charles Keating and other industry insiders that inflation-ravaged thrifts could beat insolvency by gambling with other people's money.

From a Sun Belt perspective the gamble worked: The wealth of the Midwest and Northeast was transferred on a one-shot basis to the Southwest and West. While graft was rampant, not all of the deposits were frittered away. An infrastructure of homes and modern offices was built that will stand for a generation as a government-induced incentive for migration to the states with the most lax regulation.

This criminal transfer of wealth from one region to another, from middle-class taxpayers to lubricious high rollers, occurred because legislative bodies abandoned the national interest and represented private, regional and industry concerns. Once an innumerate Congress replaced prudential capital ratios with phony accounting and capricious powers, the government's gold could be stolen without breaking into Fort Knox.

Ironically, it was the alleged defenders of the little guy in American politics who led the charge to transform an industry created under Franklin Roosevelt to serve small savers and average homeowners into a privileged preserve for the moneyed elite.

The only honor that can be salvaged from this fiscal Vietnam — the chance to hold the "ins" accountable for privatizing profit and socializing loss — must be a demand for campaign reform, for fair rules, for competitive opportunity in American political as well as economic life.

The $20 a month that the average American family must pay Uncle Sam for the next 30 years amounts to a Congressional Watergate, depriving Congress, particularly its majority party, of the moral imprimatur to defend the status quo.

In Chinese history there is a theory of revolution based upon a "mandate of heaven": A government may be overthrown when a catastrophe — a drought, flood or earthquake — signals the necessity.

The question of the 1990s is whether the American people are concluding that the conflicts of interests of the 1980s — that cost real people real money — are a castastrophe and that the mandate of governance ought to be removed from the Democratic political establishment. It has controlled Congress and the majority of state legislatures during the past half-century.

The challenge to Republicans is to stake out the position of the party of reform. The future belongs to those who put the savings and loan crooks in jail and remove America's legislative bodies from the control of monied influence peddlars.

(Jim Leach, Republican of Iowa, is a member of the House Banking Committee.)

The Philadelphia Inquirer

MONDAY, AUGUST 6, 1990

Budget sessions are suspended

By William J. Eaton
and Tom Redburn
Los Angeles Times

WASHINGTON — President Bush's high-stakes campaign to reach a budget compromise with Democratic leaders has been suspended for Congress' August break, with little to show for three months of talks other than political scars on both sides.

House Republican Whip Newt Gingrich of Georgia contends that the talks have virtually collapsed — and he blames the Democrats. Democrats say divisions among Republicans are the primary cause of the impasse.

"We're fiddling around while Rome burns," Rep. Silvio O. Conte (R., Mass.), one of the negotiators, cried in despair over the lack of progress.

Even last week's invasion of Kuwait by Iraq may have set back the deficit-reduction process by making it more difficult for negotiators to count on deep cuts in defense spending or to raise taxes on gasoline, particularly if oil prices begin to spiral.

Yet, both the President and key Democratic leaders have refrained from declaring the summit sessions a failure, holding out hope even in this election year that a bipartisan deficit-cutting accord can be achieved in September.

The reason: The administration and congressional negotiators alike consider the most likely alternative — automatic federal-spending cuts of $100 billion or more that would slash some federal programs by as much as 40 percent on Oct. 1 — too horrible to contemplate.

Trying to retain hope, the bipartisan congressional leaders and Bush agreed on a Sept. 10 deadline for an accord and a speedy timetable for approval of a package that would reduce the deficit by $50 billion in the coming fiscal year and by $500 billion over five years.

Acknowledging the lack of progress, Rep. Bill Frenzel (R., Minn.) summed up the situation: "We're designing a honeymoon cottage. Unfortunately, the girl hasn't said 'yes' yet, so we've got a way to go."

One factor behind the inability to reach an accord is the widespread public apathy over the deficit — even though the figure has gone from $100 billion in January to $169 billion in mid-July, without including the cost of the massive savings and loan bailout.

While opinion surveys show some signs of rising public concern, the shift has not been enough to galvanize members of Congress into taking the tough action needed — such as raising taxes or cutting pet spending programs.

And there has been no domestic or foreign shock to jolt the lawmakers into casting aside their reticence. "There is no sense of crisis in the land," said Sen. Wyche Fowler Jr. (D., Ga.), one of the negotiators.

In May, when Bush convened the budget summit and hinted that he might support limited tax increases, Democrats urged him to go on television to outline the gravity of the problem.

But the President declined, insisting that he would address the nation only when he could endorse a bipartisan agreement to narrow the budget gap.

Key Democrats contend that, without jawboning from the White House to intensify pressure on Congress, there is no way they can persuade a majority in the House and Senate to support the leadership. Only the President can lead on the issue, they say.

Bush's advisers, however, are worried that he will receive the political blame if he becomes identified with painful solutions, while the Democrats keep their distance on taxes and program cuts.

The President is also faced with a sizzling revolt in his own ranks after his decision to reverse himself and declare that some tax increases might be needed.

As a result, Bush has remained ambivalent. In Washington, he meets regularly with Democratic leaders and seeks their cooperation. On the campaign trail — in order to keep his conservative followers happy — he has blasted the Democrats as big spenders.

But the Democrats also have been split. While some of their negotiators, such as House Budget Committee Chairman Leon E. Panetta (D., Calif.), have been eager to engage the Republicans by offering their own budget plan, Senate Democrats generally have played a waiting game, expecting to improve their bargaining position through delays.

Still others, such as Sen. Robert C. Byrd (D., W.Va.), chairman of the Senate Appropriations Committee, and his House counterpart, Rep. Jamie L. Whitten (D., Miss.), seem concerned primarily with holding onto their turf and are resisting major cuts or changes in the process.

Despite the schism in GOP ranks and the Democrats' inability to agree on even an opening counteroffer, negotiators on both sides remain confident that it will not take long to reach an accord once they achieve the political will.

Bush has suggested shifting the summit talks in late August or early September to his tranquil hideaway at Camp David, Md., to encourage domestic harmony on the budget.

House Speaker Thomas S. Foley (D., Wash.) has endorsed the idea, and last week Foley renewed his optimism that the two sides would be able to agree in the next two months.

If no deal were possible, however, Congress and the President might finesse the issue this year by revamping the deficit targets and again deferring the deadline for balancing the budget — in essence a political cop-out.

The Philadelphia Inquirer
Sunday, August 5, 1990

However it's done, bailing out S&Ls will be expensive

By Charles Green
Inquirer Washington Bureau

WASHINGTON — Kentucky home builder Tommy Thompson felt the fallout from the savings and loan crisis when he went to his banker last year for a $1 million loan to build a single-family housing development.

The savings and loan, after years of lending to him and his father, said no. Not because Thompson was a bad risk, but because the 1989 thrift-bailout law placed new limits on how much a savings and loan could lend any one borrower.

As a result, Thompson's project is on hold while he looks for other financing. "You spend your life developing a financial rapport with a lender, and when that source is cut off it's very difficult to find another one," the Owensboro developer said.

Thompson has already discovered what all Americans will encounter, in one way or another, well into the next century — the direct and indirect effects of the savings and loan crisis.

While the ultimate price of the government bailout will not be known for years, the bill will be steep by any measure. A conservative estimate — $175 billion — exceeds this year's combined federal spending on education, training, transportation, law enforcement, veterans' benefits, pollution control, science and space exploration.

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Adding interest payments, the eventual cost of the cleanup could reach $500 billion, according to the General Accounting Office.

The government has little choice but to pay what is required because the money is going to depositors of failed thrifts whose accounts were insured by the federal government.

Some of the money to pay depositors is coming from the sale of real estate investments and other assets of the thrifts taken over by the federal government, but much of it will come from taxes.

The bailout will mean less money for schools, roads and police and, almost certainly, higher taxes. It has already resulted in tighter credit and is being blamed by industry officials for a steep downturn in real estate activity that has spread across the nation.

Even retirees three decades from now — today's baby boomers — could feel the pinch. Workers then, including today's toddlers, will be paying taxes to cover the interest on money borrowed for the thrift cleanup 30

(See S&L LOSSES on 4-C)

S&L LOSSES, from 1-C

and 40 years earlier. That will make it harder for them to afford to pay for Social Security and Medicare benefits for their elders.

"Every taxpayer is going to be adversely impacted by what happened in the savings and loan industry," said Auburn University finance professor James Barth.

Here is a look at some of the ways the public will be affected by the thrift crisis that former thrift regulator Edwin J. Gray calls "the biggest financial debacle in the history of the world."

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The broadest impact of the savings and loan bailout will be on the country's taxpayers, who will be called on to cover perhaps three-fourths of the total bill.

Last year, when the Bush administration estimated the cost of the bailout at $50 billion, Congress authorized borrowing that amount. Taxpayers will be paying the interest on the borrowed money for the next 30 to 40 years.

The administration's cleanup estimates were far off the mark, however, and regulators now estimate that another $50 billion will be needed next year alone to pay depositors, with no end in sight.

To come up with the additional money, Congress could authorize more borrowing, raise taxes, cut other federal spending or approve a combination of those options.

If, instead of borrowing the money, taxes were raised, the ultimate cost would be less because there would be no interest costs to pay. It would be like paying for a car with cash rather than credit.

But any option has its drawbacks.

Borrowing the money shifts part of the burden for the cleanup to future generations — a notion that strikes some as unethical.

"My parents and grandparents borrowed a great deal of money to fight World War II and they expected us to help retire those debts," says Carol Cox, president of the Committee for a Responsible Federal Budget, a government watchdog group. "That was reasonable because we would not have wanted to live in the world we would have had to live in if the war hadn't been fought. But can you say that about the savings and loan follies? Is it going to enhance the lives of our children and grandchildren in any way?"

Robert Greenstein, head of the Center for Budget and Policy Priorities, an advocacy group for the poor, predicts that tax increases to pay for the cleanup would hit lower- and middle-income groups disproportionately. He cited talked-about increases in beer and energy taxes.

"The people who made the money out of S&L practices were overwhelmingly high-income people," said Greenstein. "And average Americans are going to pick up the lion's share of what is lost."

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Reacting to the loose lending practices of insolvent savings and loans, the federal government has tight-

"The biggest financial debacle in ... history," an ex-regulator calls it.

ened lending regulations.

A home buyer might not feel the effect of tougher standards, but a developer or entrepreneur might find it more difficult to borrow money today compared with a year ago.

The home-building industry, in particular, has been affected. Kent Colton, executive vice president of the National Association of Home Builders, said a recent survey of builders showed that 60 percent were altering construction plans this year because of difficulties in obtaining credit.

"It has really helped bring about a significant drop in housing starts," said Colton, estimating that this year's downturn in home building will mean 200,000 lost jobs and $6 billion in lost wages.

But others say the tighter credit has served a valuable purpose by applying a brake to the building industry. "We've got to stop building because we've overbuilt," said Karl Case, an economics professor at Wellesley College. "I don't think developers should be getting very many loans."

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A problem as big as the savings and loan debacle is bound to have unexpected consequences, and some might not be apparent for years.

Barth, the Auburn University economist, predicted that one such consequence might be a shift in businesses and jobs to Texas and other areas with empty office buildings built with ill-advised loans from now-insolvent thrifts.

Not surprisingly, the potential fallout most worrisome to many Washington politicians is the one that could occur in the voting booth. Witness the spate of finger-pointing by Republicans and Democrats, and the attempts by members of Congress to divert attention from their lack of oversight of the thrift industry in the 1980s.

"Because it didn't have to happen, Americans have lost faith to some significant degree in the political process, and rightly so," said Edwin Gray, the former federal thrift regulator whose warnings about the industry in the mid-1980s were not heeded by the Reagan administration or Congress.

"I hope by the time the elections come around, we'll be able to say goodbye to folks who took a lot of money from the S&L industry and put the S&L interests ahead of the public interest," he said.

The Dallas Morning News

Newspaper Dallas, Texas, Friday, August 3, 1990 11 Sections B

Who will pay to cut the federal budget deficit?

CARL ROWAN

It's too early to say who'll have the last laugh, but the Democratic leaders in Congress are splitting their sides over the White House dilemma in the current budget discussions.

"For 11 weeks, we've driven President Bush and his aides up the wall because we didn't jump to the bait when they put tax increases on the table," a key House member told me. "So the White House has had to propose taxes on beer and wine, and try to wipe out the federal deduction of state and local income tax payments."

As of now, the Democrats do seem to have reason to chuckle. When President Bush moved his lips, no Democratic leader would give him a kiss. The Democrats know that Mr. Bush, some of his aides other than chief of staff John Sununu and most GOP leaders in Congress are scared to death of a recession that could doom dozens of congressional Republicans to defeat this fall and cloud Mr. Bush's hopes for reelection in 1992.

Republican desperation is manifest in their floating of a proposal to raise the 16-cent tax on a six-pack of beer to 81 cents, the 3-cent tax on a bottle of table wine to 76 cents and the $1.98 tax on a fifth of 80-proof vodka to $2.54 cents. These taxes would hit low- and middle-income families hardest, and Democrats are salivating over the chance to campaign on the claim that Bush & Co. have only contempt for the families of Joe Sixpack and Sam Winery.

The limit on the amount of state and local taxes that can be deducted on a federal return is being viewed as a dagger aimed at the heart of big cities and states already burdened with colossal costs of aiding poor families that have been abandoned by the federal government. Even Republican mayors and governors are rebelling against this cap on deductions — as proposed.

I talked to Sen. James Sasser, D-Tenn., chairman of the Senate Budget Committee, whom White House operatives cite as the villain of the Budget summit discussions. Mr. Sasser talks for the record:

"The deficit-reduction talks last year amounted to nothing. All we got were bigger deficits. I vowed that never again would I accept a blue-smoke-and-mirrors deal. I saw how regressive, how unfair, the tax structure has become. I insist that we cannot cure America's budget problems by cutting mostly domestic programs and entitlement spending — we must reduce defense spending substantially. We can't just raise taxes on beer! We've got to raise taxes on fur coats, diamond rings and Mercedes-Benzes."

A member of the House leadership added to the Democrats' insistence on taxing luxury items, increasing the income taxes of the rich, boosting corporate taxes and perhaps cutting $16 billion from the Defense Department budget this year alone.

Both parties seem agreed that there must be a package of deficit reduction items totaling at least $50 billion this year, and over $500 billion over the next five years. Democratic leaders seem to think that this time they are "driving the Republicans bats."

When the Democrats stop laughing and the Republicans face up to a national crisis, where is the haggling going to come out? One House Democrat says there will be a deal of $25 billion in spending cuts and $25 billion in increased taxes, or "revenues."

Of the spending cuts, half will come from domestic programs and at least half from defense programs. That could mean defense cuts of at least $12.5 billion this year, which the White House and Pentagon say is unacceptable. But it is peanuts compared with the $94 billion in defense cuts that might be mandated under the sweeping knife of the Gramm-Rudman Act.

As for that $25 billion in increased taxes, we won't know who gets zapped until the lobbyists engage in their holy war and we see who is the bleeding-but-standing survivor. The beer and tobacco people already have launched campaigns against huge tax increases on their industries.

So far, the great "budget summit" of 1990 has produced nothing — except leaked schemes to sock it to the same people who bore the burdens of the 1980s: the poor and middle-class families.

We all have a stake in Mr. Sasser's efforts to shift the burden to the richest families who can pay a lot more without lowering their lifestyles one whit.

Carl Rowan's column is distributed by North America Syndicate.