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^Bush Promises To Tone Down Attacks In Budget Deficit War<
^By TOM RAUM=
^Associated Press Writer=

WASHINGTON (AP) - Congressional Democrats extracted from President Bush a pledge to tone down political attacks during a two-hour budget session Tuesday that failed to narrow crucial differences on curing the federal deficit.

Bush agreed to a temporary political cease-fire after blistering Democrats in recent Republican fundraising speeches around the country.

``He'll be very gentle'' from now on, White House spokesman Marlin Fitzwater said.

Bush made no mention of contentious budget issues during a midday speech to a GOP audience in Philadelphia, focusing instead on praise for his day-old selection of David Souter for the Supreme Court.

Participants said congressional leaders suggested at Tuesday's Oval Office session that political attacks and counterattacks have hampered efforts to strike a bipartisan budget deal.

``One of the things discussed today was to stop the political debate and start the substantive debate and to try to cut down on the political comment that's gone on on all sides,'' said House Majority Leader Richard Gephardt, D-Mo.

``I think you're going to see that that will happen,'' he added. ``I think a lot of that's out of everybody's system.''

In political speeches last week in Western states, Bush ridiculed the budget process and suggested that it was now the Democrats' turn to make concessions on taxes and spending.

Fitzwater, speaking to reporters on Air Force One en route to Philadelphia, said that Bush and the Democrats were ``working in a spirit of harmony and compromise.''

``They agreed this morning at the meeting that they would try to keep the rhetoric under control and really try to make this a productive week of work,'' Fitzwater said.

Another White House session with the five top congressional leaders - Gephardt, Senate Majority Leader George Mitchell, Senate Minority Leader Bob Dole, House Speaker Thomas Foley and House Minority Leader Bob Michel - was scheduled for Wednesday morning.

At the same time, a larger group of budget negotiators was meeting on Capitol Hill Tuesday in an effort to narrow differences.

But despite the political truce, Bush and Congress seemed no closer to agreeing on a way to close the deficit gap than they were before the president revoked his 1988 ``no new taxes'' pledge in early July.

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The administration estimates that the deficit for fiscal 1991, which begins Oct. 1, will be nearly $169 billion - more than $100 billion over the $64 billion target set by the Gramm-Rudman budget-balancing law.

Congressional and administration negotiators are trying to find at least $50 billion in savings, to be divided about evenly between spending cuts and new taxes.

Gephardt, who chairs budget-summit negotiations when the president is not in attendance, said that ``fundamental differences remain'' on taxes, defense spending and cuts in ``entitlement'' social programs.

Speaking with reporters in the White House driveway, Gephardt said these differences may frustrate efforts to reach agreement by the August congressional recess ``but we're going to give it the good old college try.''

House Speaker Foley, D-Wash., said decisions remain on the precise amount of deficit reduction that would be sought, and how much of it would come from new taxes and spending cuts.

``I don't think there is at this point a clear definition of what each side wants,'' Foley told reporters.

Gephardt said ``there are still very difficult areas of discussion that will be hard to close on. This is not easy to do.''

Noting Monday's 56-point plunge in the Dow Jones industrial average, Gephardt said, ``All through this I think people have been worried that the market is very touchy and the whole economy is very shaky.''

``I don't know what causes the market to do anything. I don't pretend to know. But it's obvious that if we can get this done, it would give everybody a boost of confidence.''

Bush himself seemed downbeat at the start of Tuesday's meeting in the Oval Office. He waved off questions from reporters at a picture-taking session, saying, ``Don't even try. I'm in a bad mood today.''

He did not elaborate and refused to say whether the ``bad mood'' stemmed from the budget impasse.

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^Little Progress Reported At White House Budget Talks<
^EDs: LEADS with 20 grafs on White House meeting; picks up pvs 6th graf, The House's...<
^By ALAN FRAM=
^Associated Press Writer=

WASHINGTON (AP) - President Bush and congressional leaders met for two hours today in hopes of spurring a deficit-reduction compromise, but a top House negotiator later said ``fundamental disagreements'' remain.

House Majority Leader Richard Gephardt, D-Mo., also said that President Bush's recent attacks on congressional Democrats at Republican fund-raising events aren't helping the process of finding a compromise.

``One of the things discussed today was to stop the political debate and start the substantive debate and to try to cut down on the political comment that's gone on on all sides,'' Gephardt told reporters outside the White House.

Bush himself seemed downbeat, refusing to answer questions at a picture-taking session at the start of today's meeting. ``Don't even try, I'm in a bad mood today,'' Bush told reporters. He did not elaborate.

Bush has been lashing out at Democrats and the congressional budget process in a series of GOP fund-raising speeches. In fact, he was attending similar events today in Philadelphia and New York.

Gephardt said that Bush had agreed to cool down his attacks and ``I think you're going to see that happen.''

Flying to Philadelphia aboard Air Force One, White House Press Secretary Marlin Fitzwater said Bush would be ``very gentle'' toward the Democrats in his campaign speeches.

``They're working in a spirit of harmony and compromise. In fact, they agreed this morning at the meeting that they would try to keep the rhetoric under control and really try to make this a productive week of work,'' Fitzwater said.

Gephardt, who is the leader of the ``budget summit'' negotiations when Bush is not present, said he still thought it possible that accord could be reached by early August, when Congress begins its summer recess.

``But I don't know for absolute sure that we can do that,'' he added. ``It may be that we can't get all of it done. But we're going to give it the good old college try.''

House Speaker Thomas S. Foley, D-Wash., said decisions remain to be made on the precise amount of deficit reduction that would be sought, and how much of the savings would come from new taxes and spending cuts. Bargainers have said they expect any compromise to contain about $50 billion in savings, divided in half between revenues and spending reductions.

``I don't think there is at this point a clear definition of what each side wants,'' Foley told reporters.

Gephardt said budget negotiators would meet again on Capitol Hill later today. He said a smaller group including top House and Senate leaders and the president would meet again at the White House on Wednesday morning.

``We'll try to work both groups together as we try to work toward a solution of the problem,'' he said. ``There are still some very difficult areas of discussion that will be hard to close on. This is not easy to do.''

``There are fundamental disagreements'' on taxes, spending cuts in entitlement programs and on defense spending levels, the Democratic leader added.

Gephardt said the president did not offer any specific proposals on new taxes at today's session.

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The Oval Office session also included Senate Majority Leader George Mitchell, D-Maine; Senate Minority Leader Bob Dole, R-Kan.; and House Minority Leader Bob Michel, R-Ill.

After 11 weeks of bargaining, there is still very little agreement on specifics, Gephardt conceded.

The two sides have made no decisions about where they will find $50 billion in new taxes and spending cuts for fiscal 1991, which starts Oct. 1.

Bush met with congressional leaders last Wednesday in hopes of advancing the negotiations. But since then, the two sides have done little but argue.

The House's 176 minority Republicans voted informally that same day to oppose any tax increases as part of a budget-cutting package. Democrats said that vote hurt the talks by casting doubt on whether GOP lawmakers would eventually support a compromise.

Negotiators met last Thursday but spent the closed-door meeting yelling at each other, participants said. And Friday, on a Western campaign trip, Bush accused congressional Democrats of causing the recent run of $150 billion a year-plus budget shortfalls, prompting Democrats to fire back.

The budget negotiators hope to produce a package within the next two or three weeks, when Congress' August recess begins. But bargainers concede it will be hard to accomplish that goal.

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Bush sees progress in budget talks

WASHINGTON (UPI) _ President Bush feels progress is being maoe in budget negotiations and House Democratic leader Richard Gephardt said Tuesday the two sides hope to make a deficit-cutting deal by the time Congress begins its August vacation.

Bush met with congressional leaders at the White House Tuesday morning before beginning a one-day political trip to Philadelphia and New York. The negotiations, set to continue on Capitol Hill in the afternoon, are aimed at finding ways _ incudling spending cuts and revenue increases _ to reduce the projected federal deficit next year by $100 billion.

''The president feels they made progress,'' White House spokesman Marlin Fitzwater said of the morning meeting.

Talking with reporters aboard Air Force One, Fitzwater said the group ''is doing the heavy lifting'' of sifting through budget details to fund ways to shrink the deficit.

If no agreement is reached, the Gramm-Rudman balanced budget law could force radical cuts in many programs.

Asked if Bush would use his campaign stops to build pressure on the Democrats on the budget issue, Fitzwater said the president will ''be very gentle. They're working in a spirit of harmony and cooperation.''

The spokesman said the two sides ''agreed ... this morning that they would try to keep the rhetoric under control and really try to make this a productive week of work.''

Bush's message to the leaders was that ''for the good of the economy, we need a package (of reductions) to get the interest rates down. ... Time is important,'' Fitzwater said.

Gephardt, D-Mo., said after the 90-minute White House meeting that negotiators discussed ''the need to cut down the political debate and cut down the comment. I believe we've gotten through the stage of people making political points. I think that's out of their systems.''

He said the negotiators now have a ''better understanding of the ranges and totals'' they are seeking in reductions in defense spending, the entitlement programs and tax revenues.

But he added, ''There are still some very tough issues of discussion to close on that are hard to do.''

Current plans call for administration and congressional negotiators to meet with Bush for morning meetings at the White House, with fuller meetings on Capitol Hill in the afternoons on a daily basis for the next two weeks.

''I still think we can do it,'' Gephardt said, noting that negotiators hope to have a package complete by the time Congress begins its annual August recess, expected by Aug. 10.

Failure to reach an agreement by that time would bring the negotiations perilously close to the Sept. 30 end of the fiscal year.

If no deal is made to reach the Gramm-Rudman deficit target, some $100 billion in automatic spending cuts would be needed to bring the deficit down from a projected $169 billion to the fiscal 1991 limit of $64 billion.

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The Washington Post

Tuesday, July 24, 1990

Bush Moves to Speed Budget Negotiations

By Ann Devroy and John E. Yang
Washington Post Staff Writers

Frustrated by the slow pace of budget negotiations, President Bush has asked congressional leaders to the White House for daily meetings this week aimed at speeding progress toward an agreement to cut the federal budget deficit.

Beginning today, Bush is to meet each morning with Senate Majority Leader George J. Mitchell (D-Maine), Senate Minority Leader Robert J. Dole (R-Kan.), House Speaker Thomas S. Foley (D-Wash.), House Majority Leader Richard A. Gephardt (D-Mo.) and House Minority Leader Robert H. Michel (R-Ill.).

According to a senior official, the administration is "frustrated that things are going so slowly" and wanted to prod the talks—now in their 11th week—as well as build a public case that Bush "is walking every extra mile" to address the deficit.

"This is a period of very intense negotiations," said presidential press secretary Marlin Fitzwater. "The president wants to give it a major push." Bush and his advisers "felt the leadership should get together and do some hard bargaining to see if we can't get it resolved."

The full budget summit negotiating group is expected to meet this week as well, although sessions had not been scheduled by late yesterday and Foley said he did not expect the White House meetings to produce any decisions. "We're going to get reports back and forth and exchange ideas and approaches," he said. "We don't intend to make agreements outside the summit group."

Democratic participants in the talks said they hoped the White House sessions will hasten an accord nonetheless. "The talks are intensifying," a Democratic leadership aide said.

One week after House Republicans called Mitchell "a consistent roadblock" in the talks and Bush blamed Democrats for the rising federal budget deficit, Democratic negotiators said they hope today's meeting at the White House will produce agreement on a "code of conduct" for the negotiations. A draft prepared yesterday called for ending public partisan attacks and leaks of proceedings in the nominally private talks.

Democratic negotiators also said they expected to discuss today how much savings could be achieved in the various components of the budget, including both military and domestic spending, and new tax revenue.

Fitzwater said the administration continued to hope for an agreement by the time lawmakers leave in early August for a month-long recess. But lawmakers said they doubted that was possible.

"What we're likely to find this week is that we've got some tough disagreements," Gephardt said. "This is going to be hard to pull together."

"It's still at the miracle stage," said House Budget Committee Chairman Leon E. Panetta (D-Calif.). "But with some pushing by the president, miracles can happen."

If an agreement cannot be enacted before the recess, lawmakers would rather not reach a broad outline of an accord for fear that this would invite attacks over the congressional break by affected interests. "A month of heavy lobbying would make it hard," Panetta said.

While it is unlikely that lawmakers will delay their recess to work toward a budget agreement, Democratic negotiators have discussed the possibility of returning early to resume their talks.

Last week, the administration raised its estimate of the fiscal 1991 deficit to $168.8 billion.

The Washington Times

Tuesday, July 24, 1990

Budget optimism leads to daily talks

By Frank J. Murray
THE WASHINGTON TIMES

Budget negotiators from Congress and the White House indicated yesterday they felt close enough to agreement to hold top-level meetings every day this week, with President Bush attending full-time.

"Something is happening. There is some movement. Not enough movement as we'd like to see. It's a good way to keep it going, get the top leaders there, and make the hard decisions that they're going to have to make," White House Press Secretary Marlin Fitzwater said.

Last week, Mr. Bush said he had done his part in resolving a predicted $168.8 billion deficit by agreeing to consider raising taxes. "Now it's their turn," he said then, alluding to his expectation that Democratic leaders would respond by proposing spending cuts.

Mr. Fitzwater said yesterday the president shares Senate Minority Leader Robert Dole's prediction of an agreement before Congress recesses, probably on Aug. 3 or 10.

Until now, the secret negotiations have shifted back and forth from Capitol Hill to the White House with other administration officials often sitting in for Mr. Bush. These sessions have been as small as one-on-one meetings at relatively low levels. Now the sessions revert to the president and the leadership.

"In the final analysis this is the group that's got to make the judgments and the decisions," said Mr. Fitzwater, who once again refused to disclose any specifics from the talks.

Before departing early this morning on a political trip to Philadelphia and New York, Mr. Bush will meet with Senate Majority Leader George Mitchell, House Speaker Thomas Foley, Mr. Dole, House Minority Leader Robert Michel and Rep. Richard Gephardt, Missouri Democrat. Chief of Staff John Sununu, Budget Director Richard Darman and Treasury Secretary Nicholas Brady also will attend the meeting.

Similar meetings are set for tomorrow, Thursday and Friday, Mr. Fitzwater said.

"This is a period of very intense negotiations. The president wants to give it a major push."

Los Angeles Times

Tuesday, July 24, 1990

Bush Plans Daily Sessions on Deficit

■ Budget: He is eager to strike a deal before Congress' August vacation. Top lawmakers are skeptical it can be done that quickly.

By TOM REDBURN
TIMES STAFF WRITER

WASHINGTON—Amid signs of a possible thaw in the frozen budget talks, the White House announced Monday that President Bush will meet daily this week for "hard bargaining" with top congressional leaders over the federal deficit.

"This is a period of very intense negotiations," White House spokesman Marlin Fitzwater said, "so they felt the leadership should get together and do some hard bargaining to see if we can't get it resolved."

The White House is particularly eager to obtain an agreement before early August, when Congress leaves for a month-long vacation, but top lawmakers remain skeptical that a final deal can be struck that quickly.

Congressional aides said that differences between the Democrats, who control Congress, and the White House have narrowed considerably but that major disputes remain over taxes, defense spending and reform of the budget process.

Meanwhile, congressional Republicans expressed growing frustration over having been excluded from the numerous behind-the-scenes talks that have been under way recently between Administration officials and top Democratic lawmakers.

House Republicans already have lined up against any increase in taxes, largely undercutting their ability to influence the details of a budget agreement. Now, however, more-cooperative Senate Republicans are also becoming upset over the White House tactics.

Bush plans to meet with the five top congressional leaders—three Democrats and two Republicans—for breakfast today before flying to Philadelphia and New York for political speeches.

The morning sessions are expected to continue for the rest of the week, with a larger group of budget negotiators meeting in the afternoon to work on fleshing out details of a deficit-reduction agreement.

"We are going to . . . exchange ideas and approaches," House Speaker Thomas S. Foley (D-Wash.) said Monday. "We do not intend to make agreements outside the summit group."

Bargainers already have agreed informally on the broad outlines of a deficit-reduction plan that would cut roughly $50 billion from next year's estimated budget gap of $169 billion.

According to aides, lawmakers expect to extract roughly $10 billion to $11 billion in savings from benefit programs such as Medicare, pensions and farm subsidies; $10 billion to $12 billion from the Pentagon; $1 billion to $3 billion from nondefense programs, and $20 billion to $27 billion from higher taxes and user fees.

But the budget group remains mired in disputes over which measures it should recommend to reach those targets—for example, whether to rely mainly on Medicare savings to reduce the cost of benefits or to go after the politically sacrosanct Social Security program.

Another key difference between the White House and Democrats centers on taxes. Bush Administration officials have been insisting on a cut in capital gains taxes, but so far have been unwilling to accept higher income tax rates for upper brackets, which the Democrats are demanding as a quid pro quo.

One reason that both sides are pressing for an agreement is to avoid cuts of more than $100 billion that otherwise would be mandated by the Gramm-Rudman deficit-reduction law, if it is not changed.

Moreover, Congress will have to consider raising the ceiling on the national debt before it leaves for its summer vacation in early August—a deadline that could prod negotiators into making enough progress to ward off crippling amendments to the debt-limit bill.

Besides Foley, other lawmakers scheduled to attend the White House breakfast sessions are House Majority Leader Richard A. Gephardt (D-Mo.), House Minority Leader Robert H. Michel (R-Ill.), Senate Majority Leader George J. Mitchell (D-Me.) and Senate Minority Leader Bob Dole (R-Kan.). Joining Bush from the Administration will be White House Chief of Staff John H. Sununu; Richard G. Darman, director of the Office of Management and Budget, and Treasury Secretary Nicholas F. Brady.

USA TODAY

Tuesday, July 24, 1990

Daily talks on budget start today

By Bob Minzesheimer
USA TODAY

President Bush today begins daily "hard bargaining" sessions with congressional leaders in the latest effort to jump start negotiations on cutting the federal deficit.

"The president wants to give it a major push," spokesman Marlin Fitzwater said Monday.

With Congress two or three weeks away from its summer recess, "we've entered a period of very intense negotiations," Fitzwater said.

Also Monday:

▶ House Armed Services Committee Chairman Les Aspin, D-Wis., proposed a halt in production of the B-2 stealth bomber, saying it "may be the first step in moving toward fiscal reality."

Eliminating the B-2 would save $27 billion over five years.

▶ The government announced that the budget deficit for June was $11.2 billion.

At that pace, the fiscal 1990 deficit could top the record for red ink of $221.1 billion that was set in 1986.

"The deficit is totally running out of control," said economist Michael Evans.

Last week, the White House forecast the fiscal 1991 deficit will reach $168.8 billion — not counting $62 billion for the savings and loan cleanup.

The Gramm-Rudman-Hollings deficit reduction law requires across-the-board cuts unless the deficit is reduced to $64 billion.

House Speaker Thomas Foley, D-Wash., said the daily White House budget sessions are designed to "exchange ideas and approaches."

No agreements would be made apart from a larger congressional group that's conducting negotiations with the administration.

Tentative plans call for the leaders to meet at the White House each morning this week.

The Philadelphia Inquirer

Tuesday, July 24, 1990

Daily meetings set in bid to cut budget deficit

By Robert A. Rankin
Inquirer Washington Bureau

WASHINGTON — President Bush will meet key leaders of Congress every morning this week beginning today in "hard bargaining" sessions aimed at hammering out an agreement to cut the budget deficit, the White House said yesterday.

"This is a period of very intense negotiations. The President wants to give it a major push," said White House spokesman Marlin Fitzwater. "So they felt the leadership should get together and do some hard bargaining to see if we can't get it resolved."

Bush will meet today with House Speaker Thomas S. Foley (D., Wash.), Senate Minority Leader Bob Dole (R. Kan.), Senate Majority Leader George J. Mitchell (D., Maine), House Majority Leader Richard A. Gephardt (D., Mo.) and House Minority Leader Robert H. Michel (R.,Ill).

"The tentative plan is for them to meet each day this week early in the morning," Fitzwater said.

However, Foley said the leadership group might not meet daily, and added that "we do not intend to make agreements outside the summit group," which includes 21 congressional negotiators from both parties. The larger summit group intends to meet every afternoon this week.

Very little progress has been made in these budget summit sessions since Bush agreed May 6 to enter them, all sides concede, but political and economic pressures on the negotiators are rising fast.

The accelerated budget talks were announced as financial markets roiled, highlighted by a 107-point plunge in the Dow Jones industrial average in the first 90 minutes of trading. The stock market stabilized in late morning, then recovered slowly, as the Dow Jones index ended the day down 56 to close at 2,904.

The market's plunge may have been caused partly by reaction to pessimistic comments Sunday from Dole on NBC-TV's *Meet the Press*, some financial analysts said. Dole suggested that budget negotiators are unlikely to strike a deal cutting the deficit before Congress begins its August recess.

Other Wall Street authorities discounted Dole's remarks, however, citing a recent series of bad economic and financial news as being more at fault for yesterday's market madness.

Whatever the immediate cause, the financial volatility added urgency to the budget talks.

"Any instability in the market merely underlines what we already know — that it is important to get a budget summit agreement," Foley said.

Earlier this month, Bush's budget office projected the fiscal 1991 deficit, starting Oct. 1, would total $231 billion if costs of the savings and loan bailout were included, and $161 billion if not. The Gramm-Rudman budget balancing law targets a deficit of $64 billion for fiscal 1991. Unless the summit group makes a deal before then, Gramm-Rudman's automatic spending cuts would chop federal services.

Dole's comment was singled out by bond traders as pivotal in triggering a slide early yesterday in government securities markets, because failure to cut a deficit deal implies that interest rates will not fall as quickly as investors had hoped, according to the Knight-Ridder Financial News Service.

The bond-market slide spilled into the stock market, kicking in computer programmed mass-sale orders.

THE WALL STREET JOURNAL

Tuesday, July 24, 1990

REVIEW & OUTLOOK

Budget Summit Market

The stock market pitched and heaved yesterday, the Dow Jones Industrials trading off as much as 100 points before closing down 56 at 2904. On Friday it lost 32 points. Only a week ago it was hitting its record high of 2999.75. Being as licensed as anyone, we'd like to toss a thought into the hopper of explanations: Over the past week, the market has caught scent of a Washington budget deal.

After all, the Dow Jones Average hit its record the day of Budget Director Richard Darman's midsession review of the economy, fraught with warnings of "crisis" unless a deficit-closing deal was reached. Yesterday, the government reported that its deficit for the first nine months of the fiscal year increased to $163 billion from $105 billion in the same period a year earlier. The Dow Jones News Service helpfully noted "government receipts totaled $777.75 billion, compared with $749.14 billion the year before. Outlays through June totaled $940.84 billion, compared with $854.54 billion a year earlier." But news from the budget talks revolved around stock-transfer taxes, limits on personal deductions and other monstrosities.

The latest consumer price index report showed an increase of 4.7% from a year earlier. Commex gold jumped $7.80 to $369.10 yesterday. Last week Fed Chairman Greenspan held out the prosect of easier money after a budget agreement with "major, substantive, credible cuts in the budget deficit."

So the pieces are falling into place for the following scenario: a cosmetic budget deal, with empty promises on spending. New and awkward taxes. And easier money. The stock market is the town meeting starting to boo.

The market turmoil, the threat of new inflation, the current stupor in the economy—none of it would have happened if Senate Majority Leader George Mitchell had stayed out of the way and let Congress cut the capital-gains tax when it wanted to. Vice President Dan Quayle, outside the Beltway at the Republican National Committee earlier this month, got it right: "Congress's failure to pass the president's capital-gains proposal last year is partly responsible for the current slowdown in economic growth."

All the more so since evidence accumulates that a capital-gains tax cut would pay for itself in new revenues. The Joint Economic Committee recently lined up testimony from Allen Sinai, an economist who has previously opposed a lower capital-gains rate as a handout to "the rich." Members and staff started to climb walls when Mr. Sinai testified he'd changed his mind. His econometric model, he said, showed that a cut in the capital-gains rate to 15% from the current rate would increase GNP by about 0.4% a year through 1995, and generate $30 billion to $40 billion in additional government revenues.

"A capital-gains tax cut would increase capital spending, GNP, income, jobs, household wealth and improve the U.S.'s competitive posture," Mr. Sinai concludes. "For me, that outweighs its effect on income distribution."

Of course, if a capital-gains cut *increases* revenues, it can scarcely be any kind of handout to "the rich" that needed to be balanced by raising other taxes. If you believe only "the rich" pay capital-gains tax, an increase in revenues from this tax is proof positive that "the rich" are paying more taxes, not less. Actually, though, "the rich" happen to include a lot of perfectly normal folks.

In particular the elderly, as a new study shows. In a study for the National Center for Policy Analysis, former Treasury economists Gary and Aldona Robbins noticed that the elderly hold about 40% of the capital stock of the U.S. They found that every year almost half of elderly households with incomes between $25,000 and $40,000 report capital-gains income. These people have over their lifetimes actually managed to accumulate savings; all economists agree that the American economy needs more of them doing more saving.

This is, however, the one class of taxpayers who are now paying *higher* marginal tax rates. Capital gains are now taxed at normal rates, and above a certain income, half of Social Security benefits are too. In 1978, an elderly couple with a capital gain of $20,000 and $30,500 of other income, including Social Security, would have paid a marginal rate of 16% on their capital gains. In 1985, the marginal rate would have declined to 9%. Today it would be 42%, plus state and local taxes.

So you have a capital-gains proposal that would both increase revenues and help the economy. And you have an incipient budget deal that at best would displace some borrowing with taxes, probably ones that would hobble the economy. In the past week Washington has moved a lot closer to the latter. No one should be surprised that a formerly ebullient stock market has turned nervous.

The Journal of Commerce

Monday, July 23, 1990

Why Not Tax Transactions?

By EDWARD RENSHAW

The Bush administration is reported to be considering a tax on the sale of securities as a way to reduce the budget deficit. A levy of as much as 0.5% might be imposed on the sale of stocks, bonds, futures contracts and other financial instruments. The Congressional Budget Office has estimated that such a tax might raise $7.8 billion in its first year and $57.7 billion over five years.

Other countries — Belgium, Denmark, France, Portugal, Spain, Italy, Japan, West Germany, Britain and Canada — already have securities transfer taxes in place. That has not kept many of those countries' stock market indexes from outperforming the Dow Jones Industrial Average in recent years.

The Securities Industry Association is opposed to the tax on the grounds that it would reduce trading volume. While there may be some truth to this assessment, a transactions tax may be needed to restore stability and public confidence in the stock market.

Volume on the New York Stock Exchange has been trending downward for more than a year, in spite of the fact that the Dow Jones Industrial Average has reached new highs. It very well might continue that way unless something is done to change the perception that institutional investors and "progress traders" now have an unfair advantage over individual investors.

One bit of evidence supporting the notion that the stock market is more volatile now than it was in earlier decades is the number of declines from new highs amounting to 4% or more for the Standard & Poor's Composite Stock Price Index. Over the 27-year period from 1955-81 there was slightly less than one decline of this magnitude per year. Since trading began in stock index futures in June 1982, there have been about two new high declines of 4% or more per year.

In the last four years there have been four days when the S&P index lost more than 6% of its value. There were only two one-day panics of this magnitude over the much longer period from 1947-86.

The fear of another meltdown comparable to the 20.5% drop in the S&P index on Oct. 19, 1987, has discouraged many individuals from participating in the stock market. It could lead to a situation in which the share prices of some companies are so undervalued as to make them vulnerable to foreign takeovers.

A tax on securities and futures contracts would partially disconnect the futures market from the equity market and make it more difficult for program traders and speculators in the highly leveraged futures market to jerk the S&P index around. It would reduce the expected profits from dynamic hedging (selling futures contracts once the market has fallen) and make it more advantageous for institutional investors to search for bubbles (unsustainable price increases) and hedge their portfolios before the market has begun to decline.

This sort of hedging would help stabilize the market by providing a reservoir of purchasing power that could be used to keep minor panics from getting out of hand once stock prices have begun to decline.

In recent years many economists have begun to appreciate that differential excise taxes might provide a better solution to some of our pressing social and environmental problems than would cumbersome regulations. Alan Greenspan, while not endorsing a tax on security transactions, did suggest in 1988 that it might be a better way to reduce program trading than increasing margin requirements for stock index futures and derivative products to levels that are more in line with the margin requirements for equities.

To tax only goods, as opposed to services, seriously distorts consumer and producer decision-making in favor of industries with the least potential for the productivity improvements that will make everyone better off in the long run.

It is not unreasonable to suppose, in any event, that the United States might be better off in the longer run to have fewer of its brightest young people engaged in program trading and more talented persons involved with the task of improving the quality of manufactured goods and the efficiency with which they are produced. And even within the financial service industry, we might be better off if more attention were paid to the search for companies with long-term promise and less emphasis were placed on short term performance.

By forcing everyone to think long-term before investing in financial assets, a tax on security transactions might help to improve our competitiveness and restore a more favorable trade balance. It even could be implemented gradually so as not to unfairly penalize those persons who are already employed in the financial service industry.

Edward Renshaw is professor of economics and finance at the State University of New York at Albany.

Los Angeles Times

JULY 22, 1990

If You're Middle Class, You're Getting Soaked

■ **Taxes:** With the recent efforts to make the tax system fairer, the middle class is now paying more than its fair share.

By Robert S. McIntyre and Bruce Fisher

WASHINGTON

Most middle-income voters will be more than a little cynical when they hear politicians in Washington debating "tax fairness." After 10 years of illusory tax "cuts" and phantom tax "simplification," many understandably think that, whatever the politicians do, middle-class taxpayers will be left holding the bag.

The problem is that Washington in the 1980s abandoned the idea of tax progressivity—the concept that people should pay taxes according to their ability to pay.

Of course, it's easy to see why poor people prefer progressivity. Progressive taxes take a larger share of income from those who make more. And self-interest suggests that rich people might like regressive taxes—which hit the poor hardest and the rich least.

But what about the majority of us in the middle?

Those in the beleaguered middle have a large dollars-and-cents stake in fair taxes. For the federal government's sharp move away from tax progressivity over the last 12 years hit average families hard.

To illustrate this in stark terms, take the 1977 federal tax system as a benchmark. That was the year President Jimmy Carter took office—after a campaign during which he called the tax system a "disgrace." But 1977 was the last year before the "supply-side" tax changes of 1978 and 1981 that promised—but didn't deliver—relief from a system perceived as increasingly unfair to average families.

The 1977 system wasn't perfect. But if the progressivity of the 1977 tax system—including the entire range of personal and corporate income taxes, payroll taxes and excise taxes—were applied to today's incomes (after adjusting for inflation), effective tax rates would range from 8.1% on the poor, to 18.9% on families in the middle fifth, to 42.2% on the richest 1%.

If we'd kept the ability-to-pay principle, that's what our tax system would look like today. The problem is: Supply-side tax theory swept through, giving us a tax system that burdens the middle class and doesn't raise enough revenue to pay the country's bills.

To illustrate supply-side logic at its worst, imagine abandonment of the ability-to-pay principle. It would turn the 1977 structure upside down, so the poor would pay at the rate of the rich, the near-poor at the rate of the near-rich and so forth. Since soaking the poor doesn't bring in much—call it the you-can't-squeeze-blood-from-a-stone principle—all rates would have to be adjusted upward by 15% to raise the same revenues as a progressive system would.

The bottom line? Nine of 10 families would pay higher taxes—about $3,000 more each, on average—under the regressive system than under the 1977 rules. The richest 1%, in contrast, would pay an average of $180,600 less in taxes.

Implausible? This would be the result if, as some ardent supply-siders recommend, the government did away with the income tax and raised all federal revenue from sales and excise taxes.

Many people fed up with the income tax's complexity wonder why we don't just have a flat tax—where everyone pays the same rate. Wonder no more. If we

Please see TAXES, M4

Taxes

Continued from M1

were to raise the same amount of revenue through a flat tax, everyone would pay a flat 24.4% of income in federal taxes—and nine of 10 families would pay more than under a system as progressive as 1977's. The average tax hike would be close to $1,500 per family. Meanwhile, the richest 1% would pay an average of almost $100,000 less in taxes.

The worst thing about these hypotheticals is that they're not all that far from the situation today. Because of the decline in progressivity since 1977, nine of 10 families pay higher federal taxes than if progressivity had remained in place. Poor families now pay 21% more, and middle-income families about 7% more. But the richest 1% pays 36% less, and the federal government collects almost $70 billion less in net revenues.

Some of the tax cuts for the rich translated into increased interest, dividends and other capital income, helping fuel an astonishing 110% increase in real after-tax income for the wealthiest 1%. Meanwhile, tax hikes on average families ate into savings and any income those savings would have generated. The bottom line is that the move away from progressivity will cost middle-income families from $15,000 to $75,000 of earnings, an average of $1,100 each in 1990 after-tax income. Poor families are out an average of about $500 each. And there is nothing hypothetical about the average 1990 after-tax increase of $113,000 in the incomes of the richest 1%.

Believe it or not, the situation would have been worse had not Congress passed the often-maligned 1986 Tax Reform Act. The 1986 act's loophole-closing measures led to partial repair of the "Swiss cheese" corporate income tax, and even made the personal income tax slightly more progressive. Repealing the tax break for capital gains and limiting phony tax-shelter write-offs increased the taxable incomes of the very rich by close to half—so the wealthy ended up paying a bit more in taxes despite the dramatic—and excessive—cut in the top rate. Meanwhile, increased standard deductions and personal exemptions reduced income taxes on most families at least slightly—though greater Social Security taxes ate up that tax break for most of us.

One reason Republicans and Democrats alike opted for a partial turn toward progressivity in 1986 was the overwhelming evidence that the supply-side experiment had failed. Supply-side promised a balanced budget and an investment boom. It delivered unprecedented deficits and hundreds of billions of dollars in tax shelters. Since the loophole-closing 1986 act, investment has rebounded and the tax-shelter industry has withered.

But has Washington learned? Certainly President George Bush hasn't. He is now calling for a repeat of tax policies of the late 1970s and early 1980s: more tax cuts for the very rich in the form of a restored capital-gains-tax loophole, coupled with tax increases for everyone else. The only tax increases the Administration seems willing to put on the table in the budget summit talks amount to another assault on the ability-to-pay principle. High on the Bush list are increased excise taxes—taking seven times as large a share of the income of middle-class families as from wealthy, and 16 times as large a share from the poor as from the rich.

The middle class doesn't need any more regressivity. We can do right by our economy and our wallets if we curb the scams used by real-estate developers to avoid taxes; eliminate corporate tax breaks for mergers and acquisitions; restructure the way we tax foreign-owned companies, many of which pay little or no U.S. income tax despite billions in sales here. And we can raise the top income-tax rate to 38%, which would affect only the richest 1% of Americans, while raising the corporate tax rate to 38%.

Given that Bush's "no new taxes" pledge is defunct, we know someone's taxes are going to go up. And unless middle-class taxpayers insist on progressivity, they'll be paying. If we don't repudiate the regressive, flat-tax approach, Washington politicians will look to the nickel-and-dime taxes—on gas, liquor, tobacco, airplane tickets and you-name-it that, when added together, burden the middle class far more than those with a greater ability to pay. Such taxes do nothing to address the long-term U.S. need for a stable, predictable, gimmick-free way of running the country.

It's time we asked Bush to follow the example of Abraham Lincoln, who, when he instituted an income tax to raise money for the Civil War, created a progressive tax—one that asked the wealthy to heft more of the burden of meeting a struggling nation's needs. Similarly, Theodore Roosevelt and Woodrow Wilson, who led the country to adopt the 16th Amendment, creating a permanent national income tax that, from the outset, was progressive. Later, Franklin D. Roosevelt restored the tax fairness undermined in the supply-side 1920s.

Middle-class Americans have a choice. We can be patriotic and demand that Congress and the President make the system more like those some of our greatest leaders designed. Or we can let supply-side tax ideology heap more of the tax burden on us—and on our children, who will have to foot the deficit bill for the supply-side assault on progressivity.□

The Dallas Morning News

Saturday, July 21, 1990

Bush tries to steer blame for deficit toward Democrats

By Carl P. Leubsdorf
Washington Bureau of The Dallas Morning News

BILLINGS, Mont. — President Bush sought Friday to deflect political damage from his reversal on increased taxes by blaming spending by the Democrat-dominated Congress for the budget deficit.

But some local Republicans who heard the president's speech indicated that they were more concerned about the burgeoning savings and loan scandal than about a retreat on taxes that they had long expected.

Speaking at a fund-raising breakfast for a GOP senatorial hopeful, Mr. Bush declared, "We're facing government by gridlock in Washington, with spending skyrocketing out of control . . . and a budget deficit looming over our children's children.

"The Democratic stranglehold on the United States Congress has finally taken its toll."

The president's speech — similar to one he gave in Idaho on Thursday night — reflected White House officials' determination to take the offensive on an issue they blame for some of the recent decline in Mr. Bush's poll ratings.

That strategy appeared to offer little comfort to some Republicans attending the event. More politically pressing than taxes, they suggested, are the savings and loan scandal and the role of the president's son Neil, whose activities as director of a failed Denver S&L are under investigation.

"I figured he'd have to (raise taxes)," said Joan Fjare, of Big Timber. "I'd rather see him raise taxes than cut Social Security."

Don Stanaway, a wholesale Pennzoil and lawn equipment dealer from Billings, spoke sharply of the thrift crisis.

"I think Bush has to take it on the chin for that, and the Republican Party has to take it on the chin for that since they were the ones who pushed deregulation," he said. "The more I learn, the madder I get."

Mr. Bush's speeches, for Republican Senate hopefuls Allen Kolstad in Montana and Rep. Larry Craig in Idaho, were his first political addresses since he reversed his opposition to higher taxes.

"Americans are fed up," Mr. Bush said Friday in Billings, appearing at a breakfast fund-raiser for Mr. Kolstad. "They hear about the president trying to hold the line on spending and the Congress spending money it doesn't have."

Mr. Bush conceded that Democratic congressional leaders are cooperating in the current budget talks and noted that he has "taken a few shots" for his stance on taxes. He added that he had agreed to negotiate on the budget without preconditions, "and I will, in spite of the outcry about revenues."

In Washington, Democrats immediately attacked the president's speech.

Told that Mr. Bush had faulted the "Democratic stranglehold" on Congress for the nation's budget woes, Sen. Lloyd Bentsen of Texas replied, "That's incredible."

He accused the Bush and Reagan administrations of "eight years of $200 billion hot checks" — referring to budget shortfalls of recent years.

Some in Mr. Bush's Republican audiences this week in Montana and Idaho echoed his assertions that blame for the red ink rests with Capitol Hill. And they expressed little surprise at his retreat on taxes.

"I think it (higher taxes) was inevitable because the Congress hasn't cut off spending to the point where they should have," said state Rep. Norman Wallin of Bozeman.

But they also they saw real concern about the S&L problem.

"They're upset about that," Mr. Wallin said of voters. "These managers absconded with that money for their own entertainment."

NEW YORK POST

GOP facing moment of truth on taxes: Should it yield to Democrats?

THE Bush administration's Chicken Little cry that the budget sky is falling, while failing to force quick agreement at the budget summit, did pose a character test for Republican negotiators.

Will they insist on both retention of the 28 per cent top income-tax rate and a cut in the capital-gains rate?

Since Democrats say they cannot have both, the GOP is at a crossroads of potentially historic consequences. It can take one of the options, or can play hardball by forcing at least temporary meat-ax spending cuts.

Seldom has one event cast so long a shadow into the future. Decisions by President Bush and the congressional Republicans will shape economic conditions and the political playing field for the '90s.

So far, the administration and its strategist, Budget Director Richard Darman, have been less than masterful.

Summoning the summit long before the effective budget deadline in August, and without a stated goal, bred inaction. Bush's announcement last month of willingness to increase taxes produced no progress but crippled Republican candidates across the country who wanted to campaign on the tax issue.

Nor did Darman succeed in last week's effort to stun the summit by revealing an estimated doubling of the budget deficit.

The administration's own figures show future deficits declining. Supply-side economic consultant Jude Wanniski accuses the White House of manufacturing "a sense of crisis in order to hammer out a budget deal."

But what deal? Budget summiteers have spent much more time haggling about spending than projecting revenue.

Senate Majority Leader George Mitchell finally focused the tax question by repeating what he has been saying for years: If Republicans really want back the preferential rate on capital gains that was surrendered in the 1986 tax reform, they must give up the 28 per cent top-bracket income-tax rate passed that year.

In a letter to Darman last week, Wanniski proposed a swap of a 33 per cent income tax for a 15 per cent capital-gains rate. He even offered language for the president to justify this on grounds that "a vibrant economy requires encouragement of capital flowing to high-risk enterprise."

But conservatives — including Wanniski's close friend and supply-side collaborator, Housing Secretary Jack Kemp — are not buying. The reason is the proclivity of budget negotiations to establish rigid patterns for future talks.

Past budget summits laid down the rule that deficit reduction be balanced evenly between revenue and spending. The Gramm-Rudman Act has engraved in stone that spending cuts be split evenly between domestic and defense.

> **At issue: 28% limit on income, cut on capital gains**

The new parameter for budget fixes would be a regular increase in the top marginal rate. If the top rate is brought up to 31 per cent, as a few Republicans suggest, that would be only the beginning. Mitchell wants at least 33 per cent.

At the last budget summit last week, Ways and Means Chairman Dan Rostenkowski advised that House Democrats would insist on 38 per cent (which Ronald Reagan at one point agreed to in 1986).

While the Republican consensus is against raising the top rate, support for a capital-gains cut is less certain.

House Minority Whip Newt Gingrich, probably the strongest anti-tax voice in the budget summit, is reported as willing to forget about capital gains. But he told us he wants both the 28 per cent rate and a capital-gains cut, no matter what Mitchell demands. So does Senate Minority Leader Robert J. Dole.

To achieve this requires a cool head not easily spooked by opposing gunfire. On the day that Gingrich was reported telling Democratic summiteers he was willing to raise taxes in return for budget cuts, he told us: "I'm ready to walk away from the summit."

That would mean a willingness to accept temporarily the costly sequestration of spending under Gramm-Rudman, and assume Democrats would blame their own leaders for the decimation of social services.

But Dole flatly predicts an agreement before the August recess, which suggests dropping capital gains under the Mitchell formula unless Democrats feel forced to capitulate.

The stakes are immense. Without a capital-gains cut, economic growth is endangered. Without holding the 28 per cent cut, a return to bracket escalation beckons.

Without a stand taken soon by the Republicans, the party's candidates across the nation can hardly campaign on the tax issue without generating more horse laughs than applause.

THE TAMPA TRIBUNE

WEDNESDAY, JULY 18, 1990

Seeing the budget in proportion

CHARLES MCDOWELL

As it happened, I was reading letters from readers Monday morning when the White House announced a new and dismal forecast of next year's budget deficit.

The readers were writing on the same subject. But they were not entangled in esoterica about the effort of the White House and Congress to agree on a bearable mixture of new taxes and spending cuts to avoid the ax of the Gramm-Rudman law. They just wanted to cut some spending they didn't like and get on with life.

It seemed simple enough. One said we could avoid inconveniencing Americans by "cutting off the faucet for all those foreigners that we give our money to."

Another said we would have to reduce federal welfare payments, even abolish them.

A third said "it would be a nice start on balancing the budget for Congress to cut its own pay sharply and let go half of its army of staff."

The writers might have been aware that their prescriptions would not eliminate a deficit of more than $160 billion, but they seemed to think they would put a real dent in it. Maybe the Congress-basher was being funny, but I am learning to doubt that anybody is being funny about the deficit unless I can see them grin.

One thing happening these days is that we are losing any sense of proportion about the assorted expenditures in the budget. That is why I get out a pie chart and stare at it sternly from time to time. The chart is from President Bush's budget for 1991. It would spend 1.2 *trillion* dollars. The chart shows that 43 percent of all that money would go to "direct benefit payments to individuals" — entitlement programs like Social Security and Medicare.

Actually, a good many experts put the proportion nearer 50 percent and trim the 12-percent slice for "grants to states and localities." Never mind. It's a matter of bookkeeping.

The point is that spending for entitlements, for defense (25 percent) and for interest on the national debt (14 percent) accounts for at least 82 percent of the whole budget. There isn't much left for other purposes.

The Bush budget, after assigning 12 percent to grants to states and localities, makes the point in spades. Only 6 percent of the pie is left for "other federal operations," which is to say the myriad institutions and activities that we think of as making up a considerable part of the United States government.

Congress, for instance, is part of the government establishment. It costs less than $3 billion a year — salary, expenses, staff payroll and all. We pay about the same for Congress as we do for the Department of Commerce ($2.7 billion). Each costs less than a third of what we pay for farm price supports, even at reduced rates in recent years.

The thing to keep in focus as we consider these small billions is that entitlement programs this year are costing about $540 billion and defense $300 billion. Just five Stealth bombers cost about the same as operating the Department of Commerce or Congress for a year.

A sense of proportion does help in addressing the deficit. How about all that money we give to "all those foreigners"? Foreign aid comes to about $5 billion this year. Compare that to a total budget of $1.2 *trillion* including the $540 billion for entitlement programs, the $300 billion for defense and, at random, $14 billion for science and space.

One of my correspondents was upset about welfare. It falls into the biggest slice, for entitlement benefits. Of the $540 billion or so in that slice, about $450 billion goes to people who qualify for it without any financial means test — Social Security, Medicare, federal retirement benefits, farm price supports and on and on, to rich and poor alike.

The other $90 billion or so in the entitlements category goes to the means-tested poor — recipients of food stamps, Aid to Families with Dependent Children and the nutrition program for women and infants, for example. According to the Congressional Budget Office, all programs of aid to the poor amount to less than 8 percent of the federal budget.

So, when you look at the budget and see it in proportion, the big money is reserved for everybody. That doesn't mean we can't cut our own benefits; maybe we will. And surely we will cut defense, given all the changes in the world, but that dividend will come slowly. We should remember, too, that the money for the savings-and-loan bailout is not in the budget at all.

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House Republicans Declare Opposition to Any Tax Increase
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By STEVEN KOMAROW
Associated Press Writer

WASHINGTON (AP) _ House Republicans today declared their opposition to any deficit reduction plan that includes new taxes, a position Democrats said would cripple budget talks with President Bush.

The resolution was approved by voice vote at a meeting of the House GOP only hours before congressional leaders were to meet Bush for what his spokesman said would be an effort by the president to "nudge" the talks forward.

"If they want Republican votes, they'd better come up with a package that Republicans believe in," said Rep. Mickey Edwards, R-Okla. He said he would rather have the talks collapse than "a deal that excludes House Republicans."

House Minority Leader Bob Michel, R-Ill., said the resolution would not undermine the nearly-stalled budget talks, but Democrats disagreed.

"To have one party say revenues are off the table would really cripple this negotiation," said House Majority Leader Richard Gephardt, D-Mo.

White House Press Secretary Marlin Fitzwater downplayed the House Republicans' vote, which rejects Bush's reversal on his "no new taxes" pledge. "They don't need to pass a resolution to make us aware of that," he said.

Rep. Richard Armey, R-Texas, sponsor of the resolution, and other Republicans said it was aimed at the Democrats and not the president. It included a clause attacking Senate Majority Leader George Mitchell, who said last week he would not support a cut in the capital gains tax unless tax rates on the wealthy were increased.

Democrats were sure to deliver to the president today the message that they need more leadership from Bush, especially in selling to the public the prospect of pocketbook-painful decisions on taxes and program cuts.

The Oval Office meeting was scheduled a day after a balanced budget constitutional amendment came within seven votes of passing the House, a sign of lawmakers' frustration over slow progress on striking a budget deal.

Eight years ago, the House defeated a balanced budget amendment by a comfortable 46 votes. On Tuesday, it fell just seven votes shy of the two-thirds margin needed in a 279-150 tally. The measure had Bush's endorsement.

Rep. Wayne Owens, D-Utah, said he had opposed a balanced budget amendment all his political life, but he voted for it Tuesday.

"I don't like this constitutional amendment," he said. "But we must ... figure out how to have the courage to raise the revenues or cut the expenditures" or expand the already unfathomably large debt burden on the next generation.

-more-

The government's debt topped $3.1 trillion this year and would well exceed $4 trillion before the amendment took effect.

The amendment starting in 1995 would prohibit government spending from exceeding revenues, or any increase in government borrowing, unless the requirements are waived by a three-fifths vote of each chamber of Congress.

The White House asked for the effective date of 1995, rather than 1993 as originally proposed by Reps. Charles Stenholm, D-Texas, and Larry Craig, R-Idaho, the chief sponsors.

The administration said cutting the deficit too quickly would hurt the economy. Doing it by fiscal 1993 would put spending cuts or taxes before the public right before Bush's re-election date.

Opponents said the amendment's requirements could easily be dodged through accounting gimmickry, and delaying the effective date to 1995 amounted to passing the buck.

"This so-called balanced budget amendment is the amendment for the truly religious because the balance to which it refers occurs only in the hereafter," said Rep. David Obey, D-Wis.

But supporters said it was their best hope of returning the government to fiscal balance.

"It's obvious we need a more compelling force to restrain spending," said Rep. Tim Penny, D-Minn. "This could not hurt, and in fact might help."

Bush, like Ronald Reagan before him, has never proposed a balanced budget but has touted the amendment. But faced with a new surge in red ink, the president abandoned his pledge not to raise taxes.

The White House budget office on Monday projected that the deficit in fiscal 1991, which begins Oct. 1, would reach $168.8 billion _ not counting the tens of billions needed to bail out insolvent savings and loans.

White House and congressionl negotiators are looking to reduce that figure by at least $50 billion, but in the two months since Bush called the budget summit an agreement hasn't been close.

On Tuesday, congressional Democrats continued their series of private meetings on possible spending cuts and tax increases.

With the talks moving so slowly, congressional committees are moving ahead with their legislative responsibilities in the meantime.

The Senate Appropriations Committee voted Tuesday to limit defense spending next year to $294.9 billion, $8.4 billion less than Bush wants but more than Democratic liberals support.

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Bush Summons Congressional Leaders for ±Nudge' on Deficit-Reduction
EDs: Combines pvs with editing.
By STEVEN KOMAROW
Associated Press Writer

WASHINGTON (AP) _ President Bush summoned congressional leaders to the White House today to give what his spokesman called "a little nudge" to deficit-reduction talks.

The Oval Office meeting was scheduled a day after a balanced budget constitional amendment came within seven votes of passing the House, a sign of lawmakers' frustration over slow progress on striking a budget deal.

White House spokesman Marlin Fitzwater denied that the talks were at an impasse. Still, he said, "This is a point at which the leadership can get together and give a little nudge to the negotiators."

Invited to the session were Senate Majority Leader George Mitchell, D-Maine; Minority Leader Bob Dole, R-Kan;, House Speaker Thomas Foley, D-Wash.; House Minority leader Robert Michel, R-Ill.; and House Majority Leader Richard Gephardt, D-Mo.

It is the third time for the president to meet with the congressional leadership in the "budget summit" talks. The previous occasions were when he initiated the talks in early May and earlier this month when he abandoned his 1988 "no new taxes" pledge.

Asked today about an anticipated resolution by House Republicans to continue opposing higher taxes despite Bush's reversal, Fitzwater said: "We know their position. They don't need to pass a resolution to make us aware of that."

Fitzwater also said the White House welcomed a suggestion by Federal Reserve Board Chairman Alan Greenspan that the central bank likely would ease interest rates if a comprehensive deficit-reduction package were achieved.

"Clearly, we have said one reason we want to get the deficit down is to take the pressure off interest rates," the spokesman said.

On Tuesday, Bush called for a quick resoluton of the budget issue. "The time for game playing is over," he said.

White House chief of staff John Sununu, asked about today's meeting, said: "The agenda's a very simple one: let's get a solution to the deficit, get a package to come out of the summit and move forward."

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PM-S&L Tax,300
Group Proposes Investment Income Tax to Help Pay for S&L Bailout
By JIM LUTHER
AP Tax Writer

WASHINGTON (AP) _ A labor-financed organization today asked Congress to pay for the savings and loan bailout by imposing a new tax on the investment income of the nation's wealthiest taxpayers.

The proposal by Citizens for Tax Justice would require those with incomes over $100,000 to pay a 7 1/2 percent surtax on interest, dividends and capital gains exceeding $7,500. A $200,000-a-year family with $25,000 of investment income would pay an extra $750 in tax.

"This targets at least the class of people that benefited" from deregulation and profiteering in the savings and loan industry that has left taxpayers holding a bill estimated at up to $500 billion, Robert S. McIntyre, director of the organization, told a news conference.

He proposed also a 7 1/2 percent surtax on corporations.

McIntyre estimated the surtax would affect less than 5 percent of families and that 80 percent of the money would come from those with incomes above $200,000.

The proposal would bring in an estimated $23.4 billion a year and $120 billion over five years. The surtax would remain in effect until the full cost of the bailout was paid.

McIntyre compared the situation to 1983, when Congress was faced with shoring up the Social Security system. "Working people had to pay more Social Security tax to bail out Social Security," he said.

"Most American families gained nothing from the S&L boondoggle of the 1980s," McIntyre said. "It wouldn't be fair to send them the bill for the bailout."

He said the surtax also would improve the fairness of the tax system. Between 1978 and 1989, McIntyre said, total personal interest income grew by 106 percent, capital gains by 109 percent and personal dividends by 49 percent. But total wages increased by only 32 percent.

Wages now account for only 57.8 percent of personal income, down from 62.1 percent in 1978, McIntyre said.

AP-BA-07-17 1117EDT

AM-BUDGET-TAXES

HOUSE REPUBLICANS MAY SUPPORT TAXES IN BUDGET AGREEMENT

By David Lawsky

WASHINGTON, Reuter - Despite public opposition by House Republicans there are signs they will ultimately support some new taxes in a deficit package presented by President Bush.

A consensus on the level of such taxes in a budget package became clearer Tuesday, as three key Democrats agreed that new taxes in a deficit reduction plan should be in the range of $20-25 billion.

House Republican Leader Robert Michel of Illinois said last week a budget agreement would likely contain $22-23 billion in new taxes.

Fellow Republican budget negotiator Senator Bob Packwood of Oregon also seems unconcerned about a resolution against new taxes to be put forward Wednesday in the House by Rep. Richard Armey of Texas.

"There's less there than meets the eye," said Packwood, a ranking member of the tax-writing Senate Finance Committee.

When Armey, one of the most strongly anti-tax Republicans in the House, was asked if he would be willing to seriously consider a request by President Bush to support a budget package with new taxes, he said: "That's my job."

Armey said the anti-tax message, which was expected to pass Wednesday in the Republican conference, is meant for Democrats, not Republicans.

"The Republicans and the president haven't been the problem," he said in an interview.

But Democrats are open to new taxes.

Democratic chairmen of the two congressional tax writing committees, Illinois Rep. Dan Rostenkowski of Ways and Means and Texas Sen. Lloyd Bentsen of Texas, agreed Wednesday with Rep. Richard Gephardt of Missouri on the $20-25 billion range, a congressional source said.

White House and Congressional budget negotiators have already agreed to attempt to cut the fiscal 1991 deficit by $50 billion.

It has also been generally agreed that one-third to one-half of that will come from taxes, with the bulk of the remainder achieved by cuts in the military and entitlements, such as Medicare.

The deficit is projected at $169 billion for fiscal 1991, far more than the $64 billion permitted by the Gramm-Rudman deficit-reduction law.

The administration says the Gramm-Rudman law will have to be changed as part of a budget agreement.

REUTER

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USA TODAY
Wednesday, July 18, 1990

Bush: Time for budget games to end

By Richard Wolf
and Jessica Lee
USA TODAY

President Bush presides today over urgent deficit-cutting talks with Congress after the narrow House defeat of a constitutional amendment requiring a balanced budget.

"The time for game-playing is over," Bush said Tuesday as Democrats and Republicans separately sought to craft a $50 billion deficit-reduction package, including up to $25 billion in new taxes and fees. Today:

▶ Bush meets with congressional leaders to discuss spending cuts and tax increases.

▶ Senate and House Democrats huddle in hopes of crafting their own proposal.

▶ Rebellious House Republicans may pass a non-binding resolution opposing tax hikes.

▶ The House votes on a balanced-budget law in the wake of the amendment's defeat.

Bush said he may "have to do more" to make the public aware of the $168.8 billion deficit. The mandated 1991 deficit is $64 billion.

Some of the congressional negotiators may be prepared by week's end to offer their own packages.

"The administration should be ready to put a proposal out, and we should be ready to put a proposal out," said House Ways and Means panel chairman Dan Rostenkowski, D-Ill.

Likely targets: hikes in "sin" taxes on tobacco and alcohol, luxury taxes and cuts in deductions benefiting the rich.

Also possible: Bush's proposed capital gains tax cut and a Democratic plan to hike income tax rates on the wealthy.

The balanced-budget amendment lost 279-150, seven votes shy of the needed two-thirds majority.

"Courage and guts?" asked Rep. Charles Stenholm, D-Texas. "We don't have it."

Said Rep. Jack Brooks, D-Texas: "The Constitution is not a magic wand."

The Washington Times

WEDNESDAY, JULY 18, 1990 / PAGE A3

House GOP votes today on 'no new taxes' pledge

By Major Garrett
THE WASHINGTON TIMES

House Republicans vote today on a resolution opposing any new taxes in 1991, a provocative move that, if approved, could damage budget talks between the White House and the Democratic leadership.

The resolution, sponsored by Texas Rep. Dick Armey, opposes "new taxes and all tax rate increases as a means of reducing the federal budget deficit."

"Leaders of this movement believe the president should know how House Republicans feel on this issue," said an Armey aide.

The wording prohibits raising all taxes "under federal jurisdiction" — a distinction that would bar Republicans from voting for higher taxes on gasoline, cigarettes and alcohol.

Since these are the taxes lawmakers often find convenient for raising revenue in a pinch, the Armey resolution would leave GOP budget negotiators little room to maneuver in reaching agreement with Democrats.

The administration's latest predictions for the 1991 budget year, which begins Oct. 1, show a deficit of $168.8 billion unless revenues are raised or spending is cut. The deficit target required by the Gramm-Rudman-Hollings law is $64 billion, which would mean $100 billion in automatic spending cuts. Budget negotiators, however, have apparently reached an informal agreement to waive the law and reduce the deficit by $55 billion.

If taken literally, Mr. Armey's resolution would even bar Republicans from voting for President Bush's 1991 budget, which calls for nearly $14 billion in new revenues in the form of extended taxes and higher user fees.

In short, the Armey resolution amounts to the very "no new taxes" pledge Mr. Bush recently abandoned to move the stalled budget talks forward.

And that's what scares some Republicans.

"I have never signed a no-tax pledge," said Washington Rep. John Miller. "I don't want to be in President Bush's shoes and make a promise and two years later have to break it."

Supporters say the resolution is an important tool in the GOP's somewhat tardy effort to shift the current budget focus away, from higher taxes and back to lower spending.

"We've been getting hit on this issue and it hasn't been fun," said Rep. David Dreier of California. He and other conservatives believe the resolution would help the president hold the line on taxes.

"He'll be able to point to us in the House and say, 'My troops have gone on record,' " Mr. Dreier said.

But others fear that passage of the resolution, while politically attractive, could torpedo the budget talks.

"I can't help but believe the Democrats would lose the initiative to carry on," said Michigan Rep. William Broomfield. "You've got to give the negotiators something to negotiate with."

The party leadership will brief the conference on the status of the budget talks before the vote.

"That will give a lot of weight to my decision," Mr. Miller said. "I want to know if they are really discussing budget reforms and lower spending."

Mr. Miller and other moderate Republicans appear willing to at least consider higher taxes if they are combined with cuts in domestic spending and a streamlining of the burdensome budget-writing process.

But until now, all the talk has been about raising taxes.

"It doesn't seem the discussion has been equally divided," Mr. Miller said. "And that's the sentiment Armey is tapping into."

There is still a chance a watered-down proposal will emerge from the leadership or party moderates that makes a general statement against higher taxes but leaves room for higher taxes if a good deal comes along.

"There's always that chance," the aide to Mr. Armey said.

The New York Times

WEDNESDAY, JULY 18, 1990

G.O.P. in House to Fight Any Tax Rise

By SUSAN F. RASKY

Special to The New York Times

WASHINGTON, July 17 — As the Bush Administration and Congressional Democrats sought to narrow their differences over taxes, restive House Republicans made plain today that they would vigorously oppose any tax increase.

Preparing for a budget meeting with President Bush at the White House on Wednesday, the Democratic Congressional leaders pored over a list of tax options developed by the Administration that could become part of a package aimed at cutting the 1991 Federal deficit by $50 billion.

Congressional officials said the Administration's list includes elimination, for wealthy taxpayers, of the deduction claimed for state and local income taxes, luxury taxes on items like jewelry and furs, several versions of a broad-based energy tax, a rise in excise taxes on alcohol and cigarettes and a tax on stock transfers.

These officials said the list had evolved over the past week as a result of discussions among Treasury Secretary Nicholas F. Brady; Richard G. Darman, the White House budget director; Representative Dan Rostenkowksi, an Illinois Democrat who is chairman of the House Ways and Means Committee, and Senator Lloyd Bentsen, a Texas Democrat who is chairman of the Senate Finance Committee.

Anger Among Republicans

Many details were unclear today, such as exactly which taxpayers would lose the deduction for state and local income taxes if, indeed, this became part of the final deficit-cutting package.

But the growing possibility of tax increases of some kind stirred anger among Republicans. Rank-and-file Republican lawmakers prepared a resolution that would categorically oppose all types of tax increases as a way of reducing the budget deficit, including some of those tnat the Administration has now listed as possibilities. a

The House Republican Conference, which represents the 176 Republicans in the House, is expected to adopt the resolution on Wednesday.

"We want the President to know where Republicans stand before a deal is struck," said Representative Dick Armey of Texas, who is sponsoring the resolution. "We also want to make it clear to the Democrats that if they want to raise taxes, they will have to do it without Republican support."

Balanced Budget Bill Loses

Democrats have repeatedly insisted that any tax increases included in the deficit-cutting package must have not only the endorsement of the President, but also a guarantee that he will deliver a majority of Republican votes to adopt the package in the House and the Senate.

In a narrow victory for the Democratic leadership, the House today rejected a proposed constitutional amendment requiring a balanced budget, failing by only seven votes to muster the two-thirds majority of those present and voting that is needed for passage. The final vote was 279 to 150.

The proposed amendment was opposed by the Democratic leadership. But it was sponsored by a Democrat, Representative Charles W. Stenholm of Texas, and it drew strong support from among the party's rank and file. More than 86 Democrats were co-sponsors, and 110 Democrats were among those who voted for passage.

The President had endorsed the amendment as well as a similar version, sponsored by Senator Paul Simon, an Illinois Democrat, which cleared the Senate Judiciary Committee last month. Since constitutional amendments require a two-thirds vote of both the House and the Senate, today's rejection by the House made any Senate action moot.

A Change in Procedure

Two previous attempts to approve a similar amendment have failed in Congress since 1982.

The amendment rejected by the House today would have required the President to submit a balanced budget to Congress each year, and would have required Congress and the White House to agree each year on an estimate of total revenue.

In addition, the amendment would have required a three-fifths vote of the total House and Senate membership to increase the Federal debt, and a majority vote of the total membership in each house to increase revenue. The stipulation that vote counts be based on the total membership of each house would have been a change in current procedure, in which tallies are based on the number of representatives or senators present and voting.

In more than six hours of debate, supporters of the proposed amendment argued that a change in the Constitution was the only way to impose fiscal discipline on Congress and the President and correct a bias in the political system that now favors spending increases. Statutory restraints, like the Gramm-Rudman-Hollings budget-balancing law, have been too easily ignored or evaded, they said.

'We Need Some Help'

"Courage and guts, we don't have it," Mr. Stenholm said. "We need some help, an extra tool."

Representative Larry E. Craig, an Idaho Republican, cited national polls showing that the public favors an amendment requiring a balanced budget. "Anyone who votes no on this amendment is voting against the right of citizens to make decisions," he said.

But opponents said that passage of the amendment was the equivalent of simply declaring that the United States should have clean air, an unenforceable exhortation that would demean the Constitution and lead to even more budget devices.

Representative David R. Obey, a Wisconsin Democrat, noted that the proposed amendment was designed to take effect in the fiscal year 1995, well after the 1992 Presidential election. "The balance to which it refers is only in the hereafter," he said. "The motto should be, 'Not on George's watch.' "

THE ATLANTA CONSTITUTION

WEDNESDAY, JULY 18, 1990

Amendment forcing balanced budget falls 7 votes shy in House

By Seth Kantor
Journal-Constitution Washington Bureau

WASHINGTON — Bickering U.S. House members, accusing each other of lacking the backbone to keep the nation out of worsening debt, Tuesday killed a constitutional amendment to balance the federal budget.

The House voted 279-150 in favor of the measure, sponsored by Rep. Charles Stenholm, a conservative west Texas Democrat. But that was seven votes short of the two-thirds majority required to change the U.S. Constitution.

President Bush sent word to House Speaker Thomas S. Foley (D-Wash.) that he supported the amendment. But the defeat appeared to dash hopes that Congress will reconsider the plan this year.

A key Senate sponsor, Paul Simon (D-Ill.), said that in the wake of the House defeat, "a Senate vote this year is not likely."

"The amendment is going to become a real issue in the congressional elections this year," Mr. Stenholm said after the vote. "After the reapportionment of congressional districts in 1991, I think we will see the amendment pass on Capitol Hill."

House Judiciary Committee Chairman Jack Brooks (D-Texas) led the floor fight against his fellow Texan's proposal.

"The Constitution is not a magic wand," Mr. Brooks argued during the long floor debate. "There are a host of dangerous and unintended problems in this esoteric constitutional amendment, which may invite financial gridlock and chaos."

With the national debt at $3.1 trillion and rising rapidly, and this year's budget deficit running at $168.8 billion according to figures posted this week by the Bush administration, the frustration of House members with themselves and with the Reagan and Bush administrations was evident in the debate.

The Washington Post

July 18, 1990

House Defeats Proposal to Ban Budget Deficits

By John E. Yang
Washington Post Staff Writer

The House yesterday narrowly defeated a proposed constitutional amendment that would have banned federal budget deficits as Democratic budget negotiators prepared for discussions with Bush administration officials about raising taxes.

The 279 to 150 vote in favor of the amendment was seven votes shy of the two-thirds majority needed to approve a revision to the Constitution. The measure was supported by 110 Democrats, most Southern conservatives, and 169 Republicans. Only five GOP lawmakers voted against it.

Lawmakers who voted against the amendment will get a chance to go on record in support of balanced budgets today when the House considers a proposed law requiring spending to equal revenues beginning in fiscal 1992. It is expected to pass the House but to be bottled up in the Senate.

As the House debated the proposed amendment, Democratic budget negotiators held meetings in the Capitol to discuss tax-raising options in preparation for a possible White House meeting today with President Bush before he leaves on a trip to the West, participants said.

No decisions were made, participants said.

Serious discussions about raising taxes could begin later this week, House Ways and Means Committee Chairman Dan Rostenkowski (D-Ill.) predicted after a luncheon meeting with House Majority Leader Richard A. Gephardt (D-Mo.) and Senate Finance Committee Chairman Lloyd Bentsen (D-Tex.).

"The administration should be ready to put a proposal out and we should be ready to put a proposal out," Rostenkowski said.

The packages are likely to be designed to raise between $20 billion and $25 billion in new revenue in fiscal 1991, congressional bargainers said. Budget negotiators are hoping to pare the coming fiscal year's deficit by between $50 billion and $60 billion.

The possibility that the administration would drop its demand for a reduction in the rate at which capital gains are taxed in exchange for Democrats not seeking to increase the top income tax rate has "gone out the window," Rostenkowski said.

Backers of the proposed balanced-budget constitutional amendment argued that the size of the federal budget deficit showed the failure of the Gramm-Rudman-Hollings deficit-cutting law. Only a constitutional remedy could solve the problem, they said.

"Give us a constitutional reason to find the guts to do what needs to be done," Rep. Charles W. Stenholm (D-Tex.), a prime cosponsor of the proposed amendment, asked of his colleagues. "It's time to have an additional tool, not another statute."

"Legislation has not worked," said Rep. Hamilton Fish Jr. (N.Y.), the House Judiciary Committee's ranking Republican. "Huge budget deficits have proved intractable."

"This body has lost the political will to be fiscally responsible," said Rep. Larry E. Craig (R-Idaho), another leading cosponsor and a Senate candidate.

But opponents said the proposed amendment was meaningless, mandating a result without offering a solution.

"The amendment is filled with soft and fuzzy feel-good words that have no more legislative meaning than a bumper sticker saying, 'Have a nice day,' " said House Judiciary Committee Chairman Jack Brooks (D-Tex.). "It will do damage to the Constitution that we have lived under for 200 years."

"It won't balance the budget," said Rep. Richard H. Lehman (D-Calif.). "It's just more smoke and mirrors."

The proposal would have required Congress to set into law at the beginning of each fiscal year a projection of how much money the government would collect. Spending would not have been allowed to exceed that estimate unless three-fifths majorities of the House and Senate approved.

It would have also required a roll-call vote on any tax increase and three-fifths House and Senate majorities to approve a rise in the government's borrowing limit. The provisions would have taken effect beginning with fiscal 1995 and would have been waived by a declaration of war.

Lawmakers rejected, 244 to 184, an attempt by Rep. Joe Barton (R-Tex.) to modify the proposed amendment to require three-fifths majorities to approve any tax increase.

ROLL CALL
THE NEWSPAPER OF CONGRESS
VOL. 36, NO. 10 MONDAY, JULY 16, 1990

Political Surveyor

By Charles E. Cook

New Bush Polls May Look Bright, But What's Next?

The first polls since President Bush's "Tax Tuesday" announcement may be brighter than many anticipated, but the results have left the GOP worried about what comes next.

An NBC News/Wall Street Journal poll, released Thursday, shows that the President's job approval rating had dropped three points between April and May, from 75 to 72 percent. Then, he dropped another five points, to 67 percent, between May and the most recent poll, which was conducted from July 6 to 11.

And according to a poll by the Gallup Organization, Bush dropped six points in job approval, from 69 percent in June to 63 percent in their latest poll, which was taken from July 6 to 8. Gallup also reports that at this point in 1982, with an economic recession in full swing, President Reagan's approval rating had already dropped to 42 percent, a third lower than Bush's right now.

The President's decision to raise taxes will probably not have an overall negative effect on Republicans, but it will certainly remove a tried and true campaign issue for Congressional candidates.

In recent weeks, the GOP candidates had three options in responding to the tax position switch: 1) whine and whimper; 2) mumble; or 3) apply a little distance, respectfully disagree, and go on with business.

The first option is unflattering but guarantees a place in news stories; the second keeps the candidate out of the press; and the third offers some latitude to continue using the issue.

In the Michigan Senate race, GOP **Rep. Bill Schuette**, who is bidding to unseat **Sen. Carl Levin** (D), is following the third course. His strategists argue that anything that will get voters thinking about, or for that matter, angry about taxes draws a stark contrast between liberals and conservatives and still leaves room for attack.

It's a novel theory, but it makes at least as much sense as the opposite argument, which is that voters who are angry about a president's decision to hike taxes are more likely to vote for candidates of the other party.

Perhaps more importantly, however, is the increasing talk of a recession.

Many observers will be tempted to draw parallels with 1982. If we are in a recession, however, we are in the very early stages, less advanced than in July 1982.

But, similar to 1982, there is not a large group of Democratic challengers ready to take advantage of any wave that could be forming to their party's advantage.

Throughout 1981, the key recruiting season for the 1982 elections, President Reagan's popularity was sky high, and talk of realignment and a "Reagan Revolution" was in the air. As a result, the Democratic gains that year — a net gain of 26 seats with 26 GOP incumbents and three Democratic incumbents defeated — were limited by the number of credible challengers. Also, 12 of the 57 freshman Democrats elected in 1982 represented districts newly formed after reapportionment.

In the Senate, elections seem to turn more on the personalities of the candidates and the campaigns than on national dynamics. A case in point is 1982, when Republicans managed an exact wash in the Senate while their House counterparts lost the 26 net seats.

It's true, however, that many of the Republican Senate victories in 1982 came as narrow victories, and a switch of 9,500 total votes would have swung GOP victories into Democratic wins in Nevada, Rhode Island, and Vermont. And a total of 33,800 different votes would have added Wyoming and Missouri to the list and given Democrats control of the Senate four years earlier.

The Evening Sun

Baltimore, Tuesday, July 17, 1990

Tell it like it is, Mr. President (cont'd)

Forgive us for viewing with a trace of cynicism at the latest machinations over the federal budget deficit crisis, but it seems to us that President Bush has evolved as a curious combination of an ostrich and Chicken Little: Half the time he keeps his head in the sand, and half the time he runs all over the barnyard crying "the sky is falling!"

Yesterday the president trotted out his three top economic advisers to sound the alarm bell over the fiscal crisis — an exploding budget deficit which now threatens to savage every governmental program from defense to poultry inspection. The purpose of this contrived show, of course, was to put the heat on Congress to negotiate under the most extreme pressure.

What makes the administration's new sense of alarm a little hard to swallow is the fact that just six months ago these same advisers were blithely predicting that the budget deficit would be only a little over half as much as they now say it will be. Never mind that sober voices in Congress at that time were warning that the administration's projections, based on economic assumptions that no serious economist accepted, were so unrealistic that they simply provided no basis to begin the hard negotiations that will now be necessary to avert disaster. The upshot was, all that precious time between the ostrich forecasts of January and the Chicken Little forecasts of July has been wasted.

Worse yet, the president, while crying "the sky is falling!" to Congress, still insists upon playing the ostrich insofar as the American people are concerned. He steadfastly refuses to use the bully pulpit of the presidency to make clear the full dimensions of the fiscal crisis which looms.

As we said two months ago in this space, only the president has the wherewithal to deliver that message. He owes it to the American people to go onto television and explain what has happened in just six months that has so radically changed his budget predictions, and what steps must be taken to confront the new reality of the exploding budget deficit.

Los Angeles Times

B6 WEDNESDAY, JULY 18, 1990

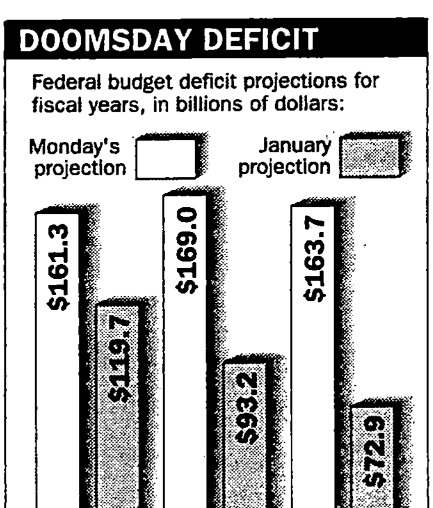
The Art of the Deal

■ Budget Impasse Can Be Broken by Honorable Compromise Politics

Under the sweltering heat of summer and the suffocating glare of the media, politicians in Washington (not to mention Sacramento) are squirming and struggling, wishing they were home with a cold drink and a good detective novel. But they can't go home yet. They are immobilized by budget crises. They needn't be. There's a way out.

In Washington, the size of the problem is estimated to be about $169 billion (in Sacramento, it's about $3.6 billion). But the economic numbers are less important than the political bottom line: It's that democracy can't work unless the workers behave as democrats (small d). Even more than an economic question, the budget deadlock raises the specter of ideology's triumph over politics, which spells trouble in a democracy, even a republican (small r) one.

The Economic Question: The nation has a sputtering national economy, more troubled in some regions (particularly the Northeast) than others, that has reduced tax revenues, exacerbated the federal budget problem and caused Uncle Sam to borrow more money than ever to cover its bills. This forces up interest rates, tightens credit and makes the economy uptight and edgy. Worse yet, to deal with the deficit, the Gramm-Rudman-Hollings Act of 1985 requires a spending cut of more than $100 billion *this year*. This amount is so large that even fiscal conservatives run from it in fear that cuts so deep would traumatize the economy. So goodby, for this year at least, GRH.



Los Angeles Times

What's needed now is an old-fashioned, middle-ground, workable budget compromise—the kind of political exercise generally associated with functioning government. But Democrats and Republicans, like cats and dogs, are fighting over their pet proposals. The former—on their patented equity kick—would increase revenues by taxing people who make more than $210,000 at the same rate as those below. The latter—on their patented economic-growth kick—would increase tax revenues by encouraging investment with a reduction in the capital-gains tax.

Would either measure actually increase tax revenues and help reduce the deficit? No one knows for sure. Back in November, The Times opposed any reduction in the capital-gains tax as a "tax amnesty for the rich." Reducing the investment tax would certainly spur investment, but its impact on the revenue picture is unclear; anyone who says otherwise may be a card-carrying, supply-side ideologue. And how much fairness is put back into the tax code if the rich are hit at the same flat tax rate as the not-so-rich? Because of the issue of deductions—fewer now for the wealthy—the answer is more complicated than anyone who's not an equity ideologue will admit.

The Political Equation: What is certain is that both measures are viewed as vote-getters for each party. And, therefore, both measures are deal-makers. The GOP doesn't have the votes in Congress to pass capital gains without some Democrats; the Democrats probably can't raise rates on "the rich" over Bush's veto. Students of Government 101 will instantly recognize the elements of a grand political compromise. As part of a larger budget deal, the two rival tax proposals can be stitched together, like political Siamese twins: the Democrats can claim greater equity and the Republicans investment growth, and the 1991 budget deficit can be brought down about $50 billion through a combination of increased revenues and cuts.

The Payoff: That compromise would break the logjam and send a signal that the government was cooking again. A deficit reduction that large would squeeze domestic programs as well as military ones, but it would be large enough to show that government was serious. Right now huge deficits fester away while single-minded political agendas crowd reason from center stage and prevent men and women of moderation from forging the needed political compromise.

As the President said Tuesday, "The time for game playing is over." Congress mustn't wait until after recess; the time to act is now.

The Detroit News

8A/Wednesday, July 18, 1990

Bring on the Sequester!

Administration officials this week held out the threat of a $100 billion budget "sequester" this fall if the current budget summit doesn't raise taxes and cut spending enough to meet the 1991 deficit target of $64 billion. Official Washington clearly views such a meat-ax approach to the budget as a horrifying thing. We're not so sure: Anything that would cut Congress' own budget by up to 40 percent can't be all bad.


Richard Darman

Richard Darman, director of the president's Office of Management and Budget (OMB), published a 45-page list of the potential spending cuts that would be required under the sequestration provisions of the Gramm-Rudman-Hollings deficit reduction act. The average non-defense program would be slashed by 38 percent, while defense spending itself would be slashed by 25 percent. Social Security and Medicare are exempt.

There's no doubt about it. Cuts of such magnitude would inflict considerable pain.

More than one million military personnel would be instantly demobilized and scores of bases closed. Farm subsidies would be slashed across the board. Meat and poultry inspections would be eliminated for 140 days. Health research on cancer, AIDS and heart disease would be curtailed and some 4,200 contract scientists would lose their grants.

Head Start would cut enrollments by 208,000 children. Federal prisons would lose 5,600 employees. The FAA would have to curtail up to 40 percent of commercial flight control operations. Hospitals would close.

But the closer you look at Mr. Darman's monster in the closet, the less frightening it becomes. After all, that $100 billion is not a cut from the current spending. It is a reduction in *planned* outlays. Fiscal 1991 revenue is now predicted to rise by $90 billion anyway, thanks to continued growth of the economy. The net effect of a sequester would be only a $10 billion cut from the current spending levels of nearly $1.3 trillion.

Besides, a sequester might force Washington to get serious about reforming many programs. Why, for example, should taxpayers foot the bill for air controllers? Why not let the airlines and their passengers pay? Why should meat inspections be paid by taxpayers? Why not let the meat industry and their customers pay?

Why should the Veterans Administration be running the most costly hospitals in the world, with vacancy rates of more than 45 percent? Why should farmers with net worths of $1 million or more be getting 80 percent of the farm subsidies?

Well, you ask, what about defense?

Well, what about it?

The net reduction in total outlays would only be $40 billion from current spending levels, a 14 percent cut. Haven't the events in Eastern Europe and the Soviet Union made us 14 percent less vulnerable?

In short, why not let the $100 billion sequester take effect, without any tax increases? Federal spending would fall to 21 percent of GNP, the same level as 1979. That would be like giving Americans a $100 billion tax cut with no fiscal deficit hangover, exactly what a sluggish economy and a credit-starved private sector need.

And here's the best part. A budget sequester would require Congress to cut back its own bloated budget by nearly $250 million, forcing the layoff of nearly half of the House and Senate staffs. We can't think of anything more beneficial to the economy than a slimmed-down Congress with fewer ambitious young men and women dreaming up ways to spend our money.

If the politicians can't bring themselves to cut spending sensibly, bring on the sequester — and send the summit-taxers home.

The Washington Post

TUESDAY, JULY 17, 1990

Deficit Forecast Rises to $168.8 Billion

Darman Details Depth of Cuts Due if 1991 Budget Negotiations Fail

By Steven Mufson
Washington Post Staff Writer

The Bush administration's top three economic policy-makers yesterday conceded that they underestimated the federal deficit when making budget proposals in January and warned that automatic spending cuts "of totally unprecedented size" could lie ahead.

Office of Management and Budget Director Richard G. Darman said the government now faces a fiscal 1991 budget deficit of $168.8 billion, well above the $100.5 billion deficit forecast in January.

Darman had already raised deficit forecasts three times since January in testimony and talks with congressional leaders, but yesterday's official forecast was the highest yet.

If counted as part of the deficit, spending on the savings and loan cleanup would boost the 1991 deficit to $231.4 billion, nearly four times the deficit target set by the revised Gramm-Rudman-Hollings deficit-reduction law. However, spending for the S&L cleanup is not subject to the budget law. Originally the 1985 law called for a balanced budget in 1991.

At the mid-session review of the budget yesterday, Darman also mapped out in unrelenting detail the $100 billion in automatic spending cuts that would take effect if Congress and the White House fail to agree on a "credible" deficit-reduction plan before the new fiscal year starts on Oct. 1.

He said the consequences of such a failure would include: reductions of up to 1 million military personnel, cutbacks in the air traffic control system that would increase air travel delays by up to 600 percent, a halt in all new cleanups of toxic waste sites, the elimination or reduction of Pell grants for 3.4 million students, additional overcrowding of prisons, a cut of 200,000 4-year-olds from the Head Start program and a one-third reduction in research, prevention and treatment of drug addiction.

See FISCAL, A6, Col. 1

FISCAL, From A1

In an open effort to turn up the pressure on Congress to come up with a new budget package, Darman, Treasury Secretary Nicholas F. Brady and Michael J. Boskin, chairman of the Council of Economic Advisers, vowed not to shirk from enforcing the across-the-board spending cuts as mandated by the Gramm-Rudman-Hollings law.

"This is not some theoretical construct," warned Darman. "It is highly relevant to the current budget summit negotiations, and if those negotiations fail, it will have major implications for virtually everything the federal government touches."

While administration leaders tried to put the heat on Congress to cut the budget deficit, congressional leaders deflected some of that back to the Bush administration.

"I'm glad the administration now acknowledges the inaccuracy of their earlier estimates," said Senate Majority Leader George J. Mitchell (D-Maine).

Others, however, underscored the gravity of the numbers and the proposed cuts.

"The crisis, in short, is real," House Budget Committee Chairman Leon E. Panetta (D-Calif.) said in response to the administration announcement. "These numbers should hit the White House, the Congress and the [budget] summit like a fire alarm in the middle of the night."

Overall, a $100 million across-the-board reduction in government spending—the size of the cuts needed to reach the Gramm-Rudman-Hollings law's deficit target for fiscal 1991—would cause a 38.4 percent cut in non-defense programs and cuts of 25.1 percent to 41.3 percent in defense programs, Darman said.

Normally, the consequences of automatic budget cuts, known as sequestration, are not outlined until August. But yesterday's early threat seemed to be an effort to prod Congress by showing that the economic—and political—consequences of not making a budget deal could be more dire than the fallout from the unpopular choices needed to reduce the deficit.

"The American people," Brady said, "will find out what these cuts mean, and when they do they will be in contact, I promise you, with their congressmen, and we'll get progress."

Some Democratic budget negotiators encouraged the administration to issue its early warning about automatic spending cuts. They suggested to Darman that he issue the report now in hopes of creating a sense of urgency in the talks.

"It's better that people see it now to try to build some impetus to get an agreement," said Panetta. "I'm hoping the magnitude of this sequester order will help establish the depth of the crisis we are facing."

The administration also might have Republicans in mind when it talks about getting Congress to face up to the deficit-cutting task. On Wednesday House Republicans will vote on a resolution declaring their opposition to "new taxes and all tax rate increases as a means of reducing the federal budget deficit." The vote would put members on record directly opposed to President Bush's recent statement that he would accept a tax increase in a deficit-reduction package.

OMB's reestimate of the budget deficit brought its projection in line with that of the nonpartisan Congressional Budget Office, which has been far less optimistic than the administration. Late last month, CBO projected the fiscal 1991 deficit at $164 billion, not counting the cost of the savings and loan cleanup, and $232 billion with that money added.

While lawmakers have focused on coming to grips with next year's budget, the deficit for the current fiscal year has continued to spiral, the new estimates show.

According to the budget plan reached by Congress and the White House last November, the deficit for the current year should have been no more than $100 billion. But OMB said yesterday that the actual figure, including the cost of the thrift cleanup, would be $218.5 billion, more than twice the target.

Even without $57.2 billion in spending for the cleanup of the ailing savings and loan industry, the government would have missed its deficit mark.

Staff writer John E. Yang contributed to this report.

The Washington Post

TUESDAY, JULY 17, 1990

The Balanced Budget Vote

THE BUSH administration has shifted not just its position on taxes but its role in the budget debate. The president spent his campaign and first year and a half in office doing just what the Reagan administration had done before him: using fanciful projections to minimize the deficit. Now he has apparently decided to begin to address the fiscal danger rather than continue to duck it. To goad the summit negotiators and resisters in both parties in Congress, he and his aides have turned to emphasizing how large and intractable the deficit is.

In January his projection was that the deficit, absent any further steps to reduce it, would be about $100 billion in the next fiscal year, already comfortably down from slightly more than $120 billion expected this year. Now the projections have shot up to $161 billion this year and $168.8 billion next. If you count the currently estimated cost of bailing out the savings and loan industry, the figure for next year rises to $231 billion. If you strip away the masking effect of the Social Security surplus, it rises to more than $300 billion.

It's a little hard for the president and his budget director to explain how the figures got so much higher in just six months, but no matter. What they're saying now is what a president and budget director ought to be saying in the current circumstances. As with national security, so with economic: better to err, if you err at all, on the conservative side of foreseeing too much risk rather than too little. The new truth-telling makes all the more anomalous the balanced budget amendment to the Constitution on which the House is scheduled to vote today, and which, sadly, the administration still supports.

This is not what its title promises. It would not outlaw deficits, but merely make them harder to amass by requiring three-fifths votes of both houses both to overspend revenue estimates in any given year and, as a second line of defense, to borrow in order to cover such overspending. But if Congress failed to abide by its terms, or evaded them, what would anyone do? Take Congress to court and have the courts become fiscal arbiters? This is a fig leaf in a situation that requires political courage. Nor is it economically wise to enshrine one kind of fiscal policy in the Constitution. The House should vote no. The place to solve the deficit problem is at the summit, not in the Constitution.

The Washington Times

White House, Hill agree to relax Gramm-Rudman

TUESDAY, JULY 17, 1990

By Karen Riley
and Frank J. Murray
THE WASHINGTON TIMES

White House and congressional budget negotiators have informally agreed to relax the Gramm-Rudman-Hollings law rather than risk a recession from "draconian" $100 billion spending cuts brought nearer by yesterday's soaring deficit estimate.

The deal, revealed by the administration, is contingent on a "credible" long-term budget plan that would start with up to $55 billion in deficit reduction in the fiscal year beginning Oct. 1.

Economic adviser Michael Boskin said deeper cuts now — $55 billion is about 1 percent of the gross national product — could worsen the already sluggish economy.

"When people appreciate what the law has us headed towards if the Congress fails to act, the Congress will have to act," Budget Director Richard Darman said in estimating that spending would exceed income by $168.8 billion in the fiscal year, not counting the cost of the savings and loan bailout.

Left unchanged, Gramm-Rudman would automatically slash up to $100 billion.

A Senate aide familiar with the budget summit talks said the negotiators are using working papers that assume tax increases will account for half of the final agreement, with spending cuts accounting for the other half.

"If a fully responsible deficit reduction program is not enacted by the Congress, this automatic $100 billion cut will affect almost all that the federal government touches, from military readiness to air safety, to vaccinations for children, to programs for the elderly, to drug abuse prevention, to prison violence," President Bush said.

Mr. Bush called on Congress four times in a five-sentence statement to "act responsibly."

Rep. Leon Panetta, California Democrat and chairman of the House Budget Committee, said, "These numbers should hit the White House, the Congress and the summit like a fire alarm in the middle of the night."

The administration's disclosure that it favors easing Gramm-Rudman — provided a "credible" multiyear budget deal can be struck by Sept. 30 — came in its midyear budget estimate to Congress. The estimates of budget cuts, which begin the formal process, weren't due until Aug. 25. But Mr. Darman said they were intended to convince Congress the situation was serious.

Gramm-Rudman includes a schedule of deficit targets designed to balance the budget by 1993. The OMB budget review released yesterday said congressional and White House negotiators reached "informal consensus" to reduce the deficit only $50 billion to $55 billion in 1991 instead of up to $100 billion and keep the law in effect beyond its scheduled expiration in 1993.

"To change the law would require the Congress and the president agreeing on a satisfactory deficit-reduction program," Mr. Darman said.

Sen. Phil Gramm, Texas Republican, one of the authors of the deficit-reduction law, said the reductions must be gimmick-free.

"I don't think it is desirable, but the cold reality, given the state of the economy, given the S&L bailout and given the fact that Congress is determined to take Social Security off budget . . . inevitably produces new targets."

Current law prescribes a deficit target of $64 billion but allows a $10 billion cushion, requiring automatic cuts if the red ink goes over $74 billion. At $168.8 billion, that would require $94.8 billion in cuts but the figure is now expected to hit $100 billion.

Under such an across-the-board reduction, about 38.4 percent would come out of non-defense programs and from 25.1 percent to 41.3 percent out of defense programs unless taxes are raised.

A reporter asked all three administration officials at yesterday's news conference if there really wouldn't be "some kind of fix" at the last minute as in past years, when segments have been taken off the budget or targets postponed.

"No!" snapped Treasury Secretary Nicholas Brady.

"No!" added Mr. Darman.

"And definitely not," insisted Mr. Boskin.

Said Mr. Brady: "If they want to come up with a fix, that's their business, but what we're expressing is the administration's point of view. This problem is serious. The law is the law; we're going to obey it."

Mr. Bush's proposed budget already includes $13.9 billion in new taxes and $5.6 billion in new fees, but Mr. Darman hewed to agreements not to talk specifics and focused instead on the potential cuts called sequestration.

"This is not some far-fetched theoretical construct. It is what the law now requires. And it is enforceable with criminal penalties," Mr. Darman said, although he conceded the estimates have varied — once as much as $20 billion over a weekend.

Estimates for next year's budget deficit have ballooned by 81 percent since January largely because the government overestimated 1989 income taxes by $34.6 billion, interest rates were higher than expected, adding $21.2 billion on interest paid on the federal debt, and the economy grew more slowly than earlier predicted. GNP was 1.1 in the last quarter of 1989 and 1.9 for January to March.

Only $2.2 billion of the increase is caused by new spending prompted by Congress or the administration.

Mr. Boskin said he had altered the administration's economic forecast to reflect these changes. He now expects growth of only 2.2 percent for the year rather than 2.6 percent, as he predicted in January. He also predicts slightly higher inflation, with the Consumer Price Index increasing by 4.8 percent instead of 4.1 percent.

If the economy grows at a rate of less than 1 percent for two quarters in a row, the automatic budget cuts of Gramm-Rudman automatically go on hold.

OMB also said that the deficit had now increased by nearly half a trillion dollars over the next six fiscal years.

Mr. Bush's June 25 reversal on his "no new taxes" pledge put the ball in Congress' court and administration officials have been frustrated by a congressional response they consider slow.

The Washington Times

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No new taxes?

Oh, there will be fun tomorrow morning when the House Republican Conference meets. After months of delays, the group is scheduled to vote on a resolution that expresses opposition to "new taxes and all tax rate increases as a means of reducing the federal budget deficit, and instructs [House Republican] leaders to represent this position to the President and the public." It further defines a "tax rate increase" as a hike not just on income taxes, but "on all existing taxes under federal jurisdiction." In short, the resolution nixes any new taxes, excises, tolls, fees, licensing requirements as new exactions from businesses, individuals, consumers, travelers, tourists, etc. That is, the conference would advocate no new taxes.

The resolution was drafted by Rep. Richard Armey at a time when it seemed likely to arouse only light controversy within Republican ranks. The conference adopted a virtually identical resolution last year (the clarifying footnote this year is new), and Mr. Armey wanted to put the party on record for 1990. Unfortunately for Republicans, House Republican leadership suggested strongly that Mr. Armey run the draft through the Policy Committee rather than put it up for a quick vote. During the committee's debates on the matter, President Bush signed his famous statement advocating new tax revenues. As a result, what would have been an innocuous vote two months ago has turned into a test of the Republican Party's soul.

Such a test was inevitable because Republicans have been dividing into two factions for years. On one side stand the Belt-Tighteners, who believe in good, compassionate, efficient government. Peggy Noonan last week referred to this group as "low-budget Democrats." On the other side stand supply-siders, who believe in less government and lower taxes and who view a growing economy, not a growing government, as the best engine of social progress.

The two sides were forced into confrontation by yesterday's revised federal budget deficit forecast, which jumped $64 billion to $148 billion. Not only must Republicans choose between kinder, gentler government or less government, supply-siders will have to begin outlining specific spending cuts and producing the votes to ensure their enactment. This actually could happen because many Republican congressional candidates, including senatorial hopefuls Tom Tauke, Claudine Schneider and Lynn Martin, have made the no-tax pledge a central part of their campaigns.

More profoundly, tomorrow's vote may indicate whether Republicans see themselves as efficient Democrats or as promoters of a distinctive philosophy of government. Republicans have been shaken badly by the president's seeming preference for inside-the-Beltway process over principle. They need to prove that theirs is a party of the people and not just of politicians. If they fail to send that message tomorrow, 1990 could be a banner year for the Republicans and Democrats who form the core of Washington's tax-and-spend cabal.

The New York Times

TUESDAY, JULY 17, 1990

No to a Balanced Budget Amendment

The balanced budget amendment that the House will vote on today is impractical, unenforceable and wouldn't end Federal deficits. But it would litter the Constitution with a vacuous promise, and invite greater cynicism in budget-making.

Deficits are arbitrarily defined and easily manipulated. Achieving a specific level, like zero, has no special economic significance. And trying to hit that target could play havoc with valuable Federal programs and a declining economy that might need deficit spending.

Yes, Congress should keep deficits from spiraling upward. But there is no immediate crisis, and the deficit — compared with the size of the economy — has already been cut in half under the Gramm-Rudman-Hollings budget law. More needs to be done. The prudent way is to amend Gramm-Rudman to make it work better, not spoil the precious Constitution in a quixotic search for a quick fix.

The proposed amendment would require a three-fifths vote in both houses to run a deficit. That, say the sponsors, would provide the flexibility to run deficits when they are needed but stymie unnecessary borrowing. But nowhere does the amendment come to grips with political reality. Evasion would be simple. Congress could move programs "off budget," like funds for the savings and loan crisis.

The amendment also would require Congress and the President to agree on revenue and expenditure estimates. But politicians have a common interest in fudging such projections and pretending to pass a balanced budget. The amendment's only safeguard against self-serving projections is the proposed three-fifths vote to raise the debt ceiling. That way legislators eventually would be forced to confront the issue. Yet garnering enough votes would be easy since to vote otherwise would bring the Government to a screeching halt.

As for states that have balanced budget amendments, they also have separate capital accounts. That allows them to borrow money for long-term investments in infrastructure. There is no separate capital account in the Federal budget. So a requirement to balance the budget would create a horrific incentive for Congress to avoid costly investments in railroads, education and research.

Congress has been unable to make the Gramm-Rudman budget law work fully as intended. But amending it to plug loopholes would be far easier, and better, than drafting a skimpily worded constitutional amendment.

NEW YORK POST

TUESDAY, JULY 17, 1990

BUSH'S $231B BOMBSHELL

By DEBORAH ORIN
Bureau Chief

WASHINGTON — President Bush ate his words again yesterday — admitting that his rosy economic scenario was wrong and that the federal deficit is now so high the United States risks the layoff of half its military personnel.

The president chewed up his own budget forecast just three weeks after eating the words of his "read my lips, no new taxes" campaign pledge.

If the cost of the savings-and-loan scandal is included, Bush now concedes this year's deficit will top $231 billion — more than double the $100 billion he predicted in his January budget.

Even without the S&L crisis, Bush now predicts a $169 billion deficit, and his aides warned that is enough to trigger "totally unprecedented" automatic spending cuts, like the layoff of a million servicepeople in the Army, Navy and Air Force.

Bush budget director Richard Darman said it also could mean four times as many air-traffic delays, elimination of 1.2 million college scholarships and a "crippling" of efforts against AIDS.

Because such cuts are virtually unthinkable, the real impact of Bush's new numbers is pressure on Congress to work out a deficit-reducing deal — which is all but certain to include tax hikes.

Democrats, who control Congress, now say the most likely increases are in gasoline or energy taxes, higher income taxes for the rich and "sin taxes" on booze and cigarettes.

Under the Gramm-Rudman budget-balancing law, automatic cuts of at least $100 billion will be triggered unless Congress and the White House agree on a deficit-cutting deal.

Many Democrats were irate yesterday, saying the economy hasn't changed much since January but that Bush unrealistically sugar-coated his initial budget figures to avoid calling for tax hikes.

"This administration is going to lose credibility not only on its promises but on its economic forecasts," said Rep. Tom Downey (D-L.I.), a member of the powerful House Ways and Means Committee.

By putting off the day of reckoning, Downey contended, Bush has increased the ultimate cost to taxpayers.

As he did on the day when he ditched his no-new-taxes pledge, Bush avoided the spotlight yesterday — instead sending out aides to deliver the bad news.

Private economic forecasters and the Congressional Budget Office have said from the start that Bush's budget forecasts were wildly optimistic, and yesterday Bush bowed to reality and scaled them back.

USA TODAY

TUESDAY
JULY 17, 1990

$100 billion in spending may be cut

By Jessica Lee
and Richard Wolf
USA TODAY

The Bush administration's 1991 budget deficit forecast took a colossal jump Monday — to $168.8 billion — $68 billion more than six months ago.

If the cost of the savings and loan bailout for the year is added in, the deficit forecast hits $231.4 billion.

The White House and Congress must trim the $168.8 billion figure to $64 billion by October — the target mandated by law — or face $100 billion in automatic spending cuts.

Negotiators are working to pare spending and raise taxes — and perhaps relax the $64 billion mark.

But budget chief Richard Darman said automatic cuts are "not some far-fetched theoretical construct. It is what the law now requires."

Added Treasury Secretary Nicholas Brady: "This is not a political wrestling match."

Automatic cuts could mean:

▶ Elimination of 1 million military jobs.

▶ Furloughs or layoffs of about 850,000 civilian Defense Department workers.

▶ Curtailment or removal from service of more than 100 air traffic control towers.

▶ Elimination of financial assistance for up to 1.2 million college students.

▶ Halt of all new cleanups of toxic waste sites.

The new deficit forecast is based on slower-than-expected economic growth.

In January, Democrats said Bush's $100 billion deficit forecast assumed overly optimistic economic growth and low interest rates. Reaction Monday:

▶ "The bill for the '80s is now coming due," said Rep. Leon Panetta, D-Calif., chief House budget writer.

▶ James Sasser, D-Tenn., leader of the Senate Budget Committee, said, "It's absolutely critical that the president explain this problem."

USA TODAY

TUESDAY
JULY 17, 1990

DEBATE

Reject the balanced budget amendment

Another month older, and $10 billion deeper in debt.

That's how much federal budget officials added Monday to their predictions for next year's budget deficit.

Unless spending is cut or taxes are raised, they say our deficit will be $168 billion, up $10 billion from last month's estimate and $68 billion from the Bush administration's estimate in January.

Such a fiscal skyrocket means each of us, as U.S. citizens, would owe $700 more for Uncle Sam's bills. And as it shoots ever higher, that debt eats up money needed to fuel home and car buying, factory building and other things that spur economic growth, jobs and a better life for our families.

President Bush and some in Congress say the only way to shoot this debt rocket down is with a constitutional amendment. Today, the House will vote on one that would require:

▶ The president and Congress to agree each year on an estimate of revenues for the coming fiscal year.

▶ A three-fifths majority of each house in Congress to approve spending that exceeded revenues.

▶ A majority vote of the total membership of each house to increase taxes.

As you can read across this page, proponents say Congress needs a backbone imbedded in our Constitution before it can stand up to special interests and do what's right.

It's true our elected leaders haven't had the guts to do what they say is needed. Presidents Reagan and Bush, while calling for an amendment, have never submitted a balanced budget to Congress. And the 248 co-sponsors of this amendment, while having the votes to cut spending and raise taxes to balance the budget, haven't done so.

A constitutional amendment to balance the budget won't give them any more courage. Instead, it would embed fiscal nonsense in our Constitution.

No amendment can ensure honest budgets.

Congress simply could put more items off the budget, as it has the $200 billion savings and loan bailout. The 49 states that require balanced budgets do that constantly, with 25,000 entities that have doubled state debt since 1980 in off-budget accounts. Or Congress could take items off the budget by mandating that states and businesses pay for them.

None of which would change the actual costs to the economy. It would just hide them in other budgets.

And no amendment can eliminate faulty economic predictions. Rosy budget scenarios like this year's could lead to huge budget deficits if Congress goes along.

If honestly enforced, though, this amendment could wreck our economy.

This year, for example, to eliminate all of the $168 billion deficit and pay all the savings and loan bailout would cost $3,000 per taxpayer. That's too high a bill to pay all at once.

But under this amendment, even if 59% of our representatives recognized that, a mere 41% could demand the budget be balanced and thwart majority rule.

There's a better, democratic way to give our elected leaders backbone. We can elect people who have the courage to reduce the deficit and not hide behind an amendment.

No amendment can replace the will of the people. And no amendment should be passed to thwart it, either.

USA TODAY

TUESDAY
JULY 17, 1990

LARRY E. CRAIG
An opposing view

Adopt the balanced budget amendment

WASHINGTON — A national, grass-roots movement, many years in the making, will likely pay off this week when the House passes legislation calling for the Balanced Budget Amendment to the Constitution.

It's no wonder public opinion polls are showing over 75% support for the measure. As Thomas Jefferson had feared, Congress has proved itself incapable of resisting the demands of local constituencies and national special interest groups; the resulting debt has become a runaway locomotive with an entire nation aboard.

Our national debt has doubled in the last six years, climbing from $1.6 billion in 1984 to more than $3 trillion today. Interest on that debt alone consumes 54 cents of every tax dollar; your share of this debt is $12,000.

Rep. Larry E. Craig, R-Idaho, is a sponsor of the Balanced Budget Amendment.

Conventional wisdom says the problem is under-taxing. But, once again, conventional wisdom is wrong. Since 1980, tax receipts have risen from around $500 billion to over $1 trillion, and Congress has spent $1.50 for every additional dollar in tax receipts.

The problem is an institutional bias toward spending that corrupts many members, resulting in higher deficits and a dangerous debt. That might be less dangerous if it didn't mean an ever-increasing dependence on mass infusions of foreign capital ("fiscal cocaine"), higher interest rates, slow growth and a feeling the USA is losing control over its future.

Congress is addicted to deficit spending and, just like a drug addict, sees its particular poison as a refuge and an answer to all problems. And, like most addicts, it lacks the ability to kick the habit without special help.

Unfortunately, today's federal budgeting system offers little help. Congress won't set spending priorities and lacks the political will to be fiscally responsible. Gramm-Rudman and other statutory budget "reforms" have been passed by Congress. But most of them have been changed or ignored, and today serve as thinly disguised methods of bamboozling the populace.

It comes down to this:

Statutory reforms have not worked, and our best hope for controlling Congress' profligate spending short of changing human nature is to demand the protection of the Balanced Budget Amendment.

We need a constitutional check to prevent the federal government from accumulating a debt that threatens our economy and puts an unbearable burden on future Americans.

If passed by Congress and ratified by 38 states, the Balanced Budget Amendment will ask the federal government to live by the rule that 49 state governments and our families already obey — you can't spend more than you take in.

Help a spending addict reform before it's too late! Call members of Congress and ask them to support the Balanced Budget Amendment. Tell them Thomas Jefferson sent you.

THE SUN

TUESDAY
JULY 17, 1990

'91 deficit called near $170 billion

By Stephen E. Nordlinger
Washington Bureau of The Sun

WASHINGTON — The Bush administration predicted yesterday that the 1991 federal budget deficit would reach $168.9 billion, nearly 70 percent higher than it forecast only six months ago, and listed major programs that would face possible automatic budget cuts.

Top administration officials blamed the huge deficit increase largely on lower revenue from a weaker-than-expected economy, higher government interest payments on borrowed funds, and some of the soaring cost of the savings and loan debacle.

If the full cost of the thrift bailout were included, it would raise the deficit to $231.4 billion in the coming fiscal year, which starts Oct. 1, according to the administration's mid-year budget review.

In an attempt to put heavy pressure on Congress, the White House warned in dire terms that the budget-balancing law would require huge across-the-board cuts in federal military and domestic spending unless the deficit were brought down sharply in the summit negotiations.

"If those negotiations fail, it will have major implications for virtually everything the federal government touches," Budget Director Richard G. Darman said as he reeled off the "highly disruptive" impact on education, health, air-traffic control, meat inspection, drug control and other federal services.

To give urgency to the issue, Mr. Darman was joined at a news conference by Treasury Secretary Nicholas F. Brady and Michael J. Boskin, the president's chief economic adviser. President Bush also issued a statement warning of the danger of draconian cuts in federal programs.

Some major programs, including Social Security, Medicare and aid for

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the poor, would be exempt from the cutbacks. But the remaining domestic programs would be slashed by 25.1 percent and military spending by 38.4 percent.

The administration's new forecast is far higher than the $100.5 billion deficit predicted in the budget President Bush sent to Congress last January and about $10 billion higher than the administration informally estimated two weeks ago.

It towers over the maximum $64 billion deficit for the coming fiscal year allowed by the Gramm-Rudman law. To reach that target would require about $100 billion in spending cuts or tax increases based on the administration's new forecast.

Unless the administration and Congress agree on a package to reduce the deficit to within $10 billion of the $64 billion, the law would trigger across-the-board cuts this fall of about $100 billion.

Summit negotiators hope to head off these huge mandatory cuts with about $50 billion in tax increases and spending cuts for fiscal 1991.

Such an agreement would still leave the 1991 deficit above the $64 billion legal target, so administration officials agreed yesterday to changes in the law that would stretch out the goal of achieving a balanced budget until the mid-1990s.

However, as a firm price for moving each target ahead by two or three years, the administration officials insisted that a final summit deal include a "credible, multi-year, enforceable" deficit-reduction package.

Senate Majority Leader George J. Mitchell, D-Maine, agreed to cooperate, but he chastised the administration for its "unrealistic" deficit figures last January.

The administration's new forecast predicted economic growth this year at 2.2 percent, compared with the 2.6 percent forecast last January, and a 7.7 percent rate for three-month Treasury bills, a full point higher than the January forecast.

Mr. Brady and Mr. Boskin said the administration's new interest-rate forecast relied on an easier Federal Reserve monetary policy as well as a favorable market reaction should a substantial budget agreement be reached.

The new forecast was much closer to those of private economists and the non-partisan Congressional Budget Office, which issued a report last week showing a 1991 deficit of $164 billion. In a marked change from the past, the CBO's projected deficit was $4.8 billion lower than the administration's new estimate.

The White House was not required by law to issue an analysis of the possible across-the-board spending cuts, called a sequester, until Aug. 25, but Mr. Darman said he advanced the date in hopes of putting some fire under the negotiators. The administration hopes they will come up with a deficit-reduction package before Congress quits for its monthlong vacation Aug. 3.

Mr. Darman indicated that the final deficit package probably will include about $20 billion in tax increases and about $30 billion in spending cuts.

As for the impact of across-the-board cuts should the talks collapse, he predicted delays in air service increasing 400 percent to 600 percent due to cutbacks in air-traffic control operations.

He said the Head Start program would be cut by 40 percent and meat and poultry inspection would be suspended for 140 days.

But Mr. Darman agreed that even if the negotiators fail to reach an agreement by next month, an accord will be reached "eventually" to avoid the massive automatic cuts.

Los Angeles Times

TUESDAY, JULY 17, 1990

25% Spending Cut Looms as Deficit Soars

By TOM REDBURN
and WILLIAM J. EATON
TIMES STAFF WRITERS

WASHINGTON—The Bush Administration, raising its latest deficit estimate for next year to $169 billion, warned Monday that the federal government faces spending cuts this fall of at least 25% in a wide range of defense and domestic programs unless Congress and the White House forge a budget compromise.

Richard G. Darman, director of the White House Office of Management and Budget, said that the roughly $100 billion in automatic cuts scheduled to go into effect in October under the Gramm-Rudman deficit reduction law would eliminate about half of the nation's military forces, produce chaos in the air traffic control system, prevent any new hazardous waste cleanups and wipe out federal grants to 2.2 million college students.

"This is not some far-fetched theoretical construct," Darman told reporters. "If the summit [budget] negotiations fail . . . these effects of sequester are exactly what we will face in the fall."

The dire warning was issued as the White House released its official deficit forecast for the fiscal

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year that begins on Oct. 1. The $169 billion in projected red ink is $9 billion higher than its unofficial forecast last month and far in excess of the $64 billion deficit target called for under Gramm-Rudman.

And the new deficit forecast—based on what would occur if Congress makes no changes in current spending and tax policies—does not include the cost of cleaning up the savings and loan mess, which would swell total borrowing for fiscal 1991 to $231 billion.

Administration officials and congressional leaders privately agreed in May, shortly after beginning a round of "summit" budget negotiations that is still under way, that it would be impossible to reach next year's $64-billion deficit goal.

Instead, they hope to ease the stringent Gramm-Rudman targets by passing legislation to set new targets that will balance the budget in 1995, instead of 1993. The legislation, they hope, would allow them to hold the cuts to roughly $50 billion.

The White House is engaged in a risky game of political chicken with rebellious lawmakers from both parties. Many House Republicans have vowed to oppose any budget deal that includes a tax increase. The White House—and the Democrats—so far has been reluctant to take the first step by calling for new taxes or cuts in popular programs. Some Democrats want to force the White House to move first by permitting the automatic cuts to go into effect for at least a short time.

To forestall such moves, the Administration, with the support of key Democratic and Republican budget negotiators, is stepping up its campaign to force action before the Oct. 15 Gramm-Rudman deadline by detailing in advance how devastating the automatic cuts would be.

"These new numbers should hit the White House, the Congress and the [budget] summit like a fire alarm in the middle of the night," said Rep. Leon E. Panetta (D-Monterey), chairman of the House Budget Committee. "Now is the time of reckoning."

Administration officials tried to impress on House Republicans in particular that the only choice is either to accept a budget deal including higher taxes or face the consequences of destroying hundreds of popular and essential federal programs. Until Congress approves a credible deficit-reduction package, Treasury Secretary Nicholas F. Brady insisted, the White House will not flinch from carrying out the automatic cuts.

"The law is the law," he said. "We're going to obey it."

If the Administration is required to impose a $100-billion spending cutback, the Gramm-Rudman meat ax would carve 25% from most defense operations and slice 38% from a wide variety of domestic spending programs. But government benefits to the elderly and the poor, such as Social Security, Medicare and food stamps, would be largely immune.

The automatic cuts, Bush warned in a statement, "will affect almost all that the federal government touches . . . . It is, therefore, all the more important that the budget summit reach agreement promptly and that the Congress act responsibly to bring the deficit down."

However, congressional Democrats continued to blame Bush for failing to speak out publicly on the budget.

"Only the President can persuade the country that we have a problem," House Majority Leader Richard A. Gephardt (D-Mo.) told a group of Times editors and reporters in Los Angeles.

Gephardt expressed skepticism about the chances of reaching a deficit agreement in the absence of a crisis, and he worried that imposing the automatic cuts might be the only action that would persuade reluctant lawmakers to ratify such a deal.

"It would be a true reality test," he said. "Maybe that is the only way we can demonstrate how serious the problem is."

Sen. Pete V. Domenici of New Mexico, the leading Republican on the Senate Budget Committee, argued that budget negotiators must ultimately reach a compromise because the alternative of widespread automatic cuts would produce "nothing short of pandemonium."

The latest deficit figures, which now put the White House in line with earlier projections by the nonpartisan Congressional Budget Office, far exceed Bush's own projection just six months ago of a $100.5 billion gap between spending and revenues.

By relying earlier on more optimistic assumptions and by dismissing the S&L cleanup costs, the White House was able—at least on paper—to reach the Gramm-Rudman target with only about $38 billion in varied spending cuts and relatively minor tax increases.

But a string of errors in the White House forecast—caused by the economy's failing to live up to the Administration's rosy expectations, a drastic falloff in the growth of tax revenues and the swelling costs of the S&L bailout—forced the Administration to admit its huge miscalculation and seek a budget compromise with Congress.

The bad news began to hit the federal budget as the economy slowed late in 1989. After several years in which the federal deficit stayed level at roughly $150 billion, the White House now expects federal borrowing, including S&L costs, to swell to $218.5 billion this fiscal year.

Even excluding S&L costs, this fiscal year's deficit is likely to exceed $161 billion, far above the current $100-billion Gramm-Rudman target.

Exceeding the target after the fiscal year begins carries no penalty and requires no action under the Gramm-Rudman law.

Without budget changes, the overall deficit would exceed $200 billion for three years in a row before falling sharply in 1993 as the government begins to reap some financial benefits from disposing of the billions of dollars in distressed properties it has acquired from failed S&Ls.

Chicago Tribune

$100 billion budget cut threatened

Tuesday, July 17, 1990

White House cites soaring U.S. deficit

By Michael Arndt
Chicago Tribune

WASHINGTON—The Bush administration, hoping to jar the public—and thus lawmakers—into supporting lower spending and higher taxes, warned Monday of unparalleled cuts in government services unless Congress and the White House compromise on next year's budget.

The across-the-board spending reductions, required under the Gramm-Rudman-Hollings act, would amount to about $100 billion, said Budget Director Richard Darman. That total is greater than the administration estimated only a few weeks ago, because of a swelling federal deficit.

● McDonnell Douglas is cutting 17,000 jobs. In Business.

And it might end up rising further. Indeed, Darman said, the spending cuts would exceed $150 billion in 1991 if the costs of the savings and loan industry bailout were included. An economic slowdown could add billions more to the budget shortfall as tax revenues dropped.

"If Congress fails to enact a responsible deficit-reduction program, the required sequester—the across-the-board spending reductions—would be of totally unprecedented size," Darman said at a press briefing. "This is not some far-fetched theoretical construct; it is what the law now requires."

The automatic spending curbs would be so severe, in fact, that they could tip the economy into a recession, Darman and others said.

Virtually every federal program would be affected by the required Gramm-Rudman cuts, according to the administration, which gave these examples: Up to 1 million military personnel—half the armed forces—could be dismissed. The meat and poultry industry might have to shut down for months, because there would no longer be inspectors. Toxic-waste cleanups would be halted.

Airline flight delays could grow seven times longer because of a drastic drop in the number of air traffic controllers and a delay in new control towers at

See Budget, pg. 2

Continued from page 1

O'Hare International Airport and Midway Airport, among other airports. And 1.2 million college students could lose financial aid.

"The crisis is real," said House Budget Committee Chairman Leon Panetta (D-Calif.). "For 10 years, this nation has been told that it had nothing to worry about. It could spend without the need for any sacrifice. The bill for the '80s is now due."

It's unlikely that all the threatened cuts would be enacted. The deficit has yawned so wide—it is calculated to be nearly 3 percent of the gross national product next year—that quick-fix solutions might do more harm than good.

Thus, Treasury Secretary Nicholas Brady said it might be best for Congress to postpone the Gramm-Rudman targets so that lawmakers would have to come up with only $50 billion to $55 billion in cuts and taxes next year.

"The Gramm-Rudman targets are important as discipline; they should be continued," Brady told reporters. "But it does not make a difference as long as the fix is credible, is growth-oriented and has a process reform fix that absolutely ensures that it will take place."

Panetta and Brady said the woeful deficit news should finally force Congress and the administration to set aside their differences and come up with a bipartisan way to cut spending and boost revenue.

Congressional leaders and the White House will resume budget talks Tuesday. The budget summit began in earnest last month, when President Bush reversed himself and said new taxes might be required to correct the deficit.

Congress and the administration have been under pressure from economists and the nation's allies to balance the budget. The critics argue that the huge deficit is draining money from the private sector and from other economies.

A smaller deficit also could lead to lower interest rates, because the biggest borrower—the U.S. government—would need less in loans. Lower interest rates would tend to spur the economy, in its eighth year of expansion but growing at the slowest pace since early 1986.

Lower rates would be critical to avoiding a recession after a lot of money is taken out of the economy in higher taxes or reduced government spending, said Michael Boskin, chairman of the president's Council of Economic Advisers.

Boskin added, however, that interest rates would have to come down much further than they did Friday, when the Federal Reserve Board allowed the key federal funds rate to dip by 0.25 percent.

"The Federal Reserve can, should and would accommodate it [the budget deal] by easing interest rates," he said.

As for the economy, Boskin said he thought the worst was over. He said inflation should ease, and the labor force and economy should expand through the rest of the year as interest rates slip.

Under the Gramm-Rudman act, designed to gradually balance the budget, the federal deficit is supposed to be no more than $64 billion in fiscal year 1991, which begins Oct. 1. If the shortfall is $10 billion beyond that target, spending will be automatically trimmed.

At the start of this year, the budget office projected a deficit of $93.2 billion, excluding the thrift industry bailout. The administration acknowledged Monday, however, that its forecast was too optimistic. It misjudged interest rates and economic growth.

The gross national product is now expected to increase 2.2 percent this year after inflation, instead of 2.6 percent. The consumer price index, which the administration had thought would rise 4.1 percent in 1990, is now forecast to go up 4.9 percent.

As a result of these off-the-mark assumptions, spending was greater than anticipated and revenues lower than expected. Now, the deficit is projected to be $168.8 billion without thrift industry expenses and $231.4 billion if those costs are included. The automatic budget cuts would thus come to $105 billion to $167 billion.

Congress can avert the across-the-board cuts by trimming programs on its own and raising taxes. That is the hoped-for outcome of the budget summit.

If Congress fails, the deficit gap would be closed by cutting spending. Half the cuts would come out of the Defense Department; the rest would come from all other federal programs except those "off budget," such as Social Security, Medicare and other entitlements.

Budget talks between Congress and the administration are making progress, participants said. But the toughest issues remain.

"This is not a political wrestling match; it's something that's very important to the American people," Brady said. "And to me, when they do [realize it], [Congress is] going to hear from the American people [that] they want progress and they want it now."

"I think they [lawmakers] recognize," said Rep. Panetta, "that there isn't much choice here—that if we don't try to do this in a responsible way, then the alternative is a very irresponsible cut across the board that is going to impact these constituencies in a very serious manner."

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Administration raises fiscal 1991 deficit estimate again
By BUD NEWMAN

WASHINGTON (UPI) _ The administration boosted its June estimate of the fiscal year 1991 deficit by $10 billion to $168.8 billion Monday and warned Congress that failure to reduce it would force huge spending cuts that could cripple government programs.

The new administration figures projected a 1991 deficit of $168.8 billion, not counting the cost of the savings and loan bailout. Adding $62.6 billion in S&L costs for the fiscal year beginning Oct. 1, the deficit would reach $231.4 billion.

At a news conference to release the mid-year economic forecast, administration officials said if White House-congressional deficit reduction talks that started May 15 fail to produce an agreement, automatic spending cuts would be implemented with drastic consequences for many Americans.

The Gramm-Rudman balanced budget law set a fiscal 1991 deficit target of $64 billion. Failure to come within $10 billion of the target would trigger steep, automatic spending cuts of about $100 billion, split between defense and domestic programs.

If that happens, officials said, the number of military personnel could be cut by about 1 million to roughly half the current level, thousands of federal employees could be fired or furloughed, hundreds of airline flights could be canceled or delayed due to air traffic control cutbacks, national parks could close, AIDS funding could be slashed and 3.4 million students could lose some or all of their federal education grants.

"To allow them to occur without having made an extra effort to prevent them would be irresponsible," Office of Management and Budget Director Richard Darman said of the automatic cuts, called sequestration.

President Bush issued a statement warning that, if imposed, the automatic cuts "will affect almost all that the federal government touches, from military readiness, to air safety, to vaccinations for children, to programs for the elderly, to drug abuse prevention, to prison violence."

"It is, therefore, all the more important that the budget summit reach agreement promptly and that the Congress act responsibly to bring the deficit down," Bush said.

Senate Democratic leader George Mitchell said, "The figures released today confirm what I and many others have been saying since January."

Mitchell said the economic estimates made by Bush in January were "completely inaccurate," and said the figures confirm what Democrats said then _ "the situation facing the country was much more serious than portrayed."

Mitchell said he hoped a deficit-cutting agreement will be reached soon and added "obviously" the negotiators' goal of reducing the deficit by $50 billion to $60 billion will have to be reviewed in light of the figures."

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Darman was joined at the news conference by Treasury Secretary Nicholas Brady and Michael Boskin, chairman of the Council of Economic Advisers.

When the public hears about the impact of the automatic cuts, Brady said, "they're not going to like it."

"They will find out what these cuts mean and when they do they will be in contact, I promise you, with their congressman and we'll get progress" in the budget negotiations, Brady said.

In its June projection, given to budget negotiators, the administration said it expected the 1991 deficit to be $159 billion, without including S&L costs.

But in January, when President Bush submitted his budget to Congress, the 1991 deficit was pegged at $100.5 billion. The new figure represents a nearly 70 percent jump since January.

Budget negotiators have struggled to reach a $50 billion to $60 billion first-year package of spending cuts and tax increases. But such a package would still be about $50 billion higher than the Gramm-Rudman target.

To avoid triggering automatic cuts, lawmakers are expected to raise the targets from $64 billion to more than $100 billion _ but only if Congress and Bush agree on a deficit reduction package.

Brady told reporters that one of the administration's goals is to slash the deficit to balance the budget "over the next five years."

The Gramm-Rudman law requires a balanced budget by fiscal 1993, in two years, so it appears the administration is willing to change the targets.

The deficit has skyrocketed due to the unexpectedly high cost of the S&L bailout, because economic growth has been sluggish this year, reducing anticipated federal revenues, and because federal interest costs have risen due to higher-than-projected interest rates.

In its new figures, the administration revised downward its projection of economic growth for fiscal 1990, from the 2.6 percent forecast in January to 2.2 percent. It also revised upward its projection of 90-day interest rates, from 6.7 percent, forecast in January, to 7.7 percent.

While budget negotiators were expected to resume talks this week, the House on Tuesday was scheduled to vote on an administration-supported balanced budget constitutional amendment.

The House handily defeated a similar measure in 1982. House Democratic leaders, who oppose the measure, are confident it would lose again but backers have said it could pass.

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Administration may produce list of acceptable tax aikes
By BUD NEWMAN

WASHINGTON (UPI) _ The Bush administration may submit to budget negotiators early next week a list of tax increases the president could support, an aide to a key Democratic negotiator said Friday.

While Republican budget negotiators said they knew of no plans by the White House to submit such a list, they said after a second day of party caucuses that they are getting closer to agreeing on the major elements, including taxes, of a deficit reduction package the GOP could support.

Sen. Robert Packwood, R-Ore., said that among the tax increases the GOP felt were more acceptable were "cigarette and alcohol taxes" and a stock transfer tax.

"Neither of them were rejected," Packwood said. "There were some that were unacceptable."

A GOP aide later said increased "estate taxes" were among the taxes Republicans would reject.

"We (Republicans) have agreed to the general framework and the basic components (of an agreement)," Sen. Phil Gramm, R-Texas, said.

The bipartisan budget summit postponed its scheduled meeting for the second straight day Friday as Democrats and Republicans continued to meet privately to discuss strategy, taxes and other unresolved issues.

Talks aimed at cutting the soaring federal deficit were not expected to resume until next Tuesday.

Before departing for Camp David, President Bush declined to specify what taxes or spending cuts he would accept or reject, even though some negotiators have already done so.

"I vowed to stay out of this," Bush said. "I notice others have positioned themselves on what they would accept. I made a deal that I wouldn't do that. I'm going to keep my pledge as long as I can."

But, Bush said, "At some point I may have to say, ±Look this is all we can do; this is where we have to go." '

"The American people want something done (about the deficit)," Bush said. "I'm going to be pushing and our negotiators are working in good faith. I think the problem is so important that something will happen."

The administration's possible move on taxes may have resulted from a meeting House Ways and Means Committee Chairman Dan Rostenkowski, D-Ill., had with Treasury Secretary Nicholas Brady Thursday night, aides to congressional budget negotiators said.

Brady has also talked to Senate Finance Committee Chairman Lloyd Bentsen, D-Texas, about taxes but a Rostenkowski-Bentsen-Brady meeting failed to come off before Rostenkowski left town for the weekend.

"I think that was the understanding that they (administration officials) want to talk to Rostenkowski and Bentsen about some of their ideas about where revenue can be raised," a Democratic aide said.

Asked when Bush might submit a list of tax increases he could support, the aide said "maybe Tuesday."

At Thursday's meeting between Rostenkowski and Brady, the administration "said they would talk about their ideas about how revenue could be raised."

Another Democratic aide said that at Thursday's meeting, Rostenkowski "did encourage them (the administration) to give him and ther other negotiators something to look at" in the tax area.

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Democrats want Repubicans to be the first to put a deficit plan that includes new taxes on the bargaining table but Republicans have been reluctant.

Rostenkowski said "as long as they (the administration) invite me (to talk about taxes) I imagine they should be making some suggestions."

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Quayle Tries to Ease GOP Tax Fears; Demands Democrats Offer Cuts
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By JOHN KING
Associated Press Writer

CHICAGO (AP) _ Vice President Dan Quayle on Friday tried to calm GOP fears about the political impact of President Bush's reversal on taxes and demanded that Democrats make the next move by proposing sensitive spending cuts.

Quayle told the Republican National Committee that Bush put taxes on the negotiating table to spur deficit reduction talks but would not accept any deal that would hurt the economy _ or the Republican Party.

"He will not accept a bad deal," Quayle said in a speech to GOP leaders from across the country. "His position is simple: a good deal _ or no deal at all."

Many of the Republicans gathered in Chicago for the party's two-day meeting believe that Bush's decision to abandon his campaign pledge of "no new taxes" will hurt GOP candidates this fall.

But with Election Day four months away and the GOP already fending off Democratic attacks over the savings and loan crisis, Quayle and other Republican leaders were out to put the party on the offensive on the tax issue.

"The president is willing to go the extra mile in seeking to forge a budget agreement that would be good for America," Quayle said. But he said the politically charged budget talks are "not a one-way street" and tried to shift the focus from taxes to spending.

"Today I call on the congressional Democrats to come forth with their proposed spending cuts," Quayle said. "Their silence on this issue _ as usual _ is deafening."

Quayle's speech led a GOP effort to paint Bush's tax switch as a sign of bold leadership. Democrats have tried to paint a different picture, saying Bush is abandoning his no-tax pledge only because of the soaring costs of an S&L debacle they blame on the Reagan and Bush administrations.

Friday's focus on taxes and the budget talks came one day after GOP leaders counterpunched the Democratic attacks on the savings and loan crisis. Ed Rollins, chairman of the Republican Congressional Campaign Committee, tried to place blame for the S&L bailout on the Democrats, charging they had "sold out the taxpayers."

House Speaker Thomas Foley, D-Wash., on Friday called the remarks "Mr. Rollins' emotional ravings" and added, "It sounded like he was in a panic. ... It was sort of a running doggerel of political invective."

The president's decision on taxes has brought him heat even within his own party, but senior Republicans tried Friday to rally support for Bush.

"It is the obligation of Republicans, I believe, to stand up for the president when the president is willing to take the political heat to stand up for the nation," said Republican Illinois Gov. James Thompson.

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Party co-chairwoman Jeanie Austin sounded a similar theme, saying of Bush: "It is a measure of his leadership and his courage that he's making the tough decisions today."

Back in Washington, five leading conservatives held a news conference to accuse Bush of abandoning his conservative electoral base and to urge him to return to the fold. Bush's shift on taxes was one of their chief complaints.

The five released a letter to party Chairman Lee Atwater protesting that the Bush administration has indicated it "does not intend to honor the commitments made to the American people in the 1988 presidential campaign."

-Atwater was hospitalized in Washington as part of his treatment for a brain tumor. But GOP leaders in Chicago were following his recent admonition to adopt a more aggressive stance, particularly in the partisan fights over taxes and S&Ls.

Peggy Noonan, a former speechwriter to both presidents Reagan and Bush, told the group Bush showed statesmanlike leadership in putting taxes on the table for the budget talks.

But she said Bush should walk away from the talks if Democrats will not agree to substantial spending cuts and reforms in the budget-writing process. Otherwise, she said, Bush will get the blame for raising taxes and Democrats the credit for spending the extra money on social programs.

"We must not lose the tax issue," she said. "There is no more potent issue than this."

The Republicans continued their S&L offensive on Friday by endorsing a resolution applauding Bush's handling of the crisis and blaming the $300 billion-plus mess on the Democrats.

"While Democrats have been pointing fingers of blame, President Bush has been rolling up his sleeves to make good on his promise to settle the problem," the resolution said.

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Party Urged to Rally Behind Bush _ Even on Taxes
With PM-Conservatives By JOHN KING Associated Press Writer

CHICAGO (AP) _ The Republican Party is urging its local leaders to rally behind President Bush as he considers tax increases that many in the GOP wish he would go back to opposing.

The president's abrupt switch on taxes late last month caught most Republicans off guard, and left many questioning why Bush would abandon his campaign pledge with crucial 1990 elections just four months away.

After initially lying low in the tax debate, party leaders came out swinging Friday, painting Bush's turnabout as a tough but bold move to help erase the federal deficit.

Republican Illinois Gov. James Thompson said Bush "had the courage to summon up the political will to do what was right for the country."

But angry conservative leaders called a news conference in Washington to denounce Bush's retreat on taxes and other stands and threaten a possible re-election challenge.

If the president "stays in his present course, he will be challenged in 1992, almost certainly in the Republican primaries and certainly in the general election," said Howard Phillips, chairman of the Conservative Caucus.

Bush has "dealt a crippling blow to his own credibility," added David A. Keene, chairman of the American Conservative Union.

Despite their understandable trepidation over the possible political fallout, Thompson said it was no time for Republicans to back away from Bush.

"It is the obligation of Republicans, I think, to stand up for the president when the president is willing to take the political heat to stand up for the nation," the governor said.

The GOP leaders, led by Vice President Dan Quayle, insisted the next move is up to Democrats. They said the Democrats must offer significant domestic spending cuts and budget-process reforms or watch Bush call off the bipartisan budget talks.

"We have put revenues on the table," Quayle said in a speech to the Republican National Committee's midyear meeting. "Today, I call on the congressional Democrats to come forth with their proposed spending cuts. Their silence on this issue _ as usual _ is deafening."

Quayle told the RNC members that Bush would not cut a deal favorable to Democrats.

"His position is simple," Quayle said: "a good deal or no deal at all."

If the Democrats don't make significant proposals soon, many Republicans believe Bush should walk out on the talks.

Such a move won a ringing endorsement from Peggy Noonan, a former speechwriter for Reagan and Bush who wrote Bush's "read my lips: no new taxes" pledge.

Noonan, who is no longer involved in party affairs, won applause from the RNC when she suggested Bush should "push himself away from the table and cut himself a walking stick" unless Democrats offer sizable spending cuts.

"I truly believe we must not lose the tax issue," she said. "There is no more potent issue than this."

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Right Raises Possibility of Challenger to Bush
With PM-Republicans By GUY DARST Associated Press Writer

WASHINGTON (AP) _ Conservative leaders are muttering about running a candidate in 1992 if President Bush doesn't toe their line.

"It is too early to tell what any of us is going to do," Howard Phillips, chairman of the Conservative Caucus, said at a news conference Friday.

But if Bush "stays in his present course he will be challenged in 1992, almost certainly in the Republican primaries and certainly in the general election," Phillips added.

The chief complaint is the president's abandonment of his "no new taxes" pledge, which the conservatives fear will hurt Republican candidates.

Bush has "dealt a crippling blow to his own credibility," said David A. Keene, chairman of the American Conservative Union and a Bush presidential campaign manager in 1980.

"We believe ... that it was because of us that he got elected, and we need reassurance," said L. Brent Bozell III, executive director of the Conservative Victory Committee.

"Whenever there's a close presidential race and the Republican nominee abandons his conservative voters, they lose," said Richard A. Viguerie, president of United Conservatives of America.

Viguerie cited as examples the races of 1948, when New York Gov. Thomas A. Dewey lost to President Truman; 1960, when Richard Nixon lost to John Kennedy; and 1976, when President Ford lost to Jimmy Carter.

Viguerie, Bozell, Keene, Phillips and John Cregan, president of the U.S. Business and Industrial Council, held their new conference to coincide with a meeting of the Republican National Committee in Chicago. RNC spokeswoman Leslie Goodman said she had not seen the conservative remarks and could not comment on them.

The five conservatives released a letter to party Chairman Lee Atwater protesting that the administration had, in effect, told conservatives "that it does not intend to honor the commitments made to the American people in the 1988 presidential campaign."

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GOP Leaders Use Midyear Meeting To Launch Fall Offensive

By JOHN KING
Associated Press Writer

CHICAGO (AP) _ Republican leaders trying to get the party back on sure footing after a stretch of rocky road are setting out on a trusted course _ attack.

It has been a tumultuous year for the GOP, beginning with a divisive debate over abortion in January and then the news in March that party Chairman Lee Atwater had a brain tumor. He has been sidelined ever since.

More recently, Republicans have been on the defensive as Democrats try to blame them for the savings and loan crisis and GOP candidates try to cope with President Bush's abrupt abandonment of his "no new taxes" campaign pledge.

But at a three-day meeting in Chicago that ended Saturday, the Republican National Committee resolved to go back on the offensive.

"Controlling the agenda is the way to continue winning," said Mary Matalin, Atwater's top deputy at the RNC. "We somehow allowed ourselves to fall off of offense, but the message is clear now."

A chorus of GOP leaders used both public and private sessions during the GOP's midyear meeting to urge Republicans at both the state and national level to be more aggressive.

"The obituaries are premature," Ed Rollins, head of the party's House campaign arm, told the group in a speech laced with blistering attacks on Democrats.

From a lesser-known Republican, Mayor Sue Myrick of Charlotte, N.C., came a demand that Republicans at all levels stop trying to look and sound like Democrats.

"Far too many Republicans are not drifting but rather diving headlong into softened stands on such issues as abortion, flag burning and more taxes rather than more prudent spending," Myrick said at one session. "It is time to stand up, to be counted, to fight."

The new effort relies heavily on the core strategies of past GOP success: frame the debate on major issues and paint Democrats as the party that taxes as a first resort.

Bush pollster Bob Teeter told the gathering that if Republicans articulate their party's differences with Democrats then voters will "side with the party that taxes last and taxes least, not the party that taxes first and taxes most."

But Bush's reversal on taxes has many GOP officials wondering whether the president has ditched the Republican Party's defining issue just four months before the 1990 elections.

Top party leaders and strategists told GOP officials from across the country that Republicans cannot drop the tax issue, Bush's announcement notwithstanding. And they promised that Bush will protect the party's interests by fighting any attempts to raise income taxes.

Matalin believes the message took hold.

"We got done here what we had to do," she said in an interview. "This was the perfect forum for us to remind ourselves that we do best when he define the differences between Republicans and Democrats."

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That such a lesson was necessary appears directly attributable to the absence of Atwater.

The energetic, raspy-voiced chairman had become the party's singular spokesman, relied on by the White House and reporters alike.

Without him, a party renowned for speaking with one voice suddenly had many, and the message got muddied.

"It has been a little fuzzy and it certainly has been distorted by Democrats," Matalin said.

"We've hit a few bumps but we're ready to get back on track," said Haley Barbour, a leading GOP strategist and RNC member from Mississippi.

Still, even if the GOP can launch a unified offensive, the party's challenge this fall is daunting.

The decline of communism has stripped Republicans of one core issue, and Bush's switch on taxes at a minimum makes it tougher for the GOP to get an edge on that front. In addition, the party controlling the White House traditionally loses seats in midterm elections.

At the same time, the Democratic Party appears to be having success in articulating a unified message of its own _ a populist pitch blaming Republican greed for the S&L crisis.

Not surprisingly, Democratic Party Chairman Ron Brown said the GOP's decision to mount an offensive was made out of fear.

"They don't want to talk about George Bush breaking his ±read my lips' pledge and what kind of S&L bailout he is planning," Brown said. "They don't want to talk about America's no-growth economy so, of course, they'll come up with wild charges and finger pointing."

But Matalin and other GOP leaders left the meeting satisfied that better days lie ahead.

"This is not brain surgery," Matalin said. "This is Campaign 101. We're not going to sit there and let them define the debate."

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The Washington Post

A4 MONDAY, JULY 16, 1990

A Balanced-Budget Amendment?

By John E. Yang
Washington Post Staff Writer

Rep. Thomas R. Carper (D-Del.), whose degree from Ohio State University is in economics, says there are times when the federal government must spend more money than it collects. But the moderate Democrat and former state treasurer wants to make federal budget deficits unconstitutional.

"We're mismanaging our fiscal state so badly, clearly we've got to do something," he said. "Clearly something is out of whack here."

Carper will get his chance to set things straight Tuesday when the House is to vote on a proposed constitutional amendment, cosponsored by Carper and a bipartisan group of 247 of his House colleagues, that would mandate that the government spend no more money than it takes in each year.

The balanced-budget amendment is a perennial issue in Congress. It is backed by lawmakers in both parties and is advocated by President Bush, as it was by then-President Ronald Reagan. All but one of the states have provisions in their constitutions requiring a balanced operating budget. Public opinion polls show wide support for adding the language to the federal Constitution, and more than half the state legislatures around the country have called for a constitutional convention to draft such an amendment.

But Congress has never approved the constitutional change and constitutional scholars and budget experts alike question whether it belongs in the nation's fundamental charter and whether it would even accomplish its goal.

Supporters of the amendment said last week that Tuesday's vote is too close to call. They said their chances are helped by the current focus on the budget deficit and the attendant political posturing. Lawmakers may find it easier to cast politically difficult votes to raise taxes or cut spending if they have already voted for a balanced-budget amendment, backers said.

But House Democratic leaders, who oppose the proposed change, were confident the measure would not win the two-thirds majority needed for approval. Constitutional amendments must be approved by two-thirds of the House and Senate and ratified by the legislatures of three-fourths of the states.

A similar proposal is pending in the Senate. Its backers said they will wait for the outcome in the House before seeking a Senate vote.

The version the House will consider would require that Congress set into law at the beginning of each fiscal year a projection of how much money the government will collect. Spending could not exceed that estimate unless three-fifths majorities of the House and Senate approve.

It would also require a roll-call vote on any tax increase and three-fifths majorities to approve a rise in the government's borrowing limit.

Critics complained that the proposed amendment would dictate a result without offering a solution. "Even though I have read and reread the proposal, I am still unsure how it is supposed to operate," said Walter Dellinger, a Duke University law professor. "It provides no apparent mechanism for accomplishing its stated objective."

Backers acknowledged that the amendment alone would not cure the nation's fiscal woes. "This constitutional amendment is not an immediate fix," said Rep. Larry E. Craig (R-Idaho), a prime cosponsor of the measure who is running for the Senate. "But it is a fundamental change in the budget environment. If the process doesn't require a balanced budget, it won't happen."

"The federal government has squandered its credibility with the American people," said Rep. Charles W. Stenholm (D-Tex.), another leading cosponsor. "Nothing short of this amendment will restore it."

Carper said the importance of the amendment lies in the hurdles it would place in the way of increasing both spending and taxes—hurdles that lawmakers would not be able to lower simply by changing a law. The Gramm-Rudman-Hollings deficit-reduction law, by contrast, appears headed this year for its second overhaul in three years.

"We will know with certainty that there's a day of accounting that's around the corner and we can't change it with a mere statute," Carper said. "It's a constitutional backstop."

But others do not see that as a virtue. "We shouldn't amend the Constitution for budget process," said Rep. Mike Synar (D-Okla.). "It is irresponsible."

Dellinger said adoption of the amendment "could be truly harmful to the Constitution" by placing "an empty promise" into the document. "It would breed deep cynicism to have an article of the Constitution of the United States that was unenforceable and could not deliver what it seemed to promise," he said.

Budget experts said a balanced-budget amendment is not a solution to the nation's fiscal problems. Many state governments have developed a wide range of mechanisms to circumvent their constitutional balanced-budget requirements, including off-budget independent agencies and classifying operating expenditures as capital spending.

"Human ingenuity knows few bounds when it comes to avoiding budget constraints when they conflict with political incentives," said Rudolph G. Penner, a former Congressional Budget Office director who is a senior fellow at the Urban Institute.

Even if the proposed amendment fails Tuesday, the vote itself represents a victory for its backers. Carper, Craig, Stenholm and Rep. Robert F. Smith (R-Ore.) were joined by 84 Democrats and 160 Republicans in introducing the proposed amendment in May. It was bottled up in the House Judiciary Committee, but sponsors forced a floor vote by collecting the signatures of a majority of House members.

Such drives rarely succeed. Since the procedure was adopted in 1931, only 43 of 482 attempts have succeeded in forcing a House vote, according to the Congressional Research Service. Only 18 have resulted in the passage of legislation.

The push for a balanced-budget amendment gained momentum in the 1970s. By 1984, 32 state legislatures—two short of the number required—had called for a constitutional convention to make the change.

Lawmakers in Washington responded by introducing amendments of their own. The closest proponents came was in 1982, when the GOP-controlled Senate approved a balanced-budget amendment 69 to 31, two votes more than necessary. Despite personal lobbying by Reagan and then-Vice President Bush, the House failed to approve the measure on a 236 to 187 vote, 46 votes shy of the two-thirds majority.

The most recent congressional vote on a balanced-budget amendment came in 1986 when the Senate defeated a proposal from Sen. Paul Simon (D-Ill.) on a 66 to 34 vote, one vote short of the needed majority.

The Washington Times

MONDAY, JULY 16, 1990 / PAGE A3

RNC abandons resolution backing Bush on taxes

By Ralph Z. Hallow
THE WASHINGTON TIMES

CHICAGO — President Bush was spared major embarrassment when the Republican National Committee meeting here this weekend tabled a resolution supporting his willingness to consider new taxes in exchange for spending cuts.

The resolution would have faced public opposition from rebellious committee members.

"We were told the resolution had been under serious discussion, but that the mood of the meeting being what it was, it was probably better not to bring it before the committee," said a senior national committeeman from the South, who asked not to be identified.

"The leadership faced the prospect that either a motion to table the resolution would be passed or it would be debated [at an open meeting of the full RNC membership]," he said. "They pulled the resolution, and it was a victory for conservatives."

It could not be learned who arranged the tabling of the resolution.

At the closed-door meeting, RNC chief adviser Charles Black, standing in for ailing national chairman Lee Atwater, told Wyoming national committeewoman Jan Larimer that when she saw the resolution, she would understand how she and other anti-tax members could support it.

"I understood there would be some sort of resolution, one way or another, on the president's tax position, but I did not see one," Mrs. Larimer said.

She said she had asked Mr. Black: "If we have congressmen running on no tax increases and we have President Bush saying he would consider an increase, how would we as national committee people be able to support both of them?"

Mr. Black left Chicago on Friday, the second day of the three-day meeting, and could not be reached for comment. But committee chief of staff Mary Matalin said, "Never was there at any time consideration by anyone at the RNC to submit or even discuss a resolution on taxes, one way or the other."

In their public utterances, members ostensibly supported Mr. Bush's tax statement.

But at the opening session Thursday, presided over by co-chairman Jeanie Austin, Mr. Black and presidential pollster Robert Teeter, the mood of gathering rebellion was evident.

Oklahoma committeewoman Mary Rumph spoke up, saying she was having difficulties "at the grass roots" because of Mr. Bush's tax statement.

Then Oregon committeewoman Marylin Shannon, saying she was having the same trouble, asked Mr. Teeter for one example from history of a tax increase having spurred the economy.

"Her question just brought the house down with laughter," said a veteran committee member. "On which other occasions has the Republican National Committee in effect laughed at the solemn pronouncement of a Republican president of the United States?"

Mr. Black replied that the nation has had 92 months of prosperity that began with the 1981 tax package put forward by President Reagan.

But since that package was a tax cut, Mrs. Shannon said later, Mr. Black's response was seen as a game attempt to defend something that, in one member's words, "in his heart he doesn't believe."

The meeting ended Saturday with agreement to de-emphasize Mr. Bush's June 26 tax reversal and to focus delegates' energies instead on mounting a counterattack on the Democrats for their role in the savings and loan debacle.

"People coming in were very much upset at what they perceived the president's position to be," said Virginia GOP Chairman Donald W. Huffman. "Going out, they feel better about it because they feel like he is going to exact something from the Democrats in exchange for it."

Mississippi committeeman Haley Barbour agreed that it "was a good meeting because a good job has been done in reminding people we ought not to be sitting around like knots on a log."

Another member who asked not to be identified gave a reporter three pages of "talking points on budget/taxes" handed out by the RNC leadership and pointed to a paragraph that read: "George Bush ... promised to keep the economy growing... This is his promise to the American people, and he will keep it."

The member commented bitterly: "Yeah, this promise he will keep, but what about the other promise: 'Read my lips'?"

The Washington Times

PAGE D2 / *MONDAY, JULY 16, 1990*

The Balanced Budget Amendment myth

Conservative Republicans cling to no myth more resolutely than this: There is no problem so profound or spiritual wound so deep that it cannot be cured by an amendment to the U.S. Constitution. Is flag burning a problem? Amend the Constitution. Abortion? Tack on a Human Life Amendment. Tomorrow the House of Representatives will consider the most popular Republican gimmick of all, the Balanced Budget Amendment. This amendment, like the comet Kahoutek, has been escorted by glowing accolades and, like Kahoutek, it will produce little light, no sound, no fury and no significance.

In a letter reprinted on the right side of this page, Judge Robert Bork argues eloquently against the amendment. The amendment, he says, probably won't work, and if it does, it will encourage increasingly sly federal taxation and increasingly menacing judicial power. This second point is crucial. Our Constitution gave limited decision-making power to the legislative and executive branches of our government. Congress continually grants itself new powers, but in order to avoid voter retaliation for its deeds, tosses the tough decisions to the courts. There is no reason to believe that a Balanced Budget Amendment wouldn't do the same, to the detriment of limited-government conservatives and limited-income workers.

Republicans claim that tomorrow's vote will expose Democrats who don't really want to balance the budget. Yet if liberal Democrats have any imagination, they'll accept the amendment. They know Republicans won't cut the federal budget and that the White House will accept dramatic increases in federal authority as long as they serve the causes of kindness and gentleness. A balanced-budget amendment merely would enable Democrats to demand tax hikes in the name of the Constitution.

The Balanced Budget Amendment is a full confession of cowardice on the part of Republicans who want to cut federal spending, not by a vote, but by a court decree. This strategy can produce only bad results, from the devaluation of the Constitution to the further entrenchment of a free-spending Congress. If Republicans want to avoid nasty surprises, they ought to win the hearts and minds of voters and persuade the public that this nation must balance its budget the old-fashioned way — by spending less money.

Los Angeles Times

JULY 15, 1990

After a Week Off, Budget Negotiators Return to Face the Music—and Pain

By Richard E. Cohen

WASHINGTON

For White House and congressional leaders, trying to cut the mushrooming federal deficit has become like grasping for a mirage in a hot desert: The closer they get to the details, the tougher it looks to achieve a deal.

As budget summiteers returned to work after a week-long recess, they repeated their concern that their task won't be easy. Despite the boost from President George Bush's new-found willingness to support "tax revenue increases," successful completion of the budget negotiations will require a meeting of the minds on issues that have undercut agreement throughout the 1980s.

Even if the President and the legislative titans craft a deal, it is far from certain that they will be able to force the rank and file to swallow the painful potion.

"I have said all along that the most difficult part of the process is getting a majority of each party in the Senate and House" to vote for deficit reduction, Senate Majority Leader George J. Mitchell (D-Me.) said last week. Finding answers on each of the key components—tax increases, domestic-spending cuts and defense—will trigger opposition or criticism from many quarters. Democrats do not intend to "bail out" the President while he and other Republicans attack the medicine, added Mitchell.

The negotiators, led by Office of Management and Budget Director Richard G. Darman and the top Senate and House leaders, have accelerated their pace. They have been meeting daily in a tightly packed room in the Capitol a few feet from the Senate chamber.

By most accounts, the summiteers want to agree on at least the outlines of a deficit-reduction package before the summer recess, set to start Aug. 3, for at least three reasons: Several more weeks will be needed to write and gain approval of the nitty-gritty legislative details; Congress will be hard-pressed to do much work before the November election; and Congress faces the need to make a politically painful increase in the federal debt ceiling before lawmakers can leave town.

The negotiators, for the most part, have not revealed their hand. But comments by some of the participants suggest the magnitude of their task.

"We will need to convince members of the political risk of not doing a deal," said a senior Democratic aide. "The President will also have to sell the public. This becomes a chicken-and-egg problem."

Please see DEFICIT, M8

Continued from M4

Because Bush convened the budget talks in May, Democrats have insisted that he is responsible for taking the initiative. Successful, so far, in playing a waiting game, the Democrats say that they will not walk out and allow Bush to blame them for a failure of the negotiations. But they cannot be idle players, if only because they control a majority in the House and Senate and they want to protect their previous commitments.

Nearly all the negotiators say that a serious deal must trim the deficit—expected to surpass $160 billion in fiscal 1991—by $50 billion. During the next five years, they want about $500-billion cut.

In the long run, nearly half the budget savings may come from the "peace dividend." But even Democratic doves concede that it will be difficult to cut the $300-billion Pentagon budget by more than $10 billion in the next year.

Nearly all sides see the opportunity to raise at least $20 billion in new taxes in 1991, perhaps $120 billion over five years. But the details are tricky. In part, there are technical disagreements.

Bush proposed federal user fees or asset sales among the roughly $19 billion of new revenues in his original budget. The Administration also assumed that Bush's avidly sought cut in the capital-gains-tax rate would yield the Treasury $5 billion next year, $2 billion more than calculated by congressional number-crunchers. In later years, most experts outside the Administration say that the capital-gains cut will reduce federal revenues by billions of dollars.

The bigger dispute facing budget negotiators on the revenue side is how they should increase taxes. Democrats, led by Mitchell and House Majority Leader Richard A. Gephardt (D-Mo.), lately have attacked the regressivity of the Reagan-era tax changes for soaking the middle-class and ladling goodies on the wealthy. They want to reverse that trend by, for example, raising the top income-tax rate from 28% to 33%. Anything less would be "completely unacceptable," Mitchell said.

But 90 of the 176 House Republicans have written Bush, warning him that "a tax increase is unacceptable" and that they will not vote for a budget package that includes one. Instead, they prefer to increase excise taxes on tobacco and alcoholic beverages and, perhaps, a gasoline or other energy tax.

Cutting the domestic-spending side of the federal budget by as much as $10 billion will be no easier. So-called discretionary programs, such as education or job training, were slashed during the Reagan era. Republicans say that they will be happy to avoid an overall increase this year.

Medicare costs exceed $100 billion and are escalating at double-digit annual rates. But objections from the powerful senior-citizens lobby last year led Congress to repeal seemingly sensible changes that would have added Medicare fees to pay for a "catastrophic-illness" program.

The biggest domestic program is Social Security, the original "hot button" issue. Benefit cuts are unlikely, but negotiators might settle on lowering the $25,000 level at which beneficiaries may be taxed. Democrats also might try to trim the 7.65% Social Security payroll tax.

What happens if the budget summit fails to reach agreement this year? The budgeteers probably would have to raise the current 1991 deficit ceiling of $64 billion in order to avoid massive cuts in major programs. Both parties also would have to consider the potentially major political implications of such a failure.

Facing these perils, the negotiators have kept an optimistic public outlook. They may need that positive attitude to retain their own will power. □

The Seattle Times

JULY 15, 1990

Bush's new stance leaves key question: Which taxes go up?

President Bush's June 26 statement that "tax-revenue increases" are required by "both the size of the deficit problem and the need for a package that can be enacted" is in equal measure a victory and a defeat for sensible solutions to the deficit.

It is a victory because it underscores the seriousness of the deficit. Politically, this is expressed in the erosion of U.S. influence in Europe and around the world, an erosion that has been brilliantly delayed by the stature and maneuvers of George Shultz, James Baker, Paul Volcker and Alan Greenspan.

Economically, the annual accumulation of $150 billion or more in federal debt has become a high-risk act. Japan's credit markets are now constricted by domestic financial instability and Germany's by internal economic investment. In the context of these conditions, credit demands by the U.S. government are a heavy hit on the world's money supply. The result is to drive up borrowing costs and reduce the volume of loans available to developing nations. This has political as well as economic effects.

The one thing that can be said for sure about George Bush's words is that they shook Washington out of its lethargy over the budget stalemate. There is an eerie echo to those words. In 1969, California Gov. Ronald Reagan, who had come into office saying his feet were set in concrete against income-tax withholding, announced that "the sound you hear is the sound of concrete cracking around my feet." The more things change, the more they remain the same.

Bush's willingness to support higher taxes sounds final defeat for a notion that was in fact feasible: to eliminate the deficit entirely from the spending side. For that notion to succeed, several things would have had to happen:

■ The savings-and-loan cleanup would have needed to occur five years ago, when its cost was a modest $25 billion or so.

■ President Reagan and Speaker Tip O'Neill would have had to avoid playing "chicken" with each other on Social Security, and instead affirm a common interest in restricting pensions for high-income seniors, either by taxing away the benefits or capping the payback.

■ Washington, D.C. would have had to come clean on the absurd system of subsidies. Five years ago, the dairy lobby gave up on milk-price supports as certain victims of deficit reduction. Instead, the administration gave them billions. Last month, President Bush and Congress agreed to a new five-year, $3.5 billion dairy subsidy — even as they wrangled over a $150 million hike in the Women Infants and Children's (WIC) nutrition program, which is made necessary in part by, you guessed it, high milk prices.

■ The nation would have had to be spared the $1 trillion impact of management nonfeasance under Defense Secretary Caspar Weinberger, a man so inept that Sen. Barry Goldwater, during his last days in office, had to guide passage of a defense-reform act over Weinberger's objections. By a startling irony, Weinberger went on to become managing editor of Forbes Magazine, the self-described "capitalist tool." Yet, as defense secretary, he did more to undermine the health of America's market economy than any man in history.

Set against these lamentable events, tax time cometh inevitably. And so it is here. Which taxes shall be raised?

The easiest target is increases on cigarette and alcoholic beverage taxes. It's worth a maximum $10 billion a year and won't be welcome in this state, which already imposes the nation's highest taxes on these items.

Gasoline taxes come next. In Europe, they average 15 times the U.S. federal rate. A boost is worth $1 billion a penny and can be billed as a conservation measure.

The big split in the tax-increase debate will come over the personal income tax. Bush and supply-side Republicans want to cut the capital-gains tax rate, arguing this will spur investment and bring in more revenue. Democrats and deficit-cutting Republicans disagree, pointing to dismal performance in raising savings rates through tax cuts and the huge flow of net wealth to the top-income bracket was in the 1980s. The Democrats would like to add back a 33 percent or even a 36 percent bracket, but this will be tough in the wake of recent rate reductions.

The other big tax waiting in the wings is a value-added tax, a sort of national sales tax. Industrial-policy liberals as well as supply-side conservatives like this tax because it creates an incentive to save and penalizes consumption. But with our tax structure less progressive than it has been in a long time, this will be a hard sell because of its impact on low- and moderate-income groups. This tax would also compound the problem in this state's unbalanced tax structure by adding a national sales tax on top of the state rate.

Honest politics a few years back could have prevented today's unpleasant choices. Now America is being dragged into a deficit solution and the search is for the least-unfavorable alternatives.

■ Glenn Pascall's column appears Sundays in the Business section.

The Washington Post

JULY 14 1990

Quayle Challenges RNC to Blame Hill Democrats for Any Tax Increase

By Gwen Ifill
Washington Post Staff Writer

CHICAGO, July 13—Vice President Quayle rallied his party's most loyal troops today, challenging members of the Republican National Committee who stood behind President Bush's no-new-taxes pledge in 1988 to place the blame for prospective tax increases on the Democratic-controlled Congress.

"The president has acted responsibly," Quayle said. "He has taken the first step in calling for a budget summit. He has gone the extra mile in announcing his willingness to consider tax revenue increases. Now it is time for some action from the Democratic leadership in Congress."

Republican officials here said Quayle's remarks were part of a White House-coordinated strategy to start shifting blame for some of the Bush administration's biggest headaches to congressional Democrats.

On Thursday, presidential pollster Robert M. Teeter sounded a similar theme, telling committee members Bush has not reversed himself on taxes but is simply addressing "political reality."

"The reality is you cannot pass anything in government without agreement of the Democrats in Congress; they control both houses," Teeter said. "That does not mean he has changed his mind. He has put the ball deep into the Democrats' territory."

It is now up to the Democrats, Republicans have said here, to propose spending cuts that will limit the need for a tax increase and approve other Bush-favored proposals, such as the capital gains tax reduction that Congress has rejected.

"Today, I call on congressional Democrats to come forth with their proposed spending cuts," Quayle said. "Their silence on this issue, as usual, is deafening."

In Washington, congressional negotiators have continued to meet privately with White House budget officials on Capitol Hill. No specific tax proposals, however, have been agreed upon.

To symbolize Republicans' determination to slash spending in order to reduce the federal budget deficit, House Minority Leader Robert H. Michel (Ill.) wielded a chainsaw as he emerged from a strategy session in Washington with Treasury Secretary Nicholas F. Brady, Office of Management and Budget Director Richard G. Darman and GOP negotiators. The idea was for Michel to use the apparatus to shred a paper labeled "spending" that sheathed its blade. But in what one lobbyist suggested "may have been a symbolic failure," the paper sheath just danced on the blade.

The closing of the Republican ranks around Bush on tax matters today extended to Illinois Gov. James R. Thompson (R), whose assessment of Bush's tax predicament differed in one key aspect from the White House's version.

While Teeter, Quayle and Republican Congressional Campaign Committee Co-Chairman Edward J. Rollins have said that talk of tax increases does not represent a reversal for Bush, Thompson said it does.

"It is clear beyond any doubt to me that the president's position on federal taxes that he took during the 1988 campaign was deeply held, deeply believed and dramatically defined," Thompson said.

"If we cannot elect men and women to serve us who have the courage to change even deeply held beliefs . . . then our country will never be served by the institution that binds us all together—politics—or the party that binds us—the Republican Party."

Comparing Bush's decision to discuss tax increases to Abraham Lincoln's decision to free the slaves, Thompson called the federal budget deficit a "monstrous and immoral" problem that Bush must resolve.

Quayle also used his speech here to bash a favorite GOP target—New York Gov. Mario M. Cuomo (D), considered a likely presidential candidate.

After New Jersey Gov. Jim Florio (D) raised taxes this year, Quayle said, Cuomo "said it was so good that the governor of New Jersey should consider running for president."

In an aside from his prepared remarks, Quayle added: "Of course, the principal qualification for any Democratic candidate is a desire to raise taxes."

Staff writer John E. Yang in Washington contributed to this report.

The New York Times

July 14, 1990

QUAYLE DEFENDS BUSH'S TAX STAND

By MICHAEL ORESKES
Special to The New York Times

CHICAGO, July 13 — Vice President Dan Quayle sought to reassure a nervous group of Republican leaders today that President Bush did not simply kick away one of their best campaign issues when he acknowledged last month that tax increases would be needed to reduce the Federal budget deficit.

Mr. Quayle, raising the issue that clearly most worries those gathered here for the summer meeting of the Republican National Committee, said clear differences on taxes remained between Democrats and Republicans even after Mr. Bush's reversal.

"The reaction of some Democrats to the President's June 26 announcement was a useful reminder of this fundamental difference between our two parties," Mr. Quayle said in a luncheon speech on the second day of the committee's three-day meeting. "The President reluctantly announced that he would consider tax revenue increases to get the negotiations going — as one of six elements of a budget deal. But many Democrats made it clear that their first and only priority was to raise taxes."

A Defensive Position

Mr. Quayle's speech here was part of an effort by the White House and the Republican National Committee to dig out of the uncomfortable, and somewhat unaccustomed, defensive position the party finds itself in as the fall campaigns draw near.

"This meeting is about one thing: offense," Ed Rogers, a top White House political operative, said of the Republican gathering.

The Republicans have felt on the defensive on issues as diverse as the savings and loan scandal and abortion. But perhaps most threatening of all is the issue of taxes, their stated resistance to which has been a central element of their success in the last three Presidential races.

Even as the committee was meeting here today, a number of conservatives were holding a news conference in Washington to attack Mr. Bush on several fronts, including his softened stand against taxes.

The critics, led by L. Brent Bozell 3d of the Conservative Victory Committee, released a letter they had sent to Lee Atwater, the Republican national chairman, in which they said, "If the Republican Party compromises the basic tenets of the 1988 platform, it will spell disaster for its candidates in the upcoming Congressional elections."

In Chicago, Peggy Noonan, the former Reagan speechwriter who coined Mr. Bush's "read my lips" 1988 campaign promise to resist new taxes, seemed to sum up the delegates' feelings when she told them, "I truly believe we must not lose the tax issue."

Finding a way to hang on to that issue, while the White House continues negotiating with Congressional Democrats to reduce the deficit, was uppermost on everybody's mind here.

Strong Economy Emphasized

Several different, and perhaps contradictory, approaches were in evidence. One was to emphasize the importance of a strong economy, as Jeannie Austin, party co-chairwoman, did this morning, and to praise Mr. Bush for his "leadership and his courage" in making hard decisions to assure that economic strength.

But another approach, which drew considerably more applause whenever it was brought up, was to suggest that the deficit talks might fail and that Mr. Bush could walk away, blaming the Democrats for the collapse and not raising taxes after all.

Many Democrats on Capitol Hill believe that public concern about the deficit has risen to such a level, and that the economy has slowed to such a point, that Mr. Bush cannot afford to let the budget talks collapse.

But both Mr. Quayle and Ms. Noonan, who is a good friend of the White House budget director, Richard G. Darman, rejected that.

"A good deal, or no deal at all," Mr. Quayle said.

Ms. Noonan said, "I hope this party will, if it must, take the tax-and-spend issue to the people."

Seeking to shift the political focus from taxes to spending, Mr. Quayle demanded that the Democrats respond to Mr. Bush's willingness to discuss tax increases by detailing spending cuts they would be willing to accept in a budget deal.

"Their silence on this issue, as usual, has been deafening," the Vice President said.

Los Angeles Times

A26 SATURDAY, JULY 14, 1990

Halt Bush's Tilt to Left, Conservatives Tell GOP

■ **Politics:** Five leaders from the party's right deliver a blast at the President for agreeing to a tax hike and for his stands on foreign, social issues.

By ROBERT SHOGAN
TIMES POLITICAL WRITER

WASHINGTON—Five conservative leaders Friday accused President Bush of breaking his word to the American people on foreign, social and economic issues, notably by agreeing to a tax hike. They called on the Republican Party "to take a stand" against Bush's "steady turn to the political left."

This blast from the right is the latest development in what is turning into a long, hot summer of political discontent for the Bush Administration. For the first time since the 1988 election, the GOP finds itself on the defensive against Democrats, who are mounting an aggressive challenge to Bush's handling of the savings and loan scandal.

And the public complaint by the five conservative activists, issued in the form of a letter to Republican National Chairman Lee Atwater, followed on the heels of another attack on the tax hike decision—a scathing critique of Bush's controversial move in the latest issue of National Review, the influential conservative periodical.

Appearing here at a joint press conference, the five conservatives—L. Brent Bozell III, director of the Conservative Victory Committee; John Cregan, president of the U.S. Business and Industrial Council; David A. Keene, chairman of the American Conservative Union; Howard Phillips, chairman of the Conservative Caucus, and Richard A. Viguerie, president of United Conservatives of America—spoke more in sorrow than anger.

They did not directly threaten Bush with a challenge to his expected bid for renomination in 1992, although Phillips warned that such an effort is likely if Bush does not shift his course. But their more fundamental concern, said Keene, is that the President "would weaken himself so much politically that he won't be able to win no matter what we do."

Bush's actions, Keene contended, amount "not only to bad policies but also dumb politics."

In addition to the tax hike issue, which was the focal point of their unhappiness, the conservatives' bill of complaint criticized Bush for lifting economic sanctions against China; seeking to ease trade restrictions against the Soviet Union; supporting funding for the National Endowment of the Arts, despite its sponsorship of allegedly pornographic work, and for considering support for new federal regulations in such areas as child and health care, the environment and campaign reform.

Leslie Goodman, a spokesman for the Republican National Committee, refused to comment on the letter from the conservatives because she said party officials had not had time to read it.

As an example of action conservatives hope Republicans will take to counter the President, Cregan of the Business and Industrial Council cited a resolution now before the House Republican Conference, which consists of all 176 GOP House members. The resolution would put them on record as opposing any new taxes or tax rate increases. The conference is expected to vote on the resolution Wednesday.

Release of the letter to Atwater was timed to coincide with the meeting of the Republican National Committee in Chicago, where party leaders seemed mainly concerned with responding to the offensive on the savings and loan fiasco launched two weeks ago by Democratic National Chairman Ron Brown.

Brown linked the growing cost of the savings and loan bailout to Bush's willingness to accept an increase in taxes. "We have found the one cause for which George Bush is willing to break his 'no new taxes' pledge," Brown said, "the bankers and speculators who ran the savings and loan industry into the ground."

"I think it's the only orchestrated attack they've had in nearly two years," said Mary Matalin, Republican National Committee chief of staff, of the Democratic attack. "But this is not an issue the voters will believe them on."

Nevertheless, speakers at the national committee meeting in Chicago made sure that they provided plenty of reassurance for the party faithful on the controversial tax cut. In remarks Thursday, explaining Bush's decision, presidential pollster Robert Teeter argued that "a good economy is good politics" and contended that reducing the budget deficit, as Bush intends, is the surest way to guard the economy's health.

Similar words of comfort were spoken Friday by Vice President Dan Quayle, who told a luncheon session in Chicago that "the President is willing to go the extra mile in seeking to forge a budget agreement that would be good for America." But Quayle added: "Let me assure you of this, this President will insist on a good deal—one that is good for our economy and good for our country. His position is simple—a good deal or no deal at all."

A much bleaker view of the prospects for Bush's economic policies is expressed in an article in the July 23 National Review written by Paul Craig Roberts, former assistant secretary of the Treasury in the Ronald Reagan Administration and a militant advocate of supply-side economics. Entitled "Bringing Down the House That Reagan Built," Roberts' article contends that Bush has "destroyed his credibility . . . split the Republican Party and made the Democrats' day."

Two accompanying articles warn that a tax increase "could do significant long-term damage to the Republican Party" and charge that Bush's tax shift was based on "the shaky assumptions that a) the deficit really is out of control and b) the Democrats are serious about reducing it."

for 1:30 p.m.

a0606 republicans
AM-Republicans, Bjt,700
Quayle Tries to Ease GOP Tax Fears; Demands Democrats Offer Cuts
Eds: Lead planned following Quayle speech, scheduled for 1:30 p.m. EDT
By JOHN KING
Associated Press Writer

CHICAGO (AP) _ Vice President Dan Quayle on Friday tried to calm GOP fears about the political impact of President Bush's reversal on taxes and demanded that Democrats make the next move by proposing sensitive spending cuts.

Quayle told the Republican National Committee that Bush put taxes on the negotiating table to spur deficit reduction talks but would not accept any deal that would hurt the economy _ or the Republican Party.

"He will not accept a bad deal," Quayle said in a speech prepared for delivery to GOP leaders from across the country. "His position is simple: a good deal _ or no deal at all."

Many of the Republicans gathered in Chicago for the party's two-day meeting believe that Bush's decision to abandon his campaign pledge of "no new taxes" will hurt GOP candidates this fall.

But with Election Day four months away and the GOP already fending off Democratic attacks over the savings and loan crisis, Quayle and other Republican leaders were out to put the party on the offensive on the tax issue.

"The president is willing to go the extra mile in seeking to forge a budget agreement that would be good for America," Quayle said in his prepared remarks. But he said the politically charged budget talks are "not a one-way street" and tried to shift the focus from taxes to spending.

"Today I call on the congressional Democrats to come forth with their proposed spending cuts," Quayle said. "Their silence on this issue _ as usual _ is deafening."

Quayle's speech led a GOP effort to paint Bush's tax switch as a sign of bold leadership. Democrats have tried to paint a different picture, saying Bush is abandoning his no-tax pledge only because of the soaring costs of an S&L debacle they blame on the Reagan and Bush administrations.

Friday's focus on taxes and the budget talks came one day after GOP leaders counterpunched the Democratic attacks on the savings and loan crisis. Ed Rollins, chairman of the Republican Congressional Campaign Committee, tried to place blame for the S&L bailout on the Democrats, charging they had "sold out the taxpayers."

House Speaker Thomas Foley, D-Wash., on Friday called the remarks "Mr. Rollins' emotional ravings" and added, "It sounded like he was in a panic. ... It was sort of a running doggerel of political invective."

-more-

The president's decision on taxes has brought him heat even within his own party, but senior Republicans tried Friday to rally support for Bush.

"It is the obligation of Republicans, I believe, to stand up for the president when the president is willing to take the political heat to stand up for the nation," said Republican Illinois Gov. James Thompson.

Party co-chairwoman Jeanie Austin sounded a similar theme, saying of Bush: "It is a measure of his leadership and his courage that he's making the tough decisions today."

Missing from the party's Chicago gathering was GOP Chairman Lee Atwater, who was hospitalized in Washington as part of his treatment for a brain tumor. Still, GOP leaders were following Atwater's recent admonition to adopt a more aggressive stance, particularly in the partisan fights over taxes and S&Ls.

Peggy Noonan, a former speechwriter to both presidents Reagan and Bush, told the group Bush showed statesmanlike leadership in putting taxes on the table for the budget talks.

But she said Bush should walk away from the talks if Democrats will not agree to substantial spending cuts and reforms in the budget-writing process. Otherwise, she said, Bush will get the blame for raising taxes and Democrats the credit for spending the extra money on social programs.

"We must not lose the tax issue," she said. "There is no more potent issue than this."

The Republicans continued their S&L offensive on Friday by endorsing a resolution applauding Bush's handling of the crisis and blaming the $300 billion-plus mess on the Democrats.

"While Democrats have been pointing fingers of blame, President Bush has been rolling up his sleeves to make good on his promise to settle the problem," the resolution said.

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Budget Negotiators Prepare to Trade Tax Boost Plans
EDS: GOP, Democratic negotiators meet separately in morning EDT; lead prospects uncertain
By ALAN FRAM
Associated Press Writer

WASHINGTON (AP) _ Budget negotiators from the White House and Congress expect to begin trading offers by early next week on about $25 billion in tax boosts for next year.

Bargainers from both political parties, asking to remain anonymous, said Republicans could send Democrats the first package of levies by Monday. It would be the first serious effort in the 2-month-old talks to tackle the most politically delicate issue negotiators face: whose taxes will be raised, and by how much.

"We expect to have it in hand by early next week," a Democrat said. "The group will then evaluate it."

Republicans said no final decisions have been made on what taxes the plan will include.

But one GOP bargainer said it will probably contain boosts in excise taxes, perhaps on alcohol and tobacco products, as well as a cut in the capital gains tax rate. It is unlikely to contain a boost in income tax rates, which many Republicans have adamantly opposed, the official said.

In recent days, participants in the talks and lobbyists have said that broad energy taxes also stand a good chance of emerging from the negotiations.

Budget summit sessions today and Thursday were canceled so bargainers from the two parties could meet separately to formulate strategies. Negotiators are searching for at least $50 billion in spending cuts and tax boosts for fiscal 1991, which begins Oct. 1, in an effort to shrink a budget shortfall that will otherwise hit at least $160 billion.

On Thursday, Republicans discussed a list of 70 to 80 possible tax increases but made no decisions on which should be included in any package, said Sen. Bob Packwood, R-Ore., one of the negotiators.

Packwood said the Republicans talked about taxes on sales of stocks and on tobacco, alcohol, energy and luxury items.

Also Thursday, House Republican Whip Newt Gingrich of Georgia said it was "arrogant and outrageous" for Senate Democratic Leader George Mitchell to demand higher income tax rates for wealthy Americans in exchange for a GOP-sought cut in the capital gains levy.

Gingrich, the No. 2 House Republican leader, said Mitchell's stance threatens the budget talks.

Mitchell, D-Maine, said Wednesday that if President Bush refused to accept a boost in the income tax rates paid by the nation's richest wage-earners, there would be no deal to cut the capital gains tax rate.

Bush has sought a reduction in the capital gains tax since his presidential campaign. The tax is paid on the profits from the sales of property such as real estate and stocks.

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Republicans say reducing the tax will encourage property sales and thus allow the government to collect additional money. Democrats say the idea would increase tax collections immediately but be a long-range money-loser.

On the House floor and at a later news conference, Gingrich said budget bargainers had agreed that everything would be negotiable.

"I think it was a stupid mistake," he said of Mitchell's demand. "I think it is arrogant and outrageous. I think he should withdraw it."

Gingrich, who is one of the budget negotiators, added, "If that's his non-negotiable position, I don't see any reason to walk into a room with him."

Asked if he would boycott the talks, Gingrich said, "I don't know. We'll have to wait and see how irrationally obstructive George Mitchell wants to be."

Mitchell declined to respond to Gingrich. A spokesman said: "The senator will continue to discuss the substance of issues but will not engage in a name-calling contest with someone like Rep. Gingrich."

AP-BA-07-13 0424EDT

a0418 republicans PM-Republicans, Bjt,700 Republicans Promise to Get Back on Offense, Even on Taxes By JOHN KING Associated Press Writer

CHICAGO (AP) _ Republicans, stung by Democratic attacks over the savings and loan crisis, are promising to get their party back on the offense _ even when it comes to discussing President Bush's reversal on taxes.

"Don't get defensive," GOP pollster Bob Teeter told the Republican National Committee on Thursday. "It is the single greatest mistake I think we could make."

Teeter, voicing publicly what many GOP leaders are mumbling about privately, said Bush's decision to ditch his "no new taxes" pledge could hurt Republicans in the short term.

But he told the party leaders that Bush had to make the concession to win a promise of spending cuts from the Democrats controlling Congress _ and that the GOP will quickly rebound if Bush negotiates a significant deficit reduction plan.

"A good economy is good politics," Teeter said. "There is no worse politics than a recession."

Democrats have been tweaking the Republicans by blaming Bush and the GOP for the burgeoning savings and loan crisis, tying in Bush's switch on taxes by saying he wants to use the increased revenues to bail out failed thrifts.

The Democrats, borrowing a page from GOP political handbooks, got out front in the S&L political debate, and Republicans spent much of Thursday trying to mount a counteroffensive.

The GOP strategists sought to frame the next round of the tax debate, saying Bush's concession on taxes was a tough but bold move that Democrats should acknowledge by supporting cuts in programs like Social Security and other entitlements long favored by Democrats.

"Now is the time to turn the focus of the American people to the Democrats," Teeter said.

He also tried to allay the fears of Republicans who believe that including any income tax increase in a deficit reduction plan would be devastating to the GOP.

Privately, the senior Republican officials are telling the RNC members the White House will oppose any attempt to raise income taxes. Teeter was less specific in his public comments, but he said Bush "will not support, he will not sign, he will not agree to any deal that is not a good deal for our country and for our economy."

EDS: Following material embargoed until 1:30 p.m. EDT

Vice President Dan Quayle today made the same assurance in prepared remarks for a luncheon speech to the RNC.

"His (Bush's) position is simple," Quayle said. "A good deal or no deal at all."

END Embargoed material

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It was clear that GOP strategists came to this two-day meeting aiming to get the party back on the attack. This fall's elections are vital to GOP hopes of eroding the Democratic majority in Congress and boosting their influence in post-census redistricting.

"We have a tremendous opportunity as a party if we don't go on the defensive," said Ed Rollins, chairman of the National Republican Congressional Committee.

Most of his lengthy speech was aimed at blunting the Democratic attacks on over the S&L crisis, which now often include references to the troubles of Bush's son, Neil, who is under investigation for his role as a director of a failed Colorado thrift.

Rollins said Democrats in Congress resisted early Reagan and Bush administration efforts to clean up the troubled industry because of the financial support they were getting from S&L interests.

"For a few million dollars in campaign contributions, the Democrats sold out the taxpayers," Rollins said.

Rollins did not say so, but many of the S&L executives he identified as big Democratic dónors also gave heavily to Republican causes, including one who gave $100,000 to the GOP's 1988 presidential campaign.

Rollins' speech was barely over when the Democrats countered in what has became an escalating rhetorical war over blame for the $300 billion-plus debacle _ in Democratic Chairman Ron Brown's words "the greatest ripoff in American history."

Said Brown: "We're not surprised that ±casino economy' Republicans who gambled us into this whole mess are whining and scapegoating every step of the way."

Meanwhile, Republican National Chairman Lee Atwater, who has been battling a life-threatening brain tumor for the past four months, was quoted in today's Washington Post as saying he has been urging party leaders and the White House to "go on the offensive and be more aggressive" in challenging Democrats on issues such as the S&L scandal.

Atwater remained in Washington during the party meeting.

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Republicans rule out raising top income tax rates

By BUD NEWMAN

WASHINGTON (UPI) _ Republican budget negotiators from Congress and the White House decided Thursday to oppose any income tax rate hike this year, even if it ruins chances for a deficit reduction agreement with Democrats, Sen. Robert Packwood, R-Ore., said.

Packwood, ranking Republican on the Senate Finance Committee, said the decision was the consensus of the GOP participants in the bipartisan White House-congressional budget talks.

''We would sooner have no (deficit reduction) package than to go up on the rates,'' Packwood told reporters after the GOP caucus.

Packwood said if Democrats push for higher tax rates on the richest Americans, the talks will fail.

''If that is what they want, then there's no deal at all,'' Packwood said.

The GOP position against tax rate increases came as both parties struggled in separate meetings Thursday to figure out how to proceed on the delicate tax issue _ the only major area not yet discussed in the talks.

House Ways and Means Committee Chairman Dan Rostenkowski, D-Ill., and Senate Finance Committee Chairman Lloyd Bentsen, D-Texas, have met and will continue to meet with top administration negotiators to discuss taxes, House Budget Committee Chairman Leon Panetta, D-Calif., said.

Panetta said there is a point in any negotiation where ''decisions have to be made (and) we're at that point.''

But Sen. Wyche Fowler, D-Ga., a negotiator, said Rostenkowski and Bentsen ''have not been given any delegatory authority by the (budget) summit'' to negotiate separately on taxes with the administration.

Packwood's comments about the GOP opposing tax rate increase also came a day after controversial tax comments by Senate Democratic leader George Mitchell of Maine.

Mitchell said Wednesday he would oppose any budget agreement that includes President Bush's call for a capital gains tax cut on the sale of assets unless the package also includes an increase to at least 33 percent the top tax rate on the richest Americans.

Mitchell said he would prefer a top tax rate of 35 percent but that raising the top rate to 31 percent or 32 percent as a trade-off for a capital gains cut would ''absolutely'' be unacceptable to him.

The richest Americans now pay a top tax rate of 28 percent even though couples making up to about $200,000 a year are in a 33 percent tax bracket. For couples making more than about $200,000 a year, the top tax rates falls to 28 percent in a tax rate glitch known as ''the bubble.''

Democrats have pushed to keep the top rate at 33 percent but Republicans have opposed the move.

''We are not going to go up on the rates to eliminate the bubble,'' Packwood said of the GOP position.

He said Republicans would oppose raising the top rate even if it was the only way to win approval of the capital gains cut Bush and most congressional Republicans want.

Packwood also said Republicans discussed in their party caucus about 15 possible tax increases but did not reach agreement on supporting any of them _ with the exception of tax rate increases.

He said the specific tax increases discussed, from a longer list of about 70 possible tax options, included hikes in cigarette and alcohol taxes, a stock transfer tax, a wholesale enegy tax that would be broader than just a gasoline tax increase and a luxury tax on the sale of items like furs and jewels.

Packwood said the luxury tax was used during World War II.

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REPUBLICANS AND DEMOCRATS ON COLLISION COURSE OVER TAXES

By David Lawsky

WASHINGTON, Reuter - Republican budget negotiators appeared to put themselves on a collision course with Democrats Thursday over taxes, flatly rejecting any chance at all for increased income taxes.

The Republican negotiators, who met by themselves while the Democrats did the same, said any impasse would be the fault of Democrats.

``They don't seem to be taking seriously the possiblity of getting a real agreement,'' Deputy House Republican Leader Newt Gingrich of Georgia said of the Democrats.

Republicans and Democrats canceled a negotiation session Thursday in order to hold the separate meetings, where they discussed separately the difficult question of raising taxes to help fight the $160 billion projected deficit for fiscal 1991.

Republicans have been under increasing pressure in the past few day from Democrats, who have been declaring that any new taxes should spare lower- and middle-income earners.

Democrats, led by Senate Leader George Mitchell of Maine, say that translates into increased income taxes for upper income earners.

But Sen. Bob Packwood, an Oregon Republican who is ranking member of the tax-writing Finance Committee, said that increased tax rates were not discussed.

``We'd sooner have no budget agreement,'' he said.

Packwood said White House Chief of Staff John Sununu, Treasury Secretary Nicholas Brady, White House budget director Richard Darman and congressional Republican leaders considered an entirely different list of taxes.

But Packwood said they came to no agreement among themselves and might have trouble reaching one.

``I think this in the long run is going to be a battle between Wall Street Republicans and Main Street Republicans,'' he said.

He said that Wall Street Republicans would certainly oppose such proposals as a stock transfer tax.

They also discussed excise taxes on such things as alcohol and tobacco, wholesale energy taxes including a value added tax and luxury taxes on such things as furs.

Packwood said that until Republicans decide what taxes to endorse they will not bring up the subject in the budget summit.

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Los Angeles Times

FRIDAY, JULY 13, 1990 A37

Bush Tax Flip Closely Watched, Poll Says

■ **Media:** Times Mirror's survey of public reaction to news also finds that his policy reversal did not affect approval of how the President does his job.

By THOMAS B. ROSENSTIEL
TIMES STAFF WRITER

WASHINGTON—Americans paid more attention to President Bush repudiating his campaign promise not to raise taxes than they have to most of what he has done as President, but it is not clear that this reversal is affecting his popularity, according to a new survey.

Seven in ten Americans were aware that Bush had changed his mind on taxes and three in ten said that they paid "very close" attention to news accounts of it, according to the Times Mirror News Interest Index, a monthly survey of public reaction to the news.

In the last year, only Bush's first prime-time presidential address last August, announcing his plan to combat drugs, attracted greater attention.

Yet the survey found that public approval of the way the President does his job remained at 64%, statistically the same level the Times Mirror survey measured in late May and early June.

A Gallup survey of the President's popularity this week suggests that his approval rating has been dropping gradually for six months, from nearly 80% in January to 63% currently. The Gallup research suggests that many factors explain this, but it did that note 54% of Americans disapproved of his breaking his "read my lips" promise against new taxation, while 41% approved. Still, he remains as popular as most modern presidents at similar points in their terms.

The Times Mirror survey suggests that if his change of mind on taxes is not a major factor in his approval rating so far, part of the explanation might be the fact that while Americans find the President's flip-flop interesting, they didn't find it significant. Only 2%, for instance, considered Bush's tax policy the most important news event of the month.

Several less-followed stories were considered more important than Bush's tax reversal, including the U.S. visit of black South African leader Nelson Mandela, ranked as most important by 12%; changes in the Soviet Union (9%); events in Eastern Europe (8%) and the Iranian earthquake (8%).

The survey, in which 1,231 adults were interviewed by telephone July 5 to 8, was sponsored by Times Mirror, owner of the Los Angeles Times and other newspaper, magazine, broadcasting and publishing enterprises. The results have a margin of error of plus or minus three percentage points and are subject to possible bias from the wording of questions.

The fires that raged across Southern California attracted almost as much "very close" attention (29%) as Bush (30%). This is consistent with earlier findings that natural disasters are among the most compelling news stories.

The fires also attracted more attention than Mandela's visit (24%). In addition, one in four Americans said that there was "too much" media coverage of Mandela.

Yet Donald Trump retained the title as the news maker with whom the media were more obsessed than the public. Trump's financial woes were very closely followed by just 16% of Americans, and nearly 30% volunteered that the self-promoting real estate developer got too much media attention.

But more people found Trump's financial travails more absorbing than his much-publicized marital problems. The latter attracted the close attention of just 12% of Americans and was characterized as over-covered in the media by 55% of Americans.

Washington Mayor Marion Barry's legal problems also are starting to lose the interest of Americans, perhaps because the element of surprise is gone. In the current survey, 22% reported very closely following Barry's trial, down from 30% who were fascinated by his arrest in February. As with Mandela's visit, blacks paid closer attention (40%) to the Barry trial than whites (20%).

Nonetheless, the FBI hidden-camera video of Barry's arrest was popular. Roughly 60% reported seeing some or all of the tape, which was aired repeatedly by the media within minutes of its being shown in court.

Viewing the tape had mixed effects on public opinion. Most people (52%) said that their sympathies toward Barry were unchanged after watching it, while 33% said that they became less sympathetic. Only 13% said that they felt more sympathy toward Barry afterward.

The story that commanded the least public interest in June, however, was the international AIDS conference in San Francisco. Only 9% reported paying very close attention.

That came despite the efforts of the media, according to monitoring by Times Mirror's Center for People & The Press, which supervises these studies. The AIDS conference, the center found, received more air time on network evening news in June than any other story, save Mandela.

THE WALL STREET JOURNAL.
FRIDAY, JULY 13, 1990

Washington Wire

CLOUDS GATHER in Bush's sky-high popularity.

A new Wall Street Journal/NBC News poll suggests that he benefits strongly from foreign policy, where 67% approve of the job he is doing—precisely the same figure as his overall job-approval rating. But he slides on handling of the economy, where voters approve by only 48% to 41%. As recently as April, the margin was 59% to 30%.

Republican operatives privately worry about what they call the "mood gap"—the difference between Bush's high personal ratings and growing public concern about the country's course. In the new poll, 40% think the nation is headed in the right direction and 37% see it on the wrong track; last January, the results were 49% to 29%.

"Unlike Reagan, I don't think Bush could survive a really deep recession," says one top GOP strategist.

CONFLICTING SIGNS on the economy fuel voter uncertainty.

THE WALL STREET JOURNAL/ *NBC NEWS* POLL

While the Journal/NBC poll found voters holding steady in their own spending and savings plans, it also found a sharp jump, to 26% from 13% in May, in people who aren't sure whether they think there will be a recession in the next year. And pending economic indicators will do little to reduce the confusion.

The Commerce Department reports that consumer confidence is slipping, and next week's industrial production figures are likely to continue to be weak. But today's retail sales figures, boosted by a sudden jump in auto buying, will probably show a rise after two months of steep declines, and inflation figures due out today and next week will offer further evidence of a moderating trend.

The Washington Times
FRIDAY, JULY 13, 1990

RATING BUSH

A Gallup Poll of 1,240 Americans conducted July 6-8 showed the following:

58 percent disapproved of the way Bush has handled the S&L crisis.

64 percent disapproved of Bush's performance on the federal deficit.

54 percent disapproved of Bush's announcement that a compromise with Congress on reducing the deficit must include new taxes.

41 percent approved of Bush's call for a tax increase.

The Washington Times

WHO'S MOST TO BLAME FOR THE S&L CRISIS?

Here is how 1,233 adult Americans answered that question in a Gallup Poll taken June 7-10:

Ronald Reagan	6 percent
President Bush	1 percent
Congress	4 percent
The government	18 percent
Savings and loan managers	27 percent
Regulatory agencies, deregulation or lack of regulation	2 percent
The American people	3 percent
Politicians and political leaders	Less than 1 percent

The Washington Times

THE WALL STREET JOURNAL

THURSDAY, JULY 12, 1990

Poll Shows Americans Are Forgiving On Bush's Breaking of No-Tax Pledge

By JEFFREY H. BIRNBAUM
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—U.S. voters are well aware that President Bush is breaking his no-tax pledge, but they don't much blame him for it and are resigned to a tax increase.

A Wall Street Journal/NBC News poll found that, by a margin of more than 2-to-1, voters believe the president is breaking his campaign promise not to raise taxes. At the same time, though, they said they would prefer higher taxes to living with the current federal budget deficit, by 49% to 40%. And 88% of those polled think taxes are likely to rise.

If President Bush does support a tax-increase bill, nearly two-thirds of the voters said they wouldn't feel any differently about him. And those who would change their view are divided about which way they would go—18% would think less of him, 14% would think more of him. Only 21% would blame Mr. Bush's administration for a tax increase, fewer than the 26% who would blame congressional Democrats and the 28% who would blame the administration of former President Reagan.

But when it comes to which taxes to raise, the respondents were at odds with Mr. Bush and his fellow Republicans and far more in tune with the Democrats. By overwhelming margins they favored increasing the income tax rate for upper-income individuals, raising the corporate tax rate and increasing "sin" taxes on cigarettes and alcoholic beverages. They disapproved of raising the gasoline tax, enacting a national sales tax and increasing income tax rates on all Americans.

The voters leaned toward a proposal being considered in the Bush administration to assess a new levy on all stock and bond sales, with 49% favoring the plan and 40% opposed.

The survey was conducted for the Journal and NBC News by the polling organizations of Peter Hart, a Democrat, and Robert Teeter, a Republican, between July 6 and 10. The margin of error for the nationwide survey of 1,555 registered voters is 2.6 percentage points.

The proposal to raise the top rate is one of the pivotal issues of the current budget debate. Republicans are vigorously resisting the change, while Democrats are insisting on it if the tax on capital gains is reduced, as Mr. Bush wants.

Senate Majority Leader George Mitchell (D., Maine) told reporters he would oppose any budget accord that cut capital gains without at the same time raising the top rate for individuals. He also insisted that the top rate be increased to at least 33% from the current 28%.

Voters in the survey sided with Sen. Mitchell. The poll found that 76% of those surveyed favored increasing the income tax rate for upper income individuals. The only tax-increase choice that was better liked, at 78%, was a proposal to increase taxes on cigarettes and alcoholic beverages. Also, 70% of the voters said they favored raising the corporate tax rate.

Last month, President Bush acknowledged that tax increases are needed to reduce the budget deficit, and, ever since, Washington decision-makers have turned their attention to the question of which taxes to raise. Increases in the top individual tax rate and in excise taxes are high on their list; selected corporate tax increases also are being considered, though a boost in the corporate tax rate itself hasn't been widely discussed.

The Journal NBC News poll showed that more and more voters approved of this change in emphasis. For the first time, more of those polled said President Bush should support a tax increase than those who said he should stick to his no-new-tax pledge. Fifty percent of those polled said he should raise taxes and 46% said he shouldn't. Just eight months ago, 55% said he shouldn't raise taxes.

Let us suppose the government needed to raise taxes. For each of the following, please tell me if you would favor or oppose raising that tax.

	FAVOR	OPPOSE
Raising the tax on gasoline	38%	59%
Increasing by one percent the income-tax rate for all individuals	42	55
Enacting a national sales tax	29	65
Increasing the income-tax rate for upper-income individuals	76	20
Increasing the tax rate on corporations	70	24
Raising alcohol and tobacco taxes	78	20
Enacting a tax on half of one percent on the sale of stocks and bonds	49	40

THE WALL STREET JOURNAL/NBC NEWS POLL

A big reason for that swing was the president's ability to persuade generally anti-tax Republicans to view a tax increase more favorably. As recently as April, long before Mr. Bush's June 26 statement about the need for tax increases, 61% of the Republicans polled said Mr. Bush should oppose tax increases. In July, when the latest poll was executed, 57% of the Republicans surveyed said he should back a tax increase.

Fully 67% of those polled said they believed that the president was breaking his no-new-tax promise, and 57% thought that a tax increase was very likely; 31% said it was somewhat likely. But 65% of those polled said it wouldn't make any difference in how they feel about him if he agrees to go along with a budget plan that includes a tax increase.

Overall, Mr. Bush's approval rating with voters fell to 67% from 72% in May and 75% in April. His new standing matched the approval rating in September and November.

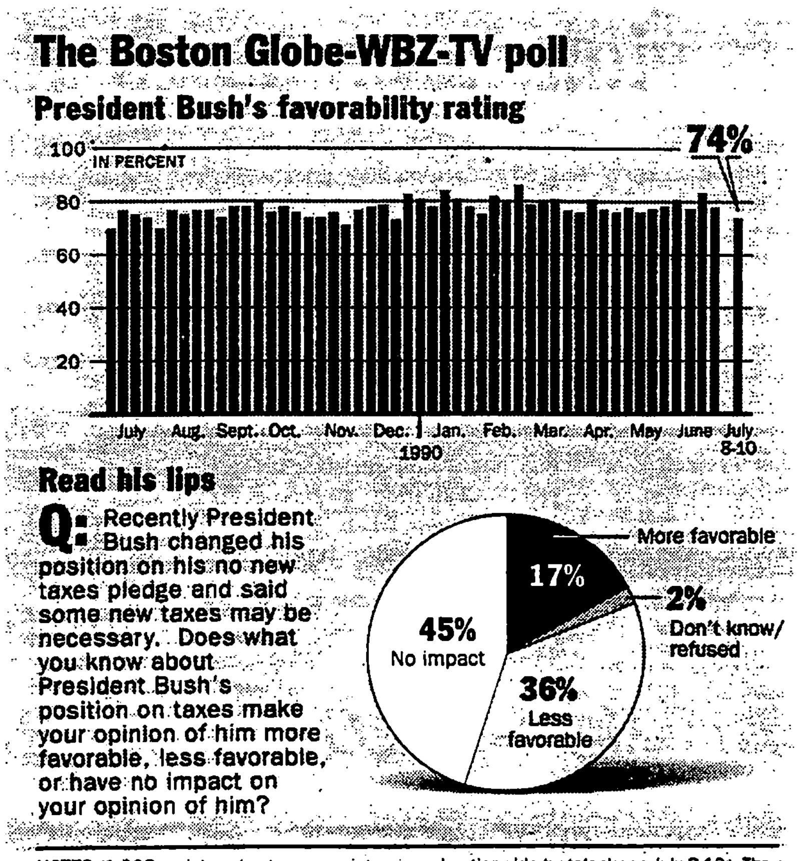
The Boston Globe

THURSDAY, JULY 12, 1990

Bush loses altitude in new poll of voters

Switch on taxes, thrift crisis cited

By John Robinson
GLOBE STAFF



NOTES: 1,003 registered voters were interviewed nationwide by telephone July 8-10. The poll's margin of error is 3%. Due to rounding, figures may not add up to 100 percent.
SOURCE: KRC Communications Research
GLOBE STAFF CHART

Buffeted by public reaction over his switch on new taxes and the administration's response to the savings and loan crisis, President Bush is losing some altitude in the lofty popularity ratings he had won from voters over the past year.

But Bush's favorability with American voters remains above the 70 percent mark, according to the latest Boston Globe-WBZ-TV weekly poll.

Bush's favorablity rating was 74 percent last week, compared with an average 79 percent over the previous three weeks, according to the poll, conducted by KRC Communications Research. His unfavorable rating rose 6 percent since June 13.

The president's positive job rating was down 13 percent from 3 weeks ago, and his negatives were up 8 percent.

The poll of 1,003 registered voters was taken July 8 through 10. The margin of error was 3 percent.

The survey, KRC analysts concluded, was "not good news for the president."

Part of the problem, analysts said, was growing criticism among voters of Bush in connection with the multibillion-dollar savings and loan scandal.

Sixty-six percent of voters held a negative view of Bush's handling of the savings and loan crisis, compared with 59 percent who held a negative view three weeks ago.

Similarly, 36 percent of the respondents said their view of Bush had become less favorable since he signaled he was ready to abandon his "Read my lips; no new taxes" campaign promise.

Yet voters said they were prepared to follow Bush down the tax road, pledges notwithstanding.

When asked: "Would you support President Bush if he moves to increase taxes, or would you not?" 53 percent said they would, while 36 percent said they would not.

Bush was supported strongly by Republicans, 65 percent of whom said they would follow his tax proposals. But 46 percent of the Democrats said they would not support him on taxes.

Bush's handling of the deficit also showed some erosion in the current poll.

Only 19 percent said they viewed positively the president's handling of deficit issues, compared with 23 percent who had a positive view last month when they were asked the same question.

On the administration's overall handling of the economy, 31 percent had a positive view, down from 37 percent a month ago. Forty-three percent had a negative view, up from 39 percent a month ago.

The Washington Times

FRIDAY, JULY 13, 1990

A cure that will dry up the deficit?

On July 17 Congress is scheduled to vote on a balanced-budget amendment to the Constitution. For years the amendment was bottled up in committee and kept from a vote.

This made the amendment popular with members of Congress who signed on as co-sponsors in order to prove that they stood for fiscal responsibility — without any fear that they would ever have to vote for the amendment.

However, it proved so popular for this purpose that a sponsor discovered the amendment had enough

It could defeat its purpose of controlling spending by providing constitutional cover for raising taxes.

signatories to free it from the committee and bring it to a vote.

Many cynical congressmen were horrified to learn that they were forced to sign the discharge petition

signatories to free it from the committee and bring it to a vote.

Many cynical congressmen were horrified to learn that they were forced to sign the discharge petition or be exposed as hypocrites. Real supporters are surprised, too, because the amendment's language makes it more difficult to run a deficit than to raise taxes. Consequently, the amendment could defeat its purpose of controlling spending by providing constitutional cover for raising taxes.

Congress could load on the spending and, when a deficit materialized, declare that they oppose higher taxes but the Constitution requires them. The amendment requires a three-fifths vote to pass a deficit, but only a majority of both houses to pass a tax increase.

This disparity has produced a lively debate among the amendment's true supporters. Those who want a balanced-budget amendment at all cost say that it is harder for a politician to vote for a tax increase than for a deficit because people pay more attention to the former than to the latter. Doubters suspect that when it comes to garnering votes, the fewer the easier.

Consequently, before the vote on the balanced-budget amendment there will be a vote to amend it to require the same three-fifths vote to raise taxes as to pass a deficit.

Some want a stricter provision limiting the growth of revenues. They point out that since tax revenues grow faster than national income, a balanced-budget amendment does not prevent the government from growing faster than the economy.

The vote to strengthen the protection against higher taxes will indicate whether Congress intends to use a balanced-budget amendment to control spending or to raise taxes. If the vote fails, a balanced-budget amendment is likely to mean more spending and higher taxes.

The original sponsors would face the dilemma of voting against their own handiwork or creating for their opponents a constitutional justification for raising taxes.

Cynics believe a balanced-budget amendment would be as meaningless as the existing law limiting the size of the public debt. Every year Congress votes to permit a "temporary" increase in the debt limit. Since the increase has to pass or the government would be forced to default on its bonds, this effort to prevent deficits merely created an annual legislative peg to which bills are attached that otherwise would have scant chance of passage.

The unsuccessful experience with the debt limit law, and the current use of the Gramm-Rudman deficit reduction law to raise taxes, shows that politicians who want to spend will not be stopped by laws. Why, then, do supporters believe a balanced-budget amendment would be any more successful?

They argue that a constitutional prohibition is stronger than a law. Perhaps it is, but the appetite to spend may be stronger still, and the effort to subdue it with the Constitution might simply break the back of the Constitution itself.

Already so many liberties have been taken with the Constitution that the dominant legal opinion is that the document is devoid of inherent content and means only what the judge of the day says it means. If Congress gets in the habit of suspending a constitutional amendment, it might decide to suspend the Constitution itself.

The problem we face is that we naively bought the argument that big government is good and better serves the public interest. We have lived under big government long enough to learn that it serves organized special interests that are more powerful than taxpayers.

The spending constituencies derive more benefit from the federal budget than they pay for. In the fight against power politics, debt limits and balanced-budget amendments seem destined to become broken lances.

Only an aroused people can take back control over government, and a people that consistently returns 98 percent of elected politicians to office is far from aroused.

Paul Craig Roberts, an economist at the Center for Strategic and International Studies, is a columnist for The Washington Times.

THE WALL STREET JOURNAL.

FRIDAY, JULY 13, 1990

GOP May Drop Capital-Gains Tax Issue In an Effort to Speed Budget Accord

By DAVID WESSEL
And JEFFREY H. BIRNBAUM
Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON—Republican budget negotiators have discussed the possibility of giving up on a capital-gains tax cut, as part of a tradeoff that might clear the way for a deficit-reduction accord with Democrats, congressional Republicans said.

In exchange, Democrats would be expected to stop pressing for an increase in the marginal income-tax rate for the richest Americans, a move that some Republicans are unalterably opposed to.

Republican negotiators emphasize that they haven't made any decision and that the final call is likely to be made by President Bush. "The president hasn't changed his mind on capital gains," said House Republican Leader Bob Michel of Illinois.

Morever, administration officials said they continue to search for alternative ways to tax upper-income Americans that Democrats and Republicans might accept as part of a package that includes a lower capital-gains tax rate. Among the alternatives the administration is considering are limiting income-tax deductions or taxing securities trades. Some Democrats also have mentioned higher estate taxes or taxing employees' fringe benefits.

Rep. Bill Frenzel (R., Minn.) confirmed that Republicans have talked about dropping both the troublesome capital-gains and income-tax rate issues from the budget negotiations. "It's true of every proposal that some people are for it—including this one," Rep. Frenzel said.

"Everybody has always assumed there could be that tradeoff," an administration official said, "but nobody is promoting it."

Asked if such a trade would please Democrats, House Budget Committee Chairman Leon Panetta (D., Calif.) said, "That's what [Senate Democratic Leader George] Mitchell and everybody has been saying all along."

Republican congressional budget negotiators reviewed a long list of tax options yesterday with White House Budget Director Richard Darman and Treasury Secretary Nicholas Brady. Among the taxes that were discussed, according to Sen. Bob Packwood (R., Ore.), were limiting the income-tax deduction for state and local taxes, taxing securities trades, raising alcohol and cigarette taxes, a broad-based energy tax and various sales taxes on luxury goods.

Democratic negotiators also met separately to talk about taxes. Despite the reluctance of some, they blessed plans for a private meeting between the chairmen of the tax-writing committees, Rep. Dan Rostenkowski (D., Ill.) and Sen. Lloyd Bentsen (D., Texas), and Messrs. Darman and Brady. Democratic staffers said the tax writers were urged to receive proposals and not to make any counter offers. Democrats are to caucus again today.

Some Democrats are complaining that the talks may be stalled—again. "It's still unclear how we're going to proceed," said Rep. Rostenkoswki. "The negotiations are not going to the expectations I anticipated."

Earlier this week, Sen. Mitchell said flatly that Democrats would never agree to cutting the capital-gains tax unless Republicans agreed to raise the marginal tax rate—the rate on every additional dollar of income—on the richest Americans to 33% from the current 28%.

Republicans complained that Sen. Mitchell's statement wasn't constructive. House Republican Whip Newt Gingrich (R., Ga.) labeled it "total baloney." Rep. Michel, noting that Mr. Bush began the summit talks in May by accepting Sen. Mitchell's call for "no preconditions," objected that Sen. Mitchell was now trying to set conditions.

USA TODAY

JULY 13-15, 1990

TAX TALKS: Republican budget negotiators from Congress and the White House decided Thursday to oppose any income tax rate increase this year, even if it ruins chances for a deficit reduction agreement, Sen. Bob Packwood, R-Ore., said. Packwood said if Democrats want higher tax rates on the wealthy, "then there's no deal at all." Senate Majority Leader George Mitchell, D-Maine, said Wednesday he'll oppose any deal that includes President Bush's call for a capital gains tax cut on the sale of assets unless the package also includes an increase to at least 33%, the top tax rate on the richest taxpayers.

THE WALL STREET JOURNAL.

FRIDAY, JULY 13, 1990

Broken Promises Break Presidents

By DAVID FRUM

"I'm a Ford, not a Lincoln," Gerald Ford observed when he became president. George Bush seems to feel no such modesty. At his June 29 press conference, Mr. Bush said he had changed his mind about raising taxes. But Lincoln had changed his mind about freeing the slaves: "I'm doing like Lincoln did, 'think anew.' And I'm thinking anew." What was the big deal?

Not even Mr. Bush's most fervent admirers—of whom there are appreciably fewer today than there were two weeks ago—had ever before noticed much similarity between him and the Great Emancipator. But Mr. Bush needn't have stretched so far—there are plenty of likelier comparisons. Unlike Lincoln, though, these other presidential promise-breakers didn't win the posthumous plaudits of a grateful nation.

Take James Polk for example. In the 1844 election, Polk's Democratic handlers came up with the slogan, "54-40 or fight!"—a message so bold and straightforward that people remember it long after they have forgotten what it meant. What Polk was saying was that he was prepared to go to war with Britain unless it recognized the American claim to the whole of the Oregon territory, all the way up to the mouth of the Columbia River at latitude 54° 40 (just shy of what is now the southern tip of the Alaska panhandle).

The promise to demand all of Oregon was important because the Democrats were simultaneously planning to admit Texas to the Union. Texas added hugely to the potential power and size of the slave states; Oregon would counterbalance Texas by adding to the number and weight of the free states. But when Mexico threatened to go to war over the Texas annexation, Polk, a Southerner, broke his 1844 promise and struck a deal with Britain that set the border at the 49th parallel.

Polk's double-cross saved the U.S. from fighting Britain and Mexico at the same time, but it also confirmed Northern voters' fears that the Democratic Party cared only for Southern interests, crippling the Northern wing of the Democratic Party, hastening the division of the U.S. along sectional lines and moving the country closer to civil war.

In character, Mr. Bush resembles the bellicose Polk rather less than he does the high-minded Rutherford B. Hayes, an Ohio lawyer nominated in 1876 by a Republican Party a little embarrassed by some of the excesses of its previous eight years in office. Both the party and Hayes himself were firmly committed to carrying through with Reconstruction and equal rights for the newly freed slaves. But a controversy over the counting of the vote forced the Republicans into secret negotiations with the Democrats after the election. The bargain enabled Hayes to enter the White House; in return, the Republicans jettisoned their commitment to Reconstruction and freed Southern whites to run their states their way.

For sheer brazenness, perhaps the closest parallel to Mr. Bush's flipflop on taxes is Woodrow Wilson's handling of the American entry into the First World War. Unlike his fellow Democrat Franklin Roosevelt in 1940, Wilson made an explicit commitment in the 1916 election not to intervene in the European war. Within five months of Wilson's re-election, the U.S. had declared war on Germany. The Republicans won the next three presidential elections.

The historical record is, of course, mixed. But there's no lack of evidence that presidential promise-breaking is neither honorable nor profitable. Polk and Wilson wrecked their parties by breaking promises; Hayes saved his party, but only by sacrificing the rights of black Southerners.

The problem with all of these examples, as well as with the Lincoln precedent that Mr. Bush understandably prefers, is that the issues at stake today are, obviously, much smaller. If Mr. Bush does in the end break his promise not to raise taxes, he will not cause civil or foreign war or the persecution of any minority. All he will do will be to throw away his own reputation for good faith and, quite probably, the prospects for Republican control of the Senate in 1992. But then, that really ought to have been enough to stop him.

Mr. Frum is an assistant features editor of the Journal's editorial page.

Chicago Sun-Times

FRIDAY, JULY 13, 1990

Deficit 'cure' is unbalanced effort

On July 17, barring a change in plans, the House will vote on the Best Intentioned Constitutional Amendment of 1990, otherwise known as the Balanced Budget Amendment. It is the congressional equivalent of an Edsel, for which, it will be recalled, the Ford Motor Co. also had the very best intentions.

A hundred-odd sponsors, led by Rep. Charles W. Stenholm (D-Texas) have the same laudable goal in mind. They are the philosophical heirs of John Randolph of Roanoke, who startled the House 160 years ago by a sudden eruption.

"Mr. Speaker! Mr. Speaker," cried the famed Virginian, "I have discovered the philosopher's stone! It is this, sir: Pay as you go! Pay as you go!"

James J. Kilpatrick

Two years after its ratification, the Stenholm amendment would put the government on John Randolph's course. This is the first section. You will note an escape hatch at the end:

"Prior to each fiscal year, the Congress and the president shall agree on an estimate of total receipts for that fiscal year by enactment into law of a joint resolution devoted solely to that subject. Total outlays for that year shall not exceed the level of estimated receipts set forth in such joint resolution, unless three-fifths of the total membership of each House of Congress shall provide, by a roll-call vote, for a specific excess of outlays over estimated receipts."

The resolution provides definitions. Total receipts "shall include all receipts of the United States except those derived from borrowing." Total outlays "shall include all outlays of the United States except for those for repayment of debt principal."

Go back, if you will, to the first sentence. The amendment says, flat-out, that Congress and the president "shall agree" on a budget resolution setting forth the level of anticipated receipts. How is this to be enforced? For the past six months the White House and the Hill have been engaged in unseemly wrangles on precisely this issue. If the two parties reach an impasse, is the Supreme Court to impose its own binding notion of "total receipts"? It would be impossible to find a body less qualified for such an undertaking.

But suppose, to be supposing, that agreement is reached. The president and Congress agree on an imaginary number—the kind of number that Budget Director Richard Darman produces with such dramatic flair. The number is amazing. It is half again what any rational analyst would predict. Nevertheless, that becomes the magic number. Whatever the number may be, "total outlays for that year" shall not exceed it.

Again, let us suppose. Let us suppose the Stenholm amendment were now in operation. All that would be required to meet the constitutional mandate would be a nice round figure. We shall agree that receipts for 1991 will be $1.3 trillion. Now, no one in his right mind believes receipts actually will exceed even $1.1 trillion, but the Stenholm amendment neither demands sanity nor condemns lunacy. Everyone is home free. Outlays will not exceed the inflated estimate.

The amendment is a paper tiger. It does not growl: it merely meows. The oratorical wind that blows from Capitol Hill brings the sound of clacking gums. And even if all hands agree to an honest estimate of probable receipts, a three-fifths vote in each house can nullify the constitutional command. We may be certain that in the crunch, members would take the easy way out.

Congress does not need a constitutional amendment to balance the federal budget. What Congress needs, excuse the homely word, is guts. Backbone. Courage. The wisdom to grasp the moral underpinning of John Randolph's creed.

In peacetime we should pay as we go because it is morally right. Nothing more needs to be said. People of integrity pay their lawful bills. Why do we need a paper amendment to tell us what we already know?

The New York Times

WEDNESDAY, JULY 11, 1990

Budget Talks Resume Amid Brewing Dispute Over Cuts in Military

By SUSAN F. RASKY
Special to The New York Times

WASHINGTON, July 10 — After a break of almost two weeks for the Fourth of July recess, White House and Congressional budget negotiators resumed their bargaining today amid a brewing dispute among Democrats over military spending.

The dispute is twofold: not only how much to cut military costs, but also whether those cuts should fall more heavily on personnel or on weapons programs. It pits Senator Sam Nunn, the conservative Georgian who heads the Senate Armed Services Committee, against Democratic colleagues in both the Senate and the House who favor deeper Pentagon cuts.

Senator Nunn has proposed that the Pentagon spend $10.5 billion less next year than in the current fiscal year, after adjustment for inflation. That cut would be more than three times the one recommended by the Bush Administration, and about what the House approved in a budget bill adopted in May.

But liberal Democrats in both houses favor Pentagon cuts of at least $13 billion, and the budget negotiators, looking for ways to slash $50 billion to $60 billion from next year's Federal deficit, have yet to reach a compromise.

"I suspect that if anything comes out of this summit at all, then we are going to have to cut $13 billion," said Senator Jim Exxon, a Nebraska Democrat who serves on both the Armed Services and Budget committees in the Senate. "If we can't get to $13 billion, then we are not doing our job."

Enter Senator Nunn, whose Armed Services Committee today began drafting the legislation that sets annual program guidelines for the military. Impatient with the slow pace of the budget negotiations, he has directed his subcommittee chairmen to fashion two military spending plans: one following his recommendations, the other assuming the $13 billion in cuts.

But liberals charge that Mr. Nunn is rigging the numbers to show that Draconian cuts in personnel would be needed to meet the Budget Committee's recommended spending level. "Senator Nunn is not setting the defense numbers for the negotiators," said Senator Jim Sasser of Tennessee, who heads the Budget Committee and is a member of the negotiating team.

The spending figures Senator Nunn has proposed would reduce troop strength next year by 100,000 from the current 2.1 million. Congressional officials familiar with today's closed deliberations of the Armed Services Committee say the figures Mr. Nunn is using to illustrate the deeper spending cuts that liberals favor would reduce troop strength by 285,000.

Politically Sensitive Cuts

"We're going to show that you can get it out of personnel or procurement," Mr. Nunn said. The problem, he added, is that if the cuts come from procurement, lawmakers would have to slash the long-term military budget well below the levels that even liberals are recommending.

Personnel cuts are the most politically sensitive in the military budget, and liberals insist that the savings they seek could be achieved less painfully with cuts in major weapons programs like the B-2 bomber or the "Star Wars" anti-missile defense. Defense Secretary Dick Cheney has already called for a reduction in purchases of the B-2 to nearly half of the 132 planes initially sought by the Pentagon.

But many Congressional Democrats, and some Republicans, favor outright cancellation of the program. Mr. Cheney, who cut short a trip to Europe and the Near East this week to participate in the budget deliberations, is expected to meet with the negotiators when talks resume on Wednesday.

In a related development today, the White House budget director, Richard G. Darman, reiterated President Bush's support for a proposed constitutional amendment requiring a balanced budget. In testimony before a subcommittee of the House Judiciary Committee, Mr. Darman said such an amendment would provide a strong incentive for the White House and Congress to reach "a politically negotiated settlement" on the budget. The proposed amendment is scheduled to come before the House next week.

The Washington Times
WEDNESDAY, JULY 11, 1990

Risking a new market plunge?

Treasury Secretary Nicholas Brady has apparently learned nothing from being chairman of the Brady Commission that investigated the stock-market crash of 1987.

How else are we to explain his promoting former House Speaker James Wright's tired old idea of taxing financial market transactions at 0.5 percent per transaction?

While such a tax would raise as much as $17 billion a year, and provide the administration with a "soak the rich" bargaining chip to get Congress to cut the capital-gains tax, its negative impact on the market could be far more devastating.

A Congressional Research Study said that such a tax would cause overall stock prices to drop by as much as 9 percent — or about 260 points on the Dow Jones Average. Depending on how fast such an adjustment might happen, that's the equivalent of a "mini-crash" on Wall Street. Mr. Brady is playing with fire.

If he wants to know how much fire, he should go back and study Pages 15 through 29 of his own 1988 Brady Commission Report where it says that one of the two key "trigger" events was "the announcement early Wednesday October 14th that the members of the House Ways and Means committee were filing legislation to eliminate tax benefits associated with the financing of takeovers.

"While rumors of the legislation had been circulating on Wall Street for several weeks, its actual announcement had a galvanizing effect on investors ...

"As risk abritrageurs came to realize the seriousness of the legislative initiative they began to liquidate their positions, collapsing the prices of the takeover shares. These stocks had led the bull market up and now, during the week of October 14 to October 20, they would begin to lead it back down."

Within weeks, it became accepted wisdom in the financial community that the Rostenkowski takeover tax blunderbuss had been the single most powerful cause of the stock-market crash.

That conventional wisdom has been carefully tested by two economists, Mark Mitchell of the Securities and Exchange Commission and Jeffrey Netter of the University of Georgia.

They took the events of the three trading days prior to the Oct. 19 crash (Oct. 14-16) when the takeover tax was being discussed and voted in by the committee and tested U.S. trends vs. the rest of the world (which was unaffected by the tax). They discovered that "The U.S. decline was unmatched by the rest of the world during this period."

They concluded that: "The stock market crash on October 19, 1987, began in the three trading days before the crash, October 14-16, when the value of the stock market fell more than 10 percent, the greatest three-day decline since 1940.

"While numerous fundamental factors have been proposed as triggering this decline, we provide evidence showing that the takeover tax bill introduced the evening of October 13th by Democrats on the House Ways and Means Committee and approved on the evening of October 15th by the full committee was a fundamental economic event ... which arguably triggered the October 19th crash."

One "evidence" they are right is that the recovery of Wall Street from the crash seemed to coincide with the gradual backdown on the takeover tax by Rep. Dan Rostenkowski, Illinois Democrat, on Oct. 28 and 29, and final rejection by the full committee on Dec. 16.

The other evidence comes from their construction of a portfolio of 19 takeover stocks that were "in play" in October 1987, excluding all those where the takeover was completed before Oct. 13. They tested the degree of abnormal movements in these stocks relative to the market as a whole and found they led the market down, and eventually stabilized ahead of it.

Finally, Messrs. Mitchell and Netter looked at the ratio of buys to sells for some 20 major risk arbitrage firms day-by-day, leading up to the crash and following it. In the 13 days preceding the tax announcement, these firms had bought on average close to $1 million more in stock per day than they sold. During the three days following the announcement but before the crash, they sold nearly $3 million a day more than they bought. (See Table.)

That intensely negative trend continued until Oct. 29, when Mr. Rostenkowski suddenly announced some "flexibility" on the takeover tax, and the risk arbs suddenly eased up their selling pressure and cautiously increased their buying.

The irony is that one reason Mr. Brady likes the so-called "transactions tax" is precisely that it would reduce risk arbitrage trading and kill program trading altogether. He apparently thinks that would be good for market stability. But it would also destroy a lot of stock values due to the law of tax capitalization. Every dollar of tax on stocks immediately reduces their capital value by the price earnings ratio multiplier. If that's around 15-to-1, a $17 billion tax on stock transactions will reduce total equity values by $255 billion.

That's the equivalent of at least 300 points on the Dow-Jones average. The Congressional Research Service has it about right. For shareholders and pension funders, Mr. Brady has it just about as wrong as you can get.

Warren T. Brookes is a nationally syndicated economics columnist.

THE WALL STREET JOURNAL

WEDNESDAY, JULY 11, 1990

Bush's Worst Tax Idea So Far

By FLOYD J. GOULD

As bad public policy goes, the proposal for an 0.5% tax on stock transactions is something of a champion. All at the same time, this tax would increase the volatility of stock markets, knock roughly 5% off the Dow Jones average, damage the ability of new companies to raise capital and drain liquidity from already endangered U.S. financial markets. And all to try to raise $10 billion in federal revenues—$10 billion that surely will not materialize.

The Treasury arrives at its $10 billion figure via the simple expedient of multiplying 0.5% by the value of the $2 trillion trading on the New York Stock Exchange each year. Two trillion dollars times 0.5% equals $10 billion of found money. The assumption here is that making trading more expensive and less profitable will not reduce the number of trades executed.

Greater Volatility

But it will of course. And in consequence, not only will the government gather less in revenue, but the stock market will be pushed toward even greater volatility than it shows today. Advocates of the transaction tax claim that it would encourage long-term investment, and therefore reduce "excess" volatility. But a long-term investor is not just one who buys 100 shares of utility stock, sticks them in a safe deposit box and waits for retirement.

Pension fund and mutual fund money managers, who remain in the market for long periods of time, adjusting their portfolios as circumstances change are long-term investors too. They play the important role of capitalizing sector trends, arbitrating differences in rate of return across industry groups and sending capital from low-return to high-return sectors.

One effect of a transaction tax would be to discourage such investors from engaging in such active management of their portfolios. This is because the transaction tax adds to transaction costs. When the benefits of a particular trade are less than the transaction tax, investors will be dissuaded from trading. They will disregard information that would justify small increases or decreases in the prices of stocks. However, as information continues to flow, a point will be reached where the benefits of doing the trade will exceed the cost of the tax. The tax, in other words, will cause stock prices to move in bigger jumps, both up and down, than they now do.

In other words, rather than promoting swift and continuous adjustment to new information, a transaction tax would cause prices to jerk and lurch. For smaller, less liquid, firms the fluctuations will be exacerbated.

> *Rather than promoting swift and continuous adjustment to new information, a transaction tax would cause stock market prices to jerk and lurch.*

The first of these swings will occur as soon as the tax looks likely to become law. Combined with other pending laws, the tax would quickly wipe some 5%—or 150 points—off the value of the Dow Jones average. Here's why.

Investors have historically expected an average 3% after-tax real growth in the value of their equities over time. At the current rate of inflation, roughly 4%, that translates into 7% after-tax nominal growth in capital value.

Under the present tax regime, a company must earn 14.7% annually in order to satisfy its investors. After paying its 34% corporate income tax, a company that earns 14.7% will have 9.7% to distribute to its owners. If it, as most companies do, kicks out 3% of earnings to shareholders in the form of dividends, it will retain 6.7% of earnings. This should be reflected in appreciation of the value of the stock.

From the shareholders' point of view, a 3% dividend will translate into a 2.2% return on investment after paying personal taxes. The 6.7% of earnings that are retained will, after payment of the current 28% capital gain, translate into a 4.8% return on investment. And of course, 2.2% after-tax return from dividends plus a 4.8% after-tax capital appreciation add up to the required 7% return.

Now add an 0.5% transaction tax to the calculation. The shareholder now needs a 7.2% increase, instead of a 6.7% increase, in the after-tax, after-3% dividend value of the company if he is to earn his nominal 7%. Redoing the arithmetic, that means the company must earn a nominal 15.5%, instead of 14.7%. That additional increment it will now have to earn doesn't sound like much, but it adds up to a 5% increase in the cost of capital.

Well of course, companies can't summon up the necessary improvement in earnings with a snap of the fingers. So a 5% increase in the cost of capital will mean a corresponding 5% depreciation in asset values—and thus 5% off the value of equities.

Some in the Bush administration dream of trading off the transaction tax as part of a deal that would also cut the capital gains rate to 20% from 28% and boost the top personal income tax rate to 33% from 28%. This deal would not be worth doing, at least not from the point of view of equities markets.

Lower Capital Gains?

The combined effect of the lower capital-gains tax rate plus the higher top personal income tax rate would be to reduce the pre-tax nominal return needed to earn a post-tax 7% (made up, remember, of 3% real growth and 4% inflation) to 9.3% from the 9.7% mentioned above. That would cut the cost of capital by 4% and, presumably, boost the value of the equities markets by 4%.

But the 0.5% transaction tax would wipe 5% off the value of those markets. So all this finagling will simply have the effect of increasing the cost of capital by 1%. The transaction tax will annihilate the advantage of lower capital-gains taxes.

Mr. Gould, a professor at the University of Chicago, is president of Investment Research Co. Victor Canto, president of Laffer, Canto & Associates, contributed research to this article.

THE CHRISTIAN SCIENCE MONITOR

Wednesday, July 11, 1990

By Laurent Belsie
Staff writer of The Christian Science Monitor

CARMI, ILL.

THE question is alive and well in Illinois.

It dogs Senate candidate Lynn Martin. A reporter asks it in Lawrenceville, Ill. In nearby Carmi, a voter wants to know.

Congresswoman, they ask, where do you stand on taxes?

No new taxes – the pledge that swept George Bush into the White House two years ago – is a much more difficult campaign promise to make in 1990. President Bush's recent switch on the issue has taken the issue away from most Republican candidates this year. Conservative Republicans who are sticking to the pledge, such as US Representative Martin, are under extremely close scrutiny.

If George Bush can break such promises, skeptical voters and reporters are asking, why can't you?

"Ah, the tax issue," Martin says, waving an imaginary cigar in Groucho Marx fashion when asked about it in her campaign van. Her public disagreement with Bush has brought her instant media attention. On the same Sunday two weeks ago, Martin appeared on CBS's "Face the Nation" and ABC's "This Week with David Brinkley," talking about the issue.

For her race against incumbent Sen. Paul Simon, a liberal Democrat who talks openly about new taxes, her no-new-taxes pledge is a two-edged sword.

On the one hand, many voters appear to be more cynical.

Senator Simon drew strong applause last week when he told a group of Rockford, Ill., senior citizens, "Be careful of politicians that promise you one thing before an election and do something else after."

On the other hand, Martin's no-new-taxes stand still resonates among voters in these rolling clay hills of Democratic but conservative southern Illinois.

Charles O. (Bill) Williams, a registered Democrat here in Carmi, Ill., voted for Simon in 1984. But he won't do that again this year.

"The trouble I see with my party is that the more taxes they collect, the more taxes they spend," he says after attending a Martin speech in Carmi. "No new taxes? We believe in that."

Martin sounds a similar theme at a local Elks Club rally here.

"I do not believe that there will ever be control of spending with the same spenders that are there" in Congress, she says. "I will stand up and oppose the new taxes that they will shove down our throats."

Martin and her campaign manager, Mark Schroeder, say the tax issue is helping their campaign.

"We believe it's a plus," Mr. Schroeder says. "It elevates an issue that we think we are strong on."

The stand is especially helpful in the suburbs around Chicago, where Republicans traditionally do well.

According to a poll conducted by the Martin campaign in mid-April, more people cited Illinois's high taxes than anything else as what put the state on the wrong track. Statewide, 22 percent said it was the main problem; in the suburban ring around Chicago, 34 percent cited taxes in that poll. In the two most Republican suburban counties, it was 40 percent.

For his part, Simon is not sure that he will be helped all that much by the tax issue, but he won't be hurt by it either.

"It is certainly not a minus in terms of my own candidacy," he says. "But I think it's a minus for the process. It makes people more and more cynical of everybody in politics and that hurts me. It hurts everybody."

On the campaign trail, Martin is telling voters that federal tax increases would be particularly harmful to Illinois.

"It isn't that I oppose every tax increase," she says. But the taxes that Bush and the Democrats are discussing would be doubly hurtful to Illinois. According to Martin, for every dollar of revenue that Illinois sends to Washington, Illinois gets only 72 cents back. That makes it 49th of the 50 states in terms of return on its federal taxes.

Thus, a new tax hike would not only burden Illinoisans further, it would mean a continued drain of wealth from the state.

Shipping money to Texas

A prime beneficiary, Martin adds, would be Texas, which is receiving federal help to bail out that state's many failed savings and loan institutions.

"For this state, it would be a major transfer of wealth," Martin says. "We could just Federal Express our money down to Texas easier."

This tack complements another Martin criticism about Simon: that he is an absentee senator. (Simon, himself, used that argument on then-Sen. Charles Percy six years ago to win his election. In 1988, Simon ran for president, having to miss lots of votes in the Senate.)

It is too early to say how these populist messages will play in Illinois.

"I don't think the people relate to that," says Gerald Harper, the mayor of Lawrenceville, Ill. "Property taxes are a much bigger concern."

"Taxes are a real issue wherever you go," says Carl McVey, White County coroner after hearing Martin speak in Carmi. "We want our fair share."

One of Martin's biggest hurdles, they add, is to make herself known outside of her congressional district in Rockford, Ill.

Several political analysts doubt Martin can make her anti-tax stand work.

What Martin really needs to win the race are moderate Republicans, says Richard Day, president of his own strategic research firm in Evanston, Ill. Voters may well be swayed by other issues than taxes.

"I don't think they will punish Paul Simon for saying what George Bush is saying," adds David Axelrod, a Chicago-based political consultant.

"People are smarter than Lynn Martin and [her media adviser] Roger Ailes think they are. They realize that it [the federal deficit] is a problem," he says.

The news media is doubly skeptical about the pledge.

Martin likes to say that on the four major tax bills of the 1980s, she has voted to increase taxes only once. That vote was in her first term in Congress, on the 1982 Tax Equity and Fiscal Responsibility Act, when it was promised her that for every dollar of revenue raised, three dollars of government spending would be cut.

Broken spending promises

Instead, the dollar was raised and only 52 cents was cut. Martin tells voters she has learned her lesson and won't make the mistake again. "Why not raise taxes?" she asks an audience in Mount Carmel, Ill. Because "you and I know that little or none of it will go to the deficit."

Simon also voted to support that bill, she points out. Unlike Martin, he also supported the 1984 Deficit Reduction Act, which raised liquor taxes and extended other special taxes. He also opposed the tax cut of 1981 and tax reform of 1986, which cut the top tax rate for individuals – measures that Martin supported.

But a broader review of the record shows that Martin has not been consistently anti-tax.

Congress passed 12 bills that raised fees or taxes during the Reagan years, according to a Congressional Quarterly study for the Chicago Sun-Times. Simon voted for 11 of them (he missed a roll call vote for the 12th during his run for president). Martin voted for nine of those tax or fee hikes.

Moreover, her stand for no new taxes extends only through this budget year, she admitted after close questioning last week by a Chicago public television reporter.

BOSTON HERALD
MONDAY, JULY 9, 1990 25

Why Bush's lips gave GOP 'the kiss of death'

IRWIN STELZER

Like all presidents in trouble on domestic political issues, George Bush is trying to turn the voters' eyes away from his moving lips toward foreign affairs.

He flew off to London for a meeting with his NATO allies last week. From there, on to steamy Houston, for a summit meeting of the seven industrialized countries.

But these diversionary efforts are a temporary palliative at best.

Republicans are calling Bush's repudiation of his "no new taxes" pledge a disaster, one likely to cost them dearly at the polls come November.

For, somehow, the "watch my lips" promise was different from most campaign vows. It had a ringing clarity. More important, it encapsulated a deeply felt American feeling that government had grown too fast, had become too intrusive in daily business life, and was an inefficient engine for redressing social ills. Deprive it of new funds, the reasoning went, and it would shrivel to an acceptable size.

In short, "no new taxes" summarized, in three words, the anti-government, pro-enterprise gestalt of the Reagan years — and of the coming era of George Bush.

So, by retreating, Bush has surrendered the issue that, almost alone, defined him as a politician — his opposition to expanding the role of government.

There are three possible explanations: the cynical, the pragmatic, and the fundamental.

The cynical view is that now was the time to get out from under a campaign pledge that was becoming increasingly unsustainable.

It is, after all, only 1990. By the time the President stands for reelection in 1992 the public will have forgotten both the no-new-taxes pledge and its scotching. Meanwhile, any public anger will be directed at Republican congressmen in the November 1990 elections, a regrettable but bearable cost.

One angry Republican congressman is reported to have said, "He moved his lips, and gave us the kiss of death."

The pragmatic view is that Bush had no choice. Projections of the federal budget deficit are growing almost daily. The savings and loan fiasco, higher-than-expected interest payments on the national debt, and lower-than-expected tax receipts have combined to move the deficit estimate close to $200 billion.

If the budget deficit stayed that high, the government's mounting borrowings would keep interest rates high, or even force them up further. Since interest rates are already believed to be hurting the key housing and auto sectors, this could turn the current economic slow-down into a recession — just in time for the 1992 presidential election campaign. This would be a sure ticket to early retirement in Kennebunkport, argued Budget Director Richard Darman.

The President loves his golf, fishing and tennis. But not that much. So he listened to Darman's review of history: sitting presidents are rarely defeated if economic times are good. So get the deficit under control, now, even if that means abandoning a campaign pledge not to raise taxes. Interest rates will drop, the economy will take off, and Bush will be reelected.

So much for cynicism and practical politics. There may be something more profound at work here.

Bush has been in the oval office for a year-and-a-half now. He seems to be coming around to the view that the Reagan formula for a shrinking government, whatever its attraction in the 1980s, is not the answer to the problems of the 1990s.

The times now require more vigorous government action to clean the air, eliminate dump sites and preserve environmental amenities. The steady growth of a more-or-less permanent black underclass can be arrested only by expanded housing and education programs. The drug and AIDs problems can be ameliorated only by pouring more money into research and hospitals.

Or so Bush seems to think.

At one time he wants to be "the education President," at another "the environment President." This, he now knows, costs money. So now may be the time to ease the constraints on federal spending by tapping new revenue sources. Only by doing so can he position himself to run for reelection as a man in tune with the needs of the 1990s, rather than one clinging to the conservative dogma of the 1980s.

So Bush decided to move away from his campaign promise. This may anger his former friends on the right, but they aren't likely to turn to the party of Jesse Jackson, Mike Dukakis and Mario Cuomo. And those on the left of American politics are not available to him in any event.

That leaves less partisan observers. In a perverse way, Bush has won their respect. Instead of the amiable but indecisive waffler they once saw, middle-of-the-roaders see a stern executive, taking action in a crisis, regardless of prior commitments or the consequences for his personal popularity.

Courage, not duplicity, is the word Bush hopes will come to their minds when they reflect on his broken campaign promise.

So far, the President seems to be ahead of the game. But support for his new position will melt away when he specifies just which taxes he has in mind.

It is one thing to acquiesce in the notion that taxes must rise, quite another to accept the idea that one's own taxes are going up. Bush is so far holding out against any increase in income taxes, and pushing for a variety of sin and energy taxes.

Beer-drinking, cigarette-smoking, automobile-driving blue collar workers (won by Reagan from the Democrats) won't find this very appealing. The Democrats know that: they want to sock it to the wealthy, who they claim had a free ride under Reagan.

Only when the specific tax measures are finally settled will we know whether the President has been permanently wounded by his willingness to help the Democrats carry the tax-and-spend albatross he had so skillfully hung 'round their necks.

Irwin M. Stelzer is a resident fellow at the American Enterprise Institute.

The Union Leader

FRIDAY, JULY 6, 1990

Why George Did It

A recent column by Pat Buchanan asks, "Why did George Bush sell us out?" Why did he reverse himself on his no new-taxes pledge?

This is no time to face a recession triggered by increased taxes. The President's party will be the losers in the fall elections as their greatest political asset against the Democrats has been their promised protection for the taxpayers.

Unfortunately, the answer to Pat Buchanan is that this is George Bush's nature. No matter how right his cause, George Bush always seems ready and willing to give a concession in the hope that he will automatically reap rewards. He seldom does.

He gave the student-killing Chinese Communists most-favored nation status without even a hint from them that they would change their ways in return.

As for Gorbachev, Bush has practically given away the store in disarmament and now he talks of lending the Russians money.

He gave Congress their pay raises and they thanked him by piling more special interest spending atop our growing deficit. He recently allowed the Congress to turn a $750 million "dire emergency supplemental bill" into a $4.3 billion bill by adding every stupid special interest project that they could conjure up.

Now he is giving Congress and the Democrats another sop with taxes, letting them get their hands on our tax money and blaming it on the President. If this isn't a wimp, we don't know what is.

——Nackey S. Loeb
Publisher

The Union Leader

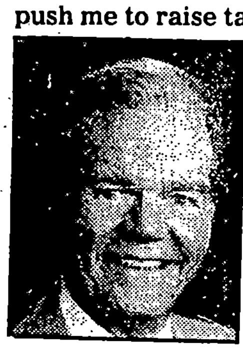
THURSDAY, JULY 5, 1990

George Bush — Unbelievable!

By PAUL HARVEY

OCT. 12, 1987 GEORGE Bush said: "I am not going to raise taxes, period!

Aug. 18, 1988, George Bush said: "The Congress will push me to raise taxes and I will say 'no.' And they will push and I will say 'no.' And they'll push again and I will say to them, 'Read my lips — no new taxes!' "



And then he was elected.

June 26, 1990, President George Bush said: It is clear to me ... the need for ... tax revenue increases."

George Bush is unbelievable.

He has just handed the Democrats all the campaign slogans they need for the next two elections.

The Republican President made a U-turn and fell off his white horse.

It is unlikely he will ever have a 71 percent public approval rating again.

He does not have to seek reelection for two more years, giving the electorate time to forgive and forget. But Republican members of Congress are stunned. They must seek reelection this year and had counted on riding his coattails.

More than half the Republicans in Congress, trying to distance themselves from their own President, have signaled the White House that they will fight any tax increase.

Imperial, Mo., farmer Joe Maier said he was so upset with President Bush that he went out into his garden and planted four more rows of broccoli!

Patricia Braden, a longtime Republican from Monroe, Mich., says "Mr. President, read my lips: no second term!"

Radio talk shows and newspaper editors are flooded with calls and with letters to the editor offering comment ranging from angry to disillusioned.

Japan is celebrating. Japan has been hoping that we would raise taxes.

President Bush, recently riding so high in the popularity polls, may have developed an FDR complex, an irrational passion for bipartisanship.

But if he thought he was somehow coercing Congress with this compromise, they're smarter than he is.

If he were really politically astute, as was FDR, he could have forced Congress to raise taxes over his veto.

That way he could have his cake and eat it.

So desperate is our nation's economic situation that our Treasury Secretary warns that our nation is $3 trillion in debt and will go broke in August unless we do something quickly.

So desperate is our situation that the President wants more taxes and Congress contemplates reducing your Social Security.

While at the same time the House has voted another $15.5 billion in foreign aid.

Congress, likewise, is unbelievable.

The Union Leader

THURSDAY, JULY 5, 1990

Bush's Word Worthless

By CHARLEY REESE

READ MY LIPS. I lied. President Bush will, of course, explain his reversal on the need for new taxes in more genteel and obscure language, but that's the gist of it. He made a promise. He's breaking it.

I'm not surprised. The only virtue I ever saw in Bush was that he was not Michael Dukakis. For too long, the Democratic and Republican parties have offered us a choice between bad and even worse in presidential elections.

But aside from Bush destroying whatever remains of his credibility, which as far as I was concerned was already zero, there really is no need to levy even higher taxes on the American people than they are already paying.

We have these annual deficits and the ballooning federal debt, not because of lack of tax revenue, but because of excessive spending. In 1981, federal tax revenues were $599 billion. In 1990, they are $1,074 trillion. That's a 66 percent increase.

But each and every year, Congress spends more than the taxes yield in revenue. Spending over that period of time has increased 74 percent.

Are they telling us that if they increase taxes again that this time they will balance the budget? No. They are not. And they will not. They will continue to spend more than the taxes yield in revenue.

Congress as a rule works, if you can call it that, on Tuesdays, Wednesdays, and Thursdays — reserving Fridays and Mondays for travel. Most of its time is spent on political self-preservation. They try to tell us there is a budget crisis requiring new taxes while they increase their salaries, their benefits, their travel allowances, their postage, their pensions, their staff, and while they cannot even bring themselves to cut a piddling subsidy to the arts.

The American people ought to revolt. They ought to say, en masse, you jerks have $1,074 trillion from present tax revenues and until you can bring your spending into line with that, we flat are not paying one penny more in new taxes.

Really, folks, unless we break this cycle by taking out a huge number of these nabobs, they are definitely going to put us in the poorhouse.

Chicago Tribune

Wednesday, July 11, 1990 Section 1 3

Bush drops in Gallup job rating

New York Times News Service

WASHINGTON—In the first public opinion survey released since President Bush abandoned his "no new taxes" pledge, the Gallup Organization reports that just over half the public disapproves of the reversal while 4 out of 10 approve.

The weekend poll found that Americans are less worried about Bush's willingness to raise taxes than about other financial matters.

Fifty-eight percent said they disapprove of his handling of the savings and loan crisis and 64 percent disapprove of his handling of the federal deficit.

The combination of the president's reversal on taxes and rising disapproval on domestic matters, including the environment, education and the drug war, dropped his overall performance rating to its lowest level in a year, according to George Gallup Jr.

Still, Bush remains at least as popular as most modern presidents at similar points in their terms.

The telephone survey of 1,240 adults found that 63 percent approve of the job Bush is doing—down from 69 percent in June and the record 80 percent approval in January, shortly after the Panama invasion.

It is his lowest rating since May 1989, when 56 percent approved of his performance and 22 percent disapproved. In the latest survey, 24 percent express disapproval.

While some Republican congressional candidates have been furious with Bush for abandoning the no-tax pledge that figured so strongly in his 1988 campaign, his political aides say the issue will fade and that the public will understand that he did what was necessary.

The Gallup question on taxes was worded in a way that may have minimized disapproval with Bush's position:

Making no mention of campaign promises, it asked: "Do you approve or disapprove of President Bush's recent announcement that he would consider increasing taxes if necessary to reduce the deficit?"

About 54 percent said they disapprove and 41 percent said they approve.

THE CINCINNATI ENQUIRER

TUESDAY, JULY 3, 1990

Tax-and-spend Congress wins

Robert Clerc

A lot of Americans have reason to be disappointed in President Bush, who last week moved away from his stand against new taxes. But while there is reason to be disappointed with the president, let's place the blame where it belongs — with the Congress.

This message was released after a meeting last Tuesday with congressional leaders from both parties:

"It is clear to me that both the size of the deficit problem and the need for a package that can be enacted require all of the following: entitlement and mandatory program reform, tax-revenue increases, growth incentives, discretionary spending reductions, orderly reductions in defense expenditures, and budget process reform."

'No new taxes' pledge voided

Sen. George Mitchell of Maine, Rep. Tom Foley of Washington, and Rep. Richard Gephardt of Missouri, constituting the Democrats' congressional leadership, were reasonably subdued after the announcement. They said they were glad President Bush finally was prepared to admit that his "no new taxes" pledge was not realistic. They said that, but were careful not to appear to gloat (no small feat for Mr. Gephardt).

But appearances don't change the facts about pressures for a tax hike. The major wire services reported this from the scene: "On Capitol Hill, Democrats quietly celebrated and Republican gritted their teeth."

Why did Mr. Bush do it?

To begin with, we still do not know exactly what he's done — or will agree to do. A definite plan for increasing tax revenues has not been announced. Not surprisingly, there has been talk about increases in alcohol, tobacco and gasoline taxes, but lately so-called sin taxes have been the favored refuge of greedy politicians at every level of government. And, so far, it is only talk.

Beyond that, it isn't necessary to be painfully partisan to appreciate the predicament Mr. Bush was in before striking the bargain with the congressional delegation.

The president has been walking a fiscal tightrope. The so-called budget summit involving White House and congressional negotiators was getting nowhere fast. The projected deficit for the coming fiscal year is way beyond the maximum established by the Gramm-Rudman-Hollings deficit-reduction law.

In truth, it is way beyond that even when estimated growth in the economy was factored in, and when huge obligations like the savings-and-loan bailout were factored out.

If the stalemate were allowed to last too long, it certainly would have had drastic effects on the financial markets and the national economy in general. On the global front, Japan has been turning up the heat on the United States to cut its overspending and get its domestic economy in order before blaming all its woes on its trading partners.

These are not simply incentives for the White House to strike a deal. They are better described as a stranglehold as long as Congress holds final control over budget and spending.

After the tax statement was released, congressional Democrats congratulated President Bush for finally showing leadership. And not just congressional Democrats. Network television ran footage of Gov. Michael Dukakis saying he guessed this proves he was right all along. That's Governor Dukakis of the now-debunked "Massachusetts Miracle."

So where is the leadership? Where is the real leadership?

Are we to take leadership nowadays to mean that there will never be enough money for government to make ends meet? Federal revenues have grown throughout the 1980s. They have increased as a result of healthy economic growth through most of the period. And revenues have grown because, contrary to what many in Congress would have us believe, there have been several tax increases during the decade.

Obviously, however, federal revenues have not grown fast enough to keep pace with federal spending.

So what now? Should Americans — Democrats and Republicans alike — feel that "tax-revenue increases" will hasten the end of federal deficits? Or even the day when deficits will be better managed and controlled?

Of course not.

Congress makes no promises

Cutbacks in defense spending are only pending, but Congress already has big ideas for spending the "peace dividend." Deficit reduction has not seemed to figure prominently in their plans.

Further, Congress has given no indication — and certainly no guarantees — that it is prepared to limit its spending, even of new revenues. More money will result in more spending when less is what the country needs. Most of the leadership still opposes a balanced-budget amendment to the Constitution.

The majority Democrats in Congress seem finally to have won the political victory they began pursuing in 1988. Unfortunately, it is no victory at all for the country.

The Journal of Commerce
and Commercial

WEDNESDAY, JULY 11, 1990

More From the Budget Follies

By H. ERICH HEINEMANN

The Federal Budget Follies, Washington's longest-running situation comedy, has reopened to a packed house. Budget strategists have stumbled back on stage to declaim on the fate of the national fisc. In a brief interlude of drama amid the slapstick, President Bush reversed himself and said he would now consider "tax revenue increases" to help in closing the budget gap.

Mr. Bush's flip-flop unleashed a torrent of comment. Republicans, who have presided over record increases in spending and deficits, claimed betrayal. Democrats, on the losing side of the tax debate for a decade, voiced sanctimonious sympathy.

At present, politicians are toying with a grab bag of levies — on energy, alcohol, tobacco, security trades, capital gains and on upper incomes. These measures may raise revenue temporarily. Sadly, however, tinkering with taxes will neither solve basic fiscal problems nor balance the budget.

Despite frequent, massive overhauls of the tax code, federal revenues have been stuck between 19% and 20% of gross national product for two decades. Meanwhile, federal outlays climbed from an average 19.2% of GNP in the 1960s to 23.7% of GNP in 1980s.

Supply-side nostrums about cutting taxes to restore private incentives are all well and good. But they make little sense in an environment of rapid increases in spending. Unless the generation that consumes federal services also pays for them, there will never be a durable majority to limit the size of government.

Economic growth, rather than political decisions on spending and taxes, is the principal factor setting the size of the deficit from year to year. This is the key reason that the tax issue came to a head in 1990, rather than last year or in 1988.

Private employment hardly changed during the second quarter, following seven years of steady expansion. When the economy slows, the deficit will climb, no matter how big a tax increase Congress votes.

Whether the deficit is $150 billion or $200 billion doesn't make a great deal of difference in the short run. Private demand for credit is modest at present. There is plenty of room in the credit market for the Treasury to borrow large amounts without a material impact on interest rates.

Over the long run, however, the deficit is eating away at prosperity. Washington's penchant for living on the cuff has played a key role in cutting national saving and investment, and therefore in slicing the growth of productivity and real living standards. Average real after-tax income per worker was roughly $24,500 in May, measured in 1982 dollars. By contrast, if the trend over the quarter-century from 1948 through 1973 had continued, real income per worker would be more than $32,000, 30% more.

Elaborate budget "summit meetings" have failed consistently to stanch the hemorrhage from the Treasury, as has the misnamed Gramm-Rudman "Balanced Budget Act."

One of the simplest facts about federal finances is the way they influence allocation of national output. To quote Herbert Stein of the American Enterprise Institute, a dean of the economics profession in the United States, "The deficit influences private investment."

However Professor Stein argued that "this pervasive influence is not being exerted well. It is not resulting in an allocation of the nation's output to achieve the main goals of the American people."

The Organization for Economic Cooperation and Development, the Paris-based club of the main industrial nations, had a timely warning in its midyear economic review. The OECD staff said that "restraining public expenditure is likely to become increasingly important" to improve public sector financial balances, "but also increasingly difficult" to achieve.

"Relaxation of East-West tensions may allow some scaling back of defense expenditure," OECD said, "but sources of increasing pressure on public expenditure can be clearly seen."

"A second line of attack on the problem of inadequate global saving," the OECD added, "is to reduce disincentives to private saving by shifting the weight of taxation away from saving and toward consumption. Relying more on sales or value-added taxation is one way to do this; modifying the structure of income taxation is another."

This is good advice, but don't hold your breath waiting. Sound and fury over tax policy will continue to echo across the Potomac. However, as Macbeth lamented, it is a tale told by an idiot, signifying nothing.

H. Erich Heinemann is the chief economist of Ladenburg, Thalmann & Co., investment bankers in New York.

The Philadelphia Inquirer

Tuesday, July 10, 1990

JEFF GREENFIELD

Just because Bush budged doesn't mean voters want more taxes from Democrats

The most disheartening political news of the season is the report that prominent Democrats see the President's "no-new-taxes" retreat as a powerful weapon in their dreams of White House reconquest. If true, this optimism suggests that Democrats have learned nothing from their past disasters.

In politics, a clear distinction must always be made between the merits of an action and its political impact.

For instance, President Ronald Reagan's dispatch of American Marines into Lebanon in the early 1980s was a policy so ludicrous as to border on the incoherent. It accomplished nothing and cost hundreds of lives. But it did not cost Mr. Reagan any measurable political support. By contrast, Jimmy Carter's Mideast peace initiative in the late 1970s resulted in the Camp David accords, which drastically lessened the danger of a major war in the region. In the 1980 election, that achievement was of almost no help to Carter's reelection bid.

Thus, Bush's current tax stand is indeed a betrayal of his conservative allies and the breaking of a promise he almost surely knew he had no intention of keeping. It is, on the merits, a dishonorable act.

But will it hurt the President politically? And, more to the point, will it help the Democrats win back the presidency? Those are highly dubious propositions.

To begin with, most Americans (if we can believe the polls) never believed that Bush would be able to keep his pledge of no new taxes. They liked the sound of the promise because it was tough and manly, proof that this was no limp-wristed wimp standing at the podium at the Republican convention in New Orleans.

In a telling example of voter doublethink, they liked the sound of "read my lips" because it was so clear a declaration of a policy in which they had no faith at all.

So, since voters had discounted the promise almost as soon as it was made, there will be little sense of outright betrayal for Democrats to exploit.

Moreover, Democrats have to learn why voters have turned away from them in recent presidential elections. It is not so much a matter of any one policy or program, but a much broader sense that the party cannot be trusted with national executive leadership.

Too many voters still regard Democrats as the party of taxation, the party that has ambitious, largely unworkable schemes to take their money and give it to somebody else.

Too many voters regard Democrats as the party that does not know what it stands for; that is willing to accept, indeed pander to, any movement demanding a new set of rights and privileges. They see Democrats, at least on the presidential level, as the party that does not know how to say no.

Perhaps even more important, they see Democrats as the party that has lost its way, its sense of self-confidence. A generation ago, party stalwarts read off the list of standard-bearers with pride ("Woodrow Wilson, Al Smith, Roosevelt, Truman . . ."). Now that list often stops with a leader slain almost 27 years ago.

Indeed, to borrow a line from JFK, they see the Democrats as the party of memory, not of hope — unless that hope is a secret longing for an economic catastrophe severe enough to send voters back into the fold.

These images are not hard truths. They are a mix of stereotypes, half-truths, effective demagoguery by Republicans and reality. But they have made the Democrats' task of winning the White House daunting. And if party leaders believe a broken promise by a president has made these obstacles any less formidable, they might as well begin drafting the 1992 concession speech now.

Jeff Greenfield is a former political aide for the late Sen. Robert F. Kennedy and for former New York Mayor John V. Lindsay.

THE WALL STREET JOURNAL

TUESDAY, JULY 10, 1990

REVIEW & OUTLOOK

A Lead Balloon

Let's see if we understand the dynamics of a stock-transfer tax, which it's rumored President Bush might support. On the one hand, he says he's still pushing for a cut in the capital-gains rate. On the other hand, there's now talk of up to a 0.5% tax on transfers of stocks, bonds and futures. This would obviously burden the growth effects of a cut in the gains rate. We are tempted to dismiss this proposal as patently absurd, except that with lip reading out of style we can take nothing for granted.

Loose lips sink shares. For starters, how about a fall in share prices of between 9.3% and 14.6% and a drop in volume of 12.7%? These are some of the unhappy estimates of the impact of a 0.5% transfer tax made by the Congressional Research Service. The group studied the issue in March 1987, the last time anyone—then-Speaker Jim Wright—floated this possible tax.

A transfer tax would be the worst kind of betrayal of tax reform. By its very nature, this tax would discourage economically sensible deals. Every possible trade would be affected by the tax, which would raise the cost of capital by making it more expensive to move capital from one investment to another.

"The higher transaction costs and lower trading volume would reduce the efficiency of the stock market in the sense that some transactions which are justified on the basis of the underlying economics would no longer occur," the congressional report said. "The tax would make the cost of some investments prohibitive. For other investments it would create a 'lock-in' effect: selling an existing investment and buying another might increase the expected return, but the transaction costs associated with the trade would exceed the potential gain."

It is passing strange that the proposal should waft out of the Treasury, where Secretary Nicholas Brady has complained about volatility in the markets. The congressional report, which came before the 1987 crash, noted that "reduced trading volume would also decrease the liquidity of the stock market somewhat and could possibly increase volatility, since larger price changes may be required to match demand and supply in a market with less volume."

The effects could be even more dramatic in the futures markets. The Chicago Board of Trade estimates a soybean futures contract for $65,000 worth of soybeans that now costs about $75 to transact would cost about $400. A 0.5% tax on this contract explains the $325 difference. Farmers should ask why the federal government would want them to choose between paying extortionate amounts in transaction taxes or forgetting about hedging their risks.

Even the estimated revenues of between $8 billion and $10 billion a year are highly suspect products of 1970s-style static analysis. If fewer trades are done, less revenue will come in.

International competition would guarantee fewer U.S.-taxable trades. Any effort to tax Americans on foreign exchanges is doomed to fail. Modems, faxes and satellites make markets highly portable. Many trades will migrate to lowest-cost markets. Several countries have no taxes on securities transactions. Indeed, the major countries that do have transfer taxes, including Japan, Britain and Canada, are moving to abolish or lower them. Even the socialist mayor of Frankfurt, accompanied by a representative of his Green Party government coalition, not long ago told a group of Journal editors that they hoped Bonn would abolish the German stock-transfer tax so that Frankfurt could compete with the City of London.

Since there is no economic justification for this tax, and with the administration seemingly content to let these proposals wander around in public, we're left to speculate that they must lie in someone's political constellation. Dick Darman may figure this would be good soak-the-rich politics, perhaps to ease a capital-gains cut. Or maybe Secretary Brady figures he can punish his pet peeve of short-term investing by making it more expensive to trade as often as the market demands. The weak distinction between long- and short-term investing aside, someone should remind the White House that pension plans and mutual funds do much of the risk-hedging and other high-volume trading. Union officials worried about returns on pensions are already lobbying against this tax.

As we say, it's hard to treat this as a serious proposal. Maybe the White House is tossing up trial tax balloons to see them shot down. This kind of political game, though, works best only when there is clear, reliable leadership that will just say no to bad ideas.

It is now clear that the price President Bush's opponents, and perhaps even some friends, will make him pay for dropping his no-tax pledge will come in the dear coin of credibility. No one can know which of today's wacko tax proposals will become tomorrow's tax policies. There is a caldron brewing of great uncertainty and risk. The last time a national leader lost control of economic policy we suffered a malaise not suffered in this country for more than a decade.

The Washington Post

A6 Tuesday, July 10, 1990

Bush's Switch on Taxes Dogs GOP Candidates

New Hampshire Politicians Taking It Hard

By Helen Dewar
Washington Post Staff Writer

CONCORD, N.H.—Two years ago, Republicans here were riding high: Presidential candidate George Bush took the anti-tax pledge they demand of all candidates in the New Hampshire primary and then made it a centerpiece of his victorious campaign for the White House.

But now that President Bush has abandoned his promise to resist tax increases, most of the state's GOP leaders are seething at what they see as an act of betrayal, expediency and disregard for the fortunes of Republicans who were basing their campaigns this year on the party's record of opposition to tax increases.

It is a complaint heard around the country from Republican candidates, who saw the tax issue as a potential margin of victory in close races—until it was vaporized two weeks ago when Bush announced that "tax revenue increases" would be a necessary part of a deficit-reduction agreement with Congress.

In Illinois, Rep. Lynn Martin (R), who is challenging Sen. Paul Simon (D), said it is "not the kind of help I wanted." Rep. Claudine Schneider (R), running against Sen. Claiborne Pell (D) in Rhode Island, called it a "terrible" decision and said she will now have to work to convince voters that she disagrees. In Michigan, Rep. Bill Schuette (R), who is challenging Sen. Carl M. Levin (D), looked to the bright side, saying it might help by showing people "I'm nobody's boy."

But nowhere does the president's retreat from his "no new taxes" slogan of 1988 have more poignance and resonance than here in New Hampshire, where the issue was born and where some Republicans believe it could return to haunt Bush when he seeks a smooth send-off for his campaign for a second term in 1992.

Not that New Hampshire races this fall are expected to be particularly close. Republicans are strongly favored to continue in control of the state legislature as well as the state's entire congressional delegation, including the Senate seat being vacated by Sen. Gordon J. Humphrey (R) after two terms.

Any jitters arise largely out of concern over New Hampshire's economy. Bouyant through most of the 1980s as it rode the crest of a high-tech, defense and commercial construction boom, the state's economy has gone flat in the past couple of years, unnerving those in power and causing some observers to hedge their bets on the outcome of this fall's elections.

The tax issue has added a note of volatility to a campaign that is already shaken by a tripling of unemployment to nearly 6 percent in the last year or so.

Perhaps more important, according to many Republicans, it has also raised questions about credibility and trust for all politicians and blurred one of the few clear distinctions between Republicans and Democrats at a time when military strength is receding as a political plus for the GOP in the wake of improved U.S.-Soviet relations.

"People feel a commitment has been broken," said Rep. Robert C. Smith (R), the front-runner to capture Humphrey's Senate seat. Even though he has been so consistently anti-tax that voters are unlikely to fear a flip-flop from him, Smith is concerned about the public's "cynicism about politicians breaking promises" and how this might affect other candidates, including himself.

Like many other Republicans, Smith believes Bush has sacrificed taxes as a defining issue for Republicans among voters who already have a hard time finding relevant differences between the parties. "It was the black and white of Republican-Democratic politics, and we've now made it gray," he said.

Smith, a conservative now in his third term in the House, is favored over his closest competitor, businessman Thomas Christo, to win a four-way Republican senatorial primary Sept. 11. He is also regarded as a strong favorite to defeat whoever emerges victorious from the three-way Democratic primary on the same day: former senator John Durkin, who served one term in the late 1970s; Nashua Mayor James Donchess; or John Rauh, a wealthy young Sunapee businessman. The Democratic primary is regarded as close, with Durkin narrowly ahead.

But Smith is taking no chances on the tax issue.

While the genial, mild-mannered lawmaker has avoided some of the harsh rhetoric of his Republican colleagues, he lost little time in issuing a statement disagreeing with Bush, including a pledge that he will continue to oppose tax increases of any kind, regardless of what his president may propose.

Humphrey, who is seeking a seat in the New Hampshire state Senate in what is widely viewed as a step toward the governorship, has dispensed with the niceties, calling Bush's tax turn-around a "major disaster on a national scale." "A dumb move all the way around," added Rep. Chuck Douglas (R-N.H.).

Douglas said he will not be surprised if Bush runs into opposition in the 1992 New Hampshire presidential primary unless he reverses course again and blocks any tax increase.

Democrats are poised to exploit Bush's reversal on taxes in a variety of ways, although it is virtually impossible to get to the right of New Hampshire Republicans in opposing tax increases.

Durkin, for instance, has said that Bush owes New Hampshire and the country an apology for breaking his promise on taxes. As for his own position, Durkin said that now is not the time to consider tax increases and that defense savings should be used to address new spending needs.

"Sure there will be a political spinoff in the Senate race," said New Hampshire Democratic Party Chairman Ned Helms. "It undercuts the Republican Party. No longer is there magic in just running around saying 'no new taxes.'"

According to news media interviews and the assessment of local politicians, New Hampshire voters appear to be far less shocked and outraged by Bush's reversal than Republican politicians. For one thing, voters say, they don't put much stock in anything that politicians promise before election day.

While New Hampshire voters have not abandoned their almost legendary hostility to taxes (the state has no sales or income taxes), even some party officials agree that most people here are willing to consider some tax increases—other than an increase in income tax rates—in order to reduce deficits.

Many people are also sympathetic to Bush's apparent strategy of wooing Democrats with concessions on taxes in order to get them to agree to spending cuts, officials say.

Donna Sytek (R), chairman of the state's House Ways and Means Committee, vehemently opposes Bush's turnabout but told a reporter during a Republican breakfast in Gorham, N.H., last Saturday: "People are willing to swallow hard and take a tax increase if that's what it takes to get Democrats to agree to spending cuts."

"You know, death and taxes, people know they've inevitable," shrugged Coos County Treasurer Paul Fortier (R), who also attended the breakfast. "Because of concern over the (federal) deficit, you don't find it's as much of an issue on the federal level as it is on the state level," added Rhona Charbonneau, a state senator and chairman of the New Hampshire Republican Party.

Both the economy and the tax issue could spell more trouble for Republican Gov. Judd Gregg, who is also seeking reelection this fall, than it does for candidates for federal office, some believe.

And if a budget agreement in Washington leads to higher federal taxes on cigarettes, beer and other items that New Hampshire relies on for revenue, it could make it harder for the state to balance its own budget, Sytek noted.

Voter tolerance of Bush's reversal on taxes is underscored by the fact that the only major Republican office holder who supports the president's position—Sen. Warren B. Rudman (R-N.H.)—is also the state's most popular politician, according to a recent Boston Globe-WBZ-TV poll.

If anything is going to threaten New Hampshire Republicans at the polls this fall, it is the economy, and the best way to rekindle economic growth is to bring down interest rates by cutting the deficit, Rudman contends.

So long as he does not agree to an increase in income taxes, New Hampshire voters will go along with any Bush-blessed tax increases, especially if the result is a renewal of economic growth, Rudman said.

Then why are his colleagues so wedded to a no-new-taxes position? "Mainly," said Rudman, "it's easier to explain."

The Detroit News

Monday, July 9, 1990/THE DETROIT NEWS/9A

Will Bush Fall for the Balanced Budget Trap?

By Warren T. Brookes

President Bush hosts the economic summit in Houston not as captain of his fiscal ship but ironically as one who has made his economic policies hostage to summitry, domestic and foreign.

Brookes

The day after he capitulated to the Democrats on his anti-tax pledge, Americans learned that a similar concession was made as part of an astonishingly Keynesian trade deal with Japan. In return for Japan agreeing to "stimulate" its domestic demand by massive new public works spending, the United States agreed to dampen its domestic demand with higher taxes and lower deficits.

Yet one of the reasons Bush sold out to the Democrats was his fear that a budget summit impasse would cause interest rates to rise and threaten a recession. Now it is likely he will get *both* lower rates and a recession, precisely because of his agreement to accept higher taxes at a time when Congress is also negotiating the final shape of a $25 billion to $40 billion clean air bill.

THAT MASSIVE regulatory onslaught coupled with a similar sized tax package will knock at least $500 billion off the already anemic capital base of the nation. At this rate the Bush administration could wind up as "Hoover-II." It was partly Hoover's preoccupation with the budget deficit that did him and the economy in.

Worse, in order to save what's left of his political face, Bush is now being tempted to accept as part of "budget process reform" another trap called a Balanced Budget Amendment.

That is because Democrats now see such an amendment as a permanent tax-raising and spending escalation machine. The two versions now before the Congress would certainly qualify. Both Sen. Paul Simon's, D-Ill., and Rep. Charlie Stenholm's, D-Texas, resolutions mandate a balanced budget each year unless Congress votes by a 60 percent "super majority" to allow a deficit.

Unfortunately, both bills also provide that taxes can be raised by a simple majority. Thus both bills are biased toward forcing tax increases as the preferred solution to any deficit.

AS A REPORT by the economic staff of the U.S. Chamber of Commerce states, "These resolutions, if ratified, would cause more economic and fiscal harm than good because they would give Congress a strong and permanent incentive to raise taxes."

This is why the chamber has suddenly abandoned its longtime support for the Balanced Budget Amendment and is openly lobbying against both the Simon and Stenholm bills unless they are amended to include the following tax limitation clause that would make tax increasing just as hard as deficit running:

"Total receipts for any fiscal year may not increase by a rate greater than the rate of increase in national income in the last calendar year ending before such fiscal year, unless three-fifths (60 percent) of the whole number of each House of Congress shall have passed a bill directed solely to approving specific additional receipts and such bill has become law."

This is essentially the same language in the Balanced Budget Amendment passed by the Senate in 1982, the only such amendment ever passed in either House. That amendment was single-handedly defeated in the House by then-Speaker Thomas Tip O'Neill Jr., who rightly saw it as a potential death knell for his own "tax and spend" party.

WE HAVE a feeling that O'Neill would feel differently about the Simon and Stenholm proposals, because they could make tax hikes an annual forced event without political accountability.

Unfortunately, the National Taxpayers Union (NTU), an otherwise strong anti-spending and anti-taxing lobby, has become so obsessed with the deficit problem it is supporting these weaker versions.

This is because the NTU drive to get states to call for a constitutional convention to enact such an amendment is stalled at 32, four short of the 36 needed. A move led by conservative Phyllis Schlafly against such a convention has not only stopped further gains but is successfully rolling it back in some states.

If the NTU is still serious about controlling both spending and taxation, it should take advantage of the budget summit and get the Bush administration to insist that any such amendment require a super majority on taxes and deficits.

Otherwise, the NTU will participate in the unraveling of the small progress we have made in arresting the upward spiral of spending that began with the rise in tax revenues in the 1970s. That rise has been dampened since 1983 by the deficit pressure. After all, the real insult to economic growth is not the deficit but the spending level. The main reason why deficits have *not* hurt the U.S. economy as much as predicted is that the spending burden has dropped nearly 2 percentage points since 1983. That's the equivalent of a $100 billion tax cut. But higher taxes are almost certain to reverse that happy trend, especially if Bush falls for the balanced budget amendment trap.

The Washington Times

MONDAY, JULY 9, 1990

Tax switch fallout sends White House to the polls

By Donald Lambro
THE WASHINGTON TIMES

The White House, increasingly nervous over the political damage from President Bush's retreat on his pledge not to raise taxes, is turning to polls and other elected Republicans to gauge the fallout.

With signs of softening support for the president even among Republicans, White House Chief of Staff John Sununu has ordered polls by Robert Teeter, Mr. Bush's 1988 campaign pollster, to measure public reaction to the presidential about-face.

Mr. Sununu also has ordered a canvassing of GOP lawmakers, who return today from the Fourth of July recess, to see how Mr. Bush's new position is playing in their home districts.

Some Republican Party officials cite preliminary analysis of recent public opinion surveys as suggesting that the president's handling of the tax issue may be costing him some of his bedrock support — in Congress and among voters.

"Overall, I sense irritation, not anger, among the voters" in the wake of Mr. Bush's budget maneuver, House Republican Whip Newt Gingrich said in a telephone interview. "But there's a good bit of anger among Republicans" toward the president.

Before the president first gave public indications of abandoning his no-new-taxes pledge, polls reported his overall public approval rating still hovering around 70 percent.

But one poll, taken after Mr. Bush's May 7 call for budget negotiations between the White House and Congress, in which he agreed to put "everything on the table" including taxes, showed significant deterioration in his support from rank-and-file Republicans.

A May 22-24 survey by pollster Richard Wirthlin showed Mr. Bush's overall level of "strong support" suddenly falling to 22 percent, the lowest level recorded by the Wirthlin poll since October.

"Of critical importance," a Wirthlin memorandum noted, the president's "strong approval rating among Republicans dropped over the last month from 40 percent to 29 percent" — his lowest level of support from his party since he was elected.

The Wirthlin survey also found, "By a 54 percent to 41 percent score, Americans say they are willing to vote against their own congressman should he/she support a tax increase."

While Mr. Bush's "strong approval" standing among Republicans rose last month to 43 percent in the aftermath of the successful summit meeting with Soviet leader Mikhail Gorbachev, Republican pollsters and party officials said the "softness" of the numbers indicates weakening of the president's support in his own party because of the tax controversy.

And that was before Mr. Bush's June 26 statement that said "tax revenue increases" had to be part of any bipartisan budget agreement to cut the deficit.

"The only thing that intervened between [Mr. Bush's] higher strong approval score in April and his much lower rating in May was when he began talking about putting taxes on the table," said a Republican National Committee official who asked not to be identified. "That's when the drop-off occurred, and the only thing that could have caused that was [the controversy over] taxes."

Neil Newhouse, vice president for the Wirthlin Group polling firm, agreed.

"It shows the virulence of the tax issue," Mr. Newhouse said. "It's tough to say that it is only the tax issue that is affecting the numbers, but my gut tells me that it is. What else would drive that rating down?"

The conclusive numbers will emerge later this month when polls like the one Mr. Teeter is conducting will show whether Mr. Bush's decision to accept some new taxes as part of a budget deal has further eroded his standing among the voters.

"If the number is down again among Republicans in the 'strong approval' category, that would reflect Bush's latest move on taxes is cutting into his support," said the RNC official. "Based on the earlier numbers, you would expect it to be down."

Mr. Gingrich, the No. 2 Republican leader in the House, took the unusual step last week of sharply attacking Mr. Bush for publicly endorsing new taxes as a necessary ingredient in any deficit-cutting agreement.

In remarks aimed at voters in his district in northern Georgia but virtually ignored here, Mr. Gingrich said Mr. Bush "made a mistake . . . and I think it has been a severe blow to the president's credibility and a significant blow to the Republican Party."

Beyond the short-term impact of the tax issue on the president's popularity, GOP strategists worry about the long-term effect on the party's appeal to the voters.

"I'm concerned that the tax issue can push down the intensity of voters," Mr. Newhouse said. "I worry about turnout. If the voters are angry because of this issue, then Bush's Republican voters aren't going to turn out."

THE WALL STREET JOURNAL

MONDAY, JULY 9, 1990

'We Are (Not) All Keynesians Now'

By HERBERT STEIN

It seems to me that for several years a large number of economists were nagging the president about the need to reduce the budget deficit and to raise taxes for that purpose. Now President Bush has relaxed his objection to a tax increase. And all of a sudden economists are being quoted in the papers warning that the tax increase would cause a recession.

These warnings are issued in the sacred name of John Maynard Keynes. For example, an article in the New York Times (June 28) contains this statement: "Keynesian theory, still a mainstay among Western economists, holds that . . ."

A few anecdotes from a long life with such talk may indicate how many grains of salt need to be taken with it.

A Big Dispute

Almost 55 years ago, when I was in Jacob Viner's economics class at the University of Chicago, a student had the temerity to stand up and say, "The consensus of economists is . . ." The professor glared at him and asked, "When did you take the census?"

Lesson: Be careful of judging what is the opinion of "economists."

About 40 years ago there was a big dispute in this country about the Federal Reserve's policy of supporting the price of government bonds. The name of Keynes was entered into this dispute, and I wrote an op-ed piece for the Washington Post about what Keynes (who had died in 1946) would have said. On the morning when my article appeared, I received a call from a man with a cultivated British accent who identified himself as Geoffrey Keynes, the economist's brother, and who said that I was exactly right about what J.M. would have thought. I was in Seventh Heaven, until the caller dropped the accent and revealed himself as a young economist friend who was just pulling my leg.

Lesson: Be careful of judging what Keynes would have said in circumstances that he did not confront.

At the end of 1965, Time magazine celebrated the successes of Keynesian economics with a long story and Keynes's picture on the cover. The article quoted Milton Friedman as saying, "We are all Keynesians now." This surprised me until I read in Time's letters column next week a complaint from Prof. Friedman that the magazine had failed to quote the rest of his sentence, which was ". . . and there are no longer any Keynesians."

Two lessons: Be careful in reading journalistic reporting of what an economist thinks, because essential points may be lost in transmission, and be careful in judging the state of Keynesianism in the economics profession.

In 1971, after submitting a budget in which he said that it was his policy to balance the budget at high employment, President Nixon said to a reporter, "Now I am a Keynesian." (He is almost always misquoted as saying that we are all Keynesians now, which was actually Time's misquotation of Mr. Friedman.) As a member of the Council of Economic Advisers at that time I had the job of drafting soothing letters to irate Republicans, in which I explained that he did not mean permanent deficits, or fine-tuning or free love, but only to continue a stable policy through the fluctuations of the economy.

Lesson: The Keynesianism of presidents, like their other "isms," is of a limited and expedient kind.

Having said all that, I can hardly now say what "economists" or "economics" tell us about a possible tax increase and deficit-reducing package in the current situation. But I can say something about what the current situation is and about what I would distill from the present muddy state of economics.

Back in 1985, when the federal budget deficit was 5.4% of the gross national product, Congress passed the Gramm-Rudman-Hollings Act, which required reduction of the deficit in six annual steps to zero in 1991. On the average, that meant reducing the deficit as a percentage of GNP by 0.9% a year. In response to the fear that this path of deficit reduction might in some circumstances worsen a decline of the economy, the act provided for deviation from the path in the event of an actual or officially forecast recession.

After G-R-H was passed, the budget deficit declined from about $200 billion in fiscal 1984-86 to about $150 billion in fiscal 1987-89, and from about 5% of GNP to about 3% of GNP. But it seemed to be stuck at the $150 billion and 3% level.

In January of this year, President Bush submitted a budget that had a deficit of $124 billion for fiscal 1990 and $64 billion for fiscal 1991, or 2.3% and 1.1% of GNP, respectively. (These, and subsequent figures, exclude the costs of the S&L bailout.) Now it appears that the deficit for the current fiscal year, 1990, will be about $155 billion, or about 2.8% of GNP again, and that without a deficit-reducing package the fiscal 1991 deficit might be $160 billion, or about 2.7% of GNP. A deficit-reducing package of $50 billion, which I understand is what is being considered, would reduce the 1991 deficit to about $110 billion, or about 1.9% of GNP. This is a smaller reduction of the deficit between 1990 and 1991, both absolutely and as a percentage of GNP, than was proposed in the January budget.

Real GNP in the past year has increased by about 2%. In the first quarter of 1990 it increased at an annual rate of 1.9%. The rate of unemployment has been stable at about 5.3% for a year and a half. In January, when the budget was submitted, the Blue Chip consensus of economists (there are some things on which we do take a census) was that the GNP would rise by 1.7% in 1990 and 2.2% in 1991. In June the consensus was that the GNP would rise by 1.9% in 1990 and 2.3% in 1991. In short, the U.S. is not in a recession, a recession cannot be confidently forecast, and the outlook for the economy is no more worrisome than it was six months ago when a budget was submitted that called for even more of a deficit reduction than is now being contemplated.

So the question now is whether a deficit reduction equal to about 1% of GNP can be safely absorbed by an economy that is not in recession and that has available to it a complementary monetary policy to increase the supply of money if the reduction of the deficit should reduce interest rates and lead to an increased demand for money. There are versions of Keynesianism in which the answer to that is "no."

It might be held that the American economy cannot reach high employment without a federal deficit equal to, say, 3% of GNP. It might be held that, whatever the starting point, a budget deficit can never be reduced without depressing the economy. But these are extreme views of Keynesian doctrine. They are as extreme as would be the opposite view that reduction of a budget deficit no matter how large can have no effect on the macroeconomy even in the absence of supportive monetary policy.

A Two-Sided Transaction

Reducing the budget deficit is a two-sided transaction. Cutting expenditures and raising taxes, by themselves, have a negative effect on demand and output, which is what Keynesians worry about. But on the other side of the transaction, reducing the government's borrowing requirement will reduce interest rates, stimulating investment; raise the value of assets, like stocks and bonds, stimulating consumption; and reduce the dollar exchange rate, stimulating exports. It is this side of the transaction that the administration apparently counts on.

In my opinion the net of this, in either direction, is likely to be small, partly because the deficit reduction is small and partly because we have a monetary policy that aims to stabilize the economy and contain shocks arising from the budget or elsewhere. Others may think the risks greater than I do. But even so there is no realistic ground for sounding a Keynesian alarm if the government now takes moderate steps to get on to the deficit-reducing path that it has been seeking, unsuccessfully, for the past five years.

Boston Sunday Globe

Sunday, July 8, 1990

A tax plan's fine print

Tax concepts emerging from the Bush administration deserve attention by Congress and the public if it is made clear how these concepts would distribute the burden of closing the budget deficit. One proposal, a tax on securities, illustrates some of the policy pitfalls lying in the path of a satisfactory tax package.

Conventional political wisdom on a securities tax holds that it would be paid primarily by those with higher incomes. That would certainly have been true a few decades ago. Today, however, millions of citizens have indirect interests in massive pools of capital through participation in pension plans, retirement accounts and insurance programs that rely in part on professional management of assets.

The administration proposal involves a tax on transactions, perhaps as much as half of 1 percent, that sounds low in contrast with, say, personal income tax rates. Expressed as a portion of return on assets, however, such an amount looms much larger, and for those assets managed with high rates of turnover, the tax could be prohibitively high. Were the tax to apply to transactions of short-term money-market funds, for example, it would more than absorb gross income. Fashioning a tax to avoid short-term investments might distort standard investment choices.

Pension accumulations of assets, more than $2 trillion, "belong" largely to middle- and lower-income employees – public, private and institutional. The largest fund group is made of up academics, who may be comfortably off but are rarely wealthy.

The securities proposal, like a broad energy tax also being floated, is clearly aimed at tapping middle- and lower-income sources, which may be necessary to raise the amounts needed to cope with the deficit. No one should be misled, however, into thinking that because the tax is collected through financial transactions, it is a tax on only the rich.

The Boston Globe

July 7, 1990

Campaign pledges – made to be broken

MARTY LINSKY

We are in the middle of another campaign year, and President Bush has demonstrated a timely lesson about politics and democracy in jettisoning his no-new-taxes campaign pledge and getting on with running the country. Thrashing him for switching his position is a political cheap shot and reveals both misunderstanding of the nature of democratic leadership and confusion between governing and electioneering.

Elections and governing are different ball games, played with different objectives and rules. The purpose of elections is to win. The purpose of governing is to do the best for the country, including, if necessary, repudiating what you said during the campaign.

There is a line here to be sure. No candidate should lie or disregard facts. But reading the economic tea leaves optimistically is traditional and appropriate campaign behavior.

A campaign is not designed for public education. A campaign is a time for making people choose sides. It is a time for candidates to state their visions, their aspirations and their wishful thinking. "Read-my-lips-no-new-taxes" was just as much a statement of Bush's hopes as was "Good-jobs-at-good-wages" for Michael Dukakis. Both reflect the candidates' desires and priorities. Campaigns are a time to raise issues and emphasize those stands which are genuinely held, but which also serve a strategic purpose, such as isolating an opponent in a minority position, or forcing an opponent to choose between competing supporters.

But the purpose of governing is not to win and not to divide. Governing obliges an officeholder to educate the community, to build understanding about difficult choices, and to generate broad participation in the process so that there is support for whatever solution is arrived at.

One view of leadership is to have a vision, chart a course, try to convince the public of its correctness, but nevertheless to stay the course no matter how much heat it generates. This view values a full vision and consistency. It was more or less the Reagan mode.

Another view is that a leader should have a world view and a plan, but that they should be worked on, modified, and thrown in the wastebasket if the circumstances warrant it. This view values a short agenda, rather than a full-blown conception, and a lot of openness. Bush is closer to this view.

Is it better to have leaders who pretend they never change their minds, or at least never acknowledge doing so, or ones who will listen to the last person who has their ear? You can rely on the former; the latter are educable.

On its own terms, Bush's decision was gutsy politically. For better or worse, he chose the merits of the issue and the interests of governance over partisan politics.

On the merits, all the arguments were in favor of the switch. The economy was not growing as Bush had hoped, the deficit needed attention, and the Gramm-Hollings-Rudman guidelines meant that without new revenues there would be huge budget cuts.

On the interests of governance, the choice was just as clear. Bush was in the middle of trade negotiations with the pro-tax Japanese and budget negotiations with the pro-tax Democrats. Both conversations were stalling. Bush needs some measure of support from these two relevant communities if he is to make any progress on the difficult issues facing the country.

The only arguments for him to hold his ground were politics, partisan and personal.

It was a terrible decision for all those Republicans campaigning in the hinterlands against new taxes and in support of a popular president. Now he has left them out there twisting slowly in the wind, having to choose between the two.

It was also costly for Bush's own politics. Imagine the ads in 1992, showing Bush making his famous "read my lips" pronouncement in 1988 and then showing him slipping and sliding at the press conference last week.

Bush is hoping that the results of his move will overwhelm the inconsistency. But if history is any guide, whether the voters will trust him in 1992 will depend more on whether his watch was successful than on whether he stuck to his campaign pledges.

Elections have always been about seeking power and competing visions, not about rigid mandates. Many of the highest-regarded presidents, including Lincoln, Wilson and Roosevelt, adopted policies in office which were different than their campaign commitments.

Great democratic leaders educate the public and are educated by it in a continuing process. They have a short list of absolutes. One absolute they share, however, is that they always hold the position that the positions they take might have to change.

THE CHRISTIAN SCIENCE MONITOR

Friday, July 6, 1990

GOP Right Most Upset By Bush's Tax Talk

By Laurent Belsie

Staff writer of The Christian Science Monitor

CHICAGO

GEORGE BUSH'S switch on tax policy has angered many Americans. But it has not surprised them. Many voters never believed Mr. Bush when he said: "Read my lips."

So, now that he is considering raising taxes, the biggest backlash is coming not from Democrats, but from Republican conservatives who really believed – or wanted to believe – his stand.

"They're having a conniption," says William Schneider, a political analyst with the American Enterprise Institute. "All of a sudden the most potent political weapon that conservatives have – no new taxes – has been taken away by the president."

Conservatives are lashing out all over the country.

"In Massachusetts, Democrats are saying: 'Aha, he sold you a bill of goods,'" says Gene Burns, host of a WRKO radio news-talk program in Boston. But "the interesting reaction is coming from New Hampshire. . . . We are getting a lot of outraged New Hampshire Republicans saying: 'That's it, we are not going to vote for George Bush again.'"

When Dallas radio reporter Frank Welch took to the streets for a reaction, he says he couldn't find a positive response.

And in conservative Charleston, S.C., the nays far outweighed the yeas when radio talk-show host Dan Moon brought up the issue on WTMA. "They felt they had been betrayed," Mr. Moon says of Charleston's Republicans.

These conservatives represent a vocal minority of the electorate. Among a broader spectrum of Americans, there appears to be a willingness to consider raising taxes to reduce the deficit.

"The outlook is very liberal right now in terms of taxes," says Tom Smith, director of the General Social Survey at the National Opinion Research Center in Chicago. "Support for more spending has been going up for a good number of years."

Support for tax hike

According to one recent Gallup poll, 40 percent of the respondents said Bush *should* break his promise and raise taxes. "Apparently, the 'fear of deficit' has convinced a substantial percentage of the population that raising taxes might be acceptable," concluded George H. Gallup Jr. and Frank Newport in a recent analysis.

Some voters are actually applauding President Bush.

"I think it was necessary for him to do what he's done," says Buck Fawcett, a farmer in Los Banos, Calif. "He needs to get this budget thing moving."

"I frankly felt that it was a profile in courage," says John Lay, a Democrat and president of a Colorado ski trade association.

Unlike the flag-burning issue, which generated an intense but short-lived burst, tax hikes are a long-burning fuse, analysts say. (In Chicago last week, the local hockey team's trade of a star player was a hotter item than taxes on WBBM's Dave Baum Show, says associate producer Mari-rose McManus.)

The public's final verdict will depend heavily on which taxes the White House and Congress choose to raise and, more important, how the economy fares between now and November, according to political analysts.

"If the economy improves, the public will say Bush did the right thing," Mr. Schneider says. "If it slips, . . . Bush and the Republicans are in deep trouble."

Early public skepticism

Even before Bush took office, many Americans did not believe he would keep his promise. A Gallup poll in November 1988 found 68 percent of respondents saying he would be unable to avoid raising taxes. A month later, the Roper Organization revealed the same skepticism. Some 40 percent thought Bush would raise their income taxes. Democrats were far more skeptical about the pledge (45 percent) than Republicans (33 percent).

If anything, skepticism has grown. This January, when a Business Week/Harris poll asked Americans what would happen to their own taxes, 82 percent expected them to go up. According to a recent Gallup poll, conducted before last week's announcement, 72 percent believed Bush would OK some form of new taxation.

Bush's switch may affect some races for the US Senate and House, especially those involving a conservative who has taken a strong stand on taxes. The US Senate contest in Illinois, for example, features Rep. Lynn Martin, a conservative Republican who has distanced herself from the president since last week's switch on the tax issue.

But in local races, Bush's switch won't matter, says Illinois state Sen. Aldo DeAngelis, who is running for president of the Cook County Board. "Whatever happens at the federal level really doesn't affect this level."

THE CHRISTIAN SCIENCE MONITOR

Friday, July 6, 1990

State Lips Also Utter 'T' Word

With rising costs and falling federal support, some states turn to 'revenue enhancement'

By Scott Armstrong
Staff writer of The Christian Science Monitor

LOS ANGELES

IF it's any consolation, George, you are in good company in uttering the "T" word.

Even as President Bush is scolded by Republicans for his willingness to consider tax increases to reduce the federal deficit, many states are raising levies in the face of their own budget shortfalls.

The state moves aren't without their share of political pain. Last week, thousands marched on the Statehouse in Trenton, N.J., to protest Gov. James Florio's (D) sweeping tax package.

Here in California, the state is engaged in what is becoming an annual game of tic-tax-toe – and the president's decision is having an impact.

Outgoing GOP Gov. George Deukmejian, representing the X's, has opposed a general tax increase to meet a $3.6 billion budget deficit. He prefers doing it mainly through spending cuts.

Democratic leaders in the Legislature, wielding O's, want a combination of cuts and tax or fee increases.

One top Republican senator, Ken Maddy, this week tried to break the impasse by outlining a limited plan to raise taxes and fees, hoping it will spur Democrats to accept new cuts. He said President Bush's aboutface on taxes influenced his flexibility.

But the president's move has made some of his conservative colleagues more resolute: They argue that state and federal tax hikes would amount to a double blow for the public.

The outcome? "I think it is going to be a mixed bag," says Bud Lembke, editor of Political Pulse, a Sacramento-based newsletter. "Obviously there are going to have to be cuts and revenue enhancements."

Roughly half the states have either raised levies or are looking at doing so this year, according to a preliminary survey by the National Conference of State Legislatures (NCSL). That's less than the 42 that did in 1989, but still a significant number.

"Given that it is an election year, it is interesting there are so many major tax increases," says Corina Eckl, a senior fiscal analyst with NCSL in Denver.

Necessity is the driving force. A slowing national economy has cut into the tax dollars flowing into state coffers even as the cost of state government rises. Healthcare, state prison, and education programs are the costliest items.

At least six states – Kentucky, Oklahoma, Nebraska, New Jersey, Texas, and New Mexico – boosted taxes this year all or partly to help fund schools. Several of these were induced by court-ordered changes in the way education is financed.

"This the toughest year for states since 1982," says Gerald Miller, executive director of the National Association of State Budget Officers.

Relatively few states imposed income-tax hikes. Gasoline and "sin" taxes – levies on cigarettes and alcohol – remained the most popular ways to raise revenue. Several states boosted sales taxes.

A few, like Vermont, imposed temporary tax hikes.

None of this activity by state lawmakers suggests that the public has changed its antipathy toward taxes much.

True, the approval by California voters last month of a hefty increase in the gasoline tax for highways and mass transit seems to signal a greater public willingness to pay for certain services.

Other tax hikes targeted for specific programs have been successful, too. Voters in Cuyahoga County, Ohio, recently approved a "sin" tax increase to fund a new sports complex in downtown Cleveland. Springfield, Mass., voters approved tax hikes earmarked for fire, police, and the local hospital.

But North Dakotans last month rejected higher taxes for education. And at least seven states – including California – are expected to have measures on the November ballot to repeal or restrict states' ability to raise taxes.

"Politicians who are trying to seek new revenue sources should be wary," says Marshall Taylor of the National Taxpayers Union, an antitax group.

But fiscal experts say more budget blues lie ahead, and the public is likely to see higher taxes.

"Next year is likely to be a very big year for tax increases for the states," says Steven Gold, local taxation expert with the Rockefeller Institute in Albany, N.Y.

Their prevalence will depend partly on the US economy and what happens in Washington. Many state and local officials are pleased that President Bush has agreed to consider raising federal taxes, provided it leads to meaningful reduction of the federal deficit and helps the economy.

"I think governors are supportive of doing whatever is necessary to get the deficit down," says Raymond Scheppach, executive director of the National Governors' Association (NGA).

Yet there is concern about the kinds of taxes that might be adopted. If Uncle Sam raises gasoline, tobacco, or sales taxes, that could reduce state tax revenues since the higher prices may cause people to consume less.

One NGA study has shown that a 10-cent increase in the federal gasoline tax would cost states $3.5 billion in lost revenue over five years. Higher federal "consumption" taxes might also make it harder for the states to raise them next time they need money.

"Almost anything the federal government does will have some impact on the states," says Christopher Zimmerman, chief economist for the NCSL.

BOSTON HERALD
FRIDAY, JULY 6, 1990 27

Bush proposal to tax stocks goes over like lead balloon

By DAVID CALLAWAY

A trial balloon proposal by the Bush Administration to tax sales of stocks and bonds went over like a lead balloon on State Street yesterday.

The proposal, which would most likely place a sales tax of up to 0.5 percent on all securities trades for individual investors, brokerage institutions and pension and mutual funds, would cripple an already weak investment market, according to industry officials.

"Something like this could just totally kill retail volume," said William Morton, president of the Boston Stock Exchange. "Investor confidence is really tenuous as it is and to throw a tax on top of it will really undermine it."

Michael Hines, vice president of marketing at Fidelity Investments, added that the tax would discourage investors from saving money through mutual funds right at a time when the Bush Administration is encouraging citizens to boost their savings.

"The money's going to have to come from some place, but trying to take it out of people's incentives to save and invest is not the right way," Hines said.

The plan was also greeted sourly by Wall Street, where it was blamed in part for the 32.42-point drop in the Dow Jones industrial average, which closed at 2,879.21.

The plan, outlined in yesterday's Wall Street Journal, would raise up to $7.8 billion to pay off the nation's deficit in its first year, according to the Congressional Budget Office. More than $57 billion could be raised in five years.

But the plan, which has been floated around Capitol Hill for several years in one form or another, is hotly opposed by the Securities Industry Association.

Industry representatives have reminded politicians of a 1987 congressional report that predicted a tax on securities would cause stock prices to fall 9.3 percent, or about 260 points, based upon the market's current prices.

Opponents of the plan also point out that many European countries are doing away with their securities taxes to become more com-

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petitive in the planned European common market.

Placing a tax on securities in the United States could encourage more off-shore investment out of brokerage firms in Canada, the Caribbean and in Europe, analysts said.

But analysts said the securities tax proposal — still in its infancy — could be offered by Bush as a compromise to Democrats for supporting a cut in capital gains taxes.

Perrin Long, who follows the brokerage industry for Lipper Analytical Services in New York, said the securities tax would be much easier for individual investors to swallow if it came along with a large cut in capital gains taxes.

THE CHRISTIAN SCIENCE MONITOR

Friday, July 6, 1990

Introduce 'Green' Tax

Tax on pollution creates revenue, discourages waste

By Hazel Henderson

NOW that the "T-word" is out of the bag and President Bush has changed his mind on taxes, we should explore creative alternatives for bringing down the deficit. Such alternatives include: a new group of user-fees and "sin" taxes providing government with a major stream of new revenues, without hiking income taxes (in fact, *reducing* them) and helping to avoid a recession. It also includes levying fees on polluters.

Pollution levies, or "green taxes," as they are called in Europe, are approved by governments and most businesses. The Paris-based Organization for Economic Cooperation and Development (OECD) which represents the world's 24 major industrial nations, recently surveyed the 85 different kinds of "green" fees on polluting on the books in Europe. These taxes both speed cleanups *and* increase revenues.

These "green" fees can include deposits on returnables, car exhaust taxes, depletion taxes, and levies on such pollutants as carbon and sulfur dioxide. The Economist applauded all these measures as good economics and urged passage of them: "The environment could be a way to cut public spending and to generate a whole new source of revenue."

While governments in Europe are now seeing "green" fees as a major source of new revenue, business executives see them as much more palatable than bureaucracy and regulation . Most economists approve of "green" levies, since they provide correct price signals and improve markets' functioning. Some go so far as offering more dubious proposals to institutionalize the right to "trade" such pollution licenses in the marketplace, a decade-old practice now a feature of the Clear Air Act working its way through Congress. While markets cannot achieve the whole job, there are many cases when they can be effective – if fees for polluters are set high enough.

Economists like "green" charges because they help pay for the costs of pollution. Polluters are now "free riders" – passing on the costs of their activities to others. At last, after much resistance, this principle is being applied in many countries, including the US. Now is the time to fully extend it to our tax system.

Greening our tax code would also correct our national accounts: the Gross National Product, for example. GNP figures include the costs of cleaning up pollution and repairing damage and adds them into our accounts – instead of subtracting these costs to give a "net" GNP, as in Japan. For example, the cost of the cleanup of the Valdez oil spill was added to the GNP of Alaska, making 1989 look like a bumper year! Such costs should not only be subtracted from GNP, but the bills should go to the polluters. One doesn't have to be an economist to understand this. Polluting products would include costs of disposal and recycling. New markets for cleaner recyclable products would be able to compete more fairly. The "Green Market," says Business Week, will grow in the 1990s from $56 billion last year to $174 billion by 1995 – creating new jobs.

A "green" tax code, should include four environmentally-expensive activities: pollution, waste, depletion of non-renewable resources, and deliberately-planned obsolescence. (An example: disposables, like hosiery that runs on the first wearing). The need to protect low incomes is addressed in Germany by *reducing* taxes on personal incomes proportionately as the "green" fees are raised. This shifts the burden from low-income individuals to those activities which pollute and deplete the earth – while remaining "revenue-neutral" overall. Americans already approve of the fairness of "sin" taxes (tobacco, alcohol) to pay for their effects.

Most companies that pollute see the writing on the wall. Consumers and employees of such companies are bringing law suits for damages, and companies are being found liable for a wide range of new claims. Another benefit of "green" charges involve the less-polluting, substitute products and services already available. Their prices would also fall, since most are offered by small, fast-growing companies that don't have the market power to "fix" prices. In many cases, such low-polluting alternatives are already cheaper: cloth diaper services, or non-polluting detergents. In addition, many of the *most*-polluting products are out of reach to consumers: stretch limousines, luxury campers, motor boats. "Green" levies should be highest on luxury items.

Workers can be redeployed and retrained as companies shift to less environmentally damaging operations. There is no substitute for spending new "green" revenues on retraining. Military contracting is a "sunset industry." The US economy is still too wasteful to compete: For example, we still use two and a half times as much energy to produce a unit of GNP as the Japanese. While they recycle over 50 percent of their "waste," we throw away 90 percent of ours. The sooner we get on with tightening up, the more competitive we will be in the world. Let's begin by "greening" our tax code.

Fort Worth Star-Telegram

FRIDAY, JULY 6, 1990

The deficit — II

Everyone must suffer to whittle it down

(Second of two parts)

When it comes to deficit reduction, President Bush and Congress are in the same boat.

Neither can afford to ignore the soaring budget deficits — possibly back up to $200 billion in 1991, depending on the size of the savings and loan bailout — that erode confidence in Washington's ability to control its own destiny and threaten to stifle economic growth.

Nor, however, can either afford to stand back and let the automatic spending cuts take effect in the Gramm-Rudman-Hollings deficit-reduction act, lopping more than $100 billion from the 1991 budget, bringing many government functions to a standstill, seriously wounding U.S. defense capability and wrecking the domestic economy. Thus the American public also has a big stake in how well our leaders plug the leaks in that deficit-reduction boat.

Despite the no-tax bleatings of more than half the Republican members of Congress, there is only one logical solution for the president and Congress.

That answer is to gather all the painful, bad-tasting remedies into one package and tell the American people, "Your nation is sick. Here is the medicine. It is going to hurt all of us, but the patient will not get well without it."

Those painful remedies must include more federal revenue, simply because the deficit is too big and too persistent to be cured by judicious spending controls alone. Higher taxes are unpleasant, perhaps even un-American in many minds, but they also would demonstrate that the United States is serious about winning back its self-respect.

The remedies also should include caps on the nation's most costly social programs, Social Security and Medicare, as well as cuts in national defense, space programs, foreign aid, agriculture, pork-barrel projects and just about everything except basic health and education.

In other words, spread the pain around.

All this eventually may lead White House and congressional budget negotiators to admit that the present system is not working and settle on something like the plan that House Ways and Means Chairman Dan Rostenkowski, D-Ill., proposed last spring. Rostenkowski's idea was to junk Gramm-Rudman and, instead of targeting a deficit figure for each year, target an amount of deficit reduction to be realized. It was so realistic, and so politically scary, that it was quickly shoved aside.

The Rostenkowski plan would place defense spending on a downward path, saving $150 billion by 1995. It would place a one-year freeze on all non-defense spending. It would freeze Medicare provider rates and all cost-of-living adjustments (Social Security, federal pension plans, etc.) for a year.

On the revenue side, Rostenkowski would eliminate the "tax bubble," creating a 33-percent marginal income-tax rate for families earning more than $75,000. He would suspend income-tax indexing for a year and raise taxes on gasoline, cigarettes and alcohol. He anticipated a balanced budget by 1995.

The specifics may differ — there is sentiment for a broad energy tax rather than a gasoline tax, a capital-gains cut may be impossible to resist and indexing may come to a total end — but something like that, reaching into almost everyone's pocket to erase the deficit, will have to be the answer.

Indeed, something stronger than the Rostenkowski plan may be necessary, because, since his figures came out, it has become apparent that the S&L bailout will cost more than anyone admitted.

Tinkering with COLAs or with the taxability of retirees' income will require political courage. Social Security has long been termed the "third rail" of American politics: Touch it and you die. But some changes in the name of fairness are essential.

Since 1980, the total federal tax bill of a family with $100,000 income has gone down. The total bill — counting rising Social Security deductions — of a family with less than $30,000 income has gone up. Those higher Social Security taxes have then been borrowed by the treasury to make up for the income-tax cuts in the upper brackets.

But digging our way out from under the budget deficit also requires a dose of patriotic fervor on the part of the American public. Deficit reduction is a war we have to win in the present to avoid the stagnation of inertia — or even decline — in the future.

The New York Times

Friday, July 6, 1990

Jim Sasser, Reluctant Budget Chief Who Cornered President on Taxes

By RICHARD L. BERKE

Special to The New York Times

WASHINGTON, July 5 — Senator Jim Sasser has detested math since grade school. He says he has no taste for intricate things, unless that means tinkering with the engine of a rust-coated 1967 Jaguar, now sidelined in the Senate garage, that he has been trying to fix up for years.

Yet there he sits, chairman by default of the Senate Budget Committee.

"For some people, the Federal budget is just a fascinating document, like the fellow who wants to sit around and work on a Rubik's Cube — it appeals to the same mentalities," the Tennessee Democrat said, hunching over a coffee table in his office, miming intense scrutiny of a budget. "I didn't become a United States Senator to sit around and worry about the fine details of some kind of a dairy milk cow processing program or something like that."

Putting Pressure on Bush

Whether by fortuitous timing or political acumen or both, Mr. Sasser has turned his disdain for decimal points into an asset. He has emerged as his party's point man — some less delicately say mouthpiece — in the war with the White House over the budget. He is also the one who stiffened Democrats' spines on the issue of making President Bush go first. As the keeper of the party line before the cameras, his partisan swipes helped build the pressure that led the Mr. Bush to renounce his "no new taxes" campaign pledge.

"You never know what's under a rock until you turn it over," said Senator Dale Bumpers, an Arkansas Democrat who is a close friend of Mr. Sasser's. "When they turned that one over, and Jim Sasser emerged, they found a rare and unique guy who had been overlooked."

Lost, not overlooked, is the word a number of Mr. Sasser's colleagues would have used. Since he came to Washington on the coattails of Jimmy Carter in 1976, Mr. Sasser has preferred the sidelines, rarely seeming comfortable attaching himself to great issues of the day. He stood by as younger, newer members — the junior Senator from Tennessee, Al Gore for one — became better known inside and outside the Senate.

In an interview in his capital office during the Fourth of July recess, the 53-year-old Mr. Sasser relaxed in an armchair and spoke in a rambling Tennessee drawl, like a man in no hurry, and for all the world like a man unriled by a reputation that he has little patience for substance and that he has taken too long to make his mark.

"If I had come in here the first two or three years and tried to be a pretty flashy and superficial type of Senator," he said, "I think it would have diminished my effectiveness in the long run."

A Creature of Senate

"Perhaps I am more a creature of the Senate than Al," he said of Senator Gore, who was just 40 years old when he made a Presidential run in 1988. "Let's face it, Al's seen a lot of it before. He grew up as the son of a Senator. That perhaps might make him more interested in moving to the big job. I tried to help him all I could. I think people make a great mistake if they sit around and become consumed by envy."

Mr. Sasser was reluctantly thrust into the budget panel's top job after the chairman, Senator Lawton Chiles of Florida, decided to retire in 1988 and the two most senior Democrats in line for the post were unwilling to give up other chairmanships.

"I didn't really want it," Mr. Sasser said, adding that he would much rather head the Foreign Relations or Armed Services committees. "The budget is almost an insoluble dilemma. But I got the job and I can see myself now, in some ways, actually enjoying it."

Party leaders have turned to Senator Wyche Fowler Jr., a freshman from Georgia, to be the inside tactician at the budget negotiations. Mr. Sasser has become the outside man emerging from the closed sessions, tossing out red meat to reporters, often in colorful, though sometimes mangled, metaphors.

"Simply putting a new suit on that old corpse isn't going to revive it," he recently said after the Bush Administration presented a budget plan.

The White House is eager for budget talks because "they saw that this horse was about to get out of the barn before they got it bridled," he said after winning $118 at the Kentucky Derby on a colt named Unbridled. Another time, he characterized the Administration's offer as warmed over, saying, "The odor hasn't improved overnight."

Challenging the White House

Suddenly, the man who says he is not a showboat, who says his biggest failing in politics is that he does not have an oversize ego, is challenging the White House on the evening news.

Mr. Sasser's style served the Democrats so well in the early days of the budget talks that often at the chairman's impromptu briefings outside the negotiating room, the panel's ranking Republican, Pete V. Domenici of New Mexico, would show up to keep tabs on what Mr. Sasser was saying and then turn to the microphones to dish out his version.

Richard G. Darman, the head of the Office of Management and Budget, a numbers-cruncher extraordinaire, is Mr. Sasser's antithesis, and there is no love lost between the two.

After describing the White House budget plan at a private session, Mr. Darman is said to have mounted a not-so-subtle attack on Mr. Sasser, declaring, "I know there's one person who thinks it stinks."

Mr. Darman declines to discuss his relations with Mr. Sasser. Mr. Sasser insists that there is nothing personal in their differences. "I don't know what I've done that offended him particularly," he said.

"We may represent two different segments of American society," he said. "He's highly educated, wealthy. My grandfather was a dirt farmer and my father was a civil servant. Maybe I look at the budget and Federal priorities more from the point of view of how they impact people."

Lessons From Kefauver

Mr. Sasser, who has a moderate-to-liberal voting record, encourages the comparison to a former Democratic Senator from Tennessee, Estes Kefauver, a crusading populist who died in 1963. While he was attending law school at Vanderbilt University, Mr. Sasser would carry the Senator's bags and drive him around the state when he returned to Tennessee.

"From Kefauver, I learned the importance of retail, personal campaign politicking," he said. "He was a great big bumbling sort of fellow and everybody instantly took a liking to him and wanted to help him. I'm not any more polished that Estes was. He was a graduate of Yale Law School and many people accused him of being an intellectual, masquerading as a bumpkin. People perceive me as mild mannered, accommodating, non-threatening."

Mr. Sasser knows how to spin a good tale, and he still manages to portray himself back home more as the Southern gentleman and less as the Washington insider. He takes great pride in the fact that Bill Monroe, often called the father of bluegrass, turned to him in a moment of need.

It was 1983, and President Ronald Reagan had invited several country music stars to the White House. "Old Bill was wearing his big 10-gallon hat and all the trappings," Mr. Sasser says. "Bill had forgotten that he had this big horse pistol in his briefcase."

Luckily, Mr. Monroe did not bring his briefcase into the White House. But Mr. Sasser says that on his way home, the metal detector picked it up at National Airport here, and that Mr. Monroe was immediately grabbed by the police and hauled off to a nearby jail and booked.

Only One Phone Call

But he knew he could get his Senator on the phone. "He had one telephone call," Mr. Sasser says, shaking his head, "so he called over here. We got a lawyer and went over there and got old Bill out."

So convincing is Mr. Sasser in his efforts to play down his own importance, that he even seems to question his place in the Senate, conceding something that few of his colleagues would dare whisper: "It's not that I am so unique that others couldn't do as good a job as I would do."

Mr. Sasser readily admits that there are many who know more about fiscal matters. Lance Simmens, the Senator's former economic counsel, remembers gently prodding his boss to attend committee meetings.

"He'd just kind of roll his eyes and say, 'Oh, do we have to listen to more of this?' Mr. Simmens recalls. "Sometimes I had to pull him over there. But he always came."

For all the professionally disarming style, Mr. Sasser is a former trial lawyer with pure partisan instincts. He used his three-year chairmanship of the Tennessee Democratic Party to establish a base of political support for his first campaign for political office in 1976, when he shocked the political establishment by running a successful campaign against the well-to-do incumbent, Senator William E. Brock 3d, by portraying himself as a man of the people.

Some would say it is only by happenstance that now, nearly 15 years later, the political instincts of the reluctant chairman of the Senate Budget Committee are re-emerging.

"With experience and seniority, he has gained courage and self-confidence," said Albert Gore Sr., the former Senator, who was something of a mentor to Mr. Sasser. "He's coming along in a regular way."

THE WALL STREET JOURNAL

FRIDAY, JULY 6, 1990

A Carbon Tax Could Blacken Economy

By Roger W. Gale

Now that President Bush has opened the door for "tax revenue increases," a curious alliance is emerging between environmentalists and gasoline users that could speed passage of a broad-based tax on the production of carbon dioxide. Early estimates are that such a tax could raise at least $30 billion during its first five years. But while a carbon tax sounds good in theory, practice might be another story.

Recent converts to free-market principles, such as the National Wildlife Federation, support a carbon tax as a fix to the global warming problem that would work far more smoothly than complex command-and-control regulations on carbon dioxide and other greenhouse gases. Auto makers, truckers and other industries heavily dependent on cheap transportation fuels see the tax as a way to short-circuit a gasoline tax increase, shifting the burden to other industries that also are major producers of carbon dioxide.

The White House has not taken a position on carbon taxes, but the "troika"—Chief of Staff John Sununu; Richard Darman, director of the Office of Management and Budget; and Michael Boskin, chairman of the Council of Economic Advisers—is intrigued by such taxes. This year's Council of Economic Advisers annual report, for example, devotes considerable attention to the merits of market-tuned emission taxes.

Understandably, opponents of carbon taxes include the coal and electric industries and the big energy producing and consuming states. They fear that legislation introduced last month by Rep. Fortney Stark (D., Calif.) could become an easy vehicle by which the House Ways and Means Committee could speed the tax through. They note that it wasn't until this time last year that the notion of a chlorofluorocarbon tax was introduced; six months later it had passed and gone into effect.

The Stark bill would tax coal at $15 a ton, petroleum at $3.25 a barrel and natural gas at 40 cents per thousand cubic feet. Unlike the very simple chlorofluorocarbon tax levied on Du Pont and the small number of CFC producers, a carbon tax would by its nature be broad-based and require a complex allocation of responsibilities. If applied equitably, it could be levied at the source—the coal mine, for example—and on the end-user.

Among the drawbacks of a carbon tax:

- It would fall more heavily on some parts of the country than others. Western coal- and oil-producing regions and Midwestern coal-burning regions would both be hit hard.
- Domestic coal, which supplies 60% of America's electricity and will be even more crucial in the future unless nuclear power is revived, would be hit disproportionately hard if a tax is levied that does not consider environmental-control technologies that alter actual emissions. Coal exports could be mortally wounded.
- A carbon tax could inadvertently encourage more imports of oil. Swapping part of the budget deficit for a larger trade deficit may not be prudent policy.
- A U.S.-only tax could further reduce American competitiveness.
- Many utilities are scampering to finance billions of dollars in upgrades to meet the acid-rain provisions of the Clean Air Act legislation that Congress is expected to finally pass this fall. These same utilities would be the most likely candidates to pay a hefty carbon tax.
- A carbon tax—if not set at the right level, tied to changing energy prices and to capital costs—might not lead to significant carbon dioxide cuts if industry decided it was cheaper to pay a tax than to clean up older plants. Instead of encouraging energy efficiency, it could bias the energy industry against new capital investments.
- While a carbon tax might reduce overall carbon dioxide emissions, it would not provide crucial incentives for the U.S. and other nations to engage in reforestation and other environmental goals.
- Carbon dioxide is not the only greenhouse gas. A meaningful first response to global climate change is to develop a greenhouse-gas index that compares the impacts of various gases on the environment and allows countries to establish their own priorities among the various greenhouse gases—including CFCs, carbon dioxide, methane and nitrous oxide.
- Finally, before Congress and the administration move any farther down the carbon-tax path, they must earmark the revenue for environmental and energy projects. More likely, the revenue would go for increased government spending in other areas.

A carefully constructed strategy makes sense once we know more about global warming and the pacing of necessary actions. And a carefully constructed increase in taxes also makes sense. It could be devastating to the U.S., however, to get carried away by a naive belief that fixing the deficit and the environment is only a matter of working out a few mechanical details at some late-night congressional conference.

THE WALL STREET JOURNAL

JULY 6, 1990

Jason Returns: TEFRA Is Ready To Kill Again

"There were some economic plans proposed back in 1982 that caused a furor something like we're hearing now. And the president, in my view, did what was right."

—George Bush, June 29, 1990

Haven't I seen this picture before? Wasn't it "Friday the 13th"? Of all of George Bush's answers at the worst press conference of his presidency last Friday, the most depressing was his reference to 1982. He meant the notorious "TEFRA" tax act of that summer, the lowest moment of the Reagan presidency until Iran-Contra. Does Mr. Bush really want to do a summer sequel?

The question matters, because for all the uproar over the demise of the no-new-tax pledge, the budget summit isn't over yet. What matters is the deal George Bush signs. But if TEFRA is his historical guide, we should all start calculating our lower take-home pay. That history is worth rehearsing lest it be repeated.

The $100 billion TEFRA tax hike was the Washington community's first attempt to repeal Reaganomics. Mr. Reagan signed onto it in the middle of recession (and amid much Beltway gloating), but he overcame it later for two reasons. First, TEFRA repealed only part of the much larger

Potomac Watch

By Paul A. Gigot

1981 Reagan tax cut; when the tax cut's fiscal stimulus finally hit in 1983, the economy boomed. Second, voters could accept a modest U-turn from Ronald Reagan because his public identity as a tax-cutter was already so strong. Mr. Bush has neither Reagan card in reserve.

Just how bad was TEFRA in 1982? Let us count the ways. Though it was peddled as a deficit-reducer, the budget deficit still soared—to 6% of the economy in 1983. Congress spent as ever. The $3 in promised spending cuts for every $1 of tax increases never materialized.

TEFRA also proved irrelevant to its other avowed purpose, that of inducing the Federal Reserve to reduce interest rates. In his exhaustive 1987 book on the Fed, journalist (and no friend of Reaganomics) William Greider wrote that "there was no real connection" between the tax deal and the Fed's decision to ease. "The Fed had decided to ease interest rates a full month before final passage of the tax bill was a certainty," he wrote. Fed Chairman Paul Volcker had other reasons to act: Trouble in Mexico and at Penn Square Bank threatened the banking system, and the economy was already in deep recession.

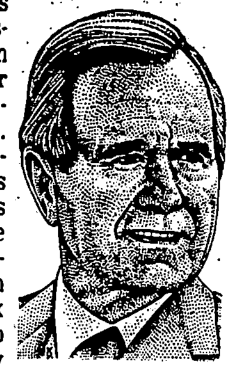
As for politics, Republicans lost 26 House seats that November. TEFRA didn't help. Larry Kudlow, the Bear Stearns economist who worked at the White House at the time, recalls simply that, "TEFRA was a disaster."

Mr. Bush's aides now insist they've learned since then. But there are signs that maybe they haven't learned enough—Mr. Bush's Friday comments for one. Nicholas Brady, the Treasury secretary, supported TEFRA while in the Senate in 1982 and has said privately that a budget deal is critical to get the Federal Reserve to ease interest rates again. Yet this Fed, as much as Paul Volcker's, has to its great credit followed its own economic logic.

"What worries me," says one GOP official with long experience in Washington, "is that this has become a monetary fishing expedition." TEFRA aside, the last administration to try to trade fiscal austerity for monetary ease in this way left office in 1981.

Then there's Richard Darman, the crafty budget director who was also present at TEFRA's creation. Mr. Darman is smart enough to know the history, but he also badly wants a budget deal so he can claim a successful tenure at OMB. Senior officials worry that in the end Mr. Darman will give up any serious reforms of the budget process if he can get major cuts in entitlements (Medicare). Already, White House aides say the line-item veto is off the table. At least the capital-gains tax cut is still living, but other new taxes will be offered to Democrats in exchange.

George Bush has run a tactical presidency, tacking as the political pressures shift. But even tacticians have their moments of definition, and this is one. If he gets the concessions he wants from Democrats, his tax reversal may be forgiven. But Democrats, having won repeal of the tax pledge at no cost to them, will not now cooperate easily. Their demands will escalate to include the symbolic repeal of Reaganomics, through an increase in the top marginal tax rate.



Painted into his tactical corner, Mr. Bush will have only two options if Democrats don't budge. He can accept a phony TEFRA-like deal that will be heralded by his enemies as "statesmanship" but will in fact signal a great defeat. He will gain Beltway applause without getting control over the budget.

Or he could reject a bad deal, and explain to voters that he put everything on the table and still got no help from a do-nothing Congress. He could blame Democrats for causing the trauma of Gramm-Rudman's automatic budget cuts. Blood would flow, but the betting here is that with his bully pulpit and residual popularity, Mr. Bush would prevail. Of course, this would require a political courage and public candor rarely seen so far in the Bush White House.

In changing his mind about lip-reading, Mr. Bush asks us to remember Abraham Lincoln. But if Mr. Bush merely repeats the debacle of 1982, a different presidential analogy will be on voters' lips. That president grew up in Georgia, not Illinois.

The Washington Times

FRIDAY, JULY 6, 1990 / PAGE A5

Lubbock prefers Bush without lip

By Frank J. Murray
THE WASHINGTON TIMES

LUBBOCK, Texas — The city President Bush called his political barometer has a message for him: We love you, but tell the truth.

"When he said, 'No new taxes,' I thought he was finally going to cut spending. I honestly thought it could be done," said Dr. Paul Meyer, a neurosurgeon who backs the president. "But I'm sure 9 out of 10 people here are still saying Bush is their man."

Dozens of interviews indicate he's right, although most said the president should understand voters don't need wild promises.

"If you'll be up front with folks, they're not going to think any less of you because you're realistic," said pharmacist Norman Anderton, a scoutmaster who says he's still a Bush man despite disillusionment among 35 idealistic Boy Scouts. "I didn't believe it when he said, 'Read my lips.' What any candidate tells you is what he hopes will be."

The folks here in Buddy Holly's birthplace erected a statue of the dead rock singer at Civic Center, and they've put Mr. Bush on a pedestal.

G.B. Morris, who coached football for 20 years, said, "I think we realized when he said it that he'd have to back down on it." But he echoed the call for less spending.

Even the Avalanche-Journal newspaper has come around, said Publisher Frank Anderson. "We feel he really didn't have much choice," said Mr. Anderson, a former Washingtonian who was circulation director at The Evening Star when it folded.

He called Lubbock "a sort of crossroads of America, sort of like Peoria was to earlier administrations."

"The Bush supporters in this part of the country are more solid and less fickle than elsewhere," said civic leader Jim Sims, co-chairman of the Great Lubbock Duck Race, a charity event that raised $10,400 on the Fourth in a race of 2,080 plastic ducks driven by the wind across Buddy Holly Lake.

Mr. Bush understood which way the wind was blowing when he challenged reporters last year to look beyond the Beltway. "Never get too uptight about the stuff that hasn't reached Lubbock yet," he said.

This staunchly conservative High Plains city enjoys a prosperity that eludes nearby Amarillo and Midland-Odessa. Median family income almost doubled in the 1980s, Methodist Hospital launched a $67 million expansion and Reese Air Force Base won't close despite rumors to the contrary.

Lubbock has its own Loop road, and its Inside-the-Loop mentality is unabashedly pro-Bush. The conversation does not turn easily to taxes, NATO or the economic summit in Houston, where Mr. Bush arrives tonight.

Topic A is the drought that has crisped the grasslands. Fields that produce one-third of the nation's cotton are growing less. And oil is a paltry $16 a barrel while producers clamor for a curb on oil imports.

But people in Lubbock know national issues.

"You mean the latest thing he's done — the flip-flop on taxes? I'm with him all the way on that," said Pearl Morris, a retired Spanish teacher.

"He hasn't done a dang thing that I oppose," said the Rev. Thomas Diebel, a Roman Catholic priest wearing running shorts and a T-shirt with a picture of the U.S. flag and the message "Try to Burn This Flag."

Father Diebel suggested that congressmen who voted against the Bush-backed flag amendment should be shot or hanged, but he was forgiving on taxes. "Any sensible person knows there comes a time you have to do it," he said.

"We probably need a tax increase, but why make those promises to begin with?" said Molly Wilcox, who voted for Mr. Dukakis. Her daughter, Kathy, a professional housepainter and paper-hanger, added, "We didn't believe him when he said it."

"Every president's got to eat his words one time or another," said Reuben Gonzales, who delivers bottled water on a country route and says business is great. "I'm upset, but what can you do? I voted against him in 1988 and I'll vote against him next time."

Mr. Gonzales is one of the few people here who admit being among 22,202 Dukakis-Bentsen voters in 1988. The Bush-Quayle ticket got 50,760 votes and almost everyone a reporter talks to in this city of 194,148 claims to have been among the supporters.

"The president's doing great," said Ken Bastian, a Bush loyalist who once worked in the vice president's press office and now is headmaster of an Episcopal day school. "By the time the news reaches out here, people have time to sift through. Taxes are not lost on anybody, but they also see the Berlin Wall has come down and all the other remarkable events in the world during the Bush presidency. It's almost as if he was padding his fall."

The Washington Times

Friday, July 6, 1990

Raising Taxes Will Strengthen Bush

By C. Fred Bergsten

WASHINGTON

Democrats and many Republicans believe that President Bush's endorsement of higher taxes will hurt him politically. But they ignore the four major benefits that a successful resolution of the U.S. budget problem would provide.

First, interest rates would fall. The Fed chairman, Alan Greenspan, predicts that long-term rates, which drive investment and thus growth, could decline by two full percentage points. Key areas of the economy, such as housing, auto purchases and corporate spending on new equipment, should pick up quickly. The Fed must of course assure the needed monetary easing as soon as the budget package is sealed and delivered.

Second, the trade balance would improve. The dollar would weaken with lower interest rates and, along with the lower cost of capital itself, boost American competitiveness. This, in turn, would help American companies to capitalize on the continuing economic booms in Europe and Asia. Lower dollar interest rates would also ease the debt burden in Latin America and expand the region's capacity to buy abroad.

Lower interest rates and stronger trade should offset, or more than offset, the adverse effects of a tighter budget on the economy. The U.S. can enjoy export-led growth for the next several years, benefiting from strong foreign markets in the 1990's just as we benefited from heavy infusions of foreign capital in the 1980's.

To be sure, correcting the budget imbalance would have been safer several years ago, when the economy was stronger. But the risks will almost certainly grow if action is delayed further. Moreover, any recession now would probably be quite mild and short-lived, with growth resuming by 1992. For the longer run, strong private investment and trade improvement provide a much sounder basis for sustained growth than the consumption-led, Government-financed expansion of the 1980's.

Third, fiscal policy can again become an active tool of economic policy. Today, with the deficit at current and prospective levels, the Government has virtually no way to respond if the economy falls into recession. Nor can we count on the Fed for monetary stimulation; not with a fiscal imbalance that would *rise* sharply in a recession and remain an inflationary threat. Budget action now would promote growth later as well as sooner.

Fourth, American foreign policy would strengthen substantially. Our credibility has been damaged by our unwillingness to provide even modest resources to support democratization in Eastern Europe and Latin America, international attacks on environmental degradation and initiatives in other areas. Budget correction would enable the U.S. to become a serious global player and leader again.

Notice that Japan responded immediately to the President's shift on taxes with new concessions last week, permitting a successful conclusion of the Structural Impediments Initiative. Mr. Bush's hand will be far stronger at the Houston summit meeting next week.

The magnitude of all these benefits will depend on the degree to which the President's willingness to raise taxes catalyzes both real spending cuts and a definitive resolution of the budget problem. The wisest course, economically and politically, is to agree promptly on specific measures to eliminate the deficit fully over the next four or five years.

The world of the 1990's and beyond will turn heavily on economic developments. The U.S. faces extremely tough competition from a uniting Europe, from Japan and from emerging powers in East Asia and elsewhere. Both our domestic prosperity and our global position depend on meeting that competition successfully. Budget correction is a central element in doing so.

Thus, President Bush's new stance on taxes marks his greatest contribution to the national interest to date. It may turn out to be his best political step as well.

The Washington Times

Friday, July 6, 1990

PAUL CRAIG ROBERTS

The budget deal with Congress that President Bush has risked his political credibility to achieve will actually result in higher spending and, perhaps, a higher deficit. Therefore, it is counterproductive, and Mr. Bush has forked his tongue for a different goal than deficit reduction.

Under the Gramm-Rudman budget rules, higher tax revenues mean higher spending. The formula permits the government to spend an amount equal to the sum of the predicted tax collections for the year, the amount of the deficit target, plus a fudge factor of $10 billion. Under these budget rules, higher revenues translate directly into higher spending. A tax increase can actually balloon the deficit. This is because the government's revenue estimators ignore the disincentive effects of higher taxes and assume that just as much economic activity takes place with higher taxes as with lower taxes. This results in the government overpredicting the revenues that a tax increase will collect.

Since the spending formula is based on revenue predictions and not revenues in the bank, actual spending rises by more than revenues, and the deficit increases. This is one of the reasons that previous budget deals with tax increases did not lower the deficit. President Reagan got sucked into many budget deals involving higher taxes by the same characters who are advising Mr. Bush.

For example, in 1982 Mr. Reagan signed on to a massive tax increase called the Tax Equity and Fiscal Responsibility Act (TEFRA). His budget director told him that the tax increase would raise $229 billion in new revenues and reduce the cumulative deficit for the five-year period (1983-1987) from $636 to $407 billion. In actual fact, the deficits for those five years totalled $976 billion. Just like Mr. Bush today, Mr. Reagan was told that the tax increase would help investment by lowering the deficit and interest rates. Instead, the tax increase reduced the cash flow of businesses by the amount of the tax hike, thereby making businesses more dependent on borrowing to finance investment. Since companies have lower credit ratings than the U.S. Treasury, the substitution of business borrowing for Treasury borrowing had the effect of raising interest rates and worsening the economy.

Mr. Reagan went along with a gasoline tax increase, too, and it didn't help the deficit. Indeed, studies show that for every dollar of higher taxes spending rises by $1.58. In 1984 spending restraints cut the deficit $23 billion, and in 1987 a near freeze on spending reduced the deficit by $72 billion. Why don't government officials learn from experience? After all, Mr. Bush and his budget director, Richard Darman, have been in government all their lives. The answer is that the politicians do learn but the public doesn't. When politicians want to hit us for a tax increase, they first create concern about the deficit in order to convince taxpayers to do their patriotic duty and sacrifice.

The tax increase that has escaped from Mr. Bush's lips actually is designed to prevent spending from being cut. The slowdown in the economy has reduced the revenue predictions for the 1991 budget. According to the Gramm-Rudman budget rules, this would force Congress to cut spending. If Congress refuses, the cuts are made automatically by a budget sequester.

The real problem is that neither Congress nor the White House wants these budget cuts. Next year is the year before the 1992 elections, and the politicians don't want to anger the organized special interests when they are dependent on them for votes and campaign funds. The politicians would much rather spread a tax increase around unorganized taxpayers. That Mr. Bush was willing to give up his credibility in order to avoid budget cuts shows that in the final analysis he is a creature of Washington and not a man of the people. Mr. Reagan was different, and that's why Washington hates Mr. Reagan and loves Mr. Bush.

THE SUN

Friday, July 6, 1990

Who Takes It Seriously?

Boston.

THE YOUNGER generation wants to know what the big deal is. Why is everybody making such a major production out of this tax thing? Hey.

The older generation is taken aback and answers sharply: The

By Ellen Goodman

president of the United States has broken his pledge! George Bush went back on his promise! He told us to read his lips: no new taxes. Now he says taxes!

The younger generation, of Reagan vintage with a bit of Bush mellowing, says to its elder: chill out. Nobody thought he meant it. Like, it was just a campaign speech. I mean, it was ghost-written. You can't take that stuff seriously.

The older generation, of Watergate vintage with a hint of Vietnam, says to its younger: We take it seriously when the president of the United States talks. When he pledges allegiance to an idea, it's supposed to mean something.

The younger generation rolls its eyes. Well, that's your problem. I mean, do you believe that Grape-Nuts is going to make you feel better, that Oil of Olay is going to make you look younger? That Doublemint chewing gun is gonna double your fun?

The older generation summons up its dignity. The presidency is not an ad agency. Making public policy is not the same as selling detergent.

The younger generation says, succinctly: Get Real.

There is a momentary lull over the generation gap, while Middle Age thinks, "They're so cynical," and College Age thinks, "They're so naive." Then it starts up again.

Twentysomething asks sympathetically: Do you, like, take this stuff literally? I mean, don't you get it? It's sort of like "2 Live Crew." It's all words. It's just rap. They don't *mean* what they're saying.

Fortysomething doesn't answer for a minute, because to tell you the truth it took "2 Live Crew" literally. Besides, it is feeling patronized, and middle-aged, the way it feels when the Rolling Stones is playing and someone says, "Hey, wow, Oldies."

More to the point, it's beginning to sound like a scene from one of the surveys about "The Younger Generation," that keep appearing in the newspapers that the elder generation reads and the younger generation doesn't.

In the latest of these polls, Times-Mirror described 18- to 29-year-olds as a generation that "knows less, cares less, votes less and is less critical of its leaders and institutions than young people in the past." The elders, opposed on principle to youth-bashing, would prefer to throw in another phrase: "They expect less."

The older generation, raised in the wake of World War II, grew up with enough expectations to be disappointed, enough faith to be disillusioned. Faced with the Vietnam draft, they couldn't avoid the connection between private life and government. They were angry when Richard Nixon lied. They listened when Jimmy Carter said he wouldn't. Without laughing.

The younger generation, raised on the crest of Reaganism, has one-upped their parents' disillusionment with disinterest. Heirs to the Eighties, they learned from Ronald Reagan not to look to government.

So instead of voting, they recycle; instead of looking to politics, they focus on a point of light or two. After all, heroes are to be toppled, and politics is for entertainment. They won't get caught taking it seriously.

The older generation thinks there is an ironic twist to this discussion. In fact, fortysomething believes that the president has to raise taxes, but also thinks that leaders should be held accountable. A president who breaks a pledge should have a reason, should explain himself or admit it was all a lie.

Twentysomething doesn't know much about the tax debate, but takes it for granted that politicians lie. Or to put it another way, politicians change their act. Madonna gets a new image every year, so why not George?

The older generation takes a last verbal stab at this impasse. Sounding dangerously ponderous, it says: "If you accept this, if you don't hold leaders accountable, if you don't believe that what is said matters, then you aren't active citizens but a passive audience."

The younger generation listens for a minute and then says kindly to its elders, "Hey guys, lighten up." And then it changes the channel.

THE SUN

Friday, July 6, 1990

What A Majority Is For

Washington.

FRITZ MONDALE'S essential class has never been better demonstrated than by the gracious way he chooses to say "I told you so."

Somebody else might rub George Bush's nose in his embarrassing turnaround on taxes, a treatment the president has fully earned. Mr. Mondale, who has a better right to do that than anybody, chooses first

By Ernest B. Furgurson

to congratulate Mr. Bush for having "the courage to change his mind."

In 1984, then-Vice President Mondale made what he admits was the biggest political mistake of the decade by saying, as he began his campaign against Ronald Reagan, that he would raise taxes. For that as much as any other single reason, Mr. Reagan beat him by a landslide. From the sidelines of politics, Mr. Mondale has been watching Mr. Reagan, then Mr. Bush struggle with the consequences of their "no new taxes" campaign pledge.

Now that Mr. Bush has belatedly, begrudgingly admitted that "tax-revenue increases" must be part of any package to reduce the deficit, Mr. Mondale is glad to spell out what the Republicans' prolonged anti-tax stand has done to the economy and our children's future. Under the circumstances, he is amazingly generous to the president.

But the country will be better off if other Democrats ignore his sportsmanlike example in their current budget negotiations with the White House. If Mr. Bush's concession is to mean more than a quick fix affecting this year's budget only, they must take full advantage of the situation that forced his reversal.

For weeks, Mr. Bush's "no new taxes" position gave him the political advantage in the budget "summit" sessions. But he was bluffing. Now that he has backed down, the political advantage has shifted to the Democrats. Instead of arguing whether there will be taxes, the question now is what kind of tax changes will be agreed on.

Will there be added excise taxes on gasoline, tobacco and alcohol, all regressive measures that hurt the poor most? Or will some progressivity be restored to the income-tax structure, which currently hits upper-middle-income families harder than it does millionaires and billionaires? Will the Democrats be sucker enough to accept Mr. Bush's capital-gains tax cut, which helps mostly the wealthy, as the price of restoring fairness to the income tax?

If, at the end of these negotiations, Mr. Bush can decry tax revisions that hit the poor and middle classes, and say he was forced into it by the Democrats, the congressional majority party that lets him get away with it will deserve to become a minority. But the Democrats can take credit if they come out and disclose that everyone, especially the rich, must share the tax burden.

Writing in the *New York Times*, Mr. Mondale says that now President Bush "has begun to learn the difference between campaigning and governing." But we have yet to see whether Mr. Bush's carefully worded acknowledgment of the need for change is just an effort to mousetrap the Democrats before this fall's congressional elections, or merely opens the way to a temporary fix good only through the 1992 presidential campaign.

As Mr. Mondale says, modern U.S. politics is dominated by marketing, rather than substance. Up to now, Mr. Bush has shown that campaigning does not stop with the election; his "no new taxes" demagoguery continued after he was sworn in, looking immediately at the next election rather than the abysmal state of the nation's finances. He has to demonstrate that his apparent change of heart is more than fast political footwork.

For the Democrats to assume that budget negotiations have now left the political arena and become a serious effort at responsible government is most naive, based on this president's track record. Their duty is to use the leverage they now have to force that change.

Aside from restoring some fairness to tax policy, they should insist on a major peace dividend from reduced arms spending, much of it to go into needed domestic programs rather than wholly into deficit reduction. They should make the budget package big enough to stretch forward, rather than so small that it assures such drawn-out "summit" folderol year after year.

Mr. Mondale writes that "Mr. Bush *may* now show the presidential leadership needed to launch a bipartisan attack on the deficit." The italics are mine. Mr. Bush may, indeed. But he also may not, if the Democrats don't use their majority leverage, now boosted by fiscal emergency.

The Detroit News

Friday, July 6, 1990

A Tax Bubble of Envy

The Bible calls envy one of the seven deadly sins. Yet envy is riding high in Washington. It's fashionable these days to claim that the 1980s were a party for the wealthy at the expense of everybody else. President Bush's talk of "higher tax revenues" has also touched off an orgy of soak-the-rich demagoguery, including a move to raise the top marginal income tax rate to 33 percent from 28 percent.

It's a good time to take a deep breath and review a few facts. Internal Revenue Service data show that in 1981, when the top income tax rate was 70 percent, the top 1 percent of all taxpayers paid 17.6 percent of all income taxes. In 1987, when the top rate had declined to 28 percent, the same top 1 percent paid 24.6 percent of the income taxes. That's a 39-percent *rise* in the effective income tax burden on the rich.

Yes, the share of total income earned by the top 1 percent rose by more than 18 percent from 1981 to 1987. But that's far less rapid than their share of income taxes. It's a similar story if you look at income and tax figures for individuals in the top 5 percent of income. Conversely, in 1987 the bottom 50 percent of income earners paid 18 percent less of the total income tax burden than in 1981 — even as their income was rising faster than inflation for the first time since before 1972.

Even on the allegedly "regressive" Social Security payroll taxes most of the burden was absorbed by higher income groups. That's because Washington increased the income levels at which Social Security taxes are levied. The share paid by the top 5 percent of earners rose by 18 percent between 1980 and 1987, nearly double their 10.5-percent rise in income share.

As Harvard economist Lawrence Lindsey points out in his 1990 book *The Growth Experiment* (Basic Books): "Only a few vestigial redistributionists cling rhetorically to the notion we should soak the rich."

Sadly, Capitol Hill is still full of "vestigial redistributionists," suckers for soak-the-rich tax-raisers. They currently are using the so-called "tax bubble" to support their argument. They point out that for joint tax filers with incomes between $80,000 and $160,000, the top marginal income tax rate rises to 33 percent. It then falls back to 28 percent for those in the highest income brackets, leading some to conclude that the tax code is unfair.

It certainly would be if that were all there was to it. Yet there is no 33-percent marginal rate as such. The so-called bubble is the result of cutting tax benefits for the wealthy. They no longer benefit from the 15-percent initial rate on the first $20,000 of their income, and they have been stripped of their basic personal exemptions.

The result is that today the top income brackets pay an average effective rate of 28 percent on all taxable income, while those in the bubble group pay an average rate of less than 26 percent. The bubble was actually devised by Democrats and Republicans to keep tax reform "progressive" without being punitive.

Raising the top average tax rate to 33 percent would mean a massive 18-percent rise in marginal rates on the rich. That would be bad not only for the economy, but for tax fairness. Their actual share of taxes would almost certainly go down as they sought shelters here and abroad.

Envy, like all mortal sins, gives momentary pleasure but nearly always produces lasting pain.

Richmond Times-Dispatch

Friday, July 6, 1990

Is Darman's 'Grand Design' a Trap?

By Warren T. Brookes

IN THE SNOWS of New Hampshire, George Bush rescued his dying dream for the presidency by accusing Sen. Bob Dole, R-Kan., of having a "secret tax plan" called the National Economic Commission.

That bipartisan "deficit reduction" commission, the brainchild of New York Gov. Mario Cuomo, a Democrat, had found its way into the fiscal year 1988 budget summit agreement courtesy of Sens. Dole and Daniel Patrick Moynihan, D-N.Y. That followed the stock market crash of 1987 which was falsely blamed on the budget deficit.

Incidentally, during that summit, President Reagan also agreed to $29 billion in new tax revenues over the next two fiscal years (fiscal year 1988 and fiscal year 1989), in return supposedly for some $76 billion in lower deficits. Instead, the 1988 deficit was $11 billion higher than agreed, and the 1989 deficit was $16 billion higher.

But, as the Tax Foundation wisely points out, that has *always* been the pattern of budget summits. We have had six such summits out of the last eight budget years (fiscal year 1983 through fiscal year 1990), and in five of those six summit-produced budgets (all of which included higher taxes) the deficit *rose*. (See Table)

Conversely, in the only two budget years where there was no summit and no new taxes (fiscal year 1984 and fiscal year 1987), the deficit *plunged* by $22.5 billion and $71.5 billion respectively.

So candidate George Bush had it exactly right. Yet last week President Bush capitulated to almost exactly the same Dole-ful NEC scenario, so much so, ABC invited its two architects, Moynihan and Dole, to trade smirks on the David Brinkley show.

Coupled with the tortured ineptitude of President Bush's press conference last Friday, this suggests a man caught by surprise in a trap not of his own making rather than a leader wisely and courageously changing his mind.

It implied a politician either caving in to his enemies or being skillfully mugged by his own budget director. What lends credence to the latter view — now widely held among conservatives — is that the president's fateful statement was drafted during the meeting by Office of Management and Budget Director Richard Darman.

There is no secret to the fact that Darman cherished the idea of the ultimate deficit reduction deal — the "grand design" that would wipe the really big stain off the Reagan fiscal legacy.

The more conspiracy-minded on the right have it going as follows: Darman knew there was no way such a "mega-deal" could ever be arranged with the Democrats without breaking Bush's campaign pledge. Conversely, he knew that pledge would not be given up easily by the president.

He therefore had to get the president into a situation in which he had no choice but to make the deal that Darman wanted — a deal which would trade enough new taxes to get the Democrats to give up enough on the domestic spending and "budget reform" issues, plus a capital gains cut to make it worthwhile.

It is widely believed that Darman's campaign for this began with the proposal floated by House Ways and Means Chairman Dan Rostenkowski, D-Ill., last March 11 in The Washington Post. That proposal called for an average of slightly over $39 billion a year in new taxes or $196 billion over five years, in return for some $316 billion in spending reductions or restraints.

The Rostenkowski proposal traded the elimination of the "tax bubble" and the freezing of all tax indexation plus $20 billion a year in gasoline and energy taxes in return for freezing all cost of living adjustments on entitlement programs, cutting defense 3 percent per year, and freezing discretionary domestic spending.

Not only does that package closely resemble the one considered by the NEC in early 1989 but it contains all of the elements to which Bush agreed in last Tuesday's statement, except "budget reform" and "growth incentives."

When Rosty's plan was launched it was given cautious support both by Bush and Darman even as it was cold-shouldered by the Democratic leadership. This suggests the beginning of a Darman strategy to set the "grand design" in motion.

Then on May 1 in a speech at Harvard, Darman argued that the deficit should be confronted head-on by real political risk takers. A week later, on May 8, Bush announced he would open a "no preconditions" budget summit on May 15, orchestrated by Darman's warning that the fiscal year 1990 and fiscal year 1991 budget deficits were soaring into dangerous territory.

From that moment Bush was trapped. All the Democrats had to do was threaten a summit impasse with its implications of rising interest rates and a falling economy (in an election year), and Bush had no choice but to abandon his no-tax pledge.

Now his only hope (and ours) lies in Darman's self-confident ability to negotiate something never achieved — a deficit reduction package that works and does not become another Dole-ful trap of higher taxes, higher deficits and slower growth.

Richmond Times-Dispatch

Friday, July 6, 1990

Where to Go

"They have no place else to go," an anonymous "close Bush adviser" said of angry voters in the wake of President Bush's tax flip-flop. Oh really? The White House's renowned grinders ought to take a break and travel somewhere, anywhere well outside the Beltway, where they will find a nation betrayed. In New Jersey, for example, White House staffers last week would have found a 40-mile-long caravan of mostly average folk, all protesting Democratic Gov. James Florio's huge state tax increase. Proclaimed one banner: "Read *Our* Lips!"

In Louisiana, Michigan, North Dakota, Pennsylvania and Washington, Mr. Bush's arrogant advisers would meet voters who rejected tax increases at the polls last November. In California, Colorado, Illinois, Massachusetts, Nevada and Oregon they would find voters contemplating tax limitation measures that will appear on the ballot this November. On an even shorter trip — 30 minutes, tops, at midday — they would find Fairfax County voters seeking to oust their entire county government over high taxes.

The overall tax burden is at an all-time high, 36.4 percent of the gross national product, and we think most people sense that their taxes are nearing the point where they can no longer afford to subsidize the irresponsible fiscal policies of their governments.

The idea that anti-tax voters will pull the lever for Republicans no matter what, on the reasoning that Democrats are even worse tax-increasers, is seriously flawed. Stuart Butler, director of domestic policy studies at The Heritage Foundation, put it well. Such an arrogant notion "is overlooking the fact that they are a constituency that is mad as hell."

There would not be such cause for anger if there were some believable signs from the White House that the president at least would continue to resist taxes. His campaign rhetoric — "Read my lips. No new taxes!" and "The surest way to kill economic growth in this country is to raise taxes" — seemed unequivocal. It seemed to indicate that he, like his predecessor, would fight efforts to increase taxes. So powerful were those words that Democrats mostly were afraid even to mention the T-word. And 17 months into his presidency it appeared that holding fast would work. But when the crucial moment came, when Democrats threatened to hold their breath at the budget negotiation table, Mr. Bush revealed that he really didn't believe his own words.

He opted instead for the conventional Washington wisdom, which is to say he abandoned efforts toward fiscal discipline and agreed to stab his supporters in the back. Then aides were sent out to twist the knife. First President Bush himself declined to push spending cuts and budget reform at a news conference the day after his capitulation to Democrats. Then came the arrogant adviser telling voters that they have nowhere else to go. To cap things off in a moment rich with irony and conceit, a White House spokesman was trotted out to disavow Kansas Republican Sen. Robert Dole's claim that income tax increases would not be on the budget bargaining table. Mr. Dole was perhaps the first victim of the "no new taxes" pledge, taking a pasting in the New Hampshire primary when candidate Bush portrayed him as a hopeless tax increaser.

The Inside-the-Beltway establishment likes to think that voters can be neutralized when both parties take the blame for some horrendous policy decision. Or in this case, the decision not to decide to exercise the tiniest bit of spending discipline. Those who think voters have no place else to go but a systemically corrupt, spendthrift establishment — and by that we don't mean criminally corrupt, but that the nation's system of government itself is being corrupted by inside politics — are wrong. Stunning policy reversals conducted with the sort of contempt for voters displayed in Mr. Bush's tax reversal are the sort of thing that dispirits potential supporters and breeds primary challengers. Voters always have options, including the option not to vote.

The Dallas Morning News

July 5, 1990

Bush gets mixed reaction on tax reverse

CARL P. LEUBSDORF

When President Bush hosts the Economic Summit next week in Houston, he'll undoubtedly please his seven guests when he outlines the progress on deficit reduction that now seems possible because of his reversal on increased taxes.

That's because the visiting leaders are likely to view his decision as at least partially designed to answer their persistent theme that U.S. failure to reduce its budget deficit was having a negative impact on the world economy.

The domestic reaction has been considerably less enthusiastic. But it will take some time to determine the extent of potential damage sustained by the president and his Republican Party.

For example, polls show that a majority of Americans never expected Mr. Bush to keep his 1988 vow of "no new taxes." Other presidents have made pledges they abandoned, from Woodrow Wilson's vow not to send Americans to fight in World War I to Franklin Roosevelt's 1932 pledge to balance the budget.

But Mr. Bush faces something that neither Mr. Wilson nor Mr. Roosevelt had to confront, the prospect of a steady drumbeat of television commercials showing him making the broken promise.

Reactions to the president's embrace of "increased tax revenues" appear to vary substantially. The strongest negative reaction is clearly within the Republican Party.

Vows to oppose any new taxes were quickly issued by a number of Republican office-seekers.

White House chief of staff John Sununu, reflecting what some critics said was a failure to anticipate negative reaction, unsuccessfully sought to peddle the argument that nothing had really changed. But it's hard to believe that Mr. Bush and his budget director, Richard Darman, didn't understand the import of what they had done.

Meanwhile, the GOP's top congressional leaders have taken a low-key approach. One reason is that they know they will have the responsibility for rounding up Republican votes for whatever budget package eventually emerges.

Democrats, though, are talking more optimistically than they have in some time, hoping the situation will help them shed the "tax and spend" albatross that has plagued them in recent campaigns.

Many rank-and-file members are denouncing Mr. Bush for what they regard as duplicity, declaring in effect that "we told you so."

But party leaders, who had long urged Mr. Bush to take the first step, are commending him for finally doing so.

"What has happened is that an obstacle to reaching an agreement has been removed," Senate Majority Leader George Mitchell said Sunday on CBS-TV's *Face the Nation*. "The obstacle was placed there by the president, and so it was up to the president to remove it."

But Mr. Mitchell underscored the difficulties that lie ahead by noting that the Democrats have made clear that no budget agreement can be passed unless a majority of Republicans in both houses join a majority of Democrats in voting for it.

That requirement seems likely to put an additional burden on Mr. Bush, who will have to persuade colleagues who have to face the electorate this fall to join him in abandoning a course that has proved popular with voters.

He will, of course, be helped by the fact that his popularity remains extraordinarily high. He showed last week that he was willing to use his political capital, noting that, despite the flak, "that's what I get paid for."

But his task could be rendered especially difficult by a deficit reduction package containing provisions likely to antagonize many parts of the electorate, such as so-called sin taxes on cigarettes and beer, cutbacks in Social Security and other entitlements, or higher energy taxes.

In the end, as the president told reporters, everything depends on results. If the result of his reversal is to produce an agreement that reduces the deficit and maintains the economic expansion, Mr. Bush and his party will benefit.

Unfortunately for many Republicans, the ultimate economic verdict won't come until after they have to cast their votes and face the voters this fall.

The Washington Post

Wednesday, July 4, 1990

Robert J. Samuelson

Tax Increases We Can Live With

Let's keep this tax thing in perspective. Suppose Congress and the White House decide to raise taxes $25 billion. That's less than a 2.5 percent increase in overall federal taxes. Suppose that ultimately another $25 billion is needed to close the budget deficits. The total still represents less than a 5 percent increase. No one likes to pay higher taxes, but these amounts won't impoverish most Americans or cripple the economy.

How will we get hit? Higher "sin" taxes on cigarettes, beer and liquor seem likely. So are steeper "user fees" for, say, airline passengers. The impulse of Democrats and Republicans alike is to construct a package of many small—and highly technical—increases so that no one sees much impact. The budget summit should do better than that.

It should not just raise taxes but should do so in a way that makes the overall federal tax system fairer and more efficient. How about a "carbon tax": a tax on oil, natural gas and coal? This would depress energy use, air pollution and emissions that contribute to the "greenhouse effect." How about taxing capital gains (the profits on the sales of stock or other assets) when people die? Closing this loophole, which benefits mainly the wealthy, could raise at least $2 billion to $3 billion a year.

As they go about this political drudgery, the White House and Congress should adhere to three guidelines:

First, keep income-tax rates low. A tax system with high rates and many special tax breaks (credits, deductions, income exclusions) invites abuse and waste. Hordes of tax lawyers and accountants are deployed to help people and companies minimize their taxes. Investment decisions are skewed by tax breaks. The 1986 tax-reform act was an attempt to get away from this sort of system by lowering tax rates and eliminating some tax breaks. We shouldn't backtrack on it.

One bargain that's being talked about is a bad one. It would have congressional Democrats accept the Bush administration's cut in the capital-gains rate, while the White House would allow the top income-tax rate to be pushed up to, say, 33 percent for the richest Americans. This would give the rich a break with one hand and take it away with the other. There's no evidence that a lower capital-gains rate would increase jobs or investment. But it would spur frantic efforts by the rich to convert ordinary income into capital gains. The higher tax rates go, the more reason people have to seek tax shelters or, more insidiously, lobby for new ones.

Second, spare the poor and lower-middle class. Indeed, they should get some tax relief, because their incomes have stagnated. Between 1980 and 1988, the average income of the poorest fifth of families dropped slightly from $5,490 to $5,424 (in inflation-adjusted "1988 dollars"), reports a study by the House Ways and Means Committee. Incomes for families in the second fifth rose from $14,012 to $14,311. Meanwhile, the average incomes of the wealthiest fifth rose from $62,864 to $72,759. Protecting these people from new taxes is not just a matter of fairness or decency. Squeezing their incomes lessens their chances of making it on their own—and increases the chances they'll end up on welfare, homeless or in jail.

Third, remember that some taxes do good things. It's in everyone's interest to reduce air pollution, greenhouse gases, oil imports and traffic congestion. The case for a "carbon tax," or something like it, is that the broader social costs of energy use aren't fully reflected in today's fuel prices. Likewise, the case for raising taxes on beer, wine and liquor is that too much drinking—which presumably would be discouraged by higher prices—causes more car accidents.

Anyone can concoct a tax package with the help of a fat volume of suggestions from the Congressional Budget Office (the official title, "Reducing the Deficit: Spending and Revenue Options"). Doubling the cigarette tax from 16 to 32 cents a pack would raise about $2.8 billion annually. Increasing the airline-ticket tax from 8 to 12 percent would raise about $3 billion. The trick will be creating a package that's both sensible and fair.

For example, higher excise taxes would hurt lower-income people most because the taxed items (fuel, cigarettes or alcoholic beverages) typically represent a larger proportion of their expenses than for higher-income people. So any excise-tax increases ought to be accompanied by income-tax cuts for people in the lowest brackets. That would require a bigger tax increase on someone else.

No tax increase is painless. A "carbon tax" has predictably offended the coal companies that would be hit hardest. A proposal by Rep. Fortney (Pete) Stark, Democrat of California, would impose over five years a tax of $15 per ton of coal (equal to about 50 to 70 percent of today's price), $3.25 per barrel of oil (or about 8 cents a gallon) and 40 cents per thousand feet of natural gas (equal to about a 7 percent retail-price increase). Coal is most affected because its carbon emissions are highest; the industry foresees big job losses.

As these matters are debated, there are two misconceptions to avoid. The first comes from liberals, who—having condemned budget deficits for a decade—now envision huge benefits from eliminating them. In fact, the possible gains (primarily more investment) are quite long-term and could easily be squandered if bad tax increases support wasteful spending. The conservatives' misconception is that burdensome new taxes will permanently destroy the economy's capacity to grow. Conservatives should have more faith. The economy's underlying vitality is strong enough to withstand modest new taxes.

Balancing the budget is the best way of disciplining government. It ensures that spending is important enough to justify taxes. If the budget summit does its work well, it should be able to produce a tax package that not only is fair but ultimately makes the nation better off.

The Boston Globe

TUESDAY, JULY 3, 1990

Income tax still on Bush table

White House denies rate hike ruled out

By John W. Mashek
GLOBE STAFF

KENNEBUNKPORT, Maine – President Bush refused yesterday to rule out an income tax increase on the wealthy as part of a deficit reduction agreement.

Deputy press secretary Alixe Glen, responding indirectly to a comment by Senate Minority Leader Bob Dole (R-Kansas) that Bush wants no change in income tax rates, said, "I think that's Senator Dole's personal position."

"The president has said a thousand times, no preconditions, everything's on the table," Glen said. "And we have weeks and months ahead of us to iron out exactly what the final budget is going to include and entail."

She said there had been no presidential assurance to Dole or any other Republican in Congress that an income tax increase is out of the question.

Some conservative Republicans are saying privately that they could go along with a tax boost on the wealthy if the Democrats would approve a cut in the capital gains tax.

The change being talked about most is to raise the highest marginal rate on individual taxes from 28 percent to 33 percent. Bush has placed a high importance on lowering the capital gains tax and might accept the increase in income rates if the Democrats are willing to go along on the capital gains tax.

Other taxes being mentioned are increasing gasoline taxes at the pump along with an import fee on oil, plus an extension of the telephone excise tax and higher taxes on alcohol and tobacco.

Last week Bush acknowledged for the first time that "tax revenue increases" would be necessary to cut the spiraling deficit. Republicans who tied themselves to his "no-new-taxes" campaign promise were upset.

At yesterday's briefing here, Glen reaffirmed Bush's position that "there are no preconditions, everything is on the table – with the exception of politics, perhaps, as demonstrated last week."

The Boston Globe

TUESDAY, JULY 3, 1990

Pierce's campaign philosophy

ROBERT L. TURNER

President Bush's some-new-taxes statement last week added to the current list of difficulties facing Steven D. Pierce, the Republican candidate for governor – a list that includes a lackluster primary campaign and modest fund-raising.

That, at least, is a common view – among Republicans as well as Democrats.

But Pierce has gone a long way this year by focusing calmly and carefully on a few targets, and by ignoring problems he couldn't do anything about.

"My philosophy is you play the hand that's dealt to you," Pierce said yesterday in an interview. "Don't worry about what you can't change."

Pierce says he is in a very strong position to beat William F. Weld for the Republican nomination in September. And while he would be an underdog against any of the three Democrats at that point, he said confidently, "We're on a track to win."

That is Pierce's target now. He believes all three Democrats can be tied to a Beacon Hill establishment that has paralyzed state government and damaged the overall state economy.

The Democrats, of course, have another view: that the Republicans' role in the mess, while minor, was almost totally negative. Some Democrats feel this view will sell.

But Pierce, who says he believes he is doing more personal appearances than any candidate, asserted yesterday there is still a very strong feeling of "anger and anguish" among voters, especially against the Democratic leadership.

Francis X. Bellotti and Evelyn Murphy will be relatively easy to tie to the problem, according to Pierce. As for John R. Silber, "his ties are less visible but no less real." Pierce referred to Silber's backing from such insiders as Senate President William Bulger and former Boston Mayor Kevin White, and he added that Silber "isn't qualified, either by experience or by temperament."

Silber, said Pierce, "has a propensity not to listen and to have all the answers. We already have a governor like that." Voters, he said, know there is "a need for someone who knows how government works."

Pierce acknowledged that Silber is attracting voters frustrated by the existing situation – voters who might also look to a Republican. "He's new and he's hot," Pierce said of Silber, but refused to say he would be a tougher opponent than Bellotti or Murphy. "I don't know," said Pierce. "He would be different."

Of course Pierce might have been exercising what he calls "my legendary caution" – labeling Silber his strongest potential opponent might help make it happen.

Caution does not mean insensitivity to attack, however. Pierce has downplayed his primary campaign because he believes he is ahead and is not threatened with upset at the moment, and because he believes the Democrats cannot be adequately targeted in the seven-week general election campaign.

But he said he expects the primary to heat up and indicated he would likely debate Weld again.

To Weld's charge that Pierce's failure to declare himself a Republican in his broadcast advertising represented a "betrayal" of the party, Pierce reacted sharply, saying, "that is as offensive as it is ridiculous."

Pierce acknowledged that his fund-raising is short of its goal – "Are we where we want to be? No we're not" – but added that the flow, of over $100,000 a month consistently, has been adequate.

As for Bush's flip-flop on taxes, Pierce said he did not feel let down at all, since the state and federal situations are so different, though he acknowledged some voters may be confused by it.

Pierce then seemed to illustrate the problem when talking about the state budget – the key credential he brings to the campaign.

Pierce said his is "a strong position that we not raise taxes in the next four years" both to control state spending and to stimulate the overall economy.

But at nearly the same time he said, "People don't necessarily take literally what candidates say. What they're looking for is an expression of intent."

Pierce's expressions are calm and carefully targeted. He has been underestimated consistently. But his credibility with the electorate is still to be shown.

Robert L. Turner is a Globe columnist.

THE WALL STREET JOURNAL

THURSDAY, JULY 5, 1990

Want More Money, Mr. Bush? Cut Taxes

By Alan Reynolds

Those who spent the past week trying to divine the meaning of President Bush's words on taxes focused on one phrase. Early on—the first time the issue came up publicly—the president acknowledged a need for greater "tax revenues." Later, at the week's end, the president said that in his negotiations to solve the budget problem a number of things would be considered "including tax increases." The difference here between "higher tax revenues" and "tax increases" is crucial. The important fact is that, the government's new posture notwithstanding, the two do not usually coincide.

One way to raise tax revenues, Mr. Bush's first stated goal, would be to cut the capital-gains tax. Ever since maximum tax rates on capital gains were increased by 65% after the 1986 reform, many more investors have preferred immediate interest income to possible future gains. Companies in recent years have catered to this preference by increasing their debt/equity ratios through stock buybacks and leveraged buyouts. The result has been larger corporate interest deductions, and therefore smaller taxable profits.

A lower capital-gains tax would therefore raise corporate tax receipts by tilting the debt-equity decision back toward equity, while making it possible for credit-constrained small entrepreneurs to raise capital by selling stock. Interest rates would be held down by the reduced business demand for credit, as well as by the increased incentive for individuals to hold taxable bonds for capital gains, thus reducing the government's interest expense.

Capital-Gains Advantage

A lower capital-gains tax would also increase the pace at which capital gains were realized, raising revenues directly as well as through the increased economic growth arising from more efficient mobility of capital. It would bid up the value of assets subject to the capital-gains tax and thus raise the amount of taxable gain, move more venture capital out of tax-exempt funds into the hands of taxable individuals, raise personal incentives to save and to take longer-term risks and greatly reduce the cost of the S&L bailout by raising the value of the thrifts' real estate and bonds. A lower capital-gains tax could shave tens of billions off the deficit.

As the chart shows, inflation-adjusted federal revenues have expanded at an unprecedented rate since fiscal 1983. Measured in constant 1982 dollars, tax revenues were nearly stagnant during the 1970s, hovering between $500 and $600 billion. Since 1980, real federal revenues have increased by more than one-third! Tax collections are about the same percentage of GNP as they were 10 years ago, but, thanks largely to the Reagan tax cuts, the U.S. economy is nearly one-third larger—largely because the 1980s were the years of important tax cuts.

If the government in 1980 had instead set out to increase taxes by one-third, average federal tax rates would have had to have been increased by one-third. It is hard to believe the economy could have grown at all in the 1980s under such an onerous tax increase, much less experienced, as it did, a huge increase in growth.

Even a seemingly modest increase in tax rates on incomes or sales can be self-defeating. In the short run, it can cause a recession. In the long run, it can slow economic growth. Yet the U.S. government's own budgetary accountants' revenue estimates from various increases in tax rates always assume that taxes do no damage whatsoever to the economy.

The Congressional Budget Office predicts, for example, that a one percentage point increase in the corporate tax rate would yield an extra $1.3 billion next year, on the untenable assumption that it would have no effect on corporate investment or employment. But if it really had no effect, then an extra $65 billion could be collected by simply raising the corporate tax rate to 84%. A $5 oil import fee is likewise supposed to raise $7.7 billion on the assumption that higher energy prices do no damage. If that made sense, we could raise $65 billion by imposing an oil import fee to raise prices to $60 a barrel.

Consider a less-extreme example, the $3.8 billion that is said to be available if the president and Democratic leaders opt for what is currently a popular "budget fix": Raising marginal tax rates on high-income families to 33% from 28%. This is proposed as a "trade" for a lower capital-gains tax, even though young professional couples with high salaries often have negligible capital gains, while people nearing retirement have large capital gains and small taxable incomes. Since tax reform made the average tax rate virtually the same as the marginal rate among the top-bracket taxpayers, an increase of 5 percentage points in marginal rates amounts to a brutal increase of nearly 18 percentage points in average tax rates. That increase would amount to a $10,000 added burden on a taxable income of $200,000.

To avoid that, though, affected taxpayers would hold more tax-exempt bonds and make greater use of the lower alternative minimum tax; many more salaried people would become self-employed; professionals would play more golf and retire earlier. The alleged $3.8 billion revenue increase, which assumes that people don't react to their taxes, would soon turn out to be an "unexpected" loss.

Raising the top tax rate to 33% could hurt the economy, and therefore the budget, in many different ways. The higher tax rate on interest income and dividends would raise interest rates and sink the stock market by reducing the demand for taxable securities. Those losses in the stock and bond markets would in turn damage the budget (through higher interest expense, lower capital-gains tax receipts, weak taxable sales and profits due to reduced wealth, etc.). The result of such a higher tax rate could easily widen the budget deficit by tens of billions of dollars for many years to come.

The alleged beneficial effect of higher tax rates on savings is another myth arising from static accounting. The whole idea assumes that higher tax rates would in fact yield higher revenues over time, that higher revenues would actually be devoted to reduced deficits and that increasing the government's revenue at the expense of the private sector would not reduce the private sector's ability or willingness to save. Not one of these assumptions is consistent with experience. Instead, the ability of private households and firms to save would be seriously undermined by higher tax rates on what people earn or buy, and the value of U.S. stocks, bonds and real estate would also be depressed by the reduction in prospective after-tax returns.

Actually, the U.S. has had some instructive experience with trying to raise federal revenues by increasing the tax share of GNP, rather than by increasing GNP itself. The first major effort was in mid-1932, when individual income tax rates were roughly tripled. Revenues subsequently fell by 16%. The next experiment was the surtax of 1969-70. Interest rates rose sharply for many months after the higher rates were imposed, falling only as the economy was shoved into a recession that did not end until the surtax was removed.

Measuring by the GNP

Then there were the unlegislated tax increases resulting from inflation and "bracket creep" in 1974-75 and 1981-82, when revenues once again declined with the contracting economy. In fact, federal tax receipts have never exceeded the current 19.6% of GNP since World War II without tipping the economy into recession. The option of attaining significant and sustained "tax revenue increases" through higher tax rates is a politicians' illusion; it has never worked.

Couldn't the contractionary effect of higher tax rates be offset by an easier monetary policy? Not really. Even if higher tax rates generated more real revenue, which they do not, it makes no sense to argue that smaller deficits justify any easier monetary policy than would otherwise be appropriate. This amounts to saying that if the government sold fewer bonds, then it could safely print more money. But bonds and money are not at all the same. Higher tax rates would weaken the supply side of the economy, while an easy money policy merely stimulates spending or "demand." The result of that "policy mix" is always stagflation—witness Britain.

There is actually only one way in which real tax revenues can be significantly increased over the next decade, and that is the same way that real revenues were increased over the past decade—namely, by increases in employment, profits, capital gains and sales. That is why President Bush's proposed "growth incentives"—lower tax rates on capital gains—are not at all inconsistent with real and sustainable "tax revenue increases." Higher tax rates, on the other hand, are inconsistent with growth incentives, and therefore with the preservation of the past decade's remarkable increase in real revenues.

THE WALL STREET JOURNAL

THURSDAY, JULY 5, 1990

Proposal to Tax Sale of Securities Considered by Bush Administration

Levy on Vending of Stocks, Bonds Weighed as Tool To Cut Budget Deficit

By JEFFREY H. BIRNBAUM And ALAN MURRAY
Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON—Top Bush administration officials are considering a proposal to impose a tax on the sale of securities as a way of reducing the budget deficit.

The so-called securities transfer excise tax, which could impose a levy of as much as 0.5% on sales of stocks, bonds, futures contracts and other instruments, is getting serious consideration in the White House primarily as a way to satisfy Democrats that the coming tax package won't be a giveaway to the affluent. Treasury Secretary Nicholas Brady and Budget Director Richard Darman are said to be intrigued by the idea, but not committed to it. Administration aides term the tax a "live option."

Revenue-raising proposals are popping up all over the capital now that President Bush has declared that tax increases are needed to tame the federal deficit. The proposals that carry the most weight, however, are those being discussed within the generally anti-tax Bush administration.

The fact that the securities tax is being floated by Bush aides is causing alarm from Wall Street to LaSalle Street. The Securities Industry Association has written to Secretary Brady detailing objections to such a tax and asking him to oppose it. And Rep. Dan Rostenkowski of Illinois, who chairs the House Ways and Means Committee and is an advocate for the commodity exchanges, has drawn applause from audiences back home when he makes a point of saying he intends to fight a transaction tax.

The securities tax could offer a way out of a dilemma that faces the budget negotiators. The Bush administration wants any tax package to include a cut in the capital-gains rate. But Democrats in Congress say a capital-gains cut is a giveaway to the rich. They are demanding that the president also agree to raise taxes on the wealthy by boosting the top income-tax rate for high-income Americans to 33% from 28%.

In an effort to avoid boosting the top tax rate, administration officials are looking for other ways to tax the wealthy. The securities transfer excise tax is one proposal that has caught their attention. Administration officials note the tax was proposed in 1987 by former House Speaker James Wright (D., Texas).

The most often discussed securities tax would impose a 0.5% levy on the value of security sales. To bring in the most revenue, the tax would be assessed on individuals, corporations and tax-exempt institutions such as pension funds. In its broadest form, it would apply to the sale of stocks, options and debt, with the exception of Treasury securities. It would also apply to Americans trading on foreign exchanges.

The nonpartisan Congressional Budget Office estimates that such a tax would raise $7.8 billion in its first year and $57.7 billion over five years.

The budget summit talks between White House aides and congressional leaders are moving toward a deficit-reduction pact that would cut about $50 billion from the projected fiscal 1991 deficit, with about half coming from tax increases. The securities tax could provide a substantial chunk of that revenue.

But whether the tax is actually a tax on the wealthy is likely to become the source of considerable debate. Pension funds are among the most active traders of securities, and they will probably try to portray the tax as a levy on the retirement funds of working people.

Officially, the White House is staying mum about its tax-increase preferences. White House Chief of Staff John Sununu told reporters Tuesday that the president's tax statement last week has "gotten the summit started again." But, he added, administration officials "do not want to negotiate in public, nor do we want to tip our hands in public."

Still, he said, neither he nor other top administration aides "underestimate the understanding of the American people that something significant has to be done about the deficit."

Securities industry lobbyists aren't underestimating the possibility of a transfer tax. On June 22, two top officials of the Securities Industry Association wrote to Treasury Secretary Brady noting with some distress that "a securities transaction excise tax has resurfaced as a possible revenue raising measure."

The letter, signed by the association's chairman, Robert Downey, and president, Edward O'Brien, went on to state: "We ask you to oppose this type of tax as a new source of government revenue. Few other taxes would be as strongly opposed by our industry, which has witnessed the deterioration of market liquidity and declining volume since the 1987 market crash."

In the past week, Wall Street representatives have combed Congress to talk about their securities-tax anxiety. To bol-

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ster their case, they are circulating a 1987 study by the Congressional Research Service that indicated a 0.5% levy would decrease trading volume and cause a 9.3% decline in stock prices. "A tax on all stock transfers obviously would have an adverse effect on the stock market, and the effect could be larger than might be expected initially based on the relatively small size of the tax," the report stated. They also argued that the tax could force trading to go offshore.

One securities company lobbyist said the industry is so distressed by the notion of the tax that it might even oppose a cut in the capital-gains tax if it were linked to a broad-based securities transfer tax.

For its part, the commodities industry is focusing its lobbying energies not on the transfer tax but on trying to prevent the Securities and Exchange Commission from taking over the regulation of certain financial contracts from the Commodity Futures Trading Commission. But still, an industry lobbyist says, people in commodities "are holding their breath" about the transaction tax.

Chairman Lloyd Bentsen of the Senate Finance Committee has expressed interest in the tax. The Texas Democrat has publicly said he would consider increasing taxes on short-term trades as a way to discourage churning of stocks. Rostenkowski partisans are concerned that Mr. Bentsen's interest may go beyond such a narrow tax, however. They foresee the possibility of a battle between the two tax-writing chairmen over the issue.

But both Sen. Bentsen and Rep. Rostenkowski have indicated they would favor an increase in the top income-tax rate if the capital-gain tax were cut.

The Washington Times

Egg-watchers eye Darman

WARREN BROOKES

THURSDAY, JULY 5, 1990

In the snows of New Hampshire, President Bush rescued his dying dream for the presidency by accusing Sen. Robert Dole, Kansas Republican, of having a "secret tax plan" called the National Economic Commission (NEC).

That bipartisan "deficit reduction" commission, the brainchild of New York's Democratic Gov. Mario Cuomo, had found its way into the fiscal 1988 budget-summit agreement courtesy of Sens. Dole and Daniel Patrick Moynihan, New York Democrat. That followed the stock-market crash of 1987, which was falsely blamed on the budget deficit.

Incidentally, during that summit President Reagan also agreed to $29 billion in new revenues over the next two fiscal years (fiscal years 1988 and 1989) in return supposedly for some $76 billion in lower deficits. Instead, the 1988 deficit was $11 billion higher than agreed, and the 1989 deficit was $15 billion higher.

But as the Tax Foundation wisely points out, that has *always* been the pattern of budget summits. Since 1983, we have had six such summits out of the last eight budget years (fiscal 1983 through 1990), and in five of those six summit-produced budgets (all of which included higher taxes) the deficit *rose*. (See Table.)

Conversely, in the only two budget years where there was no summit and no new taxes (fiscal years 1984 and 1987), the deficit *plunged*, by $22.5 billion and $71.5 billion respectively.

So candidate George Bush had it exactly *right*. Yet last week Mr. Bush capitulated to almost exactly the same Dole-ful NEC scenario, so much so, ABC invited Messrs. Moynihan and Dole to trade smirks on the David Brinkley show.

Coupled with the tortured ineptitude of President Bush's press conference last Friday, this suggests a man caught by surprise in a trap not of his own making, rather than a leader wisely and courageously changing his mind.

It implied a politician either caving in to his enemies or being skillfully mugged by his own budget director. What lends credence to the latter view — now widely held among conservatives — is that the president's fateful statement was drafted during the meeting by Office of Management and Budget Richard Darman. There is no secret to the fact that Mr. Darman cherished the idea of the ultimate deficit reduction deal — the "grand design" that would wipe the really big stain off the Reagan fiscal legacy.

The way the more conspiracy-minded on the right have it goes as follows: Mr. Darman knew there was no way such a "mega-deal" could ever be arranged with the Democrats without breaking Mr. Bush's campaign pledge. Conversely, he knew that pledge would not be given up easily by the president.

He therefore had to get the president into a situation in which he had no choice but to make the deal Mr. Darman wanted — a deal which would trade enough new taxes to get the Democrats to give up enough on the domestic spending and "budget reform" issues, plus a capital-gains cut to make it worthwhile.

It is widely believed that Mr. Darman's campaign for this began with the proposal floated by House Ways and Means Chairman Dan Rostenkowski last March 11 in The Washington Post. That proposal called for an average of slightly more than $39 billion a year in new taxes or $196 billion over five years, in return for some $316 billion in spending reductions or restraints.

The Rostenkowski proposal traded the elimination of the "tax bubble" and the freezing of all tax indexation plus $20 billion a year in gasoline and energy taxes in return for freezing all cost-of-living adjustments on entitlement programs, cutting defense 3 percent per year, and freezing discretionary domestic spending.

Not only does that package closely resemble the one considered by the NEC in early 1989, but it contains all of the elements to which Mr. Bush agreed in last Tuesday's statement, except "budget reform" and "growth incentives."

When Rosty's plan was launched, it was given cautious support both by Mr. Bush and Mr. Darman even as it was cold-shouldered by the Democratic leadership. This suggests the beginning of a Darman strategy to set the "grand design" in motion.

Then on May 1 in a speech at Harvard, Mr. Darman argued that the deficit should be confronted head-on by real political risk-takers. A week later, on May 8 Mr. Bush announced he would open a "no preconditions" budget summit on the 15th, orchestrated by Mr. Darman's warning that the fiscal 1990 and 1991 budget deficits were soaring into dangerous territory.

From that moment Mr. Bush was trapped. All the Democrats had to to was to threaten a summit impasse with its implications of rising interest rates and a falling economy (in an election year) and Mr. Bush had no choice but to abandon his no-tax pledge.

One proof that Mr. Darman was orchestrating a Rosty-style tax program came in the quick White House denial on Monday of Mr. Dole's Sunday TV statement that the administration was not considering an income-tax rate increase. It is now clear a higher rate will be traded for a capital-gains rate cut, a terrible bargain.

The final proof could come this weekend at the G-7 summit if Mr. Bush confirms energy industry worries that he is planning to make virtue of necessity by proposing a 10 to 20 percent "Btu tax" on carbon fuels (coal, oil, gas) supposedly to reduce global warming but really to raise $20 billion to $30 billion for deficit reduction.

Such a sellout both on global environmentalism and taxes would ensure that Mr. Darman's "grand design" would become a grand delusion.

The Washington Times

Loose lips scare GOP

CAL THOMAS

THURSDAY, JULY 5, 1990

As a World War II veteran, President Bush ought to remember the phrase "loose lips sink ships." It was coined to remind Americans not to divulge any knowledge of U.S. troop movements for fear that the information might fall into enemy hands.

Now, Mr. Bush's loose lips about taxes may well have placed Republican ships in jeopardy for the fall election and torpedoed the conservative-center coalition that has governed successfully for the last decade.

Whatever the tax mix — even if limited to an increase in the "sin" tax on alcohol and tobacco, or a boost in gasoline taxes — the psychological damage has been done.

Secretary of Housing and Urban Development Jack Kemp tells me he is convinced there will be no increase in personal income taxes and that additional revenue will be raised by increases in other areas, by spending cuts and by revising the capital-gains tax structure, but the president gave no such assurance at his news conference last Friday.

A preview of the call for "tax-revenue increases" may have come in an encounter between Office of Management and Budget Director Richard Darman and conservative activist Paul Weyrich, who heads the Free Congress Foundation. The meeting took place at the end of May in the White House mess. As Mr. Weyrich, who was having lunch with someone else, prepared to leave, he stopped by Mr. Darman's table.

Mr. Weyrich recalls the conversation went like this:

Mr. Weyrich: "I hope you people understand the politics of what you're doing."

Mr. Darman: "What am I doing that could possibly interest you?"

Mr. Weyrich: "Raising my taxes."

Mr. Darman: "I don't get involved in politics. I'm into governing."

Mr. Weyrich: "With all due respect to the notion of governing, if the politics don't work out right, you won't be around to govern. This is not a policy difference; this is a question of the integrity of your boss."

As he left, Mr. Weyrich says he heard "uproarious laughter" from Mr. Darman's table.

He is right, though. The voters believed that Mr. Bush was a man of principle because of his consistency on the tax issue. Many have gone along with his stand on issues involving most-favored nation treatment of China, trade negotiations with the Soviets and Lithuanian independence.

But now that he appears — and appearances count in politics — to have conceded his strongest political bargaining chip, what's left to distinguish between Democrats and Republicans? Only abortion, and if he can fudge on taxes, what is to prevent him from doing the same on abortion?

House Minority Whip Newt Gingrich, Georgia Republican, strongly disagrees that the president has given anything away.

"We threw an interception and the other side, helped by the press, scored a touchdown, but this is a long game," Mr. Gingrich tells me.

"If the Democrats did not control the House and Senate, one of the first two Bush budgets, which met the Gramm-Rudman deficit reduction targets, would have passed," he says.

Mr. Gingrich is furious with the Democratic leadership, "a party whose last two presidential candidates asked for new taxes and insisted that President Bush utter the word 'taxes' before they would begin negotiations."

Mr. Gingrich calls Democrats "hypocritical" and "corrupt" and says they "haven't had the guts to bring spending under control."

He believes the Democrats "peaked on June 26," the day of the president's announcement that tax-revenue increases would be part of the budget summit negotiations. He says the Republican leadership wants real budget cuts that will be locked in for five years and that if they don't get them, "there is no deal, period."

"The Democrats have raised the ante on their failure to help George Bush govern," says Mr. Gingrich. "He's done everything he could to placate the party of tax addicts."

But that is the problem, isn't it? Placating and leadership are two different routes that lead to different destinations.

Stuart Butler, domestic policy director at the Heritage Foundation, correctly notes that tax increases will choke off the economic expansion faster than the deficit.

"The key difference between growing and stagnating economies," wrote Mr. Butler in the New York Times, "is not whether governments run a surplus or a deficit, but the total cost of government. Whether government finances its activities by borrowing from its citizens (a deficit) or simply confiscating their money (taxes) is secondary to how much money government consumes."

Mr. Bush notes that Ronald Reagan caved in to the tax-and-spend liberals in 1982. That proves the point for Mr. Bush's critics, not for him. The tax boost was not used to reduce the deficit but for new spending programs. Without something more than promises from the Democrats, any new taxes will throw more good money after bad.

Politically, the president's new posture on taxes is going to hurt Republican congressional candidates in the fall election. Republicans, who ought to be confident with a president of their party in the White House, are nervous. You can tell by their quivering lips.

The Washington Times

CHRISTOPHER MATTHEWS

THURSDAY, JULY 5, 1990

. . a peek at the cards

President Bush and Congress have begun assembling a $500 billion package of tax increases and spending cuts to take effect over the next five years. The most important obstacle to this package, the president's "read my lips" opposition to higher taxes, has now been passed.

"There will be no more speeches," House Budget Committee Chairman Leon Panetta, California Democrat, said as Congress broke for the July Fourth recess. "The serious negotiations have begun."

Based on interviews with top Capitol Hill sources and documents floated by Mr. Bush's budget director, Richard Darman, here are the most likely ingredients in the $500 billion package:

(1.) A jump in the top marginal income tax rate to 33 percent. Couples now pay a marginal rate of 28 percent on joint income above $150,000. Couples who make $75,000 to $150,000, however, pay a marginal rate of 33 percent.

This higher rate for those in the $75,000 to $150,000 range is called the "bubble." Democrats, including Ways and Means chairman Dan Rostenkowski, Illinois Democrat, want it popped. They want the top bracket raised to 33 percent.

Mr. Bush has no choice but to meet this demand. "If he [Mr. Bush] can't take any increases in rates," a top Capitol Hill Democrat said this week, "it's a deal-breaker."

Rank-and-file Democrats have made clear in a letter to House Speaker Thomas S. Foley, Washington Democrat, signed by 134 members, that they will reject out of hand any budget package that fails to target those making "more than $200,000 a year."

Asked what failure to eliminate the "bubble" would do to the deficit-reduction package, a House leadership aide was emphatic. "It would blow it up!" he said. Raising the top marginal rate to 33 percent and eliminating the "bubble" would raise $44 billion in federal revenues over the next five years. Most of the new taxes would be paid by those Americans making incomes of more than $200,000.

(2.) Higher taxes on Social Security benefits. Today, retired couples pay federal income taxes on 50 percent of their Social Security benefits, but only to the extent such benefits increase their total income beyond $32,000.

To meet President Bush's call for "entitlement and mandatory program reforms," congressional Democrats are looking seriously at a plan to increase the percentage of taxable Social Security benefits from 50 percent, the current level, to 85 percent. This would produce $20 billion in federal revenues over the next five years.

(3.) Defense cuts. Mr. Panetta is now pushing a $276 billion cut over the next five years. House Democrats take the position that this 27 percent cut in Pentagon spending is consistent with Defense Secretary Richard Cheney's commitment to a 25 percent cut in military forces over the same five-year period.

(4.) Capital Gains. Mr. Bush won House approval last year of a measure cutting the capital-gains tax to just under 20 percent. He also had a majority of U.S. senators behind the proposal before being stymied by a procedural roadblock.

Mr. Panetta sees capital-gains reduction as a possible bargaining chip in budget negotiations; in exchange for popping the "bubble," Democrats might agree to some action on capital gains. "That's the kind of symmetry you're looking for," Mr. Panetta said as the negotiators broke for this week's recess.

Americans should expect one last ingredient in the deficit-cutting package: Medicare. Mr. Darman has been urging big cuts in the money paid to hospitals for senior-citizen medical care.

None of these ingredients is particularly popular. All will cause pain and complaints. For Mr. Bush and congressional Democrats, the goal is not victory but damage control. To save $500 billion over five years, both sides know they must hit hard at the big areas of government funding: the Pentagon, Social Security, Medicare. To make those cuts sellable to the American people, the negotiators must hit hard at those wealthier taxpayers who benefited most from the tax cuts of the early 1980s.

To meet the country's fiscal crisis, the deficit-cutting package needs to be big. To win approval, it needs to be fair. As both president and Congress are learning, it also needs to hurt.

The Washington Times

DONALD LAMBRO

THURSDAY, JULY 5, 1990

Risky tax gamble . . .

"If George Bush had pardoned Willie Horton, or burned Old Glory on the lawn of the White House, it would hardly have rivaled the flip-flop he has committed on taxes."

That was the way the conservative Heritage Foundation angrily responded this week to the president's recent maneuver to get a deficit-cutting deal with the Democratic Congress. It reflected the sharp criticism he has received from both wings of his party — criticism that drove him into the White House press room last Friday to quiet the storm of outrage that has rained down on the executive since last week's attempt to jump start the stalled budget talks.

Among other things, Mr. Bush says he has changed his mind and that some "tax revenue increases" may be needed in a bipartisan budget agreement because the deficit is worse than it was in 1988 when he made his no-new-taxes pledge.

In fact, the deficit in flat-dollar terms is not that much worse when the savings-and-loan bailout costs are excluded from its calculations. The deficit was $150 billion in 1988. This year it is around $160 billion.

What is different is this: While the government needed to cut $12 billion to hit the Gramm-Rudman-Hollings deficit targets in 1988, it needs to reduce the deficit by $100 billion to reach the $64 billion target in the coming fiscal year. The economic picture is different as well. The economy was growing at nearly 3 percent in 1988, bringing in substantially higher tax-revenue increases. This year it is rising by barely 2 percent, reducing expected tax-revenue growth.

On the other hand, when this year's deficit is measured as a share of America's gross national product, the total of all the goods and services we produce, the deficit is equal to about 2.7 percent of GNP, the lowest level since 1981.

"If the deficit truly is about to cause the economy to collapse, as some in the administration and Congress would like Americans to believe, it seems curious that the economy did not fall apart in 1985, when the deficit was 5.4 percent of GNP," says budget analyst Daniel Mitchell in a stinging Heritage Foundation memorandum titled "Bush's Deplorable Flip-Flop On Taxes."

"If a deficit of 2.7 percent of GNP is a crisis, why did the economy grow in 1987, when the deficit equaled 3.4 percent of GNP?" Mr. Mitchell asks.

His point is a good one, reminding us that the deficit, as a percentage of GNP, has been declining and continues to do so. Deficits aren't the problem. The central issue is excessive government spending.

I think Mr. Bush understands this as he embarks on his risky gamble to extract a budget agreement out of the Democrats on Capitol Hill. Moreover, he believes that he can come out of these negotiations with the better deal — for the taxpayers in the long run and for the economy in both the short and long run with lower interest rates, more investment and new job creation.

The rules under which Mr. Bush is operating with Democratic leaders forbid him from saying publicly what he is for and what he is against. But a careful reading of the president's Friday news conference provides clues that there are tax lines he will not cross. Consider these statements:

- "I've got [anti-tax] preferences, strongly held preferences that people are familiar with, but I'm not going to reiterate them, because more important than my posturing . . . is getting a deal that is fair and good for the American people."
- "I think taxes wrongly applied can kill economic growth. . . . So I think we've got to be very careful as to how we get this formula to see that we don't kill off economic growth."
- In response to rumors that he will agree to increasing the top tax rate in exchange for a capital-gains tax cut: "I wouldn't put too much trust in that one." Senate Republican leader Robert Dole adds, "He's not going to raise personal income taxes." [The White House later disavowed Mr. Dole's statement.]
- Asked directly if there are lines "to be drawn in the sand" on taxes that he will not cross, the president replied, "Yeah, and they will be drawn in the negotiations."

What Mr. Bush believes but cannot say at this point in the delicate negotiations is that there is a grab bag of what he considers economically benign user fees, excise taxes and other non-income tax revenue-raisers he is willing to accept in exchange for significant spending cuts, budgetary reforms and economic growth incentives. He thinks that the right mix, with some major spending concessions, budget reform and economic growth incentives (i.e. capital-gains tax cuts) tied in, is politically marketable. And in the end he may be right.

But such an agreement must "cover all three aspects," he warns. "If it doesn't, there won't be an agreement. . . . "

The ensuing weeks will determine whether his gamble pays off. In the meantime, as he begins his daring, high-wire budget act, the future of his presidency hangs in the balance.

Chicago Sun-Times

TUESDAY, JULY 3, 1990

Bush and friends finally wake up to budget crisis

One of life's humorous ironies is the way conservatives, those apostles of fiscal responsibility, have pooh-poohed the deficit for the past decade that their guys have been in the White House. Ain't no big deal, they'd say, at least not big enough to raise taxes—even though interest payments on the national debt have become the government's third-largest expenditure and are enough to buy their Pentagon friends more than 500 B-2 bombers every year.

Dennis Byrne

Now, the latest joke is provided by President Bush's "discovery" that the deficit is a problem.

What bunk. Consider facts available to everyone even before Bush pledged "no new taxes":

- For the three decades after World War II, this country actually had reduced its national debt as a percentage of the Gross National Product. After funding World War II, the national debt in 1945 stood at 123 percent of GNP. But it gradually and steadily declined, through two more wars, to 33 percent in 1981, which just happened to be when master conservative Ronald Reagan took office. In just a few years, two decades of prudence were wiped out so that when George Bush hit the campaign trail, the national debt again exceeds half the GNP.
- Blame the problem on the huge annual budget deficits that began piling up in 1975, the largest deficits in terms of percentage of GNP recorded at any time since World War II. For the three decades after the war, the budget was almost as likely to contain a surplus as a deficit, and then the deficit usually ranged only from 0.2 to 1.5 percent of GNP. After 1975, though, the deficits skyrocketed, running some years as much as 6 percent of GNP. In 1975 alone, the deficit nearly equalled the combined deficits of the previous 15 years.

In the meantime, the burgeoning interest payments could have gone to useful things—instead of forcing up interest rates people have to pay on things such as homes and cars, thereby slowing the economy.

Sure, everyone is on an outrageous borrowing binge. But no one's borrowing appetite is as gluttonous as the federal government's. From 1975 to 1987, the federal debt increased 333 percent, compared with 235 percent for consumer debt and 242 percent for corporate borrowing. Even state and local governments, supposedly faced with their own cash crunches, have increased their debt only 147 percent. Consumer credit was just 15 percent of GNP in 1987, only two points higher than 20 years earlier. And corporate debt, fueled by huge borrowings to finance the takeover craze, still was only six points higher in 1987 than it was 20 years earlier.

Clearly the problem isn't simply excessive spending levels. Our national debt as a percent of GNP in 1987 was larger than in the New Deal and the Great Society, larger than during the big defense buildup of the Vietnam War. Even during the early Cold War and the Korean War, we were able to reduce the national debt as a percentage of GNP. What comparable national emergency have we experienced in the past decade to require that we now borrow our kids into the poor house?

More than spending, the bigger problem is our refusal to pay for what we want, whether it's guns or social services. And that problem is made all the worse by hypocrites like George Bush who, to get elected, cultivated the fiction that we could solve the deficit problem without self-sacrifice.

Dennis Byrne is a member of the Chicago Sun-Times editorial board.

Newsday
THE LONG ISLAND NEWSPAPER

End of an Era Also Brings End of an Error

SO PRESIDENT BUSH says he's going to raise our taxes after all.

What are we supposed to say? "Oh goody, we're all going to get to pay higher taxes?" See, that's what we tend to forget. All sensible people have known for years that this fiscal madness couldn't go on. But until now we've had the luxury of sitting around wringing our hands and acting smug on the theory that after Ronald Reagan and George Bush had finally wrecked the U.S. economy, we liberals would return triumphantly to power.

If we're no longer able to pin the stigma of fiscal irresponsibility on the president, what are we going to do? We can say he lied till the cows come home, but that is not a program.

Besides, Mary Matalin, chief of staff of the Republican National Committee, says Bush's about-face won't hurt the Republicans one bit. "This falls under the category of good government is good politics. Bad politics is ignoring the deficit and wrecking the economy."

Robert Reno

So *that's* what Reagan and Bush have been doing for the last 10 years. I knew they were up to something bad. As for you, Mary Matalin, bad government may not be a good thing, but don't knock it. It's won you three successive presidential elections. Besides, there is nothing more loathsome than a bunch of reformed sinners who run around reeking of piety and lecturing us on the need for "good government."

Good government, indeed. Ged oudda heer, Matalin.

Anyway, now that Bush has caved in so abjectly, he's naturally going to expect in return to have the larger voice in what kind of higher taxes we're going to have. Just watch, he'll demand any tax that falls most lightly on the wealthy and insist it be packaged with his pet proposal to help his rich friends, a reduction in the tax on capital gains.

In any event, we are witnessing the end of an era. Reagan took office in 1981 swearing to overthrow the liberal Keynesian revolution and to balance the budget. And of course, he proceeded to wildly unbalance the budget and to practice a form of fanatical Keynesianism of which even Lord Keynes would have disapproved. After 50 years of portraying the Democrats as big spenders and big borrowers, the Republicans switched places and got away with it. Now, President Bush has switched back. We are, make no mistake, witnessing the death of Reaganomics.

And it's not that big a deal. When Bush and Congress get finished raising taxes, total tax revenues in the United States will be about 31 percent of the gross national product, up from 30 percent. Canadian taxes come to about 35 percent of the GNP. In France it's 44 percent. Even in West Germany, which has the most vigorous private sector in all of Europe, they pay 37.6 percent.

You ask, so what was all the fuss about then? The fuss was about the fact that we could have had a balanced budget years ago at very little real cost. But the cost of not having one has been enormous. First an overvalued dollar resulting from the budget deficits destroyed America's competitive position in the world and led to the trade deficits that persist to this day. Average interest rates under Reagan and Bush have been higher than in any other decade in history. And we have frivolously passed on to our grandchildren and theirs a hideous legacy of debt.

THE PLAIN DEALER

SUNDAY, JULY 1, 1990

3-E

We wanted to believe lie

WASHINGTON

Julius Caesar was warned to beware the ides of March. For President Bush, it was the ides of July.

July 15 is the day the Office of Management and Budget shows the nation a "snapshot" of the federal budget for the first six months of the current fiscal year.

Actual figures on government revenue and spending between Oct. 1, 1989, and March 31, 1990, will show that the rosy economic estimates by the Bush administration cannot withstand the cold light of reality.

Bush already knows that. His budget director, the witty and wily Richard Darman, has given him a preview something like this: "Things look bad, boss. Worse than we thought."

The administration and Congress presented a budget for this fiscal year that claimed to reduce the annual deficit to $100 billion. But the July 15 snapshot will show a deficit of at least $150 billion and some say as much as $200 billion — and that's not even counting the billions to pay for the savings and loan bailout.

That magnitude of error is like a pilot flying from Cleveland to New York who winds up in Miami instead. It happened because of a conspiracy by the president and the Congress to accept overly optimistic assumptions about the economy rather than face the truth — that the federal government can't keep spending tens of billions more than it takes in without cutting expenses or increasing income.

We, the voters and taxpayers, were part of that conspiracy, too. We wanted to believe Bush's lips even though common sense told us they lied.

Only after Darman told Bush that things were worse than imagined did the president agree reluctantly to do something about it. If he had waited until after July 15, Bush would have looked as if he were reacting to a crisis.

Another motivating factor is next week's economic summit in Houston, where Bush will play host to six other leaders of the wealthiest Western nations. He didn't want to have to explain to his colleagues why he hadn't taken any action to deal with the deficit. The foreign leaders worry that an uncontrolled U.S. deficit could drive up interest rates worldwide.

One Republican congressman I saw quoted on television said, "The president is showing leadership. He's taking the bull by the horns."

Nonsense. What Bush did was put out a statement that said, "It is clear to me that both the size of the deficit problem and the need for a package that can be enacted require all of the following: entitlement and mandatory program reform, tax revenue increases, growth incentives. . . ."

That's leadership? It looks more like waving the white flag of surrender.

Bush practically went into hiding for three days after issuing the statement, saying only, "The statement speaks for itself."

On the fourth day, the president emerged to compare himself with Lincoln ("I'll think anew") and to say he would restrain himself from putting the blame on Congress.

The president's restraint did not have any more staying power than his promises. Before the news conference was over, Bush once again was telling the American people it was Congress's fault: ". . . . If I had control of this Congress, both houses, we might not even be talking about this today."

Bush's news conference was billed as a display of presidential leadership, but the president did not tell the American people what he would do to avoid $100 billion in automatic cuts in services required under the Gramm-Rudman law. Instead, he said, he would wait for a bipartisan solution to be hammered out by Congress and the White House.

When he summoned congressional leaders to the White House two months ago to ask for a budget summit, Bush said he would put no conditions on the deliberations. That was the first hint that he was abandoning his campaign mantra: "Read my lips: No new taxes."

Variations on that theme, by the way, included, "I will not raise your taxes, period"; "I've taken a pledge to the American people, and I'm going to keep it: No new taxes"; "You know my position, and I have no intention of changing that position."

Most disappointed by Bush's flip-flop are Republican congressional candidates, who, like their leader, had taken the pledge of no new taxes. Bush's advice for them sounded a lot like something Walter Mondale or Michael Dukakis might have said.

"Now, look, you've got to look at the big picture here," he said. "Stay with your position. Advocate what you believe. Tell your constituents what you'll try to do, and then just stay a little bit open-minded so when we get an agreement, and I hope we will, that is good for the country, then you can say, well, we can accept this. . . ."

After eight years of former President Ronald Reagan and a year and a half of Bush hanging the issue of taxes like a noose around the Democrats' necks, the Democrats finally had Bush where they wanted him. Like the emperor with no clothes, Bush's hypocrisy was exposed.

Instead of exploiting the naked truth, the Democrats rallied around Bush. "The president has concluded that tax increases are necessary, and we share the president's view," said Senate Leader George Mitchell. Privately, some Democrats could hardly contain their glee. They had gotten the president to cave in on the most important pledge of his presidential campaign. Some victory. After all the rhetorical abuse the so-called "tax-and-spend Democrats" took from Reagan and Bush, they might have let Bush sleep in the bed he made. But Republican candidates are already claiming that the Democrats are making the president raise taxes.

The irony for Bush is that he has probably guaranteed a primary challenge from the right just as the late John Ashbrook of Ohio challenged Richard Nixon for re-election in 1972. Republicans have won three straight presidential elections with the anti-tax pledge. They aren't going to surrender as quietly as Bush did.

Brazaitis is chief of The Plain Dealer Washington Bureau.

THE PLAIN DEALER

SUNDAY, JULY 1, 1990

11-A

Bush stubs his toe, and race is on for Democrats

By TOM DIEMER
PD BUREAU

WASHINGTON — Remember that loose talk about faint-of-heart Democrats taking a pass on the 1992 presidential election because they were so intimidated by President Bush's popularity? Forget it. The race is on.

A sudden series of presidential missteps, from a reversal on taxes to the bungled White House handling of the flag issue, has given the opposition renewed hope.

"The most valuable commodity any of us has in public life is credibility and George Bush's credibility is taking a hit on taxes, on family leave, on offshore oil drilling," said Rep. Dennis E. Eckart, D-11, of Mentor. "The next thing we are going to discover is that he really does like broccoli."

Bush's turnaround on taxes stunned conservatives who thought they would be reading his lips — "no new taxes" — at least through the 1990 elections. His acknowledgement that some sort of tax increase would have to be part of any meaningful deficit-reduction package delighted Democrats.

"The economic advice he is getting is not good, and facing a weakened economy in 1992, his choice is between his own re-election or throwing over a handful of Republican challengers in the 1990 elections," said Eckart, a regional co-chairman of the Democratic Congressional Campaign committee. "It was no choice — he chose to save himself."

A Republican strategist, asking not to be identified, gave the Bush decision a similar spin. "The green eyeshade types have won the internal battle," he said of the president's economic counselers.

Another GOP source with close ties to the White House said Bush's hand may have been forced by majority Democratic leaders who demanded a strong statement on taxes in exchange for progress in the budget summit talks. Oddly, when Bush bit the bullet he simply issued a prepared statement, rather than making an impassioned public pronouncement to the effect he was acting to save the country from financial ruin.

Bush rebounded at a news conference on Friday saying, "I've got to do what I think is right, " and quoting Abraham Lincoln: "I'm thinking anew."

"In one week, he's gone from Chauncey Gardner (a fictional couch potato) to Lincoln," scoffed George Stephanopoulos, an aide to House Majority Leader Richard A. Gephardt, D-Mo.

Taxes and Bush's well-known stand against abortion are only part of the issues-mosaic that seems likely to endure beyond November and into the 1992 campaign.

On Friday, the president vetoed a family leave bill that would have given workers up to 12 weeks of unpaid leave annually for births, adoptions or family illnesses.

"Once again the president has gone back on a campaign promise," said Sen. Howard M. Metzenbaum, D-O. "It is now clear that the commitment he made to parental leave was only election-year lip service. With this veto the president tossed his professed concerns about the family on the rubble heap."

Later this summer his veto pen will be challenged by a costly clean-air bill and civil-rights legislation designed to strengthen affirmative action programs.

Bush is betwixt and between on several sticky issues: He is for civil rights but not quotas; he is for clean air but not if it costs a fortune; he wants to protect the spotted owl, but not at the expense of thousands of logging jobs, and he will restrict offshore drilling for oil — at least until the next decade.

"It is catching up with him," said a hopeful Democratic aide.

Democratic pit bulls are trying to pin the blame for the horrendous savings and loan scandal on Bush too, but that won't be easy.

"It is a little tough when four out of five 'Keatings' are Democrats and St Germain wrote the bill that messed everything up," said Rep. Ralph S. Regula, R-16, of Navarre, a Bush loyalist in the House. "Jim Wright and Tony Coelho resigned in part because of involvements in S&Ls."

All of these are prominent Democratic names, of course.

Amid calls for tougher, swifter prosecution of the S&L bandits, the Senate Ethics Committee will try to decide this summer whether Sen. John H. Glenn, D-O., and four colleagues violated Senate rules when they intervened with regulators on behalf of Charles H. Keating Jr.

Former Rep. F. J. St Germain, D-R.I., cozy with the S&L industry, helped enact the deregulation early last decade opening the door to abuses that may cost taxpayers hundreds of billions of dollars. He lost his seat in the 1988 election.

In addition, regional differences over sharing the astronomical cost of the S&L bail-out could overshadow partisan conflicts.

"Our citizens are being asked to take millions of their tax dollars to pay for collapsing institutions in other parts of the country," Rep. Marcy Kaptur, D-9, of Toledo, complained in a recent floor speech. "In fact, last year Ohio was one of 17 states with a positive net income for its thrift industry."

Former White House political director James Wray said the convergence of a number of key issues would test the White House, but they could yet end up as plusses. "It is too early to tell just how they will play out."

"It would appear most of the candidates are going to hold the line in terms of their own campaigns and say they do not favor any kind of a tax increase," said Wray. "This might be one of those issues on which they have to break ranks with the president."

Ohio Republican Chairman Bob Bennett said Bush can survive the tax scare as long as whatever is enacted does not directly affect the pocketbooks of middle-class Americans.

"I don't think it is going to have an impact because I don't think he's going to touch income taxes on the corporate or personal side," Bennett said.

For the summit talks to reach any sort of consensus on trimming annual deficits, the Democratic negotiators will be obliged to accept slowdowns or freezes of popular entitlement programs — perhaps even cost-of-living increases for retirees.

"You are not going to accomplish a summit agreement with just defense (cuts) and taxes," said Sen. Pete V. Domenici, R-N.M.

But for the time being, the Democrats have regained their footing. They seem ready to test whether wide public affection for Bush has enough depth to withstand the unpopular decisions that every president is eventually forced to make.

The measure of their own confidence will be reflected by the public utterances of men like Gephardt, New York Gov. Mario Cuomo and Sen. Bill Bradley, D-N.J. — the reluctant ones who had all but taken themselves out of the running for 1992.

"I think it is safe to say the honeymoon is over," said Roger J. Stone, a Republican media consultant. "I think you will see a lot of candidates who have written this race off begin to reasess it.

"I do think Bush will be tough to beat," he added.

CHATTANOOGA NEWS-FREE PRESS

WEDNESDAY, JUNE 27, 1990

GOP Dismayed, Demos Gloating Over Tax Issue

By ALAN FRAM
Associated Press Writer

WASHINGTON (AP) — Congressional Democrats say President Bush's concession that taxes must be raised to cut the federal deficit blunts an issue that has skewered their party's candidates over a decade of campaigns.

Many conservative Republicans were angered after the president announced Tuesday that he believes "tax revenue increases" are a necessary part of any deficit-cutting package for next year.

By Tuesday evening, 90 of the 176 House Republicans had signed a letter to Bush saying they were "stunned by your announcement" and calling such an increase unacceptable.

Bush's statement contrasted sharply with his "no new taxes" campaign vow of 1988. Some GOP lawmakers said they still will oppose tax increases as part of a plan to shrink the government's mounting shortfall, while others pledged not to abandon the issue in upcoming fall campaigns.

House Republican Leader Bob Michel of Illinois today gave a cautious reading of Bush's statement. Appearing on NBC's "Today" show, Michel said "the president didn't tell us yesterday, 'The first thing I want you to do is go down there and raise taxes.'"

But House Speaker Thomas S. Foley, appearing on the same program, said that Bush, by his statement, "has said publicly and

(Continued From Page 1)

clearly that he believes new taxes are necessary."

"There are going to be some hard hits," Michel said. "The president is taking a hit for the moment, I think temporarily."

The search by White House and congressional negotiators for a way to cut the mounting deficit was resuming today. The 1991 shortfall could exceed $200 billion — well above the $74 billion limit set by the Gramm-Rudman law.

Bush did not specify which taxes he would consider boosting, and White House officials insisted that would be up to negotiators. Nonetheless, lawmakers agreed that the president's comments will help the talks, which have dragged on fruitlessly since mid-May.

"It opens the door to serious negotiations at the summit," said Rep. Leon Panetta, D-Calif., chairman of the House Budget Committee.

Many Democrats said Bush had done them a political favor as well. They said he blurred an issue the GOP has used successfully against Democrats across the country since President Reagan's campaigns.

Sen. James Sasser, D-Tenn., chairman of the Senate Budget Committee and a former head of his state's Democratic Party, said it would be "implausible" for Republicans to use the issue in campaigns.

"What are they going to say when the president comes to their district to campaign for them?" Sasser said. "Or will he come?"

"He's not only neutralized the issue for 1990, but perhaps stewed up in the Republican Party a question about a lack of identity," said Rep. Richard Durbin, D-Ill.

Bush's statement also called for cuts in defense, domestic programs, budget process changes and "growth incentives," often used to describe the capital gains tax reduction that Bush wants.

"Tax increases at the present time would undermine the economy and substantially weaken it," said Rep. Robert Walker, R-Pa., who circulated the message.

Other Republicans insisted that in an effort to boost the stalled budget talks, the president had merely restated his longstanding promise to consider all options for saving money.

CHATTANOOGA NEWS-FREE PRESS

Wednesday, June 27, 1990

His Lips? They Lied

Is President George Bush about to pardon Willie Horton?

Is Mr. Bush about to strike a match to the flag?

Mr. Bush, who has called upon us hundreds of times to "Read my lips," is about to approve a rise in taxes. What gall! If his "No new taxes" pledge is not going to be worth anything, how can we count on his other positions to mean what he led all Americans to believe he meant during his 1988 presidential campaign and since?

Well, say his embarrassed defenders, Mr. Bush has not yet said outright that he is going to favor new taxes. What he said in a written statement yesterday was that "tax revenue increases" will be a necessary part of a deficit-reduction package. But when asked for a definition — "Say it ain't so, George" — his spokesman, Marvin Fitzwater, was very careful not to issue a denial, not to say the president's statement means "No new taxes." He refused to define what "tax revenue increases" means if it doesn't mean new taxes, contrary to what Mr. Bush's lips have said so many times.

Yes, the nation's finances are in a terrible state. Yes, drastic action is needed. Deep spending cuts are called for. But if Mr. Bush is going to accept new taxes now, he should not have been saying "No new taxes" for the past two years.

No wonder Massachusetts Gov. Michael Dukakis — Michael who? — chortled as he said, "I told the truth and I paid the price."

It is surely better to have a George Bush even if he misled us than to have a Michael Dukakis who would have ruined us, as indicated by his gross misleadership in Massachusetts. But what would be wrong with having a George Bush who tells the truth and sticks to it?

What's really up? Something has to be done about federal finance. Budget cuts of perhaps $160 billion have to be made. Democratic spenders control both houses of Congress. Mr. Bush must do something to get their cooperation. So apparently he has surrendered to them by stepping out first on the tax question, hoping that will bring the Democrats around on some spending reductions and a cut in the capital-gains tax to spur the economy.

So "that's politics." It's also breaking faith with the American people.

It may also be playing with dynamite. After more than eight years of an upward economy, things have leveled off. The economy needs confidence and incentives to spur investment and jobs, to stimulate real estate and development, to get people to feel safe buying cars and appliances and everything else. But slap a heavier tax burden on the American people and the soft economy may sink into recession. Who wants that? How ironic it would be to raise taxes but to collect less because the load is placed on a declining economy.

That's bad enough, but it's not all. Mr. Bush's tax reversal, even if action is delayed until after this fall's elections, will surely have a depressing effect upon the election campaigns of his conservative partisans, thus helping liberal spenders keep control of Congress and state governments. And when the 1990 census results bring reapportionment of congressional districts by state legislatures, the prospect is for more gerrymandering to favor liberal Democrats. Remember, in the past about equal numbers of Americans have voted for Democratic and Republican representatives — but the Democrats have captured big congressional majorities because of the way district lines have been rigged by Democrat-favoring legislatures.

There is also this melancholy fact: We are told that taxes will go up to reduce the deficit. But experience shows that when taxes increase and the pressure to cut spending is thus reduced, spending tends to rise, and deficits and debt with it.

Mr. Bush, riding an amazing crest of popularity, may be able to "get away with it" even though many of his friends and admirers are deeply disappointed, even feeling betrayed. But what he's doing is still wrong.

Americans are not taxed too little; Congress simply spends too much.

Mr. Bush's lips? Who'll believe them next time?