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The Washington Post

Friday, October 12, 1990

Bush Dims Chance of Tax Deal

By Dan Balz
Washington Post Staff Writer

President Bush yesterday effectively killed any remaining prospects for a budget deal built around higher tax rates for the wealthiest taxpayers in exchange for a cut in capital gains taxes, but only after he again appeared to reopen the issue to negotiation, only to pull back hours later.

Trying to end two days of confusion and disarray in his administration, Bush said he favored a new top tax rate of 31 percent and a cut in the effective capital gains rate to 15 percent. But he said there was no chance the Democrats, who favor taxing the wealthiest taxpayers at 33 percent, would accept his terms and told House Republicans it would be a "waste of time" to try.

"I do not believe such a compromise is now possible," Bush said in a statement issued by the White House. "Indeed I'm quite concerned that pursuing it in the current context may not only fail, it may legitimize something farther to the left that we cannot accept."

On Capitol Hill, Democrats and Republicans continued to shape alternatives to the deficit-reduction package that was soundly defeated last week. The two sides appeared headed for a bruising, partisan fight as they struggled to meet an Oct. 19 deadline for a new plan to cut the deficit by $500 billion over five years.

House Ways and Means Committee Chairman Dan Rostenkowski (D-Ill.) unveiled parts of a Democratic tax plan that will be offered next week as an alternative to a proposal approved by the committee Wednesday night. The plan includes raising tax rates on the wealthiest taxpayers from 28 percent to 33 percent and a 10 percent surtax on income of more than $1 million.

The confusion kept the Senate Finance Committee immobilized most of yesterday as Senate leaders sought a way to proceed. A bipartisan approach is virtually mandated by the panel's 11 to 9 split between Democrats and Republicans. Further, panel member Bill Bradley (D-N.J.) is unlikely to support any measure that alters current tax rates, which he helped set in 1986.

In an effort to limit the political damage caused by his apparent flip-flop on the tax issue, Bush sought to clarify his position yesterday by explaining his terms for a deal built around tax rates and capital gains, which he first raised on Tuesday and then appeared to withdraw.

There was a mini-replay of Tuesday's confusion yesterday. It was set off by Rep. Bill Archer (R-Tex.), who met with Bush and other senior Republicans yesterday morning and then announced to reporters the president's position favoring a 31 percent income tax rate and a 15 percent capital gains rate. But the White House quickly issued the statement saying that because Democrats had refused to accept this proposal in private negotiations earlier, Bush didn't believe it was worth fighting about now.

"It will distract us to continue this discussion," Office of Management and Budget Director Richard G. Darman later told the Senate Governmental Affairs Committee. "We ought to put it aside . . . . I don't believe it can be negotiable on acceptable terms."

House Republicans are considering an alternative proposal that would include the terms outlined by Bush yesterday. But the president, in a meeting with GOP members of the House Ways and Means Committee, expressed the prevailing view inside the White House that such a proposal is a fruitless exercise.

"If they can get that done, fine," Bush said. "I think it's a waste of time because I just don't think it can get through both houses of Congress."

Bush said he was inflexible on the 31 percent top rate, saying that he "will not tolerate 'bursting the bubble' by raising the top marginal rate on the wealthiest taxpayers from 28 to 33 percent." He said that would "start us back on the path toward higher income tax rates for everyone."

The White House performance yesterday drew fresh criticism from Democrats. "Our president has now taken more positions on taxes than Nadia Comaneci," said Rep. Lawrence J. Smith (D-Fla.).

Even Rostenkowski, one of Bush's closest friends in Congress, sounded dismayed. "I'm sorry the president is starting to look that bad," he said. "This is a time the American people want some leadership."

After two days of headlines and television reports battering the president for creating confusion on the tax issue, White House officials said they regretted not moving sooner to put out the fire.

Nervous Republicans continued to watch the White House's performance with increasing concern about its impact on the party.

Sources said that at yesterday morning's meeting between Bush and senior Republicans, Rep. Guy Vander Jagt (R-Mich.), chairman of the House GOP campaign committee, told White House Chief of Staff John H. Sununu that the week of focus on the budget had been a "disaster" for GOP candidates around the country and for the president, based on his committee's polling. He said GOP candidates needed a "Republican" budget position of less taxes and less spending that they could run on.

Sununu, a source said, argued that what GOP candidates needed was "a success for the president"—a final budget deal so that Bush could claim to have helped solve the deficit problem. Some Republicans fear that Bush and his top aides will now take a deal largely on Democratic terms in order to put the issue behind them.

Bush tried to turn the political fight in a new direction yesterday, saying "it isn't true" that the GOP favors the rich over the poor. "That's the age-old Democrat cry of favoring the rich," he said. "The American people want to favor growth and they want to favor jobs, and they don't believe all this handout mentality."

The tax proposal that Bush said he favored yesterday grows out of an anomaly in the 1986 tax reform act, in which the richest Americans have a top tax rate of 28 percent, while those just below the wealthiest have a top rate of 33 percent.

Bush said, in essence, that he would be willing to flatten this "bubble" with a 31 percent rate. Archer, the ranking Republican on Ways and Means, said that would mean a tax cut for roughly 4.5 million Americans and an increase for roughly 500,000 Americans with taxable incomes over $240,000.

However, an analysis of the proposal prepared yesterday by Congress's Joint Committee on Taxation showed that when a 31 percent rate is coupled with Bush's 15 percent capital gains tax proposal, the plan would cost $19 billion over five years, with the wealthiest benefiting most. Taxpayers with incomes greater than $200,000 would have their taxes reduced by 6.6 percent, while those between $100,000 and $200,000 would have theirs reduced by 5.2 percent. Taxpayers with incomes below $100,000 would have their taxes reduced, but by smaller percentages.

Senate Finance Committee members last night appeared to be nearing agreement on a bipartisan package that would omit from a plan devised by Chairman Lloyd Bentsen (D-Tex.) the swap of a 33 percent income tax rate for the wealthiest in return for Bush's proposed capital gains tax cut. To make up the lost revenue, the plan would limit the federal deductions those earning more than $100,000 a year could claim, according to documents obtained last night.

In the House, the Ways and Means Committee's 23 Democrats met into last night to draft their alternative tax plan. Yesterday, they agreed to make significant changes designed to increase the tax burden on the wealthy and ease it on the middle class.

In addition to the proposed surtax on millionaires and the higher top rate, the committee Democrats agreed to raise the alternative minimum tax rate on the wealthy who take a large number of deductions and exclusions from 21 to 25 percent. They also agreed to raise the amount of income subject to the 1.45 percent Medicare payroll tax from $51,300 to $100,000.

The lawmakers also voted to drop the proposed 2-cents-a-gallon tax on refined petroleum products and to ease the proposed increase in the current 9-cents-a-gallon gasoline tax from 10 cents to only 3 cents.

The panel Democrats also voted to limit the cut in Medicare benefits to $43 billion. The amount that beneficiaries in the voluntary program covering physicians and hospital outpatient services must pay before receiving benefits would go from $75 to $100, not the $150 envisioned in the budget summit agreement. The Democratic plan would also ease the rate of increase for the premiums that the beneficiaries of the program must pay.

Bush yesterday showed interest in the tax plan approved Wednesday night by the full Ways and Means panel, saying it appeared to preserve aspects of the bipartisan summit agreement that he and his top advisers still favor.

Darman caught the spirit of the past several days during his congressional testimony. Asked about the White House statement clarifying Bush's stance on tax rates, Darman replied: "I have no idea what White House statement was issued, but I stand behind it 100 percent."

Staff writers Ann Devroy, Steven Mufson and John E. Yang contributed to this report.

WHAT BUSH WOULD LIKE

This chart shows the effects of linking a change in income tax rates to a cut in the capital gains rate. Under this proposal the new income tax rates would be 15%, 28% or 31%, depending on income. The maximum capital gains rate would be 15%.

This income category:	Would pay this amount less in taxes: BILLIONS	PERCENT	Those with effective tax rates of: PERCENT	Would pay this rate: PERCENT
Less than $10,000	$0.0	0.0%	13.3%	13.3%
$10,000 to $20,000	-0.1	-0.1%	15.6%	15.6%
20,000 to 30,000	-0.2	-0.2%	18.4%	18.4%
30,000 to 40,000	-0.5	-0.4%	20.0%	20.0%
40,000 to 50,000	-0.7	-0.8%	21.4%	21.3%
50,000 to 75,000	-1.8	-1.0%	24.7%	24.4%
75,000 to 100,000	-1.4	-2.1%	25.8%	25.3%
100,000 to 200,000	-5.5	-5.2%	26.2%	24.8%
200,000 and over	-8.8	-6.6%	25.2%	23.5%
Total, all taxpayers	**-$19.0**	**-2.2%**	**21.8%**	**21.3%**

SOURCE: Joint Committee on Taxation

The Washington Post
FRIDAY, OCTOBER 12, 1990

Federal Jobs Tarnished by Fiscal Crisis

Workers Are Seen As 'Political Pawns'

By Dana Priest
Washington Post Staff Writer

Carolyn Bell walked away from a prestigious job and $76,000 salary as a corporate bankruptcy litigator a year ago because, she said, "I wanted to wear a white hat."

In Washington, her expertise got her offers as high as $125,000 from private firms, but she settled instead on a $37,000-a-year job last year with the Justice Department's criminal tax division, where she said she's never been happier.

Until this month, that is, when Bell almost was laid off twice because Congress and the administration could not agree on a budget deal.

The ongoing budget fight has tarnished the already weak appeal of public service, according to experts and federal employees, and may make it harder for the government to attract and keep top-level professionals, as new employees such as Bell think twice about their jobs.

"I was willing to pay a significant premium to come to work for the government, and all I asked in return was a living wage—to pay my rent, buy nylons, the everyday essentials," Bell said. "To be a political pawn, to be among the first to pay a price, it's not fair. . . . If furloughs come through, I will have to quit."

On Oct. 1 and again Tuesday, the nation's 2.4 million federal workers woke up not knowing whether the government had shut down for lack of funds. Over the three-day Columbus Day weekend, the government shut down, then reopened after President Bush and Congress agreed to try again on deficit reduction. The government runs up against the next funding deadline Oct. 19.

While threats of layoffs are an annual ritual, many employees and managers said, the game seemed harsher this year. Agencies took great pains to detail just how bad it could get for federal workers and the public, as a way to put pressure on Congress to agree to the administration's budget offer.

Over the past month, each agency and department has publicized in detail its plans for longer-lasting furloughs—more than 22 days in some cases—that would be required under the Gramm-Rudman-Hollings deficit-reduction law if no agreement is reached.

"In any undertaking of this size, there is bound to be anguish," Bush said at a news conference Tuesday, "and I want to recognize the valiant federal work force that had to suffer through some uncertainty of this period."

His sympathy may have been too little and too late, said G. Jerry Shaw, chairman of the Public Employees Roundtable, a group of 33 public management and professional associations. "It would have been much better for him to say, 'We're doing the best we can [to solve the problem]', instead of 'We're going to make it appear that you will suffer,' " Shaw added.

Professionals who choose public service over other options do so for somewhat different reasons from those of other employees, said Patricia Ingraham, professor of public administration and management at the State University of New York at Binghamton. "It's the idea of making some kind of larger contribution," she said, and the last-minute nature of the budget process "devalues that."

Inviting people to join public service amid the recent budget impasse "sounds like you're being invited to a wake," Ingraham added. "Who wants to have a first job like that and to wade into that morass?"

Even the mechanics of shutting down the government appeared insulting to many workers. Under rules outlined by the attorney general in 1981, each office was to decide who was "essential" and who was "nonessential," and the nonessentials were to go home.

Employees such as Linda Kragie believe they are essential to the government, or she probably wouldn't be there. After all, she doesn't have to be.

Kragie, 33, was earning $85,000 at a D.C. law firm, but got bored with the job and decided to switch to the "white hat" team in May after the Labor Department promised her she would get to do plenty of big-dollar litigation. Her salary dropped to about $55,000.

"It was valuable for me to be doing things on the right side," she said.

But as the government prepared for possible furloughs a few weeks ago, she was told to stop scheduling conferences and depositions and was warned she might have to delay hearings falling near Oct. 1. After she had invested so much energy in her work, it struck her as ridiculous that she might have a case dismissed because she was furloughed.

"I'm not going to stay if I get laid off," she said. "You can't do litigation part time. When you do litigation, it's like going to war. I don't want to go to war with no armor, no tanks and no airplane cover."

Public perceptions of the federal work force have played a part in employees' decisions to stay or quit the government for years. While inadequate pay has been the leading reason qualified people leave public service, it is not a stand-alone issue, according to a U.S. Merit Systems Protection Board study released in June.

The survey of 16,000 employees found that the public image of federal employees—"in the eyes of federal employees—appears to have come close to rock bottom."

Only 8 percent of those surveyed saw the public image of the government as a reason to stay, down from 14 percent in 1986. About 21 percent saw it as a reason to leave.

Justice Department attorney Bell wants to stay. She is not the kind of federal employee who feels locked into her job because her skills may be viewed as mediocre or too specialized for private industry or because she is a decade away from her pension and can't bring herself to leave.

But she found it unprofessional to have to warn the attorney for a recently convicted defendant that she might not be able to show up at his sentence hearing because she might be laid off. Equally unacceptable was having to set back scheduled interviews because law enforcement agents were afraid they would fall on furlough days.

Congress's willingness to sacrifice federal workers during the budget impasse erodes the public's image of the work she does, Bell said. "How are we supposed to stand up before juries and put people in jail if we can't get the respect of Congress?"

The Washington Post

Friday, October 12, 1990

Richard Cohen

A President Without a Constituency

Kevin Phillips, D.P.P. (doctor of practical politics), has just given President Bush his annual checkup and finds the man in poor political health. In an op-ed piece in The New York Times, Phillips lists all the reasons why 1992 could be such a bad year for Bush (war abroad, recession at home) and ends by saying—as any doctor should—that his prognosis could be wrong: a "splendid success in the Persian Gulf" could make 1992 a splendid year for Bush.

Sentences like that chill me—as columnist, citizen and the father of an 18-year-old son. I happen to think that war with Iraq is more likely than not and, further, that there are good and sufficient reasons to bloody Saddam Hussein's nose. But our domestic politics is not one of those reasons. And yet the suspicion is that national leaders sometimes turn to war when they get into trouble at home. Whether this actually happens or not, I don't know. I do know that Margaret Thatcher found the Falklands war politically bracing and that Ronald Reagan invaded Grenada right after the bombing of the Marine barracks in Lebanon.

What bothers me is the suspicion that if anyone would try the old foreign adventure diversion it would be George Bush. I say that because it's not clear what Bush might do when he's politically threatened. He is the one, after all, who beat Bob Dole in the 1988 New Hampshire primary by promising what Dole would not: that taxes would never be raised.

I do not for a moment think Bush would intentionally go to war just to boost his political Nielsens. I think, instead, that politics muddles thinking, that patience comes easiest to the confident and that only the politically secure can afford to err on the side of caution. In other words, I'm suggesting that Bush might, given some really low rating numbers, think in ways that he otherwise might not.

In his article, Phillips lists several reasons why Bush might be in trouble by 1992. The economy is teetering. The savings and loan crisis has yet to play itself out and, of course, Bush's performance as GOP leader has been inept. Only in foreign policy does his hand seem sure.

But there is a whole area that Phillips does not mention: Bush's lack of a constituency. For this president, things have only been good, and his approval ratings have only been high. Sooner or later, though, things are bound to get bad, and it is then that Bush will have to pay for his political opportunism. Neither a liberal nor a conservative—and sometimes not much of a moderate, either—he is the darling of no constituency. Unlike his predecessor, Ronald Reagan, Bush lacks the safety net of die-hard conservatives.

A president with no constituency is in a perilous fix should things go wrong. Such a predicament might color his thinking and encourage him to take risks out of political desperation. So Bush should be reminded that he has already set out when and under what circumstances the United States will go to war in the Gulf. The embargo must be seen to have failed, and Iraq must harm its hostages or engage in terrorism. The most recent condition added by the White House—an increase in the looting and pillaging of Kuwait—comes too late and is too elastic to serve as a condition for war.

Surely, you'd think, President Bush does not need to be told this. And yet, the invasion of Panama was launched with very little justification—mostly, it seemed, because Bush was furious with Manuel Noriega. American troops were propelled into the Gulf for good reason—but also, it seemed, because Saddam Hussein had angered Bush. "Iraqi lied," Bush sputtered after Saddam Hussein said he was pulling his troops out of Kuwait and then did not. He was so flustered he couldn't even get the name of the country right.

For Bush, Dr. Phillips' prognosis is downright chilling, and he might well yearn for that "splendid success in the Persian Gulf." Trouble is, no one can guarantee such an outcome. Anything less, especially if it's triggered by a pretext, might not only doom Bush's presidency but—more important—despoil American politics for some time to come. One Vietnam per half-century is quite enough.

The Washington Post

FRIDAY, OCTOBER 12, 1990

George F. Will

It's Not Modesty, It's Arrogance

When King Edward I in 1294 summoned the clergy and demanded half their income, the dean of St. Paul's dropped dead on the spot. That was a tax protest beyond the dreams (so far) of Newt Gingrich.

The 1990 budget tedium began a few months ago with promises to cut about $50 billion from a deficit of about $200 billion. Then the promise was revised to $40 billion from a deficit of about $250 billion. Now it is $34 billion (the costs of Desert Shield will not be counted) from a deficit that probably will be well over $300 billion.

The newest "deadline" (cross the line and die? hardly) that will be missed is Oct. 19. By then, the House and Senate are supposed to have approved the various committee plans for cutting spending and raising revenues to comply with this week's achievement, the budget resolution.

That resolution is a promise. The reconciliation bill due by Oct. 19 is the delivery. Those committees have Democratic majorities. President Bush has been reduced to a bystander.

His "summit" deal collapsed in part because the process that produced it made most of Congress marginal. And Bush's aides (the tone of a White House is set at the very top and trickles down) seemed overbearing.

Richard Darman, the budget director, is commonly called "brilliant," but that handicap is no excuse for ignoring banal but important truths, such as: Decisions made without the concurrence of Congress are in the subjunctive mood.

John Sununu (who dismissed a Republican senator, Mississippi's Trent Lott, as "insignificant") is not the first clever person to become impatient with the culture of Congress or to relish the role of a president's designated thug.

But the serious problem is Bush's mentality, one that produces his preference for policymaking in private by a few in an aura of bipartisanship that blurs party differences by de-emphasizing principles and ideas. This preference is a facet of Bush's and his White House's temperament, concerning which there is confusion.

What has been described as Bush's modesty is actually arrogance. His modesty is supposedly shown by his emotional minimalism, his complacent inarticulateness, his de-emphasis to the point of disparagement of the rhetorical dimension of the presidency. Bush and his handlers have spent 20 months telling the country what the country this month has told him: He is no Reagan.

He discounts rhetoric because he discounts persuasion of the public. He is governing less by continuous acts of public consent than by a small elite's entitlement, the right of the political class to take care of business cozily.

So, naturally, he has no need to do what Reagan did—argue, persuade, precipitate confrontations with Congress, force polarizing choices. All those things shave points off a president's popularity, but solidify a committed base outside Washington's Beltway.

Now the mountain (actually, the Hill) will labor mightily and bring forth a modified mouselet, a package of mini-measures cutting the 1991 deficit about 10 or 12 percent (depending on the gravity of the recession). The economic effects of $34 billion trimmed from the $300 billion deficit of a $1.3 trillion budget in a $5 trillion economy will be trivial. But the political consequences of this month's spectacle may be large.

We stand on the lip of a recession, and perhaps of war, with a president who is being outmaneuvered and toyed with by Democrats who like him as much as ever and fear him less than ever. A president who will not appeal over Congress' head to the country is Congress' dream.

By his capital-gains obsession, Bush is dissipating the principal Reagan effect on the Republican Party, the appeal to those blue-collar Democrats who for a while stopped seeing Republicans as "the rich." And Bush's syrupy bipartisanship—secluded summits, Sunday togetherness in the Rose Garden—is convincing an unenthralled public that Republicans are not, as until recently had been thought, better than Democrats at budgeting.

Finally, incumbents of both parties are being hurt as the budget debacle fuels a nationwide campaign to limit the number of terms elected officials can serve.

In 1988, the Baltimore Orioles lost 108 games with a lot of expensive veteran players. Then the Orioles management thought: Hey, we can lose 107 games with hungry, spirited rookies—and might do better. In 1989, the Orioles had baseball's youngest team, and smallest payroll—and almost won a division title.

Today many voters are saying: Hey, 535 political rookies—535 people plucked from the concourse at O'Hare Airport—could bollix things up as badly as the experienced politicians have done (how experienced do you have to be to close the Washington Monument?), and they might do better.

The Washington Post
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Stephen S. Rosenfeld

Much More Than a 'Budget Crisis'

All this talk of a new American policy in a new post-Cold War world is being revealed as so much froth by Washington's budget crisis. It is bizarre that we are overrunning with imaginative ruminations on what is the national interest abroad but cannot grasp that the first national interest is solvency and control over our destiny at home. No foreign triumph, not even the best possible outcome in the Gulf, could bring us as much in true national value as what we are wasting and forgoing by our casual attitude to the most serious matters directly under our noses. I try to listen carefully to my betters on these issues, and it scares me.

If what is happening in this country were happening in the Soviet Union—and in fact, every day Washington's turmoil comes to look a bit more like some aspects of Moscow's—then we would be reflecting on the theme of a breakdown of the political system and culture. As it is, we choose to call the current situation a budget crisis. But it is a crisis of governance and political values at the core, expressed in a chronic inability to set priorities and make hard choices and an adolescent reluctance to accept the consequences of our acts.

President Bush is chided for preferring the abstractions and personal heroics of foreign policy to the domestic nitty-gritty. Well, who wouldn't? Soviet-American summits are a lot more fun than budget summits. In this matter, however, Bush is the people's choice. We applaud Mikhail Gorbachev's retreat from active international engagement to tend to domestic cares. We are blind to the contradiction of moving into a costly, treacherous international whirlpool precisely as our way of doing essential political and economic business is unmasked as inadequate verging on farcical. Typically, incredibly, the costs of Desert Shield are off budget.

Foreign countries, especially our friends, puzzle over what to make of our inconsistency. They see a country with the international apparatus of a superpower—the fleet, the diplomatic reach, the instinct for command, the taste for engagement and risk and even war—and they enjoy the benefits of American globalism today. At the same time, they see a country breezily negligent of a nation's duty to prepare for tomorrow—in financial stability, economic competitiveness, educational and technological striving. They look down the road and wonder.

Basic attitudes are out of synch: We complain noisily of our friends' reluctance to share the burdens of the current crisis. They puzzle quietly over how we could be so cavalier about the requirements of future strength. When one of them, like Japan's Shintaro Ishihara, says so out loud, we take offense.

It's a fair question why we are so cavalier, and it cannot be avoided by pointing, with Jack Kemp, for instance, at the more creditable features of American economic performance: the record eight-year expansion, the creation of more than 21.5 million jobs since 1981, and so forth.

One possibility is that we have allowed ourselves to be distracted, through the '80s by the excitements of the Reagan crusade and in the '90s by the celebration of a great historical triumph for our ideas of democracy and free enterprise. Other explanations run to other features or supposed defects of our national character and historical experience.

In Washington, however, the standard necessary remedy for cultural inheritances and ideological afflictions of all sorts is political leadership. The reduction of all difficulties to this coin is what Washington is truly about. In the budget talks, Bush finally responded in his fashion, coming on in a late surge of personal assertiveness to demand a modest reversal of his party's decade-long disdain for bits of taxes and pieces of consumer sacrifice. Unsurprisingly, he fell short. It is taking some time to move on, and he is looking awful.

Meanwhile, Americans go on indulging, in the Gulf and elsewhere, what Michael Kinsley nicely called a "hunger for larger purpose" in American foreign policy. But surely the premise of any such effort to go beyond a no-frills basic-national-interest policy has got to be the prior effective management of the domestic enterprise. You do not have to be a neo-isolationist or a "declinist" or any other of these new birds in the foreign policy aviary to believe that there must be a strong economic and social foundation for flights of foreign purpose. Otherwise we beckon glory and fiasco at the same time, and while perhaps neither will be achieved in full measure, it is a very unequal and unnerving competition.

The Washington Post
FRIDAY, OCTOBER 12, 1990

One Tonic That Doesn't Work

THROUGHOUT the rapidly changing, even chaotic, effort to reach a budget deficit reduction agreement, one theme, at least, has remained pretty constant: tax breaks, the Bush administration keeps saying, are necessary to induce the wealthy to save and invest more of their money for the good of the country. Does that sound all too familiar? If this brand of tonic were sold in bottles, the Surgeon General would require a label with the message: Warning—this medicine hasn't worked in the past and may be severely harmful to your economic health.

It was the active ingredient in President Reagan's original supply-side theory with which he justified the enormous 1981 tax cut. Does anyone at the White House remember what the then-secretary of the Treasury Donald T. Regan said that year as the president's chief spokesman on the subject? "The saving generated by the tax cut will be more than enough to cover any deficit from a tax cut . . ." You know how that turned out.

There was much more of the same from all of the Reagan administration's strategists. The great surge of savings would raise business investment to levels unprecedented in this country, they assured Congress, with commensurate increases in the standard of living. In fact, in proportion to the size of the economy, investment actually declined. Ever since then it has remained lower than when Mr. Reagan first took office.

Why? The fatal miscalculation involved savings. With the fall in the savings rate, the country faced a shortage of capital that continues to the present. When the tax cuts opened up those gigantic budget deficits, the federal Treasury had to compete with private investment for that inadequate supply of savings. The result was the high interest rates with which the country has been living ever since. High interest made investment costly and discouraged it.

That experience ought to make Americans wary of claims that tinkering with the tax system can accomplish large changes in people's behavior. There was a certain logic to the Reagan program in theory, but in practice it has been a failure. People's spending and saving habits have proved remarkably resistant to the incentives that the tax cutters dangled in front of them. The tax inducements to invest were overwhelmed by the financial effects of the deficits. That's why reduction of the deficit is far more important than tax changes in reviving industrial investment.

President Bush still seems to feel that, in one form or another, more tax breaks are necessary to improve the economy's performance. But they didn't work in the 1980s, and it's very hard to see any reason why they would work any better in the 1990s.

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Lessons in Gross Mismanagement

TO UNDERSTAND the D.C. public school system's absurd inability to provide an accurate count of its students, some perspective is necessary. Begin with the fact that it took one month for six people to produce a credible count of the pupils in the New York City public school system, which has 945,000 students in some 1,000 school buildings. That's seven times as many school buildings as in the District of Columbia and, we *think*, 12 times as many students.

Almost a year ago in the District, school system officials and Superintendent Andrew Jenkins put enrollment at 88,000 students. They later offered a figure of 81,300 students. Now, independent auditors, who encountered a trail they could only have envisioned in their worst nightmares, say they found 80,382 students.

What's responsible for the foul-ups? The evidence highlights an incredible string of shortcomings and failures involving many individuals. Were school membership reports or hard copies of official student lists for the school years between 1985 and 1989 available to the auditors? The answer is no on both counts. Only less reliable end-of-the-school-year data existed, and the auditors were told that four years of computer tapes of the school system's official October count had been erased, allegedly because of the need to use the tapes for other purposes.

There is no central authority responsible for the integrity of the count, no consistent adherence to procedures, no regular analysis to check the information received, no routine internal audit process to verify student enrollment before the count becomes "official" and no staff member with sufficient computer programming knowledge of the language on which the school system's data management system is written—a system that does not alert programmers when students have been counted twice, nor when the count includes students who have left the school system.

Federal and local funding, individual school budgets, dropout and graduation rates, teacher-student ratios and the need or lack thereof to hire more teachers—all this and more depend on an accurate enrollment count. Simply put, this is one of a school system's most basic responsibilities. Any move to sweep the D.C. government of incompetence and inefficiency must include the Presidential Building, which houses the administrative offices of the D.C. public schools and its superintendent.

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FRIDAY, OCTOBER 12, 1990

No Pay for Days Missed In Shutdown, Bush Rules

By Kent Jenkins Jr.
Washington Post Staff Writer


THE WASHINGTON POST

Federal employees who were sent home during last weekend's three-day government shutdown will not be paid for the work they missed, Bush administration officials said last night.

But even before that ruling was announced, several Washington area members of Congress moved to overrule that decision and guarantee all federal workers their full paychecks.

Paul Clark, a spokesman for the Office of Personnel Management, said last night that administration officials believe the stopgap budget approved by Congress does not include retroactive pay for workers who were sent home, or furloughed, when the government technically ran out of money last weekend. Clark said the administration does not plan to pay any employee who missed a regular day of work on Saturday, Sunday or Monday because of the budget crisis.

It was unclear last night how many people might be affected by the decision or how much money the government might save by withholding the pay.

Clark said that "essential" employees who worked during the weekend and all those who had a regularly scheduled holiday on Columbus Day Monday would be paid for those days.

In past years when the government has been temporarily shutdown by budget stalemates, Congress has moved to restore full pay to employees who were involuntarily knocked out of work. Yesterday afternoon, Sen. Barbara A. Mikulski (D-Md.) led a group of Washington area lawmakers seeking to do the same this year.

Mikulski, whose constituents include 150,000 federal workers, said on the Senate floor that these employees "are human beings with bills to pay and families to feed. . . . They should not be used as pawns in a political power struggle."

Two other Washington-area senators, Paul S. Sarbanes (D-Md.) and John W. Warner (R-Va.), joined Mikulski in sponsoring the full-pay proposal. In the House, a spokesman for Rep. Steny H. Hoyer (D-Md.) said he would introduce companion legislation, perhaps as early as today.

The Washington Post
FRIDAY, OCTOBER 12, 1990

HAYNES JOHNSON

Will Rogers Must Be Chuckling

In more innocent times, Americans could laugh their way through calamity by reading Will Rogers's latest witticism in the papers. "People ask me where I get my jokes," he once said. "Why, I just watch Congress and report the facts. I don't even have to exaggerate." And when the Great Depression struck, Rogers was able to lift spirits by making light of it. America, he said, was "the only nation in the history of the world to go to the poorhouse in a limousine."

We have no Rogers to brighten our mood, but we do have television, especially cable TV. What the country has been seeing, live and close-up, in these chaotic days in Washington is both ludicrous and dismaying. Now everyone, everywhere can see what provided Rogers such rich material. One wonders, however, if even he could do justice to the present political spectacle.

As always, the doings of Congress provide the easiest targets. But, just when the camera freezes some of those political figures into unflattering frames, along comes the bumbling figure of the president to divert attention from Capitol Hill. His "Read my Hips" remark, uttered while jogging in shorts, T-shirt and baseball cap, was accentuated by presidential gestures in which he pointed toward the presidential posterior.

In so doing, George Bush stumbled into a pit of his own making. As the country becomes increasingly apprehensive about the state of the economy amid intensified hourly evidence of inability to deal with the budget deficit, the president permits himself to be seen as trivializing a serious national problem. Worse, he is seen as reeling from one position to another day by day. He has been practicing the politics of inconsistency.

Nevertheless, the current Washington scene does not completely lack seriousness of purpose or even eloquence of statement to coincide with its elements of slapstick. As evidence, I offer two examples of political statesmanship and candor. Both came near midnight on Columbus Day, in the closing minutes of Senate debate about the new budget resolution.

The speakers were the minority and majority leaders, Robert J. Dole (R-Kan.) and George J. Mitchell (D-Maine). Nothing I have heard better expresses the political condition in which the country finds itself or more properly places blame for the failure on the politicians, the political system and the people themselves.

Those watching C-SPAN live late that night heard Dole say:

"We have had our ups and downs. We have had our problems, and we had the summit and we have been out at Andrews Air Force Base. A lot of us were frustrated, and some of us are still frustrated. Some of us want to reduce the deficit but not touch Social Security, do not raise taxes, do not touch Medicare, do not touch agriculture, but $500 billion is not enough, the same speaker will say.

"I have heard all those speeches, and they are great. But they do not reduce the deficit. And those who say no new taxes, that is fine; that is your position, stick with it. Some of us who did not take pledges on taxes remember certain things that happen . . . . The American people want leadership, not speeches. They may disagree with us. They may vote against us. But they have children, and they have grandchildren. And if we do not act now, when? If we are not capable, who is going to act?"

Mitchell spoke next:

"Tonight, we reap the bitter harvest of a decade of national indulgence. For 10 years, the American people have been told that we can have it all—more for defense, more for Medicare, less in taxes. Way deep down, in our national heart of hearts, we all knew it was not true. But it was easy to believe, easy to ignore the truth, easy for a nation to indulge itself. And our nation did.

"That is why in the past few months we, the elected representatives of the American people, have been caught in a cross-fire. From one side, we have been hit with the insistent demand that we reduce the deficit. The American people know, and we know, that we cannot go on spending hundreds of billions of dollars more than we take in. But with the other side has come with equal insistence fierce resistance to higher taxes or lower spending . . . . Let us try to begin now and make sure that one decade of national self-indulgence is enough. This nation cannot stand two decades of national self-indulgence."

There is nothing farcical about those words. They are deadly serious and come from opposite ends of the political spectrum. They also contain a solution—if anyone is willing to listen and act.

The New York Times

NEW YORK, FRIDAY, OCTOBER 12, 1990

New Budget Ideas Offered as Tug-of-War Goes On

Bush Spurns a Proposal By House Democrats On Taxing Rich

By R. W. APPLE Jr.

Special to The New York Times

WASHINGTON, Oct. 11 — The budget impasse grew even more complex today as Congressional Democrats and Republicans pushed rival plans, and conflicting statements at the White House added to the air of confusion.

Democrats in the House of Representatives tonight unveiled a plan that would sharply increase taxes on wealthy Americans, threatening to disrupt a new round of negotiations involving the White House and both parties in the Senate that had seemed to be making steady headway toward a budget agreement.

The Democratic majority on the House Ways and Means Committee approved a proposal calling for a 33 percent income tax rate for the richest segment of the population, a proposal President Bush said he "cannot accept," and a 10 percent surtax on individuals with taxable annual incomes exceeding $1 million. Representative Dan Rostenkowski of Illinois, the committee's Democratic chairman, described the plan as an effort to "restore fairness to our tax system."

'We Have Made Progress'

Earlier, Senator Bob Dole of Kansas, the Republican leader, had predicted that both houses of Congress would pass and President Bush would sign an agreement before the stopgap spending measue expires a week from Friday. He said the odds were 100-to-1 that it would include neither a capital gains cut nor an increase in income tax rates for the rich.

"We believe we have made progress," said Senator George J. Mitchell of Maine, the Democratic leader, after meeting with Mr. Dole, Finance Committee leaders and Richard G. Darman, the budget director. The President himself had also expressed optimism about an early budget settlement.

But it was not clear how rapid progress could be made with the House Democrats pulling one way and Mr. Bush and his allies pulling the other. With Capitol Hill racing to seize the initiative after two days of faltering White House leadership, the situation was in turmoil and the outcome unclear.

Mr. Rostenkowski's plan, which may ultimately include a very limited cut in the capital gains tax, would almost certainly be opposed by Senate Democrats, who have a narrower majority and tend to be somewhat more moderate, when the bills passed by the two Houses go to conference for resolution. But if he can mobilize the large Democratic majority in the House behind his proposals, that momentum could well force the Senate to agree to some sort of tax increase upon wealthy people.

Democratic strategists said Mr. Bush would then be faced just before the Nov. 6 elections with either signing a bill that imposed higher taxes than he wants or vetoing it and facing partisan attack as the patron of the fat cats.

After another muddled day at the White House, during which President Bush's position seemed even less clear for a time than in two previous days of complete confusion, aides to the President said he hoped that the final settlement would closely resemble the one that was worked out by bipartisan negotiators over the last four-and-a-half months, then rejected last week by the House of Representatives.

Mr. Bush's position, as explained by the President himself and a number of aides, seemed to have boiled down to this: In principle, the trade would be fine, but the Democrats will not give us a capital gains rate as low as we want, and we won't give the Democrats an income tax rate as high as they want, so we had better leave those topics alone and push ahead on the rest of the deal.

Speaking in an interview during a break in intensive compromise talks, Mr. Dole suggested that Mr. Bush would get something close to what he wanted, with "the edges smoothed off" the original package. The smoothing, he said, would include reduced cuts in Medicare, a smaller increase in the gasoline tax and the elimination of a tax on heating oil.

Dole Has a 'Headache'

Mr. Dole conceded that the politics of the situation "aren't at all good for us, short range." But he said that if a deal was concluded — "and we're very close to it, unless I'm blind" — the issue would fade quickly. Then, Mr. Dole said, "the President will get some credit, and the Congress will get some credit — mostly the President, I suppose, that's the way it always is around here."

Like other Republicans, the Kansan said it was politically imperative that their party not seem to favor the rich. "I had an Excedrin headache all day long," he commented, "after that Washington Post headline Wednesday."

The headline said, "President Wavers on Taxing Rich as Senators Protest."

In the House, Representative Steve Gunderson, a Republican, said he was "sick and tired of going home to rural Wisconsin and protecting the Republican Party" against charges that it belongs to the rich.

The day began with Mr. Bush, who had seemed to waver between opposing and conditionally endorsing higher tax rates during the last 48 hours, meeting with House Republican leaders. Unlike their Senate counterparts, who want no changes at all in the income tax, the House Republican leaders supported a plan put forward by Representative Bill Archer of Texas, a senior Republican member of the House Ways and Means Committee.

That plan would increase from 28 per cent to 31 per cent the tax rates for the wealthiest Americans, provided that the tax on capital gains — profits from the sales of stocks, real estate and other assets — fell to 15 per cent from 28.

Standing in the White House driveway, Mr. Archer said the President had bought his idea, which would eliminate the so-called. "He said, without equivocation, this is what we wanted to do," Mr. Archer told White House correspondents.

But first Marlin Fitzwater, Mr. Bush's spokesman, and then Mr. Bush himself threw cold water on the idea. While acknowledging that he liked Mr. Archer's approach, the President made it clear that he could not accept Democratic proposals that would step up the tax rate for the richest taxpayers to 33 per cent, rather than 31, and grant a smaller capital gains cut than Mr. Bush wants.

"My view is that it's not going to happen, and we ought to move forward on another approach," he told a group of Republican lawmakers in the afternoon. "I think it's just a waste of time because it's not going to get through both houses of Congress."

'The Clock's Running Out'

"There just isn't a deal there," said Mr. Darman in a similar vein. "The clock's running out. We ought to put those issues aside."

On Wednesday, the Ways and Means Committee approved a bare-bones bill that is unacceptable to both Republicans and Democrats — a shell meant to be crushed. Republcians dislike it because it has no "growth incentives," such as a capital gains cut, and the Democrats don't like it because it contains regressive tax increases and other measures that would hurt the middle class.

Mr. Rostenkowski plans to bring it to the floor under a rule that will allow only two amendments — one sponsored by the Republicans and the other by the Democrats. The Democrats on Ways and Means approved part of theirs tonight.

Among other things, the Rostenkowski proposal would do the following:

¶Create a 33 percent tax bracket for individuals with taxable income over $113,460 and couples with taxable income over $193,190. They now pay 28 percent. The richest 1 million to 1.5 million people would be affected.

¶Impose a 10 percent surtax on people with incomes over $1 million, making their effective rate 36.3 percent.

¶Raise the alternative minimum tax rate, which applies to individuals with so many deductions, exemptions and exclusions that they would otherwise avoid taxes, to 25 percent from 21 percent.

¶Delay for one year the indexing of tax brackets for inflation.

¶Increase the wage base for the Medicare tax to $100,000 from $51,300.

¶raise the gasoline tax by 3 cents a gallon. (The budget "summit agreement" called for a 12-cent increase.).

¶mpose a luxury tax on expensive cars, private planes, boats, jewelry and furs.

¶Raise taxes on cigarettes and alcoholic beverages.

¶Increase the earned income tax credit available to the working poor.

¶Keep the monthly Medicare premium (insurance against doctors' bills) at $29.90 in 1991, same as the current law, and raise it at a pace slower than the expected rate of inflation over the following four years; raise the deductible to $100 a year from $75, more generous than the summit agreement.

The Poor Would Benefit

Altogether, this would lower the taxes of the poorest 20 percent of taxpayers. Others would get a slight tax increase, in the 1.5 to 2.7 percent range. The wealthiest 1 percent of the population (after-tax income above about $400,000) would have their taxes increased by 6.8 percent.

Mr. Bush's aides said that the three points on which he was not prepared to budge were: that the overall budget goal of $500 billion in deficit reduction within five years must be achieved; that the balance between spending cuts and tax increases, contained in the original budget summit agreement must not be altered, and that defense spending must not be further curtailed.

"If someone wants to cut agriculture more and Medicare less, okay," one of the Presidential advisers said.

The same adviser commented that, after his long Washington experience, the President feels "that things sometimes go down once or twice to defeat, but that they come back, eventually, and can be adopted more or less the same, and he'd like to see the summit plan adopted more or less the same."

Capital Gains Tax Cut: Bush's Stands

Yes	No	
	✓	**Sept. 29:** White House drops its long-standing insistence on a cut in the capital-gains tax.
	✓	**Sept. 30:** President Bush announces agreement on a deficit-cutting plan that includes major tax increases and does not include a cut in the capital gains tax rate.
		Oct. 6: After announcing he would veto legislation that would keep the government running in absence of a budget deal, the President is asked if he was willing to give on tax rates for the wealthy. Mr. Bush said in part: "We're flexible. I've already compromised. And I'm not saying that I can't take a look at new proposals, but you've got to put together a majority in the Congress."
✓		**Oct. 9:** Asked at a morning news conference whether he would accept a higher tax rate for the wealthy in exchange for a capital gains cut, President Bush replied: "That's on the table; that's been talked about. And if it's proper, if it can be worked in proper balance between the capital gains rate and income tax changes, fine."
		Oct. 9: After meeting with the President, Senator Bob Packwood, Republican of Oregon, announces that the President agrees with the lawmakers' "uniform position that we will not go up on the rates, no matter what."
		Oct. 9: Asked about the interpretation of the meeting, Marlin Fitzwater, the President's spokesman, said: "It's fair to say he acquiesced in their views."
		Oct. 10: Mr. Fitzwater, in the morning: "Publicly, we're not taking a position on any specific items."
		Oct. 10: Later in the day, the President was asked if he would clarify his position on the tax issue. He replied: "Let Congress clear it up."
✓		**Oct. 11:** From a statement released by White House spokesman, Marlin Fitzwater: "We have been willing to explore a compromise if it were balanced and fair — that is, if the capital gains incentive were really strong and the rate change helped those in the bubble. . . . I do not believe such a compromise is now possible. Indeed, I'm quite concerned that pursuing it in the current context may not only fail; it may legitimize something farther to the left that we cannot accept."
✓		**Oct. 11:** In the afternoon, Mr. Bush said: "But today, Marlin put out a statement that demonstrated that we have tried other approaches. One of them included a certain flexibility on the question of capital gains. But I'm not very flexible on that. We tried it 31 percent and — a 15 percent on capital gains and income rates of 31. I will not go beyond that. But some in the House feel that there's room to maneuver there, and my view is it's going to be very difficult because our leadership tried very hard to get that and the Democrats would not yield on that. But nevertheless, two days ago, I said there was certain flexibility and that's what it is. And my view is that it's not going to happen and we ought to try to move forward on another approach."

Offstage on the Budget: Tug-of-War Over Bush

By MAUREEN DOWD

Special to The New York Times

WASHINGTON, Oct. 11 — At times during the last three days, it seemed that George Bush was speaking with different voices about his intentions on the budget, that he was suffering from a political split personality. As it turned out, he was.

One minute, he indicated that he was open to trading acceptance of higher taxes on the wealthy for a lower tax rate on capital gains; the next, he wasn't. One moment, he seemed to be giving House Republicans the go-ahead to negotiate that kind of deal; the next, he was saying it would be "a waste of time."

The reason for the flipping, flopping, floundering and general chaos engulfing the White House this week is that behind the scenes there has been an intense struggle for the mind of the President.

On one side are House Republicans, wanting the fractured party to pull together and wanting the White House to give them some attention and respect. They have been pushing Mr. Bush to give them room to bring out their own budget plan, an alternative to the bipartisan summit deal that is now being amended by the Congressional leadership.

On the other side are the two White House budget negotiators, John H. Sununu and Richard G. Darman, who want to keep some distance between Mr. Bush and the House Republican alternative. This way, the White House can keep working with the rarefied group of Congressional leaders like Dan Rostenkowski, chairman of the House Ways and Means Committee, to come up with a deal as close as possible to the one they concocted at Andrews Air Force Base.

Mr. Bush's public vacillation has reflected both the consensus nature of his governing and his characteristic desire to please all of the people all of the time.

When on Tuesday morning Mr. Bush first seemed sympathetic to a trade of higher taxes on the wealthy for a capital gains tax cut, he was reflecting the pleas of the House Republicans, who have been telling him that they can deliver on such a deal.

But in the latest of a series of conflicting signals since then, the President today left embarrassed House Republicans in the lurch by announcing that he did not think it was a good idea to even talk about that kind of bargain, because it would drive the negotiations to favor the Democrats. With that announcement, he was not only reflecting the views of his chief of staff, Mr. Sununu, and the White House budget director, Mr. Darman. He was actually reading their words, since it was Mr. Darman himself who had written the statement.

"I do not believe such a compromise is now possible," the President told a group of Republican Congressman at the White House this afternoon. "Indeed, I'm quite concerned that pursuing it in the current context may not only fail, it may legitimize something farther to the left that we cannot accept."

Republicans in Shock

The confusion and the increasing rift with House Republicans have sent a shock through Republican circles. Some White House officials are increasingly anxious, in private, both about the lack of a coherent strategy and about the insular approach, even within the White House, of Mr. Sununu and Mr. Darman. There are also fears that the scars Mr. Sununu has left on White House relations with Congress will not disappear so easily, even after a deal is reached.

Republican critics suggest that the problem actually started even before the summit deal fell through a week ago. The attitude of Mr. Sununu and Mr. Darman on the budget was much like the attitude of the owner of the Titanic, the critics say. Just as no lifeboats were needed because the Titanic was not going to sink, so no fall-back strategy had been needed because the two advisers never for a moment believed that the summmit plan on which they had lavished so much time and attention could fail.

"We have no spin because we have no strategy," one Administration official close to the proceedings said today. "We have no strategy because no one here believed we were going to lose in the first place. No one knows what's going on, and it's scaring me."

Mr. Sununu and Mr. Darman believe that the damage to the Presidency will be reversed instantly if they can get the kind of budget deal that emerged from their negotiations with Congressional leaders. They have never stopped believing, White House officials say, that the deal is the cleverest one possible, and they believe that the White House can claim victory only if the final product is close to the original one.

White House officials say Mr. Sununu feels that House Republicans do not have the votes to pass their own version of the budget and that to pursue it would be counterproductive, particularly since a number of Republicans in the Senate have voiced strong opposition to any kind of income tax increase. But some House Republicans have read the chief of staff's attitude as one more example of the disdain he has shown toward the Congressional rank and file.

Representative Robert S. Walker of Pennsylvania, who is more sympathetic to Mr. Sununu than are some of Mr. Walker's fellow Republicans, talked to the chief of staff at the White House today after meeting with the President. He said Mr. Sununu had told him that he could pursue his plan but had asked him, "Once you come up with a plan, can you pass it?"

"They have a lot of pride in authorship," Mr. Walker said tonight, referring to both Mr. Sununu and Mr. Darman. "They figured they worked hard and got a good deal, and without some kind of pretty good plan from the Republicans why should they back away from what they've done? That's a perfectly legitimate point of view."

But Mr. Walker added that the White House should nonetheless reconsider and give the House Republicans more support. "It's important as we move ahead that they provide us with some encouragement so that we arrive at something that can weld the Republicans back together," he said.

House Republicans argued in a meeting with Mr. Bush this morning that they should craft their own budget plan and try to get conservative Democrats to back it. They said that if this did not work, then Congress could return to the issue after the Nov. 6 election, but that meanwhile Mr. Bush would shore up the partisan credentials that have now been cast into doubt.

His Own Trial Balloons

But Mr. Sununu and Mr. Darman, who have created such bad feelings among rank-and-file members of Congress that they they have been virtually shut out of negotiations on Capitol Hill, argued that there was no possibility that a House Republican plan could pass and that it was important to have a Presidential success.

They also said that to have the budget fight still raging on Election Day would severely damage the Republican Party. They persuaded Mr. Bush that the only hope was to stick to the bipartisan leadership strategy on which the two supremely confident advisers have staked much of their effectiveness.

The President has made things particularly confusing in the last few days because of his passion for playing all the roles in his Administration. In the Reagan Administration, Cabinet officers or White House officials would be sent out to reporters to float different viewpoints to the public. Then, once the White House had decided which of the trial balloons had been received best, the President would come forward to support the winning idea.

But Mr. Bush has floated all his own trial balloons. "The President himself is going out and floating different potential postures," said one Republican close to the White House. "And that tends to lead to confusion, because the President is generally thought of as the final arbiter."

Sour View of Congress Emerges From Survey

By ROBIN TONER

Four weeks before the midterm elections, the American public is in a discontented mood, with 60 percent saying they disapprove of the way Congress is doing its job and more than two-thirds saying it is time to replace most members of Congress, a New York Times/CBS News Poll has found

But people still look more kindly on their own members of Congress than on Congress in general, and the forces protecting incumbent House members are formidable, from superior war chests to the perquisites of office. Moreover, there is little for the White House to gloat about in all the bashing of Congress.

Despite the public's irritation with Congress, 55 percent said they still trusted it to do a better job in cutting the Federal deficit than President Bush, while just 24 percent said Mr. Bush would do a better job.

Congress's approval rating was 27 percent, down sharply from January's level of 42 percent. While there was clear and pervasive concern about the economy, Congress's stock was equally low among those who thought the United States was in a recession and those who disagreed.

Congress and Special Interests

The portrait of Congress that emerged from many people was of a body driven by special interests and by the lawmakers' own concerns, rather than those of the people who sent them there.

Many people seemed to be saying a pox on both branches of government. In follow-up interviews after the poll was completed, Lance D. Deroucher, a 32-year-old Republican from Utica, N.Y., asserted that Congress and the President were "acting like a bunch of kids, bickering back and forth."

There are many crosscurrents in the public's attitude toward their Congress members, according to this telephone survey of 960 adults on Oct. 8-10, while the White House was repeatedly shifting its position on the tax measures it would accept and negotiations with Congress were in turmoil. The poll also examined in-depth attitudes toward the President; the results of that part of the survey will be made public within a few days.

Influence of the Wealthy

People still draw a distinction between Congress as a whole and their own individual member of Congress: Forty-four percent say their own representative deserves re-election, while 40 percent say they would prefer somebody new, even in their own district.

This swings overwhelmingly when people are asked to consider Congress as a whole: 20 percent say most lawmakers deserve re-election, while 67 percent say it is time "to give new people a chance." The poll had a margin of sampling error of plus or minus three percentage points.

"It's more a matter of punishment than that the new people would necessarily be better," said Vinny M. Boland, 31 years old, who owns a sign-making company in Miramar, Fla., and described himself as an independent voter from a Democratic family. "The wealthy and the special interests will still sway whoever is in ofice and get their point across. But if elected officials know they're vulnerable, maybe they won't give as much."

Still, the re-election rate for House incumbents in the last two elections was 98 percent. And Common Cause, the Washington group lobbying for new campaign finance laws, recently asserted that most incumbents were protected by "a wall of political money that makes them nearly invincible."

Of 405 House incumbents seeking re-election this fall, Common Cause classified nearly three-fourths of them as "financially unopposed" — either with no challenger at all from a major party, or with a challenger who had raised less than $25,000 as the fall campaign began, hardly enough to mount a vigorous effort.

However it is translated at the polls, there is a sour mood in the land. Voters were asked if they thought government "is pretty much run by a few big interests looking out for themselves," or run "for the benefit of all the people?"

That question has been asked periodically by the Times/CBS News Poll and by the Survey Research Center of the University of Michigan, and the current level of cynicism matches the previous high-water mark set in 1980, at the end of the Carter Administration: 71 percent said this week that Government was controlled by big interests, compared with 21 percent who saw a government run for the people.

Similarly, 58 percent said most members of Congress were more interested in serving themselves than in serving the people they represent. And 71 percent said they thought most lawmakers were more interested in serving special interest groups than serving the people.

A pox on both branches of government is the attitude.

"To get into office, you have to have a lot of backing," said Marcella Fowkes, 58, of Pittsburgh. "I think that they owe a lot of favors to the big oil companies, and the other ones backing them."

Another reflection of this mood was the strong support for a 12-year limit on service in Congress: 56 percent backed it, compared with 37 percent who said members should be able to serve as long as they are able to get re-elected.

'Out of Touch'

"Congressmen should not be in office for 30 years," said Gary Ostermueller, 32, a Republican who is a sales manager from Metuchen, N.J. "The longer they're in Washington, the more they get out of touch with the people back home."

Still, there were glimmers of trust. Fifty-one percent, for example, said they thought Congress made "the right decisions most of the time," while 22 percent said they thought lawmakers made the wrong decisions.

Mildred Tudor, 72, a retiree in Newton Center, Mass., said: "I think that they want to get to the right thing, but other things get in their way, especially in an election year. They could come up with a solution to the budget but they don't want to hurt their image."

After weeks of feuding over the budget between Congress and the White House, 64 percent said they blamed both branches of Government for the fiscal impasse, while 24 percent said they blamed Congress and 6 percent blamed Mr. Bush.

But of those blaming Congress, most said it was the fault of both the Republicans and the Democrats on Capitol Hill.

On the tenor of this year's campaigns, 23 percent said they thought they were more negative that past campaigns, 11 percent more positive and 61 percent about the same.

The New York Times | CBS NEWS Poll

Assessing Congress: Mixed Reviews

Do you approve or disapprove of the way Congress is handling its job?

Approve 27% | Disapprove 60%

Do you think most members of Congress are more interested in serving the people they represent, or more interested in serving special interest groups?

People 20% | Special Interests 71%

Do you think Congress makes the right decisions most of the time, or the wrong decisions most of the time?

Right 51% | Wrong 22% | Both 16%

Over all, who do you think would make better decisions about what to do to reduce the Federal budget deficit, George Bush or Congress?

Bush 24% | Congress 55%

Should the terms of members of Congress be limited to a total of 12 years, or should they be able to serve as long as they are able to get re-elected?

Limited 56% | Unlimited 37%

Based on interviews with 960 adults nationwide conducted by telephone Oct. 8-10. Those with no opinion are not shown.

Public Preference for Congress

If the 1990 election for the U.S. House of Representatives were being held today, would you vote for the Democratic candidate or the Republican candidate in your district?

		Would vote for Democrat	Would vote for Republican
Total registered voters		39%	36%
Race	Whites	33	40
	Blacks	74	15
Sex	Men	33	42
	Women	43	31
Age	18 to 29	34	48
	30 to 44	42	36
	45 to 64	38	32
	65 and older	40	29
Region	Northeast	35	39
	Midwest	44	34
	South	41	32
	West	33	43
Political Affiliation	Republicans	6	75
	Independents	30	29
	Democrats	78	6
Those who approve of the way Congress is handling its job		48	31
Those who disapprove		35	40
Those who approve of the way George Bush is handling his job		28	48
Those who disapprove		62	16

Based on telephone interviews with 739 registered voters nationwide conducted Oct. 8-10. Those who said they were undecided are not shown.

The Empty Pulpit

The budget charade that has dominated Washington for weeks has diminished almost all of its participants. That includes the majority of both parties in the House who, without offering any serious alternative, rejected a budget compromise engineered by their leaders. But the roll of dishonor is headed by George Bush, who failed to present a convincing and consistent case for a deal he had worked hard to achieve.

One might have expected more from a man who has so successfully orchestrated a collective global response to Iraq's aggression in the Persian Gulf. But when faced with a crisis at home, he chose not to use those skills. His failure has nothing to do with the "vision thing" he finds so uncomfortable. It has everything to do with his reluctance to exercise power — and use the pulpit he was hired to fill.

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True, Mr. Bush made one good speech. Honoring his promise to the Congressional leadership to present a united front, he appeared on television last week and called the budget deficit "a cancer gnawing away at our nation's health." Uncontrolled deficits "mortgage the future of our children," he said — a plain and simple acknowledgment that recurrent deficits threaten future living standards by siphoning money from private investment. And he urged the public to ask their representatives to "fight for the future of your kids by supporting this budget agreement."

That was not an easy speech for George Bush. It required an implicit concession that the economic policies of Ronald Reagan, to whom he had given eight years of undivided loyalty, had brought the country to the brink. While the budget compromise was hardly draconian, it required him to admit, once again, that the theme of his Presidential campaign — no new taxes — had been nothing but blue skies. And it asked him to spend a small amount of his treasured popularity.

But when the House repudiated him, his well of conviction ran dry. Indeed, within days his own budget director, Richard Darman, made the astonishing statement that Mr. Bush hadn't really said what everyone had heard him say. "He wasn't actually asking the public to support this," Mr. Darman said, suggesting that maybe the President didn't think so much of his own idea.

Mr. Bush's subsequent behavior has been equally confusing. Instead of returning to his central theme that huge deficits demand urgent attention, he has trapped himself in a bizarre and baffling dispute. The debate is whether to include in any new package something that was not even in the original — higher income taxes on the wealthy combined with lower capital gains taxes.

Mr. Bush embraced that proposal Tuesday morning and, after conservatives screamed, rejected it that afternoon. On Wednesday he said he had no public position on the matter and that it was up to Congress to decide. Then, yesterday, he (a) proposed a "hypothetical" package containing a capital gains cut and a modest increase in income taxes on the rich and (b) said he would prefer a budget agreement that had neither element in it.

That's how many, four contradictory statements in three days? Five? "The meter is running," he said yesterday. "But look, I can't dictate to Congress." But he can certainly give Congress a far clearer idea of what's on his mind.

What a depressing week. Official Washington has converted a fine opportunity to make a bold statement about fiscal sanity into a dismal statement about the quality of America's elected leadership. The deficit is a cancer. The public needs to be rallied to support an effective remedy. What does the President do about that? He dithers.

Los Angeles Times

FRIDAY, OCTOBER 12, 19[illegible]

Bush Focus on Iraq Worsening Budget Crisis

By JACK NELSON
TIMES WASHINGTON BUREAU CHIEF

WASHINGTON—President Bush's near-total absorption with the Persian Gulf crisis has led to such dramatic missteps and equivocation on how to cut the federal deficit that a second crisis over the budget is mushrooming—sowing confusion within Bush's own party and eroding his authority in Washington.

NEWS ANALYSIS

By shaking public confidence in his leadership, it could even cut down his political freedom to deal militarily with the Iraqi invasion of Kuwait.

Dismayed political leaders and analysts in both parties say that Bush, preoccupied with the gulf crisis, has not only failed to provide effective leadership in resolving the budget impasse but has stumbled badly in failing to spell out for Congress or the American public how he ultimately hopes to resolve either issue.

"Clearly, this is the most challenging moment of his presidency, with a major foreign policy crisis and a major domestic crisis happening simultaneously," concedes a senior Administration official who is involved in Persian Gulf strategy.

The twin crises could not come at a worse time. Congressional elections are less than a month away, financial markets are already shaky and the country is teetering on the brink of a recession. Unless the budget crisis is resolved soon, some analysts say, Bush could suffer lasting political damage and his long-term ability to sustain the deployment of 200,000 troops in the Persian Gulf could be seriously eroded.

The potential impact on Bush's freedom to maneuver in the gulf is indirect but potentially significant.

Before the budget crisis burst upon him, Bush enjoyed extraordinarily high public opinion ratings and projected the image of a commanding, sure-footed leader. From a position of such political strength, he could exercise his military and foreign policy authority with confidence that voters would support him. Now, with his approval ratings tumbling and his footwork in question, he might command far less public confidence if he abruptly led the nation into war.

Bush "has got this budget thing so screwed up he can't go to war now," said House Armed Services Committee Chairman Les Aspin. "With so much uncertainty about the budget," he said, the President cannot now plunge into the even greater uncertainties of a war because the public might "back off and not support it."

Confidence in Bush's leadership has been shaken even among GOP loyalists. Said a former top Republican official who declined to be identified:

"What's happening is unbelievable. I've just come from a meeting of Republicans and we can't understand what's happened to the President. Our boys are over there in the sand, the economy is going to hell and we've got a budget crisis that he's just turned over to the Congress. Nobody seems to know what's going on."

Bush's sudden difficulties over the budget spring primarily from two factors, GOP sources say:

—The President's decision to turn over management of the politically explosive deficit negotiations to White House Chief of Staff John H. Sununu, Budget Director Richard G. Darman and Treasury Secretary Nicholas F. Brady so that he himself could concentrate on foreign policy.

—The deep divisions within his own Administration and the Republican Party over how to deal with the deficit and what strategy to pursue against the Democrats on the question of higher taxes vs. lower spending.

Said a senior Administration official Thursday: "There is confusion about strategy on the budget—are we truly committed to the bipartisan approach . . . or is there a reasonable alternative of trying to unify the Republicans, come up with our own package, paint the Democrats as the party of tax-and-spend and go to the voters with that?"

"There is a genuine tug-of-war among the President's advisers" on that, the official said, with Vice President Dan Quayle, Housing Secretary Jack Kemp and others advocating fighting the Democrats while Sununu and Darman advocate sticking with the bipartisan route.

The way the President is handling the budget problem, says Senate Armed Services Committee Chairman Sam Nunn (D-Ga.) "goes beyond Bush and to the heart of the Republican Party and their entire political strategy and I believe that's what is haunting the President right now.

"He has a very divided party and he's obviously trying to hold the party together. He's got to choose between being a responsible President and an effective leader of his political party and it's a hard choice for him," Nunn said. As for leaving the budget negotiations to senior aides, some Administration officials now say that Sununu, Darman and Brady got so committed to the negotiations between White House and congressional leaders that they failed to prepare fallback positions to be used if the process failed—as it did last weekend.

"Sununu just got too immersed in the budget negotiations and lost sight of his overall responsibilities to balance policies and options. He became a real advocate for a particular solution, a particular course," one official said.

Some Washington insiders go so far as to question whether Sununu, Darman and Brady can survive as leaders of the Administration.

"It's baffling, stunning," said John Deardourff, a Republican political consultant. "It's worse than a Chinese fire drill at the White House. Nobody knows who's calling the shots and they keep backing and filling. The average American must wonder what the hell is going on in Washington."

Whether deliberately or not, the President is still keeping members of Congress of both parties off balance on both the budget and the gulf.

He has more or less taken a hands-off attitude on the budget since the House rejected the compromise package that he supported and when he has spoken out he has repeatedly sent conflicting signals. And he has not briefed members of Congress on the gulf crisis in several weeks.

For his part, Bush insists that he has not been damaged by the budget impasse.

"Nobody thinks you can be popular by standing up and having to take, in a compromise, ingredients that you wouldn't necessarily want," he said earlier this week. "And so I'll do what I think is best and take the slings and the arrows that go with it. And I haven't felt too much pressure or anything."

House Majority Leader Richard A. Gephardt (D-Mo.), on the other hand, charges that Bush "has failed to use the bully pulpit to communicate clearly with the American people what his policies are on the budget or on the Persian Gulf crisis. Only a President can mold public opinion in such crucial situations."

Senate Budget Chairman Jim Sasser (D-Tenn.) said that he has "come to the glum conclusion" that there will be a war and "with all our domestic problems and no domestic priorities, it's frightening to me that one way to distract people from these problems is to get into some kind of military adventure abroad. That has been done in times past."

Beyond the partisan question of what it has done to his political strength, the budget crisis is fueling concern about the economy.

Last weekend's breakdown in the negotiations—combined with continued White House pressure on the Federal Reserve Board to push interest rates down—already has created a threat in the financial markets. The dollar has been declining for months because of investors' lack of confidence in U. S. economic policies.

And the Administration's repeated pressure on the Fed only fuels those concerns by making foreign investors afraid that the Fed may be forced to abandon its fight against inflation.

With the budget compromise gone off track and the U.S. financial system severely weakened by the S&L crisis and banking and insurance industry problems, analysts say that the United States is ripe for a severe recession and accompanying financial strains.

Damaging as Bush's missteps seem, on Thursday he continued to add to the confusion. And even such a staunch supporter as House Minority Leader Robert H. Michel (R-Ill.) demonstrated a degree of exasperation with the confusion emanating from the White House.

Each group that has visited with Bush in recent days has emerged with a slightly different account of what the President will accept in the way of a tax and budget package—often to be contradicted moments later by White House officials.

When a group of senior House Republicans left the White House Thursday, after spending 90 minutes with Bush, they reported that he was willing to see the marginal tax rate capped at 31%, meaning that some of the wealthiest Americans whose income left them paying taxes at a 28% rate would end up with an increase of three percentage points while others paying taxes at the highest rate of 33% would see their rate drop two points. In exchange, the capital gains tax rate would be cut from 28% to 15%.

Each group that has visited with Bush has emerged with a slightly different account of what he will accept in a tax and budget package—often to be contradicted moments later by White House officials.

"The President is inflexible on this rate," Michel told reporters, adding in exasperation, "as I understand it and as of this morning."

Sure enough, White House officials later said that was not exactly what Bush meant.

On the House floor, Democrats are making Bush a figure of ridicule. They joked about the incident in which he pointed to his posterior while jogging and told reporters that they should "read my hips" when they asked about budget negotiations.

Rep. Doug Applegate (D-Ohio) called the President "Veto Bush, the jogfather."

Late-night television comedians also have made Bush the butt of jokes. Said NBC's David Letterman: "George Bush yesterday said that he is considering imposing a tax on wealthy Americans. And then today he said he had decided he would not consider imposing a tax on wealthy Americans. And people said: 'Why did you change your mind?' And he replied by saying: 'Well, I just remembered, I'm a wealthy American.'"

Staff writers James Gerstenzang, David Lauter and Art Pine contributed to this story.

Bush Sends New Signals as Budget Confusion Grows

By WILLIAM J. EATON and JAMES GERSTENZANG, TIMES STAFF WRITERS

WASHINGTON—The confusion over the federal budget situation intensified Thursday as President Bush again sent conflicting signals over his stand on key tax issues while congressional Democrats made new proposals of their own for cutting the budget deficit.

During a series of separate meetings with groups of House Republicans, Bush first left the impression that he would support a so-called trade-off in which Congress cut tax rates on capital gains sharply while increasing income tax rates for the very rich.

But an hour after the lawmakers left the session, the President poured cold water on the whole notion, sending Press Secretary Marlin Fitzwater to tell reporters that he does not believe such a compromise is possible and fears that even pursuing it now might backfire.

Bush said at one point that he would not agree to raising tax rates for high-income Americans to more than 31%, from 28% now. He said that raising rates to 33%—as Democrats want—would "start us back on the path toward higher income-tax rates for everyone."

At the same time, the President appeared at one point to be optimistic. "It's coming forward, and we will get a [budget deficit-reduction] deal, I'm convinced," he said. "Nobody's going to get it exactly the way they want."

Bush's comments came as, separately, the House Ways and Means Committee drafted a new Democratic alternative to the bipartisan budget accord that the House rejected earlier this month that would seem to fly in the face of what Bush has said he wants to see.

The new Democratic package, expected to go to the House floor next week, would boost income tax rates for the very wealthy to 33% to eliminate the so-called "bubble" in the tax code that enables top-bracket Americans to pay lower rates than those earning less.

It also would slash the proposed increase in gasoline taxes to 3 cents a gallon, down from 10 cents in the bipartisan plan, and it would provide for smaller increases in payments by Medicare beneficiaries than the version that was rejected by the House.

Panel chairman Dan Rostenkowski (D-Ill.) said that he still is considering whether to include a cut in capital-gains tax rates to make the plan more attractive to House Republicans and will decide after a Democratic caucus this morning.

Capital gains are the profits from the sale of stocks or other assets.

The House is expected to choose next week between the package endorsed by the Ways and Means Democrats and a rival Republican plan that would impose a one-year freeze on federal spending, cut the tax rate on capital gains to 15% and keep the gasoline tax as is.

The combination of developments heightened the appearance of disarray in Washington and intensified the already deep domestic political crisis in which the President has become embroiled over the budget deficit.

The President is under pressure from congressional Republicans, who fear that his image of vacillating on the budget issue may damage their own prospects in the Nov. 6 election and the party's chances of recapturing the White House in 1992.

Meanwhile, financial markets, which view the United States as entering a period of serious financial and economic problems, plunged further Thursday. The stock market fell more than 42 points for its third sizable drop in a row. And the dollar fell on currency markets.

Rostenkowski's plan—which includes a 10% surtax on persons with a taxable income of $1 million or more—has a "soak-the-rich" flavor that analysts say sharpens the differences between Republicans and Democrats and assures a major clash in the House.

Anticipating Republican arguments against the plan, the Ways and Means chairman denied that his panel was pursuing "class warfare." Instead, he asserted, it was merely trying to reverse a decade-long trend that saw the tax burden shift away from the rich.

"This plan is both bold and fair," Rostenkowski told reporters. "We have to work in the vineyard of Middle America."

Meanwhile, the Senate Finance Committee postponed a meeting that it had scheduled for Thursday to consider a "bipartisan" deficit-reduction proposal. Nevertheless, committee strategists said that prospects appear good that lawmakers from both parties will support that plan.

Thursday's Ways and Means package included most of the earlier, more-routine tax provisions that the panel approved the previous day. The entire measure was sent to the House Budget Committee, which will include it in a revised congressional budget resolution.

Here are the major elements of Thursday's Ways and Means package:

—The tax rate for the highest income bracket of Americans would be raised to 33% from the current 28%, for couples with taxable incomes of $193,190 or more and individuals with taxable income above $113,460—breaking the so-called "bubble" that left them paying less than those with less income.

—The Social Security payroll tax, which also helps finance the Medicare program, would be imposed on the first $100,000 of a wage-earner's annual income, instead of the first $53,300, as now is the case. The $100,000 cap would be indexed to rise with inflation.

—The federal gasoline tax, now 9 cents a gallon, would be boosted by 3 cents a gallon instead of the 10-cent-a-gallon rise prescribed by the original bipartisan budget accord that was voted down by the House. The increase had drawn protests from voters around the country.

—Cutbacks in Medicare benefits contained in the original plan would be scaled back. Premiums would be increased by less—to $29.90 a month in 1991, from $28.60 now and rise gradually to $46.20 in 1995. The bipartisan plan would have boosted it by $6 now.

At the same time, the deductible for Medicare beneficiaries would rise only to $100, from the current $75, instead of the $150 that the defeated bipartisan budget plan had recommended.

—The procedure under which income-tax brackets are increased to take account of inflation would be halted for a year, effectively raising the amount of taxes that Americans must pay by $17 billion.

Meanwhile, the Senate Finance Committee began drafting a separate deficit-cutting package Thursday in hopes of attracting bipartisan support in the Senate, where Democrats have only a 55-45 advantage over Republicans.

The plan would delete a 2-cent-a-gallon tax on home heating oil and other refined petroleum products that had been part of the original budget summit agreement. But it would raise federal taxes on gasoline by 9 cents a gallon, 1 cent below the earlier figure. The Finance Committee package also would provide for $3.1 billion worth of tax breaks to encourage oil drilling if the price of oil drops below $28 a barrel. Panel members put off a final decision on many segments of the package until today.

The move came as House Republicans, eager to win Bush's support for their proposal to lower the capital gains tax to 15% and change the top-bracket rate to 31%, received a mixed blessing from the White House.

While he had supported such a trade-off at one stage during the drawn-out negotiations over the original $500-billion deficit-cutting package, Bush threw cold water on the key component of the House GOP alternative to Rostenkowski's package.

"I think it's a waste of time because I just don't think it can get through both houses of Congress," Bush said. "But I'm not going to deny House members an opportunity to do something that they think can be done. That's not my role."

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House, Bush dig in for new budget clash

By Jessica Lee
and Richard Wolf
USA TODAY

The likelihood of yet another bitter — and potentially bloody — budget battle next week grew dramatically as President Bush and House Democrats floated vastly different tax plans Thursday.

As positions hardened on a five-year, $500 billion deficit-cutting package, chances appeared slim that either could pass before a threatened government shutdown Oct. 19.

"That's where the president does have some say," Bush warned. "I'm going to insist that we have a package. ... The meter's running."

Opposing proposals:

▶ Bush offered publicly to raise the top income tax rate from 28% to 31% in exchange for cutting the capital gains tax from 28% to 15%, which he calls a key economic incentive.

But Bush downplayed its chances of survival: "I think it's a waste of time, because I just don't think it can get through both houses of Congress."

Worse, he had no guarantee that even congressional Republicans would back his plan.

▶ House Democrats proposed raising the top income tax rate to 33%, raising the alternative minimum tax on the wealthy and imposing a 10% surcharge on millionaires.

"When you talk about tax shelters, the rich will be seeking shelter from equity and fairness," said Rep. Charles Rangel, D-N.Y.

Included in both party's plans: cuts in Medicare and boosts in gas, alcohol, cigarette and luxury taxes.

Divisions within party ranks:

▶ Some House Republicans want a freeze on domestic spending; others are willing to set a 19.6% capital gains tax rate. GOP senators, meanwhile, stood firm against any income tax hike.

▶ Some House Democrats said the hardball tactics used by the House tax-writing committee could alienate conservative members of their party.

'Quite a ways away' from budget

Congress fears another shutdown

By Richard Wolf
and Jessica Lee
USA TODAY

To members of Congress seeking re-election in less than four weeks, a five-year, $500 billion deficit-cutting package carries all the importance of a credit card: They don't want to leave Washington without it.

Chances for enactment of a plan by Oct. 19 when another government shutdown looms seem remote. The House is bitterly split over income tax increases, the Senate is searching for a fragile coalition and President Bush refuses to recommend any compromise.

Thursday, lawmakers predicted another confrontation with the White House, one that could shut down the government next weekend — and keep them on Capitol Hill as Election Day nears.

"This is the point where ... everybody's got to get their act together," said Rep. Leon Panetta, D-Calif., chairman of the House Budget Committee.

But there were more signs the act was falling apart:

▶ House Democrats unveiled their own plan — one that raises so many taxes on the wealthy it's considered veto bait for Bush.

The measure will attract most Democrats, since it cuts $17 billion from a proposed $60 billion Medicare reduction and scales back a proposed 12-cent gas tax hike to three cents.

"If we look like we're governing, and he looks like he's continually vetoing, I think it places a bad light on the presidency," said Rep. Dan Rostenkowski, D-Ill., chairman of the Ways and Means Committee.

▶ Senate Democrats and Republicans met behind closed doors, hoping to find a compromise that can muster a majority on the floor next week.

The latest plan offered by Sen. Lloyd Bentsen, D-Texas, chairman of the Senate Finance Committee, would raise $30 billion in five years by limiting deductions for those earning more than $100,000.

But Majority Leader George Mitchell, D-Maine, said such a compromise may have to omit higher income tax rates on the rich and lower capital gains tax rates — putting the Senate and House on separate tracks.

▶ Bush and White House budget director Richard Darman downplayed any chance of negotiating the income-capital gains tax issue.

"We don't believe it's negotiable," Darman said.

Nevertheless, House Republicans were pushing a plan that could cut the top capital gains tax rate from 33% to 15% and raise the top income tax rate from 28% to 31%.

Said Rep. Jerry Lewis, R-Calif., chairman of the Republican Conference: "I think we're quite a ways away."

THE SUN

OCTOBER 12, 1990

New outline of deficit plan takes shape

Congress negotiates without guidance from the president

By Karen Hosler
and Richard H. P. Sia
Washington Bureau of The Sun

WASHINGTON — The long-sought five-year deficit-cutting plan finally began to take shape yesterday as House and Senate committee members put together an array of options from which their colleagues may ultimately choose.

Sharp partisan differences remained — most notably on the high-profile question of whether there should be a trade-off between a tax increase for the wealthy and a tax break on capital gains.

Democratic leaders were also predicting privately that the process would not be completed by the Oct. 19 deadline and that Congress might have to remain in session until a few days before the Nov. 6 elections.

If the deadline is not met, Congress could approve stopgap funding, but that would set up another showdown with President Bush like the one last weekend, when Mr. Bush vetoed temporary funding and shut down government services.

Various alternatives being developed behind closed doors yesterday appeared to be more alike than different, and all were refinements of the original budget agreement Mr. Bush reached with congressional leaders Sept. 30.

For his part, Mr. Bush — trying for the third consecutive day to work his way out of a rhetorical tangle on the tax trade-off controversy — said he would prefer to sidestep the issue entirely.

Trying to push a trade-off between tax rates and capital gains is "a waste of time because I just don't think it can get through both houses of Congress," Mr. Bush told one of at least three gatherings of Republican lawmakers yesterday at the White House.

Some GOP House members who attended the first meeting yesterday morning reported that the president had said he would support their plan of raising the income tax rate on the wealthiest Americans to 31 percent, from the current 28 percent, if the rate applied to profits from the sale of assets, or capital gains, was dropped to 15 percent from 28 percent.

That position seemed to reflect yet another reversal on the issue by the president since Tuesday morning, and the White House went to great lengths yesterday to straighten out the confusion, including providing written excerpts of the president's remarks to the lawmakers yesterday.

"One of the phenomenons of group meetings [between the president and lawmakers] is people hear what they want to hear," said presidential spokesman Marlin Fitzwater. "I think we just made a mistake" in not clearing things up earlier.

Mr. Bush, who has suffered a drop in his public opinion ratings because of the chaotic struggle with Congress over the budget deficit, became the subject of open derision this week because of his apparent flip-flops on the tax question.

"We can't get too upset about this because that is the process," Mr. Fitzwater said. "It's a very public one; it's not very pretty."

But as the budget process has worn on, the White House objective has become more clearly focused on simply getting the job done — even if that has meant jettisoning pet proposals, such as capital gains, to avoid controversy.

Mr. Bush and his aides indicated yesterday that they find particularly attractive a so-called "bare-bones" budget proposal drafted by Representative Dan Rostenkowski, D-Ill., chairman of the House Ways and Means Committee, and cleared by the committee Tuesday night.

That plan excludes some of the most unpopular features of the original budget summit agreement rejected by Congress — such as an increase in the tax on home heating oil — and it diminishes the impact of cuts in Medicare benefits.

It is also excludes the most partisan proposals from both sides of the aisle, remaining silent, for instance, on raising income taxes on affluent Americans or providing growth incentives to business.

"It does seem to preserve some aspects of the bipartisan agreement, and thus it will give us something to build around," Mr. Bush said.

Some observers believe that when all the grandstanding is over, a proposal very similar to that offered by Ways and Means will pass.

Still, Mr. Rostenkowski worked yesterday with the Democratic majority on his committee to fashion a Democratic alternative that would be considered first on the House floor.

That proposal would increase the top income tax rate on wealthy Americans to 33 percent, from the current 28 percent, and raise the so-called minimum tax rate to 25 percent from 21 percent.

A capital gains component of some sort might be added today, Mr. Rostenkowski said, but it would not be nearly as generous as the plan advocated by House Republicans at the White House yesterday.

The Democratic alternative would impose a 10 percent surtax on individuals whose taxable incomes exceed $1 million, would limit the cut in Medicare benefits to about $10 billion from the $30 billion proposed in the budget pact, and would cut the gasoline tax increase to 3 cents a gallon from the 10 cents a gallon of the earlier agreement.

Representatives, aides struggle for Bush's mind

By Maureen Dowd
New York Times News Service

WASHINGTON — At times during the last three days, it seemed that George Bush was speaking with different voices about his intentions on the budget, that he was suffering from a political split personality. As it turned out, he was.

One minute, he indicated that he was open to trading acceptance of higher taxes on the wealthy for a lower tax rate on capital gains; the next, he wasn't. One moment, he seemed to be giving House Republicans the go-ahead to negotiate that kind of deal; the next, he was saying it would be "a waste of time."

The reason for the flipping, flopping, floundering and general chaos engulfing the White House this week is that behind the scenes there has been an intense struggle for the mind of the president.

On one side are House Republicans, wanting the fractured party to pull together and wanting the White House to give them some attention and respect. They have been pushing Mr. Bush to give them room to bring out their own budget plan, an alternative to the bipartisan summit deal that is now being amended by the congressional leadership.

On the other side are the two White House budget negotiators, John H. Sununu and Richard G. Darman, who want to keep some distance between Mr. Bush and the House Republican alternative. This way, the White House can keep working with the rarefied group of congressional leaders such as Dan Rostenkowski, Democratic chairman of the House Ways and Means Committee, to come up with a deal as close as possible to the one they concocted at a budget summit last month.

Mr. Bush's public vacillation has reflected both the consensus nature of his governing and his characteristic desire to please all of the people all of the time.

When on Tuesday morning Mr. Bush first seemed sympathetic to a trade of higher taxes on the wealthy for a capital gains tax cut, he was reflecting the pleas of the House Republicans, who have been telling him that they can deliver on such a deal.

But in the latest of a series of conflicting signals since then, the president left embarrassed House Republicans in the lurch yesterday by announcing that he did not think it was a good idea even to talk about that kind of bargain, because it would drive the negotiations in a way that would favor the Democrats.

With that announcement, he was not only reflecting the views of his chief of staff, Mr. Sununu, and the White House budget director, Mr. Darman, but was actually reading their words, since it was Mr. Darman himself who had written the statement.

"I do not believe such a compromise is now possible," the president told a group of Republican congressman at the White House yesterday afternoon.

"Indeed, I'm quite concerned that pursuing it in the current context may not only fail, it may legitimize something farther to the left that we cannot accept."

The confusion and the increasing rift with House Republicans have sent a shock through GOP circles.

Some White House officials are increasingly anxious, in private, both about the lack of a coherent strategy and about the insular approach, even within the White House, of Mr. Sununu and Mr. Darman. There are also fears that the scars Mr. Sununu has left on White House relations with Congress will not disappear so easily, even after a deal is reached.

Republican critics suggest that the problem actually started even before the summit deal fell through a week ago.

The attitude of Mr. Sununu and Mr. Darman on the budget was much like the attitude of the owner of the Titanic, the critics say. Just as no lifeboats were needed because the Titanic was not going to sink, so no fallback strategy had been needed because the two advisers never for a moment believed that the summit plan on which they had lavished so much time and attention could fail.

"We have no strategy because no one here believed we were going to lose in the first place. No one knows what's going on, and it's scaring me," an administration official close to the proceedings said yesterday.

Mr. Sununu and Mr. Darman believe that the damage to the presidency will be reversed instantly if they can get the kind of budget deal that emerged from their negotiations with congressional leaders. They have never stopped believing, White House officials say, that the deal is the cleverest one possible, and they believe that the White House can claim victory only if the final product is close to the original one.

White House officials say Mr. Sununu feels that House Republicans do not have the votes to pass their own version of the budget and that to pursue it would be counterproductive. But some House Republicans have read the chief of staff's attitude as one more example of the disdain he has shown toward the congressional rank and file.

Mr. Bush's passion for playing all the roles in his administration also appears to have added to the confusion this week.

In the Reagan administration, Cabinet officers or White House officials would be sent out to reporters to float different viewpoints to the public. Then, once the White House had decided which of the "trial balloons" had been received best, the president would come forward to support the winning idea.

But Mr. Bush has floated all his own trial balloons. "The president himself is going out and floating different potential postures," said one Republican close to the White House. "And that tends to lead to confusion, because the president is generally thought of as the final arbiter."

Bush's Worst Week

Wimping out on tax policy, President Bush has made himself an easy target for liberal Democrats and conservative Republicans who have long suspected he is a born compromiser who can never satisfy their conflicting ideologies. If the current spectacle in Washington were merely a pre-election mud-fight among politicians, it would be of little consequence. The nation hardly stands or falls on the fate of a score of partisans.

What does matter, however, is how the president is perceived by financial markets, by world capitals and by the American public. He is, after all, the one official who is expected to hold this unruly democracy together and give it direction. Yet in the past week Mr. Bush has forfeited his painfully crafted image of decisiveness.

This is a potentially dangerous loss as the crisis in the Persian Gulf moves toward a moment of decision and the economy teeters toward recession. Unless a president inspires confidence and respect, the nation suffers even if his adversaries do not. So there can be no excusing Mr. Bush's vacillation on budget policy, no excusing the blizzard of contradictory White House statements.

This has been, quite simply, the worst week of his presidency — Wall Street in a free fall, foreign policy trapped between the Israel-Arab and Iraq-Saudi conflicts, a sense of drift in the confrontation with Baghdad and Mr. Bush's popular-approval ratings plunging to Jimmy Carter levels.

Had the president been able to win congressional approval of the budget agreement he hammered out with the bipartisan legislative leadership on Sept. 30, the country would still be wandering in the thickets of Reaganomics and the mists of its only dimly defined role in the post-Cold War era. These things take time. But he was deserted by House Republicans, who now want a trade-off — a higher income tax bracket in exchange for a lower capital gains tax rate — and Senate Republicans who want no part of such a deal.

Mr. Bush is in the ridiculous position of first rejecting a trade-off, then accepting one, then rejecting it again, then saying he would let Congress decide and, at latest report, endorsing a trade-off but holding it has no chance of passage. This is leadership?

In political terms, Republicans now fear the Democrats have captured the tax-fairness issue while painting the GOP as the party of the rich. They may be right. But Democrats, who are not above self-immolation, may yet find themselves boxed in as the party that voted new taxes.

It would be comic, if it were not so serious, to observe all this caterwauling over marginal changes in the tax code that will have only minor economic and transitory political impact. Because the whole mess demeans this nation, puts its security in jeopardy and damages the well-being of millions, it is nothing short of an outrage.

The Philadelphia Inquirer
Friday, October 12, 1990

Budget muddle worsens

Bush tax signals deepen disorder

By Charles Green,
Ellen Warren
and R.A. Zaldivar
Inquirer Washington Bureau

WASHINGTON — Faced with another day of confusing signals from the White House, members of Congress appeared to lose ground yesterday in finding a way out of the increasingly tangled budget mess.

Contradictory statements about President Bush's position on raising tax rates for the rich and lowering the capital-gains tax emerged from the White House, two days after Bush's first apparent flip-flop on the issue.

Bush said he favored a new top tax rate of 31 percent and a cut in the effective capital-gains rate to 15 percent. But he predicted there was no chance the Democrats, who favor taxing the wealthiest taxpayers at 33 percent, would accept his terms and told House Republicans it would be a "waste of time" to try.

"The President ought to decide where the hell he stands," said a perturbed Rep. Leon E. Panetta (D., Calif.), chairman of the House Budget Committee. "The confusion isn't helpful."

The upshot of the mixed signals was that House Democrats and Republicans spent the day drafting competing deficit-reduction plans, rather than hammering one out together in committee.

House Democrats began fashioning a tax-the-wealthy plan, while House Republicans worked on a proposal to freeze government spending and lower the capital-gains tax.

In the Senate, Democratic and Republican leaders met privately in a bid to develop a bipartisan package of spending cuts and tax increases needed to reduce the deficit by $40 billion next year and a total of $500 billion over five years.

"We are now at the end of the rope," said Panetta. "This is the point where everybody has got to act together. The Congress, as well as the President."

If the budget chaos is not resolved by Oct. 20, the government could face another shutdown because that is when its current stopgap spending authority expires.

The day began with a contingent of senior House Republicans meeting with Bush to discuss a plan to impose a higher income tax rate on the rich and a lower tax rate on capital gains, the profit from the sale of stocks, bonds, real estate or other assets.

That is the issue that caused Bush embarrassment Tuesday as he first opened the door to that idea, and then apparently shut it.

Rep. Bill Archer (R., Texas), a senior Republican on the tax-writing House Ways and Means Committee, emerged from a White House meeting and said the President was ready to endorse the 31-percent top rate, 15-percent capital-gains plan.

"He said, without equivocation, this is what we wanted to do," Archer said.

But shortly thereafter, White House spokesman Marlin Fitzwater issued a statement by Bush suggesting that while the President had previously supported such a plan, any attempt now by Republicans to push it would be counterproductive.

"I'm quite concerned that pursuing it in the current context may not only fail; it may legitimize something farther to the left that we cannot accept," Bush said in the statement, apparently referring to Democratic proposals to sharply raise income taxes on the wealthy in exchange for a lesser capital-gains cut.

Later, in a briefing for reporters, Fitzwater declared: "There's no confusion. We can't get any clearer then we did today."

Later in the day, Bush told reporters that the House GOP proposal would be a "waste of time," adding, "I just don't think it can get through both houses of Congress."

But he added that he was not going to discourage anyone from pursuing it.

Predictably, the appearance of a White House in disarray left some Democrats chuckling and Republicans longing for clarity.

While some Republicans continued to insist Bush had not flip-flopped, calling it media hype, others acknowledged the disorder.

Some lawmakers predicted that when the dust settles, Congress might end up enacting something similar to a deficit-reduction plan that cleared the House Ways and Means Committee on Wednesday, without a recommendation for approval by the full House.

That plan would raise taxes on gasoline, beer, wine, liquor, tobacco products and luxury items, limit tax deductions for the wealthy, raise the ceiling on income subject to the Medicare payroll tax and require Medicare beneficiaries to pay higher out-of-pocket costs for health care.

The plan will face competition on the House floor next week from packages being developed separately by House Democrats and Republicans.

Democrats on the House Ways and Means Committee were considering a separate measure that would impose a 10 percent surtax on any income surpassing $1 million.

Committee Chairman Dan Rostenkowski (D., Ill.), unveiling parts of the Democratic alternative, said the new proposal would impose a top 33 percent income tax bracket on the wealthiest Americans, ending the current "bubble" in which the top bracket drops from 33 percent to 28 percent.

The minimum tax the wealthy pay after all exemptions and deductions, now 21 percent, would be increased to 25 percent.

Rostenkowski said Democrats were still discussing whether to put a cut in the capital-gains tax in the package.

He said if it were included, it would be less generous than what the White House wanted.

Under the Democratic plan, the gasoline tax would be increased by 3 cents per gallon to 12 cents. The Democrats would limit cuts to Medicare so that monthly premiums Medicare beneficiaries pay for doctors' coverage — now $28.60 — would rise to $29.90 next year and $46.20 in 1995.

"We want a tax package that is progressive and puts the burden on those who enjoyed the party in the 1980s," said House Democratic Whip William H. Gray 3d (D., Pa.).

House Republicans, meanwhile, attempted to bring the divergent elements of their party behind a package that would freeze domestic spending, cut the capital-gains tax rate, raise the top income tax rate for the rich and increase Medicare fees.

According to a Congressional Budget Office analysis of the House GOP proposal, people with incomes of $200,000 or more would realize tax cuts averaging $9,097 a year, a 6.2 percent reduction. That is a far bigger cut than any other income group would enjoy. However, the analysis did not take into account other aspects of the plan aimed at helping the middle-class.

In the Senate, the Finance Committee was expected to begin drafting its plan on Friday. Chairman Lloyd Bentsen (D., Texas) was expected to offer a proposal that would leave unchanged the income tax rates and capital-gains tax rate. Before Bush's mixed signals on the issue, Bentsen had proposed changed rates.

Inquirer wire services contributed to this article.

THE WALL STREET JOURNAL.

FRIDAY, OCTOBER 12, 1990

Politicians Exploit Broad Public Support For Soaking the Rich

By ALAN MURRAY
And GERALD F. SEIB
Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON – Back in 1980, Rep. Gerald Solomon, a right-wing ex-Marine from upstate New York, told Ronald Reagan he would "follow him to the ends of the earth." But last Saturday, Mr. Solomon launched an attack at the heart of Reaganomics.

In a closed-door meeting of Republican House members, he proposed a 10% surtax on the nation's wealthiest citizens and corporations. "The feeling back home is there is going to be a tax increase no matter what," he explains, "and middle-class America doesn't want it on their back."

Mr. Solomon dramatizes a startling change in the politics of taxes, a sea change that has thrown the Bush administration and the party into disarray. The president has appeared to change his opinion five times in the past three days on whether to change tax rates. And dozens of House Republicans, frightened by the success of Democratic efforts to portray them as partisans of the rich, have indicated that they would support a rise in the top tax rate, in return for a cut in capital-gains taxes.

GOP leaders are "stunned," says Republican Rep. Jim Leach of Iowa. "It has suddenly dawned on people that the fairness issue is very big."

For more than a decade, efforts to hold down the top tax rate have been a hallmark of Republican politics. With seemingly broad public support, President Reagan cut the top rate to 28% from 70%. But today, a backlash against the Reagan policies is beginning to be felt. Public sentiment has shifted, and some politicians are reaping political dividends by bashing the rich and attacking Wall Street, junk bonds and other symbols of affluence in the 1980s.

Class warfare, it seems, is making a comeback.

"It's happening very fast," says Frank Greer, a Democratic political adviser. "The public is finally coming to the realization that real wages for middle-income working folks are going down. And who's benefiting? The rich."

"The rich are getting a free ride," grumbles Frank Hukle, a pensioner in Wichita, Kansas. "The middle class gets stuck with it all the time, and we'll continue to."

The Bush administration tried to put to rest the confusion over the tax issue yesterday, saying it would support an increase in the top rate to 31%, if it is accompanied by a cut in the capital gains rate to 15% from a maximum of 33%. But it also acknowledged Democrats wouldn't accept that deal, and Mr. Bush said pursuing it would be a "waste of time." In the meantime, House Democrats are preparing a proposal that would hit the rich far harder, raising the top rate to 33% and imposing a 10% surtax on taxable income over $1 million.

The evolving attitude over taxes could make a difference on Nov. 6—election day—particularly in states where the economy is weakest. In hard-hit Maine, for instance, Democrat Tom Andrews has taken the lead in what once was a long-shot candidacy for a vacant House seat by using an anti-rich, anti-Reagan theme. "Tax cuts for the super-rich that have been passed since 1978 now cost the rest of us more than $160 billion every year," he tells voters. "It's time for a fair-share tax policy."

The message is selling. A new independent poll released yesterday shows Mr. Andrews has pulled nearly 10 points ahead of his Republican opponent, David Emery, after trailing him in an earlier poll.

In part, the emerging economic populism is a natural result of economic ills. "In the 1980s, we thought we could grow our way out of our problems, so no one would have to suffer," says Rep. Jim Cooper, a Democrat from Tennessee. "But now that growth is slowing, it has become a zero-sum game. That makes for vicious politics and it makes for populist politics."

Some analysts believe an even broader swing of the political pendulum is under way. Kevin Phillips argues in his book "The Politics of Rich and Poor" that the nation is on the verge of a major political transformation in which the anti-government populism of the 1980s will be replaced by an anti-wealth populism in the 1990s. In theory, that could be devastating news for Republicans, who in the public's mind have always been more closely tied to moneyed interests.

"The middle class is getting very rich-conscious, and as they do they decide the tax system is [victimizing] the people in the middle," says Mr. Phillips. "A lot of Republicans see this as a cutting issue, and they want to backpedal."

But people skeptical of Mr. Phillips's theory still abound. And so far, the broader Democratic Party has shown little ability to capitalize on any anti-rich trend. Indeed, some Democrats are running in the opposite direction, embracing Reagan-like anti-tax campaign themes.

In Indiana, for instance, Democratic Rep. Jill Long continues to oppose any tax increases—including those on the very wealthiest. And in New Jersey, Democratic Governor Jim Florio's unpopular tax and spending plan—supposedly designed to hit the wealthiest hardest—has sent Democratic candidates into a panic.

"I don't think you're seeing very much" economic populism in this year's political races, says Democratic pollster Peter Hart. "If you read the polling numbers and talk to the voters, the answer is it should be there. But either it isn't being articulated by the candidates, or it's only true in theory and not in fact."

Howard Baker, a former White House chief of staff and U.S. senator, predicts the tax fairness issue will be swamped this year by a broader distress with government in general. "I don't think people in Washington begin to realize the depth" of disillusionment in the country, he says. "It's highly likely that the result of the people's disappointment will be a lot of upsets in November."

Other disillusionment notwithstanding, the events of the last few weeks show that economic populism is clearly on the rise. And there are signs that rank and file Republicans are starting to worry. Michael Brown, a businessman waiting to hear President Bush speak at a Georgia GOP fund-raiser in Atlanta this week, worried that the party's candidates may suffer from the sentiment to increase tax rates for the rich. "Politically, the whole argument has some appeal," he said.

Some analysts say the real impact will be felt, not this year, but in 1992. "I think ultimately Phillips is going to prove right," says political analyst Charles Cook. "We're just not going to see it next month."

Pitching a Position

In the meantime, strains of economic populism are being heard throughout the country. In Connecticut, also suffering from a severe economic slump, Democrat Rosa DeLauro soft-pedals a version of the theme. "This is the richest state in the country," she tells voters, "yet when I talk to people in the community, they're telling me how financially squeezed they are."

And in nearby New Hampshire, U.S. Senate candidate John Durkin is attacking his opponent, Bob Smith, for taking campaign contributions from the political action committees of the major oil companies. Mr. Durkin's television advertisements make this pitch: "He fights for middle-class working families, not for big oil."

The new populism is also aiming its arrows at corporate America, Wall Street and financial institutions. Candidates are increasingly under attack for taking contributions from corporate PACs. And even the most tangential tie to a savings and loan institution quickly becomes a political liability.

"Any ties to merger mania, leveraged buy-outs, savings and loans or junk bonds" are worthy targets, says Mr. Phillips. "These are all shorthand for the economic rip-off."

Issue of Fairness

In Nebraska, for instance, Republican Gov. Kay Orr has been lambasting her Democratic opponent, Ben Nelson, for "his role in junk bonds." Mr. Nelson is a former director of First Executive Corp., an insurance holding company that invested heavily in junk bonds.

And in Washington, Mr. Leach and two other members of Congress—one Republican and one Democratic—have just sent a memo to the House leadership of both parties calling for an end to the deductibility of interest paid on debt used in leveraged buy-outs.

"I have felt for about the last year that there is a growing feeling that the way we treat various economic classes in society is out of synch with where America is supposed to be," says Democratic Rep. Dan

'Let us suppose that the government needed to raise taxes. Would you favor or oppose raising the income tax rate for upper-income individuals?'

Favor	76%
Oppose	20%
Don't know	4%

NOTE: Asked July 6-10

THE WALL STREET JOURNAL/*NBC NEWS* POLL

Glickman of Kansas, one of the sponsors. "It's not as if people are clamoring for more taxes. But it's a feeling that we have disproportionately helped the people at the top end of society."

Rising oil prices in recent weeks have only intensified the public feeling of economic resentment, according to Democratic pollster Celinda Lake. "The middle class is feeling pressed by rising prices of all kinds," she says.

But it is the latest budget debacle that has been the great blow. "The rhetoric around the country," says Rep. Solomon, "is that President Bush has geared a budget that would favor the rich rather than middle-class America."

Just how potent that sentiment will prove to be on Nov. 6 remains to be seen. But as the meeting last weekend in the House GOP conference makes clear, a lot of Republicans are running scared.

"What he's doing," gloats Mr. Greer, the Democratic political adviser, "is reminding people of what the Republican party really stands for: not the average guy, but the wealthy and the Wall Street speculators."

GOP the Party of the Rich? Don't Ask This Computer

By a WALL STREET JOURNAL *Staff Reporter*

WASHINGTON—Republican officials were thrown into a panic last month when a poll was published showing a sharp jump in the number of people identifying the GOP as the party of "rich, powerful, moneyed interests."

The poll, conducted for the Times Mirror Center for the People and the Press, said that when asked: "What does it mean to be a Republican?" 51% of the respondents said, "rich, powerful, moneyed interests"—up from 18% in 1987. The poll result was widely publicized and frequently quoted by political pundits.

But yesterday, the Times Mirror Center said a "computer error" had occurred. It said only 21% identified Republicans with "rich, powerful, moneyed interests."

Donald Kellermann, the center's director, said that the poll still suggests the GOP is perceived as the party of the rich and powerful and that those perceptions "hamstring its electoral efforts."

Budget Morass Leaves President in Peril

Business Leaders Spread Blame, Differ on Ideas

A WALL STREET JOURNAL *News Roundup*

President Bush's handling of the budget mess in Washington is sparking a lot of blunt criticism in the business community. But many business leaders blame the impasse on Congress as well.

Business people indicate the complexity of the problem when asked what the president should do. Most agree he has to do something soon, but they can't agree on what.

The president's ambiguity on taxes underscores his problem with economic leadership. As a result, many businessmen—presumably his natural supporters—are feeling disenchanted.

Decrying the situation in Washington as "a mess," Harry Levinson, who heads a management consulting firm in Belmont, Mass., said: "Bush isn't handling it well. His skills are essentially political skills, which he has used to good advantage in international affairs. But he isn't comfortable with the management aspect of his role, and he isn't competent with it."

Mr. Bush's budget policy lacks "a central thrust," Mr. Levinson said. Thus, he said, the president's management of the crisis consists of "ad hoc compromises."

Eli Broad, chairman of Los Angeles-based Broad Inc., a financial-services concern, and of Kaufman & Broad Home Corp., complained: "President Bush almost exited the picture at a time when he was most needed, by abdicating it all to Congress. I think he has not shown any leadership in the last several days." Mr. Broad suggested that the president's attention has been diverted from domestic affairs by the Mideast crisis.

Richard J. Flamson III, chairman of Security Pacific Corp. of Los Angeles, sees considerable danger in the budget impasse. "It has become clear that it is unclear who is managing the process," he said. "And when that happens, whether in the Congress of the U.S. or in a business, when it is not clear who has their hand on the throttle, you get what you have got: the Congress trying to come up with a package the president will sign but unclear in terms of what the president's position is on some very major issues.

"As a result of that, the president's leadership, which was going along very well, I thought, particularly in international affairs, is now being questioned, and it is being questioned at a time when we really need the appearance of strong leadership in Washington."

Edmund T. Pratt, chairman of Pfizer Inc., said: "All the media does is criticize. It's hard as hell. This is an awful tough negotiation. . . . He's had a clear position for a long time, and you get to a point where you have to compromise. . . . I'm not too critical of him. I think that he's given good leadership. The business community hasn't been arguing too strongly for a capital-gains [tax] reduction. . . . I guess the business community thinks there are things that are more important, like some kind of an agreement."

Howard P. Allen, chairman of SCEcorp, said: "I'm a supporter of Bush's. I think he's done pretty good so far. . . . He's in an almost impossible situation in trying to prevent a catastrophe and find a budget solution."

To Craig R. Benson, chairman and chief operating officer of Cabletron Systems Inc. of Rochester, N.H., President Bush has "been a good manager, but he's really dropped the ball on this one. I've been surprised by the dissent in his own party. If he can't keep his own team together, how is he going to keep the Democrats on board?" He said that process "seems to be stuck in confusion and disarray. There should have been more consensus. The agreement somehow shouldn't have come as such a shock to everyone."

Some small-business owners also have lost confidence in the president. Phil Pachulsky, who owns Prime Technology Inc., a Grand Rapids, Mich., precision-machine tool company, said his view of Mr. Bush was positive until recently. No longer: "His handling of the latest debacle was slow, indecisive and did not demonstrate the degree of leadership that I think the president of the U.S. ought to implement in a crisis like this. He should have grabbed the bull by the horns and done something much sooner."

Yet the president retains a lot of business support. Thomas B. Wheeler, chief executive officer of Massachusetts Mutual Life Insurance Co., said that "if [Mr. Bush] is ultimately correct," he himself isn't "thrown" by the flip-flops on taxes. "I admire leaders who can admit they've made a mistake and change course. Change isn't in and of itself a sign of weakness."

Burt Sugarman, a Hollywood producer who also is chairman of the cement-maker Giant Group Ltd., also sides with the president. "It's so easy to point fingers, but just think how tough it is to solve a budget problem that has been going on for years," he said. "I think President Bush is handling it as well as anyone could."

Ken Merrill, owner of a Burlingame, Calif., packaging concern, believes the president is doing a good job. "It is on Congress's back, so far as I can tell," he said. "They are the guys who can't put the packages together."

To Heinz Prechter, chief executive of ASC Inc., a Southgate, Mich., customizer of cars, trucks and vans, President Bush "has handled the negotiations in good faith, and somehow he was taken advantage of by the process. I truly believe that being a pragmatist, he wanted to come up with a solution that would work for the country. But I don't think the [Democrats] negotiated in good faith." Thus, the budget deal, Mr. Prechter said, "ended up being a one-sided agreement."

As might be expected, people in the Oil Patch tend to believe their native son George Bush can do no wrong.

David Pitassi, a principal in a disposable-diaper company in Houston and a Bush fan, said: "Given the circumstances, he's done a great job trying to get things accomplished. But it's complicated. He's dealing with different branches of the government and with special-interest groups that have a lot of lobbying power. And what he's trying to accomplish is a very difficult thing. I, personally, put a lot of this on Congress."

Sandy Robertson, managing partner of Robertson Stephens & Co., a San Francisco investment banking firm specializing in high-technology companies, said he thinks the president "has been badly treated in the press by being called a wimp." The way Mr. Robertson sees it, "All he's really being is a good negotiator. . . . Dealing with 535 different views in Congress is tough, and he's trying to be flexible."

Like many executives, Roger B. Dowdell Jr., chief executive of American Power Conversion Corp. of West Kingston, R.I., said neither President Bush nor Congress is handling the budget situation well. But he said the president can only do so much, given that "he can't influence some government programs, due to Congress."

Mr. Dowdell primarily blames the mess on government waste, which he said "pervades not just the Department of Defense, but almost all parts of government."

The budget crisis, said Corbin MacNeil, president of Philadelphia Electric Co., "shows the breakdown of the two-party system. It's clearly a crisis in leadership as much as a crisis in governance. It sends a negative message about Washington's ability to govern."

Dell L. Duncan, chief executive of Commerce Exchange Bank, of Cleveland, agreed: "I don't think the president is showing enough leadership, but I don't think anyone at the legislative level is, either. Playing partisan politics at this stage is just abject recklessness. . . . I wish they'd stop talking about 'nontax taxes' and just call it what it is. I think they need to show more courage across the board."

What to do now? "Maybe shoot some people, one congressman a day for a while, and see if that wouldn't get them in shape," joked Peter Churm, chairman of Furon Co. of Laguna Niguel, Calif.

Mr. Dowdell of American Power Conversion believes Mr. Bush might just "hold fast and allow Gramm-Rudman to cut in, instead of trying to work out a lot of compromises." He said, "There's going to be a lot of pain" if this happens, but at least the Gramm-Rudman automatic reductions would spread the pain across the board. "The way we're going about it now, there's a danger that all the special-interest groups will lobby to make sure their ox isn't gored," he said. "The result will be that we don't reduce the deficit."

Mark Cuban, president of MicroSolutions Inc., a Dallas computer-resale firm, said Mr. Bush should "stand up to Congress. He has to cut back on extravagances. He needs to look beyond the politics and say what is best for America. We have to bite the bullet" and veto any budget proposal that doesn't seriously cut the deficit. If that means stranding Boy Scouts at the Washington Monument because of a lack of funds, so be it.

"I'd rather have them disappointed at the base of the Washington Monument than disappointed that they can't find a job as adults or can't get Social Security when they're old."

William J. Agee, chief executive of Morrison Knudsen Corp., said: "I'm one of the people who believes in focusing on the spending side, because for the last five years, it's been out of control. I respect the other-viewpoint side, but I feel you should attack the biggest culprit, and after that's done, then look at the tax side."

Stefan Abrams, chief investment strategist at Kidder, Peabody & Co., has some tough advice for the president: "Bush should shut up, that's the first thing he should do. Because every time he says something, it's misconstrued. . . . I think the only reasonable thing for Bush to do is to bring a small cadre of congressional leaders into his office and bang heads behind closed doors. And I don't even know if that'll help."

Mr. Abrams said Mr. Bush also should "drop this stupid campaign for a capital-gains tax. Investors have only 25% of their assets in common stocks, and they've been selling them out of their portfolios for 22 years."

Horace G. McDonnell, chief executive of Perkin-Elmer Corp., who criticized last week's budget package as "purely political quid pro quo," said Mr. Bush should concentrate on getting "a greater element of fairness into the package" by raising the tax rate for the affluent but including incentives to spur the economy, such as a capital-gains tax cut.

G. Kirk Raab, chief executive of Genentech Inc., a biotechnology company based in South San Francisco, Calif., said that if he were president, "I'd get control back in the hands of the White House, by putting forth a firm statement of the White House's position." And Stanley M. Matarazzo, who owns Matarazzo Associates, a Baltimore accounting firm, said Mr. Bush shouldn't be afraid to get tougher if things don't work out by the new deadline. "I think he should shut the government down again, unless he gets reconciliation."

Mr. Pachulsky of Prime Technology said that many Americans would accept higher taxes and other consequences of a budget agreement and that the politicians should realize it, too. "All of us are willing to bear pain," he said. "Let's get on with it."

Of Flips and Flops, Bobs and Weaves

TUESDAY, OCT. 9, 1990

At a morning news conference, President Bush is asked if he would trade higher income-tax rates for a cut in capital-gains tax rates. "If it can be worked in the proper balance between the capital-gains rate and the income-tax changes, fine," he says. Asked a second time if he would go along with higher tax rates, the president replies: "Sure, at some level."

At a noon meeting in the Capitol, Republican senators tell Treasury Secretary Nicholas Brady and Budget Director Richard Darman they oppose any such trade.

Late in the afternoon, the senators take their case directly to the president at the White House. Afterward, Sen. Robert Packwood (R., Ore.) says, "The president agreed...we will not go up on the rate, not 1%, not 2%." Administration officials, demanding anonymity, confirm that. White House Chief of Staff John Sununu assures business lobbyists that the president won't accept higher tax rates.

WEDNESDAY, OCT. 10, 1990

On the Senate floor, Minority Leader Robert Dole (R., Kan.) contradicts Sen. Packwood, saying that Mr. Bush simply listened to the senators. "He didn't announce his position at all."

Mr. Bush does nothing to clear up the confusion. "Let Congress clear it up," he tells reporters. Responding to a shouted question about his position on capital gains, the jogging president says, "Read my hips."

Later White House spokesman Marlin Fitzwater declares everything is still on the table. "I want to bob and weave on this today," he says. "We want Congress to come up with a package. We don't want to signal on any specific provision."

THURSDAY, OCT. 11, 1990

After meeting with Mr. Bush, Rep. William Archer (R., Texas) says: "He is willing to equalize or level the (top marginal income tax) rate at 31%...in exchange for a 15% capital-gains rate...He said without equivocation this is what he wanted to do."

Within an hour, the White House issues a statement from the president saying, "I do not believe such a compromise is now possible....Indeed, I'm quite concerned that pursuing it...may not only fail; it may legitimize something farther to the left that we can not accept."

Later, Mr. Bush says he'd go along with the package Mr. Archer outlined, but doubts Congress will. "If they can get that done, fine. I think it's a waste of time because I just don't think it can get through both houses of Congress."

Congressional Committees Race Deadline To Finish $258.6 Billion Budget Package

By JACKIE CALMES
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON — House and Senate committees, under pressure from congressional leaders, are rushing to finish their portions of a five-year, $258.6 billion deficit-reduction package in time for floor action in both chambers next week.

That measure is the main vehicle for carrying out the budget agreement approved Tuesday, with its promised $40 billion in savings for fiscal 1991 and $500 billion over five years. The $258.6 billion package covers domestic programs, and the remaining savings would come mainly from the Pentagon budget.

Senate committees are supposed to be finished today, although that isn't likely in all cases, while House panels have until Monday. To avert a government shutdown, the resulting package still must be approved by the House and Senate and signed into law before stopgap legislation expires next Friday. But with the likelihood of broken deadlines and additional stopgap measures, Congress's expected adjournment date has slipped to the weekend of Oct. 26—just over a week before the Nov. 6 elections.

Most attention has been focused on the House Ways and Means and Senate Finance committees, which are responsible for about three-quarters of the $258.6 billion deficit-cutting package, including the most controversial proposals on Medicare and taxes. But 20 other committees also must find savings, and their decisions will touch employers, veterans, postal customers, farmers and park visitors, among others.

Many committees are following the same guidelines that were scrapped after the House last week rejected a budget-summit accord between President Bush and congressional leaders. But some panels are doing so reluctantly and only because congressional leaders have vowed to take over from balky committees.

The House Post Office and Civil Service Committee, in fact, voted unanimously against its own $14.4 billion five-year deficit-reduction plan yesterday, yet sent it to the Budget Committee for inclusion in the House package.

Under the plan, the Postal Service would pay more of its employees' retirement and health benefits, saving taxpayers $5.8 billion over five years. But the committee also directs "that the full cost of these proposals is passed through to the postal rate payer." Chairman William Ford (D., Mich.) joked about issuing a Darman stamp, referring to White House budget chief Richard Darman.

The same House committee proposes to save $7.6 billion by suspending for five years federal civilian employees' option of taking their pensions in lump sums, except for retirees 65 and older with 30 years of service. The Senate Governmental Affairs Committee would end the lump-sum option, as the defunct summit pact proposed.

Lawmakers from the Agriculture committees are working to finish a five-year farm bill, aiming to show more than $13 billion in savings from subsidy programs through 1995. The Banking panels are supposed to raise deposit-insurance fees, raising $12.4 billion over five years. In addition, the Education committees are supposed to pare student-loan costs, the panels on veterans' affairs must look for savings in housing and medical-care programs, and the Judiciary committees are raising fees for patents and trademark services.

Increased payments by employers to the Pension Benefit Guaranty Corp. are estimated to raise $640 million over five years, under a Ways and Means plan. The basic annual premium would rise to $19 for each retiree or worker from $16, and the maximum variable rate for underfunded plans would rise to $53 for each participant from $34. Excise taxes would rise on surpluses from terminated plans, and employers could transfer some pension-fund surpluses to retiree health plans. The Senate Finance Committee and the Labor committees share jurisdiction in this area, so the changes are far from final.

The Senate Labor Committee is weighing a proposal boosting maximum civil penalties for violations of employee health and safety laws to $50,000 from $10,000, and to $30,000 for mine safety violations. It would also set new minimum penalties of as much as $5,000 for willful violations and raise the maximum criminal fines for incidents that result in worker deaths to $250,000 from $10,000.

The Senate Commerce Committee's package to raise $1.34 billion over five years would impose new or higher fees on boaters, the rail industry, foreign tourists, airline passengers and users of data from the National Oceanic and Atmospheric Administration.

—Albert R. Karr contributed to this article.

Congress Moves To a Showdown On Tax Issue

House Favoring Measure To Lift Rates; Senate Would Shun Changes

By JEFFREY H. BIRNBAUM
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—Congress is moving toward a showdown over taxes, with the House leaning toward a Democratic plan that would lift the top tax rate on the wealthiest individuals, while the Senate develops a more bipartisan approach that doesn't tamper with rates.

In the House, Chairman Dan Rostenkowski (D., Ill.) closeted himself with Democratic members of his House Ways and Means Committee and tentatively approved an alternative to the huge tax-increase bill that the committee had approved just the day before. His new draft, which is believed to have a strong chance of passing the full House, would raise the top personal income-tax rate to 33% from 28% and impose an 10% surtax on millionaires.

While hitting the wealthy in ways that defy President Bush, the new plan also is expected to carry at least one enticement for him: a modest capital-gains tax cut aimed at middle-class taxpayers. Ways and Means members expect it to be added to the package today.

Meanwhile, in the Senate, Finance Committee Chairman Lloyd Bentsen (D., Texas) was working with Republicans to approve a plan more in line with the president's desires. The measure now moving toward wide acceptance on the committee would shun income-tax rate changes, temporarily extend a long list of expiring tax breaks, create a host of new tax breaks and, in a move harsher than previous plans had proposed, limit most itemized deductions taken by wealthy individuals.

The outcome of such maneuvering could be a highly contentious House-Senate conference. Still, the tax writers were hoping to complete their legislation by early next week.

On Wednesday, Rep. Rostenkowski's panel approved without recommendation a "bare-bones" tax-increase bill, well-liked by the president because it didn't tamper with rates and it adhered closely to the bipartisan summit budget agreement. But yesterday, Democrats, who hold a 258-176 majority over the Republicans in the House, became increasingly enthused over Rep. Rostenkowski's alternative and said that they were growing more confident that it would pass instead.

Rep. Rostenkowski's new proposal, dubbed "Rostenkowski II," is designed to hit the rich harder—and hit middle-income and lower-income individuals and couples less hard—than the package his panel passed Wednesday. Individuals with annual incomes of more than $200,000 would have a 9.1% tax increase under Rostenkowski II, compared with a 2.4% increase under the bare-bones Rostenkowski I.

Besides the higher top income-tax rate on the wealthy and the surtax on the highest incomes, the new Rostenkowski plan would raise the alternative minimum tax, which is paid only by upper-income individuals, to 25% from 21%. It also would raise to $100,000 from $51,300 the amount of salary on which the hospital insurance payroll tax is imposed. The tax is 1.45% each for workers and employers.

In addition, the new Rostenkowski proposal would soften most of the controversial proposals contained in the budget summit agreement worked out a week and a half ago by White House and congressional negotiators. These changes were designed to attract Democratic support as well as support from interest groups.

The Rostenkowski II draft would increase the motor-fuels tax by three cents a gallon instead of the 10-cent-a-gallon tax suggested by the failed summit compromise and the nine-cent-a-gallon increase in the plan his panel passed Wednesday. The new plan also would drop the proposed two-cent-a-gallon tax on all petroleum products contained in the summit agreement.

The proposed Medicare savings of $60 billion over five years in the summit agreement and of about $50 billion in Rostenkowski I would be scaled back to $43 billion in Rostenkowski II.

In addition, the new Rostenkowski plan would drop the proposal in the summit agreement to require state and local employees to pay Medicare payroll taxes. It also would reduce the proposed increase in liquor taxes to $1 from $1.50 a proof gallon, and it would drop a provision disallowing the deduction for interest paid on unpaid corporate taxes—a proposal much opposed by corporate interests.

What's more, the Rostenkowski plan would eliminate the limit on itemized deductions for wealthy individuals that was in both the summit agreement and Rostenkowski I.

In a tax change that would affect middle-income as well as upper-income individuals, Rep. Rostenkowski also proposes in his newest plan to delay for one year the scheduled adjustment of tax brackets for inflation. This would be a major new revenue-raiser, bringing in $17.5 billion over five years.

Rep. Rostenkowski said he intends to offer his latest plan as the Democratic alternative on the House floor as early as next week.

Lawmakers said the proposal has a good chance of passing. If Rostenkowski II fails, then the bare-bones Rostenkowski I probably would have the next best chance, they said.

Meanwhile, House Republicans were drafting a tax alternative of their own. It probably would set the top income-tax rate at 31% and cut the capital-gains tax to 15%. The current top rate on capital gains is 28%; some ordinary income is taxed at a marginal rate as high as 33%.

Democrats tried to undercut that proposal yesterday by distributing charts that showed the combination was a revenue-loser that would produce the largest tax cut for the richest Americans and much smaller cuts for those who earn less. And yesterday, it remained unclear whether the House Republicans would offer a proposal of their own.

The House Republicans want bigger spending reductions than the Democratic alternative would offer. They also deride as too high its net tax increase of $160.4 billion over five years.

In the Senate, the "Bentsen II" plan would raise taxes a net $146.5 billion and produce Medicare savings of $48.9 billion over five years. The Bentsen II plan would continue to require monthly Medicare premiums to pay for 25% of the cost of the program and set the annual deductible for doctors' services at $150. Some details were still being worked out last night, but lawmakers said a variation of the Bentsen II plan was likely to be adopted by the Finance Committee as early as today.

Like the Ways and Means bills, it eased some of the most controversial elements of the summit budget agreement. It excludes home heating oil from any tax increase; excises a five-year, $12 billion group of small-business incentives that has been criticized as a tax shelter; and eliminates a two-week delay before workers could receive unemployment compensation.

Both bills also would raise taxes on cigarettes by a total of eight cents a pack and on alcoholic beverages by more than $9 billion over five years and would impose a 10% tax on luxury items. The House bill includes airplanes costing more than $100,000; the Senate's doesn't.

The first plan by Sen. Bentsen, being called Bentsen I, raised the top personal tax rate to 33% and adopted President Bush's capital-gains tax cut plan from early this year. Bentsen II drops both those ideas. Instead, it would raise $29.3 billion over five years by limiting itemized deductions for individuals or couples with incomes of more than $100,000. Under that plan, individuals and couples would be forced to reduce their deductions by $500 for every $10,000 in adjusted gross income over $100,000, beginning in 1991. The summit accord's version of this, as well as Rostenkowski I's, was a $300 reduction for every $10,000 in income.

Bentsen II would raise to $125,000 from $51,300 the amount salary on which the hospital insurance payroll tax is imposed. It would raise motor-fuels taxes a total of nine cents a gallon and would throw a tax break to small businesses called estate freezes that is a benefit to the conserving of business assets in estates.

Washington Wire

A Special Weekly Report From The Wall Street Journal's Capital Bureau

BUDGET BEDLAM damages Bush and vulnerable incumbents of both parties.

"The wimp is back," declares Democratic pollster Mike Mellman, citing Bush's tax flip-flops and budget defeat. White House officials, embarrassed by the disarray, admit they have had a bad week. But they predict voters will forgive everything if an accord ultimately is reached that brings down interest rates.

Challengers to such endangered lawmakers as Democratic Reps. Bill Sarpalius and George Brown and GOP Reps. Stan Parris and Denny Smith—use the fiscal mess to rekindle anti-incumbent sentiment. "Some voters want heads to roll," says political analyst Charles Cook. But he and others don't see any groundswell against incumbents previously thought safe.

Mellman sees Bush's travails as diminishing voters' anti-Congress feeling by giving them someone else to blame for the mess.

Fed Policy Makers, Sharply Divided Over Interest Rates, Await New Budget

By DAVID WESSEL
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—Budget gridlock is delaying a move by the Federal Reserve to lower interest rates. But the budget isn't the only obstacle.

Fed policy makers are deeply divided between those who want to lower interest rates to prod the economy and those who want to hold rates steady to demonstrate anti-inflation resolve, according to officials familiar with the deliberations of the Fed's policy-making committee last week.

Fed policy makers were ready to respond to the deficit-reduction package by pushing down short-term interest rates a bit, the officials said. But the subsequent failure of the package has Fed policy on hold.

The Fed's open market committee met Oct. 2., two days after President Bush unveiled the deficit-reduction accord. On Oct. 3, Fed Chairman Alan Greenspan all but promised Congress that interest rates would fall if a deficit-reduction package were enacted. He told Congress it would be "a grave mistake" to reject the plan. The next day, the House voted it down 254-179.

Some members of the Fed's board of governors in Washington, including Mr. Greenspan, were prepared last week to begin bringing interest rates down soon to aid an economy that was weak even before the oil shock hit, the officials said. Some of the 12 presidents of district Fed banks agreed, but others resisted. Fed board member Wayne Angell, who looks to commodity prices for cues on monetary policy, also is said to be against easing now.

Before making shifts in policy, Fed chairmen usually try to reach a consensus in the open market committee, which currently has 11 voting members. Except for a slight decrease in rates in July—which Mr. Greenspan said was meant to offset a credit crunch—the Fed has been holding short-term interest rates steady since the beginning of the year.

The latest data suggest that the U.S. economy continues to slow significantly. More and more private economists are forecasting recession. That strengthens the case for lower interest rates.

But even without considering the oil shock, inflation hasn't abated. And some Fed policy makers are determined to prevent the Fed from repeating the mistakes of the 1970s and allowing higher oil prices to fuel increases in wages and prices throughout the economy. At the same time, the dollar is sagging, foreign interest rates are up and yields on long-term bonds are high. All that leads some Fed officials to argue against easing now.

The administration is increasingly anxious about the Fed's reluctance to ease its grip on credit, but still hasn't agreed on a candidate to succeed former Fed Vice Chairman Manuel Johnson, who announced his resignation four months ago.

White House Continues to Send Mixed Signals Concerning Rates, Gains Issue

By MICHEL MCQUEEN
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—The White House tried to clear up confusion about President Bush's tax position, but for the third consecutive day issued conflicting signals about whether the administration is pursuing a deal on capital gains and income tax rates.

After a meeting with Mr. Bush, high-ranking Republicans on House committees said Mr. Bush had expounded on his own proposal to trade a top capital-gains rate of 15% for a top personal income tax rate of 31% on the wealthiest taxpayers.

But soon after the meeting, the White House issued a statement quoting Mr. Bush as saying, "I do not believe such a compromise is now possible. Indeed, I'm quite concerned that pursuing it in the current context may not only fail; it may legitimize something farther to the left that we cannot accept."

And Mr. Bush later told a group of reporters at a photo session that he believed negotiations over a tax deal are a "waste of time."

"Some in the House feel there's room to maneuver," Mr. Bush said, "My view is that it's not going to happen and we ought to try to move forward on another approach."

The comments represent Mr. Bush's latest attempt to finesse a series of splits between the White House and Republicans in the House and Senate over what direction Congress should take in developing a five-year plan to cut the federal budget deficit.

After an initial $500 billion, five-year plan was soundly defeated last week with massive defections from the GOP rank and file, lawmakers adopted an outline budget proposal that requires them to come up with a new package of taxes and spending cuts by next Friday.

One of the issues that has most bedeviled lawmakers has been whether the new negotiations should include a plan for addressing the "bubble"—a provision in the Tax Code that gives upper-middle-income taxpayers a top marginal rate of 33% and the wealthiest taxpayers a marginal rate of 28%. Capital gains, which are profits from sale of property such as stock, real estate and investments, are currently taxed at the same rate as wages and other income.

Democratic tax writers, and increasingly many House Republicans, want to raise the top rate for the wealthiest Americans either to redress what they consider an inequity or to raise revenue. Meanwhile, the administration has made cutting the capital-gains tax rate a top priority, arguing that such a cut would spur economic growth.

Mr. Bush's comments seemed to add to the confusion created over the two previous days. He met with three separate groups of Republican congressmen to thank those who have supported him and to assess his direction for the budget talks. After the first meeting, Texas Rep. Bill Archer, senior Republican on the House's chief tax-writing panel, said Mr. Bush would support a top personal tax rate of 31% if he received a capital-gains tax rate of 15%.

"He said without equivocation, this is what he wanted to do," Mr. Archer said, "That this provision of a leveling out of the rate structure, coupled with a 15% capital-gains tax, and part of a $500 billion, five-year deficit-reduction program that is real—and in his words, 'without smoke and mirrors'—is an absolute essential, a minimum essential for the future of this country."

Rep. Archer said House Republicans plan to pursue this proposal but acknowledged the difficulties in attracting bipartisan support. Democrats are expected to be hostile to the plan because of its benefit to the wealthy, who derive a substantial part of their income from capital gains. According to an analysis by the Joint Tax Committee of Congress, the GOP plan would produce a net tax cut of 6.6% for taxpayers who make more than $200,000 a year.

At the beginning of a second meeting with House Republicans later in the afternoon, Mr. Bush said that the plan described by Mr. Archer was in fact his preference, but that he wasn't hopeful. "I'm not going to vary the terms from what I've just spelled out. If they can get that done, fine. I think it's a waste of time because I just don't think it can get through both houses of Congress."

Mr. Bush said he wouldn't just order his supporters to drop the plan because "I'm not going to deny House members an opportunity to do something they think can be done."

Meltdown Watch

The idea of a cut in the capital-gains tax refuses to die, despite the best efforts of Senate Majority Leader Mitchell and hysterical pundits (with occasional assists from Budget Director Darman). Both Democrats and Republicans are offering packages with the capital-gains cut, mixed with varying amounts of poison. The President endorses the Republican package though doubting it will pass—which the savvy take as a Darmanesque maneuver to let the Repubicans get voted down, then trap them into supporting the Remocrat-Depublican plan they killed a week ago.

Why does the idea refuse to die? Because it's probably the only tool left to soften the political and economic meltdown that seems to be building around this incredible Washington fiasco. Look at the negative vibrations cascading off of the markets, typified by the headlines yesterday on the Dow Jones Capital Markets Wire:

Dow Jones 3 P M Stock Averages; DJIA 2362.38 Dn 45.54

Dollar Mostly Down In NY; Test Of 1.50 Marks Expected

Treasuries Now Lower; Concerns About Refcorp Auction Cited

GATT Director General Warns Trade Talks At Critical Stage

Fed Doesn't Want To Make 'A Big Mistake'

In Washington, meanwhile, anyone who's been a witness to the city's politics since the late 1960s can recognize an atmosphere trembling with anticipation at the prospect of a weakened presidency. If the President is to achieve the capital-gains cut he believes in and very much needs now, he'll have to rewrite some of the rules this game is being played under. He will actually have to oppose the Democrats, coming forward to say that what we now need is not symbols of income redistribution but growth.

There is bipartisan support in Congress for cutting capital-gains. There are people in Congress and the administration capable of making an intelligent case for using the cut to raise asset values, unlock capital, initiate investment and, yes, *raise revenue*. This is the only growth component of what is going on in Washington now. If it slips, we suspect that the mood of both the markets and the electorate will sink further.

Stonewall Simpson

Congress is close to passing a bill to reunite families, spur economic growth, and attract more of the world's best and brightest to America. But immigration reform may yet be scuttled by the implacable opposition of one man, GOP Senator Alan Simpson of Wyoming.

Mr. Simpson has become a one-man border patrol. Both the House and Senate have passed bills modestly expanding immigration, but Mr. Simpson is privately threatening to filibuster any compromise unless everyone first agrees to his new demands. The good Senator doesn't have the votes, but with only days left in this Congress he might get away with his stonewalling.

The bill's fate is becoming a case study in how Washington simply can't keep its eye on the ball anymore. Senate immigration advocate Ted Kennedy is missing in action. Democratic leader George Mitchell is so busy trying to clobber George Bush he's ignoring this Democratic-sponsored growth bill. The White House is finally getting involved after months of passivity. Unless someone with clout weighs in, Mr. Simpson will water the bill down or kill it outright.

Mr. Simpson is even backing away from his own immigration reform passed by the Senate last year. He's insisting on an unbreakable quota of 630,000 immigrants a year—though that idea was repudiated in the Senate. Connecticut Rep. Bruce Morrison's House bill would allow some 775,000 (up from 540,000), adjustable in some circumstances. Mr. Simpson is even insisting on technical provisions that could reduce immigration from countries such as Mexico and the Philippines.

His most amazing demand, though, is that he won't support a compromise unless he also gets new measures to "control illegal immigration." His 1986 attempt at this has led to discrimination against Hispanics (documented by Congress, as well as New York and California). So Mr. Simpson is proposing to redouble the harassment—to "construct new barriers" at the Mexican border, levy stiffer fines, and force the states to "improve the security of their drivers' licenses" so they can't be forged. In other words, instead of a national identity card, he's proposing 50 state I.D. cards.

Mr. Simpson's obsession is hard to understand. He worries about "illegal" immigrants, as if the U.S. were being overrun by Mexicans. He frets about a growing number of border "apprehensions," though many of the people arrested more or less commute over the border. He is untroubled by the spectacle of police, guard dogs, search lights and barbed wire harassing men and women whose offense is that they want to work in the land of the free.

Surely there are enough wide open spaces left in America, not least in Wyoming. And while some areas do suffer short-term assimilation problems, there hardly seems any great backlash against immigrants in, say, Texas or California. Immigrants, legal or illegal, wouldn't take the gamble of coming if they didn't think opportunity existed. It's instructive that the only politician now campaigning loudly against immigration is ex-Klansman David Duke of Louisiana. Yes, there are indeed Americans whose ancestors came through Ellis Island, who within two generations achieved suburban middle-class respectability, and who now don't want darker-skinned people upsetting the equilibrium of their world. We persist in thinking, however, that most Americans recognize the relationship between this country's vitality and its diversity.


Senator Alan Simpson

We don't pretend to know what really motivates Mr. Simpson, but it's hard to believe his personal obsession could obstruct the will of an overwhelming majority in Congress. Certainly enough Members remember their own immigrant roots to overcome his cramped vision of American opportunity.

Pledge Breakers

A number of factors led to last week's defeat of the budget agreement, but a key reason was that 101 Republican and two Democratic House Members had signed a pledge to defend the rates and deductions contained in the 1986 tax reform.

President Bush acknowledged the power of the pledge this week when he was asked if it had led to the agreement's defeat. "Yes, I think that made it more difficult for people," he said. "Some have told me that when I was talking to them." Even Senator Bob Dole took note, advising pledge takers to "stick with" their position. "Some of us who would not take pledges on taxes remember certain things that happened," said the man who lost the 1988 New Hampshire primary after refusing to take the anti-tax pledge.

This year, voters were outraged at the agreement's subversion of the terms of the 1986 tax reform: an end to many deductions in exchange for lower marginal tax rates. "I was tempted to back the agreement," said Rep. Robert Dornan of California. "The pledge and the calls from my district to keep it pulled me back."But White House lobbying convinced a total of 34 of the 103 pledge takers to vote for the agreement. Our view is that voters, at all income levels, came to like the pro-growth, pro-jobs, low-tax environment of the '80s. Their disgust now is directed at Members who want to raise taxes to produce a no-growth budget. Here is the list of Members who decided not to keep their pledge the first time around.

Shoot the Sequester Arrow, Mr. President

By Pete du Pont

For more than a decade Americans have been insisting on low tax rates. Despite Washington's baffling behavior in the past few weeks, there is every reason to believe that the message is still compelling. We have an opportunity to send that message again in the November election.

Even the Democrats are behaving as if they want yet another vote on their proposition that higher tax rates are the root of prosperity, despite the overwhelming rejection of that view in 1980, 1984 and 1988.

President Bush can accept this challenge and steer the outcome of this week's budget fracas so that the question before the voters is as vivid as Kemp-Roth, in 1980; Mondale's "I will raise taxes," in 1984; and Bush's "Read my lips," in 1988.

The key step to making the election a referendum on the policies that brought job and economic growth across our land in the 1980s will occur by next Friday. That is the deadline for Congress to send the president a new budget. Since that budget is sure to be laden with tax increases, the scene will be set.

The opportunity is created by a golden arrow called the Gramm-Rudman sequester. It is aimed straight at Congress. Today that arrow is in the hands of the president.

Congress itself invented the Gramm-Rudman arrow during a brief lapse into sanity several years ago. It works this way: If Congress fails in its responsibility to come up with a budget that meets the Gramm-Rudman deficit-reducing targets, spending is controlled through a sequester that forces most agencies of government to limit spending to a specific amount. The sum of the savings will be roughly $85 billion. Tax rates will not go up.

Why were the rules set up this way? Well, remember those elections centered on taxes I mentioned a moment ago? Remember who won those elections? In fear of an electorate plainly opposed to tax increases, Congress passed a mechanism to control spending automatically rather than raise tax rates automatically.

Monday is Oct. 15 and it marks an occasion as important to taxpayers on the upside as April 15 is dire to them on the down-side. If there is no budget agreement, that is the day the Office of Management and Budget takes note of the fact that Congress has failed to produce a budget with an acceptably small amount of red ink. The OMB will issue a report setting spending limits, as required by the Gramm-Rudman legislation.

Ever since Gramm-Rudman was created, the conventional wisdom has held that the golden arrow of the sequester was but a weapon reserved for the fairy tales of political rhetoric. The arrow was to be to budget politics what the atom bomb was to the Cold War: deterrence through a threat too abhorrent to contemplate.

But the Gramm-Rudman arrow is really a conventional weapon and a sequester need not be draconian, as we learned over Columbus Day weekend. During that holiday weekend, the entire government allegedly was shut down. Spending was not controlled—it was banned. Nevertheless, the planes continued to fly, the military continued to prepare, and the weathermen continued to guess if the sun would shine tomorrow. If reasonable people could figure out how to survive the Columbus Day weekend shutdown, they can surely figure out how to weather a sequester. Indeed, resolving this sort of problem is a task ideally suited to the trained bears of Washington's circus.

So my advice to my fellow Americans as we sit perched on the seemingly harrowing budget precipice is to relax.

Specifically, here is what can happen: At some late hour, Congress will send the president a budget that will resemble the summit budget that Congress rejected a week ago or perhaps actually surpass that stupefying set of proposals.

The president will reach for his veto pen and send the taxing budget back to the Hill, where Good Man Gingrich and his heavenly host will sustain his veto.

Congress will then send the president a "continuing resolution" permitting the government to continue operations. Here is the final opportunity for mischief. The Democrats could draft this resolution to exclude the sequester arrow. The president must say "nothing doing." No sequester, no signature. No signature, no adjournment. Of course, the president must be willing to use his authority as he did last weekend to keep essential services running. Unable to adjourn, Congress would be stuck in Washington surrounded by angry Girl Scouts set to storm the Smithsonian—but the planes would still be flying, both here and in Saudi Arabia. The president would quickly get his continuing resolution—one that included a sequester.

Now comes the golden moment. The president shoots the sequester arrow. The Gramm-Rudman controls kick in. The lines are drawn. The Democrats' best offer will be known to all. The Republicans will have in place a sequester budget with tax rates kept low and spending significantly reduced.

Congress might come to its senses at this point and send the president a sound budget plan. If not, on Nov. 6 Americans can go to the polls and send Washington a sensible new Congress. The message will be clear: Spending controls are tolerable. Tax increases are not.

Oh, by the way. If you have any qualms about whether President Bush has the will to shoot the sequester arrow, why not show your support by drawing one on a piece of paper and mailing it to him?

Mr. du Pont is a former Republican governor of Delaware.

The Washington Times

Rostenkowski offers another budget plan

By Major Garrett
THE WASHINGTON TIMES

Free of the bipartisan chains that bound them in the original budget compromise, House Democrats offered an alternate tax plan yesterday that creates a third tax bracket for the rich, eliminates economic growth incentives and does not lower capital-gains taxes.

Rep. Dan Rostenkowski of Illinois, chairman of the House Ways and Means Committee, said the plan addressed the issue of "tax fairness" and sought to redress the "deplorable" trend in tax policy that he said has shifted the burden away from the wealthy to the poor.

Mr. Rostenkowski drew up the plan with other Democratic members of the committee.

The plan envisions a new 33 percent tax rate for individuals earning more than $113,460 and two-income families earning more than $193,190. It would raise an estimated $44 billion over five years and affect 1.5 million to 2 million taxpayers, officials said.

It would also create a 10 percent surcharge on individual income above $1 million and increase to $100,000 the wage level subject to Medicare payroll taxes. It also eliminates $19 billion in current tax breaks and so-called growth incentives included in the original budget compromise.

The plan raises taxes by $160 billion over five years, $26 billion more than did the budget compromise.

He said Democrats on the tax-writing committee will meet again this morning to decide whether to include a reduction in capital-gains taxes. Even if they do, Mr. Rostenkowski said, the reduction would be less generous than President Bush has requested.

Rep. Charles Shumer, New York Democrat, attributed the partisan nature of the plan to White House waffling on taxes. Without a clear signal as to what is or is not acceptable, Democrats felt free to fill in the blanks with their best numbers.

"When we have no one to negotiate with, it's quite natural this is going to a Democratic plan," he said. "The president is sort of boxing himself in. He's going to get something on his desk in a take-it-or-leave-it fashion."

Meanwhile, Senate Republicans and Democrats shuttled throughout the capital seeking a bipartisan compromise on taxes and spending cuts. Senior administration officials met with Senate Majority Leader George Mitchell, Minority Leader Robert Dole, and two leaders on the Finance Committee — Democrat Lloyd Bentsen and Republican Bob Packwood.

The Senate Finance Committee will meet today to draft a tax plan it hopes will set the guidelines for a package the House could later accept.

Mr. Rostenkowski's plan brings to three the number of competing tax alternatives likely to come before the House next week when debate begins on the total budget package.

Congress and the White House are still seeking a five-year deal that trims $40 billion from the deficit in 1991 and another $450 billion through 1995.

The Rostenkowski plan emerged from a caucus of Democrats on the Ways and Means Committee and is seen as a partisan wish list that probably could not win a majority in the House but gives liberal Democrats something to rally around.

The package also would lower the proposed increases in Medicare premiums and would limit amounts paid to doctors and hospitals. Under the original bipartisan budget plan, the savings would be $60 billion over five years. Under this proposal, the savings would be $43 billion.

It would also trim the summit's proposed increase in gasoline taxes from 10 cents to 3 cents, creating a 13-cents-a-gallon rate.

House Republicans struggled to come up with an alternative package of thier own. But divisions over raising income tax rates in exchange for a lower capital gains rate prevented agreement.

Darman: Fiscal responsibility key

By J. Jennings Moss
THE WASHINGTON TIMES

Greater fiscal responsibility on the part of the federal government would help ease the budget mess, budget director Richard Darman said yesterday.

"For a whole host of federal programs, the federal government really just writes a check and really doesn't manage the programs," Mr. Darman, head of the Office of Management and Budget, told the Senate Governmental Affairs Committee.

Unlike past hearings the committee has held on the otherwise dry topic of government management, Mr. Darman's appearance drew a packed hearing room.

"Here we are, months away from 1991, trying to fix the biggest budget fiasco in history," said committee Chairman John Glenn, Ohio Democrat.

Citing congressional reports, Mr. Glenn said poor financial controls could cost the government $150 billion in wasted program dollars. OMB and the General Accounting Office have released reports outlining a number of federal programs at risk for waste, fraud or abuse.

Part of the blame should go to OMB because previous administrations did little to oversee federal agencies, Mr. Glenn said.

"Unfortunately, in the past, the 'M' has been more a symbol for 'moribund' than 'management.'" he said.

Mr. Darman said he has been trying to get OMB to change its ways, in part by stressing the long term in the president's budget picture, bolstering an existing integrity law and giving more money to agency inspectors general.

"It's long, slow, steady work. It isn't flashy. It isn't going to be done in a day," Mr. Darman said.

The current budget problems came up several times during the hearing and Mr. Darman repeated his support for a cut in the capital gains tax as well as his belief that the $500 billion in reductions could be achieved.

"Unfortunately, this fixation on the budget and lack of attention to management comes with a heavy price, the kinds of fraud, waste and mismanagement that have resulted in the [Department of Housing and Urban Development] and savings and loan scandals," said Sen. William V. Roth Jr., Delaware Republican and ranking minority member on the committee.

WARREN BROOKES

It is nothing new for partisan politics to engage in lying. What is troublesome is the way in which the Bush administration is lying down and taking it.

President Bush's willingness to accept the notion of raising the top income, "bursting the bubble," is an implicit acceptance of the liberal Democrats' persistent argument that the Reagan tax cuts benefitted only the rich, while the poor and the middle class wound up paying more.

Even though this argument is patently and factually false (see Table), it is being buttressed by citing the so-called "tax bubble," enacted in 1986 as part of tax reform, whereby those with family incomes between $70,000 and $170,000 pay a temporary 5 percent surcharge on the 28 percent top marginal rate.

That creates an implicit, temporary 33 percent marginal rate which then drops back to 28 percent percent on the highest incomes. This *looks* ludicrously unfair. Yet the whole reason for the bubble was to raise more taxes from the rich by taking away all personal exemptions and the lower threshold rate of 15 percent (on the first $30,000) from those in the highest income brackets.

That phaseout adds about $6,000 to the average tax bill of those earning more than $200,000. To avoid an abrupt income cutoff for that addition (and to raise more money), Congress devised the 5 percent surcharge over a "bubble" of about $120,000 in income, from $82,000 to $202,000 (for families of four).

The effect of this bubble transition is to cause a gradual rise in *average* tax rates from about 25 percent for those at the start of the "bubble" to 28 percent for those at the top and beyond. Thus the effect of the bubble is to increase the progressivity of the system.

The real reason for this concoction was that in 1986 tax reformers needed billions in additional revenues at the last minute and decided to soak the rich to get them. That's why there was bipartisan support for this arrangement, especially from Sen. Bill Bradley, New Jersey Democrat, a sensible liberal.

Now, the Democrats want to use this apparently "unfair" device that they helped invent as an excuse to impose an entirely new 33-36 percent rate on the rich (with no personal exemptions or income threshold), who will see their *average* tax rate raised a shocking 18-29 percent, wiping out all of the Reagan average-rate tax cuts (less than 20 percent).

The alleged justification for this is that the rich supposedly got all the benefits of the 1981 cuts, and the rest got nothing, or worse. That is a baldfaced lie, and those who repeatedly tell it know it, as do readers of this column.

Not only was the 1981-83 percentage rate cut the same for all income brackets, but the lower top rates induced a massive reduction in the exploitation of tax shelters, and that increased the taxes paid by the rich. (See Table.)

Let's go through the numbers one more time, this time in constant 1982 dollars. From 1981 to 1987 (the latest year for which we have data by income percentile) the income taxes actually paid by the top 1 percent of the taxpayers (those with incomes of more than about $130,000) rose by 49 percent in real terms. The income taxes paid by the top 5 percent rose nearly 43 percent real and those paid by the top 10 percent rose 20 percent in the same period.

By contrast, the income taxes paid by the nation as a whole rose only 4 percent real, and those of the middle class (the 50th through the 90th percentile) *fell* in constant dollars by 9 percent, while the bottom 50 percent paid 15 percent less.

That is to say, the real income taxes paid by 90 percent of Americans *fell* by 10 percent from 1981 to 1987 while the real income taxes paid by the richest 5 percent rose by nearly 43 percent.

Aha, say the liberals, but the rich got so much richer in this period while everyone else lost income ground. That's also not true. From 1981 to 1987, it's true the top 5 percent saw their median income rise in constant dollars 24.5 percent, but the middle income median also rose by 9 percent. That's less than half as much, but it *rose*. Yet in that same period the income taxes paid by the top 5 percent rose nearly twice as fast as their median income, while the income taxes on the middle actually *fell* by nearly 10 percent.

That's why the share of income taxes paid by the top 5 percent rose dramatically from 35.4 percent in 1981 to 43.3 percent in 1987. That's a 22 percent rise in tax share in a period when their share of total income rose by 10 percent.

Finally, as middle incomers listen to the Democrats trash the Reagan tax cuts, they should remember that without those 25 percent rate cuts the average middle-class family would now be paying $2,400 more than they do. Indeed, the main reason for the Democrats' vicious assault on those cuts is precisely because they so massively reduced the actual tax collections from ordinary Americans. Americans also would do well to remember that under the Democrats' "soak the rich" policies of the 1970s the average marginal tax rate on middle-income families soared from 23 to nearly 28 percent in 1981. Today that average marginal tax rate is less than 18 percent.

The real irony is that the wealthy, by and large, would love to trade a higher marginal rate for major capital-gains exemption of 40-50 percent. Their net taxes would be reduced in the right combination. The danger is that the moment we start trading higher rates for more loopholes, the whole rate structure that now so benefits the middle class would be under siege all over again, and the likely losers would be the middle class.

So, beware the green-eyed "bubble blowers."

Lame-duck session still a possibility

THE WASHINGTON TIMES

Will Congress delay the painful budget game until after the election?

Congressional leaders insist the lawmakers will raise taxes and cut social spending by Oct. 19, less than three weeks before Election Day.

But some close to the process fear Congress won't make it, and they speak of the unspeakable: a lame-duck session.

If Congress is not done by Oct. 19, President Bush will have to sign another emergency funding bill to keep the goverment open. If he doesn't, Congress may have to pass a stopgap funding bill that lasts until after Election Day — promising, of course, to finish up the budget package afterward.

The last lame-duck session occurred in 1982, when Congress passed a 5-cent gasoline and diesel fuel tax. It convened Nov. 29 and recessed Dec. 23.

Rep. Leon Panetta, chairman of the Budget Committee, said yesterday Mr. Bush must give Congress clearer signals as to what type of budget deal he will accept. Without such direction, the California Democrat said, delays will be inevitable.

"The president ought to decide where . . . he stands," Mr. Panetta said. — Major Garrett

Bush can bungle as well as anyone

GEORGE F. WILL

When King Edward I in 1294 summoned the clergy and demanded half their income, the dean of St. Paul's dropped dead on the spot. That was a tax protest beyond the dreams (so far) of Newt Gingrich.

The 1990 budget tedium began a few months ago with promises to cut about $50 billion from a deficit of about $200 billion. Then the promise was revised to $40 billion from a deficit of about $250 billion. Now it is $34 billion (the costs of Desert Shield will not be counted) from a deficit that probably will be well over $300 billion.

The newest "deadline" (cross the line and die? hardly) that will be missed is Oct. 19. By then, the House and Senate are supposed to have approved the various committee plans for cutting spending and raising revenues to comply with this week's achievement, the budget resolution.

That resolution is a promise. The reconciliation bill due by Oct. 19 is the delivery. Those committees have Democratic majorities. President Bush has been reduced to a bystander.

His "summit" deal collapsed in part because the process that produced it made most of Congress marginal. And Bush's aides (the tone of a White House is set at the very top and trickles down) seemed overbearing.

John Sununu (who dismissed a Republican senator, Mississippi's Trent Lott, as "insignificant") is not the first clever person to become impatient with the culture of Congress, or to relish the role of a President's designated thug.

But the serious problem is Bush's mentality, one that produces his preference for policymaking in private, by a few, in an aura of bipartisanship that blurs party differences by de-emphasizing principles and ideas. This preference is a facet of Bush's and his White House's temperament, concerning which there is confusion.

What has been described as Bush's modesty is actually arrogance. His modesty is supposedly shown by his emotional minimalism, his complacent inarticulateness, his de-emphasis to the point of disparagement of the rhetorical dimension of the presidency. Bush and his handlers have spent 20 months telling the country what the country this month has told him: He is no Reagan.

He discounts rhetoric because he discounts persuasion of the public. He is governing less by continuous acts of public consent than by a small elite's entitlement, the right of the political class to take care of business cozily. So, naturally, he has no need to do what Reagan did — argue, persuade, precipitate confrontations with Congress, force polarizing choices. All those things shave points off a President's popularity, but solidify a committed base outside Washington's beltway.

Now the mountain will labor mightily and bring forth a modified mouselet, a package of mini-measures cutting the 1991 deficit about 10 or 12% (depending on the gravity of the recession). The economic effects of $34 billion trimmed from the $300 billion deficit of a $1.3 billion budget in a $5 trillion economy will be trivial. But the political consequences of this month's spectacle may be large.

We stand on the lip of a recession, and perhaps of war, with a President who is being outmaneuvered and toyed with by Democrats who like him as much as ever and fear him less than ever. A President who will not appeal over Congress' head to the country is Congress' dream.

By his capital-gains obsession, Bush is dissipating the principal Reagan effect on the Republican Party, the appeal to those blue-collar Democrats who for a while stopped seeing Republicans as "the rich." And Bush's syrupy bipartisanship — secluded summits, Sunday togetherness in the Rose Garden — is convincing an unenthralled public that Republicans are not, as until recently had been thought, better than Democrats at budgeting.

Finally, incumbents of both parties are being hurt as the budget debacle fuels a nationwide campaign to limit the number of terms elected officials can serve.

In 1988, the Baltimore Orioles lost 108 games with a lot of expensive veteran players. Then the Orioles management thought: Hey, we can lose 107 games with hungry, spirited rookies — and might do better. In 1989, the Orioles had baseball's youngest team, and smallest payroll — and almost won a division title.

Today many voters are saying: Hey, 535 people plucked from the concourse at O'Hare Airport could bollix things up as badly as the experienced politicians have done (how experienced do you have to be to close the Washington Monument?) and they might do better.

Another reverse on taxes for rich

By JEROME CAHILL
News Washington Bureau

WASHINGTON — President Bush yesterday sent out confusing signals for a third day in a row about his willingness to raise taxes on wealthy Americans as part of a budget deal.

In less than an hour, the President endorsed — then backed away from — a plan by GOP congressmen to boost the 28% top tax rate paid by the rich to 31%, in return for a cut in the capital gains tax.

"We're confused, but that's all right because President Bush is confused," said Rep. Tom Manton (D-Queens).

The latest round of uncertainty was triggered when Texas Rep. Bill Archer, senior Republican on the House Ways and Means Committee, emerged from a White House meeting saying Bush strongly supported the idea of a 31% top tax rate combined with a reduction in the current 28% capital gains rate to 15%.

"He said, without equivocation, this is what we wanted to do," Archer told reporters.

Another turnabout

But after Archer left, the White House issued a statement quoting Bush as saying, "I do not believe such a compromise is now possible."

Bush said he could accept the 31% top rate, but said he feared that Democratic lawmakers would seize any White House move along those lines to ram through an even higher top rate of 33%.

"I will not tolerate ... raising rates to 33%," Bush said.

Trying to explain the President's position, spokesman Marlin Fitzwater asserted a "31 and 15" deal "has always been ... the trade that we are willing to consider."

But he said, "We are also being very candid in the idea that ... we don't think it's going to happen" because of Democratic resistance.

Late in the day, Democrats on the House Ways and Means Committee produced a rival tax plan that raises the top rate to 33%. It also contains a 10% surtax on millionaires.

The Democratic plan calls for a gasoline tax hike of only 3 cents a gallon, compared with 12 cents under the budget plan defeated last week, and it would raise out-of-pocket costs to Medicare patients by only $10 billion, compared with $30 billion in the defeated plan.

Fitzwater acknowledged that the White House had done "a rather poor job of explaining" its position since Bush prompted the original confusion Tuesday by saying at a press conference he could accept a tax trade-off — only to tell fellow Republicans later that he wouldn't.

The chain of events has bewildered lawmakers who are trying to work on a tax bill that must be passed by next Friday under the terms of the five-year, $500 billion budget agreement.

Vice President Quayle defended Bush's handling of the budget crisis in the wake of last week's defeat of the deficit-reduction package that had been painstakingly negotiated between the White House and congressional leaders.

Quayle said Bush was confronted by a "runaway" Congress that its leaders couldn't control. "So the President is saying, 'Okay, Congress, if you don't like the agreement that I negotiated with your leadership, you tell me what you do like,'" Quayle said in a Fox TV interview.

Frank Jackman contributed to this story.

Read my leaps – a clownish stance

WASHINGTON — President Bush's budget maneuvering has the head-spinning, stomach-churning fascination of a game of three-card monte — except that he keeps dropping the cards and most of the spectators are laughing.

The adroit leader of the global response to Iraqi aggression was suddenly turned into October's hapless bumbler.

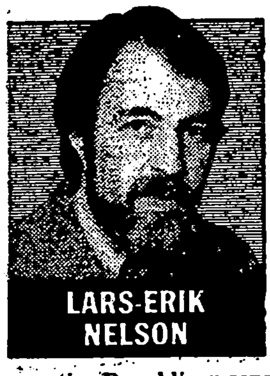
The question is not whether you agree with Bush or disagree with him on the budget. Rather, at a time when the country faces an unprecedented $300 billion deficit, the possible shutdown of the federal government, the risk of a full-blown recession, it was impossible to figure out what the President wants.

Just try keeping your eye on the Ace: Tuesday morning Bush was contemplating raising income tax rates for the rich in exchange for a reduction of capital gains taxes. Tuesday afternoon, the White House said he had changed his mind and would not raise tax rates. Wednesday he was secretly willing to raise top tax rates but, coyly, he wasn't admitting it. Thursday morning he was admitting it but didn't think it would succeed.

There were two dramatic clues to the damage Bush has suffered: Some of his fellow Republicans were willing to defy him with no fear of reprisals. Other Republicans were afraid of criticizing him publicly — but chiefly because they regarded him as so deeply and seriously wounded that he might be permanently crippled.

House Republican Whip Newt Gingrich, up for reelection, went off his own way against the President with no fear of repercussion. Stauncher Republican allies, although unwilling to be named as they criticized their President, were, nevertheless, scathing.

"With Ronald Reagan, if you didn't agree with him you'd pay a price for it, either



with your voters or with the Reagan White House," said a Republican Senate source. "But Bush is in such a weak position that people feel free to pile on."

"Bush has totally lost his center of gravity," said a conservative Republican senator. "He has lost the dynamic of being able to say what the Republican Party stands for. He has put himself in the center of the country's attention — with no position. You don't know what he wants. The worst thing is to hear people up here saying, 'I'll never believe him again.'"

"He has to be very careful at this point that he doesn't replace Dan Quayle as the lead item in the Johnny Carson monologue," said Doug Bailey, publisher of the Hotline, a political insider's report. "Just look at the headlines around the country: 'Capital in Chaos,' 'Confusion Reigns on Budget.'"

"He is directionless," says a leading Republican spokesman who has found himself drafted as an ally of the White House. "He doesn't know what he wants. Every time he talks to somebody, he agrees with them. It's as if he had a case of Stockholm syndrome [named after a group of kidnap victims who developed deep sympathy for their captors]."

"It's baffling," said Sen. Daniel Patrick Moynihan (D-N.Y.) "He is in a free fall."

Ironically, the beleaguered Bush had to turn for loyal support in his tax struggles to Senate Minority Leader Robert Dole — whom he defeated in the 1988 New Hampshire primary after Dole refused Bush's challenge to sign a no-new-tax pledge. "Some of us who would not take pledges on taxes remember certain things that happened," Dole grumbled as he fought to save the President.

Moynihan — and leading Republicans — attribute a good deal of the chaos to White House Chief of Staff John Sununu. "He has been just terrible," Moynihan said. "He has a complete dissociation with reality. He has no idea what this budget is. It's not easy to understand. I have been here 15 years and I know about half of the things you have to watch for. He does not."

"He wants to be the tough guy, the wise guy," a Republican senator complained of Sununu. "But this guy is a bully. Power has made him a bully. Even when he does something for you, he makes it distasteful."

Another Republican Senate source accused Sununu of being a "double agent" — negotiating a budget deal with the congressional leadership at one moment, and then going off and promising conservative Republicans that it was all a charade, that Bush would not agree to any tax increases.

What is the cost of all this? A Republican senator says Bush may have shattered the *de facto* ruling coalition in Washington: "Republicans are a majority in Washington when they can hold themselves together and attract conservative Democrats. When you lose that conservative philosophy, you lose the majority."

Bush's confusion also weakens Republican senators and representatives seeking reelection. "How would you like to be a Republican candidate right now?" a Capitol Hill strategist demanded. "What could you say that you stand for? That you are demanding a reduction in the capital-gains tax? That's a losing issue. The best thing for Republicans right now would be to accept a budget — even a Democrat budget — and get this confusion off the front page."

Bush is going to survive, says New York's Sen. Alfonse D'Amato — "because he is (1) a nice guy, and (2) tough. Don't underestimate him. Also, there's nobody out there to challenge him — in either party. But he needs better help than he has been getting."

NEW YORK POST, FRIDAY, OCTOBER 12, 1990

BUSH FLIP-FLOPS AGAIN IN DUEL OVER BUDGET

By ELI TEIBER
Post Correspondent

WASHINGTON — The quest for a federal budget got even murkier yesterday when President Bush appeared to flip-flop yet again on the question of income-tax hikes for the wealthy and capital-gains tax cuts.

The White House said Bush would accept a budget plan that included an income-tax hike to 31 percent for the richest Americans in exchange for cutting the capital-gains tax to 15 percent.

But in the same statement, White House spokesman Marlin Fitzwater quoted Bush as telling House Republicans yesterday morning:

"I do not believe such a compromise is now possible. Indeed, I'm quite concerned that pursuing it in the current context may not only fail; it may legitimize something farther to the left we cannot accept."

It was the second time this week that Bush has sent out confusing signals about what he really wants in a deficit reducing budget package.

Rep. Gary Ackerman (D-Queens) accused Bush of so many flip-flops that "he sounds like a flounder."

Meanwhile, House Democrats have decided to fashion their own proposal in the wake of mixed signals from the Bush administration.

The Democrats's plan includes:

- An income tax hike to 33 percent for the wealthy — with a 10 percent surtax for those who earn more than $1 million.
- The restoration of $7 billion to Medicare above what Bush and congressional summiteers proposed in the budget plan defeated by the House last week.

Bush, however, quickly rejected the House Democrats' 33 percent income tax formula, saying, "I cannot accept that."

With the latest deadline for a budget agreement now one week away, the only reports of progress came from the Senate yesterday. Democratic leader George Mitchell said, "We believe we have made progress" in talks with GOP leader Bob Dole and members of the Finance Committee.

President rules out a tax swap – sort of

By Paul Bedard and Major Garrett
THE WASHINGTON TIMES

The White House yesterday clumsily moved to slam the door on its on-again, off-again offer to accept higher income tax rates for a cut in the capital gains tax and signaled support for a Democratic budget plan that sidesteps the issue.

President Bush, who held three meetings at the White House to shore up his crumbling Republican coalition in the House, conceded that no matter how strongly he pushes a trade that would cut capital gains tax rates, "it's a waste of time because I just don't think it can get through both houses of Congress."

Despite his pessimism, Mr. Bush indicated support for some House GOP leaders who want to force the issue on the Democrats. "I'm not going to deny House members an opportunity to do something that they think can be done," he said of the Republican offer to reduce the capital gains tax rate from 33 percent to 15 percent in exchange for boosting income tax rates for upper-income Americans by 3 percent, to 31 percent.

Mr. Bush and his senior staff fear that the Democrats will try to negotiate a deal that calls for even higher income tax rates and are instead moving to cut the tax proposal from the budget negotiations to clear the way for new proposals.

Rep. Dan Rostenkowski of Illinois, chairman of the tax-writing House Ways and Means Committee, introduced a separate Democratic plan yesterday that calls for $26 billion in higher taxes above the $134 billion in the original bipartisan budget plan.

Mr. Rostenkowski's plan envisions a third bracket of 33 percent — above the existing 15 and 28, a 10 percent surtax on income over $1 million and an extension of Medicare payroll taxes to upper-income individuals. It does not include a lower capital gains rate, a centerpiece of Mr. Bush's 1988 campaign.

The president said a similar GOP trade-off of lower capital gains for a slightly higher income tax rate deal had been offered to the Democrats before but rejected. House Minority Leader Robert Michel of Illinois added that both Democrats and Republicans rejected a compromise to set the top income tax rate at 32 percent.

"It's my personal opinion that it's not negotiable on satisfactory terms on both sides," budget director Richard Darman told the Senate Governmental Affairs Committee. "There just isn't a deal there."

But Rep. Bill Archer of Texas, the ranking Republican on the Ways and Means Committee, said he would continue to push for the tax deal.

Mr. Archer met with Mr. Bush three times at the White House yesterday as the administration sought advice from its Republican allies. Conspicuously absent was House Minority Whip Newt Gingrich of Georgia, who led the GOP rebellion against the bipartisan budget deal that was defeated last Friday.

The White House meetings were with ranking GOP House committee members, Republican Ways and Means members and the 71 Republicans who supported the president and voted for the bipartisan budget deal.

Mr. Archer said the 31 percent proposal would cut the tax rate on upper-middle-class earners 2 percent and raise the top rate 3 percent.

He said there would be "roughly" 4.5 million people getting a rate reduction and 500,000 getting a rate increase.

Mr. Archer said his plan would cost the Treasury $3.5 billion over five years but has the advantage of bursting the so-called "bubble" that taxes upper-income wage earners at a higher rate than the wealthiest taxpayers.

However, a Congressional Budget Office study reported yesterday that the Archer plan would lose $17 billion over five years. The disagreement arises from the different ways CBO and Mr. Archer measure the effect lower capital gains taxes would have on the economy.

Lawmakers have agreed to use the CBO method, which assumes less economic stimulus than the Archer method and thus assumes less revenue will be generated by lower capital gains taxes.

The Republican tax proposal clashes with one offered by Sen. Lloyd Bentsen, Texas Democrat and Finance Committee chairman. His plan would raise the top income tax rate to 33 percent and lower the capital gains tax rate to 19.6 percent.

Mr. Bush said he was inflexible on the Republican plan — and the Democrats said the same.

Mr. Bush raised the possibility of a deal on income taxes and capital gains in a news conference Tuesday but flip-flopped after he came under attack by Senate Republicans.

In his meetings yesterday, Mr. Bush sought to clarify his position, but seemed to muddy it further by coming out for a tax deal then doubting its chances for success.

Mr. Archer and Mr. Michel admitted that the Republicans in Congress have not decided what kind of a budget deal to propose or accept. Mr. Michel also indicated that even if the Republicans propose a budget deal, they will not have the votes to get it approved.

Mr. Archer said any deal must rely on spending cuts rather than tax increases. "If people are going to be asked to pay more, I don't think it's asking too much for the government to curb its appetite and to freeze domestic discretionary spending," he said.

Administration officials said any plan approved by the president would have many of the tax increases in the original deal — including those on alcohol, cigarettes and gasoline — and even higher Medicare premiums.

Mr. Archer indicated support for a plan approved by the Ways and Means Committee on Wednesday that does not tackle the thorny income tax-capital gains cut issue.

The Ways and Means bill is a middle-of-the road proposal that neither Mr. Rostenkowski nor Mr. Archer enthusiastically supports. The two lawmakers' alternate packages will likely be debated on the floor before a final decision is reached on the nation's new tax policy.

Mr. Bush said in a meeting of GOP Ways and Means members that the plan "does seem to preserve some of the aspects of the bipartisan agreement" he and congressional leaders supported — the one shot down by maverick House Republican conservatives and angry Democrats. That deal included no change on income taxes or capital gains taxes.

The White House is not pushing its own plan.

The Rostenkowski plan "will give us something to build around," Mr. Bush told reporters.

Mr. Rostenkowski was not so kind, ripping the Republicans — and Mr. Bush — for continuing to push their tax proposal.

"I'm sorry the president is starting to look that bad," he said. "This is a time the American people want some leadership," Mr. Rostenkowski said.

Lawmakers are trying to forge a five-year, $500 billion deficit-reduction package, including a $40 billion cut in 1991.

Congress must come up with a package acceptable to Mr. Bush by Oct. 19, when the government's spending authority ends.

Congress Starts Again on Budget

By WILLIAM J. EATON and DAVID LAUTER, TIMES STAFF WRITERS

WASHINGTON—Jolted by President Bush's puzzling remarks about a budget trade-off involving capital gains and a top-bracket rate increase, Congress began work Wednesday on crafting a new $500-billion deficit reduction package to replace a summit agreement that was repudiated by the House.

Acting by voice vote, the House Ways and Means Committee cleared a package of tax increases and spending cuts that would jettison some of the most unpopular provisions of the original budget accord and lower red-ink spending by $197 billion over the next five years.

This bare-bones package, however, is not expected to survive intact, since Democratic and Republican leaders are likely to draft substitute packages with additional revenue-losing "sweeteners," then fight it out on the House floor. Other committees will propose spending reductions for defense, federal benefit programs and savings on interest to bring total savings to $500 billion.

The House, already in disarray, seemed to unravel even a bit more as the complexities of revising the summit agreement became more apparent. Instead of presenting a united front on the difficult deficit reduction issue, leaders of both parties virtually gave up on a bipartisan approach, and, at least in the House, a sharp confrontation along political lines appeared ever more likely.

In the Senate, Finance Committee members met behind closed doors to draft a new plan in the wake of Bush's apparent retreat from a compromise that would have cut the capital gains tax in exchange for an increase in the top income tax rates.

Bush, who triggered a wave of Democratic criticism for backing away from his news conference remarks that he might accept the capital gains compromise, remained silent about the apparent reversal on a campaign swing in the South.

"Let Congress clear it up," the President snapped to reporters as he entered his limousine in St. Petersburg, Fla.

And Wednesday night at a political fund-raiser in Atlanta, Bush declared that he will not sign legislation that would continue to fund the government on a short-term basis beyond Oct. 19 unless lawmakers have fully implemented the deficit-cutting deal by then. "The clock is running and it's going to keep on running and I'll veto it again if we don't get a satisfactory deal," he said.

But the President reached out to Republican supporters in the House in preparation for a new round in the budget crisis, scheduling three separate meetings today with GOP congressional leaders, GOP members of the Ways and Means Committee and the 71 Republicans who voted early last Friday for the package that had been crafted by congressional leaders and White House officials.

In another development, the House GOP Policy Committee endorsed an alternative deficit-cutting package that would make bigger cuts in domestic programs, reduce the capital gains tax and eliminate proposed taxes on gasoline and refined petroleum products. This proposal also would reduce Medicare cuts to $50 billion instead of the original agreement for $60 billion and would raise the top-bracket rate to 31% from the current 28%.

House Majority Leader Richard A. Gephardt (D-Mo.) told reporters that Democrats may have to provide the majority of votes for a second-time-around budget package that may or may not include the capital gains compromise.

"I think we're going to get a package done," Gephardt said. Asked whether any such legislation could get House approval so close to the November elections, however, he replied: "I don't know the answer right now.

"Things are still in a state of flux after what the President said. At this point it's impossible to say whether we can get a majority in both houses and have the President sign the bill."

Bush's apparent agreement to withdraw his statement of possible support for a budget trade-off that would include his cherished capital gains tax cut touched off a storm of criticism from Democrats and forced recalculations by key committees.

Without the President's support, the trade-off appeared dead, even though White House Press Secretary Marlin Fitzwater told reporters aboard Air Force One that the President's mind was not completely closed on the issue.

Senate Majority Leader George J. Mitchell (D-Me.) said the President's turnabout would make it more difficult to put together a budget package that would get bipartisan backing.

Sen. Lloyd Bentsen (D-Tex.), chairman of the Finance Committee, had planned to include an increase in top tax rates and a reduction in capital gains taxes as part of his revised budget package, but Bush's reversal sent him back to the drafting table.

"I had the deal all worked out until the President changed his position on taxes," Bentsen said.

Democrats on the Finance panel met privately most of Wednesday afternoon to revise Bentsen's original plan in view of the President's announced opposition after he met with a group of Senate Republicans.

The Ways and Means Committee, meeting behind closed doors, sent its package of tax increases to the House Budget Committee. Although the measure was considered to be largely a "plug" to meet the panel's obligations, Democrats and Republicans were likely to use many of its provisions as building blocks in drafting their own alternatives before a House showdown, possibly as early as next week.

The committee's package, however, dropped several parts of the budget agreement worked out by White House and congressional negotiators and rejected by the House last week. Rep. Dan Rostenkowski (D-Ill.), chairman of the panel, said the dropped provisions were "totally obnoxious" to the House.

Dropped were a 2-cent-per-gallon tax on home heating oil, a plan to make jobless people wait an extra week for unemployment benefits, a $12-billion package of incentives for investment in new small businesses and other revenue-losing tax breaks for business.

A proposed 10-cent-a-gallon increase in gasoline taxes was reduced to 9 cents in the committee package, but other recommended levies on alcohol, beer, wine, cigarettes and luxury goods were retained.

In another change clearly aimed at Senate Minority Leader Bob Dole (R-Kan.), the committee added a luxury tax on private airplanes costing more than $100,000—a provision that would pick up $800 million in revenue between now and 1995. Dole, whose district includes private airplane manufacturers, had a similar provision removed from the rejected agreement.

On the politically sensitive Medicare issue, the Ways and Means package would soften the impact on elderly beneficiaries.

For example, the committee package would raise the Part B insurance premium for doctor bills from the current $28.60 a month to $32.40 next year, and to a high of $46.50 in 1995. By contrast, the budget deal worked out by the White House and congressional negotiators would have raised the premium to $33.50 next year and a peak of $54.30 five years from now.

The committee package also proposed a Part B deductible of $100 in 1991 and $125 thereafter, compared to the earlier proposal's plan for raising the current $75 deductible to $100 next year, $125 in 1991 and $150 after 1993.

Opposition to the proposed $60-billion cut in Medicare in the original package was regarded as a key factor in its defeat by a combination of conservative Republicans and liberal Democrats on a 254-179 roll-call vote, despite the best efforts of the President and bipartisan leaders in the House.

Since the accord failed, however, there have been strong differences among Republican and Democratic leaders on how to revise the summit agreement to get enough votes to pass it.

ANOTHER VIEWPOINT/ GEORGE F. WILL

The proposed 1991 tax increases and spending cuts amounted to only 0.7% of gross national product; all the taxes would have reduced Americans' after-tax income about 1%. And the stumbling block in the budget negotiations has been the Republican insistence on a capital-gains cut that the President's own economists predict would increase the annual growth rate just .06%. That amount is too tiny to forecast meaningfully.

When numbers, supposedly instruments of precision, are instead used for propaganda, then the cavalier use of words is unsurprising. If all this were purely cynical, it would be less alarming. Witness the weird sincerity of people who have been striking deals with each other for so long they really think deals determine reality. They think the meaning of numbers and words is "on the table," part of the "package." Partisan meanings are asserted, differences get split, and reality is expected to conform to the "deal."

Participants in the budget marathon are exhausted and genuinely indignant when it is suggested that the numbers they are dealing with are small compared to the problem as it already is, before recession. Sen. Phil Gramm (R-Tex.), who puts the best face that can be put on all this, says:

The day the Gramm-Rudman spending limit passed, federal spending was 23.9% of GNP. Today it is 22.6%. If something with the net configuration of the deal just rejected is finally adopted and enforced, then five years from now spending will be 18.3% of GNP. (The only new entitlement enacted in the Gramm-Rudman era was the catastrophic health-insurance program, a political catastrophe because people hate socialism with a price tag.)

So, chuckleheaded as everyone in Washington may seem to everyone out there, it is possible to believe progress is being made. But the way it is being made is deepening the public's misanthropic mood.

—From George F. Will's syndicated Washington column.

COLUMN RIGHT/
CAL THOMAS

Bush Didn't Learn From the Master: Reagan

■ In combat, as in politics, the troops must have a commander willing to fight.

What good is it having a Republican President when he caves in to demands by Democrats and allows them to write a new budget in committees controlled by their party? We can count on the "Bush budget" resembling a Michael Dukakis budget, with the twin monsters of higher taxes and higher spending imposed on a population tired of both.

As he watches his popularity decline, (a Times Mirror poll showed it dropping from a high of 76% in August to 55% this week), Bush might consider a lesson from Abraham Lincoln: "If once you forfeit the confidence of your fellow citizens, you can never regain their respect and esteem." Addressing the nation on television last week, Bush said: "This is the first time in my presidency that I have made an appeal like this to you, the American people. Tell your congressmen and senators you support this [budget] agreement."

The calls came in, but they were calls of protest, and this is where Bush's strategy, so different from Ronald Reagan's, proved flawed. The pro-abortionists who were to be attracted into the new Republican "big tent" didn't rush to help the President.

Reaganite conservatives who had supported Bush because he talked tough on crime, gun control, reduced government and other issues dear to their hearts did not respond either, except in derision. Conservative fund-raiser Richard Viguerie, who is *persona non grata* at the Bush White House, denounced the now-defunct budget agreement in a letter to GOP maverick Rep. Newt Gingrich of Georgia: "The conservative movement is the adversary of anyone, in Congress or the White House, who would skewer the American people with higher taxes. We will not affiliate ourselves with tax collectors for the welfare state."

Sen. William Armstrong (R-Colo.) told me that "by trying to avoid confrontation, President Bush undermined his own leadership potential. Confrontation is what Ronald Reagan did effectively. Reagan didn't avoid confrontation, he sought it."

In combat, as in politics, the troops must have a commander willing to fight. But time and time again, the President seemed to take tough stands, only to negotiate away a winning position when he faced strong opposition. Instead of blaming Congress for the impasse and calling on the people to help him, as Reagan did, Bush backpedals and invites his ideological enemies in for coffee.

Many conservatives believe Bush abandoned a core set of principles necessary to win their support. Public disapproval of Congress is so high that a popular President ought to be able to make political chopped liver out of its members. Properly conducted, an anti-Congress campaign by the President could benefit Republican conservatives and perhaps win back a majority in one or both houses. Failure to launch such a campaign means that Bush will be set upon by the anti-government angel of death about to swoop down on all of Washington.

Cal Thomas writes a syndicated column in Washington.

WAFFLE: Bush Lacked Fallback Position

Bush's Waffling Reflects Lack of Fallback Stance

By DAVID LAUTER
TIMES STAFF WRITER

ATLANTA—President Bush's conspicuous waffling over tax issues this week reflects two fundamental problems:

First, there are sharply conflicting pressures on the chief executive in this area, even from his own party.

Second, the White House has not staked out any real fallback position in the wake of Congress' rejection of the bipartisan budget agreement that negotiators worked out during 4½ months of talks.

"Confused?" the President asked reporters as he took a midafternoon jog after a campaign rally in St. Petersburg, Fla., for Florida Gov. Bob Martinez, in what appeared to be as much an answer as it was a question.

The zigzagging has been a boon to Democratic congressional leaders, who lost no time in declaring that in view of the President's reversals, they now see no need to make difficult decisions of their own until Bush makes clear what he wants.

And it has highlighted the sharp divisions within the GOP between those such as Senate Republicans, who want foremost to reduce the deficit, and those who believe that the party can make hay by opposing all tax increases—blaming the deficit on the Democrats later.

The confusion became vividly public Tuesday and Wednesday on a key budget question—whether Bush would accept a trade-off that would give him the reduction he has been seeking in tax rates on capital gains in return for a Democrat-sponsored tax hike on wealthy Americans.

Throughout September and into the first week of this month, Bush and his advisers said he would not accept a trade. Tuesday morning, at a press conference, Bush changed his mind, saying that the idea of a tax-rate trade-off was "on the table."

Then, after protests from Senate Republicans who opposed the trade, Bush invited the senators to the White House for a meeting and told them that he was taking the idea off the table again.

Wednesday—at least for a while—the White House tried to backtrack once more, sending word that Bush still had an open mind on the issue. "I'm leaving everybody's comments out there," Press Secretary Marlin Fitzwater said. "We're not taking a position on any specific item."

By midday, Bush seemed to have given up entirely. "Let Congress clear it up," he said.

At the root of the confusion is the defeat last week of the bipartisan budget agreement that Bush's advisers—Budget Director Richard G. Darman and Chief of Staff John H. Sununu—had negotiated during months of talks with congressional leaders at a so-called budget summit.

Darman had devised the summit approach following the conventional wisdom in Washington that no budget agreement could ever be reached in public because, by definition, cutting the deficit requires politically unpopular tax increases and spending cuts.

If the leaders of both parties—the President and Congress—agreed on a deal, Darman believed, everyone would be given enough political cover for the accord to pass.

But Darman and Sununu had placed such faith in that theory that they had neglected to prepare a fallback plan. When conservative Republicans turned against the deal and liberal Democrats joined them, Bush was left twisting, figuratively, in the wind.

Since that defeat, last Friday, Senate Republican leaders, joined by Sununu and Darman, have advocated essentially resuscitating the bipartisan agreement.

Their hope, Sen. Bob Packwood (R-Ore.) said, is that members of Congress, having had a chance to vote against the plan once, now will vote for a close replica, seizing on whatever small changes are made around the margins to justify their change in position.

House Republican conservatives, joined by Vice President Dan Quayle and other Bush advisers who disliked the summit agreement from the start, argue that Bush should drop the bipartisan approach and move to unite his party by turning the budget into a partisan issue.

By contrast, most Senate Republicans are traditional fiscal conservatives, who dislike high taxes but think high deficits are worse. (In the House, a large percentage of the GOP caucus, led by Rep. Newt Gingrich (R-Ga.), is made up of believers in supply-side theories, who say deficits are not nearly as bad for the economy as high taxes.)

The problem may be compounded by a fact that Bush admitted during his press conference Tuesday that he is not particularly interested in the entire issue of economic policy, preferring instead to concentrate on foreign affairs.

"When you get a problem with the complexities that the Middle East has now and the [Persian] Gulf has now, I enjoy" working on that, Bush said.

"I can't say I just rejoice every time I go up and talk to Danny Rostenkowski, my dear friend, about what he's going to do on taxes," he said, referring to the Illinois Democrat who chairs the House Ways and Means Committee.

Chicago Tribune

Thursday, October 11, 1990

'Let Congress clear it up,' Bush says of tax issue

By Elaine S. Povich
and Timothy J. McNulty
Chicago Tribune

WASHINGTON—President Bush and White House officials appeared Wednesday to engage in a deliberate effort to obscure his position on an income-tax increase, giving Congress no guidance as it tried to frame a tax bill.

The confusion added to the nervousness on financial markets, analysts said, driving prices down Wednesday.

"Let Congress clear it up," Bush said when asked to clarify his position on whether he would accept a higher tax rate on the wealthy in exchange for a cut in taxes on capital gains. On Tuesday morning, Bush had said he could endorse the deal, but a spate of reports later in the day had him backing away from the higher tax rate.

The president's mixed signals left Democrats scrambling for a way to carry out the budget compromise, which calls for slicing $500 billion from the deficit over the next five years through a series of spending cuts and tax increases, without being labeled the party of high taxes.

"There isn't going to be any taxes raised in this country without the signature of the president," insisted House Speaker Thomas Foley (D-Wash.). "We are not going to have a single dime of taxes raised by any Democrat alone."

Facing an Oct. 19 deadline to pass tax bills carrying out details of the budget and end a crisis that almost brought the government to a halt Tuesday, Congress on Wednesday essentially bumped the tough decisions up to a higher level.

The House Ways and Means Committee approved a bare-bones tax bill that incorporated most of the features of the original budget summit agreement, which the House voted down last week. The new bill made only minimal changes to take care of the most criticized portions of the failed agreement.

The bill, approved on a voice vote with no committee member wanting to put his name to it, makes fewer cuts in Medicare and eases the burden on Medicare recipients; lowers the gasoline tax increase from 10 cents to 9 cents; and gets rid of a large package of incentives to businesses that committee Chairman Dan Rostenkowski (D-Ill.) said were just tax-avoidance loopholes.

The package did not address a hike in income tax rates or a cut in the capital gains tax, but Rostenkowski left the door open to both proposals. He indicated Democrats would write a separate tax bill including the two issues that the full House could consider along with the committee's version later this week.

Rostenkowski, who met with Bush early Wednesday, said he believes that "in the final analysis, the president is going to be right and he'll agree to raising the revenues."

Bush opened the door to a tax compromise with congressional Democrats Tuesday when for the first time he said he might accept an increase in taxes on wealthy Americans in return for a cut in the capital gains tax, the levy assessed on sales of assets, such as houses and stocks and bonds.

But later that day, Republican senators insisted Bush had "acquiesced" in response to their demand that there be no tax rate increase.

A series of late-night attempts to explain Bush's position by White House spokesman Marlin Fitzwater appeared to put the president on both sides of the issue. After meeting Wednesday with Chief of Staff John Sununu and Budget Director Richard Darman, Bush apparently made the decision to let the confusion reign.

"We're right where we want to be," one senior White House official said when he was asked to clear up the conflict.

Stock prices fell Wednesday, with the Dow Jones industrial average dropping 37.62 points to a 17-month low of 2407.92 after fluctuating wildly amid nervousness over inaction in the Persian Gulf and inaction on the deficit, analysts said.

"The market should be doing better," one analyst said.

While the president vacillated and the Democrats waited to see what was now on the negotiating table, Fitzwater bobbed and weaved in his explanations to reporters traveling with Bush on his campaign swing through the South.

He refused to contradict Sen. Bob Packwood (R-Ore.), who claimed Bush had "acquiesced" to not raising the tax rates, but Fitzwater also maintained Bush did not say that to Packwood.

Meanwhile, Sen. Lloyd Bentsen (D-Texas), chairman of the Senate Finance Committee, appeared to be under the impression that Bush still would accept the tradeoff involving a tax hike and a capital gains cut.

Senate Republican leader Bob Dole of Kansas, in an angry speech on the Senate floor Wednesday, also denied that Bush had changed his mind on taxes in Tuesday's meeting with Senate Republicans.

Despite the rhetoric, the congressional committees were getting down to writing the tax bills that they could have been working on months ago but for the budget summit, which took weeks to produce the document that was rejected last week.

Many around Capitol Hill were wearying of the process. David Dreyer, an aide to House Majority Leader Richard Gephardt (D-Mo.), quoted the rock band Emerson, Lake and Palmer in describing that attitude: "Welcome back my friends, to the show that never ends."

Tribune correspondents Terry Atlas and Mitchell Locin and researcher Linda M. Harrington contributed to this report.

Tax 'bubble' may be near bursting

Knight-Ridder Newspapers

WASHINGTON—The tax "bubble," one of the more exquisitely convoluted provisions of the income tax code, has suddenly taken center stage in the budget debate.

Democrats and some Republicans seeking a budget compromise have proposed eliminating the bubble in exchange for a capital gains tax cut. For a while, it looked as though President Bush might go along with the idea.

Is the bubble, as some Democrats claim, a loophole benefiting the rich? Or as Sen. Bob Dole (R-Kan.), says, are complaints about its lack of fairness "a bubble of hot air?"

Here is how "the bubble" works:

The bubble is a 5 percent surtax that looks like a step up and down in tax rates when displayed in a graph.

Those who are "in the bubble" pay a 33 percent rate on the portion of their income that falls within a set range.

The 1986 tax reform established two basic income tax rates, one at 15 percent, the other at 28 percent.

The bubble was designed to eliminate the benefit that wealthier taxpayers would get from paying the 15 percent rate on the first part of their income and to strip away the benefit of the personal exemption.

After the benefit of the lower rate is "recaptured" by the bubble, the rate drops back to 28 percent. The effect of the bubble is to tax all income of taxpayers in that bracket at 28 percent.

In 1990, the 15 percent rate applies to the first $19,450 of income for single filers and the first $32,450 for a married couple filing jointly.

Single filers would enter the bubble at $47,050 of income. Their rate would drop back to 28 percent after $109,100.

A married couple filing jointly would enter the 33 percent bubble at $78,400 of income, according to the IRS. Their tax rate would drop back to 28 percent after $185,730.

"Many people believe—incorrectly—that taxpayers [now] subject to the 33 percent rate are being treated unfairly compared to higher-income taxpayers whose top marginal rate is 28 percent," said Sen. Bill Bradley (D-N.J.), who helped write the bubble into law.

"In fact," he added, "the bubble does not reward the rich. It enhances the tax system's progressivity."

Democratic proposals to eliminate the bubble would extend the 33 percent rate beyond the point where it now drops back to 28 percent. That would increase taxes paid by the nation's 600,000 richest taxpayers.

Since the budget summit agreement includes hefty excise tax increases that hit the lower and middle classes disproportionately hard, Democrats argue it is only fair to raise income taxes on the rich.

Said Dole: "The bubble may be the first major tax provision ever repealed because people don't understand it."

The budget deal is a formula for a fatter government

In the debate over the federal budget, we are seeing what in Washington passes for a titanic ideological struggle. It pits one group that wants federal spending, taxes and power to grow against a group that wants federal spending, taxes and power to . . . grow even more.

Americans have been told for a decade that if Washington is finally going to eliminate the budget deficit, they have to pay more or get less. They've been told wrong.

The entire point of the budget deal worked out this

Stephen Chapman

week—like the one reached and then voted down last week—is not to get our fiscal affairs in order at long last. The point is to allow federal domestic spending to remain on its upward trajectory. Unlike its predecessor agreement, which had the virtue of specifying where the savings would be extracted, this one leaves many of those pesky details for later.

Politicians like to pretend that balancing the budget is a superhuman task, when in fact it can be done painlessly. Barring a long and serious recession, we can expect revenues to continue growing at a brisk pace over the next few years. To close the chronic gap between what comes in and what goes out, we don't have to cut spending; we merely have to keep it from soaring out of control.

By keeping spending increases within reasonable bounds—say, 4 percent a year, or about the rate of inflation—Washington could put its accounts in the black in five years. No cuts; no freeze; no tax increases. Just a modest program of restraint.

So what's the problem? Congress and the president aren't content with spending just 4 percent more each year. Going to Washington and not getting to spend money is like going to Great America and staying away from the rides. Our leaders have all sorts of programs they want to lavish with funds, thus ingratiating themselves with the lucky beneficiaries.

The only way to get the cash, unfortunately, is to confiscate it from taxpayers, who aren't naturally inclined to submit quietly to impoverishment. So our leaders sorrowfully inform us that the only alternative to painful tax increases is excruciating spending cuts. But what's so excruciating about spending 4 percent more next year than this year?

The original deal would have let the federal government increase its spending by some $220 billion between now and 1995. The latest deal adds up to another $10 billion. Since defense spending is supposed to fall by at least $10 billion and interest payments by another $20 billion, that means other programs, mostly domestic ones, will get a net boost of about $260 billion. (None of this, by the way, will go to cover the savings and loan bailout, which is being financed separately).

Domestic spending programs, it turns out, will get to spend the peace dividend and a lot more. The advertised austerity is a fraud.

But it's a fraud with a long pedigree. You might think domestic programs desperately need more money to make up for the starvation diet they had to endure under Ronald Reagan. In fact, they ate well in the '80s.

The government's income, after adjusting for inflation, rose by 22 percent between 1981 and 1989—this despite the 1981 tax cuts. But its outlays rose by nearly 25 percent. The welfare state Ronald Reagan bequeathed to George Bush was bigger than the one he had inherited from Jimmy Carter.

More revenues, always billed as the indispensable antidote for red ink, had mysteriously led to a bigger deficit. And much as I hate to explode yet another article of popular faith, most of the new money didn't vanish into the Pentagon.

Spending on Medicare, to take a particularly dramatic example, has risen by 260 percent over the last decade. The average Medicare recipient gets three times as much in benefits as he or she contributed in payroll taxes. The Medicare trust fund has an early appointment with bankruptcy.

Yet among the main reasons Congress rejected last week's budget accord was that it would have raised the yearly Medicare deductible by an exceedingly modest $75 a year. Under the revised version, recipients will have to kick in just $25 extra—assuming the politicians don't back down.

The deal-making in Washington, saluted as the beginning of fiscal responsibility, is really proof that Washington's only conception of fiscal responsibility is for taxpayers to make do with less so the government can have more. It will be a shame if taxpayers not only get plucked but accept the fiction that the plucking is for their own good.

Do as we say, not as we do

For a few hours Tuesday, President Bush appeared ready to lead Congress and America out of its morass of budget deficits and fiscal negligence.

On national television, he welcomed the idea of raising income tax rates for the wealthy in exchange for cutting the tax on capital gains. If a budget compromise could be reached with a "proper balance" between boosting the top rate and reducing taxes on investment profits, that would be "fine," he said.

But it was fine only until a gaggle of Senate Republicans howled in protest. The president, they insisted, must not tinker with the tax reform achieved under President Reagan by raising income tax rates a single percentage point. Bush apparently agreed.

The president's indecisiveness makes Congress' task of filling in the outlines of a deficit-reduction plan that much more difficult. The top tax-writing committees already had begun shaping their revenue-raising schemes around taxing rich Americans more heavily and reducing taxes on capital gains.

The episode also shows that no matter what plan lawmakers finally fashion, someone will be unhappy. After five months of talks, White House and congressional leaders offered a credible proposal that relied heavily on increased Medicare premiums and higher taxes on gasoline, alcohol and cigarettes, but rank-and-file Democrats yelled that the plan leaned too much on lower- and middle-income people and the elderly.

What's needed is a scheme that spreads the pain of a $500 billion deficit reduction as fairly as possible across the largest number of Americans. Unfortunately, in an election year, the politicians in Washington can't make the tough decisions to do that, especially when it means asking voters to make some short-term personal sacrifices.

Ironically, America's loss of fiscal nerve occurs as we are urging others around the world to sacrifice politically and give up personal comforts in order to transform economies.

We cheer as citizens in Poland and other Eastern European countries tolerate joblessness and inflation to move from centrally planned to market-based economies. We urge Mikhail Gorbachev to free prices, break up government monopolies and move away from a Moscow-controlled economy in the Soviet Union, even if it means immediate economic hardship and political risk. But this is clearly a case of do as we say, not as we do.

If President Bush can't make up his mind, then leaders in Congress must act without him. Rep. Dan Rostenkowski and Sen. Lloyd Bentsen, the Democratic chairmen of the key tax committees, should stick to their instincts and propose raising the tax rate on upper-income familes to 33 percent from 28 percent and lowering the tax on capital gains.

With fears of a recession growing, a substantial reduction in capital-gains taxes would boost economic growth, increase capital formation and bring in significant federal tax revenues in its early years. Increasing the tax bite on the rich also would bring in substantial revenues—about $44 billion over five years.

The United States, with the world's largest economy and strongest military, is still the only effective superpower. Yet it's one that grows increasingly debt-ridden and unable to pay its bills. And as the comedic budget melodrama unfolds in Washington and the government faces yet another shutdown around Oct. 19, America is perceived more and more as unable to manage its financial affairs.

Surely as a nation we can find the determination to end this fiscal recklessness and profligacy—if not for ourselves, then for our children and grandchildren.

Congress dons battle gear

By JOE BATTENFELD

WASHINGTON — Congressional leaders prepared yesterday for a bruising budget fight as President Bush refused to clarify his flip-flop on a proposed tax hike for the wealthy.

Confused lawmakers in both parties assessed the conflicting signals from the White House over whether Bush will support an income tax hike in exchange for a capital gains tax cut.

The president, campaigning in the South, suggested that the deficit reduction package was out of his hands.

"Let Congress clear it up," he said.

Bush, after declaring Tuesday he would consider a tax hike on wealthier Americans, told Senate Republicans just hours later he didn't support any tax increase, according to GOP senators.

But Bush's spokesman, Marlin Fitzwater, insisted yesterday Bush had not made any firm commitment either way. "The president didn't say anything," he said. "He just listened to them."

Congressional Democrats seized on the differing statements yesterday, saying it showed Bush and Republicans are looking out for the interests of the rich.

The tax-writing House Ways and Means Committee, meanwhile, approved a compromise plan yesterday that excludes both tax hikes and capital gains cuts.

The Senate Finance Committee, headed by Sen. Lloyd Bentsen (D-Texas), canceled its scheduled meeting in the wake of the Bush flip-flop. But sources said Bentsen will also recommend a stripped-down plan that avoids tackling the tax issue.

The committee decisions mean that Democrats and Republicans will draw up their own budget packages and battle it out early next week. "We'll take the fight where it should be — on the House floor," said Rep. Brian Donnelly (D-Dorchester), a committee member.

According to Donnelly and other sources, the plan approved by the committee includes a $50 billion cut in Medicare and a tax exemption for home heating oil. The committee also eliminated a $4 billion tax break for the oil industry and the low-income housing credit.

That plan, however, is likely to be changed substantially by both parties in the next few days.

Donnelly said the quick Ways and Means Committee action was taken to avoid drafting a bipartisan plan similar to the one killed by the House last week.

"If we wait around for some direction from the White House we could be here until Christmas Eve," Donnelly said.

Both Democrats and Republicans appeared to be confused and irritated at Bush's change of heart on income tax hikes. "I had the deal all worked out until the president changed his position on taxes," Bentsen said.

Senate Majority Leader George Mitchell said Bush's reversal "requires us to reconsider and attempt to determine how best to proceed."

Said Rep. Joseph Kennedy (D-Brighton): "It really is a moment for George Bush to start showing some leadership."

Richmond Times-Dispatch
Thursday, October 11, 1990

Budget battle taking its toll on Bush image

Analysis

By R.W. Apple
© New York Times Service

WASHINGTON — The headlines around the country yesterday used words like "flip-flop," "waffle," "blink," "retreat," "zigzag" and "fickle" to describe George Bush's erratic course on taxes, none of them exactly calculated to please the president, who is as eager as his predecessors to be seen as a strong leader.

But the comments in the Washington political community were even tougher. A Republican strategist, as reluctant as other party leaders to be quoted at a time when the party line looks more like a doodle, said, "We're really getting slaughtered, because the president looks indecisive and the administration looks rudderless."

Thomas Mann, a political scientist at the Brookings Institution, said the Bush presidency was "threatening to disintegrate before our very eyes because he has completely abdicated his leadership responsibilities."

By giving the impression that he could easily be pushed around — agreeing with one group one minute, another the next — Bush revived talk of him as a political wimp, a description he seemed to have shaken two years ago.

Shocked by what they are seeing and hearing, politicians offer a spectrum of explanations for what nearly all see as a major stumble by a president who had been highly successful: A thin White House staff with a weak political operation and a dubious Capitol Hill liaison team that has neither provided good information nor spoken with one voice.

A president more comfortable with foreign affairs than with the nitty-gritty of domestic policy. An administration with no clear idea of where it wants to go and, as several people suggested, an attack of fecklessness at a crucial time.

"I'll veto it again," page A-2

"There's no plan," said Edward J. Rollins, co-chairman of the National Republican Congressional Committee. "They just wish this would go away so they could deal with something easy like Saddam Hussein. But with four weeks left until Election Day, they're eroding the Republican voting base."

White House aides seemed too stunned to explain what had gone wrong, but many freely acknowledged their predicament. "Not a sunny day in the bunker," one of them said.

All of this is potentially much more damaging to this president than it might have been to a Ronald Reagan or a Lyndon B. Johnson, because the public tends to identify Bush with pragmatism rather than policies. Success has bred success for Bush so far, but now he runs the risk that the evenhandedness that once looked like professionalism will look more like weakness.

In addition, the Republican unity nurtured by Reagan has been fractured in little more than a week. As of last night, Rep. Bill Archer of Texas, the top Republican on the House Ways and Means Committee, was backing a deal in which a cut in the capital gains tax would be paired with higher income tax rates for the wealthiest Americans, and Sen. Bob Packwood, the top Republican on the Senate Finance Commitee, was opposing it.

Even with the president's energetic help, the Republican congressional leadership could not deliver a majority in the House last week for Bush's original budget plan. Rep. Newt Gingrich of Georgia, the Republican whip, defied the president with impunity.

Patrick J. Buchanan, a leading spokesman for the Republican right wing, announced in his syndicated column yesterday that "Mr. Bush no longer seems a sure bet for 1992."

Stephen Hess, who has written two books about the presidency, said negotiating with Congress on domestic issues "was never going to be George Bush's forte, and it was never safe ground for him."

Hess once worked for Richard M. Nixon, and he said Bush resembled Nixon in his distaste for the complexity of domestic policy.

Bush says, 'I'll veto it again' if budget deal is unsound

ATLANTA (AP) — President Bush warned Congress last night that unless he gets a budget deal he deems satisfactory, "I'll veto it again," raising the possibility of another government shutdown in little more than a week.

"The clock is running and it's going to keep on running and I'll veto it again if we don't get a satisfactory deal," Bush said at a fund-raising event for Johnny Isakson, the Republican nominee for governor of Georgia.

The president said he wielded the appropriations veto that led to a partial government shutdown because Congress would otherwise have taken last weekend off.

He said he is prepared to do it again when the short-term spending bill expires Oct. 19.

"I kept the pressure on, and to make the point — no more business as usual," Bush said at a rally for Florida Gov. Bob Martinez in St. Petersburg.

Bush left a mixed message on taxes as he went in quest of votes for Republican candidates. He had said Tuesday that he'd consider an increase in the highest income tax rates in exchange for a capital gains tax cut, then met with Republican senators who said he'd dropped that idea. But yesterday Bush's spokesman said the president had only listened to the senators and hadn't promised them anything.

Marlin Fitzwater said that Bush "listened to" the GOP lawmakers rather than stating a position.

The president refused to say more. As he jogged at a St. Petersburg baseball park, Bush told reporters who asked for clarification, "Read my hips," and pointed there.

Bush arranged budget meetings today with the ranking Republican members of House committees and with GOP members of the House Ways and Means Committee. But Fitzwater said Bush wasn't planning to spell out his position on taxes at those meetings, either. He said it's up to Congress to write a new budget plan that meets administration guidelines for deficit reduction and changes in the budget process.

Congressional Democrats complained that Bush's ambivalence on higher taxes for the wealthiest Americans would make it tougher to forge a budget compromise.

But there was no shortage of options, as both Republicans and Democrats began floating new versions of tax and spending plans on Capitol Hill.

The Senate Finance Committee indefinitely postponed a meeting at which it was to discuss a budget package written by its chairman, Texas Democrat Lloyd Bentsen, generally in line with the tax trade Bush endorsed at his news conference.

"I had the deal all worked out until the president changes his position on taxes," Bentsen said.

Across the Capitol, the House Ways and Means Committee adopted a plan on a voice vote written by its chairman, Rep. Dan Rostenkowski, D-Ill. The plan was similar to the measure Bentsen's panel had readied, although it would add restrictions on tax deductions available to people earning more than $100,000 annually.

It also would add private planes worth more than $100,000 to the list of luxury items subject to a new 10 percent tax, and place a 2-cent-per-gallon tax on petroleum products, excluding heating oil.

Rostenkowski's measure contained neither higher tax rates on the rich nor a lower capital gains tax. But lawmakers said those items might be added by amendments on the House floor.

The committee approved a plan calling for $50 billion in Medicare cuts over five years, rather than the $60 billion approved at the budget conference.

The panel also called for raising gasoline taxes by 11 cents a gallon, not the 12-cent increase rejected last week. It recommended a slightly higher tax than the conference plan on table wine — 25 cents a bottle, up from 22 cents — but made no change in beer and hard liquor taxes. Cigarette tax increases rejected last week also were retained by the committee.

At day's end Tuesday, GOP senators had visited Bush to tell him they opposed raising taxes on the wealthy even if Democrats would agree to capital gains rate cuts. "He just acquiesced in it," Sen. Bob Packwood, R-Ore., said afterward.

"I got the impression the president thought that was fine," said Sen. John Chafee, R-R.I.

Dole seemed certain: "He didn't announce his position at all. He didn't acquiesce."

Dole said that because of the political uproar they were causing, both a lower capital gains tax and higher rates on the wealthy should be excluded.

Social Security proposal is killed

WASHINGTON (AP) — The Senate refused yesterday to consider a bill that would have cut Social Security tax rates in each of the next six years while increasing the amount of wages to which the tax applies.

By a 54-44 vote, the Senate declined to waive a budget law requiring that any tax cut be offset by spending reductions or a tax increase. That was six votes short of the 60 needed.

Sen. Daniel Patrick Moynihan, D-N.Y., sponsor of the bill, said it was designed chiefly to eliminate huge surpluses in Social Security taxes that are being used to mask the real size of the federal deficit.

Bush Has Reason to Fear for '92

By Kevin Phillips

WASHINGTON — As the budget debacle and events in the Persian Gulf underscore, U.S. politics are growing increasingly fluid. A military "October surprise" could still skew November's elections, and 1992 circumstances are even more speculative.

Nevertheless, the presidential coalition that by 1993 will have put Republicans in the White House for 20 of the last 24 years has developed deep rifts.

With the emerging overlap of a high-stakes Middle East intervention, the mismanaged deficit reduction and a slumping economy, George Bush's re-election in 1992 is developing uncertainties. Republican politicos are alarmed about the 10 to 15 points the president has dropped in the polls in the last 10 days.

While White House fumbling in the budget battle and the rebellion of House Republicans are getting all the attention now, a slumping economy — the GOPs old bugaboo — is likely to be more decisive in the long run. Possibly the weaknesses in manufacturing, finance and real estate, aggravated by high interest rates linked to the deficit and by the collapse and bailout of the savings and loan industry, add up to only a mild recession that will pass by 1992.

But if this marks the beginning of a more pervasive cyclical reaction to 1980s debt and speculative excesses, then the economic dominoes could be tumbling and unemployment deepening even into 1991.

All four 20th century elections in which the Republicans lost control of the White House — 1912, 1932, 1960, 1976 — had major economic downturns either that year or during the previous two years. Another could be just around the corner and with it a potentially powerful indictment of Bush economics.

Political leaders have sometimes launched wars to pull nations out of economic slumps. Now, however, because the credit card economics of the 1980s carried debt levels and interest rates so high, the U.S. intervention in the gulf may have the reverse effect. By pushing up oil prices, deficits and inflation, it could cause America's first wartime recession.

A deep slump — which is looking increasingly likely — would ensure a bitter 1992 campaign. After all, Saddam Hussein is not a plausible scapegoat for a downturn that began while the White House was still courting Baghdad.

Moreover, two separate New York Times/-CBS polls taken in August found 40 percent of Americans calling the president too quick to commit the U.S. military in the Gulf. That won't matter if Bush produces a victory. But economic or military failure could bring harsh recrimination, a recurrent corollary of past 20th century wars.

After World War I critics charged that the United States had been drawn in to protect Wall Street loans. Conservative GOP skepticism about Franklin D. Roosevelt's efforts to enlist the United States in World War II would have flowered into attacks had 1942's early military setbacks continued.

> 'All four 20th century elections in which the Republicans lost control of the White House had major economic downturns either that year or during the previous two years.'

Harry S Truman's conduct of the Korean War came under heavy criticism, especially after his 1951 firing of Gen. Douglas MacArthur.

Parallels may be emerging in congressional Democrats' criticism of Bush on economic fairness — from global burden sharing to more equitable domestic tax distribution — and on the State Department's inept early summer signals that helped convince Hussein the United States might let Iraq take Kuwait.

There's an echo here of Secretary of State Dean Acheson's mid-1950 dismissal of South Korea's geopolitical importance, which helped convince North Korea to invade weeks later. Republicans made Acheson's judgment an issue in the 1952 presidential election; Democrats could pursue a similar opportunity in 1992.

International tensions are also pushing public opinion toward another potential 1992 GOP embarrassment — deepening national doubt about Vice President Dan Quayle's suitability for the presidency.

September's NBC News poll shows 69 percent of voters (and even 58 percent of Republicans) uncomfortable with the idea of a President Quayle. Yet, pushing him aside could have its own vulnerability; the vice president's allies on the right won't be happy with a less conservative replacement.

Like both recent centrist GOP presidents, Richard Nixon and Gerald Ford, Bush may well face a right-wing challenge for the 1992 nomination. Nixon overwhelmed Ohio Congressman John Ashbrook in 1972, but Ford barely held off Ronald Reagan in 1976.

Four names are being mentioned as possible 1992 opponents: the right-wing commentator Patrick Buchanan; the Rev. Pat Robertson; the House GOP whip, Newt Gingrich, and, yes, Louisiana's far-right radical phenomenon, David Duke (who might contest the president in several southern states).

Gingrich, as a practical politician, isn't likely to waste his energy. But the others could focus rank-and-file disillusionment along the important fault lines opening in the party: taxes, religion, race and qualms about the United States as "global policeman."

Until August the GOP presidential coalition was losing a lot of its old themes and dynamics — from anti-Communism to prayer to taxes. With Neil Bush becoming the Democrats' S&L poster boy as the economy slumped, Republican strategists began to fear November's outcome.

The Iraqi invasion submerged those issues temporarily, but economic issues are resurging again, and on top of some very real local political problems. In New York and Pennsylvania the GOP is flirting with joke status for nominating the feeblest gubernatorial candidates in memory. Democrats may wind up dominating 1991 state redistricting solidly enough to doom Republican 1990s ambitions.

At the federal level the GOP is luckier. Democrats were so slack in anticipating the GOPs midterm vulnerability on the economy and so lackluster in candidate recruitment, they didn't field the strongest candidates in some Senate and House races.

But while November's results will reflect that failure, future Democratic strategies are unlikely to be so weak.

A splendid success in the Persian Gulf could revitalize GOP prospects and ensure Bush's re-election. Otherwise, the Democrats' new aggressiveness on issues ranging from the politics of rich and poor to miscalculations in dealing with Iraq could make 1992 an unexpectedly serious contest.

(Kevin Phillips is author, most recently, of "The Politics of Rich and Poor.")

Chicago Sun-Times

10/11/90

'Deranged' capital sours public

Evidence that Washington is deranged—literally disconnected from reality—includes Richard Darman's statement on Sunday TV that President Bush did not do what the nation saw him do. Darman, the budget director, said the president, in his TV speech concerning the budget deal, "wasn't actually asking the public to support this."

This is what Bush said: "Tell your congressman and senators you support this. . . . Urge them to stand with the president. . . . Urge them to do what the bipartisan leadership has done. . . . Urge them to stand with their congressional leaders. . . . Ask them to fight for the future of your kids by supporting this budget agreement. . . ."

George F. Will

Darman insists the president actually said "in effect, to congressmen, not the American people, 'I'm telling your constituents this is a hard vote for you.' " Oh. Bush goes on three networks to address 535 people 16 blocks away? Apparently, even when using the mass media, Washington talks only to itself.

Trying to trigger public support, the president on TV triggered the public's opposition, and this question: How can a president so popular be so powerless? The answer: He is popular because he makes minimal use of power.

He ran a blue-skies campaign and even just 8½ months ago said he saw in the sky a deficit (now projected at about $300 billion) of only $64 billion. After the polarizing conflicts of the Reagan years, the country wanted to be left alone and elected just the president to perform that nonfunction, a president who believes in bipartisanship, domestic summits, the blurring of party differences.

But now, out of the blue, as it were, he tells the nation that if we go on piling up deficits as we have done during the 10 Reagan-Bush years, we will not "survive" because deficits are like "cancer."

However, this life-threatening disease calls for nothing radical—no political equivalent of surgery, chemotherapy, radiation. More like half an aspirin.

The rejected summit package was a pastiche of cooked assumptions (about growth and interest rates), dribs and drabs of little taxes (a tax code painted by Jackson Pollock); spending "caps" that may be only as binding as the Gramm-Rudman deficit-reduction requirements; a Dukakis campaign plank (assuming billions to be gained from improved enforcement of the revenue code); and some Republican socialism (tax shelters, called "incentives," to subsidize investment in certain supposedly private enterprises).

The proposed 1991 tax increases and spending cuts amounted to only 0.7 percent of GNP; all the taxes would have reduced Americans' after-tax income about 1 percent. And the stumbling block in the budget negotiations has been the Republican insistence on a capital-gains cut which the president's own economists predict would increase the annual growth rate just 0.06 percent. That amount is too tiny to forecast meaningfully.

Participants in the budget marathon are exhausted and genuinely indignant when it is suggested that the numbers they are dealing with are small compared to the problem as it already is, before recession. The best face that can be put on all this is put by Sen. Phil Gramm (R-Texas), who says this:

The day Gramm-Rudman was passed, federal spending was 23.9 percent of GNP. Today it is 22.6 percent. If something with the net configuration of the deal just rejected is finally enforced, then five years from now spending will be 18.3 percent of GNP. The only new entitlement enacted in the Gramm-Rudman era was the catastrophic health insurance program, which was a catastrophe because people hate socialism that comes with a price tag.

So, chuckleheaded as everyone in Washington may seem to be, it is possible to believe that progress is being made. But the way it is being made is deepening the public's misanthropic mood.

ST. LOUIS POST-DISPATCH
WEDNESDAY, OCTOBER 10, 1990

It's Up To The President Now

The nation's leaders have come up with another dodge in their latest contribution to the continuing budget drama. On Tuesday morning Congress passed, and President Bush finally signed, a stopgap spending bill to fund government services for another 10 days while the details of a budget package are negotiated. That was the easy part.

The hard part will be to write a budget in the next 10 days that can pass Congress and be signed by the president. That is what Congress promised to do in return for the president's signature on the bill to keep the government functioning. Indeed, it did more; it passed a budget resolution calling for approximately the same amount of deficit reduction this year and in the next five that it had refused to accept last week. That, too, was part of Mr. Bush's price to keep the government running.

Congress worked this remarkable political trick — reviving what had been dismissed by the outraged rank and file of both parties last week — by leaving out all the details. Gone are specific tax hikes and program spending cuts; only the final totals remain in the budget resolution agreed to: a $40 billion cut in the deficit for fiscal 1991, a $500 billion reduction over five years.

Congress has left its committees to decide how to reach these numbers, though it has given them specific guidelines: cut Medicare, though less than before, cut defense a little more, ratify most of the excise taxes defeated last week and think up whatever else is necessary to meet the overall targets.

Everything turns on what the tax-writing committees in particular decide. There is strong sentiment for increasing the top marginal income-tax rate to 33 percent, raising needed revenue and making the tax system more progressive. At first, the president indicated he would be willing to accept this step, which would make the deficit reduction numbers really work, but later he apparently pulled back.

Were Mr. Bush to accept a hike in income-tax rates, his price would be a capital-gains tax cut. However, unless the cut was almost totally cosmetic, offering minimum real reduction, the overall impact would be a diminished burden on the rich. Fully one-third of the income of those making more than $1 million a year comes from the sale of assets.

Congress should not agree to this, and almost certainly won't. Last week's revolt in Congress precludes significant additional spending cuts or higher excise taxes than were already planned. Mr. Bush must either break with Republican conservatives who won't countenance any tax hikes or veto a budget the Democratic majority in Congress can pass, shutting down the government once again. To do so while deliberately standing in the way of an agreement — a good agreement at that — would be the height of irresponsibility.

Chicago Sun-Times
WEDNESDAY, OCTOBER 10, 1990

Congress has muffed budget responsibility

Out of all the noise and so's-your-old-man rancor, the bumbling, the buck-passing and the soap-opera posturing of the budget debacle in Washington, there emerges one incontestable truth:

Once again Congress has failed to do its job. Failed utterly, miserably, disgracefully, inexcusably.

Not only has it failed to do its job—the principal job we elect it and pay it to do—but it also has forfeited a major share of its responsibility for doing that job to President Bush, who has pretty well botched the process, too.

"Out in the country, they [people, taxpayers, voters] don't think we look like heroes," Sen. William Armstrong (R-Colo.) said of the budget-deficit impasse, "They think we look like jerks."

Dead right. On that point, the only thing Armstrong may be guilty of is understatement.

And come Election Day next month the captive audience of this governmental burlesque, the voters, could do worse than pink-slip the jerks and audition an all-new cast.

The crucial facts involved in all this, though they keep getting lost in the political fog, start here and include the following:

- This crisis did not sneak up on anyone. The government's new fiscal year began on Oct. 1, just as it does on every Oct. 1, even on the calendars of Capitol Hill. Congress just casually ignored the deadline—as has, in fact, become its habit.

Not once—not once—since it enacted the Budget Act of 1974 has Congress complied with its provisions. It has, instead, generally just loaded everything into one catch-all spending bill or resorted to the "continuing resolution" process of ducking its duty by just extending new-year spending at last-year levels.

- The constitutional responsibility for levying taxes resides with Congress, not with the president. Furthermore, only in recent history has the president even produced a proposed budget, a responsibility that also rests ultimately with Congress.

This time around, Congress did not even pretend to be taking on that responsibility. It forfeited the budget-making assignment to a joint group of White House and congressional "negotiators" who met secretly to come up with an "agreed" budget package.

That, as we know, was thumpingly rejected by both parties in Congress. Then, yet again, Congress resorted to the infamous "continuing resolution" gag, which Bush rejected.

- Onstage now, they hit us with another wrinkled old wheeze: Omigod, the government has to "shut down." This is intended to scare the pants off the citizenry but about all it came to was closing the Washington Monument and disappointing some tourists. The only person it really scared the pants off was Bush.

On the second time around, he caved in and agreed to go along with another short-term version of the "continuing resolution" that would keep the government operating—and stave off steep across-the-board spending cuts mandated by the Gramm-Rudman Act—while Congress took another whack at doing its job.

- And what this—the situation we are now in—really amounts to is yet another postponement of reality, another dodge to evade duty and decision. This latest "agreement" leaves literally thousands of details to be worked out anon by congressional committees. Nothing is more popular in Congress than a dodge, so this sailed easily through both House and Senate.

- What is most fascinating about this latest episode is that it leaves the critical question of what we are all going to pay in the way of new and increased taxes pretty much up to none other than Chicago's own Danny Rostenkowski, the tough and wily chairman of the potent House Ways and Means Committee.

There are three things to be noted about Rostenkowski in this role: One, he doesn't walk away from a fight or a decision. Two, there are few groups in America with whom he is cozier than high-powered special-interest lobbyists. And three, Democrat Dan is about as close a political pal as George Bush has.

The bottom line here is that none of this is working the way the system is supposed to work. And the principal reason it isn't can be distilled into one word: Congress.

For years now Congress has been steadily sinking in public esteem, to a point where it is now more popular only than, maybe, muggers. At the same time, though, its members have so favored themselves with special political protections that they have become almost unbeatable on Election Day. The re-election rate for incumbents runs as high as 98 percent.

The generally accepted reason for this is that voters regard Congress generally as the Second Coming of the Plague but simultaneously think their own member is, well, OK; at least he or she is not in jail.

If ever the electorate had cause to rethink the matter, though, this would seem to be the season. There are not many on Capitol Hill who, in this whole budget-deficit fiasco, do not come off looking like, in their colleague Armstrong's word, jerks.

TUESDAY
OCTOBER 9, 1990

THE SUN

LIGHT FOR ALL

Poll: President's popularity plunges as Mideast seethes

WASHINGTON — President Bush's approval rating has plummeted the last two months as the Persian Gulf crisis dragged on, gasoline prices soared and the budget stalemate led him to shut down the government, a polling group reported yesterday.

The Times Mirror Center for People & the Press, a news industry group that monitors public reaction to news, said 55 percent of those responding to its monthly survey said they approve of the way Bush is handling his job as president.

Bush's approval rating was 68 percent in the September poll and 76 percent in the August survey. The latest figure is the lowest of any poll since Bush's election in November 1988.

Surveys by various polling groups generally have shown his approval rating between 70 percent and 80 percent. In February 1989, shortly after he took office, it was 61 percent.

The president's highest rating — 80 percent — came in surveys taken in January after the U.S. invasion of Panama.

In the latest survey, conducted by telephone last Thursday through Sunday, 28 percent said they disapproved of Bush's conduct of the presidency and 17 percent said they didn't know whether they approved or disapproved.

The center said 68 percent of Americans surveyed rated developments in the Persian Gulf as the most important news of September, with 63 percent paying very close attention to news of the U.S. troop deployment in Saudi Arabia.

Md. legislators, resisting Linowes effort, prefer gas tax increase

By David Conn
Sun Staff Correspondent

OCEAN CITY — The sea air may have distracted some of Maryland's political forces from the prevailing political wind direction these days.

While Congress and the White House battle to avoid the taint attached to raising taxes, the mood is just the opposite here at the beach.

Maryland House and Senate leaders strongly endorsed yesterday the idea of increasing the state gasoline tax, although they would not commit to a specific amount.

And Robert Linowes, chairman of the governor's commission studying the state's tax structure, said the committee's report will recommend broad changes in the state sales and income tax systems that would make them more progressive and result in tax increases.

Mr. Linowes indicated that the report will recommend some kind of sales tax on service industries.

"Manufacturing and production have declined sharply in this state," he said. "Our economy has shifted markedly toward services. Ultimately, this expanding sector must pay its fair share."

He said the state's income tax system — which imposes a 5 percent across-the-board tax — "is not presently progressive enough to offset the regressivity of the sales, property and other taxes."

A progressive tax places a greater tax burden on those with higher incomes.

The commission's report will suggest changes in both tax rates and allowable deductions, Mr. Linowes said. If enacted, the changes will raise tax revenues statewide, he added.

Spokesmen for Gov. William Donald Schaefer said he plans to recommend to the 1991 General Assembly a legislative package based on the Linowes commission report.

He won't get much support from the lawmakers, if the comments of those attending the Maryland Chamber of Commerce's annual legislative conference here were any indication.

"I really believe that the legislature's not ready to go with any kind of major tax increase," said Laurence Levitan, D-Montgomery, chairman of the Senate Budget and Taxation Committee.

He pointed out that the legislators passed a restructuring of the property tax system last year and that it was unlikely they would be willing to tackle the issue again so soon.

Delegate Ellen R. Sauerbrey, R-Baltimore County, noted that next year there will be "a new legislature. You've got a new [tax restructuring] package coming in November [from the Linowes commission], simultaneously with the budget. You've got no legislative study."

She said the legislature would do better to look into the issue in detail and deal with it in 1992.

"I think it's pretty difficult to ask a legislature at any time to look at something for the first time a month before the session," said Casper R. Taylor Jr., D-Allegany, chairman of the House Economic Matters Committee.

But the governor dismissed many of the objections they raised.

"I'm positive there won't be anything so new and so startling that they can't understand it," Mr. Schaefer said.

"They will understand it," he said. "Don't let it sit on a shelf."

The lawmakers were far more supportive of a possible increase in the state's gas tax, currently 17.5 cents per gallon.

"Regardless of what happens in Washington and regardless of what happens in the Persian Gulf," said Senate President Thomas V. Mike Miller Jr., D-Prince George's, "we're going to have to have a gas tax increase."

The size of the increase would depend on a number of factors, including the federal government's plan to add a tax of 10 cents per gallon, the price of gas at the pumps, and the list of transportation needs that the state presents to the legislature, he said.

David S. Iannucci, the governor's chief legislative aide, said Mr. Schaefer has not yet made up his mind on whether he will ask for a gas tax increase.

Whether Mr. Schaefer supports such an increase will depend on the Department of Transportation's needs and legislators' priorities, said Paul Schurick, the governor's press secretary.

And until those talks take place, he said, the governor will hold off on calling for an increase.

House Speaker R. Clayton Mitchell Jr., D-Kent, said he expected the Transportation Department to request an increase of between 5 cents and 15 cents per gallon.

And Delegate Charles J. Ryan, D-Prince George's, chairman of the House Appropriations Committee, said the request likely will include a range of projects and the amount of tax increases needed to fund them.

The Transportation Department has drawn up a "wish list" of projects that would need $3.5 billion in funding, Mr. Iannucci said.

Every dime's worth of gas tax would raise just over $1 billion in revenue, he said.

Bush, Congress reach pact on stopgap measure

By Peter Osterlund
Washington Bureau of The Sun

WASHINGTON — The Senate, averting the threat of a broad shutdown of government operations today, moved toward passage last night of an anxiously awaited, five-year $500 billion deficit reduction plan.

The Senate passed by voice vote a stopgap spending bill providing the federal government with funds to operate through Oct. 19, during which time lawmakers are to craft the legislation needed to implement the budget plan.

The spending bill was sent to the House, which passed a slightly different version early yesterday, and subsequent votes in the two chambers were expected late into the night. But President Bush indicated that he would sign the final legislation, meaning that the nation's 2.4 million federal workers would be able to return to work today and that the government's normal weekday functions would resume on schedule.

As adopted by the House early yesterday on a 250-164 vote, the budget plan to have been endorsed by the Senate calls for higher taxes than the now-defunct budget agreement unveiled eight days ago by Mr. Bush and congressional leaders but rejected Thursday. The new, vaguely worded document also promised a smaller reduction in benefits than the original budget pact and altogether blurred the issue of what kinds of taxes are to be raised.

That vagueness — the plan's authors call it "flexibility" — is intended to blunt the opposition that sank the first deficit-reduction agreement. The new budget outline demands no specific spending cuts and tax increases — elements that led House members to reject the earlier pact — and defers decisions on these items to the coming days.

"It gives the committee process the authority it needs to work out the specifics," said Senate Budget Committee Chairman Jim Sasser, D-Tenn. "It reduces the deficit by historic proportions over the next five years and gives Congress flexibility on issues and problems that have troubled members and constituents over the last few days."

Not all of the original budget agreement's supporters were so pleased with the tactic.

"I'm not going to sign on to this fill-in-the-blanks package," said Sen. Phil Gramm, R-Texas, who supported and helped write the first package. "This is the original pig-in-a-poke."

Before the spending agreement was reached, hundreds of thousands of federal workers had faced the threat of forced furloughs today. After the House rejected the bipartisan budget agreement early Friday morning, President Bush had vetoed an earlier stopgap bill providing the government with funds to keep it operating for an extra week.

That act shuttered federal weekend activities nationwide, and the president said he would not sign any stopgap legislation until Congress agreed on a comprehensive plan to shrink the deficit. Congressional leaders thus labored furiously through the weekend to come up with a plan, mindful of the full-fledged disruption of federal services that would occur today if they failed to meet the president's test.

Senate Republicans and Democrats huddled throughout the day yesterday, seeking to cobble together a bipartisan coalition in support of the plan and hammering out the agreement on the stopgap bill.

After it approved the budget plan, the House voted 305-105 to provide enough money for the government to function normally through Oct. 19 — the date by which lawmakers would like to finish all budget business and adjourn for the year. The Senate's version required a new vote in the House.

The budget plan itself, which would reduce this year's deficit by $40.1 billion, was the subject of relatively little back-room bargaining, a reflection of the fact that the document could not be amended on the Senate floor and that most lawmakers assumed its passage was certain.

Congressional Democratic leaders laundered the plan of the specifics contained in the original budget agreement that had compelled a majority from both Democratic and Republican ranks of the House to reject it Friday. Nowhere to be found in the new proposal was the $60 billion Medicare reductions called for by the first agreement. Provisions calling for higher taxes on gasoline, home-heating oil, alcohol, tobacco and other items were also deleted.

Instead, lawmakers were told that the legislation implementing the budget agreement would pare Medicare savings to $42 billion and that the Medicare deductible paid by recipients for doctors' costs would rise from $75 to $100, instead of to $150 as in the old package.

Similarly, new taxes over five years could total $20 billion more than the $135 billion in the old package, although all decisions about specific spending reductions and tax increases were to be left to committees, which are to produce legislation implementing the plan in time for passage by Oct. 19.

Lawmakers of both parties believe that the new budget plan, when implemented, will also result in a reduction in the capital gains tax rate in exchange for increased taxes levied on the highest income earners.

End of sweetheart period marked by Bush defeats

By Karen Hosler
Washington Bureau of The Sun

WASHINGTON — October looks like the cruelest month so far for George Bush, who in eight short days has watched his sweetheart presidency start to sour.

September's hero of the Rose Garden, who proclaimed victory over the budget deficit after a summer-long struggle with congressional Democrats, was immediately buffeted by the most humiliating defeats of his 20 months in office.

He put his popularity and prestige on the line in a televised appeal for support on the package of tax increases and benefit cuts he said were necessary for the long-term good — and the American people responded by telling their congressmen to vote no.

He orchestrated an extraordinary round-the-clock lobbying effort in the House that involved personal appeals by his three Republican predecessors — only to see his budget package crushed in an attack led by members of his own party.

And with Congress continuing to wrangle over the details of a substitute budget proposal, it's possible that Mr. Bush may not even accomplish his bottom-line goal of significant deficit reduction.

"Three weeks ago it also looked like the Persian Gulf situation was going to be solved quickly, and that's not going too well either," observed the Democratic pollster Peter D. Hart. "October represents a dicey month for George Bush. It's hard to know how it plays out."

A Times Mirror poll taken over the weekend suggests the budget fracas already has taken its toll on Mr. Bush's historically high job approval ratings.

In a nationwide telephone survey of 1,213 adults contacted Oct. 4 through Oct. 7, 55 percent said they approved of the way Mr. Bush is doing his job — a 12 percentage point drop from the 68 percent approval rating he garnered in a similar survey taken in mid-September.

While part of the decline may be a leveling off from a 76 percent high in August, which Mr. Bush drew in the wake of his decision to send troops to keep the Iraqi leader Saddam Hussein in check, the budget deal was clearly a factor.

Of those surveyed, 41 percent said they opposed the budget package, compared with 35 percent who said it should be passed.

Opposition was particularly strong among those over 50, who may have been influenced by the proposal for large cuts in Medicare benefits.

But the White House says Mr. Bush accepted all along that he was taking a calculated risk in hopes that the goal of a balanced budged would justify the rough ride along the way.

"We knew that this was going to happen, that it was going to be mean and ugly and cost percentage points at the polls," a White House official said. "But the president's overriding interest was in getting a deficit agreement."

Since last spring, when the anemic economy started sending out distress signals, aides say Mr. Bush has been determined to do whatever is necessary to avoid a recession. His prospects for re-election in 1992 are believed to be closely tied to the state of the U.S. economy, and Mr. Bush's ability to address the nation's problems — both foreign and domestic — has been increasingly hampered by empty pockets.

In the process of reaching a budget deal with congressional leaders, the president made several concessions, including yielding on the "no new taxes" pledge that had been the theme song of his 1988 presidential campaign.

The problem came in trying to sell a package full of easy and obvious targets to hate — like the proposed tax increases on gasoline and home heating oil, as well as the substantial cuts in benefits to the elderly.

Some critics say Mr. Bush didn't start early enough or explain his cause well enough in his television address. But A. James Reichley, an expert on the presidency at the Brookings Institution, observed, "It's hard to expect any president to be able to persuade voters to rush to their phones asking that the taxes be raised."

Mr. Bush's television address was given at the behest of both Democratic and Republican lawmakers, who pleaded with him to give them political cover.

Some vote-counters argue that he did succeed in picking up more support than might otherwise have been there, but the lopsided vote against the package gave the strong impression of a president rejected.

Most hurtful to Mr. Bush in the institutional sense was that the rebellion was led by the conservative wing of his own party, in particular House Minority Whip Newt Gingrich, D-Ga.

"The White House vastly overestimated the loyalty of some of their troops," said a longtime GOP insider. He noted that long-simmering resentments, as well as the perception of new affronts to congressmen by White House Chief of Staff John H. Sununu and Budget Director Richard G. Darman contributed to the explosion.

But others contend that to some degree the problem was simply that the task was so difficult.

"Darman and Sununu are being made scapegoats by people who are upset because they finally have to make choices they cannot avoid," an administration official observed.

Mr. Bush's decision to let the government shut down in the absence of a budget agreement also has been attacked, with some Democratic critics labeling it "childish" and "petulant." But backers of the president say it kept the pressure on.

Bentley, Dyson fault Medicare, tax bite

By Tom Bowman
Washington Bureau of The Sun

WASHINGTON — The revised budget agreement that was passed by the House and was pending in the Senate yesterday will cost state government less money, but some members of the Maryland congressional delegation complained that the accord is still too burdensome on middle-class taxpayers and Medicare beneficiaries.

"We're adding taxes but we're not cutting spending," said Representative Helen Delich Bentley, R-Md.-2nd, who joined Representative Roy P. Dyson, D-Md.-1st, as the only members of the Maryland delegation to vote against the revised $500 billion budget package early yesterday morning.

The remaining six members of the Maryland House delegation backed the proposal, including Representative Kweisi Mfume, D-Md.-7th. Mr. Mfume voted against the earlier budget accord — as did Representatives Bentley and Dyson — citing the package's increases in Medicare premiums.

Before the House voted, Mr. Mfume said he found the reduced Medicare increases "helpful" but the West Baltimore Democrat said he was still concerned about how the new taxes would be achieved.

The cut in the Medicare premium increases was designed to attract liberal Democrats like Mr. Mfume. Conservatives Republicans and Democrats — such as Mrs. Bentley and Mr. Dyson — still would not accept the revised package.

The state, which has to pick up the rising Medicare premiums for the poor elderly, would not have to spend as much money under the new agreement, said Monica M. Healy, director of the state's Washington office. "There still will be a cost to the state, but the cost will not be as high," said Ms. Healy.

Under the initial agreement, the state estimated it would have to bear an additional $2 million for the first year of the five-year pact in costs for the poor elderly as well as another $30 million over five years for those elderly above the poverty level.

Ms. Healy said it was uncertain whether the new pact would require states to help defray the premium costs for those elderly above the poverty line.

Meanwhile, Sens. Paul S. Sarbanes, D-Md., and Barbara A. Mikulski, D-Md., both supported the new accord. But Ms. Mikulski said she would like to see the new Medicare premiums trimmed even more, through defense cuts and higher income taxes for the wealthy.

"I am here to save Medicare, not only for my mom but for all the moms," declared Ms. Mikulski during a speech on the Senate floor yesterday afternoon.

The Maryland senator proposed the top tax rate of 33 percent for those making over $150,000 — who now pay 28 percent — and a 2 percent surcharge for those earning more than $500,000 each year, whom she described as "captains of industry" and "Wall Street go-go boys" as well as entertainment and sports figures.

"The sports figures in our society ought to step up to the plate and pay their fair share," she said. Her office estimated that these two income tax increases could generate as much as $77 billion over five years.

Additional money also can be saved by scrapping defense programs such as the MX missile and "star wars" — the Strategic Defense Initiative, said Ms. Mikulski. She suggested additional cuts in domestic spending and noted that her Appropriations subcommittee cut $300 million from the National Aeronautics and Space Administration budget for the Bush administration's "Buck Rogers sci-fi project" that would send astronauts to the moon and then to Mars by the year 2040.

At the same time, Ms. Healy said the new package also does not appear to include a provision that would have changed the highway allocation formula. The change would have decreased federal money for Maryland. "We have a better chance of making sure it's not in the final package," she said.

Finally, the 12-cent rise in the gasoline tax — part of the original proposal — would have cost the state an estimated $89 million in revenue over the next five years because people would drive less, she said. Now sources speculate that any gas tax could be less under a new budget accord.

Ms. Healy said state officials hope that some portion of any gas tax be set aside for transportation programs. Currently the tax increase would be used to offset the deficit.

Congress' tough choices have only been put off

By Dan Fesperman
Washington Bureau of The Sun

WASHINGTON — If all goes as planned, federal workers will be back on the job today, and national museums and monuments will reopen. But that doesn't mean the nation's budget crisis will be over. It has only been postponed, with the hardest decisions yet to be made by a reluctant Congress.

In other words, experts say, in about two weeks expect to see a repeat of the doomsday deadlines and threatened cutbacks that led up to last weekend, along with plenty of special-interest squabbling over who will pay the higher taxes sure to become part of the final budget.

Congress has set an Oct. 19 deadline for itself, but even that may not be the end of it.

"We'll see a lot of cliff-hanging, and eventually something will happen and it won't please anybody," predicts James L. Sundquist, a senior fellow emeritus of the Brookings Institution. "I don't think we'll see another 'shutdown,' but I wouldn't rule out the possibility that Congress will wait until after the election [Nov. 6] to come back and do these dirty deeds."

That's not to say that members of Congress have done nothing.

For one thing, they've changed the cast of key players. Before it was a group of five congressional leaders and three White House officials who met privately to conclude a much-heralded budget summit. They emerged later than planned with an agreement to cut military spending, increase Medicare premiums and raise taxes on gasoline, heating oil, cigarettes, alcoholic beverages and high-priced cars, boats, furs and jewelry.

But when a majority of House Republicans bolted from their leaders, a majority of Democrats joined the stampede, and the plan died last Friday amid the rebellious jeering of a 254-179 vote on the House floor.

President Bush then vetoed a resolution that would have kept the government going while Congress regrouped, saying he wanted to see progress toward a new agreement first. That led to the shutdown of all but essential government services over the Columbus Day weekend.

The work now will be handled by the usual committee system in Congress, which means that the tax-writing House Ways and Means Committee and its wheeler-dealer chairman, Representative Dan Rostenkowski, D-Ill., will lead the way.

The committee begins its work with a goal of raising as much new revenue as the defeated plan. But the specifics of the plan defeated last week have been cast aside, leaving those decisions up to the committee.

"They've put off the hard decisions, sure enough," Mr. Sundquist says of Congress. "And they're going to have a tough time."

As the customary seat of so much financial power, Ways and Means members have long been the objects of intense and rewarding attention from armies of lobbyists. During their re-election campaigns in 1988, for example, the committee's 36 members got an average of $34,000 apiece from insurance industry political action committees, nearly $6,000 apiece from beer, wine and liquor groups, and more than $11,000 apiece from commodities and securities traders, according to figures compiled by the non-partisan Center for Responsive Politics. No other committee did better in any of those categories.

And after being frustrated by the secretive workings of the earlier budget summit, which virtually shut special-interest representatives out of the process, lobbyists are now swarming Ways and Means with renewed vigor.

None of this will make the waiting any easier for the hundreds of thousands of federal employees who are still subject to layoffs or a shutdown if talks again fall apart.

"It's just a terrible situation for federal employees," says John N. Sturdivant, president of the American Federation of Government Employees.

"We've been on tenterhooks since August, since they first started talking about furloughs. . . . They've basically fudged the main issues of entitlement and taxes, and ultimately they're going to have to deal with them. I hope we don't have to go through this again in two weeks, but it's a good possibility."

THE CINCINNATI ENQUIRER
OCTOBER 6, 1990

Luken, Blackwell say no

BY ANNE WILLETTE
Gannett News Service

Both candidates for Ohio's First Congressional District say they would have voted against the budget agreement rejected by the House early Friday.

Republican J. Kenneth Blackwell and Democrat Charles Luken characterized the agreement as an attempt to cut the federal deficit by taxing the poor and middle class.

"The federal government has to be more serious about cutting things like farm-subsidy programs and other waste in the government before we get to the question of raising taxes on working families," Luken said. "My attitude is no package is better than the one they had last night."

It would have had "a tremendous impact on folks who are on fixed incomes," Blackwell said. "The Republican platform and the Republican thrust was one of no new taxes. The promise was to maintain the dignity of the elderly and make sure that the benefits that they have paid the price for are left intact," he said.

Area's congressmen divided on budget bill

BY ROSE ROCCISANO
Gannett News Service
IRENE WRIGHT
The Cincinnati Enquirer

Cincinnati-area congressmen were on opposite sides when it came time to vote early Friday on the budget plan.

Rep. Jim Bunning, R-Ky., voted against the resolution. "This budget proposal is based on a faulty premise — the premise that we have a deficit because American taxpayers don't pay enough taxes. We have a deficit because Congress spends too much," he said.

Rep. Thomas Luken, D-Cincinnati, voted in favor. "For the past 10 years we have followed a policy of borrow and spend. We were asked to cut back and tax, he said.

The House voted 254-179 against the budget package.

Here's how other area congressmen voted:

■ Rep. Bob McEwen, R-Hillsboro, voted against. The congressman was busy with other budget matters Friday and could not be reached for comment.

■ Rep. Donald E. "Buz" Lukens, R-Middletown, voted in favor. He was voting against cuts.

Lukens said for his Eighth Congressional district in Butler County the cuts could mean loans reduced or eliminated for farmers, funds lowered in 25% of the cases of out-patient veterans, and student grants reduced by 35%.

■ Rep. Willis Gradison, R-Cincinnati, voted yes. Ron Boster, Gradison's chief of staff, said the congressman had wanted to keep options open and suggest changes.

THE CINCINNATI ENQUIRER

FRIDAY, OCTOBER 5, 1990

Genuine deficit compromise

Germond & Witcover

WASHINGTON: The howls of outrage from right and left are the clearest evidence imaginable that the budget agreement between the White House and congressional leaders is both a genuine compromise and an attack on the deficit problem that is more than gimmicks that nibble around the edges. The fate of the compromise in Congress now represents a significant test of the political system.

It may be argued that there are serious flaws in the package. A strong case can be made that the defense budget could be cut more deeply than it provides. It remains hard to defend a system of income-tax rates that tax the successful at 33% and the truly affluent at 28%. The increases in excise taxes are inherently regressive.

The package alone will not solve the deficit problem. Nor will it prevent the economy from slipping into recession.

But the operative point is that the negotiators behaved as serious people on both sides. Anyone who has examined the deficit problem as it has grown in severity over the last five years has recognized that any solution, even a partial one, would involve real pain for some taxpayers and beneficiaries of social services. This one involves real pain, not just accounting gimmicks and one-time devices.

The climate in which Congress now must address the compromise is politically difficult. An election is a month away, so incumbents have a totally understandable fear that their challengers — with no responsibility of their own to vote — will attack them on such things as the 12¢ increase in gasoline taxes and reductions in Medicare benefits accompanied by increases in Medicare taxes.

But the context in which the decisions will be made also is colored by the pervasive suspicion in the electorate that the politicians are both unresponsive and incapable of confronting serious problems in a serious way. That suspicion is the underlying basis of the strong sentiment among the voters for limitations on the number of terms state legislators and congressmen can serve. So the critical question is whether Congress can afford not to approve the package or some reasonable facsimile of it in the next three weeks.

The political equities at this point are a mixed bag. For President Bush, there is some obvious value in being seen as a leader willing to confront and deal with the most complex issue on the national agenda. On the other hand, the president has been obliged to renege on his promise of "no new taxes" and to abandon his insistence on reductions in capital-gains taxes.

But the Democrats have been forced to yield, as well, on a basic element of their original plan — some change in the income-tax rates to make them more progressive.

Depending on how the issue plays out on Capitol Hill, the agreement may take the deficit issue effectively out of the 1990 campaign in the sense that President Bush should be precluded from attacks on the Democratic congressional leadership on the spending question while the Democrats are similarly precluded from stinging him on the tax issue. He has swallowed some taxes; they have swallowed some real spending cuts.

But the task for both Bush and the Democratic leaders is still formidable. The president has to deliver half the Republicans in both houses of Congress as his part of the agreement, and that may be difficult in the House, where the minority whip, Rep. Newt Gingrich, is not above playing dog in the manger. The Democrats may have a similar problem with both House members and senators on the far left of the party, particularly on the Medicare plan. And there will be regional reactions that cross party lines — for example, protests from western delegations that the gasoline-tax increases are particularly burdensome to those who must routinely drive much longer distances than are required in the Northeast.

The bottom line, then, is that the compromise is only a first step in what promises to be an awkward negotiation to pass legislation to accomplish its purposes. But it is also an opportunity for the incumbents in Congress to demonstrate that, contrary to the popular opinion at the moment, they are capable of doing their jobs.

Jack Germond and Jules Witcover are Washington-based, nationally syndicated columnists.

CHATTANOOGA NEWS-FREE PRESS

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1936-1990

FRANK McDONALD
Chairman of the Board
and President

LEE ANDERSON
Publisher
and Editor

Friday, October 5, 1990

Even Congress Can't Stand It

For a long time, the American people have been showing an increasing lack of confidence in Congress. And now, by its vote to turn down its leaders' own so-called "deficit reduction" plan, the House of Representatives has said in effect that it has lost confidence in itself.

The rejected plan is bad and so are the alternatives — all because Congress is irresponsible in buying votes by spending more than is coming in and passing the difference on to present and future generations to deal with somehow — never saying how.

Conservatives and liberals, Republicans and Democrats, joined forces to doom the "compromise" plan that Democratic and Republican congressional leaders had put together at the urging of President George Bush. The rejection vote was 254 to 179, despite the lobbying and begging of the president and House leaders to take the package as an admitted bad deal but "the best we can do at this time."

The whole thing was a fraud perpetrated to try to cover up gross irresponsibility now and over many past years.

The stated purpose was to "cut the deficit." The package was supposed to reduce red ink over five years by $500 billion. But even if approved and carried out, the plan would still have allowed a new $1 trillion in deficits to be added to the current $3.2 trillion national debt.

The plan called for raising taxes ("No new taxes" was forgotten) by $134 billion over five years (gasoline, cigarettes, beer, liquor, wine and fees being the main sources), along with $119 billion in benefit cuts, among other things.

But when the scheme was revealed, citizens across the country began to condemn the tax levies and to scream against the proposed benefit cuts, particularly those involving Medicare. House members, all of them up for re-election Nov. 6, were spooked. They didn't want to go home and defend a vote for such a package that imposed pain and yet did not really address the overall problem of governmental overspending.

So the package failed.

Congress deserves blame for the whole thing — but not alone. Remember, we got into this mess because members of Congress found they could get elected by promising us voters costly handouts and favors without taxing us to pay for them. We, the people, sold out. Congress did what was financially wrong to appeal to us.

Now what? There must be cuts in spending and we, the people, must pay for whatever spending continues. And that will still leave our children and our grandchildren mortgaged over their heads for goodies we have received and left them to pay for. Is that the kind of heritage we want to leave our loved ones?

As bad as the rejected deal appeared to be, it was probably worse. The reason is that it was only an outline of taxes and cuts. Each individual item still would have had to be taken up by congressional committees for separate decisions. And there was every reason to believe meddling with the bad package to do special favors would have made it even more unsound.

But what now?

Will there be some quick juggling to make up another plan?

Will the president and congressional leaders let the government grind to a halt so furloughing federal employees and cutting federal services will create chaos to force the people to make Congress devise some new makeshift scheme?

Will the Gramm-Rudman-Hollings deficit-reduction law force across-the-board cuts in defense and domestic programs (Social Security and some entitlements being exempted) to bring the deficit down?

Or what?

We are in a situation of serious crisis — brought about by many years of Congress' failure to meet its responsibilities, as it has bought our votes by irresponsible spending.

Whatever happens won't be good. The question is just how bad a harvest we will have from the seeds of financial folly that have been planted and now have matured.

Cuts? (Not Really)

As the nation watches and wonders about what comes next in the budget-deficit crisis, one thing should be made clear. The rejected plan was advertised as providing for "cuts" in spending. That is not true.

Under the plan, spending would still *rise!* The cuts were only in the *growth* of spending.

The proposed 1991 budget — with the "cuts" — would have been $55 billion *more* than the 1990 budget.

The rejected plan was supposed to run five years. But the "cuts" were not real because the proposed 1995 spending would have totaled $222 billion *more* than 1990 spending.

After the supposed $1.3 billion "cut" in farm handouts, spending would have been $700 million *higher.*

After the supposed $4.6 billion Medicare "cut," spending would have been $4.4 billion *higher.*

The whole deal is a fraud.

The best solution is to freeze all spending — and then cut or eliminate every function and department not essential for national security, basic governmental operations, or life, food and shelter for our people.

Rocky Mountain News

Back to the drawing board

THE ISSUE:
The new budget 'solution' seeks supporters in Congress.

OUR VIEW:
Only the insensate would kiss this frog

The tipoff might have been when President Bush warned that a recession would result should Congress vote down his tax-boosting budget plan. As columnist Tom Wicker (by no means a friend of small government) pointed out on national television a few weeks ago, raising taxes is not the way to ward off a looming recession. Instead, it is somewhat similar to using blood as a shark repellant.

That's not the only reason to suspect that this was a bum deal, despite its bipartisan embrace. A cursory look at the supposed "cuts" in domestic spending finds that they have a very high smoke content. Some $4 billion of the $12.1 billion in "cuts" are actually new user fees, hiding behind the name of "negative outlays." Only in Washington and Orwell would a fee, or tax, be called a cut. Another billion in "cuts" would replace a lump-sum payment to civil-service employees with an annuity. This is so phony as to be beyond the scope of euphemism.

Meanwhile, spending "caps" were stitched with plenty of holes in them. Revisions are possible throughout the life of the agreement if the president and congressional leaders seek them; those caps can always be waived by a three-fifths vote in both houses. You know what that means. As former budget director James Miller pointed out the other day, "the taxes raised by the agreement would be used to finance spending, not reduce the deficit."

The fact is, the budget agreement itself acknowledges this intent, according to Miller. It stipulates a 7.1% rise in revenue for 1991 and a 8.6% rise in spending.

What Miller is saying — and he isn't alone — is that this entire package is a sham. To which we respond: History repeats itself!

We're thinking, specifically, of a similar situation a few years back. Ronald Reagan, on the ropes for several of his missteps, agreed to a grand compromise in which Congress was to cut $2 of spending for every $1 it took in in new taxes. Reagan, who really did trust people more than the evidence would allow, seems to have believed Congress would keep its word. He was, to be sure, eternally naive.

When the final tally was taken, Congress had indeed raised the taxes, but spending also rose by $1.50 for every $1 taxed. This is one of those diversions that somehow never earned itself a congressional inquiry.

President Bush and the congressional leadership say this package is the best they could come up with, and we must believe that they're telling the truth, at least for argument's sake. But the fact that this is the best they could come up with is no reason to buy it. Our advice to Congress: Don't kiss this frog. Put it in the blender and try again.

San Francisco Chronicle
THE VOICE OF THE WEST
THURSDAY, OCTOBER 4, 1990

EDITORIALS

Deficit Package Merits Approval

PRESIDENT BUSH laid it on the line in his speech from the Oval Office: "This deficit agreement is tough, and so are the times.

"This is the first time in my presidency that I've made an appeal like this to you the American people. With your help, we can put this budget crisis behind us and face the challenges that lie ahead."

It is tough. Both sides — Democratic and Republican — have had to make concessions to face up to the exigencies of the moment. The president has had to abandon his long-cherished and basically constructive proposal for reducing the tax on capital gains. And, while there will be no increase in income taxes, the T-word has not been completely avoided.

We have got to put this budget crisis behind us

The Democrats would have preferred a program that bit more deeply into the wealthy and carried less potential burden for the elderly.

But sacrifice — from politician and citizen alike — is the only way we are going to be able to get at the deficit cancer that eats at our financial vitals. The urgency of the situation is quite clear. The latest Gallup Poll, for instance, shows a sharp increase in worries among Americans about the state of the economy.

THIS IS AN agreement intended to give small businesses a shot in the arm, and, as the president said, such enterprises are "America's best job creators." It is also meant to lower interest rates — meaning savings for consumers and more investment to produce more jobs.

Congress should move with alacrity to approve what is a sound and absolutely vital deficit reduction package.

THURSDAY, OCTOBER 4, 1990

Providence Journal-Bulletin

A bad deal that ignores a weakening economy

PRESIDENT Bush is trying to sell the public and recalcitrant Republicans on a budget agreement that changed economic circumstances have already rendered obsolete.

Moreover, Bush's budget director, Richard Darman, knows it.

The government claims the budget deal will reduce federal red ink during 1991-1995 by $500 billion. But this claim is based on optimistic economic assumptions the government already has abandoned.

The government's revised economic assumptions take into account slower economic growth in 1990 and 1991 than had been projected. The revision shows that all but $8 billion of the additional revenues from higher taxes are offset by revenue declines caused by slower economic growth.

PAUL CRAIG ROBERTS

The same slowdown knocks about $75 billion off the claimed spending reductions for the five-year period. The net effect is that 40 percent of the claimed deficit reduction has already been lost to changed economic conditions.

Moreover, this revision does not take recession into account or the negative economic effects of higher taxes.

Only a bad budget agreement could lose 40 percent of its value before it is passed by Congress and signed by Bush.

The budget agreement is a bad deal because it ignores the fact that the economy is weakening. A weak economy needs the support of a pro-growth budget. It doesn't need new taxes and impossible-to-believe promises of spending cuts.

Tables in the budget agreement show the federal government spending fewer dollars in 1993, 1994 and 1995 than it spends in 1992. This is unrealistic, to say the least.

For example, during the first 11 months of the 1990 fiscal year (which began on Oct. 1, 1989), the federal government spent $133 billion more than it spent in 1989. In 1989 it spent $78 billion more than in 1988. Even in 1987 — the only year that President Reagan got a tough budget passed — federal spending increased $13 billion over the previous year.

Yet the new budget agreement promises that in 1994 the government will spend $50 billion less than it spends in 1992. No one can believe that.

Supposedly the budget negotiators came to an agreement in order to avoid a new budget freeze in 1991 from the Gramm-Rudman sequester law. But the budget deal seems far more severe than the threat of the one-year freeze that spurred them to action. If the outlay figures are to be believed, it amounts to a five-year freeze — with spending in 1995 less than $25 billion above the 1991 budget.

In contrast, in 1991 federal spending will be $380 billion higher than in 1987. If federal spending is actually going to peak in nominal dollar terms in 1992 and then fall below this level, the deficit would disappear and there is absolutely no reason for any tax increase.

Of course, spending will not behave in this way, and the low outlay numbers may be the result of tricks such as offsetting federal spending with revenues raised from the sale of S&L assets.

Bush's refusal to stand up to Congress is allowing hardened incumbents to wreck the economy with a crackpot budget agreement. When voters find themselves with higher taxes, higher unemployment and higher deficits, they are going to blame Bush, who will become a one-term president who lost the campaign to Congress.

Paul Craig Roberts, the William E. Simon professor of political economy at the Center for Strategic & International Studies at Georgetown University, is a former assistant secretary of the Treasury.

The Columbus Dispatch

Thursday
OCTOBER 4, 1990

The Columbus Dispatch

An Independent Newspaper Serving Ohio Since July 1, 1871

JOHN F. WOLFE, Publisher, President and CEO
ROBERT B. SMITH, Editor

EDITORIALS

Pass it

Bush, Capitol Hill leaders deliver budget

President Bush is right in calling the budget deal an unusual, almost unique, instance of bipartisan statesmanship. The agreement represents a good-faith attempt by the administration and congressional negotiators to meet their responsibilities in deficit reduction by decreasing spending and increasing revenues.

Senate Majority Leader George Mitchell, D-Maine, and House Speaker Thomas Foley, D-Wash., have given their full support to the compromise and Congress should set aside partisan politics and approve the agreement.

It would be easy to nitpick this compromise agreement to death, and no doubt some lawmakers in both parties will do this for their own short-term political gain.

But in tough, extended negotiating sessions, leading figures from the Democratic and Republican parties hammered together a package of revenue increases and program and spending cuts that will trim the projected deficit by half a trillion dollars over five years.

That is, the deficit will be trimmed if Congress enacts all the reductions in the package. That *if* is the one unknown factor.

Is the package fair? It is as fair as any that divergent political groups could come up with.

The deficit is everyone's problem and this approach allows everyone to participate in the solution. An earnest attempt was made to spread the pain broadly.

This may not be a perfect budget agreement, but politics is the art of the possible, not the perfect.

The negotiators should be given credit for not trying to push difficult budget decisions, which are bound to annoy many voters, past the November elections. That took a kind of courage and honesty rarely shown in Washington.

While it is not a complete or perfect solution, it is a valiant attempt to come to grips with the budget problem that has been with the nation for decades.

At this point it would be irresponsible for Congress to vote down this budget plan. To do that, and not have a viable alternative, would certainly be a severe blow to the nation's economy, deepening the current downturn and the uncertainty that currently exists.

It should be noted that Wall Street reacted favorably to the budget deal, signaling it was the first good economic news traders had seen in some time.

Indeed, Bush sees as the budget agreement's chief benefit a more vigorous economy.

All segments of the population will share in the consequences of this agreement. Though older people may complain about cuts in medical benefits, negotiators nevertheless protected Social Security payments.

Some regions of the country may complain that some parts of the package hurt them worse than other areas, but the approach to a budget compromise had to be national, not regional.

It was difficult for Bush to renege on his "no new taxes" pledge. But he was pragmatic in the way he compromised at the eleventh-hour to achieve a plan he rightly characterizes as balanced and fair.

Some argue there's no need to raise revenues if Congress would just reduce government spending.

While fat will remain in the federal budget, this legislation will cut spending by more than $380 billion, three times the revenue increases.

The budget agreement is an honest, realistic attempt to face up to budgetary responsibilities and is better than any other solution that has been proposed.

Its endorsement by the administration and congressional leaders of varying political views indicates that it spreads the burden as fairly as possible.

Congress should approve it expeditiously.

Budget deficit agreement

Over five years, in billions

Program cuts	
Defense and other domestic programs	$182.4
Mandatory programs	
Medicare	60.0
Agriculture	13.0
Civil service retirement	8.1
Unemploy. insurance	4.6
FHA	2.5
Student loan	2.0
Gov't purchasing	1.6
Postal service	2.0
Railroad pensions	0.2
Other	25.0
Subtotal	**$301.4**
New taxes	
Gas (10¢ a gal. by 1991)	$45.0
Petroleum	11.8
Luxury goods (10%)	1.9
Cigarettes (8¢ by 1993)	5.9
Beer, wine, alcohol	10.0
Ozone depletion chemicals	0.5
Airport head tax	11.8
State, local Medicare	5.2
Lower corporate interest deductions	3.9
Limit itemized deductions, incomes over $100,000	18.0
Up Medicare wage cap	13.0
State, local worker Social Security tax	11.7
Other	24.2
Less tax breaks, other	-29.1
Subtotal	**133.8**
Interest savings	
Interest savings	**$64.8**
Total cuts:	**$500 billion**

Source: Office of Management and Budget

Dispatch/KRTN graphic

THURSDAY, OCTOBER 4, 1990

THE PLAIN DEALER

Our 149th Year

THOMAS VAIL
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Publisher

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Editor

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Business Manager

No way out on deficit reduction

The gun is at Washington's head: There is no time left to hesitate. Flawed as it is, this week's bipartisan budget package of tax increases and spending cuts must be approved.

President Bush put his credibility on the line Tuesday night with his televised plea for approval of the last-minute federal deficit-reduction package. The Democratic leadership of Congress has risked its stature, too. When the House votes today, its members — many of whom have spent 10 years denouncing Washington's neglect of the deficit — have no rational choice but to follow their leaders.

The budget breakdown has left the nation with an awful dilemma: Either accept this deficit-reduction patchwork or await the draconian cuts under the Gramm-Rudman-Hollings law. Yet pre-election gamesmanship may subvert an agreement, inviting the Gramm-Rudman scythe.

The showdown will occur in the House of Representatives, when as many as half of the Republicans may defy the White House and vote against the package. Unless the majority of the GOP stands with the president, enough Democrats will vote against the bipartisan accord to scuttle it. The battle will be a both-ends-against-the-middle squeeze — and voters must hope that the center can hold firm.

No incumbent enjoys giving voters bad news, especially just five weeks before Election Day. House members are nervous about endorsing any anti-deficit agreement, however lame, that trims some benefits and raises some taxes before facing the voters back home. But making difficult decisions is precisely why the voters sent them to Washington in the first place.

This deficit compromise is surely not perfect. Its failure to "pop the bubble" — the tax-bracket anomaly that coddles the very wealthiest taxpayers — is deplorable. Its over-reliance on excise-tax increases, instead of income-tax increases, is misguided. Its plans for trimming Medicare are badly designed. To some extent, these flaws justify Democrats' lament that they were outmaneuvered by the White House negotiators. Nonetheless, some Republican die-hards feel similarly betrayed by Bush's grudging reversal of his "No new taxes" pledge.

This deficit deal may be the best tradeoff that can be reached, given the imminent Gramm-Rudman sequester. It is encouraging to see several Cleveland-area lawmakers, including Reps. Dennis Eckart of Mentor and Donald Pease of Oberlin, trying to make bipartisanship succeed.

Some House members, philosophically torn, hope for an eleventh-hour accommodation. If they are given the chance to vote on an alternate formula for implementing the inevitable cuts in Medicare, it may help overcome the reasonable misgivings of Rep. Edward F. Feighan of Lakewood. The painful cuts in human-service programs understandably alarm Reps. Mary Rose Oakar and Louis Stokes, both of Cleveland. Yet Democratic dissenters are taking a big gamble by hoping that a better deal might emerge after Gramm-Rudman has temporarily slashed federal spending.

It is difficult to endorse such a flawed pact, concocted at the last minute by desperate negotiators. Yet there is no rational alternative.

THE CINCINNATI ENQUIRER

A Gannett Newspaper

The deficit

Congress must satisfy itself about the budget compromise

Like most compromises, the budget plan hammered out by congressional and White House negotiators is thoroughly acceptable to no one. That's why neither Democrats nor Republicans on Capitol Hill are likely to swallow the recommendations of the budget summit without a whimper.

The fact is that the budget conferees professed to be concerned only about the budget deficit and the urgency of removing a cloud over the nation's economic future by trimming it. But in an unspoken sense they were really concerned about the philosophy that is to guide the federal government for the next few years, and about who — the legislative branch or the executive — is going to be in charge.

On the surface, congressional Democrats have agreed to cuts in some popular domestic programs, which they were reluctant to do. And the president has agreed to higher taxes for cigarettes, gasoline, alcohol and some luxury items; the president has also abandoned his longstanding appeal for a reduction in the rate for taxing capital gains.

Democrats have insisted all along that a realistic attack on the deficit required additional revenue. Mr. Bush has determined to focus on policies that will generate economic growth. He believes the formula agreed upon last weekend will do so.

Some of his party stalwarts are not so certain. They think that the nation needs anything but higher taxes when the economy is tottering on the brink of a recession, and orthodox economic principles suggest they are right.

But orthodox economic principles perhaps do not apply when the country labors under the weight of crushing budget deficits.

Within hours of the the agreement's unveiling, it was clear that Congress has some dissenters who will insist on being heard. They will take a long, hard look at what the compromisers are proposing. Most Americans will share their determination to find out, if they can, whether the package presented to the nation last weekend will do all that its sponsors say it will do. Nothing is more important than trimming the deficit; nothing could be more harmful than using the prospect of new revenue to avoid the hard choices.

Dayton Daily News Tues., Oct. 2, 1990

Dayton Daily News

Gramm-Rudman doesn't cut debt

But things might be even worse without its threats

A few years ago Congress passed the Gramm-Rudman deficit-reduction law. The law held that the deficit would be reduced every year by a specified amount, until it was finally eliminated. If an annual target was not met, automatic cuts would go into place. Those cuts would be draconian if the target was missed by a lot. It seemed to make sense, on paper.

But now, somehow, the deficit is in danger of becoming bigger than ever. The leaders of the two-parties in Washington have been forced to develop another deficit-reduction five-year plan.

So much for the case for Gramm-Rudman. Well, not quite. Somehow the annual deadlines in Gramm-Rudman have at least spurred action in Washington; not necessarily responsible action, but at least action.

This year, most particularly, the Gramm-Rudman deadline served as a deadline for negotiators. This seems a little odd, because one of the things the negotiators decided was to give up trying to comply with Gramm-Rudman. Why couldn't that have been done a month or two ago?

The answer apparently is that only if the alternative was immediate chaos in the delivery of governmental services were the negotiators willing to be seen as giving up on Gramm-Rudman. More importantly, only under the threat of chaos were they willing to be seen by their constituents as caving in on some of their demands.

In the absence of Gramm-Rudman or something like it, what would have created that necessary willingness to cave?

BOSTON HERALD

Tuesday, October 9, 1990

Senate leaders push for budget resolution

By ANDREW MIGA

WASHINGTON — With the federal government lurching toward a full-scale shutdown, Senate leaders last night pressed for quick passage of a revised budget blueprint to avert a crisis.

"Failure to adopt this resolution will deepen the crisis which now exists," warned Senate Majority Leader George Mitchell (D-Maine).

Mitchell's Republican counterpart, Kansas Sen. Robert Dole, said he supported the new five-year, $500 billion plan pushed through the House early yesterday by Democrats on a largely partisan vote.

"I want the process to move ahead," said Dole.

Among leaders in both parties, sentiment was strong that the revised pact stood as the last, best hope for a budget deal.

The strain of the week-old budget debacle was evident as both sides jockeyed for advantage in a what has emerged as a bare-bones game of political brinksmanship.

"This process has gone from outrageous to obscene," said Republican Arizona Sen. John McCain.

The Senate was expected to vote late last night on the revised budget accord as well as a House-approved emergency funding bill that would keep the government running until Oct. 20, the date Congress plans to adjourn for mid-term elections.

President Bush, whose veto of an earlier stopgap bill was upheld by the House Saturday, has not indicated whether he would support either measure.

But there was one sign of White House backing yesterday. Vice President Dan Quayle and other administration officials telephoned wavering GOP senators to urge them to back the revised plan, according to a United Press International report.

The president has said he would not support another stopgap bill unless Congress passes a budget resolution that cuts spending $40 billion the first year and $500 billion over five years. The revised plan includes those target figures.

Bush had also wanted any stopgap bill to include Gramm-Rudman style across-the-board spending cuts. Such reductions were not included in the plan before the Senate last night.

Should Bush veto or refuse to sign a stopgap measure passed by Congress, hundreds of thousands of federal workers would be sent home today, the first working day when the full effects of the government shutdown would be felt.

Stripped of all the high-blown rhetoric and political posturing, the budget stalemate has come to resemble a high-stakes game of political chicken.

Bush warned that without a budget from Congress, he would close down the government. After the House last week rejected the budget summit pact last Friday, Bush made good on his threat.

House Democrats quickly responded with a plan that would use the summit's spending and reduction targets, but let the heads of Democratic-controlled committees pencil in the specifics on taxes and cuts.

Many Republicans view Bush's support of the Democratic plan as tantamount to political suicide because it cedes broad discretionary budgetary powers to Democrats.

But the cost for Bush to reject such a measure is to continue both the government shutdown and the political stalemate.

The Democratic plan could also leave Bush faced with a difficult veto decision on the budget late in October, close to Election Day.

The revised budget accord draws heavily from the defict reduction pact cobbled together by White House and congressional negotiators during 20 weeks of secretive budget summit talks. The summit pact was rejected by the House early Friday, 254-179.

The new accord passed yesterday by the House was deliberately vague, similar to normal budget resolutions that leave blank tax and spending levels.

The $60 billion in Medicare cuts called for in the summit pact, a major sticking point in the House, would be scaled back to $48 billion in the revised plan. A 2-cent-per-gallon home heating oil tax would be scuttled in committee, according to congressional sources.

The measure would also grant broad latitude to the Democratic-controlled House Ways and Means and Senate finance committees to determine specific tax and spending levels.

'This process has gone from outrageous to obscene.'

— Sen. McCain

Many Republicans in both chambers, fearful of being shunted to the budgetary sidelines, balk at granting such powers to Democratic-dominated panels.

"I'm not going to sign onto this fill-in-the-blanks package," said Sen. Phil Gramm (R-Texas), a budget summit member.

The sniping over the budget has brought into sharp relief the deep partisan fault lines that define debate on Capitol Hill.

Democrats generally want to ease the deficit by further taxing the rich, this despite evidence that substantial revenues can only be raised by tapping the huge middle class.

Most Republicans, meanwhile, favor spending cuts with no new taxes, but they have yet to find enough reductions to make a meaningful difference in the budget.

The jousting, however, has also spurred fresh debate on an old issue, capital gains. Both sides now envision a tradeoff whereby Democrats agree to capital gains tax cuts favored by Republicans in exchange for higher tax rates on the rich.

SAN FRANCISCO EXAMINER
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Recession? Maybe so, maybe no

New York

HAS SADDAM Hussein finally tipped us into the recession that's been predicted for years, but, up to now, never actually arrived?

The past week's government report that America's economy in the second quarter of the year moved ahead at an annual growth rate of only 0.4 per cent wasn't gratifying news. But it needs to be looked at in perspective and, above all, without rushing to the conclusion that we're headed for a deep and prolonged slump.

Contrary to what we are hearing from much of the media, the American economy isn't poised on the edge of an abyss.

That's what they were telling us through most of the 1980s while the United States was enjoying the longest uninterrupted period of expansion in modern history.

IT WASN'T true then. Many experts — although you might not realize it from much that we read and hear on TV — don't agree with the dire prophecies now.

For example, a leading U.S. economic forecasting organization with an outstanding record of accuracy, Blue Chip Economic Indicators, predicted last week that some economic growth will continue well into 1991. Growth won't be anything to brag about, averaging only 1 percent a year. But a majority of the 50 economists participating in the forecast don't expect a negative rate of growth at any time — in other words, no recession.

There are several reasons for relative optimism. We're being overwhelmed right now by so much pessimism that we should keep these reasons very much in the forefront of our thinking.

The current explosion of oil prices, which has sent stock markets tumbling, is almost completely bogus. There's no oil shortage in sight and President Bush's move to release some government oil stocks, although coming a little late, should help to end the damaging speculative fever.

When the panic subsides, prices can be expected to fall back, as they did in 1979 and 1980 during previous crises in the Middle East.

EVEN IF there is war with Iraq, oil from the Persian Gulf will go on flowing. As nearly every authority on the subject agrees, Hussein's threat to destroy the Saudi Arabian oil fields is a transparent bluff. Remember that during eight years of all-out war against Iran, he hardly put a dent in that country's massive oil installations with his missiles and bombs.

What's more, a reasonable rise in oil prices has at least two silver linings for America. It will induce new oil exploration and drilling here at home, lessening our dependence on imports. It should also, at long last, lead us to establish a national energy conservation program, such as the Europeans and Japanese put into practice years ago.

U.S. consumer spending also offers some evidence that a recession isn't a sure thing. Spending is down, but has remained higher than expected. That suggests the average American isn't hurting as much as sometimes claimed.

Business inventories are abnormally low at present. But some analysts, like Michael Keran of Prudential Insurance, quoted last week by the Wall Street Journal, reason that many business executives, fearing that higher energy costs mean higher production costs, will replace their inventories more quickly than they might otherwise have done. That would boost industrial activity just when it needs boosting.

Admittedly, U.S. inflation is higher than that of Japan and Germany, our two most formidable economic rivals. But let's not go overboard about how much brighter the outlook is for them than it is for us.

Every day it becomes clearer that the process of unifying their country will cost the Germans a lot more than they first thought.

OVER THE next several years, they will face severe problems in paying for the conversion of East Germany's outmoded industry and the heavy unemployment in the east resulting from closure of many obsolete plants, not to mention the cost of repairing terrible environmental damage caused by nearly a half-century of communist neglect.

As for Japan, the buffeting taken by the Tokyo stock market in recent months makes Wall Street look like a haven of tranquility. According to many experts, the cause of the plummeting Japanese market is wildly over-valued Tokyo real estate.

Borrowing on property, much of it inflatedly valued at 30 or 40 times what it cost only a few years ago, has helped to fuel many of the spectacular Japanese buyouts of U.S. and European companies.

Now, Japanese government and financial circles are worried that the whole house of cards may come crashing down. If it does, America's deplorable savings and loan fiasco will seem pale by comparison.

I don't think the extremely shaky condition of Japanese real estate increases the chances of the Japanese pulling their money out of this country, but, rather, lessens them. Canny Japanese investors know they're better off leaving their capital here than exposing it to a possible financial crash at home.

On the other hand, if we have a mild recession — which, as I've noted, is not certain yet by any means — we will be entering it better able to resist many of its effects than our homegrown pessimists are willing to admit.

As Charles Murray of the highly respected American Enterprise Institute recently pointed out, we have just come through the greatest period of sustained growth in our history.

Between the end of the 1982 recession and Ronald Reagan's last year in office, growth was greater in real terms — that is, figuring in inflation and the size of the economy — than it was in the 30 years following the Civil War, the era of epochal U.S. expansion, and greater than between 1900 to 1929 when we became the world's top industrial power.

DESPITE WHAT so many liberals assert, the stunning growth rate of the '80s wasn't achieved on the backs of America's poor.

According to the well-known economist George Gilder, the proportion of low income (under $15,000 per year) households fell in the '80s from 29.5 per cent of the total to 27 per cent. At the same time, U.S. households earning $50,000 or more rose from 15.8 per cent to 20.8 per cent.

So, America hasn't been getting poorer. It's been getting richer. If we now experience a brief economic hiccup, it will be unfortunate, but it won't be the end of the world.

Hearst is editor-in-chief of The Hearst Newspapers.