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The Washington Times
THURSDAY, OCTOBER 11, 1990

Conservatives, mad at Sununu, still value him

By Ralph Z. Hallow
THE WASHINGTON TIMES

Republicans in both houses of Congress say they know White House Chief of Staff John Sununu and he's no Jim Baker — or Don Regan, for that matter.

Mr. Sununu, the former anti-tax governor of the anti-tax state of New Hampshire, had to swallow hard last week — hard enough to get down a $134 billion tax increase signed by his boss, President Bush.

NEWS ANALYSIS

The jowly chief of staff got nasty with a lot of GOP lawmakers for gagging on the tax-increase compromise. It failed. The president was embarrassed and Mr. Sununu's own folks in Congress were hopping mad at him for for his tactics.

"I was elected by 2.6 million; who elected him?" said Sen. Trent Lott, Mississippi Republican and a conservative not to be trifled with.

When Mr. Lott who, unlike Mr. Sununu, does not get paid to eat the president's words, refused to swallow the tax increase. Mr. Sununu's response was: Sen. Lott has become an insignificant figure in this process.

This led other Republicans to contrast Mr. Sununu with Secretary of State James A. Baker III. When he was White House chief of staff in President Reagan's first term, Mr. Baker was often accused by such conservative GOP congressmen as Jack Kemp of New York and Newt Gingrich of Georgia of "not letting Reagan be Reagan."

Now Republicans of the Gingrich-Kemp stripe are complaining that Mr. Sununu's problem is that he is "letting Bush be Bush."

"I am as bitterly at odds with Sununu on the budget as anyone else in Congress," says Rep. Vin Weber, a conservative Minnesota Republican. "Everybody thought Don Regan was aloof and arrogant. John Sununu would help himself if he were a bit more aloof."

And less arrogant? "You said that," says Mr. Weber.

"Sununu has been downright obnoxious in dealing with Congress in this budget debate," says Gordon Humphrey, a conservative from Mr. Sununu's home state. "His strong-arm tactics, his outbursts, those are unacceptable and counter-pro- ductive when used against his own allies."

But even injured conservatives don't want to lose Mr. Sununu.

"Conservatives will be making a huge mistake if they participate in the effort to bodily wound or oust John Sununu," says Mr. Weber. He is among a large group on the right who believe you could shoot a cannonball through the Bush White House and not hit a conservative — unless Mr. Sununu happened to be in the building.

"He's better than either Baker or Regan when they were chief of staff to Reagan," says Mr. Humphrey. "At least Sununu's a real conservative on most issues."

Then why is he hard-balling conservatives on tax increases and what they suspect are phony domestic spending cuts?

"I can't explain it, but John is obviously saluting and following orders," says Mr. Humphrey.

"The old John Sununu has become the new Jim Baker," says Rep. Jim Leach, a moderate-to-liberal Republican from Iowa. "Sununu has become the symbol of making the tough choices for a party of governance."

Conservatives like to point that any Republican who incorporates "tough choices" in his vocabulary is likely to be one who also supported the $134 billion tax increase in last week's budget compromise.

Unphased, Mr. Leach says, "By definition, tough choices inevitably alienate a chief of staff from movement Republicans. It's counterfeit conservatism not to be concerned about the deficit, and Sununu has tough historical conservative roots, which means concern for a balanced budget rather than the political gains of the me-generation movement in Republican politics."

Rep. Bob Walker of Pennsylvania says fellow conservatives should understand Mr. Sununu has carried a big load for them at the White House on many issues. "Some peple on Capitol Hill are using the budget circus as an excuse to bring out the long knives," he says.

Mr. Humphrey couldn't agree more. "John is conservative not only in fiscal matters — as were Baker and Regan — but on social issues, like aboriton," he says. "He is certainly more conservative than the president and is willing to play hardball for conservative causes."

"When you have Sununu on your side, he is tough-minded, hard-headed and effective, and when he's against you, you say he is ruthless, ham-handed and arrogant," says Mr. Weber.

The Washington Times

THURSDAY, OCTOBER 11, 1990

President waffles again on tax swaps

By Paul Bedard
THE WASHINGTON TIMES

ATLANTA — The White House continued to send confusing signals to Congress yesterday on its willingness to accept higher tax rates for the rich in return for a cut in the capital gains tax.

Just one day after they appeared to back off such a deal under congressional GOP pressure, administration officials said the proposals are once again "on the table."

At campaign appearances here, in Raleigh, N.C., and St. Petersburg, Fla., President Bush sidestepped the issue, instead blaming Congress for the budget stalemate and calling for a budget deal similar to the one that House conservative Republicans and angry Democrats torpedoed last week.

On Tuesday, Mr. Bush told reporters that raising tax rates was "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."

But hours later, outraged Republicans told the president at a White House meeting that they wouldn't support such a deal. Sen. Robert Packwood of Oregon, the senior Republican on the Finance Committee, said Mr. Bush "just acquiesced" to the Republicans' demand that he drop the deal.

Mr. Bush refused to clarify his position yesterday, telling reporters during a jog at a St. Petersburg baseball park to "read my hips."

Earlier he had called on Congress to clear up the confusion on income tax increases and cuts in the capital gains tax rate.

Spokesman Marlin Fitzwater later said that "everything is on the table" but he, too, then backtracked.

Asked to clarify the conflicting comments from Mr. Bush, Mr. Packwood and other senior officials, Mr. Fitzwater told reporters aboard Air Force One: "I want to bob and weave on this today. . . . People are going to be claiming all kinds of statements and attitudes, and we just want to try to be careful and let the Congress come up with a package."

Making Congress fully responsible for coming up with a budget deal appears to be the latest White House strategy.

Today Mr. Bush will meet with top House GOP leaders, Republican members of the Ways and Means Committee and the 71 Republicans who voted for the initial budget deal that went down in flames.

The president, who met briefly yesterday morning with House Ways and Means Committee Chairman Dan Rostenkowski, will begin smoothing out relations with House Republicans today at morning, noon and evening meetings.

At 9:30 a.m., he meets with ranking GOP members of each House committee. At 1:30 p.m., he has invited Republican members of the Ways and Means Committee to the White House. And at 5:30 p.m. there will be a reception for some members of Congress — but no guest list was released.

Mr. Bush will "listen, listen patiently" to the GOP proposals, said Mr. Fitzwater. He added that this is all the president did in Tuesday's meeting with Mr. Packwood and other GOP senators.

At his first campaign stop yesterday, in Raleigh for Sen. Jesse Helms, Mr. Bush said voters are "sick and tired of this smoke-and-mirrors approach to the fiscal policy of the United States."

Hours later at an outdoor rally for Florida Gov. Bob Martinez, Mr. Bush said he wanted a budget deal "which spurs growth, opportunity and prosperity — GOP — that has a nice ring."

While Mr. Bush said he didn't want to "assign blame" for the budget mess, he said voters "know that Congress has the responsibility to pass a budget and it's about time that they met that responsibility."

His criticism of Congress was greeted with applause.

The Washington Times
THURSDAY, OCTOBER 11, 1990

Deficit battle isolates Bush

By Frank J. Murray
THE WASHINGTON TIMES

George Bush found himself both rained on and isolated yesterday after the worst political thrashing of his presidency.

Even friends who still support his objectives wondered at "mixed messages from the White House" and said Mr. Bush increasingly appears uncertain and indecisive. The president tried to laugh it off.

"Read my hips," he told reporters who had asked if he had thrown in the towel on his campaign pledge to cut taxes on capital gains. He punctuated the jibe by pointing to his left buttock as he jogged with his son Jeb under gathering clouds at St. Petersburg, Fla., but the storm broke and drenched him.

NEWS ANALYSIS

It's been that kind of week.

The president's puzzling tactics throughout the deficit crisis have undermined his Republican power base, insulted those who resisted, splintered conservatives who march with Rep. Newt Gingrich, eroded super-high public popularity and dissolved a coalition with Democrats he courted fleetingly in a desperate attempt to look like a winner.

Although Mr. Bush's penchant for miracles may still produce a budget package he can look in the eye, his self-styled "Mr. Smooth" image has suffered.

In the Los Angeles Times-Mirror poll, 55 percent approved of the job he is doing, down from 68 percent in September and 76 percent in August. An ABC-Washington Post poll taken days earlier gave Mr. Bush a job rating of 65 percent, down from 76 percent in August, but presidential advisers point out that the same poll said most Americans blame the budget mess on Congress.

In his shifting policy and off-the-cuff remarks, Mr. Bush seems almost to be writing political ads for Democrats seeking to block GOP gains in Congress on Nov. 6 and those who will lay plans for a presidential contest in 1992 if they can only find a candidate.

"The Democrats are playing this whole thing like a violin," said one Washington anti-tax activist close to the budget debate.

Senate Majority Leader George Mitchell, who has goaded Mr. Bush with some success, made sure everyone got the point yesterday.

"In view of the apparent reversal of position by the president, we will now have to reconsider," Mr. Mitchell said. "We thought until last night that the [plan] would be acceptable."

Not all the confusion could be laid on the White House doorstep. A Senate Finance Committee aide muddied the waters by saying the Democrats' capital gains cut used "the president's proposal." It indeed applied a 30 percent reduction, but to a proposed 33 percent top marginal rate instead of the real effective rate of 28 percent. That would tax investment profits at 23.1 percent, not 19.6 percent as Mr. Bush proposed.

That 3.5 percent difference was portrayed as the clincher that killed the deal, but a lobbyist who tracked budget negotiations said the White House simply missed the message that Republicans wouldn't buy any income tax increase.

"Either the White House staff did not properly read what the Senate Republicans were saying to them or they just did not tell the president," the lobbyist said.

On rare occasions when wires crossed in the past, Mr. Bush appeared a victim of miscalculation by an earnest but generally inexperienced domestic staff.

This time, Mr. Bush seemed to make big mistakes personally. Voters heard commentators emphasize that as NBC's Andrea Mitchell did in reporting his latest flip-flop on swapping capital gains tax cuts for raising top marginal income tax rates: The Democrats feel very much tricked.... As I started calling them, they said, 'You're kidding, he couldn't have said that.' "

"This is an extraordinary episode in leadership or lack of it," a business lobbyist said. "They don't do the easy things well in the way the Reagan administration could."

One Midwestern Republican senator said Mr. Bush's press conference promise on Tuesday to compromise on tax rates, a 180-degree change from the GOP stance in budget negotiations, left his party no room to negotiate.

Six hours later Mr. Bush reversed himself and ruled out such a compromise.

The bipartisan deal Mr. Bush endorsed Sept. 30 would raise other taxes by $134 billion, but the White House calls that consistent because Mr. Bush long ago abandoned his "Read my lips: No new taxes!" pledge.

The deal he liked went down in flames. Rank-and-file Republicans with longer memories and elections four weeks away revolted against the higher taxes. Non-leadership Democrats balked at hitting the poor with a $60 billion swipe at Medicare and higher taxes on on home heating oil.

Now the original deal, with some tweaking to help Democrats swallow it, lives again in the strategy of White House Chief of Staff John Sununu and Budget Director Richard Darman. They reacted quickly when ranking Republicans on 14 Senate committees rebelled. Led by Sen. Bob Packwood of the Finance Committee, the GOP senators came in force to the White House and demanded Mr. Bush stop all talk of a swap.

Depending on whom you trust, Mr. Bush instantly "acquiesced" or "agreed" or said nothing. Unaccountably, whatever he did was done on the spot without clearing the move with loyal House Republican leader Bob Michel or courtesy calls to House Speaker Thomas Foley or Senate Majority Leader Mitchell.

Hindsight makes the dramatic change look less spontaneous. While Mr. Packwood let the cat out of the bag to reporters, 40 business lobbyists huddled in the Roosevelt Room with Mr. Sununu, Economic Adviser Michael Boskin, Domestic Policy Adviser Roger Porter and Deputy Budget Director William Diefenderfer, who was Mr. Packwood's chief aide on the Senate Finance Committee.

"The swap is out," the lobbyists were told.

Yesterday, after House Ways and Means Committee Chairman Dan Rostenkowski met Mr. Bush for coffee at the White House, his committee produced a bare-bones proposal similar to the Sept. 30 bipartisan deal with no tax-rate changes. It also had no growth incentives for business and carried a raft of luxury and sin taxes.

While work on the Hill moved on, administration communications remained mixed and Mr. Bush was campaigning yesterday for Sen. Jesse Helms, who opposed him on the budget.

The Washington Times
THURSDAY, OCTOBER 11, 1990

'Larry, Curly and Moe' struggle with budget

By Karen Riley and Major Garrett
THE WASHINGTON TIMES

Congressional tax-writers were in disarray yesterday as Republicans and Democrats struggled to resolve bitter differences over increased tax rates amid confusion over President Bush's position on higher taxes.

Mr. Bush flip-flopped Tuesday, saying first he would support higher taxes on the wealthy in exchange for a lower capital gains tax. But GOP senators and officials said later the president had rejected the tradeoff.

The House Ways and Means Committee sought a safe political middle ground yesterday, passing by voice vote and with little enthusiasm a "bare bones" tax and spending bill for 1991 that skirts the issue.

It cuts out things that were "totally obnoxious" in the budget summit agreement, said committee chairman, Rep. Dan Rostenkowski, Illinois Democrat.

The Ways and Means proposal now goes to the House Budget Committee where it will be reconciled with proposals from 13 other committees before the final package goes to the House floor.

Ways and Means members also agreed that Democrats and Republicans would be able to propose separate tax packages on the floor.

The committee's bill thus would be a fallback provision if the Democratic and Republican versions should fail.

"It's Larry, Curly and Moe," said Rep. Thomas Downey, New York Democrat.

House Democrats said their package likely would contain both lower taxes on capital gains — a centerpiece of Mr. Bush's 1988 campaign — and a top tax rate of 33 percent.

House Republicans rallied around an alternate budget package that slashes capital gains taxes, raises income taxes on the wealthy, and seeks deeper cuts in social spending.

The plan seeks to reduce capital gains taxes from 33 percent to 15 percent and raise income tax rates for upper-income Americans from 28 percent to 31 percent. It also eliminates the gasoline tax and the 2-cent tax on home heating oil.

Rep. John Kasich, Ohio Republican and co-author of the proposal, said Vice President Dan Quayle, Budget Director Richard Darman and White House Chief of Staff John Sununu voiced their "strong support."

Meanwhile, the Senate Finance Committee cancelled a scheduled closed-door drafting session yesterday and met to regroup in late night party caucuses after President Bush's tax flip-flop.

Finance Committee chairman Lloyd Bentsen, Texas Democrat, had prepared a plan that would raise the individual top tax rate to 33 percent in exchange for a capital gains tax cut.

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

Democrats in the Senate claim they have been trying to craft a package that not only reduces the deficit by $500 billion over five years but also makes the wealthy pay a larger share of the nation's tax burden.

But Senate Minority Leader Robert Dole of Kansas said Democrats are pushing for higher taxes rates "because they want more money to spend." He said both a lower capital gains tax and higher rates on the wealthy should be excluded from the package.

"They've become sort of a tar baby," he said.

Mr. Bush tried to divorce himself from the Capitol Hill squabbles yesterday.

"Let Congress clear it up," he told reporters.

But Mr. Bush still kept a hand in behind-the-scenes negotiations, consulting with key members of the Ways and Means panel.

He talked on the phone Tuesday night with Rep. Bill Archer, the ranking Ways and Means Republican, and met early yesterday for coffee with Mr. Rostenkowski, before departing on a campaign trip to North Carolina and Florida.

"We're delighted to have White House input," said Rep. Mickey Edwards, Oklahoma Republican and a leader of the GOP conservatives. "We're not looking to the White House for leadership."

The Ways and Means bill embraces most of the tax and spending proposals in the bipartisan budget deal rejected by the House last Friday. It scaled back Medicare spending reductions from $60 billion to $50 billion, scrapped the 2-cent tax on home heating oil, required a two-week delay for unemployment checks and provided $12 billion in economic incentives for business.

Retained from the bipartisan budget deal are higher taxes on cigarettes, beer, wine, and distilled spirits, and a 10 percent tax on luxury goods.

The proposed tax increase on motor fuel would be 9-cents-a-gallon after July 1 of next year, a penny less than offered in the previous budget package.

Both panels are working against an October 19th deadline set by a stopgap emergency funding bill enacted early Monday.

The Washington Times
THURSDAY, OCTOBER 11, 1990

Budget bill wordsmiths face weekend duty

By Major Garrett
THE WASHINGTON TIMES

Congress is playing beat the clock with the federal budget.

Committees are hustling to draft the bills that will put bite in the heretofore toothless budget agreement and help transform it into law.

In all likelihood, "sin" and energy taxes will be raised and such entitlements as Medicare and farm subsidies will be cut. Maybe marginal income tax rates will be raised and capital gains taxes will be cut.

It's a mystery until the committees finish.

The bills have to be drafted over the weekend to meet a tentative schedule outlined by Rep. Leon Panetta, California Democrat and chairman of the Budget Committee. He has asked all committees to finish work on their bills by Friday, but will accept them as late as Monday, a spokesman said.

Once that's done, the Budget Committee then bundles all 13 bills into a behemoth omnibus spending bill, called a budget reconciliation bill.

"You probably won't be able to lift the whole thing," said one committee staffer.

Of all the committees, the House Ways and Means Committee has the most influence and power. It has jurisdiction over tax policy and domestic entitlements, such as Medicare.

Chairman Dan Rostenkowski, Illinois Democrat, met with President Bush yesterday to discuss the bill. Details of the session were not revealed.

Here's a rough outline of the remaining legislative schedule for the national budget:

Oct. 12-15: House committees draft bills implementing the budget resolution.

Oct. 15: House Budget Committee begins bundling the 13 spending bills into the budget reconciliation, including a bill to extend the long-term debt ceiling, which expires Oct. 19.

Oct. 15 or 16: Budget reconciliation bill moved to Rules Committee and, possibly, to the House floor.

Oct. 16-19: House floor debate on the committee bill and probably at least one Republican alternative.

Oct. 17-19: Following House action, the Senate debates the budget reconciliation bill. Senate rules allow 20 hours of debate split equally between Democrats and Republicans. It also allows amendments, as long as they don't cut spending more than the bill calls for or raise taxes above the bill's agreed-upon levels.

Several amendments could be offered, delaying consideration. If the bill is changed, it must go to a House-Senate conference committee to work out the differences. If the conference reaches agreement and both chambers approve, the bill goes to President Bush, becoming law when he signs it.

Without a budget reconciliation bill, more than $105 billion in across-the-board government spending cuts take effect at 12:01 a.m. on Oct. 20. The nation's air transportation system clogs, health services are delayed, some law enforcement personnel are idled and a sizable number of meat inspectors are kept off the job.

The Washington Times

THURSDAY, OCTOBER 11, 1990

The 103 percent problem

Five months and scores of missed budget deadlines since President Bush first began nudging lawmakers toward a budget agreement, Congress is right back where it started. Democratic Party committee leaders, charged with finding ways to extract more money from taxpayers as part of yet another midnight budget deal, must now do in 10 days what they haven't been able to do since April. Brace yourself for "hard choices," Beltway-style.

"Tonight we reap the bitter harvest of 10 years of self-indulgence," intoned Senate Majority Leader George Mitchell. The senator was no doubt referring to Reagan administration attempts to reduce individual tax burdens. When all else fails, blame the tax cuts. But we have a different sort of "self-indulgence" in mind, one that can also be measured over a 10-year period. In 1980, U.S. taxpayers forked over $517.1 billion to the federal government, a figure that more than doubled to an estimated $1.073 trillion in 1990. Trouble is, federal spending rose from $590.9 billion in 1980 to an estimated $1.197 trillion this year. That's a 103 percent increase in outlays. It took Congress 200-odd years to get to $590 billion and just 10 more to double it.

A businessman who continually outspent his revenues would end up in jail or the poorhouse. A lawmaker who does so ends up making the rounds of TV talk shows, swapping sound bites about "hard choices" with Beltway pundits. Indeed, even as congressional budgeteers chat about the need for budget discipline, the Democratic budget now taking shape would raise federal spending in the current fiscal year an estimated $70 billion over the last. Only in Washington could this be considered discipline. But the alternative, we are told, is selling off the Washington Monument to the Japanese, throwing elderly folks into the snow and basically bringing Life As We Know It to an end. The administration, unfortunately, has busily played up this sky-is-falling scenario.

But as any housewife could tell her lawmaker, assuming he would actually listen to a constituent, the choice is not higher taxes or Chicken Little. Families in fiscal straits try spending less or at least not quite so much. A Heritage Foundation "4 percent solution," backed by Rep. Dick Armey and some 40 co-sponsors in the House and by Montana Republican Conrad Burns in the Senate, would do just that. By holding non-defense domestic spending to 4 percent annual increases, roughly the rate of inflation, and defense to no increase, says Heritage analyst Scott A. Hodge, the federal budget could be balanced by 1994 without any increase in taxes at all. Some programs could get bigger increases, some could get correspondingly smaller ones, as long as the overall rate was 4 percent or less. Lawmakers could make those hard choices. Democratic Rep. Charles Stenholm has floated an unrelated 4 percent plan that would cap discretionary domestic spending programs in conjunction with some tax hikes.

Unfortunately, neither congressional leaders nor the administration has yet signed on to these plans. Nor, under the current summit blueprint, does it appear they will. But locking out common-sense spending limitations and locking in tax hikes has its risks, both to Mr. Bush's plummeting popularity ratings and to congressional re-election campaigns. Voters may find that hard choices Nov. 6 are really pretty easy after all.

The Washington Times

THURSDAY, OCTOBER 11, 1990

WARREN BROOKES

Why the tax revolt lives

When President Bush discovered what a turkey his budget advisers had cooked up for him, he should have sent it back to the kitchen. Instead, he went on national television to invite taxpayers to dine with him and call their congressmen.

Capitol Hill was so besieged with negative phone calls, at least one major phone system was temporarily gridlocked. That outpouring of taxpayer fury over $178 billion in higher taxes and fees fueled the stunning 75-vote margin of rejection last Friday morning.

After more than a year of self-delusion about America's alleged willingness to accept higher taxes in return for fiscal sanity, Washington woke up to discover a truth: The tax revolt is alive and well and not just in Massachusetts or New Jersey.

Even though the U.S. tax burden, the total of both federal and other taxes, has remained remarkably constant at about 38 percent of income over the last 20 years or so and is in fact fractionally lower in 1990 than it was in 1981 (Table I), the public perception is of a government out of control. The $150 billion savings-and-loan scandal and other assorted insults have reinforced that image.

It does no good for Washington's denizens in media and government to rail against the "selfishness" of American taxpayers. It is very clear that those taxpayers think 38 percent of their income going to taxes is entirely enough, thank you. They also understand that even with the so-called "deficit reduction," federal spending will grow another $225 billion or so by 1995.

This is why there is growing support for something called "Taxpayer's Action Day," on Oct. 27, sponsored by the Council for Citizens Against Government Waste, an outgrowth of the Grace Commission, headed by Alan Keyes, a former deputy secretary of state in the Reagan administration and a Maryland nominee for the U.S. Senate in 1988.

Mr. Keyes has gained the support of the National Association of Radio Talk Show Hosts, with cooperating programs in at least 28 major markets, including Detroit, Los Angeles, Chicago, Washington, San Francisco, Portland, Boston, Dallas, Miami, Baltimore, St Louis, Denver, Cleveland, New Orleans and Pittsburgh, all pushing the theme "It's Time For a Clean Sweep."

This drive in turn is an outgrowth of the battle against the congressional pay raise in 1989. It will urge taxpayers not only to vote against taxer and spenders but to take to the streets with brooms and placards to produce a visual demonstration for television.

While the goal is a media event, the underlying message is anything but frivolous: Government wastes too much money to be given a carte blanche, i.e. a tax increase to waste still more.

Washington pundits who depend on big government for their livelihood tend to scorn that message, arguing that most federal spending is on publicly popular programs that can't be cut.

While there is some truth to that argument it should come as no surprise that a very large share of government spending does not go for benefits but for *overhead*. How much?

Rep. Lamar Smith, a Republican from San Antonio, Texas, decided to try and find out. It wasn't easy. "The information is available," he told us, "but it is not published anywhere in a form that we can make use of it. So we assigned two staff aides to go over to the Office of Management and Budget. They spent a month or more combing all of the accounts that go into general overhead expenses, agency by agency.

"We found that indirect costs, those incurred in things like agency travel and transportation, rental and lease payments, communications (telephones, faxes, etc.), utilities and miscellaneous, printing and reproduction of documents, office supplies and materials, altogether added up to nearly $270 billion, not counting research and development."

That's about a 25 percent overhead cost, which Mr. Smith argues should not be difficult or painful to the public to cut by 10 percent, and thus save $27 billion a year, or about $135 billion over five years.

"Ironically, and we didn't plan it that way, that turns out to be the size of the tax increase rejected last week," which Mr. Smith (a stalwart Bush supporter) voted against.

Mr. Smith has tried unsuccessfully to get the Office of Management and Budget and various budget conferees to consider his proposal, which would involve essentially telling every government agency to take somewhat fewer trips, print slightly fewer documents, make fewer phone calls and mailings.

"So far, we have had real interest but no real takers," Mr. Smith admitted. In other words, cutting waste in this way is not seen as useful because it does not inflict pain. It is therefore irrelevant to a Washington establishment that has decided to inflict pain in order to make its point about the need for higher taxes.

That's why we probably need a "Taxpayer's Action Day."

TAX BURDEN ON U.S. PERSONAL INCOME 1973-1990

	Federal Percent	Total Percent
1973	23.94	38.09
1977	23.89	38.36
1981	25.36	38.76
1985	24.45	38.22
1987	24.13	38.78
1989	23.64	37.79
1990 II	23.92	38.24

Source: Department of Commerce Bureau of Economic Analysis

The Washington Times

The Washington Times
THURSDAY, OCTOBER 11, 1990

CAL THOMAS

Trying too hard to please

The fiasco over the budget and the rising level of invective against government officials at all levels are proof that President Bush's strategy of conciliation, compromise, kindness and gentleness has failed.

As he watches his once vaunted popularity decline (a CNN-Time Magazine poll showed it dropping from a high of 74 percent in August to 61 percent this week), Mr. Bush might consider a lesson from the first Republican to live in the White House.

Abraham Lincoln said, "If once you forfeit the confidence of your fellow citizens, you can never regain their respect and esteem. It is true that you can fool all of the people some of the time; you can even fool some of the people all of the time; but you can't fool all of the people all of the time."

Addressing the nation on television last week, Mr. 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 Mr. 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. Neither did the recipients of National Endowment for the Arts grants that Mr. Bush vowed to continue.

Reaganite conservatives who had supported Mr. 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 has been persona non grata at the Bush White House, denounced the now-defunct budget agreement between Congress and the White House 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."

Republican Sen. William Armstrong of Colorado 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 Mr. Reagan did, Mr. Bush backpedals and invites his ideological enemies in for coffee.

Three months into the Bush presidency, commentator William Schneider wrote, "Being seen as a great compromiser tends to diminish a president's stature. He may be respected for his achievements, but he loses his standing as a popular hero who inspires loyalty."

Mr. Schneider accurately predicted, "It cannot be said with any certainty that conservatives will be there for Bush when his back is to the wall — as they were for Reagan during the 1982 recession and the Iran-Contra scandal."

Massachusetts Democrat Sen. Edward Kennedy was right when he told a Yale University audience in March 1989, "Ronald Reagan was a successful candidate and an effective president above all else because he stood for a set of ideas. He stated them in 1980 — and it turned out that he meant them — and he wrote most of them not only into public law, but into the national consciousness."

Mr. Bush is no Ronald Reagan. As a New York Times article noted last spring, "People, not ideas, drive [President Bush]." But ideas drive people, and Mr. Bush is seen by many conservatives to have abandoned a core set of principles that are 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 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 Mr. Bush will be set upon by the anti-government angel of death about to swoop down on all of Washington.

To avoid the public's wrath, Mr. Bush must quickly undergo a complete transformation. He must abandon the politics of conciliation, which have failed and haul out the heavy guns. He succeeded with such a strategy in 1988 and he can succeed again, but there is precious little time.

If he should begin such a campaign, he must this time convince the American people that he means what he says, because the voters are going to want to read something more substantial than the president's sometimes quivering lips.

The Washington Times

THURSDAY, OCTOBER 11, 1990

MAX LERNER

Budget impasse puzzle

How does it happen that this vaunted American system of ours has brought on a characteristic domestic fiscal crisis at the very moment when American world leadership is being displayed as rarely before?

The tempting, but silly, thing is to resort to corridor gossip and media politico-babble, and put the blame on the "rudeness" of White House Chief of Staff John Sununu, or the "intriguing" of Budget Director Richard Darman, or upon any of the chief actors in the summit party "coalition." It diminishes the central importance of the process itself to ask (as the talk shows do) who "won" and "lost," from President Bush down.

But the personal whodunits of the minimalists, which trivialize the whole problem, come side-by-side with the laments of the maximalists,

The new techno-forces are disintegrative. More than ever we need a new political discourse on what will again enable America to cohere.

who inflate a budget impasse into a crisis of "decline" for the entire American civilization.

I cite Anthony Lewis, able and learned commentator, who sees in the budget melee nothing less than the validation of Paul Kennedy's hefty tome on "The Rise and Fall of the Great Powers" and his thesis of America's "imperial overstretch."

The phrase, incidentally, goes back to Walter Lippmann. It had real meaning when applied to Lyndon Johnson's disastrous effort to arrest the "falling dominoes" in Vietnam and the Pacific Rim. But even then, the folly of the overstretch did not lie in America's lack of an economic base for the Viet Nam War. There was economic strength enough for both guns and butter. The fatal weakness lay in the lack of a base in America's ethos, with a resulting porous home-front support for the men who faced death.

When Mr. Lewis used a recent article of Mr. Kennedy's to push his "decline thesis" on the current Gulf crisis, an op-ed piece by Joseph Nye Jr. deftly undercut him.

There is a whole new school of young American political thinkers — Mr. Nye foremost among them — who point out that "hard" military and economic power (and America has a measure of both) are today in a mix with "soft" power. Mr. Nye defines soft power as "the ability to co-opt rather than command." Mr. Lewis now is citing the budget crisis as further proof that a declining America is not in a position for "soundly addressing" (Mr. Nye's phrase) the domestic issues that we are all wrestling with.

I share Mr. Nye's view of hard and soft power and America's possession of both. But we are all in danger of omitting from our political/economic discourse the seismic changes in science and technology that are transforming the world's landscape and that furnish the real driving force of our new era.

As it happens a fresh book ("Powershift" by Alvin Toffler, excerpted in Newsweek) sheds more light on our economic and political convulsions — domestic and global — than either the minimalists or maximalists.

The information revolution he continues to explore in his books is clearly leading to a decentralizing of political power, as it is also doing to wealth production, product distribution, "niche markets" and media communication.

We can apply some of his leads to what is happening to the political process, including budget-making.

A strong science-driven information/media revolution has laid bare the skeleton of our already powerful interest and pressure groups, and sheds an intense light on the positions their senators, congressmen and president take on what affects them most. More than anything, it is their "niche" claims for power-sharing in the budget process that have brought it to a sharp halt. And alas, they found in America's age-old system of divided presidential/congressional powers an ally for their power bid.

This doesn't mean we must scrap the system for an even faultier "parliamentary" one that would move even further toward what alienates the people from government. It does mean that the new techno-forces are anti-cohesive and disintegrative. More than ever we need a new political discourse on what will again enable America to cohere.

Max Lerner is a nationally syndicated columnist.

The New York Times

THURSDAY, OCTOBER 11, 1990

Bush, Leaving G.O.P. Rift in Capital, Begins a Campaign Swing in South

By MAUREEN DOWD

Special to The New York Times

ATLANTA, Oct. 10 — Jesse Helms has not been very supportive of his President this year. The conservative Republican Senator has crossed swords with President Bush on an education bill, a textile bill, the Clean Air Act, a hate-crimes bill and several foreign service appointments.

On Monday, Mr. Helms voted against the budget outline that cleared the way for the President to sign a stopgap financing measure to reopen the Government. The Senator called the measure "a turkey," noting acerbically that he was "opposed to any — read my lips: *any* — tax increase."

Mr. Helms was also present at the meeting of Republican Senators at the White House on Tuesday afternoon, where Mr. Bush was told to stop wobbling on taxes. On Wednesday Mr. Bush said for the first time that he might agree to an increase in income tax rates for wealthy Americans as part of a budget compromise, but he later abandoned that position under strong pressure from Republican senators.

But politics is politics. And even though Mr. Bush has just suffered the most humiliating week of his Presidency because of the defection of lawmakers in his own party, he hit the trail today to praise the North Carolinian as well as other Republican candidates in Georgia and Florida.

In Praise of Helms

At a fund-raising breakfast today in Raleigh, N.C., before a polite but subdued audience, the President called Mr. Helms "a champion of conviction." He praised his "true grit," "independence," "candor," "courage," "tenacity," "compassion," "commitment" and "mainstream values." He called him the embodiment of "God-fearing good citizens who believe, as I do, in returning voluntary prayer to our nation's classrooms."

For his part, Mr. Helms, in a tight race against the Democratic challenger, Mayor Harvey Gantt of Charlotte, called Mr. Bush "a thoroughbred gentleman." It was the best he could do under the circumstances.

What was not clear was how much lobbying Mr. Bush was doing on the telephone and behind the scenes as he caromed around the South.

Conservatives are in a fury over what they call the politics of appeasement practiced by Mr. Bush and his chief of staff, John H. Sununu, once but no longer the trusted messenger to the right.

An opinion poll published today in The News and Observer of Raleigh, N.C., said that a majority of North Carolina voters gave the President low marks on domestic issues, with 52 percent rating his performance "fair" or "poor."

Campaign Swing in South

Before he left for his three-state Southern swing today, Mr. Bush squeezed in a 15-minute meeting in the Oval Office with Representative Dan Rostenkowski, Democrat of Illinois, the chairman of the House Ways and Means Committee.

Marlin Fitzwater, Mr. Bush's spokesman, said the President did more fence-mending on Tuesday night, calling Representative Bill Archer of Texas, the ranking Republican on the Ways and Means panel, after his fractious session with Republican Senators.

Mr. Bush made no note, in his speeches, of the chaos he had left in Washington by his reversal on taxes, or of the rupture in the Republican Party. Rather, he acted as though everything was grand in the party.

"If recent events have shown anything at all, it is that we need more Republicans in Congress," he said at the Helms fund-raising breakfast.

Later, at a rally in St. Petersburg, Fla., for Gov. Bob Martinez, Mr. Bush said he hoped Congress sent him a budget agreement "which spurs growth, opportunity, and prosperity — G.O.P. — that has a nice ring."

Although Mr. Bush knows that polls show the public is disgusted with the President and Congress, he tried to nudge some more of the blame over to Capital Hill.

> Helms's attacks don't keep Bush from stumping.

At the Martinez rally at Vinoy Park, he said it was "about time" that Congress "met that responsibility" to pass a budget. His tone was one of outrage, but it sounded somewhat forced, as it often did during his own campaign.

"I got a little heat for closing the Washington Monument," he said. "And I would apologize if there are any of those Boy Scouts or Girl Scouts here from Florida that went up there. But I know that if I hadn't taken that action, Congressmen would have all headed home, marched out in the front of the Columbus Day parade all over the country, telling people what good they were doing, instead of staying in Washington and solving the deficit problem."

Churning Up Confusion

The White House continued in its inarticulate and confused mode.

Asked, when he arrived in St. Petersburg, if he could clear up the confusion over his wavering position on taxes, the President replied shortly, "Let Congress clear it up."

Later, jogging in the rain at the Al Lang Baseball Park, where the St. Louis Cardinals conduct spring training, Mr. Bush was asked if he was ready to throw in the towel on a capital-gains tax cut. "Read my hips," the President said, pointing to that portion of his anatomy.

Asked, as he continued to jog, about raising taxes on the wealthy, he said, seeming grimly pleased about causing such confusion, "Confused?"

When Mr. Bush is under pressure, it is often reflected in a Presidential syntax more fractured than usual. At the Martinez rally, Mr. Bush offered this explanation of what he had done so far:

"Last Friday night, with no budget agreement, I vetoed that thing — they call it the continuing resolution. And that keeps the Government — to go — if they signed that, and I had signed it, that would have just kept the operating of the Government just day in and day out the same old way. Well, I vetoed that. The veto was sustained, and I kept the pressure on. And to make the point, no more business as usual."

Giving up the elliptical President, reporters pressed Mr. Fitzwater, Mr. Bush's spokesman, to clarify the President's shift, which sent an aftershock through Republicans in Congress already reeling from the budget debacle.

First, Mr. Fitzwater replied: "As they say at the State Department, I have nothing for you on that."

Pressed for an answer, he said: "We're looking for a common ground. It's up to the committees. We're not taking a position on any specific item except to say the original budget package is what we preferred. We think it's a good one."

He said that Republican Senators told Mr. Bush on Tuesday that they thought they could come up with a new deal "pretty close" to the one that was defeated.

White House officials said on Tuesday that Mr. Bush had silently acquiesced in the assessment of Republican Senators, that he must drop any idea of a trade on the top tax rate in return for a cut in capital gains. But today, Mr. Fitzwater did more elaborate bobbing and weaving that showed that no one seemed to know where the President stood — and if the President did, he was not saying. The spokesman reversed the White House position and said that the President just listened to the Senators and did not necessarily acquiese.

"Everything is on the table," the spokesman said, talking to reporters in St. Petersburg. A moment later, he backtracked, observing, "I'm not saying where it is." Alluding to Congress, he said, "It's their shot."

In his final appearance of the day, Mr. Bush spoke at a fund-raising reception for Johnny Isakson, the Republican candidate for Governor of Georgia, in Atlanta.

"Right now, the Federal budget process is like a huge Rube Goldberg machine, out of control — producing noise, smoke, heat and no light," Mr. Bush said.

"We've had a few days for the smoke to clear. Now it's time to move forward."

The staunchly Republican crowd that gathered to meet Mr. Bush reception expressed steadfast support for the President.

"In my book, he's 100 percent on both the budget and Iraq," said Gordon Sawyer, an advertising company executive from Gainesville, Ga.

IMPASSE CONTINUES

Big Battles Seem Likely in House and Senate Over Capital Gains

By DAVID E. ROSENBAUM

Special to The New York Times

WASHINGTON, Oct. 10 — The White House shifted course again today on tax policy, baffling the Congressional tax committees and leaving Congressional leaders confused about which way to turn.

With legions of lobbyists clogging the hallways, key lawmakers met in closed sessions throughout the Capitol in an effort to make sense of the President's position and to attempt to write the most important deficit-reduction legislation in history. Ten days into the new fiscal year, the Government remained without a detailed budget plan.

The latest developments left frozen the issue that has divided the President and Congress all year: whether capital gains taxes should be lowered in exchange for a higher income tax rate on the wealthiest taxpayers. At this point, the issue of capital gains is likely to end up as a free-for-all debate on the House and Senate floors.

The House Ways and Means Committee ducked that issue today, approving a budget plan that left capital gains unaddressed. The plan would raise the gasoline tax and Medicare premiums, but in a way that seemed more palatable to the rank and file than the deficit-reduction deal that the House rejected last week.

On the Campaign Trail

The bill was similar to one Senator Lloyd Bentsen, chairman of the Finance Committee, suggested Tuesday but withdrew today because of the confusion over President Bush's position.

As uncertainty over Mr. Bush's shifting position on higher taxes slowed efforts to work out a new budget agreement, the President hit the campaign trail for a series of events in behalf of Republican candidates in Raleigh, N.C., St. Petersburg, Fla., and Atlanta. [Page D22.]

By tonight, the White House stance was that President Bush had no public position on whether taxes on the wealthy should be raised in return for a lower capital gains rate, and that he was willing to leave the matter to Congress to decide.

That represents a full-circle progression from where the President stood early Tuesday, when Congress approved the broad outlines of a five-year Federal budget.

Later Tuesday morning, Mr. Bush told a news conference that if Congress agreed to the reduction in capital gains taxes he has long sought, he would consider higher income tax rates on the wealthy. It was the first time he had been other than inflexibly opposed to higher rates.

Tuesday Meeting Pivotal

Then, on Tuesday afternoon, the President met with Republican senators. Afterward, Senator Bob Packwood of Oregon announced that Mr. Bush agreed with the senators that tax rates should not be increased at any price.

Asked about that, Marlin Fitzwater, the President's spokesman, said, "It's fair to say he acquiesced in their views."

Tuesday night, John H. Sununu, the President's chief of staff, told about 40 lobbyists for corporations and trade associations at the White House that a combination of lower capital gains taxes and higher income taxes on the wealthy would be opposed by the President, according to one of the lobbyists, Alan Kranowitz of the National Association of Wholesaler-Distributors.

This morning, however, Mr. Bush met with Representative Dan Rostenkowski of Illinois, the influential chairman of the Ways and Means Committee, and afterward Mr. Fitzwater said: "Publicly, we're not taking a position on any specific items."

The situation was complicated by a split between Republicans in the Senate and House. Senate Republicans do not want to cut the capital gains rate if the price is a higher top income tax rate. House Republicans would accept a higher top rate in return for a lower capital gains rate.

The confusion today was such that Senator Bentsen canceled the meeting at which his Finance Committee was to begin voting on a tax plan he offered Tuesday that would have raised the top income tax rate to 33 percent from 28 percent and lowered the capital gains rate to 23 percent from 28 percent. The plan also would have raised the minimum tax paid by the very wealthy to 25 percent from the current 21 percent.

Congressional tax panels are baffled.

"Frankly, I was ready to proceed this morning," Senator Bentsen said. "But once they changed their position on this, we had to redo our package."

Democrats Chart Course

The Senate Democratic leader, George J. Mitchell of Maine, said after talking with Mr. Bentsen, "In view of the apparent reversal of position by the President, we will now have to reconsider what the appropriate course of action will be."

A spokesman for Mr. Bentsen said the chairman was meeting tonight with Democratic colleagues and might put forth a new proposal Thursday.

For his part, Mr. Rostenkowski pushed through his committee today a bill that was almost identical to the one Mr. Bentsen offered Tuesday, with one main exception: it did not mention capital gains, income tax rates or the minimum income tax.

Both the Bentsen and the Rostenkowski bills would raise the gasoline; increase taxes on alcoholic beverages, tobacco and luxury items; raise the premium and the deductible for Medicare insurance, and over all cut the deficit by $40 billion this year and $500 billion over five years.

Mr. Rostenkowski's intention is to bring this core bill to the House floor next week under a rule that would allow two amendments, one to be devised by Democrats and the other by Republicans.

The Capital Gains Factor

The Democratic amendment would almost certainly raise the tax rate on wealthiest Americans at least to 33 percent. Whether it would give a break to capital gains is unclear.

The Republican amendment would surely contain a lower capital gains tax. Whether it would also raise the top income tax rate is not certain.

Since Democrats control the House by a 3-to-2 margin, their amendment will probably be adopted and become part of the bill that will be sent to the Senate.

The issue between Republicans and Democrats turns on this: Democrats believe the top tax rate needs to be higher so that the wealthy would bear more of the burden of deficit reduction and the poor and middle class less. Republicans maintain that a low top rate and a lower capital gains tax, while directly most beneficial to the wealthy, would help all Americans by improving the state of the economy.

Even the most sophisticated students of Congress are unwilling to predict how all this will work out. If, as seems probable, Congress approves a tax-and-spending bill Mr. Bush does not like, there are two possibilities.

He could sign the bill and then blame the Democrats in the remaining days before the Nov. 6 election for raising taxes and approving a budget with insufficient incentives for economic growth. He could also use that argument to deflect blame to Democrats in the event of an economic recession.

Or, he could veto the measure and force Congress to reconvene after the election in a lame-duck session to tackle deficit reduction once again.

Who Will Be Helped?

Some Democrats, including the House majority leader, Richard A. Gephardt of Missouri, believe the partisan nature of the budget battle will help Democrats in the election, enabling them to claim to be the party supporting fairness in the tax system.

But others, including Representative Robert T. Matsui of California, fear the fight plays into the Republicans' hands by letting them portray themselves as the party of prosperity and the Democrats as the party of higher taxes.

The measure approved by the House Ways and Means Committee this afternoon followed the same framework as the agreement announced by President Bush and Congressional leaders Sept. 30 and rejected last week by the House of Representatives.

But the Rostenkowski bill stripped from the agreement elements that the chairman said were "totally obnoxious to members on the floor of the House of Representatives." Among the elements were these:

¶A much higher monthly premium and annual deductible for medical insurance covering doctors' bills under Medicare.

¶A two-week waiting period before a person could receive unemployment benefits.

¶Nearly $20 billion worth of tax breaks for small businesses.

¶A 2-cent-a-gallon tax on home heating oil.

The bill differs slightly from the one Senator Bentsen offered Tuesday

Bush's Tax Stumble: The Capital Can Hardly Believe Its Eyes

By R. W. APPLE Jr.

Special to The New York Times

WASHINGTON, Oct. 10 — The headlines around the country today 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.

News Analysis

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."

That Word Is Back

By giving the impression that he could easily be pushed around — agreeing with one group one minute, another the next — Mr. 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 here 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.

"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."

No Sun in the Bunker

Hunkered down at the worst moment of the Bush Presidency, 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 Mr. Bush with pragmatism rather than policies. Success has bred success for Mr. 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 Mr. Reagan has been fractured in little more than a week. As of tonight, Representative 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 Senator 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 Mr. Bush's original budget package. Representative Newt Gingrich of Georgia, the Republican whip, defied the President with impunity. And Patrick J. Buchanan, a leading spokesman for Republican right wing, announced in his syndicated column today that "Mr. Bush no longer seems a sure bet for 1992."

Nor does there seem to be much unity in the White House. A former aide to Mr. Reagan said today. "They're setting a world record for mixed signals over at that building," and one of the best-informed Republican lawmakers said he had not the slightest idea what Mr. Bush really wanted.

Mr. Packwood insisted Tuesday night that the President had rejected the deal on capital gains and income taxes that he seemed to embrace that morning, and the White House chief of staff, John H. Sununu, told a group of lobbyists the same thing. Bob Dole of Kansas, the Republican leader in the Senate, said Mr. Bush had ruled nothing out, and Marlin Fitzwater, the White House spokesman, who had echoed Mr. Packwood on Tuesday, sounded a lot like Mr. Dole on Wednesday.

As his credibility trickled away in Washington, the President was campaigning in North Carolina for Senator Jesse Helms, who had called the original Bush budget deal "a turkey." And when reporters asked him while he was jogging what he planned to do to sort out the mess, Mr. Bush replied, "Read my hips."

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." Mr. Hess once worked for Richard M. Nixon, and he said Mr. Bush resembled Mr. Nixon in his distaste for the complexity of domestic policy.

'King of Expediency'

"You get an international problem, you call in three people — Cheney, Scowcroft, Baker," said Mr. Hess. "Budget problems, the table gets too large; things slip out of the President's control. You don't like that, unless you're basically a Capitol Hill man, a compromiser like Lyndon Johnson."

A close Republican friend of the President's said, "The next thing you know, they'll be saying Bush has been Carterized." He argued that like Jimmy Carter on his doomed energy bill, "our man hasn't told the American people why deficits matter, and remember they've been conditioned by eight years of Ronald Reagan to think they don't matter, and they basically still think that."

With no real support from the public, the friend said, Mr. Bush is twisting and turning in search of some formula that will solve an important problem, but doing so in a way that makes him look like "the king of expediency."

Robert S. Strauss, the Texas Democrat who has formally or informally advised the last three Presidents, said Mr. Bush's problems began when he allowed Mr. Gingrich to escape without penalty. "Presidents who let key people in their own parties go into business for themselves look like nice guys, but they eventually suffer a heavy penalty for it," Mr. Strauss said.

"Now the President has major, major problems," he went on, "and John Sununu, who's a very able man in many ways, doesn't know how to fix them for him."

Face Up to the Fairness Issue

By Jim Leach

WASHINGTON

The American people voted in 1988 for a reduction in the rate of growth of government and taxes. They did not vote to mortgage their future to the whims of undisciplined politicians. They did not vote for ostrich politics and depression-inducing economics.

At the root of the constitutional crisis that is gripping Congress is a new "duck test" on fairness. While conservatives object to anything that quacks like a tax, liberals sense the outrage of the public and demand sacrifices from the wealthy in any package that cuts benefits for the poor.

In a Congress of little leadership and less followership, the left and right are mugging the middle, raising the question whether the center can hold, whether government can govern.

Amid the questions of fairness that arose over the details of the budget package, largely overlooked were the unfair consequences that would result if Congress failed to enact a deficit reduction package.

Would it be fair, for instance, to the young of America to add $300 billion to the national debt?

Would it be fair to the elderly who would have to pay more for food and medicine because of a refusal of Congress to curb inflation?

Would it be fair to taxpayers who would have to pay more for nothing,

G.O.P. hurts itself – and Bush.

that is, interest on the national debt?

In the savings and loan debacle, Congress learned that refusal to deal with insolvency problems early cost far more later. The same with budget deficits. The fairest budget of all would appear to be a balanced one.

Twelve-figure deficits simply have no place on the economic agenda of either a true liberal or a true conservative. Just as it is counterfeit liberalism to devalue the currency with living-for-the-moment spending, it is counterfeit conservatism to object to deficit reduction of the nature contemplated in the bipartisan package.

Ironically, by refusing to engage constructively in the budget summit process and objecting bellicosely to the initial agreement, conservatives opted out of the governing coalition and ceded their seats at the bargaining table to their adversaries. Their ideological rejection of the initial package may have been good short-term politics, but it guaranteed the passage of a more liberal alternative, jeopardizing the Reagan revolution.

By refusing to contemplate a change in the tax code to put high-income citizens in the same tax bracket as middle-class taxpayers (breaking the so-called "bubble"), even in exchange for capital gains reform, Congressional Republicans ignore at their peril the frustrated demands for fairer burden sharing by low- and middle-income Americans on whom they depend for support.

Naïvely, White House operatives left the President vulnerable to the fairness challenge by standing stubbornly by the views of legislators who would not stand by the President.

Given conservative obduracy and the resulting political gridlock, the President has little choice but to seek a governing coalition with the Democrats in Congress, one in which centrist Republicans can be utilized to avoid a stampede to the left. A center-Democrat coalition has the potential to save Republicans from themselves on fairness issues, even though it could lead to a deficit package with fewer new tax deductions and slightly greater spending authorizations.

The internal priorities of a five-year, $500 billion deficit reduction package are less important than its framework. The country cannot stand the panic that would follow a significant rundown in the stock market, run-away from Treasury bills runup of interest rates.

Deficits of the current gargantuan magnitude are sinkholes in the road to economic recovery. They jeopardize the President's program and the Presidency itself.

Credible deficit reduction can only be achieved if the politics of fear give way to the recognition that what is micro-politically jeopardizing for individual politicians is macro-economically sound for the country; if liberals develop a functioning spleen to go with their heart; if conservatives reflect a greater judgment and sense of equity to temper their convictions.

Me-generation citizens cannot afford me-generation politicians. □

Jim Leach, Republican of Iowa, is a member of the House Banking Committee.

The New York Times

A Tax Cut That Deserves to Die

President Bush's obsessive campaign to cut the capital gains tax may finally have been buried by his fellow Republicans.

He remains somewhere between flip and flop. First, he signaled Congress he would swallow a deficit reduction package that linked a higher income tax rate for the rich to a cut in the tax on capital gains. The concession sent the Democratic chairmen of the House and Senate tax-writing committees off to work out a detailed proposal.

Then, only hours later and after heavy lobbying by House and Senate Republicans, Mr. Bush reversed himself by agreeing to no such deal. Yesterday he denied coming to any conclusion.

Whatever the reason for the President's flip-flops, the deal has been at least temporarily derailed. That's welcome because it would have wrecked the tax code and harmed the economy. It deserved to be buried, once and for all.

The idea looks equitable. Capital gains are overwhelmingly earned by families with annual incomes above $150,000. By raising the top income tax rate and cutting the tax on capital gains, the rich pay for their own tax shelter. But the appearance is deceiving. At tax rates close to the levels Congress has in mind, the wealthy would come out way ahead.

Fairness is not the only problem. The Bush Administration has persistently exaggerated the potential benefits of cutting the capital gains rate below 20 percent, contending that economic output would rise by $12 billion a year for the first five years. Frankly, a $12 billion boost to a $6 trillion economy doesn't amount to very much. But even $12 billion is a wildly inflated estimate.

Alan Auerbach, an economist at the University of Pennsylvania, provided Congress with compelling evidence that the Administration plan would cause output to rise by at most a billion a year and might well cause output to fall. A tax cut could spur the economy only if it led to increased rates of capital investment. And that would happen only if the tax cut caused savings to rise.

Yet the tax cut would not affect foreign investors or pension funds and other tax-exempt savers. So the entire burst of savings would have to come from domestic taxpayers who, according to Dr. Auerbach's estimate, would have to boost their savings by a preposterous 25 percent.

The Administration's case is weaker still. The tax cut would eventually widen the Federal deficit. That means saving would fall, dragging down investment and productivity.

The White House and its supporters have argued that a lower capital gains tax would free investors to sell old investments and reinvest. Maybe, but merely shuffling old assets creates nothing.

In short, it is hard to take the Administration's claims seriously. If growth were really the goal, Mr. Bush would have restricted his proposed cut to new investment. By including old assets, he rewards his political supporters, not the economy.

The President scuttled the deal at least for now because of a benighted campaign pledge not to raise income taxes. Wrong reason. Right outcome.

The Washington Post

Thursday, October 11, 1990

The Washington Post

President's Stance Seen Hurting GOP

Perceived Sympathy Toward Rich Said to Put House Seats at Risk

By Paul Taylor
Washington Post Staff Writer

With fears of a recession growing, the widespread media portrayal of President Bush as having sided with the wealthy in his budget negotiations with Congress led election analysts yesterday to downgrade Republican prospects in next month's midterm elections.

"It's unfortunate tactically in terms of how this budget story has been played in the media that you have George Bush clinging to a capital gains tax cut and seeming to favor the rich," said Bill McInturff, a Republican pollster. "That's not the hook you want on the story."

"I'm afraid we're in a free fall," said a top GOP campaign strategist who asked not to be identified. "With the president waffling on the tax issue, our base is eroding and the Democrats' base, especially among senior citizens, has a real chance to firm up."

For most of the year, pollsters have been warning of voter frustration at politics as usual, but until now most had concluded that the discontent had a bipartisan cast. But two polls released this week before the confusion over Bush's position on taxes suggest that Republicans may be more at risk.

According to a survey taken by the Wirthlin Group for the National Republican Congressional Committee (NRCC), by 69 to 25 percent voters think the country is heading in the wrong direction. Another survey for the Los Angeles Times showed that Bush's approval rating is down to 55 percent, the lowest level of his presidency and 21 points below where it had been in mid-August.

The Wirthlin Group's "right direction/wrong track" numbers are the lowest since the last months of Jimmy Carter's presidency, when the Iran hostage crisis and runaway inflation and interest rates darkened the public mood and helped elect Ronald Reagan.

"When the numbers get to these levels, of course you're concerned," said Marc Nuttle, political director of the NRCC. "It's not the sort of environment where you want to be identified with the administration in power."

Many analysts said these risks for Republicans could be compounded by news reports of a GOP president seeming to waffle on the issue of higher taxes for the rich.

"The headlines around the country today are devastating for Bush—I'm really stunned by the way the president has handled this," agreed Thomas E. Mann, director of government studies at Brookings Institution. "It seems to me that it's the worst misjudgment of his presidency, and he's created a brand new opening for the Democrats."

Mann, a specialist on Congress and congressional elections, added:

"Until this week, I thought Democrats would be afraid that if there was no budget deal before the election, they'd pay a price, because voters would say, 'A pox on everybody's house,' and there are more Democratic incumbents than Republican. Now, I think they can play their 'fairness card' and talk about how they couldn't get a deal because they are trying to get the president to tax the rich and spare the elderly."

The headlines Mann referred to summarized news reports that Bush had sent out conflicting signals about whether he would support an upper-income bracket tax rate increase as part of a budget deal that would also lower capital gains taxes. They included the lead front page headline in Wednesday's USA Today that read, "Bush: Yes, then no on taxing rich." In the Evening Sun of Baltimore, it was, "Bush Flips, then Flops on Tax Rates for Rich." In The Washington Post it was, "Bush Wavers on Taxing Rich as Senators Protest." In Hot Springs, Ark., the headline said he "Recants," in Hudson County, N.J., he "Blinks," in Sioux Falls, S.D., he "Backs Off."

Mann said that before this week he had been guessing that Republicans would lose only five seats in the House next month and perhaps gain a seat or two in the Senate, an excellent projected midterm showing for the party of an incumbent administration. Now, Mann predicted, unless Bush can regain control of the chaotic budget process, "Republicans could lose as many as 15 to 20 House seats." That would mark their worst congressional showing since since 1982 when, in the midst of a recession, the GOP lost 26 seats in the House.

Democrats delighted in the opening provided by Bush's performance on the tax issue. "George Bush has two Achilles' heels—'rich' and 'wimp'—and he managed to expose both of them on the same day," Democratic pollster Harrison Hickman said.

Fed Board Wavers On Interest Rate Cuts

By John M. Berry
Washington Post Staff Writer

Federal Reserve policy makers agreed last week to cut short-term interest rates slightly in response to a budget agreement, but they balked at commiting themselves now to another cut to counteract any further deterioration in the economy, according to well-informed sources.

The caution within by the Federal Open Market Committee (FOMC), the central bank's secretive top policy-making body, not only underscored a deep concern about a stubborn inflation rate but also reflected basic doubts about how effective the Fed can be in reversing the current economic slowdown by reducing interest rates.

The Bush administration, its own hands tied by the budget deficit, has been calling on the Fed to cut interest rates to avoid further economic damage.

Two days after the $500 billion federal budget deficit package was reached last week, the members of the FOMC agreed that the measures should trigger a cut of a quarter of a percentage point in short-term rates as soon as it became law, according to the sources.

Although there are growing signs of weakness in the U.S. economy, the FOMC did not go along with a suggestion by Fed Chairman Alan Greenspan that it also approve a second cut linked to signs of a further economic weakening, the sources said.

As it happened, because the original deal was defeated, the promised initial rate cut also remains on hold. Its implementation likely will depend on how close the terms of any future deal are to the defeated measure.

With consumer and business confidence slumping and with higher oil prices cutting into spending power, the FOMC members doubted that lower short-term interest rates would actually give the economy much of an immediate boost. On the other hand, pushing more money into the nation's banking system at this point could worsen inflation later.

Most of the committee expressed concern that a poorly timed cut could backfire if it increased investor worries about future inflation.

If inflation expectations rose, long-term interest rates—which affect such key sectors as housing and business investment—likely would go up. The Fed has little control over these rates.

The committee majority, deeply concerned about an inflation rate that appeared to have been headed well above 5 percent even before the Iraqi invasion of Kuwait, does not want to pump so much money into the economy that escalating oil prices begin to spread into the economy, inflating wages and prices of other goods, the sources said.

Several members of the committee questioned whether it would be appropriate to try to use monetary policy to try to offset the economic impact of a classic supply shock—an actual or feared shortage of oil—to the economy.

For one thing, the group argued, the full impact of earlier cuts in short-term rates, some of which are nearly 2 percentage points lower than they were in the spring of 1988, has yet to show up in the economy. The Fed last cut rates by a quarter of a point in mid-July.

Other members were also worried that a drop in rates could further undermine the value of the dollar, which this week fell to a record low compared with the German mark and is down more than 15 percent in recent months against the Japanese yen. A cheaper dollar can help sales of U.S. goods and services abroad, but it also makes imported goods more expensive and can add to inflation.

Balanced against these views is the belief of many private economists that the economy is in a recession—that is, that the nation's production of goods and services is declining significantly—and that it will continue to decline for some time to come.

Most of the recession forecasters and many other economists who are predicting very weak growth but not an actual recession want the Fed to cut interest rates to boost the economy.

The day following the closed meeting, Greenspan endorsed the pending budget deal, saying it "appears to be a credible, enforceable reduction in the budget deficit, stretching over a number of years. . . . Failure to enact the agreement would, in my estimation, be a grave mistake."

Members of the FOMC, who include Greenspan and the other five members of the Fed board as well as five presidents of regional Fed banks, did not believe that the deal would produce anything like the claimed cumulative $500 billion reduction in the deficit over the next five years, the sources said.

Too much of the savings appeared to be due to projections of rosy economic growth and falling inflation and interest rates in the later years. But committee members still felt that many of the spending cuts and tax and fee increases would help reduce future deficits significantly and therefore were prepared to cut rates once the package passed.

House Member Backs S&L's Cause After Contributions

By Joël Glenn Brenner
Washington Post Staff Writer

Officials of one of Maryland's largest savings and loans, facing a proposed federal rule that could force their S&L out of business, contributed $12,000 to a senior Democrat on the House Banking Committee, who later became the champion of their cause in opposing the rule.

The contributions by 14 officials of Gaithersburg-based Standard Federal Savings Bank, the state's third-largest S&L, were made in February, March and April to Rep. Frank Annunzio (D-Ill.), who later called a hearing on the proposed rule, spoke out against it and asked for a General Accounting Office inquiry into the rule's effects.

Annunzio did not initially disclose the connection between the contributors and the S&L in his campaign financing reports. Under federal law, a congressional campaign is expected to disclose the occupation and employer of anyone who gives more than $200 in an election cycle.

Annunzio said he is amending his filings to reflect the occupations of the Standard Federal officials. The Federal Election Commission (FEC) is questioning Annunzio's initial lack of disclosure, which was first reported by the National Journal.

According to FEC reports, a dozen other S&L executives also donated money to Annunzio in the first half of the year. The contributions come at a time when many in Congress are refusing to accept money from S&Ls—and when some are even giving contributions back—because of the perception that S&L campaign contributions helped create the current savings and loan debacle by influencing congressional decisions that were part of a faulty regulatory environment.

The proposed rule, which has caused an uproar in the mortgage industry, would place new restrictions on S&Ls that service home mortgages—that is, transferring monthly mortgage payments from homeowners to their lenders and handling other administrative chores associated with mortgage lending, such as payments of property tax and insurance.

Standard Federal services more mortgages than any other thrift in the nation, with $25.6 billion of mortgages as of June 30. But the proposed rule being considered by the Federal Deposit Insurance Corp. would alter the way these mortgages are recorded on the S&L's books, making Standard Federal insolvent.

Annunzio has said the regulations would be a burden on the S&L industry because it would push thrifts "that much closer to destruction." The FDIC says the change in accounting is needed to protect the insurance fund against the risks associated with mortgage servicing.

Shortly after the FDIC proposed the rule, Standard Federal officials began donating money to Annunzio, the banking committee's No. 2 Democrat and chairman of the House banking subcommittee that oversees financial institution regulation.

During February and March, four Standard Federal officials, including Chairman Allan Lang and his son Marvin, who is vice chairman, gave $1,000 apiece to Annunzio's reelection effort. Annunzio's reports to the FEC provided some information on the donors' occupations, but none of them was identified as working for Standard Federal.

In contrast, when Marvin Lang contributed to other campaigns this year, including donations to Rep. Jim Saxton (R-N.J.) and Rep. Steny Hoyer (D-Md.), he was identified in campaign reports as a Standard Federal employee. It's unclear whether Lang identified himself or whether those fund-raisers sought out his affiliation.

At about the same time as the Langs' contributions, Annunzio's campaign received separate $200 contributions from 10 other Standard Federal officials and their spouses. The 20 contributors, who included Standard Federal's president Emmett R. Garlock and many of the S&L's top-level managers, gave another round of $200 contributions in April. In reports to the FEC, Annunzio listed the donors' occupations as "unknown, to be obtained." The Standard Federal officials were the only individual contributors not identified by Annunzio in his FEC reports.

Following the initial campaign contributions, a Standard Federal executive also met with Curtis Prins, chief counsel to Annunzio's subcommittee, to discuss the rule. And another Standard Federal executive testified against the rule at a March 28 hearing before Annunzio's subcommittee.

Standard Federal officials declined to return repeated telephone calls.

Prins said he became concerned about mortgage servicing before he met with Standard Federal's vice chairman Marvin Lang. He said Lang was one of a number of thrift executives who had expressed concern over the proposal—concern that had been similarly expressed by other members of Congress, particularly Rep. Barney Frank (D-Mass.). The Resolution Trust Corp., the agency handling the cleanup of failed S&Ls, also has come out against the rule, saying it would render $130 billion of mortgage servicing contracts held by the RTC worthless overnight.

"Long before any of these [thrift executives] came in, we had established this was one of the areas we wanted to look into," Prins said.

He said the hearing on mortgage servicing was requested by Frank and other members of Congress, and was set up long before Phillip Bracken, a Standard Federal senior vice president, expressed interest in testifying. Bracken was asked by a group of thrift executives who have been lobbying against the rule to speak at the hearing on their behalf, Prins said.

"Had the campaign contributions been made or not made, it wouldn't have affected the decision to hold these hearings at all," Prins said. "I didn't even realize that Bracken was affiliated with [Standard Federal]."

Prins also said he did not know that Lang and other Standard Federal executives had contributed to Annunzio's campaign.

Kevin Tynan, Annunzio's campaign manager, said the $200 donations—one batch of which arrived prior to March 30 and the second of which arrived April 11—were made for a fund-raising dinner held April 23 at the National Democratic Club.

Tynan said it wasn't unusual for the 20 checks to arrive all on the same day.

"It could be that one person or a couple of people were gathering them and bundling them and sending them to us," he said.

Tynan said the missing identification of the donors "wasn't caught" by campaign workers until the day the FEC filings were due. He said that letters were subsequently sent to each of the individuals to ascertain their occupations and that Annunzio's FEC filings are being amended to reflect the contributors' association with Standard Federal.

Standard Federal has been lobbying intensely against the FDIC proposal, which was prompted by last year's savings and loan cleanup bill that mandated new restrictions on an S&L's capital—the amount of money that thrift owners must reserve on the books to protect the FDIC fund from potential losses.

The proposed rule would allow the value of mortgage servicing contracts to count for only 25 percent of capital. In the past, S&Ls faced no such restrictions and counted the entire value of the contracts toward minimum capital requirements.

But many questions have been raised about the actual market value of mortgage servicing contracts. In addition, there are a number of risks associated with mortgage servicing, including the risk of the large investment in equipment and manpower needed to service large mortgage portfolios.

The FDIC says the new restrictions on capital will protect the FDIC fund against these risks.

But if the new rule goes into effect as proposed, Standard Federal would need to raise more than $100 million in cash to continue operating its huge mortgage servicing business. The Maryland S&L already has been classified by thrift regulators as a "troubled institution" because it falls $54 million short of the current minimum capital requirements, and it is operating under a supervisory agreement with S&L regulators.

In its 1990 annual report, Standard Federal said it is "uncertain what impact any final amendment [to the rule] might have on the savings bank's future operations or its capital position."

Federal regulators, who declined to be identified, said the rules would hit Standard Federal hard, forcing the S&L into insolvency. Federal regulators could then take control of the thrift or close it.

"This ruling represents a life or death situation for them," said an FDIC attorney who asked not be identified. "They've built their entire business around this—and quite frankly, that's exactly the kind of thing that worries us."

The FDIC was supposed to make a final ruling on its proposal in July. However, the enormous debate surrounding the proposal has forced it to delay the decision until the end of the year. Public comment on the rule is being extended through Nov. 13.

Uncertainty at White House Leaves Tax Writers Confused

By John E. Yang
Washington Post Staff Writer

Uncertainty over whether President Bush will accept a higher income tax rate for the wealthiest Americans in exchange for cutting capital gains taxes threw congressional tax writers into confusion yesterday, seriously diminishing prospects for a quick solution to the months-long fiscal impasse.

The House Ways and Means Committee approved a stripped-down, five-year $145 billion tax package that puts off fights over higher income tax rates, capital gains tax cuts and tax breaks for other investments.

Administration officials, meanwhile, spent much of yesterday shuttling across the Capitol, meeting with anxious House and Senate Republicans in an attempt to calm them and clarify the president's position. Bush set off the controversy Tuesday by first publicly suggesting his willingness to accept a capital gains cut-income tax rate exchange and then giving a group of protesting GOP senators the impression he was backing off that position.

Campaigning for Republican candidates in three southern states yesterday, the president steadfastly refused to clear up the confusion. Asked in St. Petersburg, Fla., if he would clarify his position on the tax issue, Bush said, "Let Congress clear it up."

White House press secretary Marlin Fitzwater made an effort to put a lid on the controversy, refusing to clarify Bush's remarks, explain them or withdraw them. By early last night, after being pressed a half-dozen times on Bush's current position, Fitzwater said, "I want to bob and weave on this today."

Asked why, he said, "Because we want Congress to come up with a package. We don't want to signal on any specific provision."

The disarray in the administration and on Capitol Hill makes it increasingly unlikely that lawmakers will be able to meet their self-imposed deadline of Oct. 19 to settle details of tax increases and spending cuts to meet the budget resolution's goal of saving $500 billion over five years, $40.1 billion of it in the fiscal year that began Oct. 1.

"It's not impossible," said House Budget Committee Chairman Leon E. Panetta (D-Calif.). "But it will take a hell of a lot of cooperation."

Bush has said 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. In Atlanta yesterday, Bush said, "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."

The president had appeared to clear the way to a quick agreement Tuesday by saying he would be willing to give up one 1988 campaign promise, not to raise income tax rates, in order to win another, cutting capital gains taxes. House Ways and Means Committee Chairman Dan Rostenkowski (D-Ill.) and Senate Finance Committee Chairman Lloyd Bentsen (D-Tex.) each planned to propose both higher income taxes on the rich and lower capital gains taxes, which in general benefit the rich.

After a White House meeting with Bush early yesterday morning, Rostenkowski devised a strategy of approving a bare-bones package of tax increases and benefit program savings and then fighting out such issues as higher taxes on the rich, lower taxes on capital gains and Medicare savings on the House floor, according to committee aides. One Democrat on the committee called the scheme "punting on first down."

Meanwhile, the Senate Finance Committee twice postponed and then canceled a meeting yesterday. "I had the deal all worked out until the president changed his position," Bentsen said. Panel Democrats met into last night trying to figure out how to proceed.

Bentsen said he will meet with the full committee today to outline his plans. "We've got good options," he said. Asked if a capital gains tax cut and income tax rate hike for the rich would be among them, he said, "That'll be one of the options."

Democrats seized on the confusion in an attempt to blame Republicans for what could be an extension of the already protracted budget deadlock. "We Democrats are still trying to negotiate, but we don't know who to negotiate with," said Sen. Wyche Fowler Jr. (D-Ga.). "Until the president pulls his party together and speaks with one voice, it's very, very hard to do what we must do for the sake of the country."

Republicans, meanwhile, sought to turn the tables on the Democrats, who have argued that tax rates for the wealthiest would have to be increased to offset the benefit of a capital gains tax cut. "Some Democrats are now trying to force us to take capital gains in order to get more money by raising tax rates," said Senate Minority Leader Robert J. Dole (R-Kan.).

Treasury Secretary Nicholas F. Brady and Office of Management and Budget Director Richard G. Darman met with House and Senate Republicans in the Capitol. Sources said some House Republicans feel the administration has not given them adequate attention throughout this process. Rep. Mickey Edwards (Okla.), chairman of the House Republican Policy Committee, arrived at the meeting room just as Darman did. Edwards put out his hand and said, "Hi, I'm Mickey Edwards. Pleased to meet you."

House Republicans are expected to meet today with Bush at the White House.

The package the House Ways and Means Committee approved by voice vote after meeting behind closed doors for nearly five hours closely follows the tax and benefit program provisions of the failed budget summit agreement.

It would drop all the tax breaks, including the contentious package of breaks for investments in new small companies, that were contained in the original and rejected budget plan. The new plan also would raise federal taxes on gasoline from 9 cents a gallon to 20 cents a gallon, rather than 21 cents a gallon as envisioned in the budget agreement. It would exempt home heating oil from the proposed 2-cents-a-gallon tax on refined petroleum products.

After heavy lobbying by the trucking industry, the plan also would apply a 9-cents-a-gallon fuel tax to railroads, the first time that industry has been covered by such a tax.

Rostenkowski also restored the

The Washington Post

THURSDAY, OCTOBER 11, 1990

Years Late, U.S. Apology Is Still Sweet

By Carlos Sanchez
Washington Post Staff Writer

The beam from the policeman's flashlight awakened K. Patrick Okura in his bedroom and made him realize, on that December night 49 years ago, that his American citizenship meant nothing.

His father was arrested that night; Okura and his new bride were spared.

Earlier that day, Japanese war planes had attacked Pearl Harbor, drawing the United States into World War II and ushering in an era of prejudice and hysteria against people of Japanese descent.

"It was terrifying," Okura said of the period being recalled this week as the U.S. government begins fulfilling its commitment under the 1988 Civil Liberties Act—to officially apologize to more than 60,000 surviving Japanese-Americans who were interned during the war.

An estimated 3,000 of the 5,000 Japanese Americans living in the Washington metropolitan area were taken from their homes, and qualify to receive a monetary award.

Okura, 79, of Bethesda, recalled that the hysteria against his people began almost immediately on the day of the attack, Dec. 7, 1941. The FBI, aided by federally deputized police officers, arrested more than 2,000 community leaders of Japanese descent along the West Coast—including Okura's father and father-in-law.

For Okura, among the first group of 23,000 Japanese Americans scheduled to receive a $20,000 check and a written apology from President Bush, this federal atonement is a long-awaited validation that democracy works.

"Despite the injustices that may exist in our system of democracy, if you stick to it, if the cause is right, then you do have a chance of righting the wrong," he said.

This redress, estimated to cost $1.25 billion, comes 48 years after President Roosevelt signed Executive Order 9066, which resulted in the internment of more than 120,000 Japanese Americans, 70 percent of whom were U.S. citizens.

"Not only the authorities, but the public was unfriendly. Hostile. Nasty," he said.

See REPARATIONS, D5, Col. 1

REPARATIONS, From D1

Okura and his wife, Lily, both retired, spent most of their first year of marriage living in a temporary internment camp on the grounds of Santa Anita raceway, near Los Angeles.

Okura, the highest-ranking Japanese American working for the City of Los Angeles, was accused of plotting against the government.

A syndicated newspaper columnist said the American-born psychologist, who earned a master's degree at UCLA, was trying to pass as Irish by spelling his name O'Kura.

The column said Okura had recruited 50 Japanese Americans into city service, and was leading a plot to sabotage the city's water and power plants. Twice, the mayor asked him to resign after the false allegation was published and twice he refused, Okura said.

Years later, after requesting his FBI file through the Freedom of Information Act, Okura found out the mayor had labeled him the most dangerous Japanese in the city, and ordered the police department to investigate him.

Okura and his family were among the first 7,000 Japanese Americans to receive notices from the War Department in March 1942 that they were being interned as threats to national security. They were ordered to report to the race track for a two- to three-week stay, until permanent facilities were built in remote sites in 11 states. Not a single incident of espionage involving Japanese Americans was ever documented.

The young Okura couple, along with their mothers and siblings—the fathers remained separated from them for three years—lived in horse stables for the next nine months, witnessing the arrival of 19,000 others in that location alone, and experiencing one of the most blatant breaches of civil liberties in U.S. history.

"It was a very sad time," Okura said, describing an encampment where he and his wife lived in an 8-by-8-foot tack room that smelled of horses. They considered themselves lucky because they had privacy.

Okura and his wife were allowed to leave the internment camp when a Catholic priest in Omaha sponsored them and six other families for jobs in the Boys Town youth home. One of his younger brothers got out of the camp by volunteering for the all Japanese American 442nd Regimental Combat team, and was killed in action.

"This is a very significant historical event in our lives," Okura said of the reparation program, the culmination of more than a dozen years of heated lobbying efforts. Okura and his wife said they intend to donate their $40,000 to the Okura Trust Fund, which he established with $25,000 two years ago. The fund gives stipends to Asian Americans for leadership training in the human services field.

Despite the indignities he experienced, Okura said he is not bitter. "How one handles hardships makes you a better person," he said. "You accept it and make the best of it."

Senate Shelves Cuts In Social Security Tax

Moynihan Bill Scuttled by GOP Maneuver

By Helen Dewar
Washington Post Staff Writer

The Senate yesterday shelved a proposal by Sen. Daniel Patrick Moynihan (D-N.Y.) to cut Social Security payroll tax rates after Republicans succeeded in blocking consideration of the measure on grounds it violated congressional rules against budget-busting.

The Senate voted 54 to 44 in favor of the waiving the rules, falling short of the 60 votes needed to consider a bill that exceeds revenue or spending limits. The vote apparently doomed the proposal for this year.

Scuttled along with Moynihan's proposal were amendments to repeal the current limitation on earnings by Social Security recipients and to increase payments to Social Security beneficiaries born between 1917 and 1926, the so-called "notch babies" for whom benefits were reduced in a 1977 formula change.

Altogether, the proposals would have cost nearly $170 billion over five years, threatening to put a big hole in the five-year, $500 billion deficit-reduction package that Congress is attempting to pass before it adjourns this month. Election-year politics appeared to play as big a role as budget considerations in the outcome, as Republicans scrambled to find a way to scuttle the measure without having to vote directly against it.

Moynihan created a stir late last year when he proposed the Social Security tax rollback as a way of eliminating huge surpluses in the retirement trust fund that he said were being used to mask the true size of the federal budget deficit.

In a modified version of the proposal, Moynihan recommended scaling back the payroll tax for Social Security, exclusive of Medicare, from 6.2 percent to 5.1 percent over the next six years. For the same period, he proposed to increase the amount of wages subject to the tax, raising the wage level to $85,500 by 1996 instead of $70,500.

In invoking budget rules to block consideration of the proposal, Sen. Ted Stevens (R-Alaska) contended that proposing such a tax rollback without saying how it would be paid for amounted to "demagoguery." Either the Social Security trust fund would be undermined or other taxes would have to be increased, he argued.

Claiming a moral victory because a majority of the Senate indicated approval of his proposal, Moynihan vowed to bring it up for a vote every year until it passes.

Sens. Paul S. Sarbanes (D-Md.) and Barbara A. Mikulski (D-Md.) voted to waive the budget rules to allow consideration of the bill, while Sens. Charles S. Robb (D-Va.) and John W. Warner (R-Va.) voted against doing so.

Tax Confusion and a Party Divided

Amid Conflicting Strategies, Many in GOP Still Unsure of Bush's Aims

By Dan Balz
Washington Post Staff Writer

The confusion over President Bush's stand on higher tax rates for wealthy taxpayers, which played out Tuesday in an embarrassing and politically damaging sequence, reflects deep divisions inside the administration over budget strategy and sharply conflicting approaches favored by House and Senate Republicans.

Scrambling to maintain Republican unity in the face of the Democratic majority in Congress, the White House has found itself mired in disagreement with no clear way out. Many loyal Republicans, in and out of the administration, say they are uncertain what the administration is trying to do now. Bush said it was up to Congress to clear up the confusion.

Bush reportedly was not happy with the way events unfolded Tuesday. But White House Chief of Staff John H. Sununu and Office of Management and Budget Director Richard G. Darman continued to work to block any new agreement that strays too far from the package soundly rejected by the House last week.

White House officials said they had agreed that Bush's message during his news conference Tuesday was that he was not ruling out or in any specific provision and that all issues were on the table in the new round of budget negotiations with Congress. Instead, when asked if he were now willing to accept higher rates to get a capital gains cut, he 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."

Watching the performance on television, one administration official said, "I almost fell off my chair" because what Bush said "went well beyond what we thought was the position."

A senior administration official said the confusing events that followed were "just a replay of the argument we have been having within the administration for the past 36 hours."

Sununu, Darman and Treasury Secretary Nicholas F. Brady "want to close the deal and believe any reopening of these problems you couldn't solve over weeks and weeks will make sure you can't close the deal at all unless it is on straight Democratic terms," the official added.

But complicating White House strategy-making was the conflict between senior Senate Republicans, who fear Bush cannot strike a good deal with the Democrats, and many House Republicans, who once opposed increasing tax rates but are now talking about being willing to do so.

What happened Tuesday? The simplest explanation may be that Bush went farther than intended during his news conference and then backed off less than Sen. Bob Packwood (R-Ore.) suggested when he told reporters that Bush had "acquiesced" to the Senate Republicans.

Bush opened the door to a rate hike in exchange for a cut in capital gains taxes Tuesday morning, then appeared to allow a group of Republican senators, aided by anonymous White House aides, to slam it shut hours later after a meeting at the White House.

Yesterday morning, after seeing the portraits of confusion on television and in the newspapers, Republicans attempted a partial retreat from the apparent flip-flop.

"He didn't make any decisions [Tuesday]," Senate Minority Leader Robert J. Dole (R-Kan.) said of Bush's reaction to the GOP senators' recommendation that he take the issue off the table. "He listened to us. He didn't announce his position at all. He didn't acquiesce."

Seventeen senators visited the White House late Tuesday afternoon. There are conflicting reports about how they ended up there. One account said Dole and Packwood decided they wanted Bush to know of opposition among Senate Republicans. Another account said that Sununu and Darman, knowing the senators' views, wanted Bush to hear them firsthand in an effort to push him back from his morning statement.

Some White House aides backed up Packwood's statement, with Sununu telling a business group later that higher rates were off the table.

The White House divisions, which are more tactical than ideological, grow out of the administration's desire to bring back into the fold House Republicans who voted against Bush and the package last week. What has astounded White House officials is that many of those same Republicans, including House Minority Whip Newt Gingrich (R-Ga.), have been talking up a new compromise that would include higher rates in exchange for capital gains.

One official said that those who now favor striking a deal believe that the top rate on the richiest taxpayers eventually will be increased and that it behooves the Republicans to get something for it, such as capital gains tax cuts, when they can.

Vice President Quayle in particular has sided with House Republicans, largely to build unity.

But the administration now faces a difficult strategic decision. Senate Republicans, because of their numbers, are a potent force in the negotiations. They have the votes to sustain a presidential veto of any final package that Bush dislikes. House Republicans, far more a minority, are seeking a role in the action in the House, which is dominated by Democrats.

One Democrat said Bush's only real hope is to negotiate with Democrats in the House and a bipartisan coalition in the Senate.

White House officials also fear that some of the House Republicans now favoring a deal on higher rates may be using it to appear reasonable but ultimately want to derail the negotiations and turn the fight into a partisan battle.

Bush has said privately that he still fears political damage if he bows to higher rates, although political advisers have told him "it's no big deal." He also has been told that the Democrats already have won the argument because the president is now seen as defending the rich.

The current Sununu-Darman strategy appears to be aimed at persuading House Republicans, who have been invited to the White House today in waves, to abandon their talk of raising tax rates in order to unify the party in both chambers and then hang tough. What was unclear yesterday was where Bush now stands.

Michael Kinsley

Capital Gains Dementia

We have reached a nadir of dishonesty in the budget debate when some Republicans justify their opposition to cuts in Medicare benefits by defining such cuts as a "tax increase on the elderly." We also have reached a nadir of illogic when Democrats propose to exchange higher top-bracket tax rates for a cut in the capital gains tax.

Although the rich should certainly pay more taxes, there is nothing wonderful about higher tax rates as such. Higher tax rates do discourage economic activity. There are plenty of ways to sock the rich without raising marginal rates—by closing loopholes instead. Sen. Lloyd Bentsen's idea of raising the "alternative minimum tax"—the tax you pay if you take too many deductions—is a good technique for doing this through the back door.

To raise marginal rates and then give back the money through a capital gains break is doubly crazy. Fairness aside, the problem with a capital gains break is that it violates the principle of tax neutrality: letting the market, rather than tax considerations, dictate economic decisions. Neutrality is a good capitalist notion: it holds that the free market knows better than the government how resources can be used most efficiently.

Raising the ordinary tax rate while cutting the capital gains rate makes the distortion even worse. The bigger the gap, the bigger the opportunity to create tax shelters. Many of the Democratic Party's contributors and fundraisers are in exactly the lines of business—real estate, oil and gas, entertainment—that would benefit most from the combination of a higher top tax rate and a new capital gains break. I say no more.

The New York Times advocates "a tax cut that is limited to new investment in venture capital and other risky start-up companies." Many others are tempted by the idea of sorting out the "new" or "risky" investments and only giving a tax break to these. But the problems of definition—and the certainty that clever lawyers will bend them out of shape—merely illustrate the conceptual fallacy. Why give a break to a new company but not to an established firm that wishes to branch out into a new product line? And so on.

The tax code already gives a big break to capital gains compared with other forms of investment income. Capital gains accrue tax-free until you choose to liquidate the investment. By contrast, you pay tax on interest income every year. For an investment yielding 10 percent annually and held for 20 years, the after-tax profit on a capital gain is almost 50 percent larger. And capital gains on investments held when you die escape tax completely—a $5 billion annual loophole.

To index capital gains for inflation—another frequent suggestion—would increase the bias against other forms of investment. Like a capital gain, interest income is partly compensation for the erosion of your principal. And if you start indexing the tax on profits, you also should index the deduction for borrowing costs. Part of the interest paid on debts also merely compensates for the erosion of principal. If people can borrow money and deduct all the interest, then invest it but pay tax only on the profit above inflation, they are going to screw up the economy and the federal treasury but good.

Some people—most notably the editors of The Wall Street Journal—argue that the limit on deducting capital losses makes the tax on capital gains unfair. Here we reach the farthest shores of capital gains dementia. Watch closely. Capital losses are fully deductible each year against capital gains of the same year. Beyond that, you can deduct up to $3,000 a year of capital losses against your ordinary income. And you can "carry forward" any losses beyond $3,000 for use in future years.

So ask yourself: Who is hurt by the limit on capital losses? Two groups come to mind. First there are those who, year after year, lose more than $3,000 on their investments. Such people are surely to be pitied. But they are hardly the key to a thriving economy. And the capital loss obsessives seem remarkably well-dressed to pass for such losers.

In truth the capital loss limitation affects a larger and more prosperous group: those who can arrange their affairs to generate capital losses while actually doing quite well, thank you. The key point about capital gains and losses is that you can choose when to take them. With no limit on capital losses, it would be easy to create transactions that generate huge gains and losses in roughly equal amounts. You take the loss (thereby reducing the tax on your other income) and postpone the gain—perhaps indefinitely. *Et voila!*

In one of its recent screeds on this subject, The Journal gave this game away. "If you allowed full deduction of losses, the capital gains tax probably wouldn't raise any revenue and might as well be abolished," it sneered. But surely The Journal does not envision an economy with no net capital profits. That would be an ironic result of taking The Wall Street Journal's advice. What The Journal actually envisions is an economy with lots of profits, but no tax on them. There's nothing wrong with profits, but there's nothing wrong with taxing them either.

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George F. Will

Deals and Delusions

This was the week when the real George Bush stood up, and a bipartisan chorus told him to sit down until he has learned his lines.

One morning he said trading higher taxes on the rich for a lower capital gains tax rate might be "fine." That afternoon, after some Republican senators told him otherwise, he indicated he would not touch such a smelly trade with tongs. An impertinent Democrat wondered what Bush would think on the morrow; some Republican senators said he had not said what some other Republicans said he said.

Does it matter? It is all only words, and in Washington today words are like chips in a casino—plastic parts of a game.

Evidence that Washington is, strictly speaking, deranged—literally disconnected from reality—includes Richard Darman's statement on Sunday television that Bush did not do what the nation saw him do. Darman, the budget director, said the president, in his television 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. ... "

Darman insists the president actually said "in effect, to congressmen, not the American people, to congressmen, 'I'm telling your constituents this is a hard vote for you.' " Oh. The president goes on three networks to address 535 people 16 blocks away? Apparently even when using the mass media, Washington talks only to itself. This is Washington solipsism: Nothing but us exists.

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 is lurking in the question: He is popular because he makes minimal use of power.

He ran a blue-skies campaign and even just 8 1/2 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.

BY ELEANOR MILL

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 one percent. 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 0.06 percent. 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, as in Darman's gloss on Bush's speech, is unsurprising. If all this were purely cynical, it would be less alarming than 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. The best face that can be put on all this is put by Sen. Phil Gramm (R-Tex.), 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 adopted and 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 political catastrophe because people hate socialism that comes with a price tag.

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

Republicans vs. Republicans

ON THE budget, the daily shifts and convulsions within the Republican Party are more interesting and probably more important than the related feuding between the Republicans and Democrats. Rarely does it happen that an otherwise popular president is twice shot down by members of his own party on more or less the same major issue but from different directions in less than a week. But on the defining question of taxes, President Bush was first rebuffed last week by House Republicans when he proposed to zig, then coshed again the other day by Senate Republicans when he proposed to zag.

The party looks to be foundering, and in a sense it is. The elastic math of the past 10 years has finally caught up with it. No, you cannot cut taxes yet balance the budget if you are no more willing or able than the Democrats even to name, let alone subscribe to, the specific spending cuts that those contradictory goals require. But it's possible to argue—we would—that for the Republicans and the country generally this could be at least as much a liberating as a crippling set of events. The president seems to be trying to move himself and the party back from fiscal Disneyland to fiscal reality. The process isn't pretty, but that doesn't mean it is unhealthy.

The budget talks may also be in a healthier state than current rhetoric suggests, though here we are not so optimistic; the pattern in recent years has been to disappoint. The Democratic leaders also lost in the House last week. To create the kinder, gentler budget they think can pass, they have decided to ease the cuts that they and the president were supporting in Medicare and agriculture, abandon the ghoulish idea of limiting unemployment compensation on the eve of a recession and reduce the energy tax increases to which they had earlier agreed.

To finance this they suggested they would drop some business tax incentives on which the administration had earlier insisted and set up a front-loaded trade of a higher top income tax rate for a cut in the tax on capital gains. The higher rate would be felt well in advance of the gains cut.

That is the deal toward which the president seemed to be slipping at his news conference Tuesday morning—he'd make the trade if there could be a "proper balance" between the increase and the cut—and from which the Senate Republicans unceremoniously pulled him back Tuesday afternoon. No rate increase, they said.

But that doesn't take the talks all the way back to their starting point. The arguments now have to do not with whether to raise taxes or cut entitlements but with which taxes and which entitlements. A lot of steps that a few months ago were politically unthinkable have been legitimized by leaders on both sides, and both parties now have a political investment in deficit reduction that they did not before. There's still a chance.

THE SUN

LIGHT • FOR • ALL

THURSDAY

OCTOBER 11, 1990

Bush's shifts leave budget in confusion

Congress befuddled by vacillations on tax provisions

By Karen Hosler and Peter Osterlund
Washington Bureau of The Sun

WASHINGTON — President Bush continued yesterday to send conflicting signals on whether he would accept an income tax rate increase for high-income Americans, further befuddling lawmakers trying to draft into law the provisions of last weekend's budget agreement.

Mr. Bush, who said Tuesday morning that he might agree to such an increase in return for a tax break on capital gains — only to back away from that stand later in the day — refused to clarify his position when quizzed yesterday morning.

"Let Congress clear it up," he told reporters while on a campaign swing through the South.

Meanwhile, presidential aides, who initially confirmed reports from Republican senators claiming to have persuaded Mr. Bush on Tuesday afternoon not to support any rate increase, reversed themselves as well.

"Our position is we're looking for common ground," White House press secretary Marlin Fitzwater told reporters traveling with the president aboard Air Force One. "We're talking to various members [of Congress]. We aren't going to say what our position is on any specific item."

The president's public indecisiveness clearly irritated Democratic leaders — and even left a few Republicans privately rolling their eyes.

"We don't know who to deal with," said Sen. Wyche Fowler Jr., D-Ga., referring to the Democrats now hastily trying to fashion tax and spending bills that can be enacted into law by Oct. 19.

"Until the president pulls his party together, it's going to be very difficult to do anything," he said.

The Senate Finance Committee canceled yesterday's session when its reportedly furious chairman, Sen. Lloyd Bentsen, D-Texas, tried to figure out what to do next. He had decided to scrap plans to increase the top tax rate in exchange for a cut in the capital gains tax rate — but little else, it seemed, was certain.

"I had the deal all worked out until the president changed his position on this," said an obviously irritated Mr. Bentsen.

The finance panel's counterpart, the House Ways and Means Committee, found its job similarly complicated by the president's vacillations.

Chairman Dan Rostenkowski, D-Ill., also had planned to propose a cut in the tax rate imposed on profits from the sale of such assets as stocks, bonds and real estate — known as capital gains. Mr. Rostenkowski's version would have exempted from taxation that part of an asset's increased value caused by an increase in inflation. He had intended to couple that change with an increase in the top tax rate.

After meeting with Mr. Bush yesterday morning, however, Mr. Rostenkowski dropped all mention of capital gains and income tax rates. Instead, he drafted a "bare-bones" tax plan that resembled parts of the original budget summit agreement rejected last week by the House and eliminated some of the original agreement's elements.

The Rostenkowski plan, which the full Ways and Means Committee agreed last night to send on to the Budget Committee for further action, would reduce cuts in Medicare benefits to about $50 billion, from the $60 billion proposed in the summit agreement.

It also would exempt home heating oil, manufacturing processes that use petroleum as well as petroleum used in the production of livestock feed from the proposed 2 percent tax on refined petroleum products.

It would trim the proposed gasoline tax rise to 9 cents per gallon from 10 cents. And the list of luxury items to be subjected to a 10 percent surtax would be expanded to include airplanes.

In order to make up the loss of revenue from these changes, the Ways and Means Committee plan would drop the business tax incentives that had been the president's favorite part of the package.

In the midst of the general confusion yesterday, some observers said they were astonished by the president's inability to get his message across.

A lobbyist with close ties to the White House said that the vivid image of a gang that couldn't talk straight "looks awful."

"This town can stand scoundrels and thieves, but it can't stand incompetence," he said.

After being rebuffed by House Republicans on the initial budget agreement the president reached with congressional leaders, Mr. Bush has turned increasingly to the Democrats to provide him his margin of victory.

Aides say the president has adopted the pragmatic view that with only three weeks remaining before the fall elections, the objective is to come up with tax and spending legislation that accomplishes his basic goal of cutting the deficit but still attracts enough support to pass.

"We are seeing the price we pay for divided government," observed Sen. Warren B. Rudman, R-N.H. He warned that, despite the Democratic majority in Congress, Mr. Bush doesn't dare turn his back on his own party interests without risking his re-election prospects in 1992.

Diagnosing Cancer, Dr. Bush Prescribes an Aspirin

Washington.

EVIDENCE that Washington is, strictly speaking, deranged — literally disconnected from reality — includes Richard Darman's statement on Sunday television that President Bush did not do what the nation saw him do. Mr. Darman, the budget director, said the president, in his television speech concerning the budget deal, "wasn't actually asking the public to support this."

By George F. Will

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Debate centers on wisdom of bursting the tax 'bubble'

Knight-Ridder News Service

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 on higher-income taxpayers that looks like a step up and down in tax rates when displayed in a graph.

Those taxpayers 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 — that one pays on income above a set level.

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 for those taxpayers.

In 1990, for example, 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.

After the benefit of the lower rate is "recaptured" by the bubble at the 33 percent rate, 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, a married couple filing jointly would enter the 33 percent bubble at $78,400 of income, according to the Internal Revenue Service. Their tax rate would drop back to 28 percent after $185,730.

Single filers would enter the bubble at $47,050 of income. Their rate would drop back to 28 percent after $109,100.

"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 included hefty excise tax increases that hit the lower and middle classes disproportionately hard, Democrats argue that it is only fair to raise income taxes on the rich.

Said Mr. Dole: "The bubble may be the first major tax provision ever repealed because people don't understand it."

'Stand firm' on the budget, Bush tells GOP

President tours South for candidates

ST. PETERSBURG, Fla. (AP) — President Bush urged Republicans to "stand firm for the best budget deal possible" as he campaigned yesterday for Southern GOP candidates, dismissing differences with one of them on that very issue.

The president said he wielded the appropriations veto that led to a partial government shutdown because Congress would otherwise have taken last weekend off.

"I kept the pressure on, and to make the point — no more business as usual," Mr. Bush told a rally for Florida Gov. Bob Martinez.

"I didn't come down here to assign blame, but you know, I've seen these surveys," Mr. Bush said. "The American people are pretty smart. They know where the action is. And they know that Congress has the responsibility to pass a budget. And it's about time that they met that responsibility."

Earlier, Mr. Bush said in Raleigh, N.C., that if the rest of Congress were as careful with federal spending as Sen. Jesse Helms, there wouldn't be a budget crisis to begin with.

Mr. Helms denounced one budget deal Mr. Bush endorsed and voted against a temporary settlement the Senate finally approved to avert a governmental shutdown Tuesday.

"Of course there are going to be differences," Mr. Bush said at a campaign breakfast for Mr. Helms, adding that differences with the North Carolina senator "on one issue or another" were beside the point.

"The point is that if we had more senators like him, we wouldn't be trying to solve some of these problems that should have been solved months ago, years ago," Mr. Bush said.

Republican defections, especially in the House, have been a major problem for the president and congressional leaders in their efforts to strike a budget deal to cut the deficit by $40 billion this year and by a total of $500 billion over the next five years.

Mr. Bush's final campaign stop of the day was in Atlanta, home territory of Representative Newt Gingrich, the leader of conservatives who rebelled against the budget deal. The president was appearing there to raise campaign funds for Johnny Isakson, the Republican candidate for governor of Georgia.

Mr. Isakson is rated a long shot against Democratic Lt. Gov. Zell Miller.

"Right now, the federal budget process is like a huge Rube Goldberg machine, out of control — producing noise, smoke, heat and no light," Mr. Bush said at a fund-raising reception for Mr. Isakson.

"Sucking up more and more tax dollars on one end and churning them into spending programs without end."

But he said he is confident Congress can pass a sound budget.

"We've had a few days now for the smoke to clear," President Bush said.

"Now it's time to move forward."

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.

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.

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.

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.

The Tax vs. Expenditure Flap

is no reason in that case to prefer an increase in Medicare premiums, which is an expenditure cut, over an increase in the tax on beer. Suppose that your objective is to reduce the excessive allocation of the gross national product to medical care. There is no reason to prefer to do that by raising the Medicare deductible, which is an expenditure reduction, than by limiting the deductibility of medical benefits provided by employers to their workers, which is a tax increase.

(I don't want to be interpreted as defending Medicare benefits. I am in favor of cutting them as an unnecessary subsidy for people who are not poor. They are just an especially clear example of the irrelevance of the distinction between cutting expenditures and raising taxes.)

Opposition to tax increases is often based on the proposition that taxes have adverse effects on incentives to work, save and invest. But is that a reason to oppose an increase in the taxes on beer and cigarettes? Opposition to tax increases is often identified as a "pro-growth" position. But can that explain opposition to increasing the taxes on beer and cigarettes? Can anyone confidently say that the Rube Goldberg plan for throwing money at investors in "small" corporations, considered a tax reduction in the failed budget package, would do more for growth than increasing government expenditures on roads or education or research?

Then there is the idea of being against tax increases and for expenditure reductions in order to limit the power of government and preserve the freedom of individuals. But the power of government and its ability to limit the freedom of individuals is not measured by the total of expenditures but depends on the character of the expenditures.

Governments derive power from programs, whether expenditure programs or tax programs, that give them the ability to discriminate among individuals and groups, rewarding some and punishing others, especially if the discrimination can be done out of the public eye. Some expenditure programs give that power and some do not.

For example, the nearly $200 billion a year, about 15% of total expenditures, that goes for interest on the debt does not give that power. But neither do other programs, like Social Security and Medicare, that account for large chunks of the budget and that provide for a very broad distribution of benefits, small for each recipient but enormous in total, according to highly objective rules.

The authority to buy, say, $20 billion of military aircraft gives the government power to reward or punish Long Island or Southern California, Company X or Company Y. The authority to pay 10 times as much in Social Security benefits does not give anything like that power. Similarly, tax systems that involve fine distinctions among taxpayers, and discretion in choosing which taxpayers to audit, give power to government, whereas more general and transparent systems do not. The important difference is not between taxing and spending but between generality, objectivity and openness on the one hand and discrimination, discretion and covertness on the other.

I believe that many people who have an allergic reaction to the idea of government spending think the government runs along the lines of President Reagan's favorite story about the employee in the Bureau of Indian Affairs. The employee is seen with his head on his desk, sobbing uncontrollably. When asked why, he says that his Indian has died. The picture is of enormous numbers of federal employees doing unnecessary work very inefficiently and being paid excessively for it.

But that is not what the federal government is mainly about. The federal government is mainly a vast machine for paying out money to private people on some general conditions, like their age, marital status and incomes, and taking money from private people on some general conditions, like their incomes, marital status and age. Some of this paying, depending on the conditions, is probably bad. Some of this taking is probably also bad, depending on the conditions. But what matters is not whether the government is taking or paying, but what the conditions are. To put all tax increases in one pot as bad and all expenditure cuts in one pot as good makes no sense.

At least, it makes no sense objectively speaking. If you are the member of a small minority that finds itself in danger of having its taxes raised, it is probably better tactics to ally yourself with the slogan of no tax increase at all rather than to argue for your special immunity from taxation. This may explain why people who have high incomes argue against all taxes, including taxes on a plebeian item like beer.

In our current efforts to draft a budget plan there are three main requirements. National consumption should be reduced, because the purpose of deficit reduction is to increase national saving, and this should be achieved with as little impact as possible on very poor people and as little adverse effect as possible on economic incentives and efficiency.

Spending and Consumption

Most of the consumption in this country is private, some of it is done by state and local governments, and a small fraction is done by the federal government. Standard national accounting usually considers defense expenditures to be "consumption," a rather misleading classification in my opinion. Federal consumption other than for defense probably amounts to about 1% of GNP, the biggest item being direct health expenditures, as for veterans hospitals and medical research. Most federal spending goes to finance private consumption or investment, through transfer payments and interest payments.

I can understand someone's having a preference for reducing federal consumption rather than private consumption, although that seems another irrelevant distinction to me. But that would not be a reason for preferring expenditure cuts to tax increases, because most expenditure cuts outside the field of defense are, like tax increases, ways of reducing private consumption. The division of a budget plan between tax increases and expenditure reductions throws no light on the appropriateness of the plan for meeting any real objectives.

A former chairman of the president's Council of Economic Advisers, Mr. Stein is an American Enterprise Institute fellow.

Board of Contributors

Opposition to tax increases is often identified as a "pro-growth" position. But can that explain opposition to increasing the taxes on beer and cigarettes?

Senate Panel Clears Spending Measures Totaling Over $217 Billion for Fiscal '91

By DAVID ROGERS
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—The Senate Appropriations Committee approved a rush of fiscal 1991 spending bills totaling more than $217 billion and reallocating funds for foreign aid and six major departments in line with the proposed budget agreement.

The action touched an array of interests from crop insurance for farmers to the treatment of AIDS patients. This domestic debate was set against a background of new international commitments reflecting the tension in the Mideast and including increased contributions to the United Nations and the forgiveness of Egypt's $6.7 billion military debt to the U.S.

An estimated $19.37 billion was allocated to the Commerce, Justice and State departments. U.S. contributions to international organizations and peacekeeping forces would grow to $902.6 million, an almost 30% increase from fiscal 1990, which ended Sept. 30.

New restrictions would bar exports of supercomputer technology to nations such as Brazil that are linked to the continued transfer of technical assistance to Iraq's weapons industry. And in a slap at Jordan, the committee let stand an amendment that would withhold U.S. aid from any nation that fails to comply with the trade embargo against Baghdad.

A total of $14.7 billion is provided in the foreign-aid bill, which poses a series of obstacles for the Bush administration even though it promises the president the authority he wants to cancel Egypt's military debt. The measure denies any funding to anti-Communist insurgents in Cambodia and requires that 50% of any future U.S. military assistance to El Salvador be withheld in an effort to advance peace negotiations.

Concessions to Israel would permit the Jerusalem government to draw down quickly on most of its $1.8 billion in promised military aid, and the bill effectively doubles to $200 million the level of U.S. reserve military stocks available for transfer to Israel this year.

The third and largest of the measures allocates as much as $183 billion for the Labor, Education, and Health and Human Services departments. But it provoked an emotional debate over the fate of a newly authorized program of federal aid to cities, such as New York and San Francisco, that have been hardest hit by the acquired immune deficiency syndrome epidemic.

Adopted this summer, the program promised $150 million to ease the strain on urban hospitals and public-health facilities, but no new funding was provided when the appropriations bill was first approved by a subcommittee last month.

The decision touched off a strong lobbying campaign by gay activists and other advocates of the program. But when proponents sought to find money by trimming other accounts, that provoked a counterattack by traditional allies in the health and education community. "All the sympathy doesn't go to AIDS patients," said Sen. Harry Reid (D., Nev.). Alaska Sen. Ted Stevens, a senior Republican on the full committee, likened the across-the-board cut to taking "a little piece off every kid who's in the hospital."

Under the reallocations yesterday, an estimated $27 million in direct spending was found for the program. But the debate dramatized the choices facing the panel within the limits set by the budget on domestic spending. Midwestern senators worried aloud about cuts threatening the crop-insurance program; adding to the tension is the fact that the same agreement is seen as increasing the funds available for the military.

The action by the full committee came as the Senate Defense Appropriations subcommittee approved more than $268.2 billion for the Pentagon, including continued funding for the production of the B-2 Stealth bomber. No money is provided for the Milstar satellite program, in line with the recommendations of the Senate Armed Services Committee, and the bill would terminate the Army's Air Defense Antitank System being developed by Martin Marietta Corp.

In secret accounts for the Central Intelligence Agency, the bill provides continued military aid for anti-government forces in Afghanistan but at the reduced level of about $200 million annually.

Half of this sum would be withheld until further approval by the committee.

President's Hedging Over Budget Issue Is Hurting Image

* * *

'Let Congress Clear It Up,' Says Bush on Question Of Tax Rate Trade-Offs

By David Wessel
And Gerald F. Seib
Staff Reporters of The Wall Street Journal

President Bush, struggling to bridge differences among Republican lawmakers as well as his own advisers over taxes, is jeopardizing his new-found image as a decisive leader.

Mr. Bush himself did nothing yesterday to clear up lingering confusion over the administration's stance on trading higher income-tax rates for a cut in taxes on capital gains as Democrats and some Republicans propose. "Let Congress clear it up," he said.

And as the president was jogging in the rain in St. Petersburg, Fla., a reporter shouted: "Are you ready to throw in the towel on capital gains?" Mr. Bush replied: "Read my hips."

On Tuesday, Mr. Bush said at a morning news conference that he was willing to raise tax rates to get a capital-gains tax break if "a proper balance" was struck. Republican senators protested and, after a late afternoon meeting with the senators, administration officials and some senators said the president had closed the door.

But Senate Republican Leader Robert Dole of Kansas said yesterday that Mr. Bush simply listened. "He didn't announce his position at all," Sen. Dole insisted.

And White House spokesman Marlin Fitzwater last night clouded the administration's position, declaring that everything is still on the table. "I want to bob and weave on this today," he said. Asked why, he replied that "we want Congress to come up with a package. We don't want to signal on any specific provision."

But the damage had been done. The flip-flop has dented the shiny public image that Mr. Bush has created with his tough stand against Iraq's Saddam Hussein. "It's perfect ammunition for those who had said for some time that they wonder precisely what this president feels strongly about," said Republican pollster Richard Reed of Market Opinion Research.

Mr. Reed said that public confidence in Congress has been eroding to the point where anti-incumbent sentiment might help Republicans in elections this fall—both because the GOP remains a minority in Congress and because the public hadn't previously targeted Mr. Bush. "I'm not sure that president remains as isolated now," Mr. Reed said.

Even some Bush backers were uncomfortable. After White House Chief of Staff John Sununu assured a group of business lobbyists that Mr. Bush wasn't going to raise tax rates, Alan Kranowitz of the National Association of Wholesaler-Distributors pronounced himself as "confused but happy—and, frankly, a touch cynical."

The confusion over the president's position reflects the administration's continuing difficulty in devising a budget strategy.

Several of Mr. Bush's top advisers, including Mr. Sununu, Budget Director Richard Darman and Treasury Secretary Nicholas Brady, have been arguing internally that it is impossible to find the combination of lower capital-gains tax rates and higher income-tax rates that both parties can support, administration officials said.

But Mr. Bush also has been talking to others—from Sen. Bentsen to Vice President Quayle—who see the possibility for such a trade. One reason that the president is attracted to the exchange is that it might bring House Republicans who deserted him last week back to his side.

Allies of Republican Whip Newt Gingrich of Georgia, previously foes of any rate increase, favor raising the marginal tax rate on the rich, now at 28%, to 31% or 32% in exchange for the capital-gains tax cut they want so badly. White House officials figure that combination will never get Democratic backing.

Mr. Bush, hoping to find the bipartisan middle ground, seems to be wavering. "My guess is that the president and Republicans, in general, have been torn, even in their own minds," said Sen. John Danforth (R., Mo.), the only Republican senator who told the president yesterday he was willing to make the trade.

"There are Republicans in both the House and the Senate who believe that we should draw extremely clear lines on the basis of party doctrine," Sen. Danforth said. "I don't think there is any political advantage in dressing up in a clown suit just to give a clear image of yourself," he said.

Mr. Bush plans three more meetings today with Republican House members to discuss the budget. Meanwhile, he explicitly threatened in a speech at a political fund-raiser in Atlanta last night to veto a stopgap spending bill, as he did before, if it isn't accompanied with a broader budget plan that adheres to the themes of the failed budget deal he negotiated with Democratic leaders.

House Panel Approves Huge Tax Rise Plan

Outline Shuns Rate Change; Democrats Are Likely To Propose Amendment

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

WASHINGTON—The House Ways and Means Committee passed a huge tax-increase bill that would raise levies on gasoline, cigarettes and alcoholic beverages and limit most itemized deductions for wealthy taxpayers.

The bill, put forward by Chairman Dan Rostenkowski (D., Ill.), would produce a net tax increase of about $145 billion over five years, making it one of the largest tax increases in history.

The measure shuns any changes in tax rates, reflecting a bitter debate between the political parties over whether to raise the top tax rate on the nation's wealthiest individuals. But Democrats said they are likely to propose an amendment on the House floor to raise the top rate and perhaps to cut capital-gains taxes.

The bill approved yesterday adheres closely to the tax proposals contained in the bipartisan budget accord reached a week and a half ago by White House and congressional negotiators. But it dropped all of the accord's revenue-losing provisions except one that benefited the poorest taxpayers. The committee cleared the bill on a voice vote but without a recommendation.

"We've improved the base and moved it along," said Rep. Sander Levin (D., Mich.). "But we'd like to improve it some more."

The Ways and Means bill softened some of the most controversial elements of the budget summit agreement. It exempted home heating oil from any tax increase; dropped a five-year, $12 billion group of small-business incentives; and eliminated a two-week delay before workers could receive unemployment compensation.

But the measure also included some contentious tax increases. Like the original accord, the package would raise $18 billion over five years by limiting itemized deductions for individuals or couples with incomes above $100,000. Under that plan, individuals and couples would reduce their deductions by $300 for every $10,000 in adjusted gross income over $100,000, beginning in 1991. The limits would cover mortgage interest costs, charitable contributions and tax payments to state and local governments. The legislation also would raise the federal tax on gasoline by a total of 11 cents a gallon from the current nine cents.

All told, the bill discarded $19 billion of proposed tax breaks over five years. These included preferences for oil production and gasohol; credits for research spending and low-income housing development; and tax exemptions for businesses that locate in economically depressed areas.

The debate about linking an increase in the top personal rate on wealthy individuals with a capital-gains tax cut has a tortured history. On Tuesday, President Bush at first accepted such a trade-off, and then rejected it after Senate Republicans complained that raising the rate was too high a price to pay for what they expected to be a relatively shallow capital-gains reduction by the Democrats. The president and his spokesman continued sending ambiguous signals yesterday.

The same issue will arise in the Senate, although the Finance Committee postponed until at least today a scheduled drafting session on its version of the tax bill. Chairman Lloyd Bentsen (D., Texas) had said he would propose an increase to 33% from 28% in the top nominal tax rate on individuals and would effectively cut the capital-gains tax to 23.1% for assets held three years.

But he and the Democrats on his panel were rethinking that plan yesterday in the face of President Bush's ambivalence. Sen. Bentsen said yesterday that he will present his committee with the option of cutting capital-gains taxes.

In the House, Democratic leaders were hoping to amend the Ways and Means bill with a plan that hits the wealthy, probably by raising the top personal rate. That effort, which will probably occur later on the House floor, could be coupled with a capital-gains cut to tempt the support of Republicans and President Bush.

The major tax increases in the committee bill, which resemble provisions proposed Tuesday by Sen. Bentsen, include:

—Increasing the motor-fuels tax by five cents a gallon on Dec. 1 and by four more cents next July 1. That alone would raise $40.9 billion over five years. An additional two-cent-a-gallon tax on all refined petroleum products would be imposed, but products used for home heating oil, manufacturing and feedstocks would be exempt. The panel yesterday approved an amendment by Rep. Rod Chandler (R., Wash.) to apply the nine-cent motor-fuels tax increase to railroad fuels.

—Requiring state and local employees to pay Social Security and Medicare payroll taxes to raise about $17.9 billion over five years.

—Increasing beer, wine and liquor taxes to raise $9.9 billion over five years. Beer taxes would be doubled to 32 cents a six-pack. Table-wine taxes would be increased by 22 cents a bottle to 25 cents. And whiskey taxes would be increased by $1.50 a proof gallon to $14. A proof gallon contains 50% alcohol by volume. Small breweries and wineries were exempted from the increase.

—Increasing tobacco taxes, now 16 cents a pack of cigarettes, by four cents a pack in 1991 and another four cents in 1993 to raise $6 billion over five years.

—A new tax on luxury items. The 10% levy would apply to cars that cost more than $30,000, boats that cost more than $100,000 and jewelry and furs that cost more than $5,000. Unlike the levy provided for in the summit agreement, the tax would hit planes that cost more than $100,000, an apparent swipe at Senate Minority Leader Robert Dole (R., Kan.). Many such planes are manufactured in his home state. The tax would be applied to prices over the threshold amounts.

—Disallowing the deduction for interest paid to the Internal Revenue Service attributable to underpayment of corporate taxes, beginning after Dec. 31, 1990. This provision, much criticized by corporations, would raise $3.9 billion over five years.

—Increasing taxes on the life insurance industry by $8 billion over five years. The chronic split between stock and mutual insurance companies is a major cause of the substantial increase.

The proposed limit on itemized deductions, which was part of the budget summit agreement, would work this way: A couple with an income of $200,000 wouldn't be permitted to deduct the first $3,000 (3% of the difference between $200,000 and $100,000) of their deductions. If their deductions amounted to $50,000, they would be permitted to deduct $47,000.

In tallying deductions for this purpose, taxpayers wouldn't have to include medical expenses or investment-related interest payments. No taxpayer would lose more than 80% of his or her total deductions under the plan.

By dropping tax breaks, the Ways and Means Committee made the net tax increase on upper-income individuals higher than in the summit accord. And by reducing the gasoline tax increase by one cent compared with the pact, the committee reduced the size of the tax increase on lower-income people.

Still, the results didn't satisfy many Democrats, who had hoped to shift a greater tax burden to the wealthy. The largest tax increase in percentage terms would fall on taxpayers who earn less than $10,000 a year—6.9%, according to congressional estimates. By contrast, the tax increase on Americans earning $200,000 a year and over would be 2.4%.

Medicare Plan Cleared by House Panel Would Save $50 Billion Over 5 Years

By KENNETH H. BACON
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—The House Ways and Means Committee approved Medicare changes that would save about $50 billion over five years and would raise the 33 million beneficiaries' costs by about $7 billion more than senior citizen groups have said they can accept.

The plan would raise the current $75 annual deductible for doctors' services to $100 next year and $125 in 1992 and would increase the $28.60 monthly premium to $32.40 on Jan. 1 and to $46.50 by 1995.

In addition, the committee proposed to collect $13 billion in additional revenue over five years by raising to $73,000 from $51,300 the amount of salary on which the hospital insurance payroll tax is imposed. The tax is 1.45% each on workers and employers.

The proposed five-year savings of about $50 billion is smaller than the $60 billion savings—$30 billion in higher payments by beneficiaries and $30 billion in lower Medicare payments to hospitals and doctors—provided for in a budget plan that Congress rejected last week in the face of strong opposition from elderly citizens. The new plan, however, doesn't meet the demands by a coalition of 30 senior citizen groups, who insisted that Congress shrink the earlier package by $20 billion.

Thus, the Medicare plan is likely to face continuing opposition as it goes to the full House as part of a five-year plan to cut the federal deficit by $500 billion. In addition, the House plan could differ significantly from the Senate's Medicare plan. As of last night, Republicans on the Senate Finance Committee were insisting on a package that would cost seniors more than the House measure.

Senate Republicans are considering requiring a 20% copayment on clinical laboratory costs, currently provided free under Medicare. The Ways and Means Committee dropped this idea from the earlier $60 billion savings proposal. In addition, some senators were proposing income-related premiums that would be higher for wealthy beneficiaries. Many Democrats, fearing opposition from well-organized seniors, object to this idea.

In its meeting yesterday, the Ways and Means panel adopted a $50 billion plan crafted by Chairman Dan Rostenkowski (D., Ill.) rather than a $40 billion proposal the senior citizen groups had rallied around. The $40 billion plan, by Rep. Fortney Stark (D., Calif.), would have raised the deductible by $25 next year instead of $50 over two years and figured premium increases in a way that would have cost seniors about $7 billion over five years. The premium increases adopted by the committee will cost seniors $12.6 billion.

The Stark proposal would have kept premiums at 25% of the cost of Medicare Part B, which covers doctor bills. By contrast, the committee set specific premiums, some of which will be higher than 25% of Part B costs.

Overall, the Stark proposal would have increased beneficiary payments by about $10 billion, compared with $17.2 billion in the version the committee is sending to the House floor.

As Congress struggles to produce a budget, the House Energy and Commerce Committee is considering proposals to soften the blow of the premium increases for beneficiaries near the poverty level. The budget agreement allocates $2 billion for such income protection. However, the Senate Finance Committee is considering a proposal that would water down the income-protection measure by diverting some of the money to raise the amount Social Security beneficiaries can earn without losing some of their benefits. A change in the so-called Social Security retirement test would tend to benefit affluent seniors.

Bush flip a flop with pols

By JEROME CAHILL
News Washington Bureau

WASHINGTON — President Bush's apparent flip-flop on a tax rate increase for America's wealthiest families yesterday sent lawmakers scurrying for other sources of revenue and revived fears that tax deductions important to New Yorkers may be cut back.

"We're redoing the package," said Sen. Lloyd Bentsen (D-Tex.), chairman of the Senate Finance Committee.

On Tuesday, Bentsen unveiled a plan to repeal the so-called tax rate bubble that taxes the super-rich at a 28% rate while others with less income pay at a 33% rate. Bush indicated at a nationally televised news conference he might accept the higher rate in return for a cut in the capital gains tax. But Republican senators, led by Oregon's Bob Packwood, said Bush reversed himself after they objected to the arrangement.

The confusion deepened yesterday when Senate Minority Leader Bob Dole (R-Kan.) contradicted Packwood and said Bush had not ruled out a tax rate raise.

Bush yesterday did little to set matters straight as he campaigned for GOP candidates in the South, saying, "Let Congress clear it up."

The confusion slowed efforts on Capitol Hill to flesh out a budget agreement calling for $500 billion in tax increases and spending cuts over five years.

Bentsen's plan would hit the nation's wealthiest taxpayers with a $50 billion tax boost over five years, enough to pay for a modified capital gains tax cut with revenue to spare.

Without the extra revenue collected by bursting the top rate "bubble," sources said the lawmakers might have to take another look at proposals to restrict tax deductions.

The House Ways and Means Committee yesterday was working on a draft tax bill that would put new limits on deductions for state and local taxes paid by high-income people. Similar limits were part of the White House-Congress budget agreement defeated last week.

That proposal, denounced by Gov. Cuomo and the New York congressional delegation, would take away deductions amounting to 3% of a taxpayer's income over $100,000. For example, a taxpayer with $150,000 in income would lose $1,500 in deductions.

Brad Johnson, Cuomo's Washington representative, said, "It would be a tragedy if the President's flip-flop results in a partial repeal of deductions." He urged Democrats to ignore the White House and draw up their own tax bill. "The Republicans don't know what they are doing," he said.

Senate KOs Social Security tax cut

By SUSAN MILLIGAN
News Washington Bureau

WASHINGTON — The Senate yesterday shot down a proposal by Sen. Daniel Moynihan (D-N.Y.) to cut Social Security taxes. Moynihan said his proposal would save a worker as much as $76 a year in 1991 and $775 a year by 1996.

Opponents said the bill would add $150 billion to the federal deficit over five years and would force Congress to raise other taxes to make up for it.

"This is just another excuse to tax, tax, tax and spend, spend, spend," shouted Sen. Ted Stevens (R-Alaska), who got the bill taken off the floor on procedural grounds.

A vote for the measure would have meant finding money to make up for the revenue loss. Any senator voting against the measure would be on record opposing a tax cut.

The Senate refused to waive a budget law requiring that any tax cut be offset by spending reductions or an increase in other taxes. The 54-to-44 vote refusing the waiver put the Moynihan bill on ice.

One of Moynihan's aims was to eliminate the big surplus in Social Security funds that, he said, is being used to obscure the true size of the federal deficit.

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Confusion clouds work on tax deal

By Richard Wolf
USA TODAY

Congress began searching for an elusive consensus on whose taxes to raise and whose to cut — with just nine days before its next deadline.

But faced with conflicting signals from the White House, lawmakers went off in different directions.

Democrats revised plans to trade higher income taxes on the rich for lower taxes on capital gains — toward a plan President Bush could accept.

House Republicans unveiled their own version of a trade.

Bush endorsed, then backed away Tuesday from accepting the swap. On Wednesday, however, Republicans said it was still on the table.

"He didn't make any decision," said Senate Minority Leader Robert Dole, R-Kan.

Bush, on a campaign swing, did little to end the confusion: "Let Congress clear it up."

Said Senate Majority Leader George Mitchell, D-Maine: "We will now have to reconsider what the appropriate course of action will be."

Democrats postponed efforts to extend the top tax rate to 33% for the wealthy and cut the top capital gains rate to 23.1%, but didn't rule out such a deal by next week.

Congress' fiscal committees worked on alternate plans intended to cut the deficit by $500 billion over five years:

▶ The House Ways and Means Committee reported out a version cutting Medicare by $50 billion — instead of $60 billion — and dropping provisions Chairman Dan Rostenkowski, D-Ill., calls "totally obnoxious."

Among them: about $15 billion in business tax breaks, a 2 cents-per-gallon hike on home heating oil and a two-week delay in unemployment benefits.

▶ Democrats on the Senate Finance Committee crafted a package that omits the trade.

Flap over flip-flop may hurt in '92

'It hurts us all to have weak and wavering leadership in a budget crisis'

By Richard Benedetto
USA TODAY

"Flip-flop."

An apt phrase when you're talking about hooked fish, flapjacks or gymnastics.

But when a politician does it, as President Bush did Tuesday on tax hikes for the wealthy, disaster can follow.

Bush had to look no further than Wednesday's headlines to realize his meeting with Senate Republicans has bought political trouble:

▶ "Democrats offer trade on taxes; Bush flip-flops" — *The Boston Globe.*

▶ "Bush: Yes, then no, on taxing rich" — USA TODAY.

▶ "Bush switches sides on tax tradeoff — twice" — *The Kansas City Star.*

▶ "Bush alters tax stand, backs off" — *Los Angeles Times.*

Republican Party leaders began damage control — calling it "sensational reporting" — even denying Bush had folded to senators opposed to higher taxes for the rich.

But the White House did little to clear up the confusion. By the end of the day, the most widely quoted soundbite was Bush's joke while jogging: "Read my hips," he said, when asked where he stood on taxes.

That left media and analysts sticking to the theme Wednesday: The president was firmly a player in the bizarre budget soap opera he and aides had been trying feverishly to blame on Democrats in Congress.

Even Republicans spoke out: "I wish he'd stuck by his guns and said 'read my lips again, no new taxes,' " says Sen. Jesse Helms, a Republican for whom Bush was campaigning in North Carolina.

It's been that kind of month for Bush.

His political stock has been falling faster than the stock market since attention turned from the Persian Gulf to the budget crisis. Polls that showed near 80% approval in mid-August — the height of the gulf crisis — now find him in the 55% to 65% range.

His TV plea for public support on the painful budget deal he hammered out with the Democratic congressional leadership went unheeded. He was even unable to rally support for the deal from members of his own party.

Bush has suffered a rapid-fire series of public-relations disasters on the budget that has raised old questions about his strength, forcefulness and ability to lead. And it comes at a time when even the perception of a weakened Bush at home could undercut the strong stance he's taken abroad during the Persian Gulf crisis.

"We're seeing a president scramble. He's looking a little bit like the George Bush who campaigned in Iowa in 1988," says Merle Black, Emory University political scientist.

"Nobody's going to make the mistake of calling him 'Mr. October,' " says Democratic pollster Peter Hart.

The perception of a bleeding Bush has Democrats on Capitol Hill sensing they're back in the driver's seat.

"I'm having trouble reading his lips these days," says Sen. Albert Gore Jr., D-Tenn. "It hurts us all to have weak and wavering leadership in a budget crisis."

But Republicans — many still smarting from Bush's abandonment last June of his no-new-taxes pledge — are giving the president the hardest time.

It was Sen. Robert Packwood, R-Ore., who triggered the flip-flop reports. He led GOP senators to the White House to protest Bush's apparent willingness to bargain away long-held opposition to a hike in income tax rates for the wealthy in exchange for a capital gains cut.

"Our uniform position was that we will not go up on the rates, no matter what," said Packwood, ranking Republican on the Senate Finance Committee.

Did Bush then flip-flop — acquiesce to the pressure, and drop the tax idea?

Packwood and others say yes.

But on the day after, some Republicans wonder whether Bush really closed the door on an income tax hike.

Senate Minority Leader Robert Dole, R-Kan., says Bush listened, but never said where he stands. And GOP National Committee spokesman Charles Black says the tax question is "on the table."

Asked to explain. White House press secretary Marlin Fitzwater said, "I want to bob and weave on this today."

Such exchanges sound to friends and critics uncomfortably close to the budget script played out melodramatically in Congress this month — a budget show that was not funny to voters.

Now Bush's role in the budget brouhaha has people talking about what only two months ago was considered a foregone conclusion — his chances for reelection in 1992.

Some conservative Republicans, feeling abandoned on the tax issue, are even making noises about putting someone up against Bush in the primaries.

"Looking down the road, it makes Bush enormously vulnerable in 1992," says Democratic National Committee chairman Ron Brown.

Wishful thinking, says Charles Black: "Bush's fortunes depend on what ultimately comes out of the budget package. The goal is to get a fair agreement with enforceable deficit reduction. In the short term, if he gets that, he's vindicated. And in the long term, if the economy's healthy, the president's healthy."

The gulf crisis, so far a plus for the administration, has begun to sap some of Bush's strength in the polls. The outcome in the gulf, all agree, will likely overshadow any budget story now, particularly if the result is a negotiated settlement or quick military victory.

"Before Iraq invaded Kuwait, all foreign policy news was a plus for Bush, and it still could come back and boost him," says analyst Merle Black.

Nonetheless, Bush's setbacks in the budget fight have many wondering if the man who was called a "wimp" during the 1988 presidential camapign is beginning to emerge again.

"He seems to be following, or at best participating, rather than leading," says Stephen Wayne, Georgetown University presidential scholar.

The derision has caused some to ask if Bush could have avoided all this if he had his street-smart, hard-nosed strategist, Lee Atwater, at his side. Atwater, the GOP National Committee chairman who help engineer Bush's 1988 victory, is fighting a brain tumor.

Atwater is said to be talking daily by phone with White House operatives and frequently with Bush. However, some Republican operatives admit privately that they miss Atwater's "gut feel" for day-to-day politics.

Recovery is possible, most analysts agree. GOP strategist Eddie Mahe Jr. offers a formula heard often Wednesday:

"Bush has to be typical Bush. Very open, very upfront. He's got to say what he will do, and what he won't do, and then stay there."

Contributing: Jessica Lee and Lee Michael Katz

Deficit plans proliferate; support is sparse

By Richard Wolf
USA TODAY

Nearly everyone in Congress has a plan for cutting the deficit. But virtually no one has a plan that can pass.

That was the key concern expressed Wednesday as fiscal committees began piecing together unpopular tax increases and spending cuts.

"We're trying to find where the center of gravity is," said Rep. Robert Matsui, D-Calif. "Neither party wants to raise taxes by themselves."

The dilemma was exposed when House Ways and Means Committee Chairman Dan Rostenkowski, D-Ill., said three proposals may emerge.

President Bush's amorphous position on the key issue of tax rates also raises the possibility of a veto. Getting two-thirds of each house to override him is next to impossible.

"There isn't going to be any taxes raised in this country without the signature of the president," said House Speaker Thomas Foley, D-Wash.

Wednesday's action:

▶ The Ways and Means Committee reported "without recommendation" a revised budget plan that restores $10 billion to Medicare, raises gasoline taxes by 9 cents, not 10 cents, and eliminates business tax breaks, home heating oil tax boosts and a two-week delay in unemployment benefits.

Chances: Fair; but Democrats lean toward taxing the wealthy, Republicans want to provide growth-oriented tax incentives for business.

▶ The Senate Finance Committee postponed acting on a plan by chairman Lloyd Bentsen, D-Texas, to raise the top income tax rate from 28% to 33% in trade for Bush's proposal to cut the average tax rate on capital gains — profits on sale of assets, like property or stocks — from 28% to 19.6%.

Chances: Poor, unless Bush again reverses himself on the trade and agrees to consider it. Democrats, who control the panel 11-9, may lack the votes to send it to the Senate.

▶ House Republicans want to freeze domestic spending, have no gas tax hike, and trade a 31% top income tax rate for a 15% capital gains tax rate.

Chances: Negligible; GOP is outnumbered 258-176 in the House and 55-45 in the Senate.

"As I look to the future," said Rep. Thomas Downey, D-N.Y., "there is only darkness at the end of this tunnel."

Make budget pact fair for everyone

The USA has to balance its books, and everyone has to help shoulder the load.

For a decade, that load has fallen too heavily on the poorest 20% among us. And it's rested too lightly on the top 5%.

For a few hours Tuesday, it looked like President Bush was ready to distribute the load more fairly. After signing a budget agreement wrung out in the wee small hours, Bush said that he might be willing to raise income taxes on the top tier in exchange for a capital gains tax cut.

The mood passed quickly. A few balky Republican senators sought to persuade Bush that any tax hike on even the richest taxpayers was unthinkable. They vowed "no deal" if raising that tax was part of it.

So much for compromise.

This is no time for any of our leaders to be saying "no deals" on the deficit. Especially if they're talking about raising the top tax rate. That deal has been too sweet for the well-to-do for way too long.

It works by taxing the wealthiest at a lower marginal rate than the not-wealthy.

So, a person with a $1 million income who was lucky enough to win a $10,000 lottery would pay $2,800 in additional federal income tax — a 28% tax rate. Someone earning $50,000 wouldn't be quite so lucky — he or she would pay $3,300 on that $10,000, a 33% rate.

This sweet deal has helped widen the chasm between rich and poor. It's helped the wealthiest 10% pay $93 billion less in taxes this past year than they would have in 1978, even though everybody else pays more, according to Citizens for Tax Justice.

So much for fairness.

People like the writer across the page apparently believe that the rich make such a valuable contribution to our economy that they shouldn't be restrained by paying any more income taxes. And he wants to give them another break by lowering the capital gains tax rate.

In these troubled times, it's troubling to be talking about letting the wealthiest off the hook. But doing what's necessary to cut the deficit will hurt all of us.

▶ Drivers should have to ride out a hike in the gas tax.

▶ Smokers should have to inhale more cigarette taxes.

▶ Drinkers should have to swallow higher alcohol taxes.

▶ Those who buy yachts and other big-ticket items should have to luxuriate in higher taxes on those, too.

The spending cuts that must be part of any responsible deficit-reduction package will hurt many of our nation's poor, aged and middle class.

Raising the top tax rate must be part of that package, too. It would bring in billions, and we need the money. And we need to make the tax system fairer.

Giving investors a break on capital gains isn't a bad idea, but too many proposals have been badly conceived — full of gimmicks that make them look like they'll diminish the deficit when they'll actually add to it, too generous to people who already escape their fair share of the tax burden.

Bringing the federal deficit down is a heavy job. It's a job that needs the hearts and hands of every citizen to get done. Rich as well as poor.

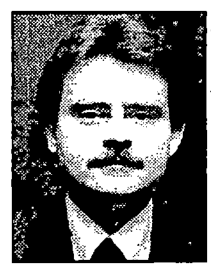
DAVID HOBBS

An opposing view

This budget 'fairness' will hurt everyone

LEWISVILLE, Texas — A self-granted two-week reprieve has yet to bring Congress any closer to real spending cuts, but it has resurrected a seemingly appealing compromise to trade higher personal income tax rates for a lower capital gains tax rate. This idea had to originate in Washington, the only place where trading something good for the nation for something bad constitutes a good deal.

Purveyors of the myth that a lower capital gains rate is a tax break for the rich ignore the increased income earned by lower and middle-class workers and the wealth of jobs created because more capital is available for investment. A study by the Institute for Policy Innovation shows that the capital gains proposal that passed the House last year would have created an additional 750,000 new jobs over five years. The empirical evidence is also clear: Since 1922, raising the capital gains rate has reduced federal revenue and lowering the rate has increased revenue.



David Hobbs is president of the Institute for Policy Innovation.

Since a higher capital gains rate flunks the test of economic prudence — it costs jobs, reduces federal revenues and impedes economic growth — what about the test of fairness? Nearly 80% of all capital gains are the result of inflation. Every year, one out of three elderly Americans realizes a capital gain. Is it fair for them to pay higher taxes on the inflated value of their retirement savings? Should the middle-aged pay higher taxes on the inflated value of their home or for cashing in investments to send their children to college? In our current slow-growth environment, is it fair to sacrifice jobs for misleading but politically appealing sound bites?

This trade-off is even more troubling when the true costs of raising the personal income tax rate are considered. Raising the top personal tax rate from 28% to 33% would have an adverse effect on economic growth, the average taxpayer's pocketbook and federal revenues. Even though Congress and the administration have concocted an accounting system that assumes that people won't change their behavior if taxes are raised, rational individuals and businesses aren't likely to abide by these rigid and historically inaccurate assumptions.

Another of our reports examined the consequences of increasing the top tax rate to 33%, factoring in behavioral responses to increased taxes. It concluded that over 10 years this tax increase would cost $518 billion in lost economic growth and 377,000 jobs. Because it reduces economic growth, it would also cause combined federal, state and local tax revenues to be hundreds of billions of dollars less than Congress' projections.

Lowering the capital gains rate is a good idea that would benefit everyone. Those who would tie this pro-growth policy to a withering tax increase are selling the nation and the economy short. On economic and fairness grounds, this seemingly appealing political compromise is a raw deal for everyone.

DIANE C. ARKINS
Guest columnist

But my capital is not gaining

OLYMPIA VILLAGE, Ill. — I'm a trifle concerned about how the '90s are shaping up for the average American's pocketbook.

We're only 10 months into this new decade and already gas station attendants have forsaken the catch phrase, "Fill 'er up?" in favor of, "Stick 'em up!" In addition to producing mammoth IOUs, the savings and loan crisis has spawned spot shortages of mattresses and piggy banks. And when the economists cry "Depression!" they're quite accurately echoing the way I feel these days when I see the bottom line of my bank account. Any way you look at it, my capital is definitely not gaining.

Sometimes it seems that running the U.S. government is far too important to be left to the representatives we've duly elected to do the job. After all, these are the very same folks who felt that the federal coffers could better withstand the recent short-lived layoffs of $5-per-hour Smithsonian guards whilst keeping $45.65-per-hour congresspersons ever active on the payroll.

I just don't think the politicians have captured the essence of how I'd like my hard-earned tax dollars to be spent when they make use of a generous postage allowance to flood my mailbox with photo features of their meeting with the local Boy Scout troop on its trip to Washington.

In lieu of relying on congressional cliches like "six-week recess," the Capitol Hill clan should reacquaint itself with some old-fashioned, tried-and-true spending concepts like "common sense" and "accountability."

Diane C. Arkins is a free-lance writer.

You'd have thought the feds would have learned everything they needed to know about balancing budgets in the financier's version of kindergarten — Economics 101. For those with short memories, here's a quick refresher course:

▶ Look before you leap. Before the pols ax any programs of human relevance, let's check to see if we're still generously funding research projects like "The Effects of Elvis Sightings on the Mating Habits of Gerbils."

▶ There is no such thing as a free lunch. Here's my vote for supplying every politician with a bumper sticker that reads, "How Am I Spending?" along with his/her mother's telephone number.

▶ You can't have your cake and eat it, too. The flashy appeal of any out-of-this-world, star-wars-type budget commitment needs to wait until things balance out first here at ground level.

VOICES/Who do you blame for the budget deficit?

***Arthur Laffer,** 50*
Former pres. adviser
San Diego, Calif.

The budget deficit is not the problem. The problem is taxes and the inability to control spending. I have never heard of a country that can tax itself into prosperity, and it just makes no sense what Congress is proposing with the budget. What I would like to do is credit Newt Gingrich on his courage.

***Betty P. Stephenson,** 63*
Anesthesiologist
Houston, Texas

I don't think you can place the blame on any one entity. This is something that we've gotten ourselves into — sort of the pie in the sky that's catching up with us, and we're figuring out how we're going to pay for it. Physicians and every citizen have a responsibility to do what we can to reduce the deficit.

***Edward Goldman,** 44*
Machinist
Long Branch, N.J.

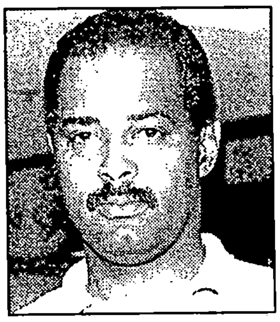
I blame Congress. They're giving each other pay raises and don't care about the people. The president shares some of the blame, but not as much as Congress. I can't afford to pay any more taxes. The whole country is going to have to tighten its belt and say "no" to a lot of the extra things.

***Paula J. Macllwaine,** 49*
County commissioner
Dayton, Ohio

The American people are to blame because we've gotten so accustomed to being a credit-card society. We don't want to pay our bills, and when they're due, we look to blame someone. We've worked ourselves into this mess, and we're either going to have to be more realistic or, next year, it will be the same.

***Trudi Norquist,** 50*
Payroll technician
Issaquah, Wash.

Some of the blame should go to us voters because no one goes out to vote out incumbents who are in these positions forever and ever. Maybe people feel that their vote doesn't make a difference, but in a lot of instances, one vote has made a difference. That's the only way we can get them out.



***Eric Burden,** 42*
Service technician
Alexandria, Va.

I blame those people that we voted into office. Taxpayers would not mind tax increases if they could see the benefits from the extra taxes. But instead of applying those taxes directly to the deficit, they're spending them. It bothers me that they can manipulate money that eventually gets lost in the shuffle.

QUOTELINES

"We will not go up on the rates, no matter what."
— *Sen. Bob Packwood, R-Ore.*

"Obviously, we're trying to get to where we don't hit the average-income people so much."
— *Sen. Lloyd Bentsen, D-Texas*

"Stop trying to buy us off with capital gains."
— *Sen. Ted Stevens, R-Alaska*

"Vote aye for the United States, vote aye for the senior citizens, the farmers, the children, the grandchildren."
— *Sen. Bob Dole, R-Kan.*

"Some cling to the unrealistic dream that you can accomplish what you want without spending any money."
— *Rep. Sherwood Boehlert, R-N.Y.*

The Philadelphia Inquirer

Thursday, October 11, 1990

Bush flip-flop on taxes reflects GOP divisions

By Dan Balz
Washington Post

WASHINGTON — The confusion over President Bush's stand on higher tax rates for wealthy taxpayers, which played out Tuesday in an embarrassing and politically damaging sequence, reflects deep divisions inside the administration over budget strategy and sharply conflicting approaches favored by House and Senate Republicans.

Scrambling to maintain Republican unity in the face of the Democratic majority in Congress, the White House finds itself mired in disagreement with no clear way out. Many loyal Republicans, in and out of the administration, said they were uncertain what the administration was trying to do. Bush said it was up to Congress to clear up the confusion.

Bush reportedly was not happy with the way events unfolded Tuesday. But White House chief of staff John H. Sununu and budget director Richard G. Darman continued to work to block any new agreement that strays too far from the package soundly rejected by the House last week.

White House officials said they had agreed that Bush's message during his news conference Tuesday was that he was not ruling out or in any specific provision and that all issues were on the table in the new round of budget negotiations with Congress.

Instead, when asked whether he were now willing to accept higher rates to get a capital gains cut, he 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."

Watching the performance on television, one administration official said, "I almost fell off my chair" because what Bush said "went well beyond what we thought was the position."

A senior administration official said the confusing events that followed were "just a replay of the argument we have been having within the administration for the past 36 hours."

Sununu, Darman and Treasury Secretary Nicholas F. Brady "want to close the deal and believe any reopening of these problems you couldn't solve over weeks and weeks will make sure you can't close the deal at all unless it is on straight Democratic terms," the official said.

But complicating White House strategy-making was the conflict between senior Senate Republicans, who fear that Bush cannot strike a good deal with the Democrats, and many House Republicans, who once opposed increasing tax rates but are now talking about being willing to do so.

What happened Tuesday? The simplest explanation might be that Bush went farther than intended during his news conference and then backed off less than Sen. Bob Packwood (R., Ore.) suggested when he told reporters that Bush had "acquiesced" to the Senate Republicans.

Bush opened the door to a rate increase in exchange for a cut in capital gains taxes Tuesday morning, then appeared to allow a group of Republican senators, aided by anonymous White House aides, to slam it shut hours later after a meeting at the White House.

Yesterday morning, after seeing the portraits of confusion on television and in the newspapers, Republicans attempted a partial retreat from the apparent flip-flop.

"He didn't make any decisions [Tuesday]," Senate Minority Leader Bob Dole (R., Kansas) said of Bush's reaction to the GOP senators' recommendation that he take the issue off the table. "He listened to us. He didn't announce his position at all. He didn't acquiesce."

Seventeen senators visited the White House late Tuesday afternoon. There are conflicting reports about how they ended up there. One account said Dole and Packwood decided they wanted Bush to know of opposition among Senate Republicans. Another account said that Sununu and Darman, knowing the senators' views, wanted Bush to hear them firsthand in an effort to push him back from his morning statement.

Some White House aides backed up Packwood's statement, with Sununu telling a business group later that higher rates were off the table.

The White House divisions, which are more tactical than ideological, grow out of the administration's desire to bring back into the fold the House Republicans who voted against Bush and the package last week. What has astounded White House officials is that many of those same Republicans, including House Minority Whip Newt Gingrich (R., Ga.), have been talking up a new compromise that would include higher rates in exchange for capital gains.

One official said that those who now favor striking a deal believe that the top rate on the richest taxpayers eventually will be increased and that it behooves the Republicans to get something for it, such as capital gains-tax cuts, when they can.

Vice President Quayle in particular has sided with House Republicans, largely to build unity.

The administration now faces a difficult strategic decision. Senate Republicans, because of their numbers, are a potent force in the negotiations. They have the votes to sustain a presidential veto of any final package that Bush dislikes. House Republicans, far more a minority, are seeking a role in the action in the House, which is dominated by Democrats.

One Democrat said Bush's only real hope is to negotiate with Democrats in the House and a bipartisan coalition in the Senate.

White House officials also fear that some of the House Republicans now favoring a deal on higher rates may be using it to appear reasonable but ultimately want to derail the negotiations and turn the fight into a partisan battle.

Bush has said privately that he still fears political damage if he bows to higher rates, although political advisers have told him "it's no big deal." He also has been told that the Democrats already have won the argument because the President is now seen as defending the rich.

The current Sununu-Darman strategy appears to be aimed at persuading House Republicans, who have been invited to the White House today in waves, to abandon their talk of raising tax rates in order to unify the party in both chambers and then hang tough. What was unclear yesterday was where Bush now stands.

Budget plan is softened

Panel eases cuts, tax increases

By R. A. Zaldivar
and Charles Green
Inquirer Washington Bureau

WASHINGTON — The House Ways and Means Committee cleared a five-year deficit-cutting package yesterday, making a handful of changes to placate members who defeated a similar plan on the House floor last week.

The committee was groping for a way to resolve the budget problem, a task made more difficult by President Bush's flip-flop Tuesday on swapping capital gains-tax cuts for higher income tax rates for the rich.

But committee members said they expected alternative proposals — one from each party — to be offered on the House floor, in which the capital gains-income tax swap probably would be resurrected.

Adding to the confusion in Congress, some congressional Republicans said yesterday that Bush had not ruled out trading a capital-gains tax cut for higher income tax rates.

Sen. Lloyd Bentsen (D., Texas), chairman of the tax-writing Finance Committee, said he postponed a committee meeting yesterday at which he was going to offer a capital gains-for-rates trade so he could rethink the situation. Bentsen said he had not ruled out offering such a swap.

In an unusual move, the Ways and Means Committee cleared its plan yesterday without a recorded vote and without a recommendation to the full House.

The potential for competing proposals from the committee and the two parties reflects the deep disagreements over the budget that have yet to be bridged. And the Ways and Means Committee essentially deferred the partisan debate to the House floor.

"It's a classic debate between what the parties stand for," said Rep. Brian Donnelly (D., Mass.). "That's what this place is all about."

Congress and the administration have until Oct. 19 to agree on a budget or once again face shutting down the government. The two sides are seeking a five-year deal to cut the deficit by $500 billion.

Ways and Means chairman Dan Rostenkowski (D., Ill.) told reporters the committee plan reflected "a great deal of the measures" in the budget summit agreement the House rejected early Friday.

However, Rostenkowski said the committee removed or softened "what was totally obnoxious to members on the floor of the House of Representatives."

Dubbed the "bare-bones" plan, the committee's measure would soften the Medicare cuts, shave the proposed gasoline tax increase by a penny to 9 cents, eliminate a series of energy and business tax breaks, drop the 2-cent-a-gallon tax on home heating oil, and discard a proposal to delay unemployment benefits by two weeks.

Members of the tax-writing committee were divided on the plan's chances of passage in the House.

"It lacks sex appeal," said Rep. E. Clay Shaw Jr. (R., Fla.) "[but] we've taken the fishhooks out of the summit agreement."

Asked why the House should pass it, Shaw said: "Congress is getting beat up all across the country. People think we can't govern. Even a hard political choice has more appeal at this time than voting no or taking a walk."

A similar plan is being pushed by Senate Republicans with the backing of the Bush administration. Rostenkowski and Bush met briefly yesterday to discuss his committee's plan.

The President's turnabout on the tax issue Tuesday left many in Congress confused and angry. Democrats and many Republicans were incredulous that Bush could signal a willingness to consider higher income taxes on the rich in return for a cut in the capital gains tax, only to reverse himself hours later.

"We have to see what position the President takes this morning," said Senate Majority Leader George J. Mitchell (D., Maine).

"More and more, the President seems like a man with both feet firmly planted on two separate stools, with the stools moving apart," said Rep. Charles E. Schumer (D., N.Y.).

Bush, campaigning in the South for Republican candidates, avoided the issue.

What Bush had actually said and done on Tuesday was the subject of much debate.

Senate Minority Leader Bob Dole (R., Kan.) said that Bush had not agreed to anything at the Tuesday meeting with Republican senators.

"He didn't make any decision," Dole said.

Dole said Bush was the victim of a media disinformation campaign, and that Democrats were trying to force Republicans to accept a capital gains-tax cut so they could raise income taxes and get "more walking-around money."

Said Dole: "Let's get away from this argument of rich [versus] poor. We all want fairness in the tax code."

But Rep. Raymond J. McGrath (R., N.Y.), a member of the Ways and Means Committee, described the predicament of House Republicans.

McGrath said he and his GOP colleagues had pledged their support for a swap at a closed session of the committee Tuesday evening. In the midst of the meeting, a note was sent in informing the members that White House chief of staff John H. Sununu had gotten the deal quashed.

"I thought it was a pretty good trade," McGrath said.

The Ways and Means plan would limit cuts in Medicare to $50 billion over five years, as opposed to the $60 billion called for in the summit agreement. Providers would shoulder $32 billion in cuts, and beneficiaries $18 billion.

The monthly premium for Part B coverage of doctor visits would rise to $46.50 by 1995, as opposed to $54.30 called for in the summit agreement. The annual deductible would rise to $125 instead of $150.

A proposal to require beneficiaries to pay 20 percent of laboratory costs would be dropped.

Bush's poll standing falls fast amid crises

By W. Dale Nelson
Associated Press

WASHINGTON — President Bush's approval rating has plummeted in the last two months as the Persian Gulf crisis dragged on, gasoline prices soared and the budget stalemate led to a partial government shutdown, a polling group reported yesterday.

The Times Mirror Center for People & the Press, a news industry group that monitors public reaction to news, reported that 55 percent of those responding to its monthly survey said they approved of the way Bush is handling his job as President.

Bush's approval rating was 68 percent in the September poll, 76 percent in the August survey. Indeed, the latest figure is the lowest of any poll since Bush's election in November 1988.

Surveys by various polling groups have generally 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; 17 percent said they did not 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.

The survey said that 63 percent of respondents, the same as in August, were paying very close attention to news of the U.S. military deployment in Saudi Arabia and other events in the aftermath of Iraq's Aug. 2 occupation of Kuwait.

The percentage paying close attention to rising gasoline prices, which have soared since the invasion, rose from 56 percent to 62 percent. The percentage paying close attention to stories about hostages held in Iraq and Kuwait declined from 57 percent to 47 percent.

Although the latest poll was taken during the period in which budget negotiations broke down and Bush ordered the shutdown, which lasted three days, only 34 percent said they were closely following news about efforts to resolve the impasse.

Despite this, 45 percent said they were aware that gasoline tax increases were being considered. In addition, 38 percent said they knew that a gasoline tax increase might be part of the budget deal, and 40 percent knew that alcohol tax increases were under consideration.

Among people under age 30, only 20 percent said they were following the budget news closely. The percentage increased with age and reached 46 percent among people age 50 and older.

The results were based on telephone interviews of 1,213 adults conducted under the direction of Princeton Survey Research Associates by the Gallup Organization in Lincoln, Neb. Times Mirror said it was 95 percent certain that the results could be off 3 percentage points either way because of sampling and other random effects.

'Tip' knocks Foley on fed budget talks

By ALAN LEVIN

Former House Speaker Thomas "Tip" O'Neill Jr. yesterday blasted current Speaker Thomas Foley's leadership in federal budget talks and said he never would have agreed to the compromise plan that fell on its face last week.

"Now, if I were there and I was the speaker, I never would have made the deal that Foley made," O'Neill said in a wide-ranging press conference at his Boston office. "No way would we have come up with a conference (agreement) of that type."

Attacking Republicans and Democrats alike for the current budget problems, O'Neill called President Bush's decision to close national parks "ridiculous."

The white-haired former legislator, who stepped down as speaker in 1986, had called the press conference yesterday to support Sen. John Kerry (D-Mass.), but he strayed to other topics under questioning from reporters.

When asked about the budget compromise that was soundly defeated last Friday, despite the backing of Foley and other top Democrats, O'Neill said he would have voted against it.

"There never would have been the original deal" if he had had his way, he said.

"I couldn't take that 2-cent oil tax and I couldn't take the (decrease) in Medicare," he said.

The plan would have tacked a 2-cent per gallon tax on home heating oil, which O'Neill said would have unfairly hit the Northeast.

"But Foley, Foley comes out from the state of Washington and he's not affected by this," said O'Neill.

But the ex-legislator did not stop at specific criticismof Foley's compromise on the budget package.

He charged the speaker had let President Bush get off easy in his first two years in office.

O'Neill said Foley and the Democratic leadership "didn't go after" Bush on issues such as the Exxon Valdez Alaska oil spill, the savings and loan crisis, and gun control.

He said he backed Bush on foreign policy matters, but said the president is "doing a horrible job with regard to national issues and the budget."

Like many congress members in the wake of presidential arm-twisting on the budget, he criticized Bush Chief of Staff John Sununu.

Bush shifts twice on tax deal

By DAVID LAUTER
and WILLIAM J. EATON
LOS ANGELES TIMES

WASHINGTON — President Bush, still seeking a way out of the budget crisis, reversed position twice yesterday on whether he would agree to raise income tax rates for the rich as Congress began work on a new budget package that may not be finished until after the election.

During a news conference yesterday morning, Bush appeared to signal he might be willing to accept a tradeoff with Democrats that would reduce taxes on capital gains while raising tax rates for wealthy taxpayers.

Only a few hours later, however, during a meeting with 16 Senate Republican leaders who opposed any such agreement, Bush reportedly switched positions again, rejecting any talk of such a deal, participants in the session said.

"He asked us what we thought," said Sen. Bob Packwood, R-Ore., the senior Republican on the tax-writing Senate Finance Committee. "It was unanimous. We all put up our hands and said, 'no deal.' If the price of a capital gains cut is going up on on the rates, then no deal."

Bush "agreed with that concept," said Sen. Ted Stevens, R-Alaska, "it's done, there's no way."

The apparently conflicting positions came as, separately, Senate Finance Committee chairman Lloyd Bentsen, D-Texas, unveiled his own plan for such a tradeoff that paralleled what Bush had said earlier he might endorse.

Bentsen's plan, to be presented to his panel today, also proposes reducing the 10-cents-a-gallon gasoline tax contained in the old bipartisan budget accord to 9 cents a gallon and eliminating a proposed 2-cents-a-gallon tax on home heating oil.

It also would ease the proposed increases in Medicare costs to the elderly by limiting the increase in the deductible to $100, instead of $150, as proposed before (it is now $75) and trimming back the proposed rise in Medicare premiums.

"Obviously, we're trying to get to where we don't hit the average-income person so much," Bentsen said.

The tradeoff that Bentsen is proposing would reduce the tax on capital gains — profits from the sale of stocks or other assets — to 23%, from the current 28%, while raising income tax rates for those earning $200,000 or more to 33%, from 28% now.

In another proposed change, Bentsen would raise the alternative minimum tax paid by some wealthy taxpayers from 21% to 25%.

While Bentsen's House counterpart, Rep. Dan Rostenkowski, D-Ill., chairman of the House Ways and Means committee, has not expressed his views on a second-time-around tax package, the two powerful chairmen met yesterday to discuss how to break the budget deadlock.

The combination of developments left the budget situation confused again. Both sides are increasingly skeptical that the lawmakers will be able to put together an acceptable budget plan before the Nov. 6 elections, pointing to a possible lame-duck session this fall.

During weeks of budget summit talks, White House negotiators repeatedly had rejected any sort of tradeoff involving capital gains taxes and tax increases for the rich. Yet, Bush indicated yesterday morning he would accept it, after it was endorsed by House Republicans.

But he apparently reversed himself in the afternoon after talking with Senate Republican leaders. While Bush was meeting with the senators, his chief of staff, John H. Sununu, told businessmen who had lobbied for the capital gains cut that the idea was now dead.

"He (Sununu) was pretty hard on that line," an administration official said.

House Republicans have said they would support the tradeoff that Bush and the Senate Republicans have rejected. Sunday, in a straw poll at a party caucus, roughly two-thirds of the 176 GOP members in the House voted to support such a plan.

The flurry of contradictory events underlines the disarray into which the White House and the GOP have plunged in the wake of the collapse of last week's budget agreement.

On the one hand, Bush and many other Republicans believe that cutting taxes on capital gains — income from the sale of investments — would spur economic growth and would help them politically.

But Democrats have insisted that the cut, which would primarily benefit wealthy Americans, must be balanced by increased taxes on the wealthy.

Congress unlikely to OK higher taxes for wealthy

By TOM DIEMER
PD BUREAU

WASHINGTON — Even with a president's reluctant backing, getting a personal income tax rate increase passed in Congress would be an extraordinary political breakthrough. It has not happened since the Korean War.

Despite the perception that taxes are constantly going up, individual income tax rates have not risen in nearly 40 years. In fact, a study of historical trends indicates the opposite has occurred: a steady downward drift in marginal rates from a high of 92% in 1953 to the present top marginal rate of 28%, or for some unfortunate in-betweeners, 33%.

"The notion that government is always raising your taxes is for the most part not true,' said Joseph J. Minarik, executive director of the Joint Economic Committee.

The prospect of raising rates on the rich picked up steam yesterday when President Bush suggested he was willing to bargain on the issue, probably in exchange for a reduction in capital gains taxes. But later yesterday, Bush backed away from the idea under pressure from Republican senators.

While Congress has been loathe to tamper with marginal rates, Americans have borne a heavier federal tax load since World War II, mostly due to inflation — what used to be called "bracket creep" — and a climbing Social Security withholding tax.

"Before 1981, tax brackets were not indexed for inflation and therefore people kept moving up into higher and higher brackets," said Rep. Donald J. Pease, D-13, of Oberlin. "If inflation went up 5% and their income went up 5%, they were not any better off but they would move up into one of those 12 or 14 brackets."

Yet rates — set at 15% and 28% in 1986 — have become Capitol Hill's sacred cow.

"Rates that are too high are destructive of economic activity," said Pam Pecarich, director of tax policy for Coopers and Lybrand's Washington office. "The politicians listened and learned, and over time have done everything they could to bring rates down."

Too much, in the view of some like Pease, who want to raise rates on the wealthiest Americans by 5%.

"What happens is that tax rates have gone down so much in the last 10 years that sending them back up at the high end is not going to cause apoplexy for the average citizen," said Pease, a member of the tax-writing Ways and Means Committee. But "for the Republican activists and theoreticians, lower rates have always been an article of faith."

After peaking at 92% for American households earning more than $400,000 in 1952, top rates gradually came down to 70% in 1965, and to 50% in 1982 — the famous Ronald Reagan tax cut, that also indexed rates — and finally to 28% in 1986. A guns and butter surtax during the Vietnam War briefly took top marginal rates as high as 77% in 1969, but that temporary levy was dropped two years later.

Don Korb, a Cleveland tax lawyer and an architect of the 1986 tax reform act when he worked as an Internal Revenue Service analyst, has studied the historical trends and thinks Congress will take heed.

"I think it is going to make them all the more gun shy (about raising taxes) once they realize what they are doing here," Korb said of the post-war reluctance to hike rates. "I think this is a very significant point that has probably been overlooked."

The main objective of Pease and allies such as Sen. Howard M. Metzenbaum, D-O., is to eliminate the so-called bubble, a phantom third rate which imposes a 33% marginal rate on upper-middle class taxpayers. The rate, an anomaly, is levied on joint filers making between $78,400 and $185,730, as a means of pulling their average overall rates to 28%.

Income above $185,730 is again taxed at 28%, meaning upper middle income taxpayers have a higher marginal rate than the very wealthy — though both groups pay the same effective, or average rate.

Pease and Metzenbaum want to establish a firm 33% bracket for those making more than $200,000 annually — a historic tax rate increase that Metzenbaum estimates would add $45 billion to the treasury in five years and flatten the bubble.

"The determining factor is really George Bush," Pease said yesterday. "A lot of Republicans said over the weekend, let's burst the bubble and get on with the show."

Unhappy Americans want the old Bush back

By TERENCE HUNT
ASSOCIATED PRESS

WASHINGTON — "The jury's still out," President Bush says, but in reality he's been badly bloodied by the budget turmoil.

The president's poll ratings have slipped, his leadership abilities are being questioned, his own Republicans are in revolt, and he has thrown away his no-new-tax trump card.

All this, and still no budget agreement.

After five months of wrangling, Congress has given Bush only a vague budget agreement along with promises to fill in the blanks later with tax increases and spending cuts. To get even this much, Bush had to shut down the government in an embarrassing spectacle.

At a news conference yesterday, Bush acknowledged that Americans might justifiably wonder about the ability of the president and Congress to govern. "I can understand the frustration," he said. "I feel it myself at times."

Bush badly misread congressional Republicans and the American public about whether they would support a painful prescription that would boost taxes on gasoline, alcohol and cigarettes and raise health-care costs under Medicare.

The voters spurned the appeal for sacrifice. Instead, they called lawmakers to demand that they vote against the president. And that's exactly what Congress did.

ANALYSIS

On the critical budget vote, Bush could not muster half of the GOP members of the House. Even most of the Republican leadership abandoned him.

For Bush, it was a crushing disappointment on an issue that he had described as the biggest test of his presidency in the domestic field. Bush may be enjoying still-high popularity ratings, but what's it worth if it doesn't get him the results he wants?

What Americans seemed to want was the old Bush — the feel-good leader who promised not to raise their taxes. Many GOP politicians, facing the voters in November, also liked the old Bush better.

The president made it easy for Republicans to defect. He promised there wouldn't be any penalty for a no vote. He's even going out campaigning for turncoats, beginning with Sen. Jesse Helms, R-N.C., today.

Despite Bush's collegial attitude, there are bad feelings between the White House and congressional Republicans over the budget negotiations.

Bush's strong-willed chief of staff, John Sununu, and his budget director, Richard Darman, were accused by some lawmakers of acting arrogantly and treating them with disrespect. In one instance, Sununu dismissed Sen. Trent Lott, R-Miss. as "insignificant" when he said he would vote against Bush's budget.

Bush badly misread congressional Republicans and the American public about whether they would support a painful prescription that would boost taxes on gasoline, alcohol and cigarettes and raise health-care costs under Medicare.

Bush says he has full confidence in his staff. "And when the passions get high," Bush said, "I understand that there's bound to be a little broken china up there." He said the complainers are just "squeaky wheels."

"The news of course is man bites dog, Republican goes after Republican."

In less than a month, Bush's popularity rating has dropped 10 percentage points to 65%, according to a Washington Post-ABC News Poll. A CBS News poll measured the erosion at 14 percentage points and pegged his approval rating at 62%.

"I guess I learned that you can't do it exactly my way when we get down on something like the deficit," Bush said.

Frustrated Bush irked by budget, Hussein

SCRIPPS HOWARD

WASHINGTON — An impatient President Bush yesterday expressed frustration with the budget process, critics of his top aides and Saddam Hussein for destroying Kuwait.

But he took comfort in polls showing Americans support him on foreign affairs and blame Congress more than they blame him for the budget mess.

In a news conference in the White House, Bush hinted he may accept a higher income tax rate on the wealthy in exchange for a capital gains tax cut. "If it can be worked in proper balance between the capital gains rate and income tax changes, fine," he said.

He refused to be more specific, clinging to his months-old logic that negotiators work best when they work in secret.

Shortly before 7 a.m. EDT, Bush signed 12th-hour legislation reopening the federal government for business as usual after closing it for the three-day Columbus Day holiday weekend for lack of a budget.

He then admonished Congress it had until Oct. 19 to implement a budget resolution by settling what taxes to raise and what programs to cut in order to pare the expected deficit of nearly $300 billion in 1991 by $40 billion. If no final budget package is agreed upon in nine days, the government shuts down again.

Democrats on Capitol Hill hailed Bush's statement on tax rates. Last Friday Democratic leaders said the best hope for compromise was to make the wealthiest taxpayers pay a 33% top rate on the last dollars of earnings, just as middle-class taxpayers do, instead of a 28% rate. This would eliminate the "bubble" that penalizes two-earner middle-class families earning between $50,000 and $150,000.

Bush defended the work of his top aides, chief of staff John Sununu and budget director Richard Darman, from attacks by Republicans and Democrats that the two were arrogant and had extended the painful, embarrassing budget process by pushing legislators around.

Sununu infuriated many Republicans by suggesting Bush might not campaign for those who didn't go along with the $134 billion in tax hikes and the $30 billion cut in Medicare benefits he signed onto with Democratic leaders. Yesterday Bush insisted he would campaign for deserters from the fold, but he also firmly hailed Sununu and Darman as first-class aides in whom he has full confidence.

"When people get tired and stay up 'til 3 o'clock in the morning, every morning, why, there's bound to be tensions," Bush said about congressional criticism of Sununu and Darman. Sununu looked on with a grin.

"Calm them, calm it down and try to go forward. That's my approach to it," Bush added.

Asked about Iraqi President Saddam Hussein's intention to obliterate any trace of Kuwait as an independent country, Bush said such reported Iraqi actions as pulling Kuwaitis off of dialysis machines and heaving babies out of incubators to send the equipment to Baghdad are "sickening."

Bush said he can't give an answer on how long he'd let such actions go on without military response, but it is a "new equation in the last three weeks, the systematic dismantling of Kuwait that concerns us enormously."

His patience "is wearing very thin on that account," Bush said.

The perils of Bush's stumbling at home

By Stephen Kurkjian
GLOBE STAFF

News Analysis

WASHINGTON – Having won the presidency on the pledge that he would never raise taxes, George Bush wavered yesterday on increasing income tax rates. Having worked hard to convince civil rights leaders that he is sympathetic to their causes, the president today will campaign on behalf of Sen. Jesse Helms, who has arguably the worst civil rights record in the Senate.

President Bush is stumbling badly on domestic policy. And in the process, he is alienating many of the political coalitions that put him in office and that look to him for leadership on key domestic issues.

In his press conference yesterday, Bush conceded that he greatly prefers dealing with foreign policy matters to handling domestic ones. It was not an extraordinary concession for someone whose record high favorability rating from his handling of the Persian Gulf crisis began to plummet as the budget crisis continued and the public's confidence in his handling of the economy deteriorated.

In contrast to his work on foreign policy issues, Bush said, he is not having much "fun" dealing with the budget crisis. He said he enjoyed working on the gulf crisis, putting together the international coalition to condemn Iraq's invasion of Kuwait and building an economic blockade so that "this aggression doesn't succeed."

Bush showed foreign policy deftness once more in the hours after the press conference. His administration put forward a strongly worded resolution at the United Nations condemning Israel for its bloody crackdown Monday on Palestinians, which threatened to disrupt US attempts to unify Arab support for the US response to Iraq's invasion of Kuwait.

But as his defeat on the budget agreement last week showed, Bush has been far less successful on domestic issues. "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," Bush said, referring to the strong-willed Illinois Democrat who heads the House Ways and Means Committee, which handles tax laws.

Bush told reporters that the problems are more institutional and stem from having to deal with a Democratic-controlled Congress. "People really basically want to support the president on foreign affairs, and partisanship does, in a sense, stop at the water's edge," Bush said. "Whereas on domestic policy, here I am with Democratic majorities in the Senate and Democratic majorities in the House, having to try to persuade them to do what I think is best."

Others said Bush's view reflects his ambivalence toward domestic issues and his inclination to depend on the advice of the White House chief of staff, John H. Sununu, who is viewed as more conservative than Bush and, as the budget debacle has shown, far less adept in handling the sensitivities of congressmen.

"He has no domestic agenda and no passion when it comes to domestic issues, so he handles these things on a crisis basis," said Doug Bailey, a Republican political consultant.

Bailey's assessment was underscored by Bush's decision, after meeting with Republican senators later yesterday, to back away from his press conference statement that he would be willing to consider a tax increase on the wealthy to achieve a budget agreement. "When issues are dealt with on a crisis basis, a president will usually look for the fastest, easiest solution at hand, and so the public comes away without a clear sense of where the President is leading it," Bailey said.

Bush has perhaps his cloudiest record on civil rights issues. While he promised a "kinder, gentler" presidency, his follow-through has been limited to inviting a number of black leaders to the White House who have argued for the civil rights bill that Bush's top aides say he is still intent on vetoing. Today, Bush travels to North Carolina to campaign for Helms, the conservative Republican who has opposed every major civil rights measure since he arriving in the Senate in 1972. Helms is opposed for reelection by Harvey Gantt, the former mayor of Charlotte. Gantt is black.

Although a majority of the public has been found to believe that the Congress and not Bush is at fault for the failure to pass a budget package, Bailey said the defeat of it last week contained a strong message for the president.

"Every poll that has been done in recent years has stated that the American people would be willing to accept higher taxes as long as it brought them better schools, cleaner environment, better health care," Bailey said. "If he had an agenda that was committed to those issues, people would have been more than willing to accept higher taxes."

An embarrassingly vivid contrast for the Republicans

THOMAS OLIPHANT

WASHINGTON – From the slime pits Friday morning in the House, Republicans ascended the high ground yesterday morning in the Senate.

"For heaven's sake, you're grown men and women; why can't you solve the problem?" was how retiring Sen. James McClure of Idaho aptly summarized the public's damning question. He then answered it: "We can if we tell the truth. Quit the posturing."

According to this principled conservative, a fundamental verity about governmental gridlock is that "neither party wants to admit what their agenda is"; and the reason is that neither is confident enough about the appeal of its agenda to be candid about it.

The Democrats, McClure said, want government to do more, and favor higher taxes to pay the cost. The Republicans want government to do less and tax less, and favor cutting domestic programs.

In politics, however, the Democrats are afraid to make a direct case for higher taxes, while the Republicans are afraid to make a direct case for specific cutbacks in programs. The result is that the Democrats succeed in protecting programs, while the Republicans succeed in restraining taxes, each satisfying the public's conflicting impulses while nearly wrecking the country's finances.

The only way out of gridlock, McClure said, is a simple statement, which he made to the Senate's Democratic majority before voting for the 1991 budget resolution: "All right, I'll meet you halfway."

More than half of McClure's Republican colleagues joined him, in contrast to the House GOPs rejection of President Bush and his budget summit deal last week.

The rejectionism of the Newt Gingrich-misled House crowd effectively dealt it out of the game; the wise gesture of the Senate Republicans dealt them in.

On Sunday, the House GOP was so tied up by its no-tax ostriches that not a single Republican bothered to show up at the conference with Senate leaders of both parties that negotiated the final form of the budget resolution.

The contrast with the Senate Republicans was embarrassingly vivid. With the climactic round of budget-writing just beginning, the Senate GOP quickly won concessions in the temporary measure allowing the government to reopen yesterday, which the House's Democratic majority had rejected on Sunday. In one, symbolic and real spending cuts were made part of the stop-gap funding bill; in another, nonbinding but clear instructions were given to complete the detailed budget-writing by the end of this week.

Far more important, by choosing participation rather than pouting, the Republicans earned the right to wag a warning finger at the numerically superior Democrats. That task was handled by veteran deficit-fighter Pete Domenici (R-N.M.), the senior GOP man on the budget committee. No budgetary funny business, he warned; no smoke and mirrors, and nothing less than $500 billion in genuine multiyear savings, with precise enforcement mechanisms, or the Republicans walk.

The Republicans' decision came hard. At a closed-door meeting Monday – Senate Minority Leader Bob Dole called it the raucous caucus – tempers flared. Dole, however, was able to produce a majority of his party for the budget resolution, led by nearly all his senior people. You know that the antigridlock movement is cooking when Strom Thurmond of South Carolina – the Dr. No of more than a generation – votes for a budget bill and declares from the floor that "the American people want action."

In the days ahead, the Republicans have tough choices to make, and privately acknowledge their rough contours. If they truly want a lower rate for capital gains, they must accept a higher top rate on ordinary income; if they want to join Democrats in easing the budget's impact on Medicare, new tax breaks for business must be resisted; and if they want a lower or different tax on gasoline or energy, they are probably looking at deeper cuts in defense.

Thanks to major leaguers such as James McClure, the Republicans can shape those choices; if President Bush wakes up, he can play, too.

Democrats offer trade on taxes; Bush flip-flops

By Peter G. Gosselin
GLOBE STAFF

WASHINGTON – Senate Democratic leaders yesterday tried to revive stalled budget talks by offering to trade a capital gains tax cut for higher income taxes on wealthy Americans, but the White House flip-flopped on the idea, leaving prospects for a budget settlement as muddled as ever.

President Bush said early yesterday that he was ready to drop his longstanding opposition to an income tax hike for the rich in return for a long-sought cut in the capital gains tax rate. But late in the day, the president apparently reversed himself under pressure from Senate Republicans.

The reversal revealed anew deep fissures among congressional Republicans and suggested just how hard it will be for lawmakers to hammer out a five-year, $500 billion deficit reduction plan as called for by the stopgap tax-and-spending plan approved by Congress and signed by Bush early yesterday morning.

The two sides have until Oct. 19 to work out a deal or face the drastic cuts in federal operations that were narrowly averted yesterday.

Before Bush's sudden change of heart, it appeared that the White House and congressional negotiators were on the way toward a budget compromise.

Aides to Senate Finance Committee Chairman Lloyd Bentsen said the Texas Democrat was ready to support a cut in the capital gains rate, which would chiefly benefit the wealthy, from 28 percent to about 23 percent in return for boosting the income tax rate for the wealthiest from 28 to 33 percent. The aides said Bentsen's proposal had been crafted in consultation with another powerful Democrat, Rep. Dan Rostenkowski of Illinois, chairman of the House Ways and Means Committee, suggesting that the trade-off might help break the impasse over the budget.

Bush started the day by praising the idea of a trade, which he had previously opposed.

"That's on the table; that's been talked about," he said at a morning news conference. "If it's proper, if it can be worked in proper balance between the capital gains rate and income tax changes, fine."

However, by late afternoon, when Bush met with 16 Senate Republicans who oppose any such agreement, the president had reportedly switched again and opposed any trade, according to participants in the session.

Bush reportedly asked the GOP leaders what they thought of the idea, according to Sen. Bob Packwood, an Oregon Republican. "We just put our hands up and said, 'No deal on rates at all' and he just acquiesced in it," Packwood said after the session.

Packwood said Bush also asked the leaders if they would hold fast to their opposition. "And to a man, in the room, every single person said we will support that" position, Packwood said.

Some press accounts quoted an unnamed White House official as saying the president then said, "Fine, we don't need either one of them," referring to income tax increases and capital gains tax cuts.

While Bush met with the senators, the White House chief of staff, John Sununu, was reportedly telling business executives who had lobbied for the capital gains cut that the idea was dead.

The White House refused to comment either on Bush's meeting with the Senate Republicans or on Sununu's remarks. Bentsen, who is expected to propose the tax trade-off to the Finance Commmittee this morning, could not be reached for comment last night.

The events yesterday left the budget situation as confused as it has been since late last week, when, despite strident calls by Bush and Democratic leaders for passage of a deficit reduction plan more than five months in the making, the House overwhelmingly defeated the measure.

The defeat pushed the federal government within a hair's breath of full shutdown. The two sides averted a shutdown early yesterday by putting off the most controversial decisions about how to change the rejected plan.

Yesterday's events left many wondering whether the bargainers can hammer out a deal in the 10 days before the next crisis.

The tax trade-off is at the center of the Senate Finance Committee plan to break the impasse and is likely to guide Democratic negotiators in the coming weeks, according to committee staffers who briefed reporters yesterday.

Under the plan, according to staffers, tax rates for couples making more than $217,500 in income would be raised from 28 percent to 33 percent. The increase would raise an additional $40 billion in tax revenues over the next five years.

Democratic negotiators have repeatedly sought the rate increase to correct what they say is an unfair shifting of the tax burden to middle-class and lower-income taxpayers.

Democrats have previously labeled the capital gains tax cut a giveaway to the rich; the administration has said it would spur growth.

The capital gains tax cut would reduce federal tax revenues by $9.8 billion over the next five years, according to committee staffers.

Besides the tax trade, the committee plans that Bentsen is expected to introduce today will junk a controversial proposal to impose a 2-cent-a-gallon tax on home heating oil. Bentsen had previously championed the proposal, which was strongly opposed by New England lawmakers.

Other elements of the committee plan include:

- Easing highly unpopular Medicare cuts that led many lawmakers to oppose the first deficit reduction deal. Staffers said Medicare would be cut about $43 billion; previously it was to have been cut $60 billion.
- Elimination of plans to save $4.6 billion by delaying the start of unemployment insurance for two weeks after workers lose their jobs.
- A slight drop in a proposed tax increase in gasoline from 10 cents per gallon to 9 cents.
- New taxes on beer, wine, liquor, tobacco and luxuries such as expensive cars, boats, jewelry and furs.

Sununu gets vote of confidence

By JOE BATTENFELD

WASHINGTON — President Bush yesterday defended his beleaguered chief of staff, saying he has "full confidence" in John Sununu's ability to deal with Congress.

Bush's strong endorsement came as many lawmakers — particularly Republicans — blamed Sununu for jeopardizing budget negotiations with his heavy-handed tactics.

"Anytime you have a difficult road like this, there's bound to be some griping about it," Bush said at a White House press conference, with a smiling Sununu at his side.

"I have total confidence in our team," the president added. "I think they did a first class job."

Along with budget director Richard Darman, the former New Hampshire governor has become a lightning rod for criticism by lawmakers in the ongoing budget saga on Capitol Hill.

The list of his reported putdowns and four-letter outbursts against congressional leaders has grown daily here.

Rep. Joseph Moakley (D-South Boston), chairman of the House Rules Committee, has openly predicted Sununu will be forced out of the White House.

But other observers said Sununu's job appears secure because of Bush's strong sense of loyalty.

Bush, in fact, attempted yesterday to take the heat off his chief of staff.

When asked whether he had chewed out Sununu, Bush replied testily, "Absolutely not."

He insisted that no long-term damage had been inflicted by Sununu and Darman on the often fragile egos on the House and Senate floors.

"When the passions get high, I understand that there is bound to be a little broken china up there," Bush said. "So I don't worry about that."

Bush attributed the attacks on Sununu to a few unhappy members.

"What you hear is the squeaking wheel," he said, adding that Republicans such as Senate Minority Leader Robert Dole and House Minority Leader Robert Michel are satisfied with Sununu.

Sununu himself stepped forward yesterday to deny reports that he told GOP House members that Bush would come to their home districts and challenge them to explain their budget votes.

"No, I didn't," Sununu said. "What I said was, the president ... wants your support on the budget. He's going to look you in the eye sometime and ask you to do it, and I hope that you supported him, because if he looks you in the eye and asks you to do it on the campaign, it might be a little embarrassing."

When asked whether he went "too far" in pushing some Congress members, Sununu responded, "I don't think so. We got a budget agreement, didn't we?"

Some lawmakers, however, noted Sununu was kept away from the Capitol while the House and Senate debated the latest budget agreement.

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Bush says he may back rise in top tax rate

But aides later say he won't, rejecting capital gains trade

By Karen Hosler
Washington Bureau of The Sun

WASHINGTON — President Bush said yesterday he may agree to raise income tax rates for the wealthiest Americans in exchange for more favorable treatment on capital gains, signaling a willingness to go beyond what his negotiators have proposed in budget talks.

"That's on the table," Mr. Bush said at a White House news conference. "If it can be worked out in a proper balance between the capital gains rate and income tax changes, fine."

But hours later, aides said the president had been convinced during a meeting with Republican senators not to consider such a trade because the Democrats probably would get the better end of the bargain.

"They said we're never going to get the balance we want with capital gains, so let's forget it," deputy White House press secretary Alixe Glen reported. "The president told them, 'OK, if that's what you want.' "

Mr. Bush's seemingly speedy turn-about illustrated the volatility of an issue that has been at the heart of the budget-cutting debate since talks began earlier this year.

By publicly dropping the administration's resistance to an increase in the personal income tax rates, the president appeared to abandon the last vestige of his "no new taxes" pledge of the 1988 campaign.

His comments were taken as a sign by lawmakers now working to come up with details of the $500 billion, five-year budget plan adopted early yesterday that Mr. Bush is open to any reasonable offer in hopes of making a substantial cut in the nation's soaring budget deficit.

"What struck me as most important was the atmosphere of his remarks," said a staff aide to the tax-writing House Ways and Means Committee, which is expected shortly to consider a proposal along the lines of what Mr. Bush was discussing. "He was saying, 'Let's all get together and work something out.' "

But at the same time, the president said he might enlist in the anti-incumbent campaign now building around the country by speaking out on the stump during the next few weeks in favor of limiting congressional terms.

"I think . . . people want a chance against the incumbents up there on the Hill," said Mr. Bush, who has complained repeatedly about having to deal with a Democratic majority in Congress that is dominated by well-entrenched leaders.

California and Colorado, two states where Mr. Bush is expected to campaign before the Nov. 6 election, both have term-limit questions on the ballot. The California referendum applies only to state legislators, but its success is thought likely to have at least an attitudinal impact on Congress.

On the tax issue, the president indicated for the first time yesterday that he may be willing to completely eliminate the so-called "bubble" that gives the wealthiest Americans a marginal tax rate of 28 percent while taxing those with upper-middle incomes at the top rate of 33 percent.

For a married couple filing jointly in 1990, the 33 percent rate applies to adjusted gross incomes between $78,400 and $162,077. Couples reporting higher incomes would pay at the rate of 28 percent.

White House spokesman Marlin Fitzwater cautioned that such an increase in the income tax rates would have to be offset by a deep cut in the capital gains rate, to perhaps 15 percent. Capital gains, earned from the sale of assets, are currently taxed at the same rate as earned income.

At his meeting with the Republican senators yesterday afternoon, Mr. Bush was warned that the Democrats who control the tax-writing committees were never going to reduce the capital gains rate enough to make the trade-off worthwhile.

But Mr. Bush, who told reporters he has been "pulling and tugging" to get a budget agreement for nearly five months, said, "I want to get something done in these committees. I don't think it would be helpful to draw a line in the sand."

In announcing the budget agreement he reached with congressional leaders last week, the president proclaimed that, despite its calls for higher gasoline, cigarette, alcohol and luxury taxes, the package could claim the virtue of leaving the personal income tax rates intact.

Mr. Bush acknowledged yesterday that his previous resistance to such tax increases — particularly his "read my lips" anti-tax pledge — "makes it more difficult" for fellow Republicans who supported him then to join him now that he's willing to raise taxes in order to cut the budget deficit.

But the president said he has no regrets, noting that "changed economics" since the campaign have convinced him to "go forward from here."

Congress faces mass of details in next 10 days

By Peter Osterlund
Washington Bureau of The Sun

WASHINGTON — Now comes the hard part.

After nearly six months of tortuous negotiation, lawmakers have signed off on a broad spending plan that purports to slash $500 billion off the federal budget deficit during the next five years. But they have given themselves just 10 days to write in the thousands of details needed to make the plan a reality.

"It's going to be murder," said Representative Robert T. Matsui, D-Calif., a member of the tax-writing House Ways and Means Committee.

Yesterday, as lawmakers contemplated the deadline they put before themselves, the Ways and Means panel and its counterpart on the other side of Capitol Hill, the Senate Finance Committee, began to meet behind closed doors to try to figure out just what some of those specifics might be.

Throughout the day, the reports trickled out. A two-penny tax on home heating oil and a two-week delay in unemployment benefits — deficit-cutting proposals from the now-defunct budget summit agreement — will probably not become law. The $60 billion in Medicare cuts advanced by the original budget accord will almost certainly be scaled back to a reduction in the neighborhood of $40 billion to $45 billion.

Higher "sin" taxes on beer, wine, liquor and cigarettes appear inevitable, although the actual increases may differ from those proposed in the summit agreement. A 10 percent tax on high-price luxury goods such as yachts, furs and jewelry looks as if it will survive the collapse of the original compromise plan. Gasoline taxes appear certain to jump from the current 9 cents-a-gallon rate, but not by the 12-cent increment originally suggested by congressional and White House negotiators.

Senate Finance Committee staff aides yesterday said that the panel's chairman, Sen. Lloyd Bentsen, D-Texas, would endorse a doubling of the current tax on gasoline, something of a concession from a lawmaker who had opposed a gasoline tax rise in favor of an oil import fee, which would have provided a windfall for Texas oil producers.

Committee aides also said the chairman would support a cut in the tax levied on capital gains, currently taxed at the same rate as earned income, in exchange for an increase in the tax rate imposed on the highest income earners.

Mr. Bentsen would increase the income tax paid by individuals earning over $113,640 a year and couples earning in excess of $217,510 annually from 28 percent to 33 percent. That rise, projected to affect 600,000 taxpayers and add more than $40 billion to federal coffers over five years, would be coupled with a reduction to 19.6 percent in the tax rate imposed on income derived from the sale of such assets as stocks, bonds and real estate.

It was not clear whether that pairing would meet with the approval of the White House, not to mention congressional Republicans. Until yesterday, President Bush had long maintained opposition to an increase in income tax rates, although his negotiators did advance a proposal to raise upper-income taxes in exchange for a capital gains tax cut toward the end of the budget summit talks. Republicans in Congress have maintained similarly staunch opposition to income tax increases.

But last week, in a closed meeting of House Republicans, two-thirds of those present voted in a straw-poll to support an increase in high-end income taxes in exchange for a cut in the capital gains tax.

And yesterday, the president said publicly for the first time that he could support such a trade-off.

But later in the day, Sen. Robert O. Packwood, R-Ore., emerged from a White House meeting with Mr. Bush and key congressional Republicans saying that "our uniform position was that we will not go up on the [income tax] rates, no matter what." On Capitol Hill, meanwhile, White House lobbyists put out the word that the significance of the president's remarks had somehow been exaggerated by the news media.

Whatever the truth, it is supposed to be hammered into legislation by Oct. 19, at which point another shutdown of the federal government is threatened if Congress and the president have not settled on the fine points of the budget plan. Those fine points are to be put into writing by more than a dozen congressional committees, populated with lawmakers whose nerves have been rubbed raw by the budgetary clashes of the past few weeks.

The task before them promises to stretch patience further. The new plan requires lawmakers to assign cuts to specific programs, a grim task in the best of times. Agriculture, for example, stands to lose $13 billion over the next five years, federal retirees have been targeted for an $8 billion reduction, and the Guaranteed Student Loan program appears headed for $2 billion in cuts.

Then there's the defense budget. The budget pact, which would trim $40.1 billion out of the current fiscal year's deficit, called for a $10 billion reduction in this year's military allowance, bringing defense spending to about $296 billion. But liberals have said they would like to pare the Pentagon's budget further.

Yesterday, the House Appropriations Committee approved a $297 billion defense bill that would eliminate 77,000 troops and slash Mr. Bush's request for strategic weapons.

"As it sits here today, it's veto bait," said Representative Joseph McDade of Pennsylvania, ranking GOP member of the Appropriations subcommittee on defense.

Back to Budget Bargaining

In the end, whatever Congress produces in the way of a budget deal will have to be judged against the bipartisan leadership package it rejected. Right now, nothing of substance is on the table — only a vague expression of intent that American voters should regard with great skepticism.

One of the ornaments of the original plan hammered out by President Bush and the combined congressional leadership was its adherence (with one major flaw in tax breaks for start-up companies) to the 1986 tax reform principle of treating all kinds of income equally. The ill-starred agreement rejected the Republican demand for a preferential tax rate on capital gains and the Democratic clamor to burst the "bubble" that gives the wealthy a lower *marginal* tax rate than the upper middle class so that *effective* tax rates come out evenly.

With the bipartisan package sidetracked, the 1986 reform statute is again in trouble. Democrats are back to bubble-bursting, all in the name of making the tax code more progressive (although some experts say the reverse might be true if capital gains rates are cut). Conversely, President Bush again sees a chance to revive capital gains tax cuts to encourage investment and growth, a concept as debatable as whether the Treasury would come out a long-term winner or loser.

Mr. Bush for the first time has conceded that higher income tax rates are negotiable, a stance resisted by his own party in the House. But he also says they must be "worked in proper balance" with capital gain taxes — a potential sticking point in bargaining with liberal Democrats.

Problems could abound in finding substitutes for other features in the bipartisan package rejected by election-wary incumbents. If New England is to be placated by scrapping a small tax on heating oil, if the gray-power lobby is to be assuaged on Medicare costs, if a proposed hike in gasoline taxes is to be reduced and farm subsidies pared down only modestly, Congress will have to compensate in other areas to reach the goal of a five-year, $500 billion reduction in projected deficits.

These problems are back in the laps of legislative committees that could not handle them in the first place. Can they reach an agreement by Oct. 20? Is it possible to concoct an agreement that is simultaneously palatable to Congress and substantive in reducing national indebtedness? Are the left and right fringes reconcilable? Could another federal shutdown threaten?

Washington's lack of courage, cohesiveness and conviction provide scant room for optimism. There remains the danger that all decisions will be put off until the post-election deliberations of a lame-duck Congress.

THE ATLANTA CONSTITUTION
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Deficit madness must stop now

For months, budget negotiators in Congress acted like a bunch of teenagers getting ready to write a term paper. The legislators rolled up their sleeves, sharpened their pencils, adjusted the lights, shuffled papers, got coffee — did everything but the task itself.

Finally last week, leaders of Congress and President Bush were able to cobble together a package of tax hikes and spending cuts that would have made a $500 billion dent in the nation's enormous budget deficit. But neither the Republican nor the Democratic leaders were able to control their party members well enough to get the accord approved.

As a result, Americans got a taste of what governmental gridlock can do. On one of the last warm weekends of the year, national parks and museums had to shut down because Uncle Sam was broke. Over the weekend, Mr. Bush refused to approve stopgap funding to keep government functioning. He was wise to stand firm and keep the pressure on Congress to reach another agreement.

Now a new compromise has been hammered out. Sort of.

The revised resolution, approved by the House in Monday's wee hours and by the Senate in the evening, unfortunately has far fewer specifics on cuts and taxes. It appears to retreat from some of the previously proposed reductions in Medicare benefits; that's reasonable. It also seems to open the door to higher income taxes for the wealthy and lower capital gains tax rates, and that's supportable too.

Of course no one really knows what the new budget will do because Congress again has decided to delay any tough decisions.

The true content of the compromise won't be known until later this month when the general resolution is put into binding legislation. Such legislation will have to be nailed down in the very congressional committees that have been unable to get the job done in the first place.

In all likelihood, the compromise will not reduce the deficit as much as the original plan. On the plus side, it will be a fairer document if it does include an income tax hike for the wealthiest Americans, who had their rates slashed during the Reagan years.

At this time, it is unclear how Mr. Bush views the compromise. If he uses his veto, there is no indication he can find a majority even in his own party to support a viable alternative.

However the matter is settled, one lesson is clear: Even in a time of national emergency, even when our troops are facing a fierce enemy in the Persian Gulf, politicians cannot find a way to work together for the common good. This is not a pretty spectacle.

For a decade, leaders in Washington have been pretending that it was possible to slash taxes while greatly increasing spending for the military. The results were predictable. When President Reagan came into office in 1981, the national debt limit was $935 billion. By the time the Great Spender left office, it was $2.8 trillion. Now it is rising to $3.44 trillion. Even as the national debt rises, the annual deficits continue out of control.

At some point, this madness must stop. If the budget committees stick to its outlines, this bill offers a a fair package of taxes and spending cuts.

THE GINGRICH FACTOR

GOP whip gambles with political future

Tom Teepen

Is Newt Gingrich as smart as a whip after all? Or is he self-destructing before our fascinated eyes?

Either way, Mr. Gingrich's political Perils of Pauline adventures have become an intriguing subplot to the budget crisis.

As whip — that is, the second-ranking member of Republican Party leadership in the U.S. House of Representatives — it's Mr. Gingrich's job to keep the party's troops on the battlefield and following party orders, especially those of their party's president.

Instead, without yielding his general's stars, the Georgia Republican has been leading a revolt in GOP ranks, resisting any increase in taxes as part of the solution to the nation's budget deficits.

Or, at least, that is his latest position.

Mr. Gingrich has surrounded the tax issue over recent months, at one time or another occupying just about every possible position. And, typical of him, each time he has pressed his position as the only patriotic one, denouncing all others in the kind of ultimate terms that have made him such an infamous political slanderer.

When President Bush first put his lips in reverse, Mr. Gingrich disagreed, holding out against taxes. Later, he came around, joining the GOP leadership team that worked with Democratic leaders to produce the compromise that he then, once again changing sides, helped to defeat.

And by last weekend, Mr. Gingrich, fresh from stabbing his president in the back, was in the well of the House accusing Democrats of disloyalty to the president by passing a deficit-reduction plan of their own. It was like Brutus scolding an anti-Caesar heckler.

In almost any other political operator, that kind of reliable duplicity would have its practitioner in mortal political danger from all of the quarters he had betrayed. It is a measure of Mr. Gingrich's artful dodging that, so far at least, his fellow GOP leaders and even President Bush apparently feel they must continue trying to deal with him.

To be sort of fair about this, Mr. Gingrich has a point in his current position. If we aren't in a recession, we teeter on one's edge. This is a bad time to raise taxes. The government should be either lowering them or increasing spending, to goose the economy along.

The problem is that Presidents Reagan and Bush have presided over such large tax giveaways and deficits so horrendous it is no longer possible to put off the day of reckoning. At least the Democratic plan includes some offsetting growth policies, as the compromise also did.

But Mr. Gingrich is not commanded by such fine points. He has a weather eye cocked to his own political prospects — first to his reelection (opposing taxes, even irresponsibly, never hurts) and to his ambition to become the king of the Republican right.

Conservative Dan Quayle, who ought to rule the right by dint of office, has all the prospects of a turkey on Thanksgiving eve. Jack Kemp is mired in the gritty business of the Department of Housing and Urban Development. Bob Dole in the Senate is old hat and compromised.

Newt Gingrich is, as always, playing political hardball with his opponents of choice, but this time he is playing hardball with his own future, too. □

Mr. Teepen is editor of The Constitution's editorial pages.

The Dallas Morning News

Tuesday, October 9, 1990

Congress moves to avert shutdown

By Robert Dodge
and Susan Feeney
Washington Bureau of The Dallas Morning News

WASHINGTON — A massive shutdown of the federal government appeared to have been averted early Tuesday as Congress inched toward drafting a $500 billion deficit-reduction package.

Shortly after midnight Monday, the Senate approved by a wide margin a tax-and-spending plan that was approved by the House in the early hours of the day.

All that remained was for the House to ratify Senate amendments in a temporary spending measure that is expected to be signed by President Bush. The president vetoed a similar short-term funding plan on Saturday to pressure Congress into making progress on writing a budget.

"The American people want leadership, not speeches," said Senate Minority Leader Bob Dole of Kansas, urging his colleagues to approve the budget.

"If we do not act now, when?" he asked rhetorically. "If we arenot capable, who is going to act?"

And Senate Majority Leader George Mitchell of Maine added, 'We simply must pass this resolution."

Texas' senators split on the plan, with Democrat Lloyd Bentsen voting for it and Republican Phil Gramm opposing the plan.

Lawmakers met again late into the night in hopes of averting a crisis that would virtually shut down the entire government. While certain safety services would continue, a shutdown would suspend many vital services and leave most of the 2.4 million federal employees without work.

The budget approved by the both chambers is a simplified version of an earlier tax-and-spending package the House rejected Thursday.

The latest package calls for $500 billion in deficit reduction in five years, with $40 billion of that in fiscal 1991. But the package soothed the strongest objections by delaying some of the most difficult decisions on tax and spending.

Earlier proposals to raise taxes on gasoline, home heating oil, beer, wine, liquor and cigarettes all will be decided by congressional tax-writing committees. Final decisions about cuts in defense spending and major domestic programs like Medicare also remain to be decided.

Likewise, a controversial package of business investment incentives and enticements for energy production also will be reconsidred by Senate and House tax writers.

Amendments in the Senate's version of the temporary appropriation measure would extend funding through Oct. 19. But as a concession to Republicans and the president, it froze spending at 1990 levels.

'I think it is good symbolism to hold spending at last year's levels," Mr. Gramm said.

The Senate also set out a schedule that calls for congressional committees to finish their work on the budget by Oct. 12. The House and Senate budget committees are supposed to stitch together the tax-and-spending packages by Oct. 12 so a final budget can be approved by Oct. 19.

Mr. Bush, who asked Americans to understand the inconvenience of the government shutdown, felt the pinch himself during the long weekend.

To save money, he declined to take his helicopter or limousine to the presidential retreat at Camp David, Md. — a decision that left him stalled in a four-wheel-drive truck in Washington traffic on the return trip Monday. Along the way, a tire blew out on the accompanying Secret Service "war wagon." Agents toting machine guns jumped out of the heavily fortified station wagon and commandeered a Park Service police car to rejoin the 11-vehicle motorcade.

The budget crunch also put a damper on the swearing-in ceremony for Supreme Court Justice David Souter. Mr. Bush warned guests at a reception not to expect "largesse" because the White House was operating with a limited staff.

Senate leaders spent much of Monday wrangling over whether they had enough support from the rank-and-file to approve the budget resolution.

Although the package does not discuss cuts in Medicare benefits, key Democrats said they intend to scale back the $60 billion in reductions outlined in the first budget plan to $42 billion.

The latest package also requires committees to find another $20 billion in spending cuts or tax increases.

"It is a promise to deal with the deficit in the sweet by-and-by," said Mr. Gramm, criticizing the plan as short on specifics and saying it intended to give Democrats a free hand to raise taxes in committees.

"I am concerned we are buying two days of relief with a month of misery by not being specific and will create more problems that will come back on us in a month," the senator added.

But Mr. Bentsen said, "Americans are tired of hearing politicians in Washington argue about the budget and expect them to deal with it."

The division between the two Texans illustrated the split between the two parties.

Democrats seemed substantially more confident of producing a majority of votes to approve the package. But, despite the endorsement of Senate Minority Leader Bob Dole of Kansas and other GOP leaders, it was uncertain until early Tuesday whether enough Republicans would support the plan.

"It's all smoke and mirrors," said Sen. John McCain, R-Ariz. "Before, it was outrageous. Now it's obscene."

Noting the difficulty Republicans faced in approving the package, Sen. Patrick Leahy, D-Vt., said, "We're past the time for rhetoric, and we're moving toward reality, and reality hurts like hell."

The budget resolution, which Congress normally is supposed to finish by mid-April, does not require the president's signature. Instead, it is designed to instruct congressional committees to draft legislation to implement tax and spending policies.

After the House rejected a budget resolution Thursday produced by the bipartisan budget summit, congressional leaders charged that the White House should not be involved in the initial negotiating process. Now, Senate and House leaders are preparing to return the budget to the same congressional committees that were unable to write a tax-and-spending package earlier this year.

Although the White House has kept a low profile since Thursday, Mr. Bush has been calling senators in recent days — including Texans Mr. Bentsen and Mr. Gramm.

Mr. Gramm talked with the president about the budget Sunday night while Mr. Bush was at Camp David.

"I told him we have a lot of heavy lifting, and I do not think we are headed in the right direction," Mr. Gramm said.

Mr. Bentsen used his time with the president on Saturday to discuss proposals to include a reduction in the capital gains tax in the budget. Mr. Bentsen, who wants to offset the cut by raising the income taxes of the most wealthy, said he received "no commitments" from the president.

Mr. Bentsen also told reporters that a package of incentives to encourage energy production is in jeopardy. Those provisions were in the earlier budget proposal but were not in the version approved by the House.

It will be up to Mr. Bentsen, chairman of the tax-writing Senate Finance Committee, to get the incentives back into tax legislation his panel must draft as part of the budget process.

"When you have 100,000 troops in the Middle East," Mr. Bentsen noted, "there is justification" for the energy provisions.

The Dallas Morning News

Tuesday, October 9, 1990

Lawmakers find humor amid tedium of budget process

By Susan Feeney
Washington Bureau of The Dallas Morning News

WASHINGTON — Most of the time, the 11th-hour budget proceedings on Capitol Hill were an odd mix of lawmaking and hi-jinks.

As the government lurched toward a possible massive shutdown — which appeared likely to be averted in the wee hours Tuesday morning — the combination of high pressure and high stakes produced the best and worst Congress has to offer.

Clashing agendas, colliding egos and pure election politics brought heated exchanges, occasional accommodations and sometimes zingers that made even the fiercest combatants laugh in unison.

Take all that and add the intensity of condensing six months of budget work into hours or days and working sometimes as late as 4 a.m.

To illustrate their points, lawmakers took to quoting the likes of Christopher Columbus, the Founding Fathers, Woodrow Wilson, the late Rep. Claude Pepper of Florida and Garfield. The cat.

Rep. Charles Stenholm, D-Stamford, trying to persuade his colleagues to approve the new budget resolution early Monday morning, reached for the words of the cartoon fat cat.

"When you find yourself in a hole," Mr. Stenholm said, "the first rule of thumb is to quit digging."

Sen. Phil Gramm, R-Texas, looking back on the weekend's legislative drama, said, "That's not the kind of American democracy I read about in history books as a child."

"First I got a call from George Bush. Then I got a call from Jerry Ford. Then I got a call from Richard Nixon. I said, 'Who is it now, Abraham Lincoln?' "
— Rep. Ed Jenkins
Georgia Democrat

■

One challenge was filling time while lawmakers work behind closed doors on the real business at hand.

When House leaders needed a long-winded soul to orate until the new budget plan could be brought to the floor late Sunday night, they turned to a reliable source: Rep. Kika de la Garza, D-Mission.

Mr. de la Garza rose to deliver a so-called "one minute" — the 60-second messages that members may deliver each day on any topic.

Rep. Dick Armey, R-Euless, asked if it would be a "Texas" one minute. Indeed, it was.

Mr. de la Garza, chairman of the House Agriculture Committee, offered a roughly 30-minute "one minute" on farm policy, complete with charts and graphs.

In the Senate on Monday, Sen. Dale Bumpers, D-Ark., took on the time-absorbing duties.

For 48 minutes, he filled the Senate's pale yellow chamber with ruminations on the budget deficit, the Civil War, World War II, Mars, the Superconducting Super Collider and poultry, among other things.

■

The White House pulled out all the stops last week to persuade House members to vote for the original budget hatched in the summit between the Bush administration and Congress.

"First I got a call from George Bush," explained Rep. Ed Jenkins, a conservative Democrat from Georgia. "Then I got a call from Jerry Ford. Then I got a call from Richard Nixon."

Then the phone rang again.

"I said, 'Who is it now, Abraham Lincoln?' "

■

Throughout the process, one of the most animated lawmakers was the silver-haired, silver-tongued Rep. Silvio Conte, R-Mass. At 1:05 a.m. Monday on the House floor — when nerves were shot and tempers flared — Mr. Conte brought comic relief in the form of a poem he wrote.

A sample:

We scream and moan and boo and hiss.

We don't have time to take a (pause) break.

We shout and jeer and fuss and bark.

We blame each other in the dark. . . .

And now we have run out of time.

And that, dear friends, is our own crime.

The government — it has shut down.

And we're the only game in town.

Let's work to get this budget through.

And get these tourists to the zoo.

. . .

And this is how I end my poem:

Let's pass something and go hoem.

■

As House Republicans tried to sandbag the new Democratic budget accord Sunday night, they started questioning the new plan's effect on Operation Desert Shield, the U.S. military deployment in the Persian Gulf.

But before GOP lawmakers could invoke the Stars and Stripes to serious effect, Mr. de la Garza stepped in.

Moving to the well of the House, he scolded the Republicans, saying they had "no right" to raise such concerns.

His son, Navy Lt. Cmdr. Jorge de la Garza, was over there, the congressman said. And if he was satisfied that the new budget plan did no harm to the deployment, they'd better be, too.

House Republicans switched gears and moved on to other, ultimately unsuccessful, tactics.

■

Without a word, Rep. Jack Buechner, R-Mo., aired his feelings about the marathon proceedings.

He wore a navy blue tie with the likeness of Mickey Mouse dancing across it.

THE DETROIT NEWS TUESDAY, OCTOBER 9, 1990

Keep Their Feet to the Fire

President Bush during the weekend recovered some political ground in the budget mess by vetoing Congress' effort to obtain temporary funding to keep the government running. By holding Congress' feet to the fire and threatening a shutdown, he stands a better chance of getting spending restraint without big tax increases. If Mr. Bush gives in now — as it appeared last night he might — he could be in for bigger trouble later.

The House budget resolution approved yesterday calls for slightly less in spending cuts and more in taxes then the package that went down in flames last week. But it really is no more but a scrap of paper. The real work would fall to the Democratic control committees. And they will push Mr. Bush into accepting deficit measures far worst for the country then the automatic budget cuts provided for under the Gramm-Rudman Deficit Reduction Act.

It is the threat of these cutbacks — and only this threat — that gave Congress an incentive to deal promptly and seriously with the budget. If the president had threatened Congress with Gramm-Rudman from the start, he would be a lot better off today. He would have gotten serious budget restraint without tax increases. And that wouldn't have been nearly as traumatic as many in Congress and the media would like you to believe.

In order to meet this year's deficit target, after all, the federal government would only have to hold down the projected *increases* in spending. Revenues from existing taxes are scheduled to rise $80 billion this year, while the deficit must be cut only $50 billion. Is it too much to ask Congress and the government to live with the kind of belt-tightening that goes on in American households nearly every day?

As the country heads into a recession, raising taxes is a particularly dumb idea. The left, still bogged down in 1960s-style class warfare, is especially intent on soaking the rich. But even if you confiscated the entire income of the rich, it wouldn't run the government for more than a few days. And pretty soon the politicians would be coming after the middle class. The money wouldn't be used to reduce the deficit, of course. It would be used to fuel more spending.

The only real way to cut the deficit is to cut spending, or at least to hold spending below the rate of inflation, and promote economic growth. That's what Ronald Reagan persuaded Congress to do in the 1980s, and it reduced the deficit steadily to 2.5 percent of gross national product from nearly 6 percent of GNP after the last recession. It wasn't flashy, but it worked — and with a minimum of pain.

The country has already seen the results of trying to negotiate with the taxers-and-spenders in Congress — and it didn't like what it saw. The president lost a golden opportunity to gain real control of the budget process by using the tools available to him. It may have been his last chance.

Chicago Sun-Times
TUESDAY, OCTOBER 9, 1990

Bush, Congress act to avert shutdown

By Jerome Idaszak
Washington Bureau / Chicago Sun-Times

WASHINGTON—Prodded by the fear of a broad government shutdown, congressional leaders and President Bush agreed Monday night to short-term funding that would allow agencies to open today for business.

The Senate passed the measure on a voice vote, and House passage later in evening was expected.

Under the agreement, the government would operate at normal levels through Oct. 19. Congressional leaders hope all budget work under a companion budget measure passed by the House will be completed by then. Senate passage of the budget measure was expected by early today.

"Out in the country, they don't think we look like heroes. They think we look like jerks," said Sen. William L. Armstrong (R-Colo.) about the arguing that's gone on for the past week.

Senate leaders predicted a narrow victory in a vote after midnight on a budget that would seek $500 billion in higher taxes and less spending over the next five years.

Because of a dispute over details of the budget, Congress had authorized no money for the federal government for the fiscal year that began Oct. 1.

To keep the pressure on Congress to pass a budget, Bush last Saturday vetoed a bill to keep the government open for a week while debate over the budget continued.

That veto drew attention with the closing of Yosemite Park and other national campgrounds and the shutdown of national museums and monuments here.

Urging approval of the budget pact Monday, Sen. Alan J. Dixon (D-Ill.) called a federal shutdown "a frightful alternative" that would cut air travel, bridge repair and purchase of defense material, among other things.

"This is not just the bear at the zoo, the Washington Monument or the park you can't go into next weekend," Dixon said. "This is very, very serious stuff."

The budget agreement before the Senate was a revision passed after midnight Sunday by the House, 250-164, with the major change of lower fees on the 33 million elderly in the Medicare program.

While the new budget lacks details, House Democrats said their goal is an increase of about $15 billion or $20 billion in Medicare fees instead of the original $30 billion. That would mean a deductible rising from $75 to $100 instead of $150, and monthly premium increases less steep than under the first budget plan, which would almost double them after five years.

House Democrats also suggested that higher taxes would tilt more toward those earning above $100,000 than the first package, and that cuts in farm subsidies would be shifted to soften the impact on dairy farmers, among others.

Sen. Bob Graham (D-Fla.) said the changes in Medicare and more even distribution of tax increases persuaded him to vote for the budget plan.

Left unsolved was how to meet the promise that the package would lower the budget by $500 billion. Some Democrats suggested "unspecified savings" while others said the money would be raised through new taxes.

"I see it raising $165 billion in taxes," said Sen. Connie Mack (R-Fla.), who opposed the plan.

"What's really wrong with this package is not that it's too severe, too Draconian. It's too little, too late," Armstrong said.

It was the vague qualities that caused only 32 of 168 House Republicans to vote for the plan and many Senate Republicans to blast it, too.

"This process has gone from outrageous to obscene," said Sen. John McCain (R-Ariz.).

"By adopting a budget which basically makes undefined promises, we are making a job harder to do and more likely a job that will not be achieved," said Sen. Phil Gramm (R-Texas), who backed the first budget plan because of its details.

The Republican fear is that because Democrats control a majority of both bodies they'll craft changes to fit their spending and taxing priorities.

But Senate Democratic leaders walked their own tightrope, knowing that if the changes differ too much from the first package, Bush will veto the effort.

"If the president of the U.S. doesn't like what we produce here . . . then he can simply veto it and send it back to us," said Senate Budget Committee Chairman Jim Sasser (D-Tenn.).

Bush, returning to the White House Monday, avoided a public role as Senate debate began.

Rosty is king of the Hill as budget war rolls on

By Basil Talbott
Washington Bureau / Chicago Sun-Times

WASHINGTON—Poised to preside as king of Capitol Hill during the final stage of the budget war is Rep. Dan Rostenkowski (D-Ill.), the committee chairman who came out of the Chicago school of Democratic ward politics.

Rostenkowski's Ways and Means Committee is slated to handle the most costly and contentious elements of the budget agreement Congress has been working to produce.

For the next couple of weeks, Rostenkowski will be the most important man in Washington.

"The lobbyists and the media will suffer lots of bruises elbowing each other to get to Danny Rostenkowski's door," said Rep. Henry J. Hyde (R-Ill.).

When Congress and President Bush finally agree on a budget resolution, Rostenkowski's tax-writing committee will have to choose and scale the taxes needed as well as decide where to make the cuts in Medicare.

His close relationship with Bush, his skills as a tough negotiator and his reputation for decisiveness are among his assets.

His assertive brusqueness was illustrated early Friday when he delivered a rock 'em, sock 'em floor speech criticizing the budget summit convened among Bush and congressional leaders. That group produced an agreement rejected last week by the House. Rostenkowski promised in his speech to fix it in his committee.

He took a slap at presidential aides who have become unpopular because of their budget dealings, saying his committee members would not be "rubber stamps."

House Speaker Thomas S. Foley (D-Wash) "is not somebody who likes conflict. Danny is not a guy who's willing to step back from a fight," said Rep. Marty Russo (D-Ill.), a member of Ways and Means and a Rostenkowski protege. "And if you cross Danny, there's a price to be paid."

Budget revamp divides battle turf; Page 24

In its latest version of the budget resolution, Congress will have leeway that was not given in the proposal coming out of the budget summit. The budget summit, comprised of top legislative and White House aides, sought to limit Rostenkowski's options by specifying what taxes should be raised and by how much. The new version eliminated the limits.

The same tax issues will come up in the Senate before the Finance Committee headed by Sen. Lloyd Bentsen (D-Texas), but Rostenkowski has the edge. The Constitution gives the House first crack at money bills.

A Rostenkowski aide said the two chairmen huddled privately to make a joint recommendation, but haven't been able to agree.

Regional differences between the Chicagoan and the Texan and the makeup of their respective panels make an accord difficult. The House Ways and Means Committee is heavily urban in character, with members from Chicago, New York, Boston, Baltimore, Cleveland, Los Angeles and San Francisco-Oakland. Bentsen's panel is largely rural in character.

Sources close to Rostenkowski predicted that his proposal, referred to as "the chairman's mark," will include goodies for Chicago and other urban communities. These were lacking in the budget summit's proposal, which listed in Texas' direction.

Two examples of the likely additions are extension of a housing revenue bond program for first-time homeowners and an industrial development bond program for companies that want to add a plant. Both programs, due to expire, were omitted from the budget summit plan, which cut out Rostenkowski in the final weeks.

Peter Dwars, director of the Illinois Housing Development Authority, last week lobbied Rostenkowski here to keep the housing bond program. The Illinois Development Finance Authority wants to keep the other program that was due to expire.

The Ways and Means Committee staff has been working on Rostenkowski's recommendation for some time. It will represent Rostenkowski's best reading of what his committee of 23 Democrats and 13 Republicans will accept.

Rostenkowski's job brings risks as well as opportunity.

In 1981, Rostenkowski tried to wrestle the tax bill from President Ronald Reagan but lost out when the president outbid him. Only last year, Rostenkowski was rebuffed by his committee when he opposed a break in the capital gains tax, which he then recommended.

Committee sources said his new proposal, which he is ready to make quickly, will likely include a capital gains break as well as a change in the tax rates to hit the wealthy harder.

Rostenkowski's great triumph was the 1986 tax reform bill, which did away with many tax shelters.

His staff said the current challenge is greater, however. It must be done is a shorter period, and it will be the largest deficit reduction plan in the nation's history.

Decisions at cliffside

It is unfortunate that the problem besetting Congress and President Bush over the deficit reduction package has been cast most vividly in the context of shutting down government. That danger is real enough, and has already inconvenienced some Americans, but the larger issue is much more important. Congress and the president came close to a flawed but tolerable package that would at last have established a timetable for reducing the federal deficit.

Shutting down government represents a crisis – a short-term upheaval that could not last for long. The deficit problem is a chronic disease that over a long period has cost the nation dearly in both its domestic and international economic affairs. Disposing of the crisis without addressing the long-term ailment dooms the country to persistent economic disability.

When the House last Friday rejected the compromise measure put together by congressional and administration representatives, some of its members argued that they could not tolerate this or that element of the package. Democrats largely opposed some program cuts and the emphasis on consumption taxes to raise revenues. Most Republicans were still wedded to President Bush's no-new-taxes campaign slogan. Both were clearly willing to risk paralysis rather than accept what were for the most part minor adjustments in basic tax and spending policies and programs.

Bush exhibited some of the same characteristics. By simply threatening to withhold approval of a short postponement of the shutdown, required under terms of the Gramm-Rudman-Hollings deficit reduction act, Bush encouraged everyone else to play the dangerous game of my-way-or-no-way.

This danger of paralysis in the legislative process should not be taken lightly – as anyone watching Massachusetts political events for the past two years could easily testify. Coalitions of support for any package on Beacon Hill were impossible to assemble for month after month. The Massachusetts Legislature has 200 members in the House and Senate. Congress has 535 members, from far more scattered political and geographic backgrounds. Massachusetts has been struggling over its basic tax and spending structures. Congress has been fussing at the fringes – and has demonstrated that it is willing to create chaos in the process.

The politics of compromise is often messy business and no joy to ideological purists. Results may be unsatisfactory to nearly everyone, but they do keep the system moving and edging toward progress. Congress and Bush have shown, by rushing headlong toward last-second budget and tax decisions, that they are willing to deprive the nation of the kind of fiscal stability it needs to resume economic growth. Unintentionally, they have also given an indication that Massachusetts is still a trendsetter on the political front.

The Evening Sun

Baltimore, Tuesday, October 9, 1990

Tiny compromise is poor weapon in war on calamity

Russell Baker

THE GREAT Compromise dealt with slavery and was so important that history books still write it in capital letters. Now we have the small compromise, and small is almost too big a word for it.

Some might call it tiny, considering all the somber talk in the air about impending national calamity.

People facing calamity surely want their leaders to do something more dynamic than raising the price of beer, cigarettes, gasoline and health insurance.

Yet that's about all that was contained in the budget deal between President Bush and the Democratic leaders.

Yes, there were also new taxes on furs and cars in the $30,000 price range, but still — this is war on calamity?

The peril is economic. Awareness of it is what's behind the whining about Japan's supremacy and what makes best sellers of pamphleteers' warnings that it's all up with the U.S.A.

What to do? The obvious answer: Get out of debt.

You usually get out of debt by cutting costs, increasing income and using the savings and added revenue to pay the bill collector.

Government, however, can't do it this way anymore.

Why? Because of the politicians' terror of raising the taxes needed to pay for all the things taxpayers demand. In the 1980s taxes became political death.

The Republic, which was born crying "No taxation without representation," began demanding "Representation without taxation."

Politicians who opposed the latest increase in Social Security benefits were doomed just as surely as politicians who proposed new taxes to pay for it.

Not surprisingly, politicians discovered the wisdom of giving the voters more while fighting all efforts to pay for the new boons with real money.

Needing a philosophy to justify themselves, the politicians were blessed by the arrival of the Reagan economists bearing a theory worthy of the Wizard of Oz.

The way to fill the Treasury to overflowing, they said, was not by raising taxes, but — get this, folks! — by cutting taxes.

This would free so much money for the private market that business would boom and tax collections rise despite lowered rates.

Here was a politician's dream of Paradise. Despite the much-ballyhooed impending calamity, politicians still cannot give it up.

Nor can you blame them. Though many may now privately concede that the theory didn't work, the public still seems to detest returning to the old idea that when governments distribute boons somebody has to pay.

Chief among those determined to keep shunning reality has been Bush.

In 1980, before becoming Reagan's vice president, Bush described the Reagan argument that tax cuts would enrich the nation as "voodoo economics."

Eight years later, though, Americans were so wedded to the get-rich-by-cutting-taxes theory that he offered them his "read my lips" pledge of "no new taxes" as assurance that he would never abandon the tried and beloved old policy simply because it had failed.

Earlier this year, finally confronting the potential calamity, he agreed to consider tax increases.

The deal defeated last week — the tiny compromise, if you like — was the result. It was denounced by some Democrats as a soak-the-poor budget, but this overstates the case.

Weighed against the potential national calamity — loss of Number Oneness, for heaven's sake! — the taxes involved were too slight to constitute even a good soaking. It was only a dunking.

Sure, the poorer classes would continue to bear the heaviest tax burden, as in the Reagan years, but it was more accurate to call it a dunk-the-poor budget.

You might have expected conservative Republicans to congratulate the president for his cunning in persuading the Democrats to join him in this assault on their natural constituency. But no.

The ineffable Newt Gingrich, House Republican whip and the very embodiment of "Representation With No Taxation Whatsoever," promptly said he and all who still cherished the old Reagan way thought the president had gone too far. And so they voted against him.

Perhaps the conservative defection will have long-term benefit for the country.

Suppose it persuades Bush that nothing he does will ever win him conservative support.

Gosh, it might persuade him to give the country a break by dropping the conservative Dan Quayle from the ticket in 1992.

Chicago Tribune, Tuesday, October 9, 1990

Bush, Congress OK plan to avert federal shutdown

By Elaine S. Povich
Chicago Tribune

WASHINGTON—The Senate late Monday approved a new budget package, averting a major nationwide government shutdown that could have caused chaos for federal workers and many citizens alike.

In a fast-moving evening of closed-door negotiations, Senate Democratic and Republican leaders agreed on a continuing resolution that would keep the federal government in operation as well as a broad new budget package.

The continuing resolution was passed shortly before 10 p.m. CDT. The House was expected to go along with the Senate version, and President Bush ordered that he be awakened when the work was complete so he could sign the resolution.

The last-minute action by the Senate brought to a temporary end one of the most disjointed periods in governmental management in recent memory. With Congress and the White House stymied over the budget and the money running out, such government services as museums and parks were closed over the long Columbus Day weekend.

But the full impact of a government shutdown was not felt, since most federal employees were not scheduled to return to work until Tuesday morning.

The budget agreement calls for details of spending cuts and tax increases to be worked out by Oct. 19. If Congress and the president fail to agree on the details, a similar fiscal crisis could occur.

There were signs that one issue that had held up a budget agreement for months—a cut in the capital gains tax, sought by Bush, and higher income taxes on the rich, sought by the Democrats—might again become part of a deficit-cutting plan.

While the new budget doesn't specifically call for the politically dicey tradeoff, it provides flexibility in choosing taxes, and congressional leaders said the issue was likely to come up again as Congress implements details of the new plan in the next two weeks.

Senate Budget Committee Chairman James Sasser (D-Tenn.) Monday night urged approval of the budget to end this "governmental chaos and public frustration.

"The American people are saying simply, 'Fix it. Do what you're paid to do. Make decisions. Legislate. Keep the government functioning,' " Sasser said.

But several senators said the budget plan was so broadly written that real policy decisions about taxes and spending were being put off.

"This says we will make deficit reduction in the sweet bye-and-bye," complained Sen. Phil Gramm (R-Texas).

House Speaker Thomas Foley (D-Wash.) said the fiscal bills should be passed to end "this unnecessary and artificial crisis" crippling government functioning.

The House approved the new budget plan, which is aimed at saving $500 billion over the next five years, early Monday morning with mostly Democrats backing the package. The proposal was extremely vague, and congressional leaders said the details would be filled in later.

Specifically, they said there would be fewer cuts in Medicare than the original budget agreeement between Congress and Bush, which was rejected by the House, and that the burden on Medicare recipients would be eased.

In the tax area, leaders said the House Ways and Means Committee and the Senate Finance Committee would be given flexibility to act.

Emerging from private caucuses on Monday, senators from both parties predicted that a cut in the capital gains tax—the levy on sales of such assets as stocks and bonds—would become part of the new budget, along with higher tax rates for the wealthy.

Democrats have insisted that any cut in the capital gains tax, which they view as a tax break for the wealthy, must be accompanied by a commensurate increase in rates for upper-income taxpayers.

Specifically, they have suggested bursting the so-called "bubble" in the tax code which results in very wealthy taxpayers paying a top income tax rate of 28 percent while upper-middle-class earners pay a top rate of 33 percent.

"I think it will. be part of the trade," said Sen. Lloyd Bentsen (D-Texas), chairman of the Finance Committee. "If we had a capital gains tax cut, the same people that would benefit from it will have to pay for it by an increase in the [income tax] rates."

A Republican on Bentsen's committee, Sen. John Chafee of Rhode Island, agreed that the tradeoff was probable.

"Some like myself think an increase in rates is a perfectly justifiable price to pay for [a cut in] capital gains," he said, "though I've never been keen on capital gains anyway."

Rep. Dan Rostenkowski (D-Ill.), chairman of the Ways and Means Committee, was readying a tax proposal to bring before his committee Tuesday. While details were still being worked on, aides to Rostenkowski said his proposal would resemble the one he made in March. That proposal called for an end to the tax bubble, which he said would raise $44.3 billion over the next five years.

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 deficit 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.

Los Angeles Times

MONDAY, OCTOBER 8, 1990

Budget Fight Tests Speaker's Mettle

■ Politics: Thomas S. Foley has been the architect of consensus in the House. Now, some colleagues wonder if he is tough enough to handle the deficit crisis.

By RONALD J. OSTROW and PAUL HOUSTON
TIMES STAFF WRITERS

WASHINGTON—He stands out among the 435 members of the House of Representatives—a brainy, undeniably decent man who is liked by almost everyone, Republicans and Democrats alike.

Yet Rep. Thomas S. Foley (D-Wash.), after 16 months as Speaker of the House, is facing the most serious political test of his career.

The stunning defeat of the bipartisan accord on budget deficit reduction last week has placed Foley on the firing line and raised a new question in the capital: Can this man really lead?

Foley showed a rare flash of aggressiveness Sunday when he criticized President Bush for shutting down federal government services in the face of the budget crisis. Still, characteristically, he did not question the President's motives.

"If there was any criticism of the Speaker, it is that he ought to be tougher toward the President," liberal Rep. Sam Gejdenson (D-Conn.) said as he emerged Sunday from the House Democratic Caucus, where the outlines of a new budget proposal were discussed.

"I think Tom has done an excellent job," Rep. W. G. (Bill) Hefner (D-N.C.), a conservative, said as he left the caucus. "I'd just like to see him meaner, but that's not his nature. I'd like to see him be more vicious. . . . But that's why he's Speaker and I'm not."

Foley is clearly under pressure now. It was he who put together—and shepherded for 4½ months—the negotiations between the White House and Congress that produced the plan that his fellow House members rejected last week—in part, they said later, because they believed they had been shut out of the process.

In the battle between Congress and the Bush Administration over the weekend, it was Foley who spoke for the lawmakers on the TV interview shows. Now it is he who must patch things up—first among Democrats, then between Congress and President Bush.

The son of a judge who himself had judicial ambitions early on, 61-year-old Thomas Stephen Foley has been a consensus-builder for much of his 26 years in Congress.

Indeed, Foley's passion for consensus and compromise—and his absence of the instinct to go for the jugular—were cited as just the qualities needed to rescue the House from the partisan wrangling into which it had plunged under his predecessor, former Rep. Jim Wright (D-Tex.).

Foley, a lawyer, was assistant attorney general of the state of Washington before he came to the nation's capital in 1961 as an aide to the late Sen. Henry M. (Scoop) Jackson (D-Wash.).

In 1964, helped by the landslide election of President Lyndon B. Johnson, Foley narrowly beat an 11-term Republican congressman to win the right to represent his conservative district in eastern Washington.

He later honored the man he had defeated, Rep. Walt Horan, at a reception.

A decade later, Foley reluctantly accepted the nomination of his fellow Democrats to replace Rep. W. R. Poage (D-Tex.) as chairman of the House Agriculture Committee—at the time part of a move to limit the authority of conservatives who had dominated House committees.

Foley immediately named Poage vice chairman.

Former Speaker Thomas P. (Tip) O'Neill Jr. (D-Mass.) brought Foley into the House leadership in 1980 by naming him to the third-ranking post of whip. "Tom Foley sees three sides to everything," O'Neill said at the time.

When Foley was elected Speaker, Rep. Leon E. Panetta (D-Carmel Valley), current chairman of the House Budget Committee, hailed the choice as the perfect one to help reunify the House. "If there's one man who can repair the damage, it's Tom Foley," he said when Foley took the job.

But critics fret that the same traits that have made Foley so effective could prove to be liabilities when it comes to resuscitating the budget package. Will he now be able to take off the kid gloves and take a more bare-knuckle approach?

Still, on Sunday, there was some evidence that Foley may be about to change—to move "left with the [budget] deal," as Rep. Charles Wilson (D-Tex.) put it, in order to bring more Democrats on board.

How Republicans, who balked at the tax proposals in the first package, might be persuaded to go along with a more liberal version remains to be seen.

Foley has made it clear that he has little hope of turning around Rep. Newt Gingrich (R-Ga.), the minority whip, who led the opposition to the budget compromise.

"I'm not sure that we will get Mr. Gingrich's support for any plan," Foley said on NBC-TV's "Meet the Press" on Sunday. "I certainly would not make an assertion that any plan, any reasonable plan, would have to have Mr. Gingrich's support."

Los Angeles Times

MONDAY, OCTOBER 8, 1990

Why the Mess? Lawmakers Go Their Own Ways

By TOM REDBURN
TIMES STAFF WRITER

WASHINGTON—Why can't the federal government clean up its budget mess?

At the heart of the fiscal gridlock that has paralyzed Washington this weekend is a cruel fact: To the average voter, the benefits of reducing the deficit lie somewhere in the uncertain future, while the

NEWS ANALYSIS

costs are visible and painful to the public right now.

And in an era when political parties have lost their influence over voters—and members of Congress must stand or fall as individuals on Election Day—a large majority of lawmakers found it far safer politically to pick the $500-billion budget compromise apart than to support it.

"I'm not elected by the President," said Rep. Lynn Martin (R-Ill.), an outspoken opponent of the budget package who is engaged in a tough election battle to oust Sen. Paul Simon (D-Ill.). "I'm elected by my district—and my district thinks I've done the right thing."

As a result, practically the only thing upon which lawmakers can agree today is that they disagree with each other.

"It's not that the center didn't hold," says Brookings Institution scholar Joseph White, co-author of "The Deficit and the Public Interest." "It's that there *isn't* any center left any more."

For almost a decade, the battle over the deficit has eclipsed almost everything else in domestic policy and left the government divided—between an unruly Democratic Congress, often beholden to special interests, and a conservative White House driven by ideological passions.

President Bush's decision to abandon his no-new-taxes pledge and negotiate a compromise with middle-of-the-road congressional leaders was supposed to have changed all that.

But Bush may have waited too long. Today, Congress is split into at least four camps, with many members holding strong beliefs on the best way to close the budget gap.

"The passions are intense—the issues are of enormous concern to everybody," Richard G. Darman, director of the White House Office of Management and Budget, said Sunday on CBS' "Face the Nation" program. "It's the good of the country that's at stake, but it's also people's ability to get themselves reelected."

On the Democratic side, one group insists that the deficit is all the fault of former President Ronald Reagan and that the principal cure should be to reverse the 1980s and raise taxes on the wealthy.

Meanwhile, another group of Democrats argues that the deficit really is not much of a problem. They suggest that it is time to spend more freely on domestic problems that have festered over the last decade.

On the Republican side, one group agrees that the deficit is a problem but blames Democrats for not being willing to cut spending.

But there is just as much conviction among a large core of conservatives that the deficit is not responsible for *any* economic ills and that the solution to the current slowdown is to cut taxes even more.

That doesn't leave much room in the middle for the Establishment Democrats and Republicans, who recognize that the federal government's well-entrenched benefit programs for the elderly—which now make up roughly half of all federal spending outside of interest on government borrowing—are threatening to devour the rest of the budget.

"Folks, if we cannot make any savings in the entitlement programs at this time, I do not know where we are going to be in a generation," House Minority Leader Robert H. Michel (R-Ill.) pleaded Thursday night just before the budget compromise was rejected.

"We are not going to have any pie to distribute in a few years because entitlements are driving discretionary spending down," Michel said. The Medicare program, for example, now costs the public more than $100 billion a year and is rising at more than 12% a year.

But when budget negotiators sought to raise that part of Medicare paid by the elderly to help finance the program's skyrocketing costs, lawmakers gagged.

"What are we socking it to the elderly for?" asked Rep. Silvio O. Conte (R-Mass.). "Where are they going to get the money?"

Where they are getting it from now is future generations, who will be asked to bear the swelling burden of federal borrowing used to cover the gap between revenues and expenditures.

Interest payments on the federal debt, which now are higher as a proportion of the total economy than at any other time in history, are expected to reach almost $260 billion this year.

Interest soon could be the largest component of the budget—exceeding the allowance for the Pentagon and Social Security.

Congress and the White House have tried almost everything in an effort to get the deficit under control:

—They reformed the budget process more than 15 years ago.

—Five years ago—convinced that the only way to force action was to hold a gun to their own heads—lawmakers created the doomsday machinery of the Gramm-Rudman deficit reduction law. The law requires Congress to set yearly targets for reducing the budget deficit and mandates automatic across-the-board cuts in federal spending if the lawmakers fail to meet them.

—This year, they isolated a few top officials in a room for 4½ months—and the House promptly rejected the result that the negotiators produced.

"The fact that you had the elite going off talking to the elite and protecting the elite really hurt any serious consideration of the plan," Rep. Thomas J. Downey (D-N.Y.) argued.

Everything has failed.

At the same time, however, the economic collapse that so many experts predicted if the federal government did not curb its appetite for borrowing did not materialize, either.

"If there were any justice in the world, there would be a dramatic end to the deficit story," says Paul Krugman, a former Council of Economic Advisers staffer who now is a sadder and wiser economist at the Massachusetts Institute of Technology.

"The adverse consequences of the deficit would become spectacularly apparent in an economic crisis and the public would rise up and throw the rascals out," Krugman says.

"But of course," he adds, "there isn't any justice in the world."

Los Angeles Times

MONDAY, OCTOBER 8, 1990

Support Grows for a Tax Trade

By PAUL HOUSTON and TOM REDBURN, TIMES STAFF WRITERS

WASHINGTON—With much of the government shut down for lack of funds, congressional leaders struggled through the day Sunday to win bipartisan support for a new deficit reduction package to replace the $500-billion plan that was rejected by the House on Friday.

In a development that could break the budget logjam and reopen government offices, House Republicans overwhelmingly endorsed suggestions for a compromise that would raise income taxes on the very rich in exchange for a reduction in capital gains tax rates.

The straw vote—which came in a closed caucus called to explore GOP sentiment for striking a new budget deal with the Democrats—marked a stunning reversal of the hard-line approach that GOP leaders had taken at the negotiations that produced the earlier budget pact.

It was not immediately clear, however, how quickly any such compromise could be put together. Democratic leaders said consideration of such a tax trade-off would have to wait until congressional committees take up details of any new package later in the week.

In the meantime, the Democrats pushed a new plan of their own aimed at softening proposed Medicare cuts and shifting tax increases more toward the wealthy. But they said their own proposal would contain few specifics, leaving details for congressional committees to work out.

The Democratic plan also would reduce the extra share of Medicare costs that the program's beneficiaries would have to pay to only $12 billion over five years instead of $30 billion—a move designed to gain crucial support of the elderly, who had protested the earlier plan.

Lawmakers on both sides of the aisle had been especially leery about angering senior citizens, who constitute a potent bloc of voters in congressional elections, now less than a month away. Last week's plan sparked a barrage of phone calls and telegrams from the elderly.

House Speaker Thomas S. Foley (D-Wash.) expressed hope that a new budget outline would be ready for action by the House late Sunday, in time to go to the Senate for a vote today.

If a new package is adopted, the leaders then will seek to pass a separate stopgap funding measure, needed to reopen government agencies before Tuesday, when workers end a long Columbus Day weekend. Without such a resolution, most federal workers would be sent home.

President Bush successfully vetoed a similar stopgap measure on Saturday and selectively closed down a number of government operations, saying that he wanted to keep the heat on Congress to approve a new deficit-reduction plan.

His action ignited partisan warfare on Capitol Hill, as the House failed by six votes to override the veto.

Foley, who pleaded with Bush not to force a confrontation that might destroy chances for a new bipartisan budget, vented uncharacteristic fury over the veto Sunday, even as he sought to reach a new compromise with Republicans.

He accused Bush of "creating a crisis that is totally artificial," charging that "We're injuring innocent people" affected by the shutdown.

"It's like saying we ought to rebuild the fiscal house of this country and he sets the House on fire for awhile to get our attention," Foley complained.

Foley also sought to assuage rank-and-file Democratic lawmakers, who had been angered by the fact that they were left out of the 4½-month-long negotiations between congressional leaders and top Bush Administration officials.

Meeting with reporters in an ornate lobby off the House floor, he pointedly noted that the new package was being drafted without any formal negotiations with White House officials—though he conceded that they were being kept up to date informally.

He also insisted that the Democrats' new budget plan is aimed at "appealing to members of both parties. It reduces the increased cost in the Medicare program and provides a more equitable and fair distribution of taxes."

He said the plan would contain aggregate figures for reducing spending and increasing taxes but details would be left up to committees—mainly the House Ways and Means Committee and the Senate Finance Committee.

"There's not a dime's worth of tax increases—not 10 cents' worth of cuts in the budget resolution," he said. "It allows the committees to consider these issues."

But that is just the thing that appears to concern Republicans the most. Many minority party members voiced fears Sunday that if the details of the plan are left to Democratic-controlled committees, the final package will not curb spending enough to keep tax increases to the bare minimum.

"I've got reservations about referring details to my committee," said Rep. Bill Archer (R-Tex.), top-ranking Republican on the tax-writing Ways and Means panel. "We're out-numbered, 23 to 12."

Added Rep. Jack Buechner (R-Mo.): "We may get a bone out of the Democrats but certainly not a five-course meal."

As behind-the-scenes negotiations wore on Sunday night without any sign of agreement, Minority Whip Newt Gingrich (R-Ga.) pressed for a stopgap spending bill that would impose $40.1 billion in across-the-board cuts until Congress can produce a permanent budget.

Normally mild-mannered, Foley erupted in fury at Gingrich's suggestion that Congress was blocking a deal that would allow government operations to resume by refusing to cooperate with the White House.

"Of all the people in this House, in this country, that has little claim to cooperating with his President, it is the gentleman from Georgia," Foley declared to cheers and applause from fellow Democrats.

Within minutes, House Majority Leader Richard A. Gephardt (D-Mo.) stormed onto the floor to announce that he had been waiting for the last six hours in the office of Senate Majority Leader George J. Mitchell of Maine with Senate budget negotiators from both parties, but that no House Republican had shown up.

"I hope that someone would come from your side," Gephardt told GOP members, "so that what the President has asked us to do for five months [and] yesterday and today—to get a budget resolution" can be done.

At their own caucus Sunday, Republicans debated whether to continue seeking a compromise with the Democrats or instead to adopt a strategy of confrontation, seeking to force Congress to enact deep spending cuts by persuading Bush to veto appropriations bills deemed excessive.

House Minority Leader Robert H. Michel (R-Ill.), one of those favoring a new bipartisan accord, asked for a show of hands on a proposal to cut the tax on capital gains to 20%—from 33% now—in exchange for boosting the ordinary income tax rate on the wealthy to 32% from 28%.

Republican leaders said the plan—which they said would reduce the deficit by $13 billion over five years—drew surprising support.

"There was at least a two-thirds majority for it," Rep. Jim Leach (R-Iowa) told reporters later.

In recent days, even conservative Republicans such as Gingrich, who originally opposed income tax hikes, have shown a willingness to consider such a tax swap in hopes that lower capital gains rates would help stimulate the ailing economy.

However, White House Chief of Staff John H. Sununu said Sunday that the Administration still opposes raising the top income tax rate.

Sununu, obviously rankled that Gingrich had led a House GOP rebellion that helped sink the original budget compromise, noted that it was Gingrich and other Republicans who had insisted earlier on holding fast against any change in income tax rates.

The Atlanta Journal AND CONSTITUTION
MON., OCTOBER 8, 1990

Robert Akerman

George Bush tried his 'riverboat gamble,' and lost

They called Ronald Reagan's tax cut plan a "riverboat gamble"— but it worked, politically and economically, for a decade.

George Bush, who once called Mr. Reagan's ideas "voodoo economics" and then professed to accept them for that decade, has tried his own "riverboat gamble," and lost.

As 1990 wore on, the rate of increase in government revenue began to decline, presaging a greater increase in the deficit than President Bush's own economists, voodoo or otherwise, had prophesied in January. That decline was in itself a sign that a recession had begun.

Neither the liberal economics of John Maynard Keynes nor the doctrines of the supply-siders advocate a tax increase in a recession. But President Bush gambled anyway. He abandoned the "no new taxes" pledge under which he was elected, and said he would put "revenue increases" on the table at a budget summit.

I wrote then that only a very good deal, in terms of immediate spending cuts and long-term procedures to get federal spending under control, would redeem his abandonment of that pledge.

He didn't get a good deal. He got such a bad one that both Democrats and Republicans rebelled against the congressional leaders who had negotiated it.

Where do we go from here? President Bush already is on record as saying that the budget agreement he got was the best one possible at present. Presumably he does not have much to offer at this point. Those who opposed his deal, especially those on the Republican side who had the instinct to know that it was not good economics, may be able to come up with a better plan. But whether many Democrats will go along with them is doubtful, since they don't have the same economic ideas.

I think that to get out of this mess now the starting point has to be to take the current budget — the one for the fiscal year just ended — and use the "flexible freeze" approach to adapt it for the new year. Even without new taxes, the deficit looks much different if we think in terms of continuing current spending instead of projecting from a base that includes built-in increases. Fiscal 1990 spending would provide the 1991 budget ceiling; funds from those items which can be cut below this year's spending can be transferred to those which absolutely must be increased. And, in the end, we might find that new taxes this year aren't really necessary after all.

George Bush lost his budget battle, but he doesn't have to lose the economic war. If we can stave off the recession that his proposed budget could only have worsened, he may yet come out of the political war strong enough to fight another day.

Newsday October 8, 1990

Refusing to do the right thing

MARY McGRORY

WASHINGTON – Can Congress come back? Can President Bush?

The executive and legislative branches joined hands and jumped into a sea of raging public disapproval of government. Bush made the mistake of thinking he could govern with slogans as easily as he had campaigned on them. Members of Congress feared the electorate would never forgive them for exercising common sense, although poll after poll had told them that voters would accept higher taxes if they were applied to deficit reduction.

Contempt for Congress could be read in the reproachful stares of the tourists who sat in the House and Senate galleries because they were locked out of other public buildings.

Congress' failure to pass a budget resolution was the problem, White House operators told callers. Pictures of tots sobbing at the White House gates and Boy Scouts frowning at the base of the off-limits Washington Monument make Congress look bad. But Bush, who vetoed a continuing resolution to keep the government going, didn't look much better.

Democratic leaders of the House, for reasons they have yet to explain, accepted a budget agreement that offended the party's major constituencies.

Their troops in the House rebelled. Bitter things were said about Speaker Tom Foley. Liberals compared him to the British colonel in "The Bridge on the River Kwai," the Alec Guinness character who got so carried away by the process that he failed to realize he was collaborating with the enemy.

Last Thursday, liberal Democrats joined right-wing Republicans, who also abandoned their leader in voting against the bill – for entirely different reasons, of course. Bush had pleaded with them on television and in person for help on a "bipartisan budget." His chief of staff, John Sununu, got out his truncheon and laid about in a way that made some nostalgic for "the good old days of Donald Regan."

The president, who has had such phenomenal luck with Francois and Margaret and Helmut on the perilous matter of the Persian Gulf, could not persuade Newt Gingrich, his party whip in the House, to give him a vote.

Too late the House leaders saw the folly of their ways and put out word that they, too, hated the budget agreement. They passed a continuing resolution, one that would have at least kept the machinery of government rolling. Bush promptly and righteously vetoed it. Not for him "business as usual," although it was his studied ignoring of the deficit and his religious crusade against new taxes that had done so much to fashion the crisis.

The mortified Democrats tried to override his veto and spent Saturday raucously failing.

The tourists took it all in. On a sparkling Sunday afternoon, Bill Erickson, an engineer from Chicago, while wife Betty nodded vigorously in agreement, passed judgment on the architects of the debacle.

"I watched the House yesterday, and they were like a crew of kids out of control. I went to the Senate and they had five people on the floor – they don't even come to hear each other speak," he said. "If this is normal, maybe we should do something different and elect people who care about their jobs."

While the Ericksons were assessing their leaders, the Democrats were regrouping. Rep. Sam Gejdenson of Connecticut said, "We decided to be Democrats." On the backs of envelopes they jotted down a few thoughts about reducing Medicare costs and raising the taxes of the rich. Foley presented the sketch to the caucus. Huzzahs followed, and Foley smiled for the first time in four days. The new budget passed at dawn.

The whole problem was trundled over to the Senate, where it was as if none of the agony, embarrassment, disruption and yawning chaos had ever been.

The Democrats quavered and havered in their caucus. Some incumbents with House challengers lamented that they might have to vote against the new budget because their rivals had. They wanted assurance that Republicans would support it, so they would not be naked to a charge by Bush that they had once again passed a tax-increase measure over his protest. Republicans hung back from doing the right thing.

It is as if Alice Roosevelt's cynical dictum, "No good deed goes unpunished" had become the law of the land.

Mary McGrory is a syndicated columnist.

Bush's Big Lie

For years he derided taxes. No wonder people rejected his call to accept them now.

The budget impasse is a colossal failure of George Bush's leadership.

For the past decade, Bush was first cheerleader, then head coach, of a Republican team that kept on winning largely because it told the public it wouldn't have to pay more taxes to reduce the deficit. No wonder that when Bush finally went on television last week to tell Americans, essentially, that he had lied, they cried foul. He hadn't prepared them for the truth. And the outpouring of negative phone calls from voters to House members — standing for re-election next month — shut the coffin on the bipartisan budget deal.

But the unfortunate part about it is that the void created by the House's rejection of the pact — and Bush's petty, partisan effort to shift responsibility for the entire affair to Capitol Hill — is apparently going to be filled with something that could turn out to be worse.

The new idea is a budget cut and pasted together by congressional committees, the very fiefdoms that so far have displayed as much political cowardice in earlier deficit-reduction efforts as the White House.

It's true that one of the many reasons for the budget agreement's demise is that powerful committee chairmen felt their toes were crushed when administration officials and congressional leaders settled in private on a distasteful deal, then tried to ram it through Congress. Handing the job back to congressional committees — the course about to be taken — is a welcome dose of democracy.

But the danger is that real deficit reduction will again be lost to fiscal gimmickry. For all the unfairness in the doomed pact Bush and congressional leaders crafted, it did provide for real tax hikes and real spending cuts. Year after year, Congress has settled for phantom savings that fell short of deficit-cutting goals.

That must be the prerequisite for a new deal. Not only should it meet the original pact's deficit reduction of $40 billion this year and $500 billion over five years, it must achieve these reductions in fact — not on paper. If a new budget agreement isn't credible, the Federal Reserve won't lower interest rates and the nation will slip into recession.

The rejected agreement should be changed in two key ways, to make it fairer but still effective in stanching the red ink. It must roll back the odious increases in payments that Medicare participants must make. And it should end the hoax that income-tax rates can't or shouldn't be raised. Even in their humiliation, Bush and his top advisers cling to this idea — oblivious to the fact that their insistence on excise taxes that hit the poor and middle class harder than the rich was a key reason Congress, and the public, turned down the first deal.

Higher tax rates for the wealthy are economically and politically appropriate — and the price Bush has to pay for a decade of lies.

Budget-pact loss widens GOP split

Having suffered the most humiliating defeat in Congress by any Republican president in recent history, George Bush in a morning-after reflex reached for more of the previous night's poison by seeking to renegotiate the flawed budget agreement—with Democrats.

After a White House strategy meeting, President Bush's main operatives traveled to Capitol Hill to meet Speaker Thomas Foley, Senate Majority Leader George Mitchell and House Majority Leader Richard Gephardt. Republican congressional leaders who had supported the budget pact were absent. No wonder then that House Minority Whip Newt Gingrich, who led the GOP rebellion, was a pariah cut off from presidential contact.

Rowland Evans & Robert Novak

Even to critical insiders at the White House, the course taken by the president and his men seemed suicidal. Instead of trying to close the party's self-inflicted budget wounds, the White House was venting its anger against rebel Republicans. Never during nearly two years of budgetary infighting with Democrats was so much venom displayed by the Bush team as on Friday after the great defeat.

These are the pitfalls of bipartisanship run amok. In their search for deficit reduction, Bush and chief of staff John Sununu abandoned their party's principles and welfare.

To Bush's agents inured to Democratic demands during five months of haggling, the deal seemed pretty good. But Republicans across the country were stunned. On the heels of the president's retreat from his no-new-taxes pledge and the collapse of his efforts to get capital gains tax cuts, the final proposal befouled Republican sensibilities: a new tax shelter that could benefit fast-buck operators, one of the biggest tax increases in history, no real constraint on domestic spending.

What followed was Bush aides acting "like a bunch of thugs," in the words of one lame-duck GOP congressman, to win House approval. There was no laughter when reports hit the Republican cloakroom of a threatened Sununu visit to confront Rep. Robert Walker, a chief deputy party whip, in his Pennsylvania district.

Gingrich and fellow House GOP leader, Rep. Vin Weber, sought to avert defeat until the 11th hour Thursday. They met with a frequent antagonist, Senate Republican Leader Robert J. Dole, and tentatively mapped a plan that would resurrect the capital gains cut but raise the top individual income tax rate. Thumbs down from the White House.

Instead, Foley was sent out of an Oval Office meeting Thursday to publicly reassure Congress that the agreement would be fine-tuned in House committees. Since those committees are Democratic-controlled, the speaker's mild words chilled Republicans.

That led to GOP defections beyond White House expectations. When it then became clear that the budget would lose, Foley could not deliver Democratic votes.

Not before and not after Gingrich mobilized his House Republican whip organization to sustain the president's veto of the stopgap spending measure Saturday was he in touch with the White House. The once-intimate relationship between Gingrich and Sununu is now in ruins.

Republicans supported the veto even though they question Bush's tactics. "I guess he's embittered," said Rep. Henry Hyde, a widely respected Republican loyalist.

"If Bush really shuts down the government," said Democrat Russell Hemenway of the National Committee for an Effective Congress, "then we'll win some seats [in Congress]—a lot of seats."

Evans & Novak are nationally syndicated columnists of the Chicago Sun-Times.

Gingrich's gotta go

The budget reduction package is back on track today after having been briefly derailed chiefly by Newt Gingrich, the Georgia Republican congressman who is a leading practitioner of scorched-earth politics.

Appearing on ABC-TV's "Nightline" early this morning, Gingrich looked a little like the cat who had swallowed the canary. But before it's over, we predict with some confidence, he will look more like the snake who swallowed the pig, because in the end Gingrich is going to have to swallow a much more distasteful budget compromise, from his point of view, than the one he scuttled last week, to the great embarrassment of his president. The final package most likely will include a trade-off of a capital gains tax reduction in return for a higher marginal income tax rate on the wealthiest — the very package which the Democratic negotiators proposed throughout the four months of difficult negotiations which Gingrich wrecked in one night.

If this dismal exercise in governmental irresponsibility has proved nothing else, it has proved that Newt Gingrich is simply unfit for leadership in a political system where separated power *requires* compromise. He may be of some value as a gadfly who sharpens public debate, but he will never be a leader. It's time to relegate Gingrich to the back bench where he belongs.

Gridlock: Can democracy work?

Paul Greenberg

"YOUR PEOPLE, sir, are a great beast!" That was Alexander Hamilton's supposed response to the idea of government by the people. It does sound just like him, even if historians have never been able to verify the comment. At this juncture in the history of the Republic that Colonel Hamilton helped shape, such a description would be all too accurate. Wrestling with the country's rapacious deficits, its few leaders finally patched together a compromise for Congress to rip apart. And beyond Washington, the writhing has just begun. This beast has a thousand heads, each with a hungry mouth, and each capable of the most piercing screams if denied a single morsel. Seldom has democracy appeared, alas, so democratic.

The easiest position to take on this plan to reduce the deficit was: Hell, no. In principle, all may be willing to sacrifice for the common good. In politics, each felt it was being singled out as a victim. That is how democracy is disrupted, the center shrinks and the system stalls.

The professionals who minister to this great beast called Demos — they are called politicians — busied themselves running for cover. Newt Gingrich, a Georgia firebrand who is now supposed to be a Republican leader, fairly sprinted. Dale Bumpers, the Arkansas statesman and orator, though not necessarily in that order, slipped into his populist mode. This budget deal, he said, "looks like it's calculated to devastate a state like Arkansas." Now there's a good, sound, responsible term: devastate.

The secret of the successful demagogue is not just to echo the fears of the beast but magnify them. To defend this compromise would have required a measure of courage, reality, even risk to one's political career. Naturally a majority of the House of Representatives voted against it.

The really cagey pol will still hope for the best of both worlds: that others will pass some sort of compromise to keep the government going while he opposes any such deal to great popular acclaim. But there are so many cagey pols in Washington that compromise didn't stand a chance first time out. What we have here is a profile in something other than courage.

The critics of this plan do have a point: Almost anybody could have drawn up a better deal — if the object were to serve only one's own interests. Or satisfy only one's own judgment. For my part, slicing the defense budget just when an armed confrontation looms abroad sounds reckless, if not ludicrous. I also have doubts about whether this deficit reduction plan will reduce the deficit any more than the previous ones approved with great fanfare during the Reagan administration. But could anyone have drawn up a better deal if the object was to control the deficit and still promote the general welfare?

Was this compromise fair? Well, what is fair? Would it be better to give every interest its fair share of an ever failing economy? Then all could sit back as interest rates soared, confidence in the country waned, recession gave way to depression . . . and be assured that this creeping chaos was perfectly fair.

A cynical witticism holds that there is a time for a politician to rise above his principles. That now has become the definition of statesmanship, and George Bush has met it. So have a few Democratic leaders — Speaker Tom Foley, Chairman Dan Rostenkowski of Ways and Means, and even Richard Gephardt, who is now a former populist. But only a few politicians may be capable of meeting such a standard. Ideologues on the right are outraged and in revolt. The ones on the left are no more pleased with the Democratic leadership. And when the ideologues are joined by the opportunists and careerists of both parties in Congress, the combination may prove unbeatable. That is how democracy deadlocks. That is how phrases like "the general welfare" and "the common weal" acquire a quaint, even negative, connotation in this age of me and mine.

Like many another argument over money, this one is about more than money. It is about whether the general welfare will come before parochial interests and prejudices. It is about whether the system can still work, whether leadership can still lead, whether the two parties can do anything more than check each other . . . and whither this republic is tending. We will see. Very shortly. The clock is ticking. That may be the only thing moving in Washington.

SUNDAY
OCTOBER 7, 1990
Los Angeles Times

Ax Gramm-Rudman-Hollings?

POLITICAL FORECAST

The Gramm-Rudman-Hollings Act aims to curb the federal deficit by forcing congressional and White House negotiators to come up with a budget plan or face deep cuts in government programs. No matter what happens to the latest plan, was Gramm-Rudman a positive or negative force in bringing it about? Should it be retained? The Times asked seven economic analysts:

William E. Simon, secretary of the Treasury in the Nixon and Ford administrations:

The Gramm-Rudman process is a workable instrument to impose a degree of fiscal discipline on the Congress. The Congress tried its best to evade the law's [deficit-reduction] targets by raising the spending limits each year when it became apparent that the required belt-tightening would be too painful. Despite congressional manipulation, the process did serve as a restraint on spending.

The fact is that our deficit problem lies in the Congress itself, not in the Gramm-Rudman process or in various gimmicks designed to restrain the Congress' insatiable appetite to spend taxpayers' dollars. Members of Congress are driven by one overwhelming objective: their own re-election. Everything else—including the integrity of our currency or the long-term health of our economy—takes a back seat.

Congress men discovered long ago that they get re-elected by redistributing taxpayer funds to interest groups that will support their next campaign. Since virtually all 535 members of Congress behave this way, the result is absolute fiscal chaos in Washington, and we have to go to the brink of financial ruin before Congress will act. . . .

I have long believed that one solution lies in fixing clear limitations on congressional terms of office. This would force our representatives to consult the long-term interests of our nation and put an end to the idea that a politician can use the federal budget to ensure his re-election term after term after term. . . .

In short, the Gramm-Rudman process should be retained as a measure to restrain spending, but it must be undergirded by other disciplining measures such as congressional term limitations and a presidential line-item veto.

Martin Anderson, senior fellow, Hoover Institution at Stanford University:

There is only one way out of this deadly economic trap that our budget generals have fought their way into. We need to adopt the "Lithuanian Solution"—just suspend Gramm-Rudman-Hollings for a year. Instead of raising taxes and plunging this economy into a recession that will create a deficit that really is dangerous, we should live with our relatively small deficit a while longer, defeat Saddam Hussein and resolve the gulf crisis, control spending as much as we can, enjoy Christmas and see how things look in 1991.

Robert J. Kuttner, author of the forthcoming book, "The End of Laissez-Faire":

There was a point in time, circa 1985, when it made sense to enact something like Gramm-Rudman as a way to hold Reagan's feet to the fire, to force him to choose between his military buildup and his tax policy. But Gramm-Rudman has become a chronic way of paralyzing government. It's been overtaken by events.

The whole budget is now so totally out of whack and the numbers are so big—and they keep changing Gramm-Rudman, anyway—that it's become, on balance, more of a negative. I think they should scrap it.

The only way the budget is ever going to get back into balance is by restoring the tax rates on rich people to what they were pre-1981. Gramm-Rudman, coupled with the Administration's refusal to entertain taxes on the rich, turns it into a chronic game of pass the buck. I think it would be ridiculous to extend it, and tinker with it, one more time. It's like a mirage in the desert. It's always 20 miles away from you.

Kathryn Eickhoff, former chief economist, Office of Management and Budget during the Reagan Administration:

Gramm-Rudman has performed a useful function in the four years since its enactment in 1986. Eleven billion dollars in true savings resulted from the first sequester. The brief sequester forced by [OMB Director Richard] Darman early in fiscal 1990 also produced savings. It is doubtful that savings in other years were greater than what would have been achieved in Gramm-Rudman's absence.

By shifting budget ground rules, Gramm-Rudman has produced new opportunities for "smoke and mirrors." It has also provided a needed discipline to the budget process. However, in and of itself, it has not been able to solve the budget crisis nor prevent it from getting much worse.

If Gramm-Rudman is to continue, the targets must once again be amended. The budget compromise proposal is a step in this regard.

If there were no Gramm-Rudman, it would have to be invented to give the budget committees the clout they need to enforce the budget resolution. It is better to improve the Gramm-Rudman that we know than try to get along without it.

Lester Thurow, dean of the Sloan School of Management at Massachusetts Institute of Technology:

Under Gramm-Rudman-Hollings as passed, we're already supposed to have balanced the budget. And, in fact, the budget deficit in 1992, even with a budget package, is going to be bigger than it was in 1991. It's like canoeing very rapidly up a river that's running very fast so that you're actually going backward, even though you're paddling like crazy.

I think the event that makes the [budget negotiators] more serious this time is that the Germans and Japanese have basically been funding the deficit, and the Germans have notified the world that they're not going to be lending money to the rest of the world. They're going to be borrowing money and putting their money, plus the borrowed money, into East Germany.

Because of the events in the Tokyo stock market, as well as the interest in building more housing in Japan, it seems highly likely that the Japanese are also going to be lending less money to the world in the future. That basically makes it impossible to evade [the deficit] in the way in which we've evaded it in the past.

I don't think it's Gramm-Rudman that's essentially put our feet to the fire. Effectively, we've already scrapped Gramm-Rudman. It's a perfect example of why a constitutional amendment to balance the budget doesn't work, because the people running the country who make laws cannot make laws. All they did was keep the budget imbalance from getting as bad as it would have been without Gramm-Rudman.

Claude Barfield, resident fellow, American Enterprise Institute:

I think that Gramm-Rudman, on balance, has been a very positive force over the last few years and was a force in getting the Administration and the Congress to get together. The people who often criticize Gramm-Rudman say that it represents a bankruptcy of the political process, that it's throwing decision-making to some kind of institutional gimmick. The problem with that is it gets it backward. The political process was bankrupt in the first place, and therefore turned to something like Gramm-Rudman.

It's like a killer who writes on a mirror, "Stop me before I kill again." And that's what Congress did, in effect, when it passed Gramm-Rudman.

. . . The Congress does need some form of discipline, because I see no signs that it will discipline itself.

Arthur Laffer, former economic consultant for President Reagan:

Real or perceived deadlines only encourage bad decisions. Gramm-Rudman has, for several years now, introduced an artificial deadline with a national threat—the sequester of enormous sums of government spending. The stock-market crash of 1987 was a direct consequence of Gramm-Rudman. The deleterious implications, however, are nowhere more apparent than they are with the recent budget compromise. The Gramm-Rudman deadline forced polarization within the legislative and executive branches and tried to achieve its resolution by confrontation, not by reason.

. . . The political dynamics are bad enough under normal times, but with Gramm-Rudman they are catastrophic. Gramm-Rudman should be legislated out of existence. □

ST. LOUIS POST-DISPATCH

SUNDAY, OCTOBER 7, 1990

Budget Brinkmanship

Because the American political system seems to be incapable of functioning, the U.S. government may be incapable of carrying out its responsibilities. How did this sorry state of affairs come about? The nation itself, and its president and Congress, in that order, virtually asked for it.

When voters reward politicians who promise benefits without costs, they virtually guarantee the failure of leadership that led to last week's budget crisis. That failure of leadership is principally President Bush's. He refused to prepare the nation for the sacrifices that sensible deficit reduction requires — and delayed the budget process itself by insisting for too long on a wrongheaded cut in capital-gains taxes. But Congress must accept a large share of the blame, too. Many of its members showed themselves unwilling last week to vote for any pain and sacrifice, despite the greater good.

What now? Members of Congress need time to negotiate among themselves about a budget, since they rejected the compromise agreed to by their leaders. They cannot adjourn without doing so. But President Bush is wrong to force them to deliberate under the pressure of either a government shutdown or across-the-board spending cuts.

Government is a public trust. That trust precludes seeking partisan advantage by holding the basic operations of government — and its beneficiaries — hostage. Accordingly, a resolution to delay draconian Gramm-Rudman cuts is essential.

What should the budget look like? Ideally, it should cut military spending much more than the document just rejected. The Cold War is over; significant reductions are possible. Ideally, income tax rates should be raised, particularly for wealthy Americans. A credible deficit-reduction package demands major new revenue. Increasing income taxes is fairer than hiking excise taxes because the former better reflect the taxpayer's ability to pay. Finally, spending cuts should be spread more evenly among the budget's beneficiaries; Medicare recipients were asked to pay more than their fair share in the budget rejected early Friday morning.

But in the real world of deadlocked government, something less than perfection must be accepted. Those who don't like new taxes must face the need for at least some of them. Those who don't want spending cuts must accept that some are essential. And all must accept pain — both office-holders and their constituents. There just isn't enough waste in government to make all the cuts completely painless. That point, above all, must be accepted.

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Budgetary shenanigans

The disorder of government in Massachusetts is nearly complete. An incredible breakdown is occurring among the leadership at the State House.

Announcements by Governor Dukakis of funding cuts are now issued willy-nilly with little regard for their effect on recipients of service. Worse yet, the announcements are not even valid – made one day only to be rescinded the next.

Major facilities, such as the Chelsea Soldiers Home, the Holyoke Soldiers Home and St. Francis House in Boston, the largest feeding station for the homeless and hungry in the state, are told that they must start closing down for lack of funds. Within a week, they are told that it was all a mistake; money will be found.

Operations are in a shambles. Cabinet-level executives of huge state departments are saying no to the man who appointed them. They refuse to accept the governor's latest round of $310 million in budget cuts – cuts designed by Edward Lashman, the administration and finance chief.

Appalled by the senseless guidelines that Dukakis and Lashman dished up, these executives refuse to end rent subsidies and evict working-poor tenants onto the street. They refuse to turn out the worn-out veterans who get room and board for a pittance at the soldiers' homes. No one can countenance taking bread-and-soup money away from St. Francis House or closing 400 shelter beds.

But where is the money to come from? Does the governor really expect the treasurer, attorney general and secretary of state to fork over more of their shrinking piece of the budgetary pie – the latest strategy to emerge from the Dukakis camp?

Voters are onto these budgetary shenanigans. They disbelieve that the cuts are sincere and are convinced the announcements are scare tactics.

Dukakis' on-again, off-again cuts now cruelly fuel support for the tax-rollback referendum. Administrative chaos fans the fire. The governor should withdraw and let those entrusted with running the services salvage as much as they can.

Sunday Gazette-Mail
The Sunday Newspaper of West Virginia
October 7, 1990 $1.00

THE 1991 FEDERAL budget plan smashingly defeated by a rebellious House of Representatives in the pre-dawn hours Friday had many flaws and little to recommend it. The package was a series of bad compromises to get something — anything — before Congress so it could close shop and head home for the fall campaign.

An elite bipartisan group haggled for weeks before cobbling it together at the very last moment. The result affronted nearly everyone.

Liberals ripped into reductions in Medicare services and increases in Medicare premiums, higher gasoline taxes, unfair new levies on alcohol and tobacco products (since the affluent can afford them far better than the poor can), and failure to raise taxes for the very well-to-do.

Conservatives liked Bush's cut in capital gains taxes (scuttled in the final draft), and disliked higher Social Security payments by the upper middle class, and the failure to meet spending-cut goals in full. They groused that the deal would stifle, not stimulate, economic growth.

Further negotiations, now mandated, may not produce anything fairer or better.

President Bush is on the spot. So is Congress. Bush vetoed a stopgap step to defer imposition of Gramm-Rudman spending cuts but he boldly told members of both parties, worried about voter reaction back home, to "blame the president."

It shouldn't be that way.

Congress adopted a rational, sensible, easy-to-understand budget process in 1974. It took budget-making away from Capitol Hill powerhouses who chaired key committees, who got signals from the White House. Instead, budget committees were created in each house to decide the eternal question of providing necessary programs with adequate funds — not in the inner recesses of the Capitol, but in open public forums.

That lasted until the 1980s, when President Reagan and Democratic leaders in Congress, who did not know or did not care, staged a tax-slashing, deregulating, wild spending spree, with higher outlays and less revenue — one of the uglier examples of irresponsibility at both ends of Pennsylvania Avenue.

A cure for the spend-but-don't-tax addiction appeared in the Gramm-Rudman Act, which dictated cutbacks in all government operations (and a halt for some), unless the small band of negotiators for the executive and legislative branches reached agreement before fiscal New Year's Day — Oct. 1 of each year.

This year's down-to-the-wire, last-minute agreement gave Congress a take-it-or-leave-it choice. Congress decided not to take it. House members knew that their rejection would create a crisis. That didn't stop them.

"The (budget-making) process amounts to government by cabal," *The New York Times* commented. House members rejected the cabal's recommendation.

Budget reform, so promising in the Ford-Carter years, vanished in the 1980s. It is absolutely essential to re-reform the process and get back to the sensible, unpleasant process of balancing needs versus income.

If not, a dreary repeat of this year's dimly understood compromise next year, and the next, and the next, is a virtual certainty.

President Bush, House Speaker Tom Foley, and Senate Majority Leader George Mitchell have been sent back to the drawing board. If and when they find a plan Congress will accept, they should immediately begin seeking consensus on re-reform, a better method to manage the country's bank account.

The old Saturday matinee movie series ended each episode with the hero or heroine facing a seemingly inescapable disaster. That was fine for film thrills, but it's unacceptable as the annual crisis in fiscal policies of the world's greatest nation.

10/7

THE DENVER POST

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'There is no hope for the satisfied man' - F.G. Bonfils, Publisher, 1895-1933

Budget nonsense

COMMON sense took a triple-gainer dive off the high board of reality last week when the U.S. House nixed the spit-and-glue budget agreement cooked up by President Bush and a handful of congressmen.

The agreement was absurd, both in content and in the way it was put together. But it was equally absurd for members of Congress to oppose the budget pact on grounds that certain special-interest groups didn't want to pay their share of the bills.

Depending on whose calculations you use, the federal debt stands at more than $3 trillion. Since there's not enough cash in the public till to pay this IOU, Uncle Sam has to borrow more money to pay off the bills he already has accumulated.

That means he's competing with private enterprise for a limited supply of new credit. Interest rates go up and businesses get fewer dollars with which to create new jobs. In this and other ways, the federal debt is a massive drain on the U.S. economy.

Simply put, the United States has to get its bad spending habits under control.

The federal government should have been paying its bills during the past decade, when the longest peacetime expansion in American history created an economy strong enough to withstand tax increases. But the opportunity was lost under the no-new-taxes ideology of Presidents Reagan and Bush, coupled with an irresponsible Congress that was unaccountable to anyone.

Now the nation is sliding into recession, which is the worst time to raise taxes. The trouble is. the debt is an even bigger drag on the economy, so it has to be taken care of soon. This terrible predicament defies easy resolution.

But not all the blame can be foisted on the politicians: American voters themselves are unwilling to make the sacrifices needed to solve the problem.

Airplane owners howl about higher luxury taxes being placed on the purchases of aircraft, but simultaneously scream if the government tries to scale back services such as aviation weather reports or airport expansions.

Senior citizens whine that they shouldn't have to forgo Medicare benefits, ignoring the reality that their selfishness subtracts from their grandchildren's future economic security.

Every year, Congress authorizes programs that it can't pay for, and it delays any meaningful discussion about trimming federal spending until late fall, when the Gramm-Rudman law threatens to impose draconian cuts.

Then, in a self-deluding dance of the absurd, congressional leaders and the president rush a jury-rigged compromise through the two houses, leaving all the hard questions for the next year. The trouble is, they don't tackle the hard questions the following year, either.

The government's way of putting together budgets must be changed. No amount of superficial tinkering can fix the underlying problem. A realistic budget must be constructed at the start of each fiscal year, rather than at the end of the 12-month period when legislative panic ensues.

Uncle Sam must, in a reasoned and orderly fashion, raise taxes across the board and cut back on popular programs. The alternative is to weaken America's economic base so much that the United States eventually will sink into financial despair.

The budget breakdown

Government at its worst: That's the sorry spectacle America's voters saw yesterday.

The astonishing defeat of the last-minute federal deficit-reduction package — just hours before the onset of irrational, across-the-board spending cuts — marked the triumph of shortsighted absolutism over the long-term national interest. As renegade right-wingers joined lamenting liberals to defeat the accord in the House of Representatives, 254-179, the obstructionists sent a message that should shake this Republic to its foundations: Perhaps the United States lacks the maturity to govern itself.

The nation now faces a constitutional crisis. Congress cannot craft a budget, the president threatens not to accept an interim compromise and the public awaits the doomsday alternative: the Gramm-Rudman-Hollings scythe. If this were a parliamentary system, this week's "vote of no confidence" would have brought down the administration and cleared the way for a new coalition. Instead, Americans must spend this weekend wondering if their government will open for business next week.

This week's budget breakdown revealed the failure, not just of political leadership, but of national followership. All of Washington's top-ranking leaders — the president, the leaders of both houses of Congress and both parties, even the chairman of the Federal Reserve Board — endorsed the five-year anti-deficit package. This modest accord would have reduced the federal deficit by a mere $35 billion next year — far less than the $50 billion originally promised. After a decade of ritual denunciations of "blue smoke and mirrors" evasions, voters should have been ready to accept the inevitable: a bipartisan compromise that would trim some benefits and raise some taxes.

Yet special interests and special pleaders — including Pentagon contractors, upper-income investors and scaremongers among the affluent elderly — denounced even the slightest suggestion that they must make sacrifices in the national interest. The president's nationwide televised address backfired: Instead of rallying his supporters, the president evoked a chorus of, "Cut everybody else — but not me."

Ironically, President Bush is now suffering the delayed consequences of the "Don't worry, be happy" theme of his 1988 campaign: Having failed to tell voters that deficits are undermining the nation's long-term prosperity, he finds it hard to suddenly mobilize support now. If he deplores the far-right House Republicans who denounced his proposal's acceptance of tax increases, he should look in the mirror: They are only parroting the simplistic anti-tax slogans Bush himself peddled just two years ago.

□

It will not be easy to resurrect a workable anti-deficit package. The leaders of the Republican White House and the Democratic Congress are tinkering with the budget formula — increasing the cut from the Pentagon here, reducing the trims of Medicare there, scrambling for broad-based revenue increases everywhere — yet they seem to lack a majority for any sort of budget compromise.

The gravity of this crisis is not lost on the voters. Cynicism about this deadlock of democracy is irresistible, threatening to undermine their faith in their governing institutions. Yet voters must exhort Washington to keep trying to reach a compromise, promoting budget thrift over continued self-indulgence.

The Miami Herald

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Budgetary DTs

IT IS cold-turkey time in Washington. Painful, abrupt withdrawal is not the best way to end an addiction, but sometimes it is the only way.

President Bush failed to persuade a majority of his own Republican members of the House to follow his retreat from the "read-my-lips, no-new-taxes" philosophy that he inherited from his predecessor. Spurning his pleas, House members early yesterday rejected the compromise budget proposal 254-179. He now has no responsible choice but to stick by his threat to veto any evasive action on Capitol Hill that would continue Federal business as usual without a deficit-reducing budget agreement.

Five years ago, at the beginning of the second Reagan Administration, the Government tried to wean itself from dangerous deficit spending and an unprecedented growth in total national debt abroad. Desperate, it adopted the fiscal equivalent of the alcoholic's Antabus. Some recovering drunks take Antabus as a deterrent to relapses because its presence in the body causes a violent physical reaction to alcohol. It is an attempt to protect oneself against one's own weakness.

Congress called its Antabus the Gramm-Rudman-Hollings Deficit-Reduction Act. It prescribed a series of budget goals, such as reducing the annual Federal deficit to $64 billion for Fiscal Year 1991, which began on Monday. There is a $10-billion cushion. If a goal is not met, the law induces a violent budgetary convulsion called "sequestration." It whacks $105 billion from the budget overnight, across the board, with about one-fourth from defense.

Little is spared besides Social Security checks. Head Start loses funding for 150,000 children. More than one million college students lose their Pell grants. Federal housing subsidies vanish. Veterans' care diminishes. Mail service is curtailed. Many of the Government employees who are off on Monday for Columbus Day will not return on Tuesday.

In spite of the human pain and economic damage that this slasher scenario will inflict, House Republicans — led by Minority Whip Newt Gingrich of Georgia — defied their President and voted 105-71 against his compromise with the Democratic leadership. The Nays included South Florida Reps. Tom Lewis of West Palm Beach and Ileana Ros-Lehtinen of Miami. Moderate Democrats such as Rep. Larry Smith of Hollywood and Harry Johnston of West Palm Beach then bolted, too, refusing to expose themselves to campaign demagoguery on behalf of a lost cause. Of 257 House Democrats, 149 voted No.

The compromise was itself a sham that put the entire Persian Gulf expedition and the massive S&L bailout "off budget," thus masking a real deficit far higher than the Gramm-Rudman target of $64 billion. But even so, it entailed more discipline than the House could muster. Collectively, the House could not swallow $134 billion in new gasoline, cigarette, alcohol, airline, and other taxes. Especially painful in Florida, where half of all hospital days are funded by Medicare, the compromise would cut $60 billion from medical care for retirees. The House also could not take tax breaks for investment in new businesses, a trade-off for forgoing a cut in the capital-gains tax.

The spectacle in Washington yesterday and today resembles nothing more than the sight of a relapsed drunk on Antabus, still grasping his bottle even as he retches into a toilet. It is an ugly sight, and a terrifying posture for the Government of a superpower that is on the brink of war in the Persian Gulf and entering a recession at home.

The temptation is great for President Bush to relent, to allow the suffering Congress a quick snort in the form of a continuing budget resolution or an amendment to Gramm-Rudman in order to delay the day of reckoning. He must resist it. The Government has had its second chance, and third, fourth, fifth, *ad nauseam.*

Five years of collective irresponsibility by Presidents and Congress, Republicans and Democrats, have frittered away the right to another chance. It's cold-turkey time at last.

THE TAMPA TRIBUNE

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EDITORIALS

Defeat of deficit-cutting bill opens way for a smarter plan

Rarely, in the history of the United States, has a piece of fiscal legislation gone down the tubes for such good reason. The "deficit-reduction" bill so theatrically hammered out by the White House and congressional leaders, and so roundly defeated by the House of Representatives in the wee hours of yesterday morning, was a prescription for disaster.

After the House vote, Rep. Dan Rostenkowski, chairman of the Way and Means Committee, declared: "This is a sad night for the House, for our political system and for America."

With respect, Rosty is full of baloney. The $135.3 billion of tax increases, particularly considering the economy's delicate condition, would have shoved the nation "back to recession, back to high interest rates, back to double-digit inflation, back to malaise," according to Rep. Dana Rohrbacher, a California Republican. Rohrbacher is right on all counts.

Many pundits see the collapse of the budget compromise as a defeat for President Bush, but as Edward L. Hudgins of the Heritage Foundation notes, it wasn't the House vote but the measure itself that was a defeat for the President. Mr. Bush retracted his promise not to raise taxes and abandoned his long-time effort to cut the levy on capital gains. And even liberal economists agree that reducing the capital-gains tax would be a welcome economic stimulant, although they hate the idea of giving investors, including middle-class folk who are selling their homes, farms or small businesss, a break.

So what now? Gramm-Rudmann? The nation could handle such a sequester for a time, because Social Security, Medicaid, food stamps, and the Women, Infants and Children program are excluded from the across-the-board cuts — and Congress has the power to rearrange spending to make sure that air traffic controllers and health inspectors are not affected.

But there's a better way — the 4-percent solution, which requires no new taxes and no program cuts. It would permit spending to rise by 4 percent annually — about the rate of inflation. The result? A balanced budget by 1994. Unfortunately, that plan would probably be demagoged to death by congressional liberals, even if it were combined with a freeze on defense spending at levels acceptable to the White House and Capitol Hill.

Anyhow, the good news is the awful deficit-cutting scheme is dead, and the nation now has a chance to do something wise instead of wacky.

The Tampa Tribune, Saturday, October 6, 1990

If key senators can't figure deficit how can anyone?

Wild-eyed and wondering about its fate on the eve of "Armageddon" (the Gramm-Rudman sequesters that, predictably, did not happen), Washington read a New York Times jeremiad about the coming chaos. Cuts in the weather service would mean the "accuracy of weather forecasts might deteriorate." Gosh.

But in the nick of time, the budgeteers nicked the deficit just enough to justify the real purpose of the exercise, another change of what are smilingly called the "requirements" of the Gramm-Rudman (more smiles) "law." The target for fiscal 1991 was $64 billion in cuts. During the dickering about this deal, the official estimate of the budget deficit was increased by about that much, to $293.7 billion.

But before believing that number, bear in mind that two Sundays ago two intelligent senators, Democrat Fritz Hollings of South Carolina and Republican Phil Gramm of Texas, were asked on television a rudimentary (you might have thought) question: How big is the deficit? That is, what is the relevant number for the difference between the inflow and outgo of government money?

Gramm said $250 billion (this was before the latest upward revision of projections). Hollings said that counting the year's costs of the savings-and-loan bailout and subtracting the funds from the Social Security and oth-

GEORGE F. WILL

er trust funds, the number $427 billion was about right. So two experienced senators were apart by $177 billion in defining the problem. And $177 billion is more than quadruple the $40 billion that the budgeteers propose (God and Newt Gingrich willing) to nibble from the deficit.

Originally they set for themselves the modest goal of cutting $50 billion. (Political rhythms run counter to economic cycles: When the economy is expanding, the political class says we will grow to a balanced budget; when the economy is squishy, the political class says cuts will bring on a contraction. Besides, serious cutting is impossible in an election year or the year before one.) But while the deficit projection was being increased by $60 billion, the deficit-cutting goal was being shrunk to $40 billion. That is, $40 billion not counting the cost of the Persian Gulf operation.

It is an iron law of our politics: Inflation of language accompanies contraction of political perspective. The most frequently used word concerning the deficit-cutting package is "pain."

A pack-a-day smoker (someone not deterred by the prospective pain of emphysema and lung cancer) will pay $14.80 more next year — not nearly enough to pay the social costs of smoking. Yo, you three-beers-a-night guys, brace yourselves for paying an extra $29.20 a year. Call it Pain Lite.

The surtax on automobiles costing more than $30,000 is backdoor protectionism. The bulk of those cars are foreign. The surtax is actually a tariff against Germany (Mercedes, BMW, Porsche) and Britain (Jaguar).

But even if the filthy rich do not buy jets or yachts, they do not escape unnicked. For someone earning $200,000, the reduction of the value of itemized deductions will be equivalent to an increase in the top income-tax rate — here we tiptoe to the pain threshold — from 28 to 28.8 percent. And you thought bolshevism was dead.

Of the five-year increase of $134 billion in tax revenues, more than half, $74 billion, comes from regressive consumer excise taxes. The gas tax alone — the tax consumers have the least chance to minimize — will raise $45 billion, which is 24 times as much as all the taxes on yachts and jets and other toys for the filthy rich.

Conservatives are cast down and rising in revolt because the capital-gains rate will not be cut. (That cut is the only grand passion of a President enjoying stratospheric approval ratings. So much for the Imperial Presidency.) But conservatives have this consolation: The conservative aim has been to scrub America clean of the last trace of liberalism, and this deficit-reduction deal does it.

This package and its implications should immunize Democrats against the dread charge that they even remember anything about liberalism. But, then, perhaps Republicans have — not difficult, this — outsmarted themselves. The (definite article: "the") Republican idea is to call opponents liberals. Republicans no longer can do that, without laughing, now that Democrats are preening like this:

We Democrats are proud because we have not made life more regressive by cutting capital-gains rates. That is the (definite article: "the") Democratic idea: opposition to capital-gains cuts.

Democratic liberalism having been validated by that victory, Democrats are now free to reject Sen. Moynihan's proposal to cut the regressive Social Security tax which, for 74 percent of taxpayers, is a bigger burden than the income tax.

Liberalism's service to those 74 percent is this warning: Stay away from yacht salesmen.

THE BUFFALO NEWS

Saturday, October 6, 1990

House rejects tax plan with 1,000 points of spite

WASHINGTON — Would this be the night to cork up the bubbly, forget the new mink coat and cancel that order for a Mercedes-Benz 560SL?

Would the Reagan Revolution come to a close, not with a whimper but a bang?

After 10 years of the Gipper's don't-worry-be-happy orgy that ran up $300 billion deficits, Congress grimly faced canceling America's credit card. Goodbye champagne, hello castor oil.

Could it do the nastiest, guttiest, most unpopular thing in a politician's lexicon — raise (ugh) taxes?

No wonder the Honorables took up the tax hatchet in the middle of the night. They hoped Bubba and Mrs. Bubba were snoring or watching baseball playoffs on TV.

It wasn't pretty to watch, this noisy, exhausting, sloppy, bitter brawl. As one congressman said of the struggle over George Bush's budget deal (higher costs for gas, beer, cigarettes, posh cars and Medicare), "They sound like pigs caught in a gate."

The day began with a Blare-In.

Incited by demonstrators holding signs, "Honk If You Hate Taxes," a jam of cars, taxis and trucks set up a hooting din that vibrated the White House windows like hammers of hell.

Then came telephone bedlam. From Hoboken to San Jose, constituents bombed congressional offices with a 10-to-1 fury against taxes. Irked by the 12-cent gas hike and Medicare rise, they screamed, "It stinks!"

"I'd like to fast-forward all calls to the White House," sighed Rep. Tim Penny, D-Minn.

But Bush was also working the phones madly. The read-my-lips president ironically was lobbying for $134 billion in new taxes. The president's big guns, Dan Quayle, John Sununu and Dick Darman, beamed their "stand-by-your-man" arguments on Republican right-wingers.

In a poignant touch, Republican Chairman Lee Atwater, fighting a brain tumor, sent a note to Hill friends: "Please do not turn your back on the president. Lee."

Bush knew it would be a tight gamble. "We're 11 Republican votes short," he was told early in the evening. With their voters squawking angrily and 435 Honorables facing elections in five weeks, Bush told them, in effect: Look, you've got wiggle-room to fix this deal later in committees.

Finally at 10:40 p.m., fatigue-fogged,

By SANDY GRADY

pressured, nervous Honorables began juggling the tax-raise hand grenade. But ominously, liberal Democrats led the rebellion.

"George Bush made sure people making over $200,000 don't get hit," protested respected Rep. Dave Obey, D-Wis.

"My people who drive trucks and are on Medicare get hurt while the Trumps and Helmsleys get a break," said Rep. Bob Wise, D-W.Va.

Wild man Jim Traficant, D-Ohio, bellowed: "Today we voted a death penalty for anybody who kills a congressman. If we pass this bill, that may not be a deterrent. I say, shut the government down!"

Anger from Republican conservatives boiled. "I didn't slosh through the snows of New Hampshire electing George Bush to abandon his no-tax pledge," said Tom DeLay, R-Texas.

Desperately, the big artillery was wheeled out. Minority Leader Bob Michel, R-Ill., the Republicans' fiercest orator, said, "You can pick this apart with 1,000 points of spite. But folks, we're in debt. We've got to ante up."

Applause rolled when bull-like Dan Rostenkowski, D-Ill., vowed his Ways and Means panel would knock out tax-shelter scams. "We won't be a rubber stamp," roared Rosty.

House Speaker Tom Foley closed with a last plea for the deficit-buster: "If not now, when? If not us, who?"

A few minutes after 1 a.m., they began voting. At first it looked close. Then members gaped at the blinking tote board in somber disbelief.

Bush was losing. Republicans — Bush only got 71 out of 170 votes — detected in droves. Then Democrats, fearing to get whipsawed in a lost, unpopular cause, panicked. By 238-171, Bush's "last, best hope" of beating the deficit flopped.

It was a low, glum moment. Everyone slunk quietly into the night. The Honorables had a chance for bravery. And they blew it.

Philadelphia Daily News

THE BUFFALO NEWS
Saturday, October 6, 1990

An unbudgeted disaster

Defeat of compromise leaves outlook glum

THE FEDERAL budget compromise worked out by President Bush and congressional leaders was far from perfect. But it didn't deserve the quick and resounding defeat it got in the House of Representatives.

Nor does the nation deserve the confusion and tension visited upon it by this failure of a skittish rank-and-file to follow the advice of its party leaders on the threshold of an already extended budget deadline.

The big deficit-reduction bill was hammered together during months of negotiations. It was a compromise, which by definition means that no party achieved everything it wanted.

But this agreement would have deflated the federal budget deficit by an estimated $40 billion for the current new fiscal year and by $500 billion over the next five years.

Painful and tough? Yes, of course, largely because Washington has been playing cute fiscal games for years and now the time of reckoning has arrived. But this was real deficit reduction.

And Alan Greenspan, chairman of the Federal Reserve Board, which manages credit policies, had indicated that adoption of this "credible" package would bring lower interest rates for millions of Americans.

Measured against what must, in the long run, be done to significantly bring down the deficits, this program was timid, despite all the congressional screaming. But it was, very significantly, a start.

Too few in Congress dared take any chances with an unpopular vote — even for the good of the country — only a month or so before the November elections. Now the opponents shoulder a special responsibility for patching together not only an alternative of equal quality, but one that will win majority approval in House and Senate.

Objections to the package have centered on consumer tax increases and boosts in Medicare costs. Imperfect as it was, however, the compromise did spread the pain. No group got hit with the entire burden.

A former director of the Congressional Budget Office, Rudolph Penner, said the proposed tax increases "are very small, only 2 or 3 percent in the overall burden." A liberal analyst, Isabel Sawhill of the Urban Institute, estimated that a simple transfer of only $75 from lowest to highest income groups would equalize these burdens. Higher-income people, she said, would pay more than critics contended because they buy far more of the luxuries on which excise taxes were introduced.

With defeat of the package, the alternatives look unrelievedly grim.

To do nothing, which many might prefer, would, Bush says, cause a deficit of $300 billion in the current budget year. Gimmicks would be fun and politically safe but would solve nothing.

The automatic cuts in across-the-board spending under the Gramm-Rudman law could hack up to $100 billion from spending alone in a single year, a brutal step that is still preferable to a failure of congressional action. Brutal or not, this is the result of long-established procedures legislated by Congress.

An annual deficit of a nearly third of a trillion dollars, and its chaotic consequences, would be totally unacceptable.

The Atlanta Journal

October 5, 1990

James J. Kilpatrick

Compromise budget plan is nothing but spinach

WASHINGTON — One of the all-time great cartoons in The New Yorker appeared in 1928. It depicted a mother trying to pull a con job at the dinner table.

"It's broccoli, dear," says the mother to her rebellious child.

"I say it's spinach," says the kid, "and I say the hell with it."

The budget agreement that was reached on Sunday, after four months of tedious negotiations, should be greeted in the same way. Yes, the agreement contains a few useful provisions. Taken by its four corners, the scheme is a stinker.

Looking at this document, one searches for the most appropriate adjective. The word that comes instantly to mind is "disgraceful." President Bush began the process on Jan. 29. He sent up a budget purporting to reduce the deficit to $63.1 billion in fiscal 1991. That deficit now is estimated at $293.7 billion.

Budget Director Richard Darman described the president's January budget as "serious." He said it contained no gimmicks. In fact, the budget document was a farce.

Thus encouraged to behave irresponsibly, Congress rose magnificently to the challenge. The two chambers proceeded to miss every deadline contained in the budget act. On Monday, when the fiscal year began, the Senate had passed only four of the 13 regular appropriation acts. Not a single one of these key bills had gone to the White House.

Instead of an orderly legislative process, characterized by public debate and thorough consideration, congressional leaders presented the country with a contemporary version of the smoke-filled room. Ambassadors from the White House huddled at Andrews Air Force Base with a dozen key members of Congress.

In a repudiation of the whole process of representative government, they cobbled together a compromise. At the last possible minute they unloaded their agreement. If the pact is not accepted on the Hill in the next two weeks, a horrible thing will happen: The blunderbuss cuts required under the Gramm-Rudman Act will be triggered.

Members should not be intimidated by talk of imaginary horrors. Pull the trigger! Let us paraphrase the ancient Romans' fearless defense of justice: *Fiat sequestra, ruat caelum.* Let sequestration be done, though the heavens fall. For the heavens would not fall. The president retains authority to exempt such essential services as meat inspection and air traffic control. A federal government suddenly stripped of non-essential services could function indefinitely. It would be a better government.

The Andrews agreement errs in every way. A sensible package would have included significant reduction in the tax on capital gains. Bush has been right in advocating this long-range stimulus to entrepreneurial investment. He let himself be swindled out of it by Democrats who demagogued the idea to death.

Under the agreement, gas taxes would go up — but the added revenue would not go for needed work on our highways. Similarly, the pact would drain off new funds that are desperately needed for airports. It is fine to boost taxes on wine, beer, cigarettes and expensive cars, but this is nickel and dime stuff.

The agreement's greatest failure lies in its failure to curb spending. Here the principles of representative government have been superbly upheld. The people are as irresponsible as their members of Congress. The people want a trillion dollars worth of goodies a year. But don't make us pay! Congress will oblige.

An example: Among this year's spending bills is a bill for water and sewer projects. The town of Turbeville, S.C., stands to receive a grant of $1.5 million. Is this a federal responsibility? Of course not. But when Sen. Ernest Hollings was asked about it, he explained that if Turbeville didn't get the money, some other town would. He had to stand by his constituents. Statesmanship be damned. Build the sewers.

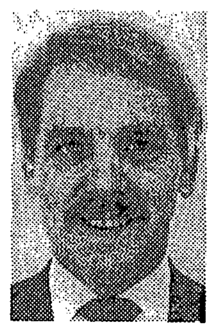
The agreement may be the best that could be achieved, but it's a bummer. It isn't broccoli. It isn't fresh asparagus or Boston lettuce. It's spinach. The kid had the right idea.—(c1990.)

The Atlanta Journal
October 5, 1990

Jim Wooten

Insider George Bush has been rolled by Democrats

Blame me, says George Bush. OK, let's. Genial George has been snookered, rolled, and bamboozled by the Democrats.



Once again, voters are hoodwinked. Jimmy Carter sold himself to the country as the Washington outsider who would change the system. That was talk. His policies were spending as usual.

Then came Ronald Reagan, who fought the system for two years and snoozed for six, while spending continued unabated. Federal spending has not declined a single year since 1965.

And now comes the genial insider George Bush, who vows to impose discipline on the federal budget. His method: no new taxes. Overnight, though, he's flipped.

The no-new-taxes pledge, combined with Gramm-Rudman, was a management tool that could have forced Congress to discipline itself in the face of special interests. The outrage that Mr. Bush's surrender prompts is not directed at the nickle-and-dime taxes.

It's the unconditional surrender of any management tool to control federal spending. And not only has he surrendered, but Democrats have stripped him of all principle and assigned him the humiliating task of facing the American people to front the deal.

Spending is on the runaway course now that it was last year or the year before. This deal does nothing to alter that.

The head of the General Accounting Office, Comptroller General Charles Bowsher, told a Senate panel Wednesday that this budget deal won't produce the $500 billion in deficit reductions promised over five years. And, he said, more tax increases will be needed in one to three years.

We'll get the taxes. But even while negotiators were behind closed doors smoking and joking until the Oct. 1 crisis developed, the House and Senate continued to pass bills mandating new and higher spending.

Five years from now the taxes will remain, but the spending "savings" will long have evaporated.

Mr. Bush had a chance. He swore to a principle that would force Congress to make choices to live within its means.

Instead, the consummate Washington insider rolls over. He is left with an emasculated presidency without values, meaning or purpose — the kind of president who should never commit this country to war.

The nation had this kind of leadership in the Vietnam era — presidents who would put young men's lives on the line and then change the rules and the objectives.

I don't mind higher taxes, nor do I object to soaking the rich, if need be, or eliminating my mortgage deduction or any other middle class benefit. It's not the taxes that bother me. It's the deceit.

Americans have been saying for the last three presidents that they wanted to change the system. Instead, the system changes presidents.

The surprise is that in George Bush's case, he flipped for so little.

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.

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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.

San Francisco Examiner

Thursday, October 4, 1990 ★

Soak the middle class

Although the deficit deal is a necessary evil, it still contains some of that old voodoo economics

PRESIDENT BUSH and the Democratic leadership are right, of course. We should all beat the drums for the deficit reduction plan. It may be an ugly child but it's the only child we've got. Its terrible beauty is that everyone shares the pain.

Even Newt Gingrich and the right wing of the Republican Party don't figure to undo the deal. We must cut the deficit —otherwise we're headed for Recession City and worse. Elements of the plan—tax increases on gas, cigarettes, beer and liquor —support good public policy by getting people out of their cars and discouraging them from killing themselves quite so quickly.

But one facet of the plan is bad news. It hurts the poor more than the rich. True, it largely spares the poorest citizens, but it soaks the middle class. Families earning $40,000 a year will kick in six times as high a share of their income as wealthy families. Sure, there are new luxury taxes on yachts, expensive cars and fur coats. And there's a deductions "floor" for wealthy taxpayers. But people with incomes of between $20,000 and $50,000 will be hardest hit.

If this sounds familiar, it is. Remember trickle down? Reaganomics? (Once decried by George Bush as "voodoo.") "No parallel upsurge of riches has been seen since the late 19th Century," writes conservative commentator Kevin Phillips about the Reagan decade. The beat goes on.

And the enemy is us. In our headlong rush to emulate Tom Wolfe's masters of the universe, we've looked the other way while the Republicans played reverse Robin Hood, redistributing the wealth from the poor and middle classes to the rich. Here's how: The typical poor family pays 14 percent more now than it would have under the more progressive 1977 tax code, according to one analysis. The typical middle class family will pay 7 percent more. But the richest one percent pay 36 percent less today than under the 1977 rates.

But we still don't get it: Republican is the party of the rich. Not the wannabe rich. The rich. Until the middle class opens its eyes to its own self-interest, it deserves to be soaked.

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.

THE PROVIDENCE JOURNAL-BULLETIN
FRIDAY
OCTOBER 5, 1990

In whose interest?

Whatever the national interest may be, it is not especially popular in Washington these days. The first serious, bipartisan effort in a decade to cut the growing federal deficit, reduce government spending, and raise new revenues is now imperiled by the worst sort of special interest politics we've witnessed since the 'reform' of the tax code in the middle 1980s. New Englanders are angry at Texans; pensioners are peeved; the left wing wants to soak the rich; the right wing seeks to starve the Treasury. And the pressures on Congress are growing, not diminishing.

As we have said before, while the bipartisan budget deal is by no means the best — that is inevitable in the spirit of compromise — it's a pretty good deal for American taxpayers. No segment of the population is suddenly vulnerable, and no quarter is exempt from paying its fair share. Yes, the East will feel the pinch on heating oil, but the West will pay more for gasoline, too.

It could be argued that an income tax increase *might* be marginally more progressive than this package — and we have supported the principle of such an increase in the past — but an income tax increase is politically impossible in Washington at this time. Instead, taxes are raised where they should be increased — on alcohol and tobacco consumption, and the purchase of luxury items — and important reductions in agricultural subsidies and defense appropriations will make a real difference.

Unfortunately, Congress waited a very long time to come to an agreement. Members of the House, where the deal is in trouble, face the electorate in four weeks. We happen to think that this agreement is not only a good one, but would play in Peoria, too. Yet packages such as this are not so quickly digested, and neither the President nor the congressional leadership have had a real chance to try their hand at salesmanship. Before the debate has gotten underway, lobbyists, fearmongers and special interest groups have descended on the Capitol in righteous indignation. And some members of Congress — including our own Claiborne Pell, Ronald Machtley and Claudine Schneider — have chosen to put their own political fortunes ahead of principle on this issue.

Too bad. And too bad that President Bush must gaze upon the efforts of such congressional party 'leaders' as House Minority Whip Newt Gingrich. It must be disconcerting to a Republican President to know that the House member charged with marshalling GOP troops is campaigning publicly to undermine his chief. If Mr. Gingrich considers his personal ideology to be more important than the fortunes of his President, that is fine; but he ought to resign his post in the House leadership. With friends like Newt Gingrich . . . .

Federal Reserve Chairman Alan Greenspan has declared that budget negotiators seem to have "crafted what appears to be a credible, enforceable reduction in the budget deficit stretching over a number of years." That suggests two things. First, that an agreement would probably drive down interest rates: Good news on the brink of recession; and second, that failure to reach agreement could send financial markets in a tailspin: Bad news on the brink of recession.

In our view, the benefits of agreement are real and substantial — and infinitely less dangerous than the risks of a deadlock.

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.

THE CINCINNATI ENQUIRER

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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?