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THE WALL STREET JOURNAL.

WEDNESDAY, OCTOBER 10, 1990

Bush Reverses Stand on Increase In Tax Rate for Highest Bracket

By MICHEL MCQUEEN
And JEFFREY H. BIRNBAUM
Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON – President Bush embraced, then rejected, a proposal to raise the top income-tax rate on wealthy Americans in exchange for a cut in the capital-gains tax rate.

The vacillation from the White House threw efforts to enact a budget plan into more confusion only hours after the lawmakers had adopted a hastily drafted outline. It also cast doubt on whether Congress can approve a tax package that had been gathering bipartisan support over the past few days.

The turmoil reflects a strain in White House-congressional relations in the wake of the protracted negotiations over the budget, as well as a split in the ranks of congressional Republicans between those seeking compromise with the Democratic majority and those who prefer to stick to GOP economic principles.

Partly on the basis of signals from the White House over the weekend, Congress's top two tax-writing committees had begun discussing plans that would raise personal income-tax rates on the wealthiest taxpayers while cutting the tax rate on capital gains.

President Bush himself gave a boost to those plans when he indicated such a deal might be "fine" with him. In a nationally televised news conference yesterday morning, he said, "That's on the table; that's been talked about." He added: "And if it's proper, if it can be worked in proper balance between the capital-gains rate and income-tax changes, fine."

But by late afternoon, after a meeting with anxious Senate Republicans, Mr. Bush had concluded that such a deal couldn't be worked out to his satisfaction. Lawmakers emerged from the meeting to indicate Mr. Bush had agreed to back away from the proposal.

"The president agreed, our unified position was we will not go up on the rate, not 1%, not 2%, not one penny," said Sen. Bob Packwood, ranking Republican on the Finance Committee and one of the 17 Republicans who met with Mr. Bush yesterday, "and we will leave the rates where they are, drop capital gains and do nothing about the rates."

"He did not want to raise the top rate if they couldn't get a commensurate change in the capital gains," said a senior administration official who spoke on condition of anonymity. In the meeting, he said, Senate Republicans told Mr. Bush, in effect, "You're not going to get the kind of capital gains you want." The official said: "The president said he didn't want to raise rates, and the conclusion was, forget all about it. . . . Forget all of it—cap gains and the change in rates."

Shortly after the president's encounter with GOP senators, White House Chief of Staff John H. Sununu told a group of business lobbyists at the White House that the president won't accept higher tax rates and an increase in the minimum tax in exchange for a cut in capital gains.

The turnabout startled Senate Finance Committee Chairman Lloyd Bentsen (D., Texas), who had included the capital-gains and higher-top-rate plan in his "starting point" document after the White House had signaled that it might consider such a plan. He proposed the capital-gains plan offered in January by President Bush himself to entice the president to follow through with support.

Other senators expressed concern that introducing the capital gains-personal tax rate argument would so complicate the negotiations that a budget package wouldn't be developed in time to meet congressionally imposed deadlines and to allow lawmakers to return to their districts to campaign for re-election.

Early yesterday, lawmakers approved a plan to reduce the federal budget deficit by \$40 billion in the first year and \$500 billion over five years. But the details of the plan must be developed by each of the committees and completed by Oct. 19.

"We can't get out of this mess if we continue to argue about capital gains," Alaska Sen. Ted Stevens, the ranking GOP member of the Senate Appropriations Committee, said after yesterday's meeting. Sen. John Warner (R., Va.) said, "the thrust of our meeting is change it [the budget compromise] as little as possible and get on with it. . . . We must take this package, reshape those points that clearly, like Medicare, need some work, and then get on with it and then put it to the vote."

Much of the capital gains debate has focused on an oddity in the tax code known as the "bubble." The bubble gives a family of four a marginal tax rate—or the rate on each additional dollar earned—of 28% on income above \$208,690, while a family that makes between \$78,400 and \$208,690 pays a marginal rate of 33%. The congressional proposals would impose a 33% marginal rate on all income above \$78,400 for a family of four.

Capital gains—or profits from the sale of stock, real estate and other investments—are currently taxed at the same rates as wages and other income. In his 1988 campaign, Mr. Bush pledged to cut the tax on capital gains as a means of stimulating economic growth. But Democrats in Congress have argued that the "bubble" is so unfair that it would be unconscionable to give further advantage to the wealthiest taxpayers by cutting capital gains without adjusting the top personal tax rate.

The administration had been unwilling to consider anything that would result in a change in the income tax rates, which were seen as the heart of Mr. Bush's 1988 "no new taxes" campaign pledge.

Under Mr. Bush's proposal, only 70% of the profit from sales of property or assets owned for three years or longer would be taxed, after a phase-in period. That would be the equivalent of a 23.1% tax rate on capital gains for the richest taxpayers, who would be paying a new top rate of 33%. The proposal also would tax only 80% of gains from property held for two years and 90% of gains from property held for one year.

Mr. Bush appears to have been caught between conflicting political signals from Republicans in the House and the Senate. House Republicans over the weekend began to develop interest in a deal on capital gains. But Senate Republicans became convinced that there was no sentiment among Senate Democrats "for a capital-gains rate that would justify the change in the top rate," the administration official said.

The chief tax writer in the House, Rep. Dan Rostenkowski (D., Ill.), delayed unveiling his committee's starting budget proposal. Instead he attempted to discern whether the Republicans on his panel would be willing to participate in the effort, aides said. A capital-gains plan being considered by Rep. Rostenkowski would rely largely on exempting from tax any gains attributable to inflation, aides said.

The Ways and Means Committee briefly went into private session last evening and ended what was described as free-form discussions without any clear idea about how they would proceed. Another meeting was scheduled for this afternoon.

In drafting their tax packages, Sen. Bentsen and Rep. Rostenkowski vow to make sure that their plans won't shift the tax burden from the rich to those with lower incomes. To make the tax burden proportionately heavier on the wealthy, the tax writers have been forced to do more than increase the top personal tax rate. Sen. Bentsen also proposes to increase the alternative minimum tax on individuals, which is designed to prevent relatively high-income people from avoiding taxes altogether, to 25% from the current 21%.

Many of the most controversial elements from the budget summit agreement are being dropped from the congressional plans. These included a five-year, $12 billion set of incentives for small businesses that was criticized as a potential boon to tax sheltering, as well as a plan to limit deductions for mortgage interest payments, charitable contributions and tax payments to state and local governments. The new plans would also reduce by about one-third the size of cuts in Medicare.

The Bentsen proposal also would extend for 15 months, through next year, a long list of expiring tax breaks, including subsidies for corporate research spending, low-income housing construction and purchase of health insurance by self-employed individuals. It also would reduce somewhat the five-year, $4 billion set of incentives for energy exploration in the summit agreement and retain its extension of tax breaks for gasohol.

The Rostenkowski and Bentsen plans are expected to be the same in many details. The big tax increases in Sen. Bentsen's plan included:

—Increasing the motor-fuels tax by four cents a gallon Dec. 1 and by five cents more next July 1. That would raise $40 billion over five years. This is one cent a gallon less than the tax increase adopted in the original budget summit plan. Also dropped was an additional two-cent-a-gallon tax on all refined petroleum products, which included home heating oil.

—Applying the 1.45% Medicare payroll tax to roughly the first $80,000 of wages, up from the current $51,300 ceiling, to raise more than $13 billion over five years. This would take effect in 1991. The summit agreement had set the new level at $73,000.

—Increasing the airline-ticket tax to 10% from 8% and raising other aviation taxes beginning next year to yield about $12 billion over five years.

—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 $10 billion over five years. Beer taxes would be doubled to 32 cents a six-pack. Table-wine taxes would be increased to 25 cents a bottle from three cents. And whiskey taxes would be increased by $1.20 a proof gallon to $13.70. A proof gallon contains 50% alcohol by volume.

—Increasing tobacco taxes, now at 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.

—Imposing a 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. The tax would be applied to prices over the threshold amounts.

THE WALL STREET JOURNAL.

WEDNESDAY, OCTOBER 10, 1990

Congress, Facing a New Government Closedown, Allots 10 Days to Do Months of Budget Work

By David Wessel
And Jackie Calmes
Staff Reporters of The Wall Street Journal

WASHINGTON—Congress has given itself just 10 days to make tax and spending decisions it has been putting off for a decade.

Working without a negotiated bipartisan road map, the lawmakers are pledging to complete work by Oct. 19 on tax increases and spending cuts that will tie their hands for the next five years and reduce the federal budget deficit by $500 billion.

This commits Congress to jumping all the legislative hurdles in less than two weeks. Last year, when it was enacting an exceedingly modest deficit-reduction package, it took six months to run the same course. The schedule is so ambitious and the potential for partisan warfare so great that there is renewed speculation on Capitol Hill about deferring the final votes until after the Nov. 6 election.

"It looks more and more like we're going to have a lame-duck session," says Sen. Orrin Hatch (R., Utah).

Another Deadline

The question is whether President Bush would let the lawmakers get away with that. Yesterday, Mr. Bush said he is willing to close down the government—again—before he lets Congress miss another deadline.

Here's what is supposed to happen in the next 10 days:

—Tax-writing committees are supposed to decide what taxes to increase in order to raise more than $118 billion over the next five years and how to pare Medicare outlays without provoking another rank-and-file rebellion.

—Twenty other House and Senate committees are supposed to agree on money-saving measures in their own jurisdictions.

—The appropriations panels are supposed to polish off more than $500 billion in fiscal 1991 spending bills.

—The budget committees are supposed to turn vague understandings about changing the budget process into legal language.

—All the differences between the House and Senate are supposed to be resolved, the speeches finished and the votes taken.

And all this is to be accomplished with lobbyists working overtime. "It is going to be a marvelous windfall for all the hotels and for the airlines because we are going to be descended upon ... by those who seek to protect their interests," Sen. Rudy Boschwitz (R., Minn.) said on the Senate floor.

The original plan was for congressional leaders and administration officials to negotiate a deficit-reduction compromise, giving congressional committees specific options for savings. House rejection of the pact changed everything. Now the committees are on their own.

"It is a very bitter thing for me to say that we failed," said budget negotiator James Sasser, Democratic senator from Tennessee, "and that corrosive debate has now eaten into the very foundations of the legitimacy of our government and into our own credibility as legislators."

By asserting their independence, the rank-and-file House members have lost the chance to defend an unpopular vote by asserting that they were following their leaders and a popular president for the good of the national economy. Many members, even some committee chairmen, will now be making a cold-blooded political calculation: Is it safer to vote now for an inevitably unpopular package of tax increases and spending cuts, or is it safer to delay the process to force a lame-duck session?

Lost Chance

The scene this week shifts to the congressional committees that have been assigned specific deficit-reduction targets by the budget resolution and told to meet them by Friday. Inevitably, some committees will miss their deadlines and others will come up with the required savings only by resorting to accounting gimmickry. Congressional leaders refuse to say whether they will offer amendments on the House and Senate floors to extract the savings from shirking committees, as the rejected budget-summit agreement provided.

The committees assigned to raise taxes and cut Medicare aren't the only ones under pressure. With several farm-state senators up for re-election, the agriculture committees could run into trouble agreeing on the $13 billion in savings they are supposed to find. Already they've persuaded the leaders to pare their first-year target by 25% from the $1.4 billion in the original agreement.

Committees that handle federal-employee issues and the Postal Service, which are supposed to find savings of $14.4 billion over five years, also are uneasy. "I don't have the big, big programs to take that kind of money out of," says Sen. John Glenn (D., Ohio), chairman of the Senate Government Affairs Committee.

The civil servants' lobby is already mobilized to oppose a plan to eliminate federal employees' option of taking part of their pensions in lump sums when they retire; the change would save the government $8 billion over five years. As for the $6.3 billion to come from the Postal Service over five years, Sen. Glenn says: "I can cut that out, but then what happens? The Postal Service has to raise its rates."

The education committees were assigned money-saving targets that assumed they would trim spending on the popular student-loan program. Although the panels are reluctant to do this, their jurisdictions are so limited that alternatives are difficult to find.

Another potential sticking point is the changes to the Gramm-Rudman deficit-reduction law and the caps on various spending categories that Republicans demanded at the budget summit. "This ... bill is not going to be passed if it doesn't have the agreed-upon process reforms," says Sen. Pete Domenici (R., N.M.).

At best, the Oct. 19 deadline will probably slip by a couple of days. Even if Mr. Bush refuses to sign another temporary spending bill, Congress has given itself Saturday and Sunday, Oct. 20 and 21, to finish work without significantly disrupting government services. A quick agreement among the House and Senate tax-writing committees and the White House on specific tax increases could produce the momentum needed to complete the package.

At worst, the $500 billion in promised deficit reduction will be whittled away. "By not saying how we are going to achieve the goal, we make it harder to achieve," Sen. Phil Gramm (R., Texas) said as he prepared to vote against the budget resolution Monday night.

A final package that meets the $500 billion target with the usual quotient of smoke and mirrors may be easier to pass. After all, the more smoke, the less pain for constituents.

But it isn't clear that Mr. Bush will go along. The president set several conditions for the final deficit-reduction package yesterday. He said it must be "consistent" with the plan his administration negotiated with Congress; must be "real"; must include "growth-oriented tax incentives," otherwise known as a tax break for capital gains; must be enforceable; must alter the congressional budget process; and "must be produced on a bipartisan basis."

"We just have to work the process now and hope that the Congress will come up with a reasonable deal," Mr. Bush said.

THE WALL STREET JOURNAL.

WEDNESDAY, OCTOBER 10, 1990

Bond Prices Plunge Sharply in Reaction to News About Oil, the Middle East and the Budget Plan

By CONSTANCE MITCHELL
And SAM ALCORN
Staff Reporters of THE WALL STREET JOURNAL

NEW YORK—Big institutional investors turned overwhelmingly bearish on bonds yesterday, sparking a sell-off that sent prices plunging and yields rising to just under 9%.

The benchmark 30-year bond ended 1¾ points lower, a loss of $17.50 for a bond with a $1,000 face amount. The yield on the benchmark issue jumped to 8.96% from 8.78% on Monday.

Investors have approached the bond market cautiously for several months, but sentiment took a turn for the worse yesterday as numerous negative factors converged at the same time.

Oil prices rose to more than $40 a barrel as tensions in the Mideast escalated, increasing the likelihood that the nation's inflation rate will accelerate. Meanwhile, the U.S. Senate approved a five-year $500 billion deficit-reduction plan that many on Wall Street view with a great deal of skepticism.

"Nobody thinks it's real," said Robert Brusca, economist at Nikko Securities Co. International Inc. Many investors have been closely watching the budget wrangling in Washington because a smaller budget would help the market in two ways: it would eventually reduce the amount of supply because the government would borrow less money. It also could lead to lower interest rates.

Federal Reserve Chairman Alan Greenspan has often hinted that the Fed might reduce short-term interest rates if Congress enacts a "credible" budget deficit plan. Many bond market analysts, however, don't believe the latest proposal will meet with Mr. Greenspan's approval. That could postpone an easing of interest rates, especially now that oil prices are putting upward pressure on inflation.

In addition, the bond market is getting hit with a huge amount of new supply, including $8.5 billion of seven-year Treasury notes scheduled to be auctioned today and $5 billion of 30-year bonds to be sold tomorrow for the Resolution Funding Corp., the proceeds of which will be used to finance the thrift industry bailout. Yesterday, the Treasury sold a record $18.8 billion of three-month and six-month bills.

"There were good reasons to have a bear suit," said F. Ward McCarthy, a managing director at Stone & McCarthy Research Associates, Princeton, N.J. Mr. McCarthy said that trading activity was dominated by institutional investors, many of whom were selling large amounts of long-term bonds.

Supply appears to be the biggest worry. So far, dealers say that investor interest in today's seven-year note auction appears to be light. To drum up demand, some dealers were marking prices lower in an effort to find a level that would entice investors.

Bond dealers "spent a good part of the day probing to see where we could find investor demand," for the seven-year notes, said James Capra, a senior vice president at Lehman Government Securities Inc. "We had to probe deeper and deeper," and still didn't log many orders, he said. However, Mr. Capra said he expects buyers to emerge if the yield on the seven-year notes reaches 8.75%. The notes ended between 8.68% and 8.69% yesterday in when-issued trading activity.

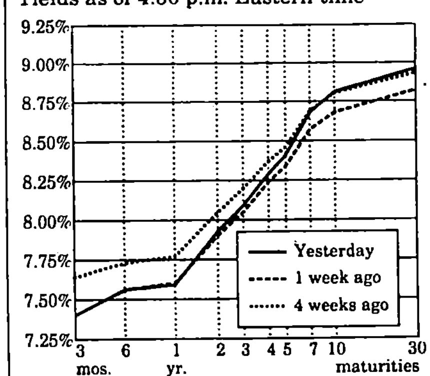
As bad as things appear now, many bond market strategists now believe the market will deteriorate further before it turns.

"I don't think prospects for the long end of the market are very favorable," said Kevin Flanagan, a money-market economist at Dean Witter Reynolds Inc. By next month, when the Treasury is scheduled to auction more than $30 billion in the quarterly refunding of the federal debt, "it's possible you could be looking at the bond testing" its recent high yield of 9.20%, he said.

Mr. Flanagan also expects the yield curve, the gap between rates on short-term and long-term securities, to widen. The spread between two-year and 30-year Treasuries was 1.03 percentage points yesterday, the widest since Sept. 18, when the spread stood at 1.04 percentage points. Mr. Flanagan said the curve could steepen to as much as 1.30 percentage points near-term as long-term bond prices deteriorate.

Treasury Yield Curve

Yields as of 4:30 p.m. Eastern time



Source: Thomson Financial Networks' Bond Data

YIELD COMPARISONS

Based on Merrill Lynch Bond Indexes, priced as of midafternoon Eastern time.

	10/9	10/8	–52 Week– High	Low
Corp.-Govt. Master	8.85%	8.72%	9.40%	8.21%
Treasury 1-10 yr	8.27	8.14	9.09	7.75
10+ yr	9.11	8.95	9.32	8.02
Agencies 1-10 yr	8.55	8.46	9.32	8.10
10+ yr	9.37	9.25	9.61	8.41
Corporate				
1-10 yr High Qlty	9.25	9.13	9.75	8.75
Med Qlty	10.11	9.96	10.40	9.28
10+yr High Qlty	9.89	9.77	10.13	9.11
Med Qlty	10.44	10.35	10.58	9.67
Yankee bonds(1)	9.64	9.54	9.96	8.91
Current-coupon mortgages				
GNMA 9.50%	9.98	9.78	9.98	9.40
FNMA 9.50%	9.95	9.73	9.95	9.38
FHLMC 10.00%	9.96	9.76	9.96	9.71
High-yield corporates	17.33	17.17	17.33	13.95
New tax-exempts				
10-yr G.O. (AA)	6.90	6.85	7.85	6.40
20-yr G.O. (AA)	7.35	7.33	8.15	6.85
30-yr revenue (A)	7.70	7.65	7.90	7.32

Note: High quality rated AAA-AA; medium quality, A-BBB/Baa; high yield, BB/Ba-C.

(1) Dollar-denominated, SEC-registered bonds of foreign issuers sold in the U.S.

Treasury Securities

Prices tumbled and yields jumped yesterday as a host of negative indicators weighed on the market.

The Treasury's benchmark 30-year bond ended at a price of 97 23/32, down from 99 16/32. The latest 10-year notes ended at 99 17/32 to yield 8.80% compared with 100 19/32 to yield 8.64%. Two-year notes fell to 100 12/32 from 100 18/32 while the issue's yield rose to 7.90% from 7.79%.

President Bush signed a debt-limit extension bill that increased the government's debt ceiling to $3.195 trillion through Oct. 19 and allowed Treasury to proceed with its planned auction of $18.8 billion of Treasury bills.

The average discount rate on new three-month bills was set at 7.19% and the rate on new six-month bills was 7.21%. Those rates were little changed from last week's auction.

Here are details of the Treasury bill auction:

Rates are determined by the difference between the purchase price and face value. Thus, higher bidding narrows the investor's return while lower bidding widens it. The percentage rates are calculated on a 360-day year, while the coupon equivalent yield is based on a 365-day year.

	13-Week	26-Week
Applications	$21,504,030,000	$23,079,335,000
Accepted bids	$9,401,030,000	$9,403,675,000
Accepted at low price	30%	99%
Accepted noncompet'ly	$1,759,625,000	$1,430,460,000
Average price (Rate)	98.183 (7.19%)	96.355 (7.21%)
High price (Rate)	98.198 (7.13%)	96.365 (7.19%)
Low price (Rate)	98.177(7.21%)	96.350 (7.22%)
Coupon equivalent	7.42%	7.59%

Both issues are dated Oct. 11, 1990. The 13-week bills mature Jan. 10, 1991, and the 26-week bills mature April 11, 1991.

Corporate Bonds

A late-afternoon sell-off in stocks rippled through the junk bond market, sending prices moderately lower.

But even though high-yielding, high-risk bonds slid at the finish, junk bond market participants said the losses were modest when compared with those suffered by other U.S. financial markets.

"It is the first time in a while that our market has outperformed the stock and bond markets even though our market was slightly lower," said one junk bond trader.

On average, junk bonds fell between ⅜ point and ½ point with most of the losses coming during the last half hour of trading. By comparison, the Dow Jones Industrial Average plunged 78.22 points to end at 2445.54.

Among the high-flyers Tuesday were junk bonds of **Carter Hawley Hale Stores** Inc. Carter Hawley's 12.50% senior subordinated debentures, maturing in 2002, finished six points higher at 49 in over-the-counter trading, while the retailer's 12.25% senior subordinated notes, maturing in 1996, gained five points to end at 55.

The catalyst for the advance was the news that the company has signed an agreement to sell its Thalhimers department store chain to May Department Stores Co. for $325 million. Some Carter Hawley bonds jumped as much as 10 points initially on the news, before retreating.

Although many Wall Street analysts hailed the asset sale as a positive move for the company, Moody's Investors Service Inc. late in the day downgraded its ratings on the company's senior subordinated debt to single-B-3 from single-B-2.

Elsewhere in the corporate bond market, **Baltimore Gas & Electric** Co. offered $200 million of first mortgage bonds. The five-year bonds were priced to yield 9.183.

Municipal Securities

Tax-exempt bonds ended as much as ⅞ point lower.

Among actively traded bonds, the New Jersey Turnpike Authority's 7.20% securities of 2018 were ⅜ point lower at 96¾ to yield 7.46%.

In the new-issue arena, California will sell $500 million of various purpose general obligation bonds, via competitive bid at 1 p.m. EDT today.

In addition, a Merrill Lynch Capital Markets group may price $210 million in Puerto Rico Highway Authority revenue bonds today.

Mortgage-, Asset-Backed Securities

Two new asset-backed issues were priced, marking the start of estimated fourth-quarter sales of $10 billion to $14 billion of asset-backed securities, up from about $8 billion in the third quarter.

A **Sears, Roebuck** & Co. trust offered $750 million of securities backed by credit-card receivables. The issue was priced by Goldman, Sachs & Co. to yield 9.377%.

Citicorp offered $845 million of five-year Eurobonds, backed by credit-card receivables, that were priced to yield 9.38% by UBS Phillips & Drew.

Overall, mortgage securities prices were lower, with some issues off as much as 1 6/32.

Among actively traded mortgage-backed issues for October delivery, Government National Mortgage Association 9.5% securities were down 1 3/32 at 98⅛, Federal Home Loan Mortgage Corp. Gold 9.5% participation certificates were 1 1/32 weaker at 98 11/32 and Federal National Mortgage Association 9.5% securities were 1 1/32 lower at 98 5/32.

Foreign Bonds

British government bonds, called gilts, ended lower with losses particularly sharp at the longer end of the maturity spectrum as euphoria over sterling's entry into the exchange rate mechanism of the European Monetary System came to an end.

Oil prices also spurted ahead and bond markets elsewhere lost ground as well, especially in the U.S.

Dealers pointed out, however, that volume was low, suggesting the downtrend may not be longlasting.

The benchmark 11¾% bond due 2003/2007 fell nearly ¾ point to 102 5/32 to yield 11.40%. Among short-dated bonds, the 11¾% issue due 1991 ended unchanged at 99 15/32 to yield 13.33%.

The Washington Post
WEDNESDAY, OCTOBER 10, 1990

Bush Wavers on Taxing Rich as Senators Protest

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

President Bush announced yesterday that he could accept an income tax rate increase for the wealthiest Americans in exchange for a cut in capital gains taxes, but under pressure from Senate Republicans the White House was frantically backtracking from that position by day's end.

Bush's announced willingness to drop his longstanding opposition to an increase in income taxes sent a new shudder of dissent through splintered Republican ranks when more than a dozen GOP senators pleaded with him later in the day to avoid such a bargain as part of a budget and deficit-reduction package. By nightfall, the White House issued statements saying income tax rate increases and capital gains tax cuts were "off the table" as far as the president is concerned.

The Senate Republican eruption over the tax issue and the quick White House retreat underscored the difficulty Congress still faces in implementing a five-year, $500 billion deficit-reduction agreement that was outlined in a budget resolution approved by Congress early yesterday morning. Along with the budget resolution, Congress also enacted—and Bush signed—a new stopgap spending measure to keep the government functioning until Oct. 19. The spending bill allowed all federal workers to return to their jobs yesterday morning.

Before Bush's apparent reversal under pressure late yesterday, the prospect of an increase in income tax rates on the wealthiest taxpayers in return for a cut in the capital gains tax rate gained additional strength when it was supported by two key committee chairmen on Capitol Hill.

House Ways and Means Committee Chairman Dan Rostenkowski (D-Ill.) held a closed-door drafting session of his panel last night and sources said Rostenkowski's plan included such a proposal, although they were unable to supply exact tax rates.

Congressional aides said that Senate Finance Committee Chairman Lloyd Bentsen (D-Tex.) is expected to propose raising the top income tax rate on the wealthiest Americans from 28 percent to 33 percent in exchange for accepting Bush's plan for cutting capital gains taxes. Administration officials, however, said Bentsen's proposed effective capital gains rate is 24 percent, nowhere low enough to make a deal even if Bush changed his mind again.

The pull and counterpull in GOP ranks over the tax issue, one of the most contentious through four months of budget talks, was reflected throughout a day of frantic phone calls and conflicting statements inside the White House. Both Chief of Staff John H. Sununu and Office of Management and Budget Director Richard G. Darman were said to oppose making such a bargain, while Vice President Quayle and others were described as favoring it. In the House, many GOP officials originally opposed to the exchange now favor it.

Emerging from the late afternoon White House session with Bush, Sen. Bob Packwood (R-Ore.), senior Republican on the Finance Committee, said, "We all put up our hands and said, 'No deal on rates at all.' He [Bush] just acquiesced." Packwood added that Bush "agreed. Our uniform position was that we will not go up on [income tax] rates, no matter what."

The new eruption in Republican ranks came on a day in which congressional leaders of both parties began a frantic effort to fill in the blanks left by the budget framework accepted early yesterday morning.

Bush's concession on higher income tax rates came during a 40-minute news conference during which he also staunchly defended the way he and his aides have handled the budget talks, brushed aside the possibility he has been politically damaged in the budget morass, and gamely admitted he prefers dealing with foreign policy compared to domestic issues.

Despite the refusal of Congress to approve the original budget pact, Bush predicted yesterday the next budget agreement will closely resemble the failed package. Most congressional and even White House officials were predicting yesterday that the new package will, however, have significant changes, with Democrats who control the key committees pushing hard for the income tax rate-capital gains exchange, smaller out-of-pocket costs to Medicare recipients, a lower increase in gas taxes, no home heating oil tax increase, and other variations.

Bush's news conference comments on the tax issue came after a private White House meeting Saturday with Bentsen during which the senator urged the president to accept such a revenue deal as part of a package he will outline to his committee today.

At the same time, several House Republicans, including Rep. Bill Archer (Tex.), the senior Republican on the House Ways and Means Committee, also endorsed such a potential deal. Another 15 House Republicans are to unveil today their alternate budget proposal, which includes a capital gains cut-income tax rate increase exchange.

Asked about raising rates for the wealthy, Bush said yesterday, "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."

Bush added, "The action is in the Congress, but we'll work with them" on filling in the blanks in the budget plan, which provides $500 billion in deficit reductions over the next five years, including $40 billion this year. Under the budget resolution passed by Congress, the key congressional committees must decide by Oct. 19 which programs to cut and whose taxes to increase or the government will shut down again, as it did last weekend.

The president, with a grinning Sununu standing to one side, staunchly defended his aides in their handling of the talks, while admitting that some feelings in Congress were bruised. "Anytime you have a difficult road like this, there's bound to be griping about it," Bush said. He added, "When the passions get high, I understand that there is bound to be a little broken china up there."

Providing details of the plan that Bentsen will propose to the Finance Committee today, Senate aides said that to further offset the capital gains tax reduction's benefit to the rich, Bentsen would seek to increase the alternative minimum tax rate from 21 percent to 25 percent. The alternative minimum tax is applied to very wealthy taxpayers who have a large number of deductions and exclusions from their taxable income.

Raising tax rates on the wealthiest taxpayers would generate about $50 billion in new revenue over five years, while the cut in the capital gains tax rate would reduce revenues by about $9.8 billion over the same period. The net effect of these proposed changes would be to generate about $40.2 billion over five years, about $7.3 billion of it next year.

In addition, Bentsen would propose dropping the failed budget summit agreement's provision to limit the benefit of federal tax deductions for those earning more than $200,000, the aides said.

On taxes, Bentsen plans to propose generating a net total of between $140 billion and $150 billion in new revenue over five years. The package would include tax breaks totaling between $20 billion and $25 billion over five years, meaning the panel would have to raise a gross of as much as $175 billion in new taxes.

The budget summit agreement contained provisions generating a total of $162.9 billion over five years and tax breaks totaling $25 billion, resulting in a net gain of $137.9 billion.

Bentsen would drop the proposed two-cent-a-gallon tax on refined petroleum products and lower the proposed federal gas tax increase from a total of 10 cents a gallon to nine cents, phased in over two years.

In addition, Bentsen would eliminate the contentious package of tax breaks for investment in new small businesses, which Bush said yesterday the package must contain.

In Medicare, Bentsen's plan would save $43 billion over five years, compared with the budget summit's plan to save $60 billion over that period. It would leave untouched the premiums paid by beneficiaries of the voluntary coverage of physicians and outpatient hospital services. It would raise from $75 to $100 the maximum out-of-pocket expenses a beneficiary in that program must pay before receiving benefits; the summit had proposed raising it to $150. Bentsen is also considering raising the amount of annual income subject to the 1.45 percent Medicare payroll tax from $51,300 to as high as $90,000.

Bush aides said last night that the confusion in the White House over what the president would or wouldn't accept reflected not so much opposition to tax rate increases, or a passion for capital gains reduction, as it did a determination by some officials that the new package should be as close as possible to the old. Those advisers told Bush, one said, that "if he opened this can of worms he'd never get an agreement. It would be fights all over the playing field again."

But another set of advisers urged Bush to start the budget "mix-and-match" process anew because that, in fact, was happening in Congress anyway. Bush accepted the later view as the day started, but sided with the no-deal advisers by day's end, his aides said.

After Bush's news conference, White House advisers hastily organized a meeting for the 17 Republican senators. Sources said it was designed by these advisers to assure that Bush would hear the opposition of key senators to a deal involving higher rates, thereby making such an agreement virtually impossible.

Aides gave conflicting interpretations of what Bush intended to signal during his news conference but by the end of the day agreed that, in the Senate at least, the question was off the table.

The late-day reports of the meeting at the White House caused alarm among Democrats in the Senate, who were optimistic about striking a budget deal that all sides could accept. "We thought we had clear sailing," one Democrat said. "It's going to be anything but."

Staff writer Dan Balz contributed to this report.

The Washington Post
WEDNESDAY, OCTOBER 10, 1990

Congress Now Faces Its Toughest Budget Decisions

By John E. Yang
Washington Post Staff Writer

Despite the high drama and the frayed political emotions of the past week's fiscal brinkmanship, the hard deficit-cutting decisions still remain unmade.

The tumultuous House and Senate debates and agonized votes on a five-year budget plan that would save $500 billion, $40.1 billion of it in the fiscal year that began last Monday, did little but delay the day of political reckoning when lawmakers will have to confront the difficult choices of whose taxes to raise and whose benefits to cut.

"The tough vote is coming," said Senate Minority Leader Robert J. Dole (R-Kan.). Said Rep. Bill Frenzel (Minn.), the House Budget Committee's ranking GOP member, "It's going to be the equal of the struggle we've had so far."

The vote will be on legislation called the "reconciliation" bill, a measure that reconciles current tax and benefit program laws to meet the savings targets in the budget resolution.

The budget resolution to which the Senate gave final congressional approval early yesterday morning directs a dozen House committees and 10 Senate panels to find benefit-program savings and new taxes and fees that would save $258.6 billion over five years. The rest of the $500 billion in savings would come from cuts in programs subject to annual appropriations.

The committees will have to try to come up with what Bush administration officials and congressional leaders could not: a package of tax increases and benefit cuts that is politically palatable enough to be approved little more than a month before Election Day.

If any of the committees miss their targets, congressional leaders have the authority to offer amendments to the legislation that would bring them into line.

More than three-quarters of those savings must come from the tax-writing House Ways and Means and Senate Finance committees, which also have jurisdiction over such benefit programs as Medicare and unemployment insurance. The Ways and Means Committee held a closed-door meeting last night and the Finance Committee is to meet today.

Another important component will be decided by the House and Senate Agriculture committees, which are now negotiating a five-year revision of federal farm policy. And the Senate Governmental Affairs and House Post Office and Civil Service committees will also consider decisions that could affect the retirement benefits of millions of federal workers.

Reconciliation is a process that rarely lives up to its soothing name, pitting powerful committee chairmen, backbenchers and their parochial interests against one another. "Only in Congress is 'reconciliation' a fighting word," said House Speaker Thomas S. Foley (D-Wash.).

By their very nature, reconciliation bills are big and unwieldy. They are often quickly considered in the face of strict deadlines. As a result, they become magnets for irrelevant provisions.

Last year, House Energy and Commerce Committee Chairman John D. Dingell (D-Mich.) tried to slip a broadcasting regulation that the Bush administration opposed into the measure. It was only noticed when congressional aides proofread the document just before the House took it up.

This year, the resolution sets a very tight, though artificial, time-frame for the committees to finish their work, asking them to report their savings by next Monday. A non-binding amendment added to the stopgap spending bill expressed the "sense of Congress" that the deadline be moved forward three days, to Friday. Administration officials and congressional leaders have agreed to try to finally pass the measure by Oct. 19.

That deadline, which carries no sanction for its violation, is extremely optimistic.

To add pressure, President Bush insisted that the short-term spending bill currently funding the government expire on Oct. 19. He also said he would not sign another continuing appropriations bill if the details of the deficit-cutting package have not been settled by that date, threatening another government shutdown.

Having brought the government to the precipice of disaster, Bush is essentially moving the cliff forward. Foley calls it an "unnecessary and artificial crisis." The speaker acknowledges, though, "that is the political reality we have to deal with."

And in Congress, rarely a slave to deadlines, the reality is that nothing gets done until it absolutely, positively has to be done. Only once in the last decade, in 1988, have lawmakers approved all 13 spending bills that fund the federal government before the beginning of the new fiscal year. And that feat was only accomplished thanks to a House clerk who sprinted across the Capitol to deliver the necessary papers to the Senate just seconds before midnight.

"Everything gets done the last week," said a veteran House leadership aide. "The trick is to convince everybody it really is the last week."

The Washington Post
WEDNESDAY, OCTOBER 10, 1990

Lobbyists Keep Tax Vigil on Capitol Hill

Interest Groups Want to Know How Finance Panels Will Fill in Blanks in Budget

By Don Phillips and Bill McAllister
Washington Post Staff Writers

A nervous silence descended yesterday over Washington lobbyists as they kept up a "Rosty watch," asking one question: What plan will Rep. Dan Rostenkowski (D-Ill.) put before his House Ways and Means Committee as the tax portion of a five-year, $500 billion deficit-reduction plan?

It is called "the chairman's mark," and no piece of paper was more coveted in official Washington yesterday as House financial committees began the task of putting detailed legislation into the blanks of the new congressional budget agreement.

Word spread rapidly that Rostenkowski, like President Bush and Senate Finance Committee Chairman Lloyd Bentsen (D-Tex.), was prepared to support a swap of higher income tax rates on the wealthiest taxpayers in return for a lower tax rate on capital gains. But hundreds of other tax issues remained to be resolved.

Until they see how badly their interest group might be hurt, many lobbyists remained out of sight, giving Capitol Hill the appearance of calm, the kind that comes before a storm.

"At this point, what you want to know desperately is how you're taken care of in that mark," said a senior Capitol Hill aide.

The major exceptions are groups representing the elderly, who always lobby hard, and the transportation industry—truckers, railroads and airlines—who are already sure they will take a financial beating. Their only question is, "How bad?"

The American Trucking Associations set up a 100-person phone bank to call truckers across the country 15 hours a day and ask them to contact their members of Congress in a damage-control operation. A railroad industry source said, "We're pulling out all the stops" with calls from major railroad officials nationwide and local lobbyists.

Sources close to the committee and the industry said the most likely committee scenario is a 9 cents-a-gallon fuel tax increase for motorists and truckers—rather than the 12-cent tax in the compromise defeated last week; an increase from 8 percent to 10 percent in the airline ticket tax and probably the first fuel tax on railroads, which traditionally do not pay fuel taxes into the highway trust fund because they own their own tracks.

President Thomas Donohue of the American Trucking Associations said it is unlikely his industry can avoid tax hikes. His lobbying effort, he said, is aimed at holding the taxes as low as possible and making sure that as much as possible is spent for highways.

"That's the worst it's going to get, and it could get better," he said of the 9-cent tax rate report.

Worse for the trucking and airline industries is the likelihood that Congress for the first time will use fuel and ticket tax revenues for general spending rather than depositing them in the trust funds for highways, airports and airways. This would be the equivalent of cracking the industries' holy grail, something few of them imagined could happen before the budget crunch this month.

Sources said at least half the fuel tax funds and perhaps all the 2 percentage-point increase in the ticket tax might go to general revenues.

"It violates every principle of why the trust fund was established in 1970," said Larry Barnett, vice president for government affairs of the Air Transport Association.

Barnett said the tax itself will hurt the industry in a year when every major U.S. airline is expecting losses because of rising fuel prices and a softening economy. "The prospects for us over the next three years are just disastrous," he said.

As usual, lobbyists for groups representing the elderly did not hold back.

"If you haven't lobbied until now, it's over with," said John Rother, legislative director of the 30 million-member American Association of Retired Persons. "Anyone who waits until tomorrow is out of it. It's going to move fast. It's got to move fast."

The National Committee to Preserve Social Security and Medicare sent 2 million letters over the weekend urging members to send postcards to Congress. "We only have days to act," said the mailings.

But most lobbyists yesterday were gathering intelligence before deciding what to ask for.

"We're getting faxes and that sort of thing," said a staff member of a senior Republican Ways and Means member. "But they're not coming into the office the way they used to."

Reporters entering a Senate Finance Committee briefing had to push their way through a hallway crowd of lobbyists seeking any hint of what was said inside.

"I guess you could say we're sort of standing pat," said Walker Merryman, vice president of the Tobacco Institute, the main tobacco industry lobbying arm. Translation: the industry has accepted the 8-cents-a-pack increase in the budget agreement and hopes, in Merryman's words, "They're not going to do any more to us than they did before."

"It's been very quiet," agreed Scott D. Ballin, vice president for legislative affairs for the American Heart Association. He said the anti-smoking "Coalition on Smoking or Health" has sent letters asking Congress to boost the tax to 16 cents a package, but would view any increase as a victory.

"We always advocated a doubling of the tax, but we'll take what we get," he said. Ballin said he expected tobacco lobbyists would be "trying to preserve the status quo," the 8-cents-a-pack increase. "I think they would rather get looted than shot to death."

Douglas W. Metz, managing director of the Wine and Spirits Wholesalers of America, said liquor lobbyists are waiting to see "what the chairman's mark is. It's the next moving target."

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

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Bush Has Failed to Explain the Deficit's Place in the Greater Scheme of Things

David Warsh is a columnist for the Boston Globe.

It's easy enough to get mad at Congress. The spectacle of those self-righteous, self-interested legislators unable to follow their leaders to a compromise even when there is an American army in the field is disgusting.

They've succeeded at putting together a revised compromise—not enough to deal in any meaningful way with the deficit over time, but enough to reopen the government's doors. But a deeper disappointment has to be reserved for George Bush.

Trying to get a more nearly balanced budget compromise without spelling out in the clearest possible terms why he has found it necessary to abandon his campaign pledge of "no new taxes" is not just slipshod and cowardly. It is almost certainly bound to fail.

What is required here is a gut-level telling of the story of Reaganomics—that combination of personal income tax cuts (and their eventual simplification), domestic spending curbs amid increasing defense outlays and tighter money that evolved during Ronald Reagan's first 12 months in the White House.

These were policies whose foreshadowings Bush had once, in the heat of the Republican primaries of 1980, labeled "voodoo economics." But they were deemed appropriate by the Congress that ratified them because of what seemed to be an emergency.

As Newsweek magazine put it in January 1981, "When Ronald Reagan steps into the White House next week, he will inherit the most dangerous economic crisis since Franklin Roosevelt took office 48 years ago."

The Reagan policies were, as usual, a big step into the unknown. Economists often take the position that they are always in the position to offer "correct economic analysis" of the possibilities open to leaders, but there is little reason to believe that this is the case. Nothing was certain about the outcome of the Reagan policies beforehand, not the course of monetary policy, not citizens' response to it, not the overall distributional effects of the changes.

It quickly turned out there were unmistakable "structural deficits" in the government budget even at full employment, as a result of the income tax cuts. The Tax Equity and Fiscal Responsibility Act of 1982 followed, a real tax increase coupled with promises of spending cuts in the "out years" that eventually failed to materialize—what Republican legislators today regard as a highly significant Democratic double-cross.

A flurry of attempts to negotiate another compromise to narrow the deficits to an acceptable range the next year went nowhere. And so on the eve of the presidential election of 1984, the debate congealed like stale gravy.

At the heart of the Republican position since then has been a "political bet," as Olivier Blanchard has argued, not so much that real growth or inflation would wash away the deficits, as that the cuts in taxes would create, through deficits, pressure to cut spending.

Much of the Reagan program worked more or less as predicted. The vitality of markets that was the heart of the gospel of Reaganomics has been demonstrated so forcibly that Europe is integrating, the Soviet Union is desperately emulating the West, China is trying to regain the treacherous capitalist road and the nations of the Third World are turning to privatization for their next wave of development.

But the particular bet on government spending didn't pay off. Taxing and spending still are dangerously far apart. So are the legislators who must eventually agree on some combination of tax increases and spending cuts to bring the budget more nearly into trim.

But George Bush has made no systematic attempt to account for the place of the deficit and the national debt in the greater scheme of things. Instead, he has sought a largely backroom compromise to defuse the issue, for a few more years at least. He has left his henchmen to duel with angry reporters, who think that his turnaround means that Walter Mondale and Michael Dukakis were right.

What might he have said? He might have said that the Ford-Carter-Reagan years had brought to an end a long period of widespread belief in salvation by government. He might have said that successive American governments had sought various mechanisms to arrest the tendency to ever greater public spending, that some worked and others didn't, and that something resembling stability had nearly been achieved.

The fact is that the experiments of the Reagan years weren't in any real sense "lies." They worked in some respects; they failed in others. The leader who can take into his hands the telling of this story will be the next president of the United States.

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Bush: Yes, then no on taxing rich

By Jessica Lee
and Richard Wolf
USA TODAY

President Bush opened the door Tuesday to higher income taxes on the rich — then slammed it shut after meeting with Senate Republicans.

At a morning news conference, Bush said he might accept a trade to cut the deficit: allow higher income taxes on the rich in exchange for a cut in the capital gains tax rate.

"If it can be worked in proper balance between the capital gains rate and income tax changes, fine," he said.

But in an afternoon meeting, Senate GOP leaders convinced him otherwise.

Said Sen. Bob Packwood, R-Ore., of the Finance Committee: "We all put up our hands and said, 'No deal on rates.' "

Finance Committee chairman Lloyd Bentsen, D-Texas — who offered the same trade Tuesday — was outraged.

"They're very difficult," he said of the White House. "In the morning, it's one position. In the afternoon, it's another. It may take us a long time to work this out now."

On Capitol Hill, committees began work on details of a five-year, $500 billion deficit cut. Where Democrats are headed:

▶ Extending the current top 33% income tax rate to all wealthy taxpayers.

▶ Holding a gasoline tax increase to 9 cents a gallon and eliminating a 2-cent-a-gallon hike on home heating oil.

▶ Easing proposed Medicare premium increases.

▶ Cutting the top capital gains rate to 23.1% — 19.6% for most assets, which Bush proposed in January.

Capital gains — profits from the sale of assets such as houses or stock — are taxed at the same rate as ordinary income. Bush has argued that a lower tax rate — opposed by Democrats as favoring the rich — would boost the economy.

Bush signed an emergency spending bill Tuesday morning, keeping the government in operation until Oct. 19.

But the budget process is turning tricky. The Senate votes today on a politically popular proposal to reduce the Social Security payroll tax.

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Dems take charge, but will need GOP help

By Richard Wolf
USA TODAY

Democrats took over the driver's seat on controversial deficit-cutting proposals Tuesday, but they will need Republican passengers to help pass a final package — and avoid political fallout.

Assuming command of the federal budget process, the chairmen of the Senate and House tax-writing committees immediately proposed raising income tax rates on the wealthy in exchange for lowering taxes on capital gains — profits on the sales of assets such as property and stock.

But Republicans — led by President Bush — gave conflicting signals on their willingness to consider the trade.

Without GOP support for their five-year, $500 billion deficit-reduction package, Democrats would face legislative gridlock or political blame:

▶ Any deal unacceptable to Bush would be vetoed; Republicans have enough votes in both houses to block an override.

▶ If a bill laden with tax hikes passes with only minimal GOP support, Democrats may have won the legislative battle — but lost the political war.

"The Democrats need us," said Rep. E. Clay Shaw Jr., R-Fla. "There's going to be some very unpopular taxes here, and they need some cover."

The key battles during the next 10 days — when a stopgap spending bill expires — will be over capital gains and income taxes and Democratic efforts to raise more taxes and cut less spending than White House and congressional negotiators originally proposed.

"It will be very difficult to work out a good agreement with them," warned Sen. Lloyd Bentsen, D-Texas, chairman of the Senate Finance Committee, after learning of Bush's about-face on raising income tax rates on the wealthy.

Where other parts of the package may be headed:

▶ Medicare cuts proposed Tuesday by Bentsen would total only $43 billion, rather than the $60 billion reduction recommended by White House and congressional negotiators.

▶ A $12 billion package of small business tax breaks favored by the White House has been scuttled.

▶ A two-week delay in unemployment insurance payments proposed by Republicans also has been scrapped.

▶ A 2 cents-per-gallon boost in the price of home heating oil — originally demanded by Bentsen, but opposed by legislators from the Northeast — was eliminated.

The House Ways and Means Committee began work Tuesday night on the deficit-cutting deal as hundreds of lobbyists traded details outside the closed session.

The Senate's finance panel joins the effort today, facing an Oct. 19 deadline.

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

But Republicans will be looking to cut more spending and raise less taxes as the fiscal committees plow ahead — setting the scene for a protracted battle of the budget.

"There's no trade," said Shaw, a Ways and Means Committee member. The initial Bentsen plan, he said, "would not fly with Republicans."

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Top Republicans stand their ground

By Jessica Lee
USA TODAY

President Bush stared at another Republican mutiny — and blinked.

He should have seen it coming. But he didn't.

Republicans, left dumbfounded and feeling betrayed when he renounced his no-taxes pledge in order to cut the deficit, were not about to endorse higher income taxes.

This time, Bush was in the White House Tuesday meeting with the top Republicans on 17 Senate committees.

He was talking about his announcement earlier in the day that he would accept an income tax hike to win his cherished goal of lower capital gains rates.

The senators bolted.

"Our uniform position was that we will not go up on the rates, no matter what," said Sen. Bob Packwood, R-Ore., GOP leader on the Finance Committee and architect of the 1986 tax overhaul.

Bush changed his mind.

It was the second GOP revolt to confront the White House in a week.

House GOP members — including some leaders — refused to support the deficit-reduction deal the White House cut in meetings with Democratic leaders.

Bush tried a public plea in a rare prime-time television appearance — for the deal. He asked the public to tell them to support tax hikes on gasoline, alcohol, cigarettes, luxury cars and Medicare premiums.

The House Republicans wouldn't budge — and the budget agreement died.

When House Democrats passed a new plan Monday, GOP senators threatened to filibuster it to death. "We may have to pass it without Republican votes," said Sen. Alan Simpson, R-Wyo.

But the senators reconsidered — and it passed.

The White House took that warning rather cavalierly, figuring approval of the agreement mattered more than the politics of its support.

Huddled in their White House offices, Bush's deficit-reduction point men — chief of staff John Sununu and budget director Richard Darman — wondered why GOP leaders could not deliver.

They found out GOP senators could deliver — enough to make Bush back down.

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Democrats find tax bubble a tempting target

By Bill Montague
USA TODAY

The latest obstacle to a federal budget deal, apparently, is a bubble.

The first budget deal failed to win support partly because many people said it put too much burden on low- and middle-income taxpayers.

So some lawmakers — especially Democrats — are eyeing a quirk in the tax code that taxes some income at 33%. Because the rate falls to 28% when income hits a certain level, a middle-class taxpayer would pay more tax on a $100 windfall than a wealthier taxpayer would.

That situation is called the bubble, and it's one of the most confusing features of the 1986 tax law. How it works:

▶ You pay 15% tax on your first chunk of taxable income. Currently, the 15% rate applies to taxable income of up to $19,450 for singles and $32,450 for couples — after subtracting $2,050 in personal exemptions. A family of four would pay 15% on taxable income of up to $40,650 before exemptions.

▶ The next chunk of income is taxed at 28%.

▶ Then there's the bubble. To compensate for the 15% rate paid on the first chunk of income, Congress added the 33% tax rate on income at certain levels. For this year, single taxpayers with one exemption will pay 33% on taxable income of $47,051 to $109,100.

▶ Another catch: The bubble expands to gobble up all your exemptions. That extends the 33% bubble to cover another $11,480 for each personal exemption taken. So while a couple with two exemptions pays 33% on taxable income of $78,401 to $185,730, the bubble goes from $78,401 to $208,690 in taxable income for a family of four. (That's $86,601 to $216,890 before subtracting exemptions.)

▶ Once income passes beyond the bubble range, the tax rate drops back to 28% and stays there. Many lawmakers want to raise that rate, possibly to 33%.

The plan is sure to renew a long-running debate. The big issue: Is the bubble unfair to middle-class taxpayers? Some Democrats complain that it lets the wealthy pay taxes at a lower marginal rate — the tax on the last dollar of income. But defenders say the bubble raises taxes on the rich by taking back breaks like the 15% rate.

Byrle Abbin, managing director of Arthur Andersen's Office of Tax Services, says bubble critics wrongly focus on marginal rates. More important, he argues, are overall tax rates — the total share of each person's income taken by Uncle Sam. That share rises steadily until it reaches 28% of taxable income before exemptions. Says Abbin: "That half of the equation never seems to get into the discussion."

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Social Security tax cut tempts Senate

By Leslie Phillips
USA TODAY

The Senate today is expected to vote on a politically appealing proposal to reduce Social Security payroll taxes.

The plan — which would increase 132 million wage earners' take-home pay over six years — is designed to prevent budget writers from using an estimated $100 billion in the Social Security reserve fund to mask the true cost of the deficit.

After being phased in over six years, it would save a two-earner family up to $1,544 a year.

During debate Tuesday, sponsor Sen. Daniel Moynihan, D-N.Y., displayed a poster with "embezzlement" printed in large red letters.

"What are we doing with this pension fund?" he asked. "It's not theft. It's embezzlement. ... No one can defend what we are doing."

The proposal — termed "nutty" by Treasury Secretary Nicholas Brady — would cost the government $170 billion over six years.

Moynihan hasn't proposed a way to make up that shortfall.

The outcome of the Senate vote is unclear. A yes vote would be hard to resist four weeks before Election Day. But with the memory of last week's budget chaos fresh in the public's mind, senators may be wary of voting for anything that adds to budget woes.

"It's not timed very well," said Sen. David Durenberger, R-Minn. "I like the proposal, but it's an unreality."

Senate leaders oppose the measure, but no senator publicly spoke against it Tuesday.

It is not expected to pass the House, where the chairman of the Ways and Means Committee, Dan Rostenkowski, D-Ill., is firmly opposed.

Also reported under consideration:

▶ An amendment to change an anomaly that reduces Social Security benefits for "notch babies" — retirees born between 1917 and 1927.

▶ An amendment that would let retirees earn more than $9,360 without losing a portion of their Social Security benefits.

THE NATION'S NEWSPAPER
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'Blue Chip' poll: Recession's started

Economists polled by the monthly newsletter *Blue Chip Economic Indicators* are forecasting back-to-back declines in gross national product — a popular definition of a recession.

Blue Chip reports today that the latest consensus forecasts of 52 top economists predict:

▶ A 0.6% drop at an annual rate in real gross national product this quarter. GNP is the value of all goods and services produced.

▶ A 0.1% decline in GNP in first-quarter 1991.

One common shorthand definition of a recession is two or more consecutive quarters of declining GNP. A better definition is an extended period of declining economic activity and rising unemployment.

Blue Chip's latest forecasts mean that "though it may not fit perfectly with the official definition, a recession has probably started," says *Blue Chip* editor Robert Eggert, a Sedona, Ariz.-based economist.

The economists were polled in late September and early October. The consensus estimates are the averages of their forecasts, which are adjusted to exclude inflation and show the real growth in output.

If *Blue Chip* is right and a recession is under way, it's probably no surprise to most of the 1,000 CEOs and other top executives surveyed in the third quarter by the Conference Board, a New York research group.

Nearly 70% of those executives say the economy has weakened in the past six months and almost 50% say it will get even worse in the next six months, the Conference Board reports today.

That pessimism helped drop the Conference Board's Measure of Business Confidence to its lowest level since 1980. The reading: 40, down from 48 in the second quarter. Anything below 50 means there are more pessimists than optimists.

There's a chance *Blue Chip* might be late in calling the start of a recession. The last time it forecast two straight drops in quarterly GNP was in December 1981 — five months after the 1981-82 recession officially began. "We do tend to lag a bit on (calling) recessions," Eggert says.

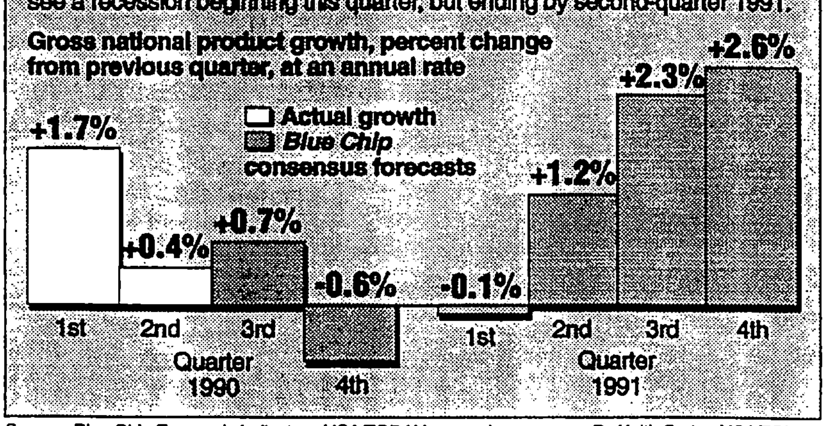
Many economists believe a recession began in the third quarter. Even if GNP grew in that quarter — *Blue Chip* forecasts a 0.7% rise — a recession may have started then.

The last three recessions, as determined by the private National Bureau of Economic Research, began in quarters when GNP rose. NBER says other indicators during those periods — rising unemployment, for instance — show that the economy was weakening even though GNP was still rising.

— Mark Memmott

Recession forecast

Blue Chip Economic Indicators says the 52 economists it surveys monthly see a recession beginning this quarter, but ending by second-quarter 1991.



Source: *Blue Chip Economic Indicators*, USA TODAY research — By Keith Carter, USA TODAY

The New York Times

WEDNESDAY, OCTOBER 10, 1990

BUSH HINTS AT RISE IN TOP TAX RATES, THEN BACKS AWAY

By R. W. APPLE Jr.

Special to The New York Times

WASHINGTON, Oct. 9 — A few hours after signing a stopgap measure that averted a shutdown of most Government operations, President Bush said for the first time today 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.

Mr. Bush told a morning news conference that if Congress agreed to the cut in capital gains taxes he has long sought, he would consider higher income tax rates. He changed his mind after an afternoon meeting at which 17 senators opposed his proposal, throwing the already confused budget negotiations into near chaos.

Senator Bob Packwood of Oregon, the senior Republican on the Senate Finance Committee, said the President agreed with the lawmakers' "uniform position that we will not go up on the rates, no matter what."

Democrats 'Thunderstruck'

White House officials confirmed his account tonight. One Presidential aide said Mr. Bush had concluded that a deal along the lines he had specified "is not worth fighting for." The aide said the President had listened to the senators in silence, "and it's fair to say he aquiesced in their views."

Democratic leaders were "totally thunderstruck" by Mr. Bush's reversal, said one senator, and it was not immediately known what they would do in the new political situation. But it appeared highly likely that the President's action had scuttled any chance of changes in either the income tax or capital gains rates and had made bipartisan cooperation considerably more difficult.

Tax Proposal Was Planned

Mr. Bush, who promised "no new taxes" in his 1988 election campaign and stuck to it for his first year and a half in office, retreated on excise and other taxes in negotiations this summer, but until this morning had clung, at least in public statements, to his refusal to alter income tax rates.

Senator Lloyd Bentsen of Texas, the chairman of the Senate Finance Committee, had been ready to propose on Wednesday a deal of the kind Mr. Bush outlined, according to members of his staff.

In an interview this evening Mr. Bentsen said he was astounded by Mr. Bush's apparent change of heart. "I think this is unprecedented," he said. " "This morning he says said he'll consider the trade and this afternoon we have this statement that there's no way they'll do it. I wonder what his position will be tomorrow morning."

Mr. Bentsen said the President's reversal severely complicates efforts to complete a deficit reduction package and to get it through his committee. His panel had planned to begin deliberations Wednesday on specific deficit-reduction proposals, but Mr. Bentsen said tonight he wanted to "sleep on it" before determining how to proceed.

"It looks as if they are determined to protect those making over $200,000 from having any increase in their taxes," he said.

The Senator's aides said he had planned to call for a rise in bracket rates for the richest Americans to 33 percent from 28 percent, smoothing out a so-called bubble in the tax system that since 1986 has resulted in richer Americans paying a lower rate on the top portion of their income than did less affluent Americans.

Senator Bentsen would also recommend lowering the capital gains rate to a maximum of 23 percent from today's 28 percent. And he would raise the alternative minimum tax on all income, regardless of deductions, to 25 percent from today's 21 percent. This measure would also hit the very rich, who have so many deductions and exemptions and exclusions that their normal tax liability falls below those levels.

How all this would redistribute the tax burden among various income groups is not clear, though Senator Bentsen said today that his aim was to make the system more progressive.

Mr. Bentsen had also proposed softening elements of the deficit reduction package that the House rejected last week. These included scaling down a proposed increase in the gasoline tax, eliminating a tax on home heating oil and reducing cuts in Medicare.

Representative Dan Rostenkowski of Illinois, the Democratic chairman of the House Ways and Means Committee, had planned to make comprehensive proposals of his own Wednesday.

Even before Mr. Bush's reversal, it was by no means certain that Congress would approve what the President, Mr. Bentsen and Mr. Rostenkowski seemed to be focusing on. With opposition to new taxes strong among voters, elections looming and White House tactics misfiring, a painstakingly negotiated budget package failed last week to muster a majority among either Republicans or Democrats in the House.

Out of Touch

Some Republicans in the House said today that they still believed the President was out of touch with the sentiment of rank-and-file lawmakers.

After a holiday weekend marked by modest but highly visible reductions in Government operations, Congress passed a budget resolution similar to the one defeated earlier, but with deficit-reduction details left to committees like Mr. Bentsen's and Mr. Rostenkowski's. It also approved a resolution to keep Government spending at last year's levels until Oct. 19, a week from Friday.

Mr. Bush signed that resolution at 7 o'clock this morning after intense arguments within his staff about whether he should veto it to keep the heat on Congress. He had vetoed a similar measure last Sunday, which was unaccompanied by a budget package.

The revised budget resolution, incorporating a deficit-reduction plan, cleared the House on Monday, 250 to 164, and the Senate early this morning, 66 to 33.

There is no certainty that the new deadline will be met; a further delay until Oct. 21, a Sunday, is certainly possible, politicians of both parties said, and a postponement until after Election Day, Nov. 6, is conceivable.

The election is a major complicating factor in getting approval for any budget package. Every one of the dozen or so Republican and Democratic Senators facing close elections this fall, from liberal Democrats like Paul Simon of Illinois to conservative Republicans like Jesse Helms of North Carolina, voted against the resolution approved this morning. So did Senator J. Bennett Johnston of Louisiana, a Democrat who was re-elected last weekend.

Smoothing Things Over

At his news conference, the President took an emollient approach toward the Democrats, offering to help them in what he conceded was the difficult task of putting together a package that will achieve $500 million in deficit reduction over five years while still winning his backing and that of both houses of Congress.

It was a recognition that what an elite group of private negotiators failed to accomplish in four months must now be achieved in 10 days, mostly in public.

"The action is in the Congress, but we'll work with them," the President said, refraining for the moment from further finger pointing. "I will do everything in my power to encourage Congress as it struggles to bring forth the most comprehensive and significant deficit-cutting plan ever."

He defended his two main budget negotiators, John Sununu, the White House chief of staff, and Richard Darman, the budget director, who antagonized Republicans as well as Democrats on Capitol Hill with what many lawmakers considered outrageously heavy handed tactics.

"When passions get high, there's bound to be a little broken china," Mr. Bush said. "They did an outstanding job." But White House officials said that Mr. Sununu and Mr. Darman would probably play only secondary roles in the 10 days of bargaining and maneuvering that now lie ahead.

Asked about raising income tax rates for the wealthiest taxpayers, the President replied in language that seemed unequivocal: "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."

Bush Sees No Dents

Mr. Bush was unwilling to accept the contention that his prestige and power have been dented by the budget battle, inisisting that "the jury's still out."

Still, his ratings in public opinion surveys have slipped back to where they stood before Iraq invaded Kuwait; his leadership capacities are being questioned after his failure to convince even the usually docile House Republicans to back him on the original budget package, and he has abandoned his no-new-taxes pledge.

"I can understand the frustration," Mr. Bush said about the sour mood of the American public. "I feel it myself at times."

The President may have suffered little longterm damage so far, as his aides argue, and he will not face re-election for many more months. But he faces major political trouble on three fronts — the Middle East, the budget and the faltering economy — with all three full of uncertainties.

Although he expressed, as usual, a reluctance to analyze his emotions — he said he didn't want "to get stretched out on the couch too far" — Mr. Bush conceded that he took more satisfaction from coping with international problems like the Persian Gulf crisis than from dealing with difficulties at home.

The New York Times

WEDNESDAY, OCTOBER 10, 1990

The Patrician's Way

Bush Passion for Secrecy Runs Afoul Of Public's Passion for Open Debate

By MAUREEN DOWD

Special to The ew York Times

WASHINGTON, Oct. 9 — Playing beneath the surface of President Bush's words about the budget crisis today was a flicker of impatience. It was a characteristic reaction for a patrician politician who was bred to believe in the Establishment way of operating, that important decisions are best made behind closed doors with a group of men who share the same goals and assumptions.

News Analysis

At a morning news conference at the White House, Mr. Bush was asked whether it would not have been better to throw open to the public a debate over a 12-cent-a-gallon gasoline tax that would have caused many Americans hardship, rather than arbitrarily agreeing in secret sessions with the Congressional leadership on what was best for everyone.

"Well, I don't know that any person who is opposed to raising gasoline taxes would have been more inclined to accept them if the negotiations between Democrats and Republicans on these committees had been done in public," the President replied.

In the budget negotiations, Mr. Bush used the same "we know best" approach he has employed with far greater success in foreign policy. He surrounds himself with a tight band of like-minded men and makes decisions about coups and wars and global strategy in secret. He offers the image of himself as a leader bred to rule who will do the correct thing and, circumstances permitting, the right thing.

Bush Faith in Secrecy

"He believes that you have to negotiate in secret because no one can be honest in the negotiation process if they're exposed to public scrutiny," said a Republican who has worked closely with Mr. Bush. "But that's a diplomatic approach. It's not a democratic approach."

Republicans and Democrats alike today suggested that Mr. Bush's method of making decisions had backfired on the domestic side.

"The genius and Achilles heel of our system is that it's a complicated, messy and open democratic system," said Stuart Eizenstat, President Jimmy Carter's domestic policy adviser. "You can't try to short-circuit it. You can't assume that a small group of leaders have to get together and cut deals to impose on the system.

"When you do that, as Bush did with the budget summit, you end up with a situation in which the political system can't digest the package because it was never a party to it. That's why Carter's 1977 energy program got rejected — it was a bolt out of the blue."

Despite Republican polls that tell him otherwise, Mr. Bush resisted the idea at his news conference today that the White House might have miscalculated the mood of the public and House Republicans.

Flipflop on the Budget

In an embarrassing flipflop that reinforced the idea of a White House out of sync with its own party, Mr. Bush suggested this morning that he might be willing to trade higher income taxes on the wealthy in return for lower capital gains taxes. He later abandoned that strategy when 17 Republican senators showed up at the White House to tell him that it would not fly. Critics called today's confusion symptomatic of a budget process run amok.

Mr. Bush is still angry at the rebellious Republicans for not being "team players" — a crucial concept to the sports-minded President.

He talked about his party's members of Congress as though they were wayward siblings refusing to do as they were instructed by their elders. He predicted that now that they have failed to accept his "good" budget deal, they would just scrap among themselves, saying "'Here's what I'd do, here's what I'd like to do' and then they find, well, there's no votes to do exactly what they'd like to do."

He praised them for showing "a certain maturity" in coming together on Saturday to uphold his veto of a measure that would keep the Government open.

Representative Fred Upton, a Michigan Republican who voted against the bipartisan budget agreement last week and got publicly upbraided by Mr. Bush's chief of staff, John H. Sununu, said he was surprised by the tone of the President's news conference today.

'Really Missing the Boat'

"They're really missing the boat," he said of the White House. "The President acted today as though they won. They did not win."

Mr. Upton said that the White House should talk to all the House Republicans, not "only to the George Mitchells of the world."

Mr. Bush's "we know best" style is dramatically reflected in the fact that, unlike Ronald Reagan, he does not try to sell the public, and educate it, when he makes substantial policy changes. Although he is accessible to the press, and although he has made a few television addresses to the nation, he does not always successfully articulate his positions.

When the President dispatched American troops to Saudi Arabia he talked of vague "vital interests," because he and his foreign policy advisers dwell in a rarefied world that features a set of assumptions about the pivotal importance of the Persian Gulf. Many Americans, and troops stationed there, still seem confused about what those interests are.

When Mr. Bush disclosed the budget deal that came out of five months of secret summit meetings, he gave a television address but failed, in the eyes of most Republican strategists here, to make his case. His argument boiled down to "stand with the President."

Contrast to Reagan Method

Unlike the Reagan White House, the Bush White House had not mobilized hundreds of thousands of calls from grass-roots organizations to members of Congress supporting the President's address. The calls coming in to Congress after Mr. Bush's address may not have been politically engineered — but they were so overwhelmingly negative that they set off the start of the House Republican defection.

"Bush's argument seems to be 'trust me,'" said James David Barber, a political scientist at Duke University and author of "The Presidential Character." "The average American does not understand why Bush is insisting on capital tax gains cut or suddenly dropping that idea. The average American doesn't understand why a tax is necessary unless you show them what those taxes are.

"This is supposed to be a government of consent. The President must genuinely explain what's going on to the average voters in America. Otherwise, they get apathetic."

Some Republicans suggested that Mr. Bush's style was exacerbated by the intellectual passion of his top two budget negotiators, Richard G. Darman and Mr. Sununu, to concoct the perfect deal.

"Sununu and Darman regard Congress as unwieldy and incapable of making the hard choices, unless those choices are suitably and cleverly packaged and given to Congress," said a Republican close to the White House. "They believe they are so clever that they can discern the perfect deal, in which everyone suffers a little but it still attracts just the right number of votes — not too many and not too few.

"But for all their brilliance in analyzing and strategizing, they made one crucial mistake: They failed to recognize that there is a human dimension to the execution of their strategy."

The Washington Times

WEDNESDAY, OCTOBER 10, 1990

Bush hems, haws on tax

By Frank J. Murray
and Karen Riley
THE WASHINGTON TIMES

President Bush said "fine" to raising some income tax rates yesterday and later sidetracked the hours-old budget deal when he told angry Republican senators he would not do that.

"The president agreed our uniform position was that we will not go up on the rates — not 1 percent, not 2 percent, not one-tenth of 1 percent," said Sen. Bob Packwood, ranking Republican on the Senate Finance Committee.

A senior White House official confirmed the conversation and said the president's refusal was not negotiable, although it appeared to be a last-minute tactic to pressure House Ways and Means Committee negotiators just beginning a tax-writing meeting.

The flip-flop, revealed at the White House without informing Democratic or GOP House leaders, threatened to worsen hostility left by Chief of Staff John Sununu and budget director Richard Darman — whom one member called "pit bull dogs."

Mr. Bush defended both men earlier in the day at a televised news conference where he agreed to consider raising top marginal income tax rates but said he would stay flexible on the amounts.

"If it's proper, if it can be worked in the proper balance between the capital gains rate and the income tax changes, fine," Mr. Bush said. "I've had to compromise, but I think it will come out all right."

Confusion reigned when Ways and Means members heard of Mr. Bush's new stand and some Democrats tried to force through a tax increase with no cut in capital gains taxes, levied on profits from assets.

"The White House seems very schizophrenic on whether they want to make a deal," said Jim Jaffe, spokesman for Democratic Rep. Dan Rostenkowski of Illinois, Ways and Means chairman.

At the hastily scheduled White House session with Mr. Bush, Treasury Secretary Nicholas Brady and ranking GOP members of 14 Senate committees, Mr. Packwood told the president that Democrats never would agree to cut capital gains enough to justify a tax increase and said a show of hands made that opinion unanimous.

"His response was 'Do you really think you represent the overall philosophy of the Senate?' " said Sen. John Warner, Virginia Republican. He said every hand went up.

"There were no ifs. Totally unacceptable. Lose, lose, lose," said the senior White House official who spoke on condition he not be identified.

Complicating the matter further, a different official who often is well-informed said the president might consider the exchange fair for a tax rate of 30 percent or 31 percent, but not the 33 percent proposed by Democrats.

The Democratic proposal unveiled by Senate Finance Committee Chairman Lloyd Bentsen, Texas Democrat, would:

- Cut long-term capital gains tax rates to 19.6 percent as proposed by Mr. Bush in his 1991 budget, from the present top effective tax rate of 28 percent.
- Raise income taxes to 33 percent from 28 percent on taxable incomes above $113,640 for single persons and $208,120 for couples with two dependents.
- Cut a proposed gasoline tax increase from 10 cents to 9 cents, eliminate a planned tax increase on home heating oil, and raise the alternative minimum income tax to 26 percent.

The proposal was coordinated in a morning meeting between Mr. Bentsen and Mr. Rostenkowski, whose congressional colleagues heard of Mr. Bush's change from reporters on the way to a closed session.

At that session, Democrats offered Republicans the chance to call the deal bipartisan. Rep. Bill Archer, ranking Republican on Ways and Means, plans to present a GOP counterproposal at a 1 p.m. meeting today.

Mr. Bush failed in a lobbying effort to hold the temporary funding extension for government operations to one week. He will not have another chance to halt the process until Oct. 19, when the stopgap measure he signed yesterday expires.

Tax objections drove the Republican majority in Congress that opposed the budget resolution that passed the House 250-164 and the Senate 66-33. It set guidelines to reduce the deficit by $40 billion in 1991 and $500 billion by 1995. Twenty of 44 Senate Republicans voted against it, as did 136 of the 164 House Republicans.

After a battle in which he was bloodied by his own party, Mr. Bush argued to reporters that his top advisers did not act like "pit bull dogs" with Congress and said Mr. Sununu and Mr. Darman played a "constructive role . . . in bringing the deal as far as it was brought."

"If we're trying to assign blame, lay it right here," Mr. Bush said. "The news, of course, is man bites dog. Republican goes after Republican."

Rep. Jim Lightfoot, the Iowa Republican who wrote a letter asking Mr. Bush to visit House Republicans "but leave the pit bull dogs at the White House," said yesterday there is growing concern that Mr. Bush's turn to the Democrats could cost him re-election.

"There's concern amongst a number of Republicans that whoever's advising him has got him into a situation similar to what Jimmy Carter found himself in when he tried to cut a deal on the other side of the aisle," Mr. Lightfoot said.

"If he would come down and meet with the House Republicans, he could sew this thing up in a New York minute," Mr. Lightfoot said.

Mr. Bush brushed off the idea he is vulnerable in 1992. "Without referring to the polls that I don't like to refer to, have them take a look," he said with a smile.

An ABC News -Washington Post poll released Monday showed Mr. Bush's approval rating at 65 percent — the level he had before soaring to 76 percent when he sent troops to Saudi Arabia in August. In the same poll, 57 percent blamed Congress for the budget problems and 14 percent blamed the president.

Mr. Bush promised to mend the widening split with GOP conservatives, beginning efforts this morning at a North Carolina campaign breakfast for Sen. Jesse Helms, North Carolina Republican. He told reporters "reason" will keep right-wing critics from defying him.

"[I'll] listen intently, reach out and heal," Mr. Bush said. "I've been campaigning for, and will continue to campaign for, people that might agree with me on this or might disagree with me on this."

The Washington Times

WEDNESDAY, OCTOBER 10, 1990

Democrats concur on tax plan outline

By Karen Riley
THE WASHINGTON TIMES

The Democratic chairmen of the House and Senate tax-writing committees have agreed to the broad outlines of a deficit reduction package for 1991 that would raise tax rates on the wealthiest Americans and lower taxes on capital gains.

The plan was immediately denounced by President Bush and Republican tax-writers who were not consulted and who viewed it as "looking like more of tax, tax, tax," an aide said.

The $18 billion package crafted by Senate Finance Committee chief Lloyd Bentsen and House Ways and Means chief Dan Rostenkowski would satisfy Democrats by shifting more of the tax burden to the rich while enabling Mr. Bush to make good on his campaign pledge to cut the capital gains tax.

It would also scrap several unpopular provisions in the bipartisan budget deal that Congress rejected last week, including higher Medicare premiums, a 2-cent-per-gallon tax on home heating oil and a two-week delay in issuing unemployment checks.

But several provisions of that scotched deal would still be retained including new taxes on luxury goods and higher excise taxes on tobacco, wine, beer and distilled spirits. Gasoline taxes would rise by 9 cents by 1991 under the Bentsen plan instead of the 10 cents previously proposed.

Both chairmen reportedly worked through the weekend on their proposals. Aides said Mr. Rostenkowski was still drafting his plan but it would contain large portions of the Bentsen plan.

Mr. Rostenkowski discussed his version of the package in a closed door meeting of Ways and Means last night. Mr. Bentsen will unveil his proposal to his panel today.

But finance staff told reporters yesterday that his plan would adopt the capital gains tax cut proposed in President Bush's 1991 budget.

That proposal would phase in lower capital gains tax rates depending on how long the asset has been held. For investments of at least three years, the tax rate would fall to 19.6 percent. Capital gains are now taxed at the same rate as other income. Tax estimators claim the cut would lose $10 billion over five years. Mr. Bentsen would pay for it by dropping $12 billion in growth incentives that even small business didn't like.

The Bentsen plan compensates for benefits the rich would reap from lower capital gains taxes by raising the income tax rate for the wealthy, lifting the income base on the Medicare tax portion of Social Security, increasing the alternative minimum tax on individuals and boosting taxes on luxury items.

It thus shifts more of the tax increase to higher income brackets, aides said.

The key tax change for high income persons would alter an anomaly added by the Tax Reform Act of 1986 known as the bubble.

While the top tax rate is 28 percent, some taxpayers pay an effective marginal rate of 33 percent, because a 5 percent surtax is imposed on their taxable income.

In 1991, single taxpayers earning $48,950 to $113,640 and couples earning $81,600 to $217,510 are included in the bubble. All taxpayers earning more than that are taxed at a flat rate of 28 percent. Lawmakers want to extend the surcharge to single taxpayers who earn more than $113,640 and couples with income over $217,510.

Mr. Bentsen would raise the alternative minimum tax on individuals — intended to assure people can't claim so many deductions that they pay no tax — from 21 percent to 26 percent. And he would raise the income threshold for the Medicare payroll tax from $51,300 to $90,000.

The Washington Times
WEDNESDAY, OCTOBER 10, 1990

Paying furloughed workers debated

By Joyce Price
THE WASHINGTON TIMES

If past practice is any guide, federal employees on weekend duty who were furloughed during the temporary government shutdown will be paid for their time off.

But the emergency spending measure that reopened the government yesterday omitted addressing that detail, officials said yesterday.

And unless adjustments are made, hundreds of thousands of employees off Monday for the official Columbus Day holiday will lose a day's wages.

"I understand they are trying to work things out," said Bruce Scheaffer, controller for the National Parks Service. "It may have been an oversight."

Correcting the situation would require enactment of a supplemental appropriations request. "I believe the possibility exists that it could happen ... that they will be paid," said Sharon Wells, a spokeswoman for the Office of Management and Budget. "In the past, Congress enacted legislation after the fact that paid people" furloughed in temporary government shutdowns.

Employees furloughed because of budget deadlock in 1981, 1984 and 1986 all received their regular salaries.

Robin Webb, a spokeswoman for House Speaker Thomas Foley, said it's her "understanding" workers furloughed by the latest shutdown will be paid. The continuing resolution was backdated to Oct. 6, she said.

But the current situation is different from previous shutdowns, according to a House Appropriations Committee staffer. "The first question that has to be asked is where the money to pay these people is coming from."

The idea of paying people for not working was attacked by leaders of several citizens' organizations.

"It sounds to me like a paid vacation, even though it was obviously unplanned," said David Keating, executive vice president of the National Taxpayers Union. "I would think most workers in the private sector would be astounded to learn that people in government were being paid for mandatory days off.

"If they decide to furlough employees, fine," Mr. Keating said. "But the idea of giving people a paid holiday because Congress and the president can't get their act together to adopt a budget shows just how insane the budget planning process is."

Matthew Tsien, spokesman for Citizens Against Government Waste, a group that's planning a national taxpayers' revolt on Oct. 27, said that paying workers for not working is "another example of the national scandal of government waste."

The Washington Times

WEDNESDAY, OCTOBER 10, 1990

WARREN BROOKES

Bush in Hooverville?

Ignoring economic history

Judging by the White House's relentless pursuit of a tax hike and deficit reduction package at any cost, the administration learned nothing by the events of last week.

Last Friday morning following the House's 254-179 rejection of the budget summit compromise, Washington pundits broke out in a rash of verbal retribution, predicting an economic disaster for the country and the Republicans because they were "unwilling to govern" (a k a raise taxes.)

The main target of their wrath was not the 147 Democrats who defied their own leadership to join the 107 Republicans in opposing it, but House Minority Whip Newt Gingrich, who while making his opposition known, assiduously refrained from lobbying his colleagues.

To a person, the pundits and news mavens parroted the White House party line, predicting that because of Mr. Gingrich's "ambition" and "grandstanding" the financial markets would "go crazy" and plunge wildly due to higher interest rates.

On Friday morning, a small number of traders were influenced by this nonsense. The market did in fact sell off 59 points in very light trading in the first hour, but by 1:30 the market was *up* nearly 22 points. It eventually sold off modestly (down 6 points at the close) in response to more saber rattling from Saddam Hussein and higher oil prices. However, long-term interest rates edged *down* 8 basis points, and the stock-index futures contracts *rose*.

In short, the pundits were simply wrong. Mr. Gingrich's "simplistic logic" was right: "I am unaware of any economic theory from left to right that supports higher taxes in a recession. This proposal will make the deficit larger, because it will make the economy worse."

Friday morning, the Labor Department told us just how dangerously weak that economy already is. Unemployment rose for the third straight month to 5.7 percent. Manufacturing jobs were down a shocking 66,000 in September bringing the last 12 month loss to 355,000. The nation's manufacturing sector has been deep in recession for at least six to nine months. The last thing manufacturing needs is $178 billion taken out of discretionary consumer income.

During the Great Depression, when unemployment soared past 25 percent, millions of American ex-workers were forced into living in tent cities known as "Hoovervilles."

President Herbert Hoover was a compassionate person who became so preoccupied with balancing the federal budget, he lost touch with economic and political reality. He left his country and his party in ruins by Republican "root canal economics" of higher taxes and spending cuts in a deepening depression.

Many, if not most Republicans on Capitol Hill are scared to death President Bush is leading them back to Hooverville. While they are incensed at the heavy-handed lobbying of White House Chief of Staff John Sununu, they are more despairing of what one called "the incredible ineptitude of the White House staff," and especially Office of Management and Budget Director Richard Darman, who put the president into a no win, budget summit situation where he had to get an agreement, no matter how dismal, because the markets would supposedly punish any failure.

Yet when that failure came, the markets only burped a little, then yawned and waited for the Gramm-Rudman-Hollings sequester to take effect. Mr. Bush could have saved himself immense political capital had he simply stayed away from summitry.

But Mr. Bush was not the only one to be embarrassed by this political and market rebuke. Federal Reserve Chairman Alan Greenspan told Congress it would be "a grave mistake" to kill this "credible" and "enforceable" budget proposal. He warned that failure to enact it "would produce an adverse reaction in financial markets that could undercut our economy." By Friday night, the markets were choosing Mr. Gingrich's logic over Mr. Greenspan's.

And with good reason. The net effect of a $178 billion tax increase would be to depress economic activity, and that would *lower* the dollar. Under the current Fed regime of committment to commodity price stability, they have to defend the dollar. That would preclude any significant lowering of interest rates. So the whole premise for the deficit reduction plan was flawed.

It is a measure of the disarray in the Bush White House not only that they were willing to sign on to such a disastrous deal in which they got little and gave up everything, but that Mr. Bush was so willing to sacrifice his own credibility to sell it.

When his embarrassing TV appeal produced outrage instead, to appease the liberals Mr. Bush told House Speaker Tom Foley that all of the spending cuts were negotiable, confirming Mr. Gingrich's warnings that this was just a huge tax hike to support higher spending.

The final straw was broken when White House aides hinted to Southern congressmen from both parties that if they supported his budget deal, Mr. Bush would *not* veto the dreadfully protectionist textile quota bill. This demonstrated Mr. Bush's willingness to sell out his free market principles just to save his political face, just as Sen. Robert Dole had been willing to accept massive tax increases on the middle class while protecting his Kansas business friends in the ethanol and light aircraft business.

This leaves Republicans with only one credible leader left. Not only did Mr. Gingrich have the courage to buck his own leaders and his own president to expose House Speaker Jim Wright last year, he was willing to put his own career on the line now to save his party and president from a tragic mistake.

Instead of retribution, Mr. Bush should have followed Mr. Gingrich's policy advice: Freeze federal spending at present dollar levels through the effective use of appropriations vetoes, and push for growth-oriented (and thus partially self-financing) tax reduction, balanced among all taxpayers. That combination would cut the deficit by $30 billion to $40 billion a year and stimulate growth as well.

Above all, it would save the Bush administration and the rest of us from going back to Hooverville. Unfortunately, by implicitly accepting a potentially worse package from the Democrats, including even higher taxes, Mr. Bush seems now determined to ignore economic history at his and his country's peril.

The Washington Times

WEDNESDAY, OCTOBER 10, 1990

PATRICK BUCHANAN

Rout of the GOP, with big casualties

Whatever the outcome of the budget debacle, the rout of the Republicans is well-nigh complete. Look at the casualty list:

The president's "no new taxes" pledge, the altarpiece of his campaign, abandoned. The tax-and-spend crowd triumphant. The deficit setting records, as far as the eye can see. The president humiliated by his own House Republicans, rebuffed in his first plea for help from the people who elected him. The GOP sundered, with the animosity deepened by the tactics of Chief of Staff John Sununu and Budget Director Richard Darman. Hill Democrats writing the federal budget.

With off-year elections four weeks away, it is hard to see how this can help produce an enthusiastic turnout for the GOP. And, the economic news is bad and getting worse.

If there is one thing this city can smell at a thousand yards, it is blood in the water. Mr. Bush no longer seems a sure bet for 1992.

So much for pragmatism.

Yet, the politics of appeasement rolls on.

Mr. Bush is said to be ready to sign a "civil rights" bill crafted by Teddy Kennedy & Co. to overturn several Supreme Court decisions for which conservatives fought for years. The bill would leave small-businesses facing a Hobbesian choice: Impose racial quotas or face lawsuits you can't afford. Meanwhile, former Klansman David Duke chases a conservative Republican clean out of the Louisiana Senate race, and gives an incumbent Democrat the fright of his life — by denouncing affirmative action and reverse discrimination.

Out in California, moderate Republican Pete Wilson recharges his campaign by endorsing, during a debate with Dianne Feinstein, Proposition 140, which would cut the budget for the California Legislature by one-third, impose six-year limits on assemblymen and eight-year limits on state senators.

Despite opposition from the establishments of both parties, Proposition 140 is running 2-to-1; and the idea of term limitation is beginning to strike fear, even into this capital city.

At the Black Caucus dinner, radical Ron Dellums of Berkeley, reveling in his power acquired over the decades, cried: "Now they're talking about limiting terms for members of Congress. It took me 20 years to get here! ... The world is rushing toward democracy, and we're running to fascism!"

At that point, The Washington Post reports, "The room filled with cheering, applause and laughter."

"Fascism." Invariably, that is the word to which Washington reverts, when it senses populist revolt. They used it on Barry Goldwater, on George Wallace, on Ronald Reagan.

Mr. Bush, an establishment man, has never shown any fondness for the GOP's conservative wing. But even he must acknowledge it was right-wing Republicans and Reaganite Democrats who rode to his rescue in August '88, when he was down 17 points. Bubba came home. The issues: The American Civil Liberties Union, the flag, gun control, Willie Horton, "no new taxes." And the war with the press establishment to save Dan Quayle. It wasn't day care that did it.

With the Cold War fading away, there are new issues out there; and Mr. Bush ignores them at his peril.

The nation is fed up with the incessant pandering to our overprivileged minorities, with free-loading allies who do nothing for the common defense, with U.S. troops being sent overseas to defend everyone else's borders but our own, with billions pouring out in foreign aid from an empty Treasury to bankrupt regimes that refuse to stand on their own feet. They are fed up with a Congress that votes secret taxes on the American people and secret pay raises for itself, and with the highest trade officials in the United States resigning to go to work to help Japan raid America's markets.

The president has a choice. He can put himself and his party at the head of this populist revolt, or he can stand against it and find his party breaking ranks and defecting by platoons.

Mr. Bush is fast becoming the Gen. George McClellan of U.S. politics, constantly exaggerating the strength of his opposition. He cannot win if he will not fight; and, if he is unwilling to lead his army, it will begin mustering out.

The Democrats, whose front-runners are the Rev. Jesse Jackson and New York Gov. Mario Cuomo, do not appear an impressive adversary for Super Bowl '92, even against a weakened president. But without conservative enthusiasm for the president balancing off media enthusiasm for Mr. Cuomo, Republicans could lose it all.

Every conservative critic of Mr. Bush has gotten his share of nasty mail asking: Why aren't you supporting our president? With the budget deal, however, that mail is trailing off. Mr. Bush had best call a postelection summit of Republicans, to discuss what it is this party any longer stands for and exactly what it stands against.

Quo Vadis? Mr. President.

If his idea of the future is more backroom budget deals by Mr. Darman, more kowtowing to Ben Hooks of the National Association for the Advancement of Colored People, pumping more money into foreign aid, the World Bank and International Monetary Fund, and, having the U.S. finance — and fight for — some vague "new world order," it may just be time to split the blanket.

The Washington Times

WEDNESDAY, OCTOBER 10, 1990

Import taxpayers to solve deficit woes?

BEN WATTENBERG

Frantic budgeteers in Washington would be oh, so happy if there were only a magical way to cut the deficit, without raising taxes, without cutting spending — during a time of economic sluggishness when straight economic growth can't do the job.

Curiously, there is a way to do that, in the works now, right in the Capitol, limited in scope in the short run, consequently ignored by the budgeteers and their projections, but providing a powerful engine of American economic revival through the 1990s.

How can you raise revenues without raising taxes when the economy is temporarily frozen? It sounds like a free lunch recipe from a funny farm.

It is not. You get more revenues, without raising taxes, if you add taxpayers.

How do you get more taxpayers? You can grow them. That starts with conception. It then costs a lot to raise the little critters, and it takes roughly 20 years, a generation, until you get a real producer. Not an immediate help.

Or you can import extra taxpayers. That process is called immigration. It doesn't take 20 years. It can start in 20 days if Congress acts wisely.

How does it work?

Consider a new immigrant. That immigrant, typically skilled these days, gets a job. He pays taxes. The taxes are spent in several different ways. Suppose we categorize them as follows: Interest on the Past Debt, Defense, Social Security and Everything Else.

A share of the new immigrant's taxes go to pay for Everything Else, but the immigrant also draws money from the Everything Else account — education, welfare, air traffic controllers, etc. Call that part a wash.

But interest on past debt remains the same whether or not America takes in more immigrants. Our defense spending will remain the same. Immigrants, typically young adults, draw very little from Social Security. Those three items of fixed costs or past commitments — defense, Social Security and interest — make up about 60 percent of the federal budget.

Accordingly, about 60 percent of an immigrant's total taxes go for painless deficit reduction, that is, paying off fixed costs without raising the taxes of anyone now living in the United States. Roughly speaking, very roughly, that 60 percent amounts to about $5,000 per immigrant household. Per year. Year after year, compounding.

(There are other benefits. It's said that our real estate sector is "overbuilt." Hence there are "see-through" office buildings and apartment houses, currently nearly worthless. Some are owned by the feds because of the savings-and-loan mess. But overbuilt is another way of saying "under-occupied." More immigrants would help fill up those under-occupied buildings, making them valuable again.)

The United States currently allows in 540,000 legal immigrants per year. The Senate has passed a bill (co-crafted by Sens. Edward Kennedy, Massachusetts Democrat, and Alan Simpson, Wyoming Republican) that would raise the total to 630,000. The House-passed version (authored by Rep. Bruce Morrison, Connecticut Democrat) takes the total to 775,000. In addition, the House bill calls for additional and necessary temporary slots amounting to about 100,000 per year.

The House and Senate are now negotiating. If a bill on the high side passes, the deficit reduction during the 1990s could be in the $75 billion range, and perhaps much more. Because Mr. Simpson is pawing the ground, there may be no bill at all.

Now a mere potential $75 billion deficit reduction is bigger than a bagatelle, but smaller than a breadbox by Washington budget accounting standards. But it does offer a message.

Our political economy is schizophrenic. Powerful forces do not want to raise taxes; equally powerful ones do not want to cut spending. The answer is economic growth, which is what makes the capital gains tax reduction alluring.

But economic growth is stimulated most by demographic growth.

Is it an economic free lunch? Of course it is. Exactly the same kind of free lunch that, in a few centuries, changed America from an almost unpopulated wilderness to the biggest, most prosperous, most influential nation in history.

Los Angeles Times

OCTOBER 10 1990

Bush Alters Tax Stand, Backs Off

■ **Budget:** The President first says he might OK a higher rate for the rich. But he is said to later reject the option.

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

WASHINGTON—President Bush, still searching for a way out of the budget crisis, reversed position twice Tuesday 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 press conference Tuesday morning, Bush appeared to signal that he might be willing to abandon his previous stance and accept a trade-off with Democrats that would reduce taxes on capital gains while raising tax rates for wealthy taxpayers, saying that if it could be "worked in proper balance . . . , fine."

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

"He asked us what we thought. It was unanimous. We all put up our hands and said, 'no deal,' " said Sen. Bob Packwood, the senior Republican on the tax-writing Senate Finance Committee. "If the price of a capital gains cut is going up 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-Tex.) unveiled his own plan for just such a trade-off that paralleled what Bush had said earlier that he might endorse.

Bentsen's plan, to be presented to his panel today, also proposes reducing the 10-cent-a-gallon gasoline tax contained in the old bipartisan budget accord to 9 cents a gallon and eliminating a proposed 2-cent-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 the $150 proposed before (It's 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 told reporters.

The trade-off 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 Rep. Dan Rostenkowski (D-Ill.), Bentsen's House counterpart as 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 Tuesday to discuss how to break the budget deadlock.

The combination of developments left the budget situation confused again Tuesday—and both sides 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 trade-off involving capital gains taxes and tax increases for the rich. Yet, Bush indicated that 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 is dead.

"He [Sununu] was pretty hard on that line," an Administration official said.

House Republicans have said they would support the trade-off 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 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.

And Bush's advisers, led by Sununu, have said that they are convinced any move to increase rates would be only the first step toward dismantling the low tax rates that have been the hallmark of GOP economic policy for a decade.

Ironically, tax analysts say that whatever economic benefits might flow from such a deal, it probably would leave affluent Americans paying even less in taxes.

The reason is that the relief provided to upper-income taxpayers by reduced rates on capital gains would be greater than the increase they would suffer from the higher tax rates for ordinary income.

At the same time, the analysts say that rejuggling the disparate rates would make it more attractive for upper-income taxpayers to try to escape the higher general tax rates by converting more of their ordinary income into investments.

As that fight plays out, both the White House and congressional leaders remain unsure of how to produce a budget package that can pass Congress in the remaining days before the current stopgap funding measure runs out Oct. 19.

That, in turn, is expected to increase pressure for Bush and congressional leaders to push the whole debate over until after the November election, bringing the lawmakers back for a lame-duck session.

Some aides say that Bush now seems likely to sign a new stopgap measure that would continue to finance government operations until mid-autumn. Earlier, he had vowed not to renew the current authority.

Over the weekend, the House overwhelmingly rejected the budget package produced by months of closed-door negotiations between the White House and congressional leaders.

Congressional committees are supposed to produce a new budget plan in just three days and Congress is scheduled complete action just a week later.

"We don't have time for major surgery," said Sen. John W. Warner (R-Va.). He said the only way to produce a budget is to stick close to the original plan.

But both White House and congressional leaders concede that the political pressures that encouraged members of the House to balk at that plan Friday will only grow stronger as the election gets closer.

Because of that, the possibility of a lame-duck session—notoriously an unruly and contentious sort of gathering—is now being taken seriously both in the White House and on Capitol Hill.

"We may not be able to avoid it," said one White House aide. The chances "are increasing," said Sen. John H. Chaffee (R-R.I.).

Bush, at his press conference, pointedly declined to say that he would veto a new stop-gap spending bill to extend budget deadlines until after the election. A veto would come only "if I felt that it would constructively lead to getting the problem solved," Bush said.

The budget resolution passed Monday by Congress calls, in theory, for $40 billion in deficit reductions during the current fiscal year and $500 billion over five years. But the details must be filled in over the next several days by congressional committees.

Under the resolution, the deficit would be cut by three major moves—reductions in military spending, which are now relatively non-controversial; cuts in the costs of entitlement programs, primarily Medicare and agricultural subsidies; and tax increases.

During his press conference, Bush said that higher tax rates for the wealthy was "on the table."

"If it's proper, if it can be worked in proper balance between the capital gains tax rate and income tax changes, fine."

Staff writer Tom Redburn contributed to this story.

Los Angeles Times

OCTOBER 10 1990

Budget: Frustration, Fatigue and Failure

What Washington couldn't produce in 100 days, it needs to produce in only a few

Washington's leaders set new records for frustration, fatigue and failure last week trying to cut the budget deficit. The worst may be yet to come.

Stopgap funding has allowed more time to construct a budget compromise. The goal is still to reduce the deficit with spending cuts and higher taxes. But like a child's connect-the-dots drawing that leads to a full picture, no one yet knows precisely where the dots are or what the picture will look like.

Congress and the White House will not try again to agree on how to achieve the goal in secret summit meetings. This time, congressional committees will recommend cuts in federal programs and increases in taxes that they think will do the job.

Among the chores they face is inserting more fairness into the package. Liberal Democrats attacked it because the package that emerged from four months of summit meetings would have raised taxes 7.6% for people making $10,000 or less and only 1.7% for people making more than $200,000. Conservative Republicans helped vote the package down because it raised taxes at all.

Tuesday, Washington started over, this time with just 10 days to produce what it could not produce the first time in more than 100 days.

President Bush said he would—then later said he wouldn't—consider higher taxes on the wealthy. In any case, he still wants the cut in capital-gains taxes he promised during his 1988 campaign.

Making that work will be harder than it once sounded. Democrats have talked of an income tax rate of 33% for the wealthy and a cut in capital gains from 28% to around 20%. Now they discover that those numbers would reduce taxes for the wealthy, not raise them. The reason is that so much of the income among the nation's wealthy comes from capital gains and a cut in that tax would more than offset a 33% rate on high incomes.

The arithmetic can be resolved—for example, by offsetting a capital-gains tax cut with an income tax rate above 33% on high incomes—but time is short and Bush is already in Dutch with his own party over changing his anti-tax stance.

With signs that the U.S. economy may be already in recession, with nearly 200,000 U.S. troops in the Persian Gulf and a shooting war still very possible, some economists now surmise that having blown its opportunity to cut the deficit when the economy was robust, Washington may have to wait for better times.

What's ahead? More fatigue and frustration, to be sure. Perhaps even more failure before Washington gets it right.

The Philadelphia Inquirer

Wednesday, October 10, 1990

Flip-flop on taxes by Bush

By Ellen Warren
and R. A. Zaldivar
Inquirer Washington Bureau

WASHINGTON — President Bush yesterday opened the door for the first time to higher income taxes for the rich, but slammed it shut again hours later after a meeting with Republican senators.

During a morning news conference, Bush said he would go along with a higher income tax rate for the wealthy in return for a capital-gains tax cut.

"That's on the table," Bush said when asked about higher income taxes on the rich. "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 the White House dropped that position after Bush's hastily called meeting with the Republican senators, who did not want the capital-gains issue reopened. The senators told Bush the capital-gains deal he might get now from the Democrats would not be enough to justify backing down on income tax rates.

There was a show of hands at the meeting, and all 17 senators agreed. Bush acquiesced, they said later.

"If the price of capital gains is to go up on the rates, then there's no deal," said Sen. Bob Packwood of Oregon, the ranking Republican on the tax-writing Finance Committee. "The President agreed our uniform position was that we will not go up on rates, not 1 percent, not 2 percent, not one-tenth percent."

"We do not have time to recover from any major surgery like readjusting rates," said Sen. John W. Warner (R., Va.).

By nightfall, the White House issued statements saying income tax rate increases and capital-gains tax cuts were "off the table" as far as the President was concerned.

Bush's switch appeared to quash chances for a compromise that had seemed feasible only hours earlier.

"That has enormous potential to screw things up," said a Democratic congressional aide familiar with the budget. Congress and the administration have until Oct. 19 to approve a $500 billion deficit-reduction package.

The Senate Republican eruption over the tax issue and the quick White House retreat underscored the difficulty Congress still faces in implementing the deficit-reduction agreement that won final congressional approval early yesterday morning.

Before Bush's reversal on the tax issue, the prospect of an increase in income tax rates on the wealthiest taxpayers in return for a cut in the capital-gains tax rate gained additional strength when it was supported by two key committee chairmen on Capitol Hill.

House Ways and Means Committee Chairman Dan Rostenkowski (D., Ill.) held a closed-door drafting session of his panel last night, and sources said Rostenkowski's plan included such a proposal, although they were unable to supply exact tax rates.

And the chairman of the Senate Finance Committee, Lloyd Bentsen (D., Texas), had offered to back Bush's proposal to reduce the capital-gains tax, but only in exchange for raising the top income tax rate for the wealthy to a new level of 33 percent.

The idea, debated during summer-long negotiations on reducing the deficit, gained strong support in recent days from Republicans and Democrats seeking a breakthrough in the year-long standoff over how to cut the deficit.

"I've said from the beginning," Bentsen said, "if you want a capital-gains tax cut then we'll have to have an increase in the top tax rate for the wealthy."

Though the White House dropped Bush's support for a possible income tax increase, an aide to Bentsen said last night that the senator was pressing forward with his plan. "This is the President's capital-gains proposal down to the commas and the periods," the aide said. "It would give everybody a win."

In the past, Bush has drawn the line at changes in the income tax rates. However, he did back away from his no-new-taxes pledge to endorse increased gasoline, luxury and "sin" taxes on beer, liquor and cigarettes.

Bush's stance against higher income tax rates softened during the budget negotiations, when his representatives — meeting behind closed doors — offered to swap slightly higher rates for a capital gains cut. Democrats rejected the offer, saying it did not go far enough.

During his news conference yesterday, Bush conceded that he had made mistakes in failing to win approval for a deficit-cutting budget plan last week.

"If we're trying to assess blame, lay it right here," said Bush. He conceded that one reason the House overwhelmingly rejected the plan was a widely held view that 10 years of Republican-led economic policy had tilted toward the wealthy, away from the poor and was fundamentally unfair.

"It might have been part of the reason," for the defeat, said Bush. In addition, he said, it was difficult for Republicans who had run on an anti-tax theme only two years ago to turn around and support new taxes on gasoline and other items that were included in the package.

The capital-gains proposal in Bentsen's plan comes straight from Bush's January budget. It would exclude from taxation 30 percent of the profits on the sale of stock, property or other eligible assets held three years or more, 20 percent if held two years and 10 percent if held one year.

That would lower the top tax rate to 23.1 percent for assets held three years or more. However, at the budget summit, Bush's negotiators had pressed for a 15 percent capital gains rate.

In exchange, Bentsen would eliminate the so-called "bubble" in the tax code that sees families earning more than $217,000 paying a top rate of 28 percent, while many upper-middle class families pay a top rate of 33 percent.

The budget wrangling nearly led to a shutdown of the federal government yesterday. But with the outlines of a compromise in view, Congress pased and Bush signed emergency legislation to keep the government running until Oct. 19, when the President wants a deficit reduction package in place.

During his news conference, Bush also supported his chief of staff, John H. Sununu, and budget director Richard G. Darman, who have been sharply criticized by Republicans and Democrats alike.

"When passions get high, there's bound to be a little broken china," said Bush. "I have total confidence in our team. I think they did a first-class job," Bush added as Sununu stood nearby.

The Philadelphia Inquirer

Wednesday, October 10, 1990

Panel allocates more for defense

By Dan Morgan
Washington Post

WASHINGTON — The House Appropriations Committee, moving to implement the broad budget package approved by Congress a few hours earlier, yesterday added $5.3 billion to its 1991 defense-spending bill and began the search for potential cuts in domestic programs.

The defense increase, agreed to by top Democrats in budget negotiations with the White House, came as no surprise. But the action did provoke protests from several liberal members and indicated lingering annoyance over the summit deal.

Rep. David R. Obey (D., Wis.), one of 15 committee Democrats who voted against the initial summit package, told members the revised budget resolution approved early yesterday did not require full funding of the defense allocation.

"The numbers were to be regarded as ceilings, not floors," he said. But Rep. John P. Murtha (D., Pa.), chairman of the Appropriations defense subcommittee, retorted: "We recognize reality — that we have to deal with the Senate and the White House."

Rep. Joseph M. McDade (R., Pa.) noted that the 1991 defense bill is already "veto bait" because it fails to reach White House levels of funding for strategic programs such as the B-2 bomber and the Strategic Defense Initiative.

The reallocation of more funds to defense under the new budget package means less money for non-military bills on the House side, since the overall pot of funds for all programs remains about the same.

The revised $268.2 billion defense bill closely follows House Armed Services Committee recommendations on major systems. It cancels production of the B-2 but preserves $1.56 billion to complete the Air Force's testing program. It allows $300 million for advanced development of the Army's top-priority light helicopter, but also provides $403 million for the V-22 helicopter that the Navy wants to terminate.

Navy shipbuilding programs were cut back but kept alive. Funds were provided for an 18th Trident submarine and one new SSN-21 attack submarine in 1991. However, the administration's request for $4.2 billion for SDI was cut almost in half — to $2.3 billion — and could face deeper cuts on the House floor.

The Philadelphia Inquirer

Wednesday, October 10, 1990

Here they go again

Congress' leaders have turned the budget over to the wrong people — themselves

Uh oh. Congress has just handed off the hard choices on spending and taxes to committees that are renowned for profligacy, parochialism and flimflam. And there's no reason to think that under pressure from truckers, brewers, the elderly and other special interests, the panels won't continue their evil ways.

The sketchy new budget plan that Congress passed late Monday isn't nearly as stern as it tries to sound. Consider how gently the plan reacts to the prospect that, without changes, the government would spend nearly $300 billion more in the next year than it takes in. This agreement would reduce that gaping hole by a paltry $34 billion.

And even the modest savings it does propose may be hard to achieve because of the limits the congressional leaders have imposed on themselves. Consider this: The most controversial feature of the plan put together by the budget summit, the plan that was defeated in the House last week, would have cut projected Medicare benefits by $30 billion over five years. But now House and Senate leaders have agreed informally to only try for less than half of those cuts. (The difference could be made up by increasing the taxable portion of Social Security benefits, which would increase the burden on elderly people of means, but no one has the courage to touch Social Security.)

Another barrier to achieving even the modest savings in the latest budget is that congressional leaders have agreed not to make any cuts in a whole array of small programs from small-business assistance to NASA, programs that, taken together, total more than $200 billion. In addition, they have agreed to make smaller reductions in agricultural programs than the budget summiteers did. To make up for this the Ways and Means Committee has been told to come up with $20 billion in "unspecified cuts." Don't hold your breath waiting for the cuts to get specified.

As for taxes, there is heavy pressure against the biggest revenue-raiser in the summit deal: an added 10 cents a gallon on gasoline, plus a two-cents-a-gallon tax on all petroleum products. Once phased in, that would raise more than $12 billion a year. What's more, it has the added side-benefit of coaxing conservation. But watch for the committees to try to find an artful way to cave in.

If the tax committees really want to get serious, they also should abandon the summit's fantasy that the IRS will suddenly upgrade its efforts and collect $3 billion more per year. That fiction helped the budget summiteers pretend to have funded a slew of tax breaks for small businesses — which should also be ditched.

Finally, there's the revived possibility of raising the tax rate on people with six-figure incomes, in exchange for lowering the tax rate on capital gains. If this were the sine qua non of a major deficit-cutting package it might be worth it. But in this situation, when President Bush and Congress are still not attacking the deficit aggressively enough, a tax break on capital gains can't be justified. It should be withheld as a carrot for a deficit-cutting deal that lives up to its hype.

THE NEW YORK
DAILY NEWS
Wednesday, October 10, 1990

Prez eying tax hike on rich

By JEROME CAHILL
News Washington Bureau

WASHINGTON — President Bush yesterday said he would accept a tax rate hike for wealthy Americans in return for a cut in the capital gains tax — but a GOP senator later claimed Republicans had gotten Bush to change his mind.

At a White House news conference, Bush said for the first time he could agree to a higher tax rate "at some level" if combined "in proper balance" with a reduced tax on profits from stocks, bonds, real estate and other assets. Bush says a capital gains cut would spur the economy.

Hours later, Sen. Lloyd Bentsen (D-Tex.), chairman of the Senate Finance Committee, announced a plan to cut the gains tax while eliminating the "bubble" that allows high-income Americans to pay taxes at a 28% rate while others with lesser income pay at 33%.

'No deal,' say GOPers

However, Oregon Sen. Bob Packwood, the top Republican on the finance panel, said GOP senators told Bush "no deal" on tax rate hikes. Packwood said the President "acquiesced" to the Republicans.

The developments came as Bush signed a stopgap money bill that Congress passed early yesterday to end a weekend partial shutdown of the government.

Now, the stage is set for two weeks of intense work on a new five-year package of $500 billion in spending cuts and tax boosts to replace the measure that went down in flames in the House last week.

Bentsen's plan is significant because it reflects a consensus among Democratic leaders as to what should be included in the final budget law that Congress must approve by Oct. 19 or face another threatened government shutdown. It will be taken up by his committee today.

The Bentsen plan removes several political hot potatoes from the defeated budget package — such as a reduction in state and local tax deductions important to New Yorkers and a securities transfer tax vehemently opposed by Wall Street.

It also scraps a 2-cent-a-gallon tax on home heating oil fiercely opposed by lawmakers from the Northeast and cuts back to 9 cents the 12-cent increase in the gasoline tax.

Older Americans, targeted for $30 billion in higher out-of-pocket Medicare costs in the original agreement, would pay $14 billion more under the Bentsen plan.

The current $75 annual "deductible" that Medicare patients pay before federal coverage takes over would rise to $100, but not to $150 as the original plan proposed. The premiums paid by the elderly for doctor care would not increase as fast as it would have under last week's plan.

Medicare levies

Upper-middle-income Americans would pay more in Medicare levies under Bentsen's proposal. The 1.45% rate would be applied to income up to about $90,000. Currently, only the first $51,300 of income is subject to the tax.

Bentsen's capital gains proposal, essentially the same as the plan Bush sent to Congress in his budget in February, would tax affected transactions at a maximum rate of 23% instead of the current top rate of 28%.

Meanwhile, Sen. Daniel Moynihan (D-N.Y.) asked the Senate to shift Social Security to a "pay as you go" system and reduce the 6.2% payroll tax.

Comparing new & old budget plans

TARGETS

The latest budget resolution aims to reduce federal deficits by $40 billion this fiscal year and $500 billion over five years — the same target as President Bush and congressional leaders set in their deal announced Sept. 30.

TAXES

The original program also outlined specific tax hikes including new levies on gasoline, fuel oil, cigarets, liquor and luxury items. The new budget resolution sets only broad spending and tax revenue targets. Decisions on how to attain them will be left to congressional committees, which will be trying to reach agreement before stopgap money to operate the government through Oct. 19 runs out.

MEDICARE

Older Americans still would have to pay more for Medicare services under the new budget plan, but they would be spared much of the fee increases originally proposed.

The annual deductible paid by Medicare beneficiaries would rise to $100 on Jan. 1, up from $75, under either plan.

But the new budget plan would freeze the fee at that $100 level, whereas the rejected Bush-leadership plan proposed to boost it to $125 in 1992 and to $150 in 1993.

The new plan would not boost Medicare Part B premiums — the patient's share of expenses for at-home doctors' visits and outpatient care — as much as the old plan, which would have raised the current $28.60 monthly premium to $54.30 by 1995. The new plan would raise that premium to about $47 in 1995.

Medicare costs would have been cut by $60 billion over five years under the Bush-leadership plan. The new budget aims to cut Medicare by about $40 billion.

CAPITAL GAINS

The new budget deal is being brokered on the assumption that the tax rate on capital gains — paid on the sale of stocks, bonds, real estate and other personal property — will be cut in exchange for raising the tax rate on the nation's wealthiest taxpayers.

NEW YORK POST

WEDNESDAY, OCTOBER 10, 1990

Bush does flip-flop on hiking taxes for wealthy

By ELI TEIBER
Post Correspondent

WASHINGTON — President Bush flipped then flopped on the budget yesterday, first saying he was willing to raise income taxes on the wealthy in exchange for a capital-gains tax cut — then saying: never mind.

Bush's change of heart followed a meeting with Senate Republicans who warned him against any income-tax hike.

"We all put up our hands and said no deal on [tax] rates at all," said Sen. Bob Packwood (R-Ore.) after the meeting with the president.

In a televised news conference earlier in the day, Bush opened the door for an income-tax hike.

"If it's proper, if it can be worked in the proper balance between the capital-gains rate and income-tax changes, fine," said Bush.

His budget summit negotiators had resisted earlier efforts by the Democratic congressional leaders to raise the income tax.

Currently, the wealthiest Americans pay a 28 percent tax rate while others who earn less pay as much as 33 percent.

Bush made the remarks hours after he signed an emergency spending bill to keep the federal government operating after Congress approved the outlines of a $500 billion, five-year deficit-reduction plan.

Meanwhile, Sen. Daniel Patrick Moynihan's office announced yesterday that a part of the budget summit agreement limiting the deductibility of state and local income taxes — a scheme branded as anti-New York — has been dropped by House and Senate budget architects.

"I have fought the idea of any restrictions on the deduction for state and local income taxes since it first surfaced as an administration proposal this past summer," said Moynihan (D-N.Y.).

New York officials from Gov. Cuomo to Moynihan had blasted the deductibility limit as unfair double taxation against New Yorkers and the residents of other states that use income tax to provide services to residents.

The Atlanta Journal AND CONSTITUTION WED., OCTOBER 10, 1990

Bush leaves 'em guessing on tax hike

Shifting signals add to confusion in budget battle

By Mike Christensen
Journal-Constitution Washington Bureau

WASHINGTON — As congressional committees began the grueling job of deciding just what taxes to raise and which spending should be cut to reduce the federal budget deficit $500 billion over the next five years, President Bush sent conflicting signals on tax measures he might accept.

At a morning news conference, Mr. Bush for the first time said he would be willing to trade higher income taxes on the wealthy for a reduction in the capital gains tax. "If it can be worked in proper balance between the capital gains rate and income tax changes, fine," he said.

White House aides quickly denied that they thought any such deal could be struck, because Mr. Bush and congressional Democrats are so far apart on the details of the tradeoff.

Then Mr. Bush apparently changed his stance later Tuesday during a meeting with Republican senators.

"We all put up our hands and said, 'No deal on [tax] rates at all,'" Sen. Bob Packwood (R-Ore.) said. "He [Mr. Bush] just acquiesced in it."

Despite the confusion, however, it was clear that after five months of fruitless negotiations, the capital gains-income tax question is very much alive.

The reason is that with elections bearing down on Congress, the available alternatives are so politically painful.

Committees in the House and Senate have until Monday to fashion "reconciliation" legislation that would raise $118.8 billion in new revenue over the next five years, wring $107.4 billion from entitlement programs, including probably $42 billion from Medicare, and find another $20 billion in savings.

When budget summit negotiators went into detail on such a package last week, the House soundly defeated the plan, setting up a confrontation with the White House that shut down the government for three days.

To get the process back on track, congressional leaders pitched the details out the back door, presented the House and Senate with only broad numbers, and left it to the committees to put the package back together.

Likely to be dropped from the rejected plan are a 2-cent tax on home heating oil and a delay in unemployment benefits, two proposals that drew widespread objections.

"One of the problems that we had with the previous budget resolution," White House budget director Richard G. Darman said Sunday, "is that the committees felt they were being dictated to by the summiteers, and they want more freedom of action, more flexibility, more ability to adjust the rough political edges."

Medicare may take care of itself. Executives of six organizations representing senior citizens have drafted a combination of benefit reductions and premium increases that would save an estimated $40 billion from the program in the next five years.

Taxes remain the big headache. As Senate Majority Leader George J. Mitchell (D-Maine) put it late Monday night, politicians are caught in a cross-fire between "insistent demands that we reduce the deficit" and "fierce resistance to higher taxes and lower spending."

Or, as Mr. Bush put it Tuesday, "Nobody wants to do anything in terms of where they're affected ... yet they want the deficit down, and that's what makes it difficult."

For Democrats in Congress, that is what makes the income tax-capital gains trade-off so attractive. Boosting the top rate would hit a comparatively narrow band of voters — couples with incomes above $163,000 a year — and would generate enough revenue to meet the deficit-reduction goals and still leave something for new spending.

What the Democrats have offered in return is a capital gains tax indexed to inflation. One would pay the current rate — the same as on other income — only on gains not attributable to inflation. And it would not be retroactive.

What Republicans have been willing to accept is a lower capital gains tax rate — period.

At breakfast last Thursday, House Minority Whip Newt Gingrich (D-Ga.) suggested that conservative Republicans might be willing to accept a restructured income tax rate that was "revenue neutral."

During a weekend caucus, House Republicans voted by a 2-1 margin to accept a 32 percent income rate for the highest-income Americans — who now pay 28 percent — in exchange for a 20 percent capital gains rate, a deal much closer to what Democrats have been offering.

"I haven't seen great sentiment for raising people's income tax rates, and I'm not for that," Mr. Bush said Tuesday. But an exchange remains "on the table" he said. "That's been talked about."

Bush prefers world crises to haggling with Congress

By Julia Malone
Journal-Constitution Washington Bureau

WASHINGTON — Still smarting from the trouncing Congress gave him on the budget, President Bush conceded Tuesday that, frankly, he'd rather be dealing with foreign leaders.

In a burst of candor, the president confirmed at a nationally televised news conference what observers have long said of him: that his energy and imagination are focused more on international matters than on the grittier give-and-take of politics back home.

"I don't want to get stretched out on the couch too far in terms of analysis now," Mr. Bush quipped, but he unveiled his feelings nonetheless.

When it comes to the complexities of the Middle East, he relishes the challenge of rallying the world's leaders against Iraqi President Saddam Hussein, Mr. Bush conceded. "I enjoy trying to . . . put the coalition together and keep it together."

But in the case of domestic issues such as budgeting, Mr. Bush confessed, "I can't say I just rejoice every time I go up and talk to Danny Rostenkowski," the Illinois Democrat who chairs the Ways and Means Committee, the House tax-writing panel.

Dealing with deficits is frustrating, explained Mr. Bush, because he doesn't control Congress, where Democrats and Republicans rejected a budget compromise last weekend despite his national TV sales pitch.

"I guess I learned that I can't do it exactly my way," said Mr. Bush, adding that the frustration grows when deficit-cutting involves reaching into American pocketbooks.

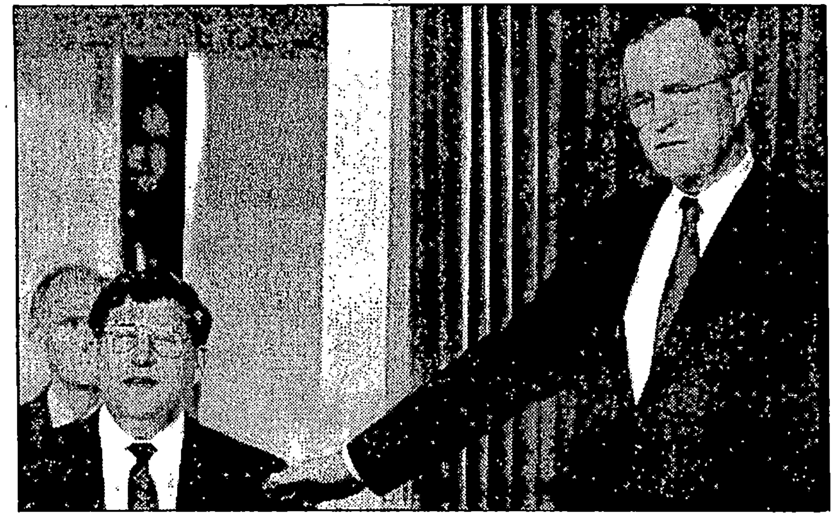
But international matters are different, he said. "People really basically want to support the president on foreign affairs."

Mr. Bush's own poll ratings bear out his theory. A new CBS News poll found that despite the president's overall favorable rating of 62 percent, only 36 percent of those questioned approved of his handling of the federal budget deficit. That compares with surveys showing that as many as 81 percent of Americans supported Mr. Bush's decision to send troops to Saudi Arabia.

Like his poll numbers, Mr. Bush's foreign effort has soared, while his domestic agenda has remained grounded.

With a little over a week left in its session, Congress has yet to complete key elements of Mr. Bush's already modest domestic program: a revised Clean Air Act, child care assistance and an educational excellence bill.

Mr. Bush's biggest contribution to domestic legislation often has been to veto measures he opposes.



Knight-Ridder/Tribune News

President Bush praises Chief of Staff John H. Sununu for an "outstanding" job during recent budget negotiations despite congressional criticism.

As the budget deficit crisis loomed late last month, Mr. Bush displayed a clear preference for other issues. Congressional budget writers toiled against an Oct. 1 deadline. Mr. Bush settled into a Waldorf-Astoria Hotel suite in New York for three days of back-to-back meetings with more than 20 foreign leaders in town for a U.N. session.

When the budget writers in the capital struck a deal Sept. 30, Mr. Bush flew back to Washington to preside over a Rose Garden ceremony. But he quickly boarded Air Force One for New York to continue his revolving-door diplomacy.

Such zeal for foreign policy is common among presidents, said Stephen Hess, presidential scholar at the Brookings Institution, a Washington think tank. "With most presidents, it doesn't start until they get to the White House and realize how much more latitude they have in foreign policy than in domestic," Mr. Hess said.

The difference with Mr. Bush is his open acknowledgement. "For a president to admit that he enjoys foreign policy more than domestic, which most of them do, is truth with a political vengeance," said Mr. Hess, who noted that most presidents are elected on the basis of domestic issues, principally the economy.

The Atlanta Journal AND CONSTITUTION
WED., OCTOBER 10, 1990

THE ATLANTA CONSTITUTION

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On to the brass tacks and gains tax

Now it's time to connect the dots and fill in the blanks.

After many mind-numbing hours of debate, both the House and Senate have agreed to back a deficit reduction package that may actually reduce the deficit.

"May" is the important word here.

The new compromise is supposed to lower the deficit by $500 billion over the next five years by raising taxes and cutting spending. Unfortunately, the package is a general outline, not a specific budget.

The real work of hammering out details is left up to congressional committees — yes, the same committees that failed for months to reach reasonable compromises.

But perhaps with the threat of another government shutdown looming on Oct. 19 and the November elections coming up fast, members of Congress will have enough incentive to get the job done. If an agreement can't be reached by the deadline, President Bush vows to close down non-essential government services rather than let the deficit spending go unchecked.

Mr. Bush has been acting wisely throughout the past two weeks. He showed an appropriate willingness to compromise on tax issues in the first budget package. When that failed, he was right to let national parks and museums close over the weekend to keep the heat on lawmakers. On Tuesday, after seeing that Congress was making progress, Mr. Bush signed emergency legislation to get governmental business back to normal.

Now as Congress gets down to brass tacks, Mr. Bush again is displaying a willingness to work toward a fair plan. He indicates he would accept a higher income-tax rate for wealthy Americans if he also can get a reduction in the capital-gains tax rate. That's the kind of give-and-take needed to get beyond this mess.

If Congress cannot rise to this occasion and deliver an honest, fair package that really and truly reduces the deficit, voters will have an opportunity in the November elections to unburden themselves of the obstructionists. No more excuses, ladies and gentlemen.

The Hartford Courant

The national debt — a disgrace tripled

The emergency spending bill rushed through Congress Tuesday contained an unheralded section increasing the national debt by $72 billion.

Without that increase, the U.S. Treasury would have been in default. The government would have been unable to borrow additional money. It would have run out of cash to pay for goods and services already purchased, and for the bills it will incur in the next few weeks.

The debt ceiling has been revised upward, to $3.1 trillion. That is enough only to carry the government until Oct. 20. By then, President Bush and congressional leaders expect the enactment of a budget package that will include yet another increase in the authorized national debt, to $3.4 trillion. That should last until the end of the fiscal year next September, the deficit managers hope.

The debt ceiling has been revised upward 22 times since the beginning of the Reagan-Bush era, which dawned on a promise of fiscal prudence.

When President Ronald Reagan moved into the White House, the national debt stood at $935 billion, and he called the red ink disgraceful. By the time President Bush took office in January 1989, the disgrace had tripled: the debt ceiling stood at $2.8 trillion.

These figures should be kept in mind as the debate rages over taxes and spending cuts.

The legislation passed early Tuesday has a short lifespan. It requires passage of a tax and spending package by Oct. 19. Otherwise, government operations will cease, except for emergency services.

Although there is agreement on the bottom line — deficit reduction of $500 billion over five years — no consensus exists on where expenditures will be cut and what taxes will be raised.

Weeks of negotiations between Bush administration representatives and congressional leaders produced a reasonable package that proved politically unpalatable primarily because of increases in Medicare premiums and sin taxes.

Will the results be better on Oct. 19, which is only about three weeks before congressional elections? Not likely, unless the lawmakers are struck by a thunderbolt of courage. So far the nation's leaders are doing little to dispel the notion they helped entrench in the minds of Americans — the notion that every citizen is entitled to cheap energy, a wide array of first-class government services and, of course, taxes that remain lower than taxes in most other industrial countries.

The Journal of Commerce
and Commercial
WEDNESDAY, OCTOBER 10, 1990

News Just Too Good to Be True

By H. ERICH HEINEMANN

You may not have noticed it in all the tumult and the shouting over the federal budget, but Congress could be on the verge of a fundamental change in fiscal policy. A common element among many of the budget plans currently floating around Capitol Hill is a major rollback in the share of national output that flows through the federal government.

A cynic would say that this is too good to be true. However, were Washington to adopt this principle and stick to it, the eventual result would be enormously beneficial. Economic growth would rise. Real interest rates would fall. The real living standard of the average American would improve. Profits would go up. The stock market would climb.

Of course, none of these benefits are likely over the next few months. As expected, the economy is now in a recession. Total employment dropped by an average of 450,000 during the third quarter. Declines of that size never happen except during economic downturns.

For the next six to nine months, the slump likely will feed on itself. Falling employment will lead to lower income. Lower income will lead to lower consumer spending. In turn, that will result in further cutbacks in production and employment. Sales of discretionary items such as microwave ovens, as one example, collapsed last summer. Home building, usually the first sector to decline and the first to recover, should drop somewhat lower before it starts to bounce back.

Corporate cash flow, which has been sliding since late 1998, will continue to erode, mostly because of falling profits. Consequently, business investment in plant and equipment will decline. Exports may be the one bright spot. Gains in sales overseas should be helpful in putting a floor under the economy and spurring recovery next year.

Despite all this gloom, however, the long-run outlook for the federal budget would improve dramatically if the White House and Capitol Hill stick to the basic principles embodied in the so-called summit agreement on the budget.

The House of Representatives rejected that deal last week. Nonetheless, chances are good that Washington will preserve some of its key features. Moreover, federal borrowing — big as it is — doesn't represent a short-run barrier to lower rates. Private credit demand is weak, which leaves the Treasury room to borrow.

The vast bulk of the deficit is interest on the debt, which has little effect on Washington's net nonfinancial credit needs. The Treasury takes money from the capital markets, but it puts it back in the form of interest payments. This operation has no significance for aggregate economic activity and very little effect on income distribution.

Under the budget agreement, non-defense outlays — exclusive of interest on the debt — would decline to 12.1% of the gross national product by the middle of the decade. You have to go all the way back to 1970, when the Nixon administration was just starting to fund Lyndon Johnson's Great Society programs, to find a lower figure.

This year, these outlays — pensions, medical programs, welfare and the rest of general government — will run close to 14% of GNP. Because of the recession, they may hit 15% of GNP in 1991.

The summit agreement proposed a simple, but efficient, plan to limit the federal government's role in the economy. In effect, the agreement would put a cap on outlays. Should the economy grow less rapidly than expected, or prices rise more, the projected level of revenue and expense naturally would change. In practice, that is certain. Even so, this should not affect the underlying thesis: federal outlays should rise less rapidly than output, so that Washington's share of the economy's output goes down.

Indeed, this principle is so important that it may offset some of the flaws in the original budget deal. Two problems are particularly worth mentioning: the summitteers did not propose a meaningful reform of the budget process, and they gave insufficient attention to the effect of the budget on saving and investment.

As the Shadow Open Market Committee put it in a policy statement last week, "The central fiscal issues are allocative — how spending and tax policies affect the use of resources. The budget process focuses on 'the deficit' to the exclusion of all other issues. No rational policy will emerge as long as this remains true."

The committee, a group of academic and business economists who regularly comment on economic policy, concluded that congressional leaders and the administration should not now compound their failure to agree "by pushing for an expansive monetary policy."

H. Erich Heinemann is chief economist of Ladenburg, Thalmann & Co., investment bankers in New York, and a member of the Shadow Open Market Committee.

The Atlanta Journal AND CONSTITUTION

October 9, 1990

Durwood McAlister

Did leaders really want first budget bill to pass?

In retrospect, a cynic might wonder if the leadership of Congress really had its heart in the failed first effort to get its bipartisan budget agreement passed in the House last week.

This is not a complaint, mind you. The budget package was bad legislation and it deserved to be shot down, even though we stand a good chance of getting worse before the pork rollers and special interest pleaders get through tinkering with it.

But the inept performance of the leadership is puzzling.

Frightened by the certainty that draconian provisions of the Gramm-Rudman deficit reduction act would go into effect if they didn't act, Democratic and Republican leaders of the House and Senate sat down with key members of the Bush administration and sweated out an agreement. Nobody really liked it, but all — except Georgia Rep. Newt Gingrich — gave it lip service.

Instead of forcing an immediate vote — a vote which in all likelihood would have been favorable — the leadership dawdled until powerful lobbying groups had time to mobilize opposition. By the time the budget bill was called to a vote late Thursday night the public had had its say and the pressure was too great. The bill failed.

It's not that the leaders of Congress don't understand the system. Think back to last November when another bill, nearer to their heart's desire, was being considered.

The handling of that bill, which will raise the salaries of members of the House roughly 40 percent by next January, was a model, a textbook lesson in how to grease and slip through a piece of controversial legislation. Remember?

The pay raise bill, advertised as "ethics reform legislation," was rushed to the floor for a vote only 24 hours after its details were made public. There was no time for the public to examine it, nor to object to its provisions.

House Speaker Thomas Foley (D-Wash.) and Minority Leader Robert Michel (R-Ill.) took no chances then. They got letters from both the Democratic and Republican National Committee chairmen promising that neither party would use the pay raise as a campaign issue in upcoming elections. Then they imposed a "closed rule" which prevented any amendments and stifled debate. It took only two hours to pass the bill.

The result? At a time when they are calling on the public to make sacrifices across the board to reduce the federal deficit, members of the House will see their salaries rise in January from the 1989 level of $89,500 to almost $125,000 per year.

There is a proposal, introduced by a couple of maverick representatives, to repeal the pay raise and return salary levels to those of November 1989. That would give congressmen an opportunity to share the pain of cutting the deficit.

Anybody want to bet on how that bill will be handled by the House leadership?

The Atlanta Journal

TUES., OCTOBER 9, 1990

Dick Williams

Gingrich, conservatives gave Bush fair warning

Politicians are supposed to be able to count votes. George Bush and his aides can't.

They can't count them because a revolution took place and they missed it. Reagan Republicans clearly dominate the GOP. Rockefeller Republicans are history.

It's that simple.

So the Bush administration spear carriers who would try now to defenestrate Rep. Newt Gingrich should chill out.

Mr. Gingrich didn't embarrass the president. He saved him from becoming Herbert Hoover, Jerry Ford or Jimmy Carter.

It has been said of Mr. Bush that he is fond of compromise, eager to make deals and warm to the collegiality of Capitol Hill. From that image comes his "wimp" problem. The image can be overridden when Mr. Bush deals so successfully with foreign policy, but when he misreads domestic issues, he is at risk in his own party.

That the annual budget follies this year became so serious should not have been a surprise.

Senate Democrats have a tough, unrelenting leader in George Mitchell. Senate Republicans have a tired Bob Dole. House Democrats have the crafty Tom Foley. House Republicans have the engaging and moderate Bob Michel.

Two of Mr. Bush's key aides in the budget fracas — Richard Darman and Nicholas Brady — are moderate Republicans, remnants of the Rockefeller wing of the party. Mr. Bush himself isn't far removed from that taint.

Their mistake was in not taking the Reagan Republicans seriously. And not counting heads.

Eight weeks ago, Mr. Gingrich met at the Atlanta Airport Hilton with key aides and conservative leaders. He let it be known then that the budget summit meetings weren't going well.

Mr. Bush, said the congressmen, was preoccupied rightly with foreign affairs. His interest in the budget and taxes was cursory. He had made the mistake of repealing his "no new taxes" pledge, but at least had attached meaningful conditions to it.

"The president thinks George Mitchell is his friend," Mr. Gingrich said. "In fact, Mitchell wants to gut him."

Mr. Gingrich was careful to play to what he believes are the president's conservative instincts. The GOP whip's target was Mr. Darman.

The congressman wrote a letter to constituents, a "Dear Colleague" letter to House members and a Heritage Foundation lecture explaining his positions on the budget talks.

He insisted that any budget deal protect the top income tax rate, create growth incentives through a capital gains tax cut, carry pro-family initiatives such as a higher deduction for dependents and earmark enforceable spending cuts.

"Things have changed," Mr. Gingrich said back then. "You don't raise taxes in a recession."

So fair-warning was given. And Mr. Gingrich had the votes, more it says here than he knew. In the end, more than 100 House Republicans backed the Georgian in torpedoing the budget compromise. Only 71 Republicans stuck with their leader, Mr. Michel.

What tore it, of course, was Mr. Bush's last-minute surrender. In the compromise deal, he adopted the Democrats' higher taxes while winning no economic incentives. He had, by eliminating deductions, raised the top tax rate.

Worse, the president fell for Sen. Wyche Fowler's "brierpatch" suggestion that he go on network TV to sell the deal.

That it was a Democratic package, with nary a bow to the minority party, and that it was done behind closed doors in the absence of committee chairmen, doomed it.

As Congress lurches toward a more open package, George Bush ought to thank Newt Gingrich. And fire Mr. Darman.

The Atlanta Journal

Bush should push to manage mandated U.S. budget cuts

President Bush's decision to allow another continuing resolution to keep the federal government operating is disturbing for many a reason. First, he has acceded to a compromise budget outline that is even worse than the one he embraced and Congress rejected. Second, by not signaling early an intention to order mandatory budget cuts under the Gramm-Rudman-Hollings law he has squandered his one truly effective weapon against the Democratic majority.

The most disturbing aspect of the game being played out in Washington is that it is a game. None of the plans discussed so far will amount to true reduction of the federal deficit, much less the $40 billion this year and the $500 billion over five years. Leading economists and former budget chieftains are quick to point out the pie-in-the-sky economic assumptions on which the deal's revenues are based. The tax increases in the package strike us as the final guarantor of all but certain recession.

As congressional leaders wail about the so-called shared pain that will spring from their efforts, an obvious truth should be mentioned. Not one federal program is being shut down or even cut. The vast majority of cuts in scheduled increases come from defense. The so-called cuts in entitlements such as Medicaid are achieved mostly by higher user fees. The taxes in the plan, however, are real.

The real budget problem is quite easy to understand. Congress will not rein in spending. The failed budget compromise called for holding the growth of non-defense spending to a rate of 6.5 percent a year. For families accustomed to budgeting to accommodate pay raises of 3 percent a year or 5 percent, holding spending within the new paychecks is relatively easy. Congress is saying it can't be done, that spending increases can't fall below 6.5 percent. If Congress could hold spending to 4 percent annual increases, the budget would be balanced in just four years. If families can do it routinely, can't government try it once?

Mr. Bush is missing a rare chance to get a hold on spending, to find out what's needed and what isn't. By agreeing to another temporary umbrella budget measure, he is making sure Congress and the Democrats are free to wriggle off the hook and make certain the federal deficit continues unchecked.

Fort Worth Star-Telegram

·Tuesday, October 9, 1990

Bush promises to sign stopgap operating bill to restart government

BY RON HUTCHESON
Fort Worth Star-Telegram

WASHINGTON — Congress, ending the three-day federal shutdown on the eve of major disruptions, early this morning completed a budget outline for fiscal 1991 and passed a companion measure to keep the government operating for 10 days.

Working well past midnight, the House and Senate ended a political deadlock that had paralyzed the government since Saturday.

President Bush planned to sign the emergency 10-day funding bill just hours before hundreds of thousands of federal workers reported for duty this morning.

The budget breakthrough came as the end of the three-day Columbus Day holiday weekend threatened major service disruptions.

"If this government does not open for business as usual Tuesday morning ... the American people will never forgive us," Sen. James Sasser, D-Tenn., warned Senate colleagues.

House Republican leader Bob Michel of Illinois said that Bush, who vetoed a similar short-term funding bill Saturday, will sign the latest version.

The emergency measure freezes government spending at last year's levels or lower and gives lawmakers until Oct. 19 to complete work on a 1991 budget.

Bush ordered the government shutdown Saturday to encourage progress on a full-year budget, which was supposed to take effect with the start of the fiscal year Oct. 1.

But the prospect of starting the workweek without a functioning government injected a new sense of urgency into the debate.

Congress worked overtime as 2.4 million federal workers ended the long weekend uncertain as to whether they would remain on the job today. Employees had been told earlier to report to work this morning to await a decision about continued government operations.

Although the impact of the federal curtailment was largely limited to tourists and park visitors during the weekend, failure to resolve the budget crisis had been expected to lead to major disruptions in air travel, Social Security payments and other government services beginning today.

"We're not just dealing with numbers. We're not just dealing with what we call programs," Senate Majority Leader George Mitchell, D-Maine, told his colleagues. "We're dealing with individual human beings and their families, and their hopes and fears and concerns."

Mitchell urged senators to act swiftly in approving both the budget proposal and the companion stopgap funding bill. The Senate passed the temporary measure by voice vote and approved the budget 66-33.

The budget proposal that passed the House in the predawn hours yesterday modifies or deletes many of the controversial provisions that doomed a similar package negotiated by White House officials and congressional leaders from both parties.

The revised proposal calls for the same budget savings — $40 billion this year, $500 billion in the next five years — but leaves the details to congressional committees with jurisdiction over taxes and spending programs.

"It won't hit the middle-income people as hard as this last one," said Sen. Lloyd Bentsen, D-Texas, who will play a major role in determining the final tax package as chairman of the Senate Finance Committee.

But some Republicans, including Texas' other senator, Phil Gramm, expressed fears that the finished product could be even more objectionable than the negotiated package that the House overwhelmingly rejected Friday.

"I'm not going to sign onto this fill-in-the-blanks package," Gramm said. "Let's not deceive ourselves. This is not the solution. This is another promise that something is going to be done — and it is a very vague promise."

Lawmakers from both parties agreed that the final package almost certainly will differ from the defeated proposal by easing the burden on Medicare recipients, trimming the proposed 12-cent-a-gallon increase in gasoline taxes and exempting home heating oil from any tax hike.

Bentsen said the package is also likely to include a cut in the capital gains tax tied to an increase in the top tax rate for the nation's wealthiest taxpayers.

Republicans critical of higher taxes warned Senate leaders that they will try to torpedo the budget proposal if they are not satisfied with the legislation that emerges during the next two weeks. Some skeptics warned that a bitter fight over the details could lead to yet another budget impasse by the Oct. 19 deadline.

The revised budget calls for $118.8 billion in new taxes and $107.7 billion in savings over the next five years.

The plan directs congressional committees to cut an additional $20 billion from the federal deficit during the five-year period through any combination of spending cuts or taxes.

Fort Worth Star-Telegram

Editorials/Viewpoints

Amon Carter, Founder-Publisher, 1906-1955 · Amon Carter Jr., Publisher, 1955-1982

OCT. 9, 1990

Failure of will

Forget election, Congress; do your job

Sad to say, the people of the United States are getting what they have asked for in the anarchy and dysfunction of congressional and presidential failure to reduce the federal budget deficit.

For more than a decade, we have elected presidents who promised no taxes and Congresses that promised to continue the flow of goodies. It has always been a prescription for debt and chaos. Everyone in Washington is worried about the next elections, and very few are seriously dedicated to reducing the deficit that itself has paralyzed Congress' ability to address other national problems.

Having given up on Republican cooperation, and realizing that even the president's endorsement of a budget plan means little to the Newt Gingriches and their partisan, scorched-earth vision of government, Democrats have resorted to a power play that appears to be another "feel-good" resolution of good intentions: Resolve to cut the deficit, but do not alarm anyone by being specific about it.

That is not good enough, either. Congress' faltering leadership can only hope that — somehow, and against the evidence of the past — the various committees that oversee spending and taxes can reconstruct a package of cuts and taxes that will prune a paltry \$30 billion to \$40 billion from the deficit in 1991 and perhaps \$500 billion over five years.

Everything has failed: the normal budget process (no appropriations bills have been passed, and this was supposed to have been done months ago); the budget-summit ploy (resented by congressional rank and file as elitist); and the Gramm-Rudman process (with no budget and no appropriations, there is nothing to be sequestered under Gramm-Rudman).

As of today, Democrats are trying to buy time. They must realize that it does no good to buy time unless the time is used wisely.

Is it too much to hope that Congress can forget the elections, admit individual and institutional failure and start making up for its abdication of responsibility?

The negotiated compromise budget plan of last week was a start, but it was flawed with unfairness. Congress should start over by addressing the errors that have produced the runaway deficit. Try taxing the rich more and the poor less. Try capping the explosive growth of entitlements. Go ahead and cut defense spending and put a lid on domestic spending.

Go back, in other words, to Rep. Dan Rostenkowski's plan of last spring, which would not have promoted anyone's reelection but would have reduced the deficit.

This tawdry dance in Washington has stumbled on aimlessly for too long. The prodigal party of the 1980s is over. The nation now must face the music, and Congress must take the lead — even if it means stepping on some designer-shod toes.

Los Angeles Times

, OCTOBER 9 1990

Popularity of Bush Plummets to 55% in Poll

By JAMES GERSTENZANG and DAVID LAUTER
TIMES STAFF WRITERS

WASHINGTON—With the U.S. government shut down and the nation facing an impasse over the federal budget, President Bush's popularity has tumbled to its lowest point since the earliest months of his presidency, as measured by a Times Mirror poll, which was made public Monday.

The poll, conducted over a four-day period that ended Sunday, found that 55% of those surveyed approve of the way Bush is handling his job, and 28% disapprove.

The job rating, although respectable by historical standards, nevertheless marked a significant drop over the last two months.

Bush's popularity had shot up to 76% in early August—and remained high, at 68%, in September—in the wake of Iraq's invasion of Kuwait and the massive deployment of U.S. troops to the Persian Gulf.

But the nationwide poll, done for The Times Mirror Center for The People & The Press by Princeton Survey Research Associates, indicated that this surge has largely dissipated and that Bush's popularity has fallen back to what polltakers and political consultants consider potentially troublesome levels at a time of renewed public worries about the economy.

Times Mirror Co. is the owner of the Los Angeles Times and other newspaper, broadcasting and publishing enterprises.

The drop in Bush's popularity occurs in the midst of what appears to be growing dissatisfaction with political insiders across the country—as reflected by votes this autumn in Massachusetts, Oklahoma and Louisiana—and could spell difficult times ahead for the President, whose ties to Washington go back nearly 25 years.

"Now the test comes," said Stuart Spencer, the California political consultant who was a close adviser to Ronald Reagan during his presidency.

The survey was conducted between Thursday and Sunday—a period that followed Bush's televised speech to the nation in which he urged support for the budget compromise worked out by congressional leaders and Administration officials.

The poll found that, despite the attention given in Congress to the impact that the now-discarded budget plan would have had on Medicare—by increasing costs for beneficiaries—only 11% of those polled were aware that Medicare fees would have been raised.

By contrast, 45% were aware that the plan entailed higher gasoline taxes, 40% knew that it involved higher taxes on alcohol and 38% were aware that it would have imposed higher taxes on cigarettes.

Thus, although much of the opposition in the congressional debate dealt—as a result of a concentrated letter-writing and telephone campaign—with the impact on the elderly, many more people were aware of the impact that the budget cuts would have had on other groups.

With the budget crisis dominating news from Washington over an otherwise quiet Columbus Day holiday, the White House aggressively tried to portray Congress as the cause for the impasse, and congressional leaders took aim at the White House.

But there was at least anecdotal evidence that, outside of Washington, citizens viewed both power centers as worthy of blame.

"The blame starts at the top—people at the top should be able to plan ahead for this and they didn't," said Patrick Campbell, the 39-year-old doorman at the Sheraton Hotel in downtown Baltimore.

"When I say people at the top, I think both the Congress and the President are at fault," he said.

But, in the past, frustration with Congress as an institution has not necessarily spelled difficulty for individual incumbents seeking reelection.

Rather, said Steven Smith, a professor of political science at the University of Minnesota who studies Congress and the presidency, "any bad news about how the government is conducting its affairs rubs off on the President."

"Normally, a President has an increasingly difficult time getting what he wants out of Congress, and Bush is discovering that," Smith said.

Now, he concluded, Bush is being forced to make unpopular choices, "and it will cost him dearly and probably more than we've seen in the polls so far."

The poll report was greeted with cheers by Paul Maslin, a Democratic pollster, who said that "Bush had this high-wire act going on, where basically the country did not feel good about itself and did not feel good about the economy, and yet Bush's popularity has remained high. It couldn't last forever."

The overall job approval rating was Bush's lowest in 1990, as measured by Times Mirror polls.

It came close to the lowest ratings of his presidency—51% during the first month of his White House tenure, January, 1989, and only a few percentage points higher in the subsequent months before the political upheavals in Eastern Europe.

A separate poll conducted by ABC News and the Washington Post, also showed that Bush's popularity has suffered as a result of the budget crisis. In that survey, the President's popularity rating fell to 65%, down from 75% a month ago.

According to the Times Mirror survey, greater dissatisfaction with the way Bush is handling his job was registered by all demographic and political groups. But his approval ratings declined by 15 percentage points or more among older people, who registered a 47% approval rating; blacks, at 32% approval; and Democrats, at 40%.

Spencer pointed out that the 28% disapproval rating remained low. The popularity drop, he said, was simply getting Bush "back to reality" after the "abnormally high" popularity figures earlier in the year.

Before Iraq invaded Kuwait on Aug. 2—creating the sort of foreign policy crisis that has historically generated an initial display of support for a U.S. President—Bush's ratings had dropped from 74% in April to 64% in July.

Without the boost Bush received from Iraq, said Times political consultant William Schneider, his rating might be below 50%. "When a President drops below 50%, he's in trouble," Schneider said.

The survey measured the opinions of 1,213 adults. For results based on the total sample, one can say with 95% confidence that the error attributable to sampling and other random effects is plus or minus 3 percentage points.

Staff writer James Risen in Baltimore contributed to this article.

Los Angeles Times

OCTOBER 9 1990

New Deficit Plan Nears Senate OK

■ **Budget:** Bush appears willing to sign a companion funding measure to end shutdown of federal agencies.

By PAUL HOUSTON, TIMES STAFF WRITER

WASHINGTON—The Senate late Monday neared expected ratification of a new $500-billion budget plan approved hours earlier by the House. President Bush was believed willing to sign a companion funding measure needed to end the weekend-long shutdown of many federal agencies.

The budget plan essentially revives the overall deficit-reduction targets set by White House and congressional negotiators in the "budget summit" agreement that was rejected by the House last Friday.

But the new plan junks provisions in the earlier accord detailing Medicare cuts and new tax increases on items ranging from gasoline to beer. Instead, Democratic-run congressional committees would be given wide leeway in drafting the specifics of any spending cuts and tax hikes.

Largely in response to citizen outcries, the committees are expected to soften Medicare cuts called for in the original plan. They also are likely to shift more of the tax burden onto upper-income taxpayers.

As the Senate moved toward a vote on the new plan, congressional and Administration officials said that they were close to agreeing on the compromise stopgap funding bill that would enable shuttered federal agencies to reopen and would avoid layoffs today of thousands of federal employees.

Democratic leaders indicated that they were willing to agree to slightly lower domestic spending and slightly higher defense spending while the stopgap measure would be in effect.

Earlier, Republican lawmakers had urged that Bush veto the stopgap bill if it did not contain a provision requiring about $1.3 billion in across-the-board spending cuts for the next 12 days. That is the time Congress intends to give itself to pass implementing legislation for the new budget plan.

The House rejected such a provision in approving a stopgap bill early Monday.

Bush vetoed an earlier stopgap measure last Saturday morning and selectively shut down much of the government in a move aimed at pressuring Congress to approve a new deficit-reduction plan.

White House Press Secretary Marlin Fitzwater said Monday afternoon that "we'll send no signals" on whether Bush would sign the stopgap measure until after the Senate had voted on the new deficit plan.

But a senior White House aide glumly speculated that "we're going to have to swallow it" because of the behavior of rebellious House Republicans, who helped sink the original package, which Bush had promoted heavily in a nationally televised appeal.

House Speaker Thomas S. Foley (D-Wash) said Monday night: "I am optimistic that this can be resolved tonight, or early in the morning, and that this unnecessary and artificial crisis can be ended."

Senate Republican and Democratic leaders also said that Bush appeared to offer no objection to the new deficit-reduction plan.

However, Sen. Wyche Fowler Jr. (D-Ga.), who has represented Senate Majority Leader George J. Mitchell (D-Me.) in budget negotiations, said that "all signals from the White House have been weak, spasmodic and intermittent the last few days."

As he struggled to work out an agreement to speed consideration of the budget matter, Mitchell told colleagues Monday night that prompt action was imperative.

Alluding to federal employees who face being sent home from work today if no operating funds are approved, Mitchell said: "We're not just dealing with numbers but with individual human beings and their families—their hopes and fears and concerns."

Fowler and other Senate leaders were optimistic that the plan would be supported by most of the 55 Democrats and by less than a majority of the 45 Republicans.

"I believe we are going to pass it with substantial Republican votes," Fowler said. "Then we are going to roll up our sleeves and go to work on reconciliation"—budget jargon for the process of reconciling the plan's vague money targets with specific tax increases and program cuts.

Sen. Pete V. Domenici (R-N.M.), ranking minority member of the Senate Budget Committee, said that he, Senate Minority Leader Bob Dole (R-Kan.) and a number of other Republicans would vote for the plan's outline "because it moves the process along."

Domenici said that the current plan "maintains the basic framework" of the original budget package approved by White House and congressional negotiators.

However, Domenici said after a GOP caucus that a number of other Republicans will vote against it because they believe that implementing committees will make unacceptable changes in the original plan's details, which were widely supported by GOP senators.

Domenici said that he is drafting a letter in which Republican senators would declare that they would not support implementing legislation unless it met certain tests.

There could be no "smoke and mirrors"—that is, ostensible cuts unlikely to produce savings, he said. Further, he declared, final laws would have to provide the full $500-billion in deficit-reduction over five years and revenue increases could not exceed the $118.8 billion outlined in the plan's blueprint.

Moreover, cuts in Medicare and other entitlement programs would have to total at least $107.4 billion. And spending-cut enforcement mechanisms and budget process reforms spelled out by the budget negotiators would have to be included, Domenici said.

Sen. Phil Gramm (R-Tex.), co-author of the Gramm-Rudman deficit-reduction law that helped force production of the current plan, said that he would vote against the revised version.

"It's a promise, not a program," he said. "It's easy to pass a promise. It's tough to pass a program."

In a related development, Senate Finance Committee Chairman Lloyd Bentsen (D-Tex.) said that he believes the final package will raise income taxes on top-bracket payers in exchange for lowering the tax on capital gains, or profits from investments.

Bentsen said that the change would be part of a Democratic effort to make the tax increases more equitable for low- and middle-income payers, who would be hit disproportionately hard by proposed tax hikes on gasoline, alcoholic beverages and cigarettes.

"You just can't have a package that hits the average family that much," he said.

A deal on capital gains faltered in the recent budget talks when Administration negotiators resisted Democratic demands to raise the income tax rate on the wealthiest taxpayers to 33% from 28%. The Administration reportedly refused to go above 31%.

Sen. Robert W. Kasten Jr. (R-Wis.) said that he and most other Senate Republicans and Bush are opposed to raising marginal income tax rates under any circumstances.

"And in my discussions with the President and [his chief of staff, John H.] Sununu, they have been opposed to that trade, too," he said.

Staff writers David Lauter and Michael Ross contributed to this story.

Los Angeles Times

THURSDAY, OCTOBER 9 1990

Latest Version Amounts to a Legislative Blank Check

By DAVID LAUTER
TIMES STAFF WRITER

WASHINGTON—When members of Congress saw the budget plan negotiated by the White House and the congressional leadership last week, many of them balked at what they called a legislative straitjacket. By contrast, the new plan developed by the lawmakers over the weekend is a legislative blank check.

The new plan, like the old one, contains broad promises to reduce spending and increase taxes. But unlike the formula negotiated in the 4½-month budget summit, Monday's plan contains almost no decisions about which programs to cut or which taxes to raise. Those blanks are to be filled in over the next two weeks by formidable power centers in Congress—committees that write taxes and create benefit programs.

Yet since these committees have repeatedly failed to break the impasse over the federal deficit in past years, Monday's action leaves open a crucial question: Will Congress finally take real action to reduce the flow of red ink, or will it once again resort to the fiscal equivalent of smoke and mirrors?

"It is another vague promise that something is going to be done," declared a skeptical Sen. Phil Gramm (R-Tex.), who opposes the new plan. "At some point you have to stop promising and start acting."

Although House Speaker Thomas S. Foley (D-Wash.) and other congressional leaders insist that the new plan would cut the deficit just as much as the old one—$40 billion in the fiscal year that started Oct. 1 and $500 billion over the next five years—it is far from clear that this will happen. Congressional committees and presidents have had a long history of developing legislation that promises deficit cuts but does not deliver them.

Drastic action of the sort that Gramm and others advocate to reduce the deficit has proven impossible to legislate for at least a decade and the events of the weekend suggest that nothing may have changed.

Voters apparently still want to see the deficit come down, at least in theory, but they oppose tax increases or spending cuts in practice. Members of Congress, sensitive to what the voters want, look for ways to postpone making a decision.

In purely political terms, however, one thing is clear from last weekend's budget shoot-out: Bcause the committees that would be called on to write the details of the new plan are dominated by Democrats in both houses, the final result is likely to eliminate much of what President Bush and his aides thought they had won during 4½ months of painful bargaining with congressional leaders.

Democratic leaders, trying to keep a bipartisan face on the situation, insisted publicly that the new plan is almost identical to the old one, just more "flexible," as Foley put it.

At the White House, however, dejected Bush aides said that they know better. As Bush put it in his televised appeal for the budget plan last week, the bipartisan deal was not the White House's idea of the best budget but it was the best budget the White House was likely to get.

Realizing how much they have lost, many of Bush's advisers blame conservative House Republicans, whose opposition blocked last week's budget plan, particularly the conservative leader, Rep. Newt Gingrich of Georgia.

But the Administration's loss also reflects a fundamental weakness of Bush's overall legislative strategy. The strategy, put together by White House Chief of Staff John H. Sununu, has concentrated on blocking Democratic initiatives with Bush's veto power, not on assembling a coalition large enough to pass initiatives of his own.

That strategy worked fine so long as the White House was primarily concerned with blocking legislation it opposed, not with passing legislation it wanted. Now, with the flaws of his veto strategy highlighted, members of Congress are publicly sniping at Sununu's high-pressure tactics in trying to round up votes. They are also renewing old charges that the former New Hampshire governor does not understand how the legislative process works.

Whoever is to blame, Bush almost certainly will now lose several items that were key in his agreeing to last week's budget plan. At the top of the list are special tax breaks that Bush had sought for investors who put money in new small businesses. That provision has been labeled "junk" by House Ways and Means Committee Chairman Dan Rostenkowski (D-Ill.), whose panel will write the tax provisions of the new budget.

Bush argued that the new tax breaks would foster economic growth. Rostenkowski and other critics said that it would merely lead to new tax shelters for the rich.

The President will also lose much of the Medicare cutback—$60 billion over five years—that had been negotiated by his budget director, Richard G. Darman. House leaders have made it clear that they want to ease the pain on Medicare recipients, a politically potent force.

Bush may also have to swallow an income tax increase on the wealthy, perhaps as a trade-off for a lower tax rate on capital gains, which he and his GOP allies had wanted. That trade, which the White House rejected in the budget negotiations last week, has been "gaining in popularity" on Capitol Hill, Foley said.

The closed-door budget summit negotiations of the summer were designed to get around the problem of voting for politically unpalatable actions by producing a plan that everyone could support but for which no one could be blamed.

Instead, everyone was blamed and only a minority supported it.

Now, in the traditional committee process, all the reluctance to make unpopular decisions may be back. The committees will also be pressured anew by lobbyists, who were largely excluded from the budget summit but who will be present in force over the next few weeks to minimize the cost of the plan to the interests they represent.

Los Angeles Times

OCTOBER 9 1990

Electorate Angry but Is Not Willing to Sacrifice

By JAMES RISEN
TIMES STAFF WRITER

BALTIMORE—Listen to the voices of angry voters:

"They are all to blame. Get them all out . . . ."

"The only people who will get hurt by shutting down the government are us people down at the bottom . . . ."

"I don't follow current events, but I know from basic common sense that there are some things you just don't do. You don't shut down the government."

Interviews here show that there is real, ready-to-spit anger over the failure of Congress and the White House to reduce the budget deficit and over the threatened shutdown of the government. The interviews disclose also an ambivalence about the choices facing the nation's leaders: Everyone seems to want the problems solved but few expressed willingness to take on added taxes to pay for the solutions.

"What would I tell them [Congress and the President] if I could?" wondered Tom McNeely, a sales representative for a medical research firm, as he watched a Columbus Day parade in downtown Baltimore. "I'd tell them to get off their behinds and get going and do something. They had to know this was coming."

"I think the American people are saying we've had enough of this," added Bonnie Dezwart, from nearby Severn, Md.

To Joe Martin, a Baltimore bartender with a wry sense of humor, the budget mess in Congress is so ridiculous it's funny. "It's like being in a sinking boat and arguing over how to fix the holes, hour after hour after hour."

Added Martin more somberly: "This is really embarrassing that we have elected a government that can't get it together. How could you explain this to someone from another country?"

In fact, to voters living here, a world apart from the budget wrangling, the politicians in Washington seem to be living down to all of their expectations.

"I'm just disgusted with it," said Charles Frolich of Baltimore. "They go through this every year and they never make anything better. We just keep going deeper into debt.

"Now, I think the attitude here is, here they go again—same old thing."

Indeed, cynicism and apathy about the federal government has reached such heights that most people interviewed here said that they have no idea who represents them in the House of Representatives, the crucible for many of the budget battles of the last few weeks.

And none knew that two of the area's House members, Reps. Helen Delich Bentley (R-Md.) and Kweisi Mfume (D-Md.)—the first a conservative white suburbanite and the second a liberal black Democrat from the central city—voted early Friday against the budget package that had emerged from the bipartisan budget negotiations between the White House and Congress.

Bentley's office said that she received about 500 calls about the budget last week, the majority from apparently well-organized senior citizens upset about proposed cuts in Medicare benefits.

But most people interviewed here said that they do not believe they could help clear up the mess by writing their representatives in Congress.

In fact, reflecting what appears to be a national sentiment, many in Baltimore seemed to share a nagging feeling that the budget mess is just the latest sign that the federal government is not working any more and that it no longer can be counted on to improve the lives of average Americans.

"I don't get interested because I think the whole thing is messed up," said 19-year-old Tina Lutzi of Baltimore. "Most of my friends ignore it, too. To tell you the truth, I don't know who my congressman is. Maybe, if they made some major decision, people might remember them."

Baltimore, home to thousands of federal workers at the headquarters of the Social Security Administration, is heavily reliant on the government for its economic well-being. Thus, it is clear to everyone here that this is not just a Washington problem.

Yet, just as they are screaming for action from Washington, there is also a strong sense of ambivalence among voters here that clearly mirrors the political contradictions that have led to the stalemate in Congress.

Although they believe that the government deficit must be brought under control, few say that they would be willing to sacrifice personally to see that happen.

Bonnie Dezwart and her husband, Arnold, for example, find it hard to believe that Congress cannot reduce the deficit. Yet neither believes they should have to pay higher taxes for the gasoline they use for their $55,000 boat moored in Baltimore harbor. Bonnie says that they already pay $400 a year for fuel and that higher gas taxes might force them to shorten their boating season.

"I think our taxes are too high and Bush's proposals were ludicrous," said Mrs. Dezwart. "We are upper middle class and we are overtaxed. Middle-class people are not going to stand for higher taxes."

But it is not just the affluent who oppose the kinds of sacrifices that Bush and Congress have requested. The proposed cuts in Medicare benefits opened the floodgates of protest from senior citizens.

"I think it is a good idea to eliminate the deficit," noted Lillian Brennock, a 71-year-old resident of a Baltimore senior citizens' home. "It is a shame that they have so much debt. "But it would be terrible to cut Medicare," she added. "I know the doctor's rates keep going up and up. But we need it."

Los Angeles Times

OCTOBER 9 1990

COLUMN RIGHT/
RICHARD JACKSON

Resist a Compromise on Medicare

■ The budget negotiators' $60-billion cut is a necessary start to curb our insatiable demand for health care.

By offering $60 billion in Medicare savings, last week's budget agreement made a credible start at tackling one of the nation's greatest challenges in the 1990s and beyond: how to rein in the explosive increase in entitlement spending in an aging society that is both hooked on early retirement and evinces an insatiable demand for health care.

It is regrettable that the most farsighted initiative in the budget accord proved to be its chief obstacle in the House. If it is to be defensible, any new budget deal cobbled together in the days ahead must leave the Medicare savings largely intact.

Although $60 billion is a relatively modest sum in the context of Medicare's dizzying growth (the Congressional Budget Office anticipates $200 billion in extra federal outlays between 1990 and 1995), a cut of this size would take a substantial bite out of the budget deficit. With Social Security off-limits, it is difficult to imagine where policy-makers could even look for comparable savings on the domestic side of the budget, since Social Security and Medicare together will account for about two-thirds of all increases in non-defense spending, excluding interest payments, over the next five years.

The negotiators' Medicare proposal is well-crafted because half of the savings are to be realized through greater beneficiary cost-sharing. This creates the right kinds of incentives for additional cost-containment in the future. The phased-in hike in the Part B deductible from $75 to $150 would foster prudent purchase of physician services. It also preserves Medicare's primary insurance function: protection against large, out-of-pocket expenses. The parallel increase in the Part B monthly premium to around $55 would create an incentive for the elderly to take a more active political interest in slowing the growth in national health-care spending. Such action has enormous potential, since older Americans now account for about one-third of all health-care spending, more than two-thirds of which is financed through heavily subsidized government programs. Under Medicare Part B, for instance, premiums that the beneficiaries pay cover just one-quarter of costs. Under Part A, whose hospital coverage is financed entirely through payroll taxes, pay-backs on elderly beneficiaries' prior contributions average about 10-to-1.

Sensible as the original Medicare initiatives are, they are in jeopardy. A coalition of major elderly advocacy groups endorsed a Democratic alternative, now part of the new House resolution, which features emasculated cost-sharing incentives and $20 billion less in savings. As debate continues, every politician will have to take into account the regrettably predictable threats with which many senior-lobby spokesmen greet anyone who questions their priorities. "We want to make it clear that those who wage a budget war against seniors shouldn't expect pacifism on Election Day," warns Ron Pollack, executive director of Families USA.

'Claims of a budget war being waged against seniors are groundless and should be resisted by policy-makers.'

Claims of a budget war being waged against seniors are groundless and should be resisted by budget policy-makers.

In the first place, substantial savings in Medicare are a cornerstone of any credible budget deal. If programs that benefit older Americans must bear a large share of cuts in domestic spending, it is because they are the biggest and fastest-growing entitlements. Although Americans aged 65 or over make up just 12% of the population, they receive about 60% of all federal benefits, a share that rises every year.

Second, the proposed changes do not burden those least able to pay. The poor (as well as many near-poor) elderly will be eligible to have the bill for extra costs picked up by Medicaid. As for middle-income seniors, aggregate statistics which show that large numbers are reduced to poverty by out-of-pocket medical expenses are misleading; most of that problem relates to nursing-home care.

Finally, a decision to jettison real reform today would miss an important opportunity to realign America's entitlement systems with the next century's emerging realities. Under current policies, the cost of Social Security and Medicare will climb to between 10% and 16% of GNP over the next 35 years, up from not much over 6% today. At the low end of this range, these costs will become intensely controversial; toward the high end, they will not be sustainable without robbing other generations or other priorities.

Critics of every political stripe were quick to find reasons to hate the budget accord. Objection to its Medicare provisions, however, is the least justifiable. In the scramble to fashion a new compromise, congressional leaders and the President should stand their ground on the key features of their Medicare proposal.

Richard Jackson is a research fellow at the Hudson Institute in Indianapolis.

Budget outline, stopgap funding progress in Senate

By Myron S. Waldman
WASHINGTON BUREAU

Washington — The Senate yesterday began considering legislation to fund the now-penniless federal government, while thousands of federal employees wondered if they'd be working today.

President George Bush declined to indicate whether he'd sign the legislation if it passes the Senate. "We're giving no signals," said the president's spokesman, Marlin Fitzwater. "We've got to see what the bill looks like" when the Senate finishes.

In the early morning hours, the Democratic majority had forced the bitterly divided House to accept a resolution containing the bare outlines of a federal budget and leaving it to the congressional committees to fill in the details. The House then passed a second resolution to restore funding to the federal government until Oct. 20 to give the committees a chance to come up with detailed budget plans.

Meanwhile, the Bush administration decided that so-called "essential" government workers would be able to continue their jobs. But no one really knew for sure who is essential.

In the Senate, a total of 10 hours of debate was allocated for the two resolutions beginning at 3 p.m. yesterday. Then, behind closed doors, Democrats and Republicans began to argue if this time period could possibly be shortened. At 7 p.m., more than four hours after the 10-hour debate was supposed to begin, the argument over shortening it was still continuing.

Most of the details of the budget resolution would be supplied by the House Ways and Means Committee, chaired by Rep. Dan Rostenkowski (D-Ill.) and Sen. Lloyd Bentsen (D-Tex.).

Bentsen said that he was prepared to start marking up a bill on the budget this week. But the senator, who caused an explosion when he forced a 2-cent-per-gallon tax on heating oil in the first budget proposal at the last minute, gave every indication that he wasn't about to give up the fight on that touchy subject.

"Obviously, I hit a hot button," Bentsen grinned. "Interesting. It only averages $13 a family."

And then the Texas senator went on to repeat his argument of equity, that he was only seeking a balance for a proposed 12-cent-a-gallon gas tax increase. Bentsen said that because those in the West and Southwest drive more than Northeasterners, who use more heating oil, the heating oil tax would help balance things out.

In the House, Democrats have been saying that the heating oil tax idea is dead. But in the Senate, Bentsen said "it's a matter of negotiations."

But on other budget issues, the powerful senator seemed to be in tune with his House colleagues. He predicted that Congress will end up enacting a capital gains tax cut sought by the president, coupled with a tax hike on the wealthy. "I think we'll have to raise the income tax rates on the top six-tenths of one percent of the people," Bentsen said.

Bentsen added, "I think we'll be able to moderate the Medicare [program], make it not so burdensome."

House Democrats want to reduce the proposed $60 billion, five-year increase in Medicare payments to $42 billion. Bentsen, who didn't offer a figure of his own, said: "I think we'll be able to put together a bill. It won't hit the middle income as much as the last one."

Both Senate Democrats and Republicans caucused separately yesterday afternoon. Senate Minority Leader Bob Dole (R-Kan.) has said he is working to pass the budget resolution but there was no unanimity about his GOP colleagues. Several Republican senators said they are opposed to the resolution.

Sen. Trent Lott (R-Miss.) said, "If they think I'm going to put my faith in the Ways and Means and Finance Committees, they've got another think coming."

But Republicans such as Missouri's John Danforth and New Hampshire's Warren Rudman said they would vote for the resolution.

Sen. David Boren (D-Okla.) said, "There was a very high degree of unity," after his party's caucus.

"We don't have a choice. Agreement is imperative."

Senate Majority Leader George Mitchell (D-Maine) said that "failure to adopt this resolution will continue to deepen the crisis which exists."

Later, the majority leader pleaded that the budget resolution was only a kind of road to a budget, not the document itself. "It is only the means to get to first base," Mitchell said. "It doesn't change the law."

At the White House, a spokesman said that 65 of 383 employes would be considered essential. The others would be laid off. Air traffic controllers would be at work as would those who feed the animals in the Washington zoo.

Federal prison guards would be on the job, as well as law enforcement agents. And more than half of the lawyers who work at the U.S. attorneys offices would be allowed to continue as usual.

There were at least five federal workers who have no choice. Pay or no, the quintet of astronauts aboard the space ship Discovery was definitely going to stay on the job.

Rich Both Gain and Lose

By Pat Wechsler
STAFF WRITER

The new, supposedly improved version of the $500-billion, five-year, deficit-cutting federal budget compromise will still prove a further depressant on an already stifled economy. It will burden Medicare recipients a little less and drain the Pentagon coffers a little more.

But will it tap the wallets of the richest Americans and be more fair to the nation's middle-income taxpayers who were set up to bear the brunt of the first ill-fated package? Probably not.

Congressional sources, following the deliberations, said that the most likely outcome of the current budget negotiations is a compromise that hikes the tax rate levied against the top tax bracket while it cuts the rate at which profits from investments — otherwise known as capital gains — are taxed. Thus, for the nation's top 1 percent earners — those in the $200,000-a-year-and-beyond category who earn almost half their income from capital gains — it may actually translate into a tax cut.

"You take away from the rich with one hand and slip it back to them with the other," said one Senate Democrat, who asked not to be identified. "In fact, you probably slip them back a little more than they handed over in the first place."

Yesterday, the House adopted and the Senate was expected to approve a budget resolution that will cut the fiscal 1991 budget deficit by $40 billion. Like the package rejected by the House last week, it claims to cut $500 billion over the next five years — a reduction that is supposed to create a budget surplus. Critics, however, claim that in five years there will still be a deficit, although under $50 billion compared to the close to $300 billion shortfall anticipated this year.

This budget resolution depends a little more on taxes and a little less on cuts from mandatory spending programs, such as Medicare, to achieve savings. But while the budget resolution contains all the numbers on the 'how much,' it is relatively mute on the 'how-to.'

Ultimately, the final package that will be the budget is expected to eliminate a proposed tax on home heating oil and could cut the originally proposed 12-cent-a-gallon gasoline tax to 6 cents. Both proposals would ease the burden on the lower-middle and middle-income consumer who economists expect would feel the biggest pinch.

From this budget resolution, the tax-writing committees — the House Ways and Means and Senate Finance Committees — expect to put together a tax package that will keep both sides — the conservative Republicans and Bush on one side, and the Democrats and centrist Republicans on the other — happy.

The "beauty" of the new compromise, as one aide sarcastically put it yesterday, is that "we avoid the government shutdown. We approve a budget resolution that has almost no specifics, and if this final deal comes down, everyone — Congress and Bush — can claim a small slice of victory."

Ultimately, the tax package gaining grudging acceptance would allow Democrats to say they raised the top tax rate, and Bush to claim a cut in capital gains taxes. None of these specific policies was outlined in the budget resolution package debated last night by the Senate, but both were between the lines.

Liberal Democrats still vow to fight the contemplated trade-off of lower capital gains for higher top bracket rate. But as one aide put it, "if that is the only key to open the door to White House approval, then I think in the end they will feel as if they have to take it."

Under this plan, the top tax bracket would be set at 32 percent and the rate on capital gains would be dropped from 28 to 20 percent. In the final year of the plan, the nation would realize a saving of only about $2 billion from the changes which essentially undo much of the 1986 tax overhaul.

Currently, the nation's richest taxpayers pay a top rate of 28 percent on income from work and the same rate on investment earnings, making the average rate for the group about 28 percent. Taxpayers earning between $75,000 and $150,000 actually pay a top marginal rate of 33 percent — known in congressional circles as "the bubble." But because of personal exemptions and other factors, this upper-middle-income group overall pays an average tax rate at or below 28 percent.

"But even some people in Congress don't understand the difference between an average rate and an effective rate," said Joseph Minarik, chief economist for the congressional Joint Economic Committee. "And for those that do, they can tell the middle class that they got rid of the budget and raised the top rate on the rich and afterwards, they can go to their $2,000 a plate fundraiser and tell those people what they really did."

The New York Times

NEW YORK, MONDAY, OCTOBER 8, 1990

PACT IS AN OUTLINE

Plan Would Limit Effect on Medicare and Tax on Heating Oil

By MICHAEL ORESKES

Special to The New York Times

WASHINGTON, Oct. 7 — Congressional leaders cobbled a new deficit-reduction plan together today and took it before their colleagues in a scramble to end the budget deadlock and get the Federal Government back in full operation by the start of the new work week on Tuesday.

As the White House and Democratic leaders blamed each other for this weekend of fiscal chaos, negotiators for the Senate and the House worked to refine the new plan so it could muster a majority in each chamber.

Leaders of both parties in the Senate and the House began their day with what Congressional aides termed "an agreement in principle" on the revisions. But a group of House Republicans mounted a guerrilla war tonight to block the package over their opposition to new taxes and their fear that the plan would leave crucial details to committees controlled by Democrats.

Republicans Divided

"There is a pretty heated, sharp division between the moderates, under Bob Michel," said one House Republican, referring to the minority leader, "and those who will not support a package that even hints of taxes."

The new plan was designed to make more palatable, both substantively and politically, the most objectionable parts of a budget deal President Bush and the bipartisan leaders of Congress had announced a week ago in the Rose Garden of the White House, only to see it rejected four days later by the House of Representatives.

Under the new plan, Medicare premiums and deductibles would not rise as much, and members were assured that ticklish items like higher taxes on home heating oil and a longer waiting period for unemployment compensation would not be part of the final budget package.

Crucial Details Undecided

Politically, the new agreement is far less detailed than the old one, meaning that many of the crucial decisions will be made by powerful tax and budget committees, whose members resented being left out of the original negotiations between the Bush Administration and Congressional leaders.

White House officials offered no guidance on how President Bush would receive the new plan. The House Democratic leadership abandoned their original plan of seeking half the House Republicans in support of a deficit-reduction plan and instead were lining up as many Democrats as they could.

But Senate Republicans, who can block almost any action in that body, were being closely consulted as the plan took shape.

The new budget proposal, like the old one, is intended to reduce the deficit, projected at nearly $300 billion for this fiscal year, by $40 billion this year and by $500 billion over the next five years.

The revised plan would shave a bit more spending from the military, around $2.2 billion over three years, but these figures are in line with a military budget bill already approved by the Senate.

'Great Confusion'

But with many details now turned over to Congressional committees, it was unclear just what reductions would be made and how the $20 billion lost from the old plan in taxes and Medicare cuts would be made up.

"Yes, there is great confusion here in the House of Representatives," said Representative Sonny Callahan, Republican of Alabama on the House floor.

Another issue turned over to committee, but with a gathering consensus that something would be enacted, was the debate over some form of reduction in the capital gains tax in exchange for an increase in the top income tax rate on the wealthiest Americans.

Across the nation, Americans watched their capital city with a mixture of disgust and bemusement, while here in Washington the frustration and bitterness reached such a level that one of the city's most mild-mannered men, House Speaker Thomas S. Foley, displayed public anger at President Bush's efforts to blame Congress for the standoff.

Bush Aides Out of Sight

Mr. Bush spent the second day of the Government's partial shutdown at the Camp David retreat in the Catoctin Mountain Park, traveling by motorcade rather than helicopter to save money. Camp David, run by Navy personnel, remained in operation, but the Catoctin Park visitors center and interpretative programs for visitors were closed, deemed nonessential services.

Mr. Bush's senior aides were "on the phone heavy," as one put it, to keep in touch with the budget situation, but were advised by Congressional leaders to stay out of sight of members who blame them for much of the budget breakdown.

The new budget plan, which shifts much of the decision-making back to committees, was a return to Congress's old way of doing business, before leaders, trying to overcome the deadlocks of a Government divided between Republicans in the White House and Democrats in control on the Hill, turned to deals cut by small groups of leaders and presented as a package to the rank-and-file.

The Senate convened at 6 P.M. and soon after recessed until Monday, Columbus Day, meaning that the budget crisis can be resolved no sooner than that.

Charm School

The budget package being worked on tonight would not require the signature of Mr. Bush, since it is essentially the Congress's instructions to its own committees. But the President's signature would be needed on a separate measure to allow Government spending to continue until Congress passes bills appropriating money for the next fiscal year.

Speaker Foley said he intended to seek such a stopgap spending bill, known as a continuing resolution, after a budget was passed.

Mr. Bush's veto Saturday of a stopgap spending bill precipitated the shutdown of all "nonessential" Federal services. Mr. Bush has said he would sign a continuing resolution if a budget to his liking had been aprroved or if the continuing resolution itself included budget cuts similar to those in the deal rejected by the House on Friday.

While they are persona non grata on Capitol Hill, Mr. Bush's aides appeared on Sunday television shows to continue the effort Mr. Bush began Saturday to blame Congress for the budget debacle.

Mr. Sununu and Mr. Darman avoided negotiating directly with Congress because they offended so many lawmakers by their behavior, which some in Congress termed high-handed. "Some people have accused them of going to the Sam Donaldson charm school," said Vice President Dan Quayle of the two Bush aides on ABC's "This Week With David Brinkley." Mr. Donaldson, sitting next to the Vice President, replied, "You could do worse."

But Mr. Quayle added particularly of Mr. Sununu: "He is not the problem. The problem is Congress."

Foley Blasts Bush

Speaker Foley, unusually angry, lashed back the White House, saying the President was every bit as much a part of the budget-making process as Congress.

"The President is in fact a party to these negotiations," said Mr. Foley, "He has been for four months. The whole idea of the summit was to bring together both of the parties, both of the houses, and the President. For the President to step aside from these talks and act as if they're taking place with somebody else is like the President of General Motors saying, 'I wish these labor and management people would get together.' "

Mr. Foley said the President had forced the weekend crisis needlessly by refusing to sign the stopgap spending measure while a new deficit-reduction plan took shape.

Moreover, Democrats said the White House campaign to blame Congress ignored that it was Mr. Bush who waited more than a year to address the deficit issue because he did not want to abandon his campaign pledge of no new taxes. They also argued it was Mr. Sununu and Mr. Darman who pushed for a deficit-reduction deal with cuts in Medicare spending that Congressional leaders told them could not be passed.

In the final moments of that negotiation, the White House dropped an effort to cut taxes on capital gains, which Democrats said they were willing to accept in exchange for an increase in top tax rates on the Americans with highest incomes.

But in the renewed negotiations that trade-off seemed to have been revived.

While Mr. Sununu repeated on television today the adminstration's opposition to an increase in top tax rates, Mr. Quayle seemed to suggest a trade-off of that top rate for a capital gains cut would be acceptable.

He made a point on television of explaining that there was an anomaly in the tax code, known as "the bubble," in which some upper middle income taxpayers actually pay a higher marginal rate than the wealthiest taxpayers.

"If you're talking about collapsing the bubble, everyone making under $150,000 will actually be paying less taxes," he said.

The New York Times

SATURDAY, OCTOBER 6, 1990

Bush Aides' Tactics Irritate the House

By MAUREEN DOWD
Special to The New York Times

WASHINGTON, Oct. 5 — By the day of the budget vote, it was already glaringly apparent to some White House officials and Republican strategists that the bad-cop, bad-cop routine of John H. Sununu and Richard G. Darman was not working.

"The people in the White House did not serve the President well on this," said Representative Bud Shuster, a Pennsylvania Republican who crossed swords with Mr. Darman on Monday and voted against the President's budget deal with Congress on Thursday. "They antagonized so many Republicans, it was awful."

The chief of staff and budget director pride themselves on their reputation around the White House as "raging bulls" who snort and paw the earth to get their way on domestic policy and budget matters. But the routine that allows them to dominate the White House backfired this week on Capitol Hill, contributing to the humiliation that George Bush suffered at the hands of his own party early this morning.

By today, there was a loud chorus of complaints in Washington that the two men, who both glory in a haughty intellectualism and an open disdain for Congress, had badly miscalculated the temper of House Republicans, the threshold for bully-lobbying and the willingness of members of Congress to play follow the leader.

Nixon Aides Remembered

Capitol Hill denizens said that they had not seen so much fury aimed at the White House in many years.

"They're being referred to up here as Haldeman and Ehrlichman," said Mr. Shuster, the Pennsylvania Republican, alluding to President Richard Nixon's vengeful and high-handed aides, Bob Haldeman and John Ehrlichman. "In the beginning, I felt badly about the way I voted. In the end, it didn't bother me a bit because of those guys."

When Representative Dan Rostenkowski, Democrat of Illinois, made a scathing speech on the House floor late Thursday night about unnamed "unelected officials" who were ruining the budget process, he got a standing ovation on both sides of the aisle.

Publicly, White House officials were supportive of Mr. Sununu and Mr, Darman, noting that they were simply trying to complete months of difficult and delicate negotiations. But privately, some Bush officials, watching the White House desperately regrouping to win back Republicans, agreed that the mood between the White House and House Republicans had been strained by Mr. Sununu and Mr. Darman's "anti-Dale Carnegie approach."

As Mr. Sununu and Mr. Darman rushed back over to Congress today to court the House Republicans they had tried to coerce just the day before — accompanied by the more popular Defense Secretary and former Republican Whip, Richard Cheney — jokes circulated about the failure of the President's men to push their deal through.

Some members were referring to Mr. Sununu, Mr. Darman and Nicholas Brady, the Treasury Secretary who helped lobby, as "The Three Stooges," for their mistaken assumption that the House members would simply fall into line with the leaders' deal, after being excluded until the last-minute and then treated in rather pre-emptory fashion.

Others members were trading a joke that was illustrative of their bitterness over the White House's failure to include them or listen to their concerns: "What's the difference between Mousketeers and Summiteers? Mousketeers have ears."

Clear Irritation

One Democratic consultant, Robert Squier, said: "Sununu believes he's at the top of a chain of command that starts at the White House and goes to Congress, that the White House gives the orders and Congress will follow. He's never gotten used to the fact that this is not the New Hampshire Legislature and that he's not the Governor any more."

At an unusually animated and tense Cabinet Meeting today, several Cabinet members were clearly irritated with Mr. Sununu and Mr. Darman, fretting that the two men were too eager for revenge against Representative Newt Gingrich, the Republican who led the revolt away from the bipartisan deal, and too committed to the cloistered bipartisan budget process.

On the eve of elections, Republicans in the House were already feeling touchy because of the way Mr. Bush had stripped the party of its two main issues by agreeing to raise taxes and cut defense spending.

'A Rotten Deal'

Mr. Bush sat quietly in a meeting in the Cabinet room on Tuesday with 15 members of Congress as Mr. Sununu loudly berated Representative Fred Upton, a Republican lawmaker from Michigan who had just explained that he would not vote for the bipartisan package because he thought it was "a rotten deal."

After Mr. Upton quietly but firmly gave his reasons for voting no, Mr. Sununu erupted in a brief tirade, demanding of the Congressman, "What are you smoking?"

At the Republican conference on the Hill on Monday, Mr. Shuster had a minor verbal dust-up with Mr. Darman. When he began to ask the budget director a question about the percentage of tax that pertained to transportation, Mr. Darman interrupted as though he were in his former profession of Harvard professor and Mr. Shuster was a dense student.

"Do you want to talk or do you want to listen?" Mr. Darman asked the Congressman.

In the cloakroom today, members angrily traded rumors of White House threats and contemptuous behavior.

Representative Ralph Regula, an Ohio Republican who had his reservation for the Presidential box at Kennedy Center abruptly canceled on Wednesday night after he said he was "leaning against" the budget deal, said today that the Bush Administration approach "doesn't work."

"Count the votes," said Mr. Regula, who voted against the plan. "We're here to represent the people, not the White House." The congressman said he was able to take a group of his constituents to see "The Playboy of the Western World" after all. "I called Ticketron," he said, triumpantly.

The Democrats had their own grudges. During the budget negotations at Andrews Air Force base, Mr. Sununu put his legs up on the conference table, with his feet sticking near Senator Robert C. Byrd's face.

After the incident, Senator Byrd, a Democrat from West Virginia, gave a speech to the 21 negotiators and their staffers inside the meeting room, saying that in four decades in the Senate, he had never been treated with such disrespect.

"After that," said a House Democrat, "Byrd became a lot tougher negotiator on behalf of the Democrats."

The New York Times

SATURDAY, OCTOBER 6, 1990

Budget Boomerang

By MICHAEL ORESKES
Special to The New York Times

News Analysis

WASHINGTON, Oct. 5 — In provoking what he planned as a one-week confrontation with Congress over the 1991 budget, President Bush instead brought Washington to the brink of a major crisis of confidence about his leadership and the ability of the nation's Government to make a budget.

Many in Washington say the crisis, set off by the rejection in the House early today of a deficit-reduction package months in the making, is a watershed in the nation's budget ordeal.

Democrats and Republicans alike described it as the ultimate breakdown of an approach to budgeting that for nearly a decade has attempted to substitute bipartisan deal making between the President and a handful of Congressional leaders for any real national consensus on government spending and taxes.

"What this vote proved was that closed-door sessions don't work," said Representative Bill Thomas, Republican of California. Mr. Thomas wanted lower taxes and more spending cuts. Many Democrats wanted higher taxes on the rich and fewer spending cuts. Almost nobody wanted to cut medical benefits for the elderly.

Pressured by defections in his own party, President Bush appealed to the public. But his televised address on Tuesday evening boomeranged, officials on Capitol Hill said. It not only failed to convince the public that there was a real crisis, but it drew more attention to the budget deal and helped stir up opposition to it, provoking what one member called "an avalanche" of public protest.

A crisis within the Beltway does not a national consensus make.

Both Republicans and Democrats who walked away from the deal said they were outraged over how it had been presented to them as a fait accompli and agreed with Mr. Thomas that "the whole process should begin and end with full public debate."

House members were rejecting not just a proposed budget plan, but an entire insiders' approach to budget making that now seems fatally flawed.

"This is the beginning of the post-Reagan era," said Representative Thomas J. Downey, a Long Island Democrat and member of the Ways and Means Committee.

A Stockman Legacy

The flaws stem in large measure from the dismantling during the Reagan Presidency of the messy but fairly well-defined procedures set up by the Budget Act of 1974. Those procedures were designed to make Congressional budget making more coherent and more resistant to White House manipulation.

But the 1974 process was effectively overridden by the penchant for private deal-making of Mr. Reagan's first budget director, David A. Stockman, and the current budget director, Richard G. Darman.

This dealmaking became the only way around the larger political stalemate. Mr. Reagan had driven tax increases out of the political dialogue, and Democrats had retaliated by driving cuts in domestic spending, particularly Social Security, off the table.

The only way to get budgets approved was to lump all the pain into one catch-all agreement whose defeat would be even worse than the unpleasantness of all of its parts. The failure of the budget deal today was the failure of this system.

A set of tactical blunders by the White House contributed to the defeat. Mr. Darman and John H. Sununu, the White House chief of staff, ignored warnings that defense spending was too high and that Medicare cuts were too deep for the deal to pass.

But the key moment was President Bush's appeal to the nation. The speech was tepid and stunningly brief for a prime-time Presidential address. It did nothing to convince Americans, most of whom believe cutting waste is still the best way to bring down the deficit, that there was a true crisis.

"The bottom line is that deficit reduction, while it is a top issue inside the Beltway and in select places like Wall Street, to the man and woman in the street means virtually nothing," said Representative Charles Schumer, Democrat of Brooklyn.

Mr. Bush, whose 1988 Presidential race did nothing to prepare Americans for austerity, tried to skirt this problem by gathering the bipartisan leadership of Congress around him in the Rose Garden last Sunday so they could share the political blame for a package none of them liked.

The Gingrich Factor

But almost immediately the White House was shaken by a revolt started by a member of the President's own party, Representative Newt Gingrich of Georgia, who drew his support from a small group of Republican backbenchers who thought Mr. Bush ought to be held to his no-taxes pledge. Mr. Gingrich's defection could not by itself have brought down the package, but it made it far easier for Democrats.

In the short run, Mr. Gingrich appears to be the dragon slayer. But in the longer term he has big problems. Many of his Republican colleagues are furious with him for forcing a showdown with a Republican President. There is talk of a White House-assisted campaign to oust Mr. Gingrich from his post as minority whip.

Even the Democratic leaders who made the deal with the President expressed grave doubts about it. By this morning, House Speaker Thomas S. Foley was talking about taking back Congressional budget prerogatives from the White House and pressing ahead with a Democratic plan.

But the reason House Democrats did not do this from the beginning is that the Senate's 55 Democrats do not have the votes to pass a purely Democratic plan, because 60 votes are needed to stop a filibuster.

The New York Times

SATURDAY, OCTOBER 6, 1990

BUDGET DEAL DIED WAY BEFORE VOTE

Pressures From Back Home Doomed the Accord Early, Leaders in House Say

By RICHARD L. BERKE
Special to The New York Times

WASHINGTON, Oct. 5 — After a long day of making promises and making deals, weary House Democrats gathered around the Speaker, Thomas S. Foley, in his office about 8 P.M. Thursday and faced the grim reality they had feared: They did not have the votes to pass the budget agreement.

The leaders agreed to move ahead with the vote anyway. They had cajoled all they could. All that was left was the fleeting hope that the often unpredictable dynamics of voting on the House floor would deliver them an unexpected victory.

But it was no surprise at close to 1:30 this morning when the agreement went down in a crashing 254-to-179 defeat. It was never a matter of saving the deal from collapse; there were simply never enough votes for it to pass.

Lawmakers who lobbied for the package said today that their biggest obstacle was that even with the personal telephone calls from President Bush, even with the promises of legislative favors from the Congressional leadership, the pressures from voters back home was too powerful on the central issues of taxes and Medicare.

Harder to Round Up Votes

Participants said that Mr. Foley sat in a white end chair, flanked by lieutenants who unanimously agreed that no more could be done to sway the fence-sitters and that, if anything, they would lose votes if they held off the balloting another day.

"We never had the votes," said Representative Steny H. Hoyer of Maryland, chairman of the House Democratic Caucus. "We weren't going up. And if we didn't get in the water pretty soon, the pool would go dry. At some point, you've got to do something."

Representative Rod Chandler, a Washington Republican who favored the package, said his side faced much the same problem. "As we were trying to round up votes," he said, "it was harder and harder as the day went on."

Indeed, members of the Republican leadership said that when they first counted votes, there were 73 Republicans solidly behind the package. But they got the same number in their last count on Thursday after four days of intense lobbying. The outcome was 71 Republicans for the package, with 105 Republicans voting against.

President Seemed Worried

Representative Silvo O. Conte, a Massachusetts Republican who voted for the deal, said he talked with Mr. Bush on Thursday and "I sensed the President was really worried."

When Mr. Foley convened a Democratic caucus on Thursday morning, he told members they were 40 votes short of a majority, participants said. In the end, he was on the mark: the split among Democrats was 108 to 149.

Mr. Foley mused this morning that if a bare majority of Democrats or Republicans had voted for the package, that would have been enough to sway the other side during the voting.

"It was something like we got 42 percent of our membership and the Republicans got 40," he said. "We are dealing with figures so close, it is tweedledee and tweedledum. If one had gotten 80 percent and another 40, it would be something to talk about. The fact is, we both fell short."

But Newt Gingrich, the House Republican whip, who defected from his own leadership to oppose the deal, had predicted Thursday that voter anger had turned the tide his way.

"The people I trust to count thought yesterday morning that it would clearly pass, and thought last night it will pass," the Georgia Republican told reporters on Thursday morning. "My guess is it will go down. There's a tidal wave of anger out there against taxes."

Low-Profile Strategy

The Gingrich camp seemed so confident that after spending the week attacking the deal publicly, the opponents intentionally kept a low profile on Thursday night. Mr. Gingrich and others who were the most vocal in denouncing the package did not even declare their opposition in floor speeches before the vote, seeking to show that there were many others who would speak out.

"During the festivities," said Robert S. Walker, a Pennsylvania Republican who was one of the most outspoken critics of the agreement, "I spent much of my time in the cloak room watching the Pirates game."

The New York Times

SATURDAY, OCTOBER 6, 1990

HOUSE VOTES STOPGAP FUNDS AFTER BUDGET PACT DEFEAT; WHITE HOUSE WARNS OF VETO

By DAVID E. ROSENBAUM

Special to The New York Times

WASHINGTON, Oct. 5 — The House approved stopgap spending legislation tonight to buy time to repair the wreckage left when the House rejected the budget compromise. The Senate prepared to take up the spending bill, but the White House said President Bush would not sign it, in an attempt to force Congress to pass a budget.

Without a new temporary appropriations law, the Government's authority to spend money would lapse at midnight. Both sides faced the prospect of a Government shutdown, but the White House was banking on the three-day holiday weekend to minimize the effect.

The House approved the temporary legislation by a vote of 300 to 113.

Morning Rejection

The showdown over the continuing operation of Government followed the House's startling rejection early today of a budget compromise that had been negotiated over four arduous weeks by the top leaders of Congress and the chief economic policymakers from the Bush Administration. The compromise was supposed to the reduce the deficit by $40 billion this year, and $500 billion over five years through deep cuts in Medicare, higher gasoline tax and other unpopular steps. [A roll-call of the vote is on Page 10.]

It was the worst domestic policy defeat of the Bush Presidency. The President's popularity rating has been the highest of any President in history and until now he more or less had his way with Congress.

Trouble for Sununu

Although the agreement reached last weekend was rejected this morning, the dominant view in the Capitol and around the city is that a new budget measure will rise quickly from the ashes. How that will happen, however, was uncertain.

According to one report, Richard G. Darman and John H. Sununu, the White House budget director and chief of staff, told House Republican leaders that they wanted to continue to try to influence the shape of whatever budget package the House contemplated and were told, in effect, that their day was over.

"I'm not sure about the President, but the people around him weren't in touch with reality," said Representative Silvio O. Conte of Massachusetts, a senior Republican.

Tense Cabinet Meeting

Tension in the Bush Administration was evident at an unusually animated meeting this afternoon of Mr. Bush's Cabinet; several officials who had served in the House expressed concern that Mr. Sununu and Mr. Darman were too heavy handed in their relations with lawmakers, Administration officials said.

Defense Secretary Dick Cheney, Veterans Affairs Secretary Edward Derwinsky, Interior Secretary Manuel Lujan and Henson Moore, the Deputy Energy Secretary suggested that Mr. Bush's aides were too bent on exacting revenge on Newt Gingrich, the rebellious House Republican Whip, and too closely tied to the eight-man budget negotiating process that sparked the Capitol Hill revolt.

"The thrust of the debate was, let's figure out how to get a package that we can get good Republican support for and try to get Democratic support afterward, but mainly rally the party again," an official said.

Mr. Sununu argued that Mr. Bush should simply not sign the stop-gap spending measure being considered by Congress.Under the Constitution, the President can block legislation for 10 days by withholding his signature, and Congress has no recourse.

Vice President Dan Quayle, Treasury Nicholas F. Brady and Mr. Moore became embroiled in a debate with Mr. Sununu, saying that Mr. Bush would be able to sustain his veto if he rejected the measure, officials said.

"Even if we couldn't, they argued that it's better to be aggressive and active," an official said. "But they wanted to be sure that the President got a message that they were afraid was not being relayed by the negotiating team and that is that Republicans want to come home and we should give them some reason to do so. They were concerned that Sununu was so angry at Republicans that he was not seeing an opportunity."

The Cabinet also discussed, without reaching a decision, the idea of trying to reopen the negotiations about trading a cut in the capital gains tax rate for an increase in personal tax rates for the highest-paid Americans. "Darman argued that Mitchell would never buy off on that and others said you can get a budget passed without Mitchell."

On Capitol Hill, some lawmakers thought the President was bluffing and would not allow real disruption to the

Government. The three-day weekend marking Columbus Day would allow the President to provoke a crisis without having it hit the public and Government employees with its full impact.

"Oh heck," said Representative Dan Rostenkowski, the influential chairman of the Ways and Means Committee, "he said he wasn't going to raise taxes either."

But Representative Gerald B.H. Solomon, Republican of upstate New York, declared, "The ax falls at midnight tonight. Make no mistake about it."

Within hours of the stunning defeat of the budget compromise shortly after 1 A.M. today, Congressional leaders and White House officials began to talk about what steps to take next, but apparently no decisions were made today. John H. Sununu, the White House chief of staff, and Richard G. Darman, the budget director, were in the office of the Speaker of the House, Thomas S. Foley of Washington, at 11 A.M.

Even before that, Mr. Foley talked on the telephone with President Bush. "We agreed that we had to go forward with the process," Mr. Foley reported afterward.

The budget compromise was brought down early today by a coalition of conservative Republican and liberal Democratic backbenchers.

The vote was 254 to 179. After many vote switches at the last minute, 108 Democrats and 71 Republicans voted for the measure; 149 Democrats and 105 Republicans voted against it.

The vote was a striking defeat for the President and Congressional leaders, but it was not conclusive.

The financial markets apparently also felt that a budget deal was not dead. The Dow Jones Industrial Average closed essentially unchanged.

The Democrats on the House Budget Committee met this afternoon and decided offer a budget with targets for spending categories and revenues similar to the one rejected this morning.

But cuts in Medicare would be limited, military spending would be lower and other modest changes would be made. The big difference would be that within broad categories, the details of how money would be raised and spent could be changed by Congressional committees over the next two weeks.

Tax Changes Possible

That would mean, for example, that the Ways and Means Committee could offer a tax package that raised the same amount of money as the compromise package, but the types of taxation could be significantly different.

Lawmakers said the new budget resolution setting the targets could be voted on as early as this weekend. A final package would then be considered week after next.

Recriminations over the sacking of the budget deal abounded in the Capitol today.

Representative Mickey Edwards, a conservative Oklahoma Republican who voted against the package, put his frustration this way: "This is a different branch of Government. The President cannot deliver us. I'm not a package to be picked up at the Department store."

The New York Times

SATURDAY, OCTOBER 6, 1990

After the Shouting, a Feeling The Budget Deal Was Unfair

By ROBIN TONER

Special to The New York Times

OMAHA, Oct. 5 — All the months of high-level meetings that produced the budget deal, all the pleading by the White House and the Congressional leaders to get lawmakers to approve it, can seem a pale reality next to a furious switchboard at a Congressman's district office.

"It looks to me like certain people have been singled out here," said a man who called Representative Peter Hoagland's office Thursday afternoon as the House prepared to vote.

Most of the callers turned the cool policy choices of Washington into red-hot grievances. "This gas tax, to the people of Nebraska, is a killer," a caller said. Over two days, this Omaha office received 214 calls against the budget plan and 67 for it — even after President Bush urged Americans in his televised address Tuesday night to rally their lawmakers around it.

An Unfair Proposal?

This is the unyielding tether of electoral politics that helps explain the votes of those like Representative Hoagland, a Democrat who voted against the budget plan as it went down to thunderous defeat early Friday morning.

People interviewed here said they were worried about the deficit and the economy. Many of them said they believed, as Gary Points, a computer programmer put it, that "we're going to crash and burn if we don't do something about it." And while some argued that maybe Washington should let the automatic spending cuts of the Gramm-Rudman-Hollings budget-balancing law go into effect, others were wary.

Still, there was a powerful feeling that the package proposed was simply unfair, was too great a burden on working people and the elderly and took too big a bite out of farm programs.

Three construction workers eating their lunches in the warm sun of early autumn talked at length about the gas tax this afternoon. Prices are already up as a result of the crisis in the Persian Gulf, they noted, and Nebraska's gas tax is already one of the highest in the nation. Now comes talk of another boost, and Ron Miller, a 40-year-old resident of Council Bluffs, Iowa, who often faces long commuting to a job, was irate.

"I just don't like it," Mr. Miller said. Kent Grisham, communications director for the Nebraska Republican Party, asserted, "When you talk about gas taxes, you're talking about the heart of the Midwest." It is not just the added costs of transportation, many Nebraskans interviewed said, but the impact on agriculture that makes that tax so onerous here.

The three construction workers had some suggestions for reducing the deficit. High on their list was the chronically unpopular expense of foreign aid.

"That's what I'd cut down on," said Martin Everts, a 37-year-old Omaha resident. "And I'd cut some of this military spending. If these countries overseas want our bases out, let's take them out. I don't feel an attack from the Russians or the Chinese is imminent, so what are we doing there?"

Leanne Ziettlow, a city employee among the crowd at the Sons of Italy pasta lunch on Thursday, was one of many people here who said she was troubled by the proposed cuts in Medicare. "They always seem to put Social Security and Medicare on the table," she said.

'On the Backs of the Elderly'

The cuts in Medicare, Mr. Hoagland said, were critical in his decision to vote against the budget plan. Mr. Hoagland, a freshman narrowly elected in 1988 who is facing a Republican challenger this fall, said he had expressly promised two years ago that he would reject any cuts in Medicare benefits.

"I said in that campaign that deficit reduction is crucial but you can't balance the budget on the backs of the elderly and the middle class," Mr. Hoagland said, "and that's what this plan does."

His Republican opponent, Ally Milder, was planning television commercials that denounce rising gas prices. She was also blaming lawmakers for being part of a system that let the budget get out of control.

Ms. Milder had little use for the budget plan embraced by her President. "I think it stinks," she said. Unlike Mr. Bush, Ms. Milder is still campaigning on a pledge of "no new taxes," and arguing that the deficit could be controlled through spending cuts.

'Got to Be Some Reckoning'

Many here seemed to recognize the policy conundrum that the deficit has created. "The public is in such an outcry to reduce the deficit and yet, when something is produced to do it, they're in an outcry about new taxes," said Carole Tharnish, a 27-year-old supervisor at an insurance company.

Tom Samuelson, human resources director for Epsen Hillmer Graphics Co., said, "We have at least a 40- or 50-year tradition of politicians saying, 'Increase services and cut taxes. Vote for me.' There's got to be some reckoning."

Still, the reckoning of this budget package was hard to swallow. "I think they want Congress to do something and they don't want them to do it at their particular expense," said John J. Cavanaugh, an Omaha Democrat who served in Congress from 1976-1980.

"I'm damn lucky not to be in Congress, is my conclusion."

The New York Times

SATURDAY, OCTOBER 6, 1990

5 Who Voted No on Budget Pact: Reasons and Recriminations

Ronald V. Dellums
Democrat, California

A 10-term Congressman from Oakland who is a leader of the Congressional Black Caucus, Mr. Dellums called the compromise anathema to his belief that Government exists to help the poor.

"I voted no for reasons of procedure as well as substance," he said. "The budget agreement was negotiated within the framework of Gramm-Rudman, which I opposed. It was negotiated within the concept of summitry, which blurs the distinction between the legislative and executive branches of Government.

"Finally, it embraces priorities that I came here to fight: increasing military budgets, regressive taxes, and spending policies that won't allow us to address the human misery in our country. We should repeal Gramm-Rudman, and remove this absurd gun from the collective head of the American people.

"I'm not a naysayer. For ten years, we in the Congressional Black Caucus have offered road maps: Tax the wealthy. Reduce the military budget. Expand nonmilitary programs. Address the social problems of this country."

Bill McCollum
Republican, Florida

A five-term Congressman from the Orlando area, Mr. McCollum reflects the feeling of betrayal among many House conservatives at President Bush's abandonment of his "no new taxes" promise. He said he voted against the package solely because it would have increased taxes.

Even though his district has many retired people, he said, he would have voted against the bill even if Medicare had been left alone.

"I am a purist on taxes," he said. "I will not support any other form of budget reduction except by spending reductions."

A member of the Republican leadership, Mr. McCollum said his fellow leaders were out of touch with the Republican rank and file. But he noted that of the eight elected Republican leaders, the majority voted against the budget resolution.

He singled out the minority leader, Bob Michel of Illinois. "Michel did not reflect the leadership," he said. "He was out of touch. I think if you look at the vote by the entire Republican leadership, we represented the Republican membership of the House."

Nicholas Mavroules
Democrat, Massachusetts

Mr. Mavroules, a six-term Congressman from Peabody, in Massachusetts' northeastern corner, said his constituents were particularly upset with the package. Massachusetts just passed its own set of new sin taxes — on cigarettes, beer, wine and other alcoholic beverages — and he said he could not have voted for another set of tax increases.

"I have people back home that are really hurting bad, and I am not going to let them get hit with a double whammy," he said.

Many retired people in his district would have been hurt by the Medicare changes, he said, and the increase in the taxes on gasoline and heating oil would have hit his area particularly hard.

Mr. Mavroules also took great exception to the $4 billion in tax breaks for the oil industry in the budget package, particularly since the industry has been accused of unfair pricing of gasoline and heating oil.

"I don't know how you can let an industry that has been gouging the public get such a huge tax break," he said.

Romano L. Mazzoli
Democrat, Kentucky

A 20-year House veteran who specializes in immigration issues, Mr. Mazzoli opposed the budget package because he "never felt that the plan was fair."

Mr. Mazzoli, who represents Louisville and many of its suburbs, was especially critical of what he called tax inequities. "The tax distribution table was devastating," he said. "People with income over $200,000 had an additional tax bite of 1.7 percent, while people below $20,000 had a tax bite of 3 percent. "Frankly, the $25 billion in growth incentives just created enormous loopholes."

Like many other Democrats, Mr. Mazzoli was deeply troubled by the provisions to impose new charges for Medicare beneficiaries. "The Medicare changes bothered me," he said. "I just felt that despite my fondness for Tom Foley, I couldn't vote for it."

Mr. Mazzoli said the vote placed Democratic negotiators in a powerful position. "Last night's battle was over the heart and soul of the Democratic Party," he went on. "The reality is that sequestration isn't going to hurt people beyond the Beltway. I just don't think this parade of horribles is going to materialize."

Frank Annunzio
Democrat, Illinois

Mr. Annunzio, a 13-term Congressman from northwestern Chicago who is the second-ranking Democrat on the Banking Committee, has a tense re-election fight on his hands. He has become the focus of a dispute over whether he used his position on the Banking Committee to get jobs in the savings and loan industry for his sons- in-law, and Republicans are focusing on him as one of the most vulnerable Democrats.

The 75-year-old Mr. Annunzio voted against the budget agreement, saying his district has the second-highest number of elderly people in the country.

"Fifty percent of my people are dependent on Social Security and Medicare," he said. "I will never vote against Social Security for the senior citizens."

The New York Times

NEW YORK, MONDAY, OCTOBER 8, 1990

Solution on the Budget Is Expected

Deadline on Debt Cited by Analysts

By KENNETH N. GILPIN

Beyond the political theater over the Federal budget lies one stark deadline for the credit markets: the United States Government will be in default on its debt obligations if a budget accord is not reached by Thursday.

To a certain extent, market participants have become anesthetized on Washington's ways; this is, after all, the fourth time in the last decade that the Government has marched to the brink of insolvency.

Analysts expressed confidence that the current crisis would be resolved, despite the deep political differences that divide the parties on the budget issue. The financial price of a stalemate that extends past Thursday morning, when interest payments on Treasury bills are due, seems too great for even politicians to ignore.

Short Shutdown 'Acceptable'

"Shutting down the Government for a short period is acceptable," said Louis v.B. Crandall, chief economist at R. H. Wrightson & Associates, an economic consulting firm. "A default is not. They have to get something done by Thursday morning."

"One way or another we will have a budget package, and a cut in the deficit," said Paul L. Kasriel, a vice president and monetary economist at the Northern Trust Company in Chicago.

To Mr. Kasriel and other analysts, approval of a package of the dimensions of the $40 billion in spending cuts and tax increases for the current fiscal year that was rejected late last week seemed more likely than the $85 billion to $100 billion in spending cuts that would occur if the Gramm-Rudman budget legislation were enforced.

Explosive 'Sequester' Rally

The failed compromise resulted in a rally in the financial markets last week, but analysts said that across-the-board cuts, commonly referred to in Washington as a "sequester," would probably generate an explosive rally. "Sequester would be better for the bond market, but it would be worse for the economy," Mr. Kasriel said. "It's a bigger package, and it is all on the spending side."

Congress moved toward a new proposal yesterday for about $40 billion in savings, but traders of government bonds will not return to the market until tomorrow, after the Columbus Day holiday.

Analysts agreed that the Federal Reserve Board, widely seen as ready to lower short-term interest rates to shore up a badly sagging economy, would delay making any move until after a budget package was approved. Moreover, the Fed's response, when it comes, is likely to be tailored to the nature of the fiscal program that emerges. "If the budget reduction action takes the form of a very severe sequester, that would produce an even greater reaction from the Fed," Mr. Crandall said.

Reaction to Job Report

On a purely economic basis, the contents of September's employment report released last Friday suggest that the Fed needs to do something soon. Excluding census workers, nonfarm payroll employment fell by 59,000 last month, a number that rounded out a very bleak job-creation picture for the third quarter. In the last three months, payroll employment increased by only 70,000 jobs. During the same period, the number of people working part-time rose by 350,000, with 330,000 in September alone.

"The situation is horrible," said Joseph Carson, a Chemical Bank economist. After including the latest employment figures with other reports, he estimated that the economy did not grow at all during the third quarter, and might have even contracted slightly.

"I don't see how anyone could read the employment report as anything other than a recession report," said Alan Sinai, chief economist for the Boston Company. "Under normal circumstances, it would call for a Fed easing."

The Fed would probably be cautious on doing very much, Mr. Sinai and others said, because the inflation outlook remained bleak. Fresh evidence of rapidly rising prices is almost certain to appear on Friday, when producer price figures for September are expected to be released.

Larger Price Rises Seen

Given the further sharp increase in oil prices, analysts said they were not optimistic that last month's rise in the Producer Price Index will be improved from the very sharp rise of 1.3 percentage points recorded in August. Indeed, some economists are forecasting that the September number will be even larger.

In addition to the producer price numbers, on Friday traders and analysts will probably take a close look at a September retail sales report that will probably show surprising strength. Experts said retail sales might have jumped by almost 2 percent last month, a figure that would be the largest monthly increase since January. Economists said much of the likely rise was related to higher gasoline prices. But auto sales were surprisingly strong as well.

Those two items probably mask continued consumer caution, however. Analysts at Salomon Brothers estimate that, excluding gasoline and car sales, retail sales rose by three-tenths of a percent in September.

Nevertheless, the inflation and sales numbers are not likely to sit well with market participants. "Friday's numbers will not be very helpful for the market," said Steven Slifer, an economist at Shearson Lehman Government Securities.

The New York Times

NEW YORK, MONDAY, OCTOBER 8, 1990

Debate Brings Delay and Disruption

By RICHARD L. BERKE

Special to The New York Times

WASHINGTON, Oct. 7 — The Government is shut down. The election is four weeks away. The President is enraged about the budget. The Congressional elevator operators are disgruntled about working overtime. The weather is unseasonably pleasant.

No one wanted to be stranded under the Capitol dome for the weekend. But since there was no way out, Congress tried to make the best of it and went about trying to avoid legislative gridlock.

It was hardly an impressive performance.

As bewildered tourists who looked on from the visitors' galleries (the rest of official Washington was closed), the dialogue on the House floor seemed only to deteriorate.

The House was at its worst Saturday night in the debate over President Bush's veto, as boos, catcalls, including some from the galleries, and hisses punctuated the banter that seemed more fitting for a locker room.

Representative Richard J. Durbin, Democrat of Illinois, provoked the most outrage from the other side when he proclaimed, "Unless we override this veto, we will be endorsing the President's strategy of treating two million Federal workers like Saddam Hussein treats his so-called guests in Iraq."

At one point, Representative William M. Thomas, a California Republican, scolded the House to "set aside these partisan hormones!"

In what could have passed as a "Saturday Night Live" sketch entitled "Why Congress Doesn't Work," members took up precious time debating how long into the night they should stay in session, how sad it was that the Smithsonian Institution was closed and how bad Congress looked to the American people. In other words, they seemed to discuss everything but the budget crisis.

"Our very competence to govern is in question," Representative James H. Scheuer, Democrat of Queens, declared to his colleagues. "It is the very institution of Government that people think are failing them and, indeed, we are failing them."

Representative Bill Richardson, Democrat of New Mexico, got right to the point tonight when he scolded his peers, "We are becoming the laughingstock of the world!"

Tourists and Anger

Mindful of public perceptions, and of constituents in town who were locked out of the capital's tourist attractions, members railed on more about the shuttered museums than the real devastation that could be wrought by a closed Government.

Representative Robert K. Dornan, Republican of California, said he was doing his part by giving personal tours of the Capitol.

But Representative David R. Obey, Democrat of Wisconsin, said the situation was inexcusable, and attacked President Bush for cheating tourists.

"He should not hold Boy Scouts at the Washington Monument hostage to his demands to pass a budget which preserves and protects the privileged position of the wealthiest people in this society," he declared. "He ought not to shoot the innocent."

But the innocent were downright angry at their elected representatives today.

Bill Feddema, a sailboat builder from St. Cloud, Minn., stood gazing at the Capitol this afternoon. But he did not dare go inside.

"I won't go in there," he said, "because they ain't doing it right. They're a bunch of wimps who aren't doing their work. I wouldn't hire them to mow my grass."

Perhaps Hans Starreveld was the only person from out of town who wandered by the Capitol today who said he was not embittered. He is a retired boat builder from Holland who had never heard of the deficit debacle until he switched on the evening news Saturday.

"I don't know who's right," he admitted, "or who's wrong."

All Are Losers

Thus far, there are only losers on Capitol Hill from the budget chaos. But one man who has managed to regain his dignity after a humiliating loss is Robert H. Michel, the House Republican leader.

Just days ago, he watched helplessly as his first lieutenant, Newt Gingrich, the Republican whip, defected from the leadership and successfully lead the forces that doomed the budget deal. But today, with key White House officials like John H. Sununu, the chief of staff, who is a persona non grata on Capitol Hill because of what some members called his high-handedness, the Administration turned to Mr. Michel as their chief representative.

It was Mr. Michel, a go-along, get-along moderate from Illinois, who was the messenger today between the negotiators and the White House.

"He's the one we talk to and communicate our preferences to," said a White House official who was camping out in Mr. Michel's Capitol office today. "We're not physically in the room anymore, so Michel's doing the negotiating."

Representative Constance A. Morella, a Maryland Republican, thinks her leader's stature has improved. "Poor Mr. Michel," she said. "He had to serve as minority leader and whip at the same time. But I think he's come off as a statesman."

Personal Lives Upset

The budget gridlock is Exhibit No. 1 that deadlines mean nothing to Congress. So it should be no surprise that Oct. 5 came and went practically unnoticed. That was the day that Congress was officially scheduled to adjourn for the year.

But now, bets are on the members will not leave Washington until well into the month, leaving them little chance to campaign for re-election. And there are increasing signs that Congress will return after the election for an unusual "lame duck" to dispose of unfinished business.

To counter this unpleasant possibility, pins are popping up all over Capitol Hill of a duck with a broken leg on crutches with a diagonal red slash through it.

Even personal emergencies do not seem to speed up the slow pace of the legislative process. As the debate dragged on Saturday night over President Bush's veto of a measure to keep the Government operating, Representative Ronald V. Dellums, a California Democrat, appeared on the House floor in a tuxedo, pleading with his colleagues to vote so he could make his son's wedding in a half-hour.

"To get married in 1990 is an act of love," Mr. Dellums said from the well of the House. "It is an act of faith. It is an act of hope. It is an act of idealism. The veto is an act of cynicism. I ask you to cut off the debate. We know how we are going to vote. Let us override this veto, and let me love my son."

The chamber erupted into an uproarious chant of, "Vote! Vote! Vote!"

Tonight, Mr. Dellums returned to the floor with the good, and somewhat surprising, news. "I did make it to the church on time," he said to vigorous applause.

The New York Times

NEW YORK, MONDAY, OCTOBER 8, 1990

ABROAD AT HOME

Anthony Lewis

When You Believe In Lies

BOSTON

If you want to know why we have a paralyzing budget crisis, you have to go back to the golden days of Reaganism. That was the early 1980's, when the smiling President was telling us that we could cut taxes and still have it all.

A few right-wing intellectuals told the truth then. The real idea of those massive tax cuts, they said, was to bleed the Treasury white — so there would be no money for domestic spending. Ideologues like The Wall Street Journal's editorial writers said that with gleeful candor. They thought Government was bad, so we would be better off with less of it.

Of course the official Reagan economists were not so candid. They said they had discovered a Philosopher's Stone called supply-side economics: reduce taxes, and we would have higher Government revenues and higher private saving and investment.

Those official explanations were lies. Water did not run uphill. Lower taxes brought lower revenues. The rich, made richer by Reagan policies, saved and invested less, not more.

But the American public loved the fairy story. When Walter Mondale said it was not true, the public put him down as a spoilsport. It voted for Ronald Reagan, and when George Bush stopped complaining about voodoo economics and said you could too spin straw into gold, it voted for him.

The trouble was that most Americans did not agree with the real aim of the right. They did not want a pygmy Government, they wanted the Government to do lots of things that cost money: provide medical care for the elderly, protect the environment, run national parks, control air traffic ...

So there we are. The reality, as intended, is that the Federal Government does not have the resources it needs. But the voters will not let go of the fairy story. They want the Government to keep spending without raising taxes.

The result is political paralysis. The politicians who have to face the voters in a month — the members of the House of Representatives — do not want to deprive any citizen of a benefit or impose on any citizen a higher tax.

The problem is much harder to solve in the United States than in other democratic societies because of the nature of our political system. It is, first of all, a divided system, in which a President and Congress may — and now do — answer to different parties and ideologies. It is not a parliamentary system, in which the Prime Minister can tell her party members to toe the line or see their Government fall.

Then our system has always allowed interest groups to exercise great influence. It may seem logical to tax private airplanes when levying new taxes on luxuries. But the plane manufacturers in Kansas speak to Senator Bob Dole, and planes are exempted.

The politics of interest groups is frustrating. It tends to legislative inertia, because a few highly motivated legislators can block action. But the system, as Justice Brandeis said, was designed not to produce efficiency but to diffuse power.

In the old days there was one mediating influence. That was the political party, which could find a common denominator for legislators — a position on which a majority could stand. But parties have lost much of their meaning.

Republican members of Congress today do not have to look to President Bush. A Newt Gingrich, determined to protect the rich from even disproportionately modest tax increases, can vote against the President although he is a Republican whip. He looks for support to political action committees, and he will get it.

Does it matter? The sums involved are not very large in an economy as big as ours. But the demonstration of political will — or rather the lack of it — does matter. Europeans and Asians, the rising economic powers, are already finding confirmation of their suspicion that the United States is in decline.

Those who warn about American decline, like Prof. Paul Kennedy of Yale, are met with the indignant response that this is still the world's most powerful country militarily: Look at the Persian Gulf. But that misses Professor Kennedy's point, which is that we are not keeping our economic performance up to our commitments abroad.

One of Mr. Kennedy's critics, Prof. Joseph S. Nye Jr. of Harvard, wrote the other day that the United States need not fear decline if it simply addresses "such domestic issues as the budget deficit, savings rate, educational system and condition of our cities." Exactly. □

The New York Times

NEW YORK, MONDAY, OCTOBER 8, 1990

ESSAY

William Safire

Hail To Ginglock

WASHINGTON

Do not be embarrassed by the closing of the Statue of Liberty for a little while; she will understand.

The derailing of budget summitry and the shutdown of nonessential services is not evidence that "the system doesn't work," or that our representatives in Congress are too irresponsible to bite the tax bullet just before election.

On the contrary, the system has never worked more dramatically to demonstrate what can happen when government by elitist consensus puts forward a fake compromise and runs smack into the politics of principle.

Face it: a real disagreement exists in this nation about the direction of domestic policy. And don't buy conventional media wisdom: it is not between a little band of responsible leaders who favor balancing the budget versus a grubby swarm of populists who want to expand entitlements but are too hypocritical to vote the taxes to pay for them.

The conflict is between politicians who want to do more for the people versus those who want people to be able to do more for themselves. In Presidential elections, the conservative philosophy wins on promises of tax restraint; in Congressional, the liberal philosophy wins on promises of expansion of services.

As a result, we look to Washington for a compromise. It does not mean we have a split personality, or that we all want something for nothing; it does mean that the people want as much as we have been getting in services for about the same we have been paying in taxes.

Because the cost of interest on our current course takes us into the red, most of us are ready to cut defense as the Soviet threat diminishes, put a cap on entitlement increases pegged roughly to inflation, and accept some sin taxes.

But a compromise was not struck between the contending philosophies. Instead, a deal was cut in the dead of a six-month night between Democratic liberals and Republican centrists that tipped the scales in the direction of a more active and expensive role of government.

That's when Newt Gingrich, the Republican whip in a House long dominated by Democrats, hollered foul. It is one thing to compromise; it is something else to lose. And the Foley-Darman-Dole deal was, by any conservative standard, a loser.

The whopping new taxes were front-loaded, imposed right away, while the nondefense spending "cuts" were to be end-loaded, not to kick in for years — and almost certain to be rescinded in a replay of the double-cross of President Reagan by Speaker O'Neill in 1982.

Moreover, the promised "cuts" were only paper reductions in the rate of increase, a far cry from actual reduction, and not even a leveling of expenditures after allowing for inflation.

With his point of view frozen out of the compromise, Mr. Gingrich gutsily said no. Every member of the House facing a tight race — lest we forget, that means those most closely attuned to the will of the people — voted with him to reject the leaders' lurch to the left.

Result: Ginglock. Newt rightly put loyalty to the party's principles ahead of Presidential discipline; Mr. Bush took a licking without flinching, later coming up off the floor with a no-contract, no-work position that holds Congress's feet to the fire.

Now what? Will the temporary furloughing of Federal workers for one day a week mean the end of civilization as we know it? Hardly; bureaucrats could volunteer to bring in the potato harvest.

As the House scrambles to find a true compromise, it may permit a partial sequester, or horse around with a soak-the-rich scheme until the election is over, or let the President exhume the Civil War's "feed and forage" act to run the country.

The red faces belong to those who thought they could precipitate a crisis to sell the taxpayer a bill of goods. These new Hoovers argued that only a huge tax increase could shrink the deficit and lower interest rates. But the deepening recession will lower interest rates; new taxes would make the downturn steeper and the deficit deeper.

The leadership lost because they led the nation in the direction of income redistribution, where the nation itself does not want to go. The right way to reduce the deficit is to limit defense increases to the rate of inflation and to let real defense cuts sop up the red ink.

This resilient country will survive the shock of its refusal to be stampeded. Election Day is near; let's draw the tax-vs.-spending issue and put it up to the people.

The Philadelphia Inquirer

An Independent Newspaper

Sunday, October 7, 1990

Oh, Congress!

What a bunch of jerks

"HONK IF YOU HATE TAX HIKES," said the sign of one demonstrator outside the White House on Thursday, and many drivers obliged. Meanwhile, the Capitol Hill switchboard was jammed with callers angry about portions of the budget-summit's plan, such as raising the gas tax and cutting Medicare. So within hours, the House of Representatives rejected the entire plan.

The resulting impasse — which nobody expected to go on for long — made these politicians look like fools. The rejection of the budget-summit package showed an impulse that has become the norm: political cowardice. Despite their 98 percent re-election rate, most House incumbents fear defeat from cutting the deficit in ways that would touch the average American. The cowardice was especially strong among lawmakers from states now rebelling against higher taxes. For example, only two members from New Jersey backed the summit plan; 11 voted no.

Granted, the product of the budget summit wasn't the best of all possible budgets, but everybody knew before the vote that congressional committees would have some leeway to make changes. For example, it was clear that the Medicare cut would be revised to better protect elderly people of modest means. Yet many Democrats parroted the complaint that senior citizens were being singled out, even though Medicare and Social Security make up one-fourth of all federal spending.

The other lightning rod, of course, was taxes. As many Democrats said, the summit deal would let wealthy Americans off too easily. But after four months of bargaining, why not do what's doable — relying heavily on excise taxes — with liberals free to keep bashing the GOP for coddling the wealthy? As for complaints that the deal sagged overonerously with "$134 billion in new taxes," that's a misleading, multiyear figure. In 1995, after gradual increases, the new taxes would produce only $32 billion annually.

John F. Kennedy's book *Profiles in Courage* told of lawmakers who, when the chips were down, took unpopular stands that they thought were right. Any book about the politicians who grandstanded against the budget-summit plan would need a very different title.

Bush is bruised but not beaten

By **JEFF GREENFIELD**

Anyone who thinks the current budget mess is fatal to the President politically lacks a grasp of America's political attention span. Anyone who thinks it has no political warning for the President lacks a sense of recent history.

Congressional revolts against presidents of their own party are as much a part of the Washington scene as cherry blossoms and influence-peddling. Franklin D. Roosevelt himself faced one in 1937 over his Supreme Court-packing plan, and again in 1942 during a power struggle. Even Ronald Reagan, the most politically successful Republican president in the party's history, had to beat back a brush fire over tax increases in the early 1980s.

We are more than two years away from a presidential election, and the prospect of a shooting war in the Persian Gulf and an economic recession makes it likely that the current budget farce will be a footnote by 1992.

The real danger for the President is that it threatens to undermine the premise of his presidency — and that is a potentially fatal blow to any administration.

Presidents have a lot of room to maneuver; they can break a lot of promises, alter a lot of policies and they will be forgiven (FDR promised to shrink the federal budget in 1932; Reagan promised to balance the budget in 1980.)

But when a president breaks with a fundamental premise, he is in serious trouble. Lyndon Johnson, the 1964 peace candidate, went to war in Vietnam within weeks of his inaugural; Richard Nixon, the exemplar of law and order and traditional values, was revealed by his own tapes to be a foul-mouthed lawbreaker.

When a president breaks with a basic premise, he is in serious trouble.

And for Ronald Reagan, the most serious threat to his presidency came not with the 1982 recession, but with the revelation that he had sought to trade arms for hostages with Iran — exactly the kind of appeasement to terrorism that he seemed to stand so squarely against.

What premise is George Bush in danger of undermining? Ironically, it is the premise Michael Dukakis offered in 1988: the premise, the promise, of competence.

Candidate Bush ridiculed competence as a pinched, narrow vision in 1988. "Competence makes the trains run on time, but doesn't know where they're going," he said.

But in fact, competence was exactly what Bush promised to bring to the job: not an inspiring vision of cities on a hill, but an effective, smooth-running operation, under the guidance of a consummate insider who knew how power and money flowed.

He was no architect, but rather, as an astute friend observed, a plant manager, sitting down to work each day going through his in-box, dispatching plumbers to fix the leak in the No. 4 pipe, checking on inventory out at the Dubuque warehouse.

Now, suddenly, the country seemed to be witnessing an operation gone amok: The assembly line was throwing off smoke; springs seemed to be popping loose from the machinery; loyal customers were finding the wrong-sized widgets in their packages.

And they did not like it one bit. When Bush tried to take off his plant manager's hat and wrap himself in the toga of the Bold, Courageous Leader, the American public told him to take a hike.

Call Congress and let them know you're with me, he declaimed. And the people called and said, in the immortal words of the streets, "Fuhgeddaboutit!" From every sector of the economy came cries of rage from people who had heard not only the explicit promise of 1988 — "no new taxes" — but also the premise: "Don't worry, be happy."

There will be a resolution to this budget fight sooner or later, and the President will rise and fall again and again in polls. But what we have seen here is the first potential sign that the presidential premise is wobbly: That is not good news for George Bush.

Syndicated writer Jeff Greenfield is also a commentator for ABC News.

The Birmingham News

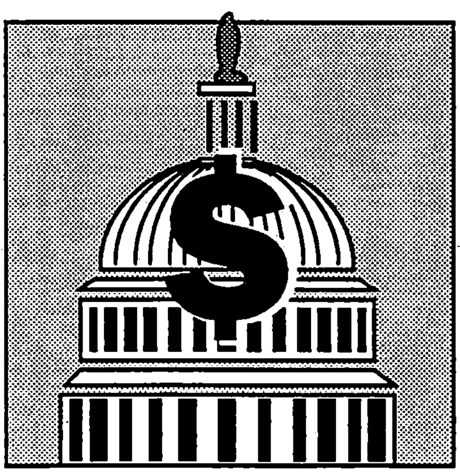
Oct. 6, 1990

Dumping The Deal

It's good for America that the goose egg laid by President Bush and congressional leaders in the form of that backroom budget deal wasn't allowed to hatch Friday morning.

The message to Washington should be loud and clear: Get serious about the budget. Business as usual isn't good enough anymore. Americans are tired of accepting the "best we can do," when the best is bad at best.

President Bush went on television this week, pleading for support. "It is the best agreement that can be legislated now," he said. Senate Majority Leader George Mitchell followed, comparing that budget agreement with crafting the Constitution 200 years ago, noting that not everybody agreed with that document either. "Every human work is imperfect," said Mitchell.



Americans responded. They contacted their senators and representatives and, in overwhelming numbers, told them to dump the deal.

In the end, the arm twisting from the White House got downright petty. Rep. Ralph Regula, R-Ohio, even had his seats in the president's box for a play at the Kennedy Center taken away this week because he refused to back down in his opposition to the agreement.

The president might learn something from Regula about taking a stand and not backing down.

Bush was elected in large part because of the no-new-taxes pledge he discarded last June. Then he said he wouldn't agree to any deficit reduction deal that didn't include a capital gains tax reduction to boost growth, yet he gave that up, too.

There were more than $130 billion in tax increases in the budget deal, but federal spending still would increase 4.5 percent in 1991 over 1990. By 1995, spending would be $222 billion higher than this year, excluding the savings and loan bailout.

Americans were not taken in.

Before they'll accept higher taxes, they want to see some sign of fiscal responsibility from Washington.

They want to end billion-dollar subsidies that prop up millionaire farmers. They want to stop pension double-dipping. They want the Congress to pass balanced budgets, and pass them on time.

Americans want to know that the billions in taxes they already pay are being used as efficiently as possible, not for grasshopper research in the Midwest or free mailouts for congressmen during election years.

If there are extra taxes to pay, those taxes must go solely toward reducing the obscene deficit.

The budget system clearly doesn't work and it must be fixed.

But until Washington gets its messy house in order, the reality is Gramm-Rudman's automatic spending cuts. A tough sequester could go far toward changing some fat-and-happy attitudes inside the Beltway.

THE BOSTON HERALD, SATURDAY, OCTOBER 6, 1990

PATRICK J. BUCHANAN

GOP sellout on budget complete

The GOP sellout in the budget deal — failure that it turned out to be — was total. A Republican Yalta. Not one principle survived.

Not only was there a record $134 billion in new taxes, many of the "cuts" turn out to be "user fees," or higher costs on old folks. What "reform" would we get? Budget Director Richard Darman secretly signed onto a Democratic scheme whereby no tax cut can ever again pass the Senate, unless it can muster 60 votes.

This kills the Moynihan Social Security tax cut, and any future capital gains tax cut; it is a formula for a permanent Establishment blocking force, to prevent any rollback, ever, of federal power. If the Bush-Mitchell deal — in whatever future form it will take — becomes law, the American people likely have seen their last tax cut in this century. As for the spending "caps" agreed to, they are subject to "revisions," i.e., any cuts made can be restored.

When the GOP came to power in 1980;, the federal gas tax stood at 4 cents a gallon, all for highways and transportation. If that part of this deal stands, by 1992, the gas tax will be 21 cents a gallon, most of it for "deficit reduction."

A party is never really itself, Woodrow Wilson wrote, unless it is being used for some high and noble purpose. If the purpose of the GOP is to be the party that raises taxes for Democratic social programs, that provides cover for pay raises for our political class, then, the GOP is not just part of the problem, it *is* the problem.

Popular disgust with this deal is going to backfire against some good men and women, who held their noses to stand with President Bush, because of the loyalty they feel they owe the president. And, if the party takes a pasting in November, the press will interpret it as voter enthusiasm for more "active" government.

Well, let them. They have misread this country for decades.

There is another revolution stirring out there that only the Beltway insiders cannot see, and that Republicans of the future should seize upon.

In Massachussetts, home of Michael Dukakis and Teddy Kennedy, John Silber, prickly professor-president of Boston University, won a Democratic nomination for governor which Boston's media assured us he had booted away with reactionary wisecracks. Pollsters were off by 30 points. Coming in November is Question 3, a ballot initiative that would cut $2 billion out of the state budget, force a cut of 15 percent in state spending, and send Massachussetts' bond rating, now in the sub-basement with Mario Cuomo's New York, to junk bond depths. Yet, voters in the only state that went for George McGovern are unfazed. A "Let's-stick-it-to-them" attitude pervades American politics.

In Oklahoma, voters have approved an initiative to restrict the terms of state legislators. In Colorado, retiring Republican Sen. Bill Armstrong is backing another. In California, the Sacramento machines of both parties are terrified of Proposition 140, which would terminate their pension program, put legislators on Social Security, cut the terms of assemblymen to six-years-and-out, and limit state senators to eight years. The panicked special interests are pouring millions of dollars into a statewide campaign to portray this populist revolt as a stalking horse for — the special interests.

If these term limitation plans win, they will be on the ballot in a dozen states in '91. And, congressmen who refuse to endorse a constitutional amendment calling for their own retirement after eight or 12 years, may be voted early retirement. As the Chinese say: Great turmoil under the heavens, all is right with the world.

History will identify as the Stamp Act and Boston Tea Party of this rebellion, the battle over the congressional pay raise.

Recall, now, back in 1989, a populist campaign erupted, on the op-ed pages and the radio talk shows, to force Congress to vote down an automatic 50 percent pay raise for which it hungered. The House capitulated in a populist triumph. The pay raise was opposed by more than 80 percent of Americans.

That victory, however, was stolen in the shabbiest deal of the decade, as the two parties colluded to ram through a new pay raise, in 24 hours, in the final days of the '89 session, after the campaign committees signed a compact not to support any candidate, of either party, who exploited their bipartisam act of larceny.

If ever there was a Beltway conspiracy, that was it.

In America right now, there is a weariness with all the old excuses and explanations, a sense of growing distance between the people and the politicians who purport to represent them. There is a new voter intolerance of the high tax, Big-Spender types in both parties. Could not the president's men see the firestorm in New Jersey, after Gov. Jim Florio saddled the state with a tax hike that won the kind of rave reviews from the press as his own budget deal?

Because Congress has become so cowardly, because it refuses even to debate, let alone take a stand, on great issues like peace or war in the Persian Gulf, it is abdicating, defaulting, forfeiting its rightful place as America's forum. The electorate is cursing it out, and tuning it out. Now, it is to the op-ed pages, talk shows and TV shows, that voters look to see their point of view defended, and their adversaries opposed.

What remains inexplicable, however, is why even pragmatic Republicans, who won a landslide on a "no new taxes" pledge, would now swim out to board a sinking ship.

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SATURDAY, OCTOBER 6, 1990

Bush Closes Most Government Operations

By Dan Balz and John E. Yang
Washington Post Staff Writers

President Bush, still smarting over the crushing defeat of the bipartisan deficit-reduction package, began shutting down all but essential government operations early today after refusing to sign a short-term spending measure approved by Congress to keep the government running for a week.

Bush's action came shortly after the Senate, on a voice vote, gave final congressional approval to a measure that would provide the government with funding for the next seven days and delay implementation of automatic across-the-board spending cuts required by the Gramm-Rudman-Hollings law. Hours earlier, the House had voted 300 to 113 to approve the legislation.

But without Bush's signature, the measure could not take effect, meaning there were no funds to operate most of the government as of midnight Friday.

Lawmakers rushed the bill through Congress in an attempt to keep the government running while they continued efforts to assemble a compromise budget package that would reduce the deficit by roughly $500 billion over the next five years, a package the White House says is needed to prevent economic chaos.

But Bush, in a statement read last night by White House press secretary Marlin Fitzwater, said he would "not be a party" to what he said were efforts by Congress to "once again put off meeting this responsibility for a few more days." Bush said it was "deeply discouraging" that Congress and the administration could not agree on a budget.

Senate Majority Leader George J. Mitchell (D-Maine) said Bush's strategy to shut down the government would prove counterproductive to the goal of reaching agreement on a long-term deficit-reduction package. "I think it's an unnecessary and extremely unwise action," he said. "It will not advance the president's position during the negotiating process and will cause unneeded pain and anguish to thousands of American families."

Negotiations between House Democratic and Republican leaders over a new package resumed yesterday and will continue today, with some lawmakers suggesting the possibility of a new deal that would trade capital gains tax cuts for tax increases for the wealthy.

The White House also scheduled a 10 a.m. meeting with Mitchell, House Speaker Thomas S. Foley (D-Wash.), House Majority Leader Richard A. Gephardt (D-Mo.), Senate Minority Leader Robert J. Dole (R-Kan.) and House Minority Leader Robert H. Michel (R-Ill.).

The bipartisan deficit package, worked out in nearly six stop-and-go months of negotiations between the White House and Congress, fell in a hail of angry rhetoric early Friday morning in the House, losing by a vote of 254 to 179.

Neither Bush nor Democratic congressional leaders delivered a majority of their members in support of the package, which was picked apart by opponents and weakly defended by supporters. The defeat raised new questions about the ability of government to put its own fiscal house in order as well as whether elected leaders had lost touch with the voters.

The failure of the deficit package to clear its first hurdle triggered a day of caucuses and meetings on Capitol Hill and at the White House and of finger-pointing and second-guessing as all sides sought to spread the blame for the embarrassing defeat. Much of the anger, among Republicans and Democrats alike, was aimed at the White House, with Chief of Staff John H. Sununu and budget director Richard G. Darman the principal targets for the way they conducted the negotiations and subsequently sought to win support for the package.

Fitzwater said "we regret" any episodes that contributed to lawmakers' anger.

One Republican said the failure of the budget package also had set off internal bickering within the White House. "The finger-pointing, the back stabbing is really starting," this Republican said.

Bush met with his Cabinet yesterday afternoon for what one participant described as the liveliest Cabinet meeting of his presidency, punctuated by "sharp disagreement" over strategy, criticism by some Cabinet members that Sununu and Darman had misjudged the House and debate over how to handle House Minority Whip Newt Gingrich (R-Ga.), who led the opposition among the Republicans to the package.

Cabinet members also debated whether Bush should withhold his signature from the short-term spending bill or veto it outright, once it reaches his desk. Sources said Sununu favored the first approach, fearing the White House might not be able to sustain a veto, which would be another sign of Bush's inability to carry his troops. Others, including Vice President Quayle, and Treasury Secretary Nicholas F. Brady, argued for a veto as a way to rebuild Republican unity in the House, according to one account.

Republicans remained badly divided after their internal struggle, with administration sniping at Gingrich intensifying and House GOP members "stabbing, shooting and strangling each other," according to another Republican, who added, "I'm not sure anyone will be standing when this is over."

"Things were pretty tough today. Pretty rotten," said Rep. Frederick S. Upton (R-Mich.).

Democrats began work on a new budget package, saying they wanted no part of new negotiations with the White House. "I do not anticipate, and I underscore, do not anticipate, the resumption of anything that would be called summit talks," Foley said.

"There's no appetite on the part of the House Democratic Caucus to be working with John Sununu and Richard Darman at this time," one Democrat on Capitol Hill said.

Democratic sources said they would try to alter the most controversial elements of the bipartisan agreement. Those elements include new taxes, especially the series of economic-growth incentives favored by the White House and higher gasoline taxes; higher Medicare premiums; changes in unemployment insurance; and possibly the level of defense spending.

One possibility that Democrats and some Republicans were looking at was to reopen the question of whether to trade a cut in capital gains taxes, long favored by Bush, for an increase in tax rates for the wealthy, favored by the Democrats. White House negotiators scuttled such a deal during the final hours of the negotiations last week.

Several sources said that Gingrich and some of his allies were among those now looking favorably at such a trade, but Sununu and Darman, who were reportedly guided by their bitterness toward Gingrich over his role in opposing Bush, continued to oppose the idea.

"Newt and his people have no plan for victory, so they say give in," an official close to the negotiations said. "That won't work."

But other Republicans in Congress also were beginning to talk openly about such a deal, and Democrats said that could make it possible to alter other sections of the original agreement and still meet the overall target of $500 billion in deficit reductions over five years.

Fitzwater described Bush as "disappointed" by the House defeat of the bipartisan package. Bush had gone on television Tuesday night to rally support, but his speech appeared to have minimal impact. Congressional offices reported an increase in calls from constituents but said the calls were mostly in opposition to the plan.

"He went out in front and made the best case he could, told people why he thought it was important and that's all he can do," Fitzwater said.

He also said there would be no retribution against Republicans who opposed Bush and the package. Sources familiar with the Cabinet debate said Sununu and Darman were urged not to let their anger at Gingrich block efforts to bring Republicans back together. "They're so annoyed at Gingrich, they're not thinking clearly," one source said.

Republicans also found that tracking polls on key House races showed a deterioration in the position of Republican incumbents and challengers in the past five days, setting off alarms within the party.

With Bush under fire for failing to deliver the House Republicans, Bush tried to turn the issue back on Congress. "The hour of reckoning is at hand," Bush said. "At midnight the Congress of the United States must face up to the shutdown of government services and resulting confusion that will be strewn across this land because we could not produce a budget." He urged Congress to "act now, tomorrow, as soon as possible to produce a budget that reduces the deficit, avoids recession and puts our economy on the path of sustained growth."

Fitzwater accused budget negotiators of reneging on a deal by trying to fund the government on a short-term basis, saying it was part of the agreement produced last Sunday. But Mitchell said Fitzwater was incorrect, saying the White House wanted the two sides to agree not to pass such short-term measures but that he had balked. The agreement said it was Bush's intention not to sign such bills.

Democrats were debating a number of budget alternatives yesterday. They planned to work at least part of the holiday weekend to complete work on a new package, which would have the same goals of reducing the deficit by $500 billion over five years as the failed plan but with different components.

The broad outlines of one emerged late yesterday as described to Democratic members of the House Budget and Ways and Means committees in closed-door meetings, although sources said it was one of several under consideration.

As the budget agreement would, this alternative, one of several under consideration, would pare about $40 billion of the federal budget deficit in the fiscal year that began Monday, lawmakers said. It envisions raising as much as $129 billion in new tax revenue over five years, about $5 billion less than the budget agreement.

About $40 billion in savings, just two-thirds of the amount the budget pact would have cut, would likely come from Medicare, one of the most contentious issues in the fight over the earlier deal. That figure appeared to satisfy liberal Democrats. "They're looking at something that's reasonable," said Rep. Henry A. Waxman (D-Calif.), chairman of the House Energy and Commerce subcommittee on health.

Most domestic programs would be held to the projected rate of inflation. Military spending was under discussion, lawmakers said.

House Ways and Means Committee Chairman Dan Rostenkowski (D-Ill.) assured Democratic members of his panel that they would decide the tax components of the package, participants said.

Reps. Beverly B. Byron (D-Md.), Lewis F. Payne Jr. (D-Va.) and Thomas J. Bliley Jr. (R-Va.) were the only members of the Maryland and Virginia House delegations who voted against the stopgap, seven-day funding bill yesterday.

Staff writers Ann Devroy and Tom Kenworthy and Helen Dewar contributed to this report.

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Emotional Pleas Failed to Halt House Revolt

By Steven Mufson and John E. Yang
Washington Post Staff Writers

It was around midnight when Minority Leader Robert H. Michel (R-Ill.) walked into the well of the House, and the members in the packed chamber rose to give him a standing ovation.

For a week he had been under siege with his lieutenants in full revolt, and for four days he had been unable to budge the number of Republicans willing to vote in favor of the budget agreement endorsed by President Bush and the bipartisan congressional leadership.

Now the 34-year veteran legislator from Peoria, known for his calm demeanor, was trying to save face for the president—and for himself. First, he reasoned. Then, his neck and face flushed red with emotion, he pleaded for support for the five-year, $500 billion deficit-reduction plan, appealing to his colleagues: "Lose this moment, pick apart the agreement with a thousand points of spite, and we not only lose the agreement but the will to truly govern."

He defended the deal's most unpopular components and said: "Vote for this resolution. It is bitter, bitter medicine. But we won't cure our national budget sickness without it." With characteristic midwestern courtesy, Michel ended: "I'd appreciate it if you could help us out on this."

In the end, his effort fell short. At 1:17 a.m. Friday, as lawmakers craned their necks to stare at the vote tally board, the number of red lights marking votes against the budget resolution outnumbered the green lights.

It was a rejection of both the particulars of the budget package and the process that brought it about. Conservative Republicans thought the taxes were too high and the spending cuts too shallow. Liberal Democrats thought the benefit program cuts were too deep and that taxes on the rich were too low.

And members from both parties complained that the package had been concocted by a bipartisan leadership cabal that had usurped the prerogatives of the entire Congress.

"Budget summitry has reduced the process to a small cadre of members who have further eroded collective congressional responsibility," said Rep. Ronald V. Dellums (D-Calif.), chairman of the Congressional Black Caucus. Gesturing with his long arms, the lanky Dellums said "this proposal contains concessions this gentleman can't even fight."

Congressional leaders, he said, had "opted for process over substance." They were "blurring the distinction between the executive and legislative branches" and the system of "checks and balances is going out the window."

"I was elected to make tough choices, and I'm willing to do so," said Rep. Marty Russo (D-Ill.). "Budget summits encourage the leadership of both parties to ignore the will of the rank-and-file members of Congress and effect legislation without going through the legislative process."

The debate had begun after the House interrupted consideration of an anti-crime bill Thursday night to take up the budget resolution.

For some lawmakers, the change was a subtle one. In the budget package, they found many political felonies and misdemeanors, ranging from higher taxes on gasoline, beer, wine, liquor and cigarettes to higher out-of-pocket costs for Medicare beneficiaries. And the punishment, they feared, would be an end to their political lives.

"Tonight, we'll find out if the death penalty really is a deterrent," thundered Rep. James A. Traficant Jr. (D-Ohio).

Apparently, it was. Criticism came from both sides of the aisle.

Russo, a housemate of the resolution's floor manager, House Budget Committee Chairman Leon E. Panetta (D-Calif.), said the plan "puts the burden squarely on the middle class yet again. . . . Why? Why is the middle class bearing a disproportionate share of the burden of reducing the deficit?"

"Let us give the American people a more reasonable, better solution," said Rep. Bud Shuster (R-Pa.).

Although the debate had moments of drama, many of the party leaders seemed to be going through the motions, as though the result had been preordained. Democrats insisted that both parties produce a majority of their members in favor of the resolution in order to spread the political pain, and blame, for the unpopular package. Yet that looked unlikely, at least among Republicans.

Before the vote, House Speaker Thomas S. Foley (D-Wash.) closed the debate in a rare speech from the floor. "This is one of the most important evenings, perhaps, in your congressional career," he said trying to draw on lawmakers' institutional pride. "Although the divisions are sincere, we have the opportunity to stand together," Foley said. "If not now, when? If not us, who?"

The vote began at the stroke of 1 a.m. A solid core of "Yes" votes quickly went up on the board. Although the speaker seldom votes, one of the first votes on board was Foley's.

Members crowded in the well, studying the electronic tote board that displays each lawmaker's vote. Liberal Democrats held back, waiting to see how many Republicans Bush and Michel could deliver.

The "Yes" GOP votes hardly budged as the 15-minute clock counted down. The liberal Democrats began voting "No."

When the vote closed at 1:17 a.m., only 71 of the 176 Republicans were recorded as voting "Yes"—just two short of the solid votes in favor of the resolution that GOP vote-counters found Monday and that Michel earlier in the night had told House Majority Leader Richard A. Gephardt (D-Mo.) to expect. Only 108 of the 257 Democrats were recorded in favor.

The voting pattern betrayed local concerns and institutional loyalties. Among lawmakers from New Jersey, where former House member Gov. Jim Florio (D) has set off a firestorm with higher taxes, all seven Democratic members of the delegation voted "No." Ironically, Rep. Jim Courter (R), whom Florio defeated for governor, voted in favor of the package.

Among the 11 lawmakers from Massachusetts, where the economy is in tatters and red ink is flooding the state budget, only two—House Rules Committee Chairman Joe Moakley (D) and Rep. Silvio O. Conte, the ranking Republican on the House Appropriations Committee—voted for the deal.

From the Appropriations Committee, a panel made up of lawmakers who typically are loyal to the institutional prerogatives of the House and who would have been given great power over determining spending priorities under the plan, seven of the 13 subcommittee chairmen voted against the deal. Among them was Appropriations Committee Chairman Jamie L. Whitten (D-Miss.).

All three House members running for Senate seats this fall voted against it, fearful of popular reaction.

Only one House member missed the vote. Rep. George W. Crockett Jr. (D-Mich.), who is retiring this fall, grew tired during the long night of debate and went to his office to take a short nap. But the 81-year-old Democrat, who has two hearing aids, didn't hear the House bells announce the voting and slept through it.

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Democrats Bowed to 'Scorched Earth' Fear

By Thomas B. Edsall
and Tom Kenworthy
Washington Post Staff Writers

Democratic leaders accepted a deficit-reduction deal they did not like, and that ultimately could not be sold to their rank and file, out of fear of President Bush's popularity and the threat of guerrilla warfare by conservative House Republicans, Democratic sources said yesterday.

The basis of their miscalculation in promoting a plan that even House Majority Leader Richard A. Gephardt (D-Mo.) told colleagues he "detested," according to one informed source, was their belief that "the consequences of no deal would serve Republican strategy more than the consequences of a relatively bad deal."

Concessions made to conservative Republicans in the final days of negotiations, sources said, came as the Democratic leadership realized that a Democratic alternative budget plan that met many of the concerns of the House could not win a majority in the Democratic-controlled Senate.

But even more intimidating was the prospect that a failure to reach agreement would produce governmental collapse, allowing Republican conservatives, led by House Minority Whip Rep. Newt Gingrich (R-Ga.), to launch a "scorched earth," anti-Washington campaign strategy that would defeat more Democratic incumbents than Republicans this year and in 1992.

"No one is served better by chaos than Gingrich and his allies," a Democratic strategist said. Insofar as the failure to manage government could be blamed on the Democratic-majority Congress, Democrats would be likely to suffer more from a "throw the bums out" voter mentality, he explained.

This prospect was so daunting to the Democratic leaders that they accepted a budget package that placed a smaller burden on the rich than on the middle and and lower-middle classes.

"For weeks we were dealing with proposals that had a clear progressive tilt," another Democratic source involved in the negotiations said. "In the last four days, it was like a fat kid sat on the Republican end of the see-saw. Our side began to cave, and those progressivity charts the Ways and Means Committee staff kept putting together suddenly began to become regressive."

The willingness of the Democratic leaders to accept a package that the staff of both the Joint Tax Committee and the Ways and Means Committee found to place a heavier burden on the working and middle classes than on the wealthy blew up in the negotiators' faces when the proposal was made public.

"The fundamental mistake," said Rep. George Miller (D-Calif.), "was they put together a summit of the 1980s and this is the '90s. The newspapers were laying out the content and people were furious .... These guys acted like special interests and they were trying to sell it as the public interest and it was a gross mismatch. This summit may end the '80s in terms of wheeling and dealing and greed."

Among the Democratic concessions in the final four days of the closed-door budget negotiations were a requirement that laid-off workers would have to wait two weeks before collecting unemployment and a sharp reduction in the amount of money to be invested in a tax credit for the working poor. These items, combined with proposed beer and gasoline taxes, and clearly regressive dollar increases in Medicare premiums and deductibilty, made liberal Democrats see the budget package becoming a direct assault on working men and women, and on their parents.

Democratic budget summit bargainers finally lost their nerve when they realized they did not have the votes to win Senate approval of a Democratic budget alternative, according to sources.

If the Democrats were going to to call the Bush administration's bluff, the House and Senate wings of the party had to be able to use their majorities to pass a Democratic version meeting the requirements of $500 billion in deficit reduction over five years.

A quick head-count showed that the combination of conservative southern senators and at least three Democratic northern senators in reelection fights precluded approval of proposed tax hikes and spending cuts, virtually guaranteeing an embarrassing Senate defeat.

The budget agreement, and the process used to achieve it, also infuriated members, particularly committee chairmen and members of key committees like Ways and Means and Energy and Commerce, because it locked them out of the bargaining.

Seven of the 13 Appropriations subcommittee chairman—known as the "Cardinals"—voted against the resolution, including the chairman of the full committee, Rep. Jamie L. Whitten (D-Miss.), and the No. 2 Democrat, Rep. William H. Natcher (Ky.).

Far from being chagrined at the spectacle of the failure of the Democratic leadership, many members who opposed the plan were proud and elated yesterday. "What happened [Friday] night is that congressmen decided they want to be congressmen again," Rep. Mike Synar (D-Okla.) said. One-hundred forty-nine House Democrats defied leaders, contributing to the resolution's 254 to 179 defeat.

House Speaker Thomas S. Foley (Wash.), one of the Democratic negotiators, said the vote was "absolutely not" a referendum on the leadership.

"The budget summit wasn't popular, but this doesn't constitute any kind of rejection of the leadership, any more than this constitutes the rejection of the president," he said.

Most members reported overwhelming opposition in their districts to the package. The House vote, said Rep. Steny H. Hoyer (D-Md.), who voted for the package, reflected on a decade in which voters have come to believe they can deal with the deficit without pain. "We've been Reaganized," Hoyer said. "We've had a psychology the last 10 years that it is easy, but raising taxes and cutting entitlements isn't easy."

Rep. Mickey Edwards (R-Okla.) said the defeat grew out of a flawed process. "There shouldn't have been a summit in the first place," he said. "Otherwise, why did they elect any of us? Some votes against yesterday were votes against the process .... This is a separate, independent institution. I'm not a package you can purchase at a grocery store."

Some Democrats, and even some Republicans, took some comfort in the belief that Gingrich, despite his victory, seems weakened.

"The biggest single loser in this is Newt Gingrich," said Rep. Pat Williams (D-Mont.). "When Bob Michel leaves, that's when he pays." Michel, another of the budget negotiators, is the House minority leader.

"If it was calculated to get him the leader position, it backfired," said Rep. John G. Rowland (R-Conn.) of Gingrich.

"He's got to have hurt himself," Hoyer said. "The president has to be angry with him. He gave us heartburn. He gave his own party heartburn."

Hoyer called a defeat of Gingrich in the whip election "an outcome to be devoutly prayed for."

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A Popular President Fails Critical Test

By Ann Devroy
Washington Post Staff Writer

Huddled with his top advisers in the Oval Office early yesterday, President Bush faced the morning after: For the first time in his presidency, he had asked the nation directly for help, and America had said no. He had asked his fellow Republicans to stick with him and a majority of them, too, had refused.

How Bush, riding a wave of unprecedented presidential popularity lost one of the most critical tests of his 20 months in office is a story of a bipartisan budget negotiation that sputtered for six months and then spectacularly backfired; of a president with his heart overseas, not on domestic policy; and of a governing strategy centered on stopping congressional action after the fact with a veto rather than steering it forward.

NEWS ANALYSIS

But analysts and even some GOP strategists and Bush advisers acknowledged yesterday that the roots of the president's failure to marshal support for the agreement to reduce the budget deficit, were in his 1988 campaign, when he told voters the deficit could be tamed without sacrifice and without tax increases. "Certainly he is paying a price now for the read-my-lips campaign strategy," said John Kessel, an Ohio State University political scientist who studies the presidency.

Democrats eager to minimize the failure of their leaders, and a few Republicans, were quick to say yesterday that Bush's inability to get House GOP support for the budget package seriously diminishes his power. A senior official lamented, "It's one of those truisms here. The perception of power is power in Washington. If you can't bribe, threaten or cajole 80 House Republicans to stick with you, when it's critical, then when can you ever? And if you can't deliver votes, how can you deal?"

Rep. Thomas J. Downey (D-N.Y.) led the Democrats in mockery: "This is a president who has troops on foreign soil and he is unable to command his own party. He's the commander-in-part, not the commander-in-chief."

According to administration officials and others familiar with the White House budget strategy, the most immediate error in the administration's game plan was the failure to convince Americans of both the seriousness of the deficit problem and the need to sacrifice. "It would have been much smarter to use his political capital three months ago to start building the case and to continue building the case on why this was necessary," one Republican pollster said. "The voters don't believe it is necessary."

Thomas Cronin, a scholar on the presidency at Stanford University, said, "He didn't prepare people. He only went out after he was in trouble. He did too little too late. Leadership involves persuasion, making a case, building a case. Leaders need to prepare people when sacrifice is in order."

Administration officials today acknowledge that having remained essentially quiet on the subject of sacrifice, Bush's second error was "nakedly asking for support on the eve of the vote, on the basis of sacrifice." Looking into the television cameras, Bush said Tuesday night, "This is the first time in my presidency that I have made an appeal like this to you, the American people," and he pleaded, "Tell your congressmen and senators you support this . . . agreement."

Instead, administration officials said, Republican members were told the opposite by constituents who called. White House officials said the day after the speech, "Our guys said they were swamped with calls, all against. The thing just turned on us."

This week demonstrated, among other things, that Bush has not developed the infrastructure and techniques that Ronald Reagan frequently used to appeal directly to the public over the heads of politicians. When Reagan made major TV speeches his first two years in office, the White House organized positive responses in advance, with the conservative groups, some business groups and the party apparatus primed to set off a blizzard of calls to Congress. If the support wasn't there, Reagan's vote-counters often kept him off television until it was.

"There were a lot of doubts about whether this would work," one official lamented yesterday of Bush's Tuesday night speech. "But no one outright said 'don't do it,' and all our members were pleading, 'you gotta give us cover, you gotta give us cover.' "

Some Republicans said the White House staff, with Chief of Staff John H. Sununu at the helm, stumbled badly in counting votes, and plotting how to get a big package through Congress because its role the past 20 months has been the opposite: stopping what it sees as bad law rather than promoting new initiatives.

Bush has vetoed more legislation than any president at this point in his term since Franklin D. Roosevelt: 13 vetoes, none overridden. He has what the White House describes as a 33-plus-one legislative strategy: He works to get 34 votes in the senate, insuring his vetos will be upheld, since it takes a two-thirds majority of both houses to override a veto.

Added to the White House problems was widespread anger, even rage, among many Republicans over administration inability during months of bargaining to counter a skillful Democratic campaign to portray the president and his party as interested in only one thing—giving tax breaks to the rich. A Times-Mirror poll released in September showed that unprompted voter responses to a question about what Republicans stood for found 51 percent linking the GOP to "rich, powerful monied interests," up from only 18 percent who did so in 1987.

Many political operatives and outside analysts said yesterday they did not believe Bush himself would suffer immediate political damage with the voters because his popularity, now at mid-70s level, is strongly tied to his handling of the Persian Gulf crisis and international affairs overall, buoying up much weaker support for his handling of economic and budget issues.

That Bush's heart is in foreign, not domestic policy, has been clear both during his campaign and his presidency. As Brookings Institute presidential scholar Stephen Hess put it, "He has so clearly been two presidents, one for foreign policy, one for domestic policy, one forceful and even imaginative, one laid back at best."

That Bush has spent little time thinking through the budget problem, as compared to the changes in Eastern Europe, for example, is evident to many. "He didn't like it [domestic issues] when he first ran for president, he didn't like it when he was vice president and he doesn't much like it now," said one longtime Bush associate. "He knows he can't avoid it, but that doesn't make him have to like it. All you've got to do is spend five minutes talking to him about China and five talking about the budget to know where he's at."

While few predict immediately apparent harm to Bush, political analysts predicted the president's inability to command support for the budget agreement will weaken him with Congress.

Said Cronin, "This isn't the end of George Bush's presidency. But it is an indication of what happens to presidents at midterm" when presidential popularity historically begins to take a slide, congressional reelection fears are at a fever pitch and serious post-election reality sets in.

Staff writer Dan Balz contributed to this report.

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Americans Spread Blame for Fiscal Gridlock

By Guy Gugliotta
Washington Post Staff Writer

Some Americans harbor a modicum of sympathy for President Bush and members of Congress as they face difficult budget decisions, but others revile the government for wimping out in an election year or selling out poor people.

"They should get their hands out of our wallets," said computer operator Thomas Noteboom, 39, of Harrisburg, Pa. The government is "just padding for the rich, and the average working man has to carry the load."

In interviews throughout the country yesterday, Washington Post reporters and special correspondents asked Americans for their opinions on the nation's fiscal crisis and the failure of the House to pass the compromise budget agreement.

The vast majority of those interviewed in the unscientific survey expressed hope that Congress and the Bush administration would agree on a budget package but offered differing opinions on what it should look like. Several people viewed the deficit with dread, the harbinger of meaner times to come.

"I keep thinking of my 21-year-old son and my grandson," said Marv Tabolsky, a talent-agency executive living in Tarzana, Calif. "I wish we could leave them more hope in the coming years. I just don't know what the solution is."

Both the kindest and some of the cruelest comments about the performance of Congress came from some of those most likely to be affected should the government shut down or undergo massive across-the-board budget cuts known as a sequester.

"We go through this every time—they hold the budget hostage—and this time it's close to the election, so no one wants pass a budget that's unpopular," said an enraged Mike Brennan, 50, a civilian personnel director working for the Navy in Prince William County.

"No one wants to go home and say, 'I voted for reductions in your Medicare' or 'I voted for an increase in the tax on your beer. Vote for me.' It almost borders on the disgusting," he said. "There is a total vacuum of leadership."

Brennan said his job will be safe in sequester. Those with a more uncertain future tended to be more cautious.

"I think the problem is terribly complex," said Bonnie Leibel, 46, who expects to be furloughed from her job as a Veterans Administration analyst if there is a sequester. "The people in Congress are terribly worried about getting reelected. They have a problem no matter which way they vote."

The choices for the House in the vote early yesterday morning, as several federal employees outlined them, were two—vote for the budget summit package and be thought of as hardhearted toward the middle class and working poor, or vote against it and be denounced as a milquetoast more worried about midterm elections than the nation's welfare.

"They're playing a game, and we're the ones who are involved," said Loretta Lewis, 33, a government secretary. "I wouldn't say the government's failing, but no one's willing to compromise. Everybody wants what they want, and no one's willing to give us anything."

Lewis, like Leibel, faces the possibility of furlough and is looking for a part-time job. She said she is living on her own for the first time in her life, "getting along from paycheck to paycheck." Now, she said "would be a very bad time" to be furloughed.

Outside of Washington, Americans tended to be less charitable. Most of those interviewed see the budget summit agreement as pro-business, anti-middle-class and anti-poor. Miami banker Bob Carter, 41, said he is glad that the House voted down the budget agreement because "it's a rip-off to the public. The citizens will suffer tremendously. They're looking out for the rich."

In New York, Lorraine Lamb, 33, a broadcast buyer in an advertising agency, was trying on hats in Saks Fifth Avenue when she was told about the House vote. "I'm not surprised really, because I think a lot of people were upset about the cutbacks in Medicare. That's the way I felt, too. It was really going to hurt people who couldn't afford it, like the elderly. I thought there should be another solution."

Asked to suggest a solution, she said, "Maybe taxing another group of people. You hate to hurt anybody, but maybe people who are in a better position to afford it."

Others agreed. Many of those interviewed described the budget dilemma as partisan war, with the Democratic Congress trying valiantly to protect the interests of the little people against a pull-out-all-the-stops assault on spending by Daddy-Warbucks Republicans.

"They were trying to place most of the burden on elderly and middle-class people like myself," said Willie Cardenas, 63, a Texas state office worker, who pronounced himself delighted that the House voted down the budget agreement. "It wasn't fair. I think Congress showed a lot of guts standing up to the president."

Still, The Post found just as many voices who faulted Congress for indecisiveness and failure to take action in a crisis. The reason, most insisted, was November elections.

"I thought it was kind of stupid and politically selfish," Darrel Nichols, a retired insurance executive in West Covina, Calif., said of the House vote. "I think the plan at this point is about as good as I can think of. I don't like parts of it, but it's probably the best we're going to get."

Less forgiving was David West, a business manager living in Venice, Calif., on the edge of Los Angeles about 30 miles from Nichols in West Covina. The House vote showed that members of Congress "were obviously more concerned with saving their asses and preserving their incumbencies than making a difficult choice and taking a risk."

Up the coast in Seattle, KING radio talk-show host Jim Althoff denounced Congress and the proposed budget agreement. "No one likes the new budget deal . . . because it's a stinker," said Althoff, 44. As for Congress, he added, "We ought to get rid of the whole bunch. They are ossified, petrified, so under the influence of special interests that they are unable to act."

Some Americans wanted Congress to take action because they found the debt patriotically insulting. "We're supposed to be No. 1—U.S.A.," said Richard Morales, 20, a Lazard Freres mail clerk eating lunch in Manhattan's Rockefeller Plaza. "We're supposed to be the top dog in the world, and now we're being bought up. Who do you think owns this area? The Japanese."

In other parts of the country, people worried about specifics. Barry Cal, 32, a Seattle advertising executive, said he objects to the budget agreement because it cut too much from health care, did not freeze defense spending or require foreign nations to pay their debts to the United States and did not set higher tariffs. "There are a lot of foreign businesses getting too many tax breaks," he said.

Tyron Young, 30, a District of Columbia employee and part-time cab driver, complained about gasoline taxes, since "the price of gas is killing me as it is." He also said he is no friend of liquor and luxury taxes. "I like to go out and have a night on the town every once in a while, but now it's getting so you can't do it anymore."

Young acknowledged that the budget dilemma is a "very difficult" matter that defied easy solution. Other Americans agreed, proclaiming a plague on everyone's house.

At the corner of 6th and Congress streets, the busiest corner in downtown Austin, Tex., haberdasher Ron Kercheville was asked his opinion of the budget crisis.

"The Red Sox will win in six," he said.

The question was rephrased. Who's to blame, Congress or the president?

"I told you, the Red Sox will win in six," he responded, referring to the Boston baseball team's forthcoming American League championship series with the Oakland Athletics. "I think that's the best answer anyone can give to any question about Washington politics."

Contributing to this report were staff writers Robert F. Howe in Alexandria, David Maraniss in Austin, Tex., and Jay Mathews in Los Angeles and special correspondents John M. Baer in Harrisburg, Pa., O. Casey Corr in Seattle, Laurie Goodstein in New York and Jon Leinwand in Miami.

The Washington Post
SATURDAY, OCTOBER 6, 1990

A Budget Helper?

THE CHILD care bill could be an unlikely indirect beneficiary of the budget standoff. A couple of weeks ago Bob Dole was suggesting that child care, a particular goal of the Democrats, be stripped from the budget agreement in return for also stripping out the president's capital gains tax cut, which the Democrats opposed.

Both were dropped, though the child care bill was kept alive as a separate entity. That was okay. The child care bill is fine. The gains cut would not have been. Now the idea would be somehow to reconnect the child care bill (which comes with its own source of finance, an extension of the expiring telephone excise tax) as a way of picking up needed Democratic votes. That would be the best of all possible combinations, good social and fiscal policy both.

The child care bill has two main parts. The first would give tax cuts or refunds to low-income working families with children; for different combinations of reasons, the administration and Democrats both favor this. The second would mainly be a system of grants to lower-income families to buy child care. This the Democrats like, and the administration (on the shaky basis that it would give the government too large a role in child-rearing issues) does not.

Democrats voted against the budget agreement on grounds it was regressive. The child care tax provisions could help cure that without increasing the deficit (but still would not exact retribution from the highest-income beneficiaries of the Reagan-era tax cuts, the Democrats' main goal). The grant program, whose maximum size has already been reduced in conference, would meanwhile be subject to the appropriations process, which the budget agreement has also limited. At least in the early years, there wouldn't be that much program to oppose—and who wants to veto a child care bill in an election year, anyway?

A major question still to be settled in conference is what kind of tax cuts to give. House Democrats favor a large increase in the earned-income tax credit. The Senate bill instead made the current dependent care tax credit refundable (meaning that payments would be made to those with too little income to owe taxes; only taxpayers are helped now). The Senate would also provide a credit against the cost of health insurance premiums. The expanded EITC is the best of these ideas, the refundable child care credit, second-best. The health care credit should await another time.

The bill should also bar federal payments to sectarian child care centers—but it won't. Neither house, nor the administration, wants to take this on—nor do the supporters of child care, who know better, want to burden their bill. They'll leave the separation of church and state to the courts, which can then (if they decide as they should) be indignantly denounced for judicial activism, which is to say, for accepting the responsibility the elected branches deliberately shoved off on them.

The Washington Post

MONDAY, OCTOBER 8, 1990

Negotiators Adopt Democrats' Plan To Reduce Deficit

By John E. Yang and Steven Mufson
Washington Post Staff Writers

House and Senate budget negotiators late last night approved a compromise spending plan drafted by Democrats, moving closer to resolving the prolonged budget impasse that has left the federal government without funding since Saturday.

The new plan, which builds on the remains of the bipartisan package the House rejected last week, was agreed to without the participation of House Republican leaders, who were crippled by divisions within their own ranks.

The House began debate on the plan early today, and if it is approved will send it to the Senate for consideration. Both houses still have to approve—and President Bush must sign—some kind of stopgap spending measure in order for the government to reopen.

Last night's agreement would save $500 billion over five years, $40.1 billion in the fiscal year that began last Monday. It is stripped of controversial proposals that helped bring down the last plan and it would leave congressional committees with the power to draw up many of the plan's key components.

The action capped a day in which lawmakers in both parties moved toward common ground on controversial issues, but were then hindered by internecine strife among House Republicans.

In a closed-door afternoon meeting, the Republicans signaled willingness to raise income tax rates on the wealthy in exchange for a cut in capital gains taxes. But by evening, dissension prevented GOP leaders from joining the talks that endorsed the agreement.

Aides also hinted that the president was willing to be more flexible about the Democratic proposals and that the administration might agree to such a tradeoff. [Details on Page A19.]

Lack of a budget agreement means the federal government will be closed today. Because it is a federal holiday, the impact of a continued government shutdown would not be widely felt until most government offices reopen Tuesday.

Bush, who said he vetoed a short-term spending bill to avoid "business as usual," spent yesterday at the Camp David presidential retreat. He has said he would not agree to another stopgap spending measure to allow the government to reopen unless Congress passes a budget resolution that outlines enough savings to reduce the projected fiscal 1991 deficit by $40 billion and save $500 billion over the next five years.

The unity House Republicans found Saturday to uphold the president's veto appeared to dissolve yesterday during a 2½-hour caucus. "Somebody described it as Beirut, and that's pretty close," said Rep. Rod Chandler (R-Wash.). He described his colleagues as "bitter, divided and angry."

"The basic conservative core loves this fight more than a resolution of the problem," said a moderate GOP lawmaker.

The rift left administration officials frustrated and on the sidelines. No administration official attended the caucus, and Senate Democratic leaders refused to join a meeting with Senate Minority Leader Robert J. Dole (R-Kan.) until White House Chief of Staff John H. Sununu and Office of Management and Budget Director Richard G. Darman left, an administration official said.

The House Republicans "have no strength without the administration, and the administration doesn't have much strength without them," said one administration official.

Michel, still smarting from the failure of House Republicans to support Bush and the bipartisan budget agreement last week, was barely visible on the House floor yesterday, allowing such GOP firebrands as House Minority Whip Newt Gingrich (Ga.) and Reps. Robert S. Walker (Pa.) and Vin Weber (Minn.) to take the lead.

At one point, Gingrich, who led opposition to the bipartisan budget plan, blamed House Speaker Thomas S. Foley (D-Wash.) and other Democratic leaders for the government shutdown. "When the Democratic majority fails to override a veto, it has an obligation to respond to that failure by cooperating with the president," he said.

Weeks of frustration and exhaustion spilled out. "Of all the people in this House, of all the people in this country with little claim to cooperating with the president, it is the gentleman from Georgia," Foley thundered to the applause of Democrats.

"We have leaders who have been damaged," Rep. Jerry Lewis (Calif.), the third-ranking House GOP leader, said later.

Under the new Democratic plan, the target for tax increases would be lowered from $133.8 billion to $118.8 billion, but the committees would be asked to come up with $20 billion in savings from any of the programs under their jurisdiction.

The plan would eliminate specific policy recommendations for tax increases and cuts in benefit programs, giving House committees only savings targets.

For instance, specifics of the tax component, which liberal Democrats criticized under the original agreement for hitting the poor harder than the rich, would be determined by the House Ways and Means and Senate Finance committees.

That prospect, though, left some Republicans worried. "Nobody is interested in giving [House Ways and Means Committee Chairman] Dan Rostenkowski [D-Ill.] a $20 billion piece of Silly Putty" that he can mold to suit himself, said Rep. Jack Buechner (R-Mo.).

"Sadly, this is not a bipartisan agreement," said Rep. Bill Archer (R-Tex.), indicating his opposition to the proposed budget plan.

Rep. Charles E. Schumer (D-N.Y.) said Senate Republicans and the administration had said they wanted the budget process to move forward. "We cannot hold up a package any longer," Schumer said. "If so many of you are not on the train because of turmoil in your caucus, the train must move forward anyway."

House Democrats—angered last week by many provisions of the budget plan negotiated by administration officials and congressional leaders—emerged from their closed-door briefing relieved that their concerns had been addressed. "The hot buttons have been fixed," said Schumer.

The chances improved for a tax package that would link a cut in capital gains taxes and an increase in the income tax rate for the wealthiest Americans.

In a show of hands during a closed session, a majority of House Republicans said they would be willing to increase the top income tax rate for the richest from 28 percent to 32 percent, in exchange for a cut in the top effective capital gains tax rate from 28 percent to 20 percent, according to lawmakers.

During budget talks, Democratic negotiators insisted that the price for a capital gains tax cut was a boost in the top income tax rate to at least 33 percent.

"I would rather think the odds now were shifting" on the tax swap, Foley said yesterday. "There seems to be interest on both sides of the aisle."

Meanwhile, administration officials, including Vice President Quayle, suggested they might be looking more favorably than before on trading the income tax boost for cutting capital gains taxes.

While promising flexibility to the committees, House Democratic leaders assured lawmakers in the closed-door session that certain other provisions would not be included in the final legislation implementing the budget plan.

Even administration officials seemed resigned to smaller savings from Medicare. The health care program for the aged had been targeted for $60 billion in savings over five years in the original budget deal, but that triggered an outcry from the elderly, who faced higher out-of-pocket costs.

"There'll be some adjustment in the Medicare provisions, and that will make it easier for it to pass," Darman said.

The Democratic plan envisions saving $42 billion from Medicare, about $30 billion of it from health-care providers. The annual amount that beneficiaries must pay before receiving assistance under voluntary coverage would rise from $75 to $100, rather than to $150 as the budget agreement suggested.

The portion of the program's cost that beneficiaries pay would remain unchanged; the earlier plan would have raised the assessments. The amount of income subject to the 1.45 percent Medicare payroll tax would still rise from $51,300 annually to $73,000.

In addition, lawmakers from the Northeast and Midwest were assured that home heating oil would be exempted from a two-cents-a-gallon petroleum tax, and lawmakers representing industrial states were promised that a new package would drop a two-week delay in the start of unemployment benefits.

Staff writers Tom Kenworthy and Don Phillips contributed to this report.

The Washington Post

MONDAY, OCTOBER 8, 1990

Administration Unity Weakens on Tax Rate for Rich

By Dan Balz
Washington Post Staff Writer

The Bush administration's united front against raising tax rates on the wealthy began to show cracks yesterday, reflecting a widening debate within the administration over negotiating strategy on the budget and growing fears among some Republicans that the party is identified too closely with the rich.

Appearing on television talk shows, administration officials appeared to differ over whether they would accept a budget agreement that includes higher rates for wealthy taxpayers in exchange for a cut in the capital gains tax long favored by President Bush.

But Bush's top advisers agreed they were willing to accept smaller cuts in Medicare spending as part of a new package.

White House Chief of Staff John H. Sununu, the administration hardliner on the question, showed no public sign of budging on the tax question. "We think we ought to draw the line on the tax rates and not raise rates," he said on CNN's "Newsmaker Sunday."

But Vice President Quayle, reflecting the mood of congressional conservatives, indicated renewed willingness to consider such a trade, saying the administration was "willing to explore all options" in an effort to get a cut in capital gains taxes.

In a clear change of tone, Quayle described only as "an anomaly" the fact that the wealthiest taxpayers are taxed at a lower rate on each additional dollar they earn than are some taxpayers who make less. On ABC's "This Week With David Brinkley" he suggested that correcting that difference, known as "the bubble," was not the same as raising tax rates themselves.

For six months, the administration's budget strategy has been tightly controlled by Sununu, Office of Management and Budget Director Richard G. Darman and Treasury Secretary Nicholas F. Brady. But in the wake of the House vote early Friday morning rejecting the bipartisan deficit-reduction agreement, more administration voices have joined the debate.

That started Friday afternoon at a Cabinet meeting called by President Bush, where such former House members as Defense Secretary Richard B. Cheney, Deputy Energy Secretary W. Henson Moore, Veterans Affairs Secretary Edward J. Derwinski and Interior Secretary Manuel Lujan Jr. questioned an administration strategy that resulted in more than half of House Republicans voting against the president and the package—and that left the party angrily divided and blaming the White House as much as the Democrats.

Several Cabinet officials argued that Sununu and Darman were so intent on punishing House Minority Whip Newt Gingrich (R-Ga.), who led opposition to the package, that they were preventing steps to patch up the party.

During the meeting, Sununu and Quayle differed on whether Bush should veto, or simply not sign, the bill Congress approved Friday night to fund the federal government for another week.

Sununu argued against a veto, fearing the White House could not prevent Congress from overriding it, while Quayle argued in favor of a veto as part of a strategy to reunite House Republicans. Ultimately Quayle's view prevailed and Bush's veto was sustained.

Some administration officials now believe it would be worth raising the top tax rate on the wealthiest taxpayers from 28 percent to 32 percent, if the Democrats agree to an acceptable capital gains tax. As Quayle put it, "If you're talking about collapsing the bubble, everyone making under $150,000 will actually be paying less taxes."

Congressional Democrats believe Darman is far more willing to make that trade than Sununu, who is more skeptical about the impact of the capital gains tax cut on the economy and who strongly supported the group of so-called growth incentive tax breaks included in the defeated package.

Darman hedged on the rates issue yesterday, saying on CBS's "Face the Nation" only that the trade for capital gains would not be "part of any agreement between now and Tuesday morning."

Darman and Quayle are thought to believe that over time the Republicans will have difficulty defending the "bubble," given growing concerns about tax fairness and new polls showing growing numbers of Americans who identify the party with the rich.

The Washington Post
MONDAY, OCTOBER 8, 1990

Rowland Evans and Robert Novak

Bipartisan and Bitter

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.

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. Bush, a former national party chairman, and his chief of staff, John Sununu, at heart are highly partisan Republicans. But in their increasingly obsessive search for deficit reduction, they insensibly were led to abandonment not only of Republican principles but of the party's 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 and no real constraint on domestic spending.

What followed was Bush aides acting "like a bunch of thugs," in the words of one lame-luck GOP congressman, in order to win House approval. The story of moderate Rep. Ralph Regula of Ohio denied use of the presidential box at the Kennedy Center is so ludicrous as to be laughable. But 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 his fellow House GOP leader, Rep. Vin Weber, sought a way to avert defeat until the eleventh hour Thursday. They met with a frequent antagonist, Senate Republican Leader Robert J. Dole, and tentatively mapped a revised 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.

In the aftermath of the debacle, Gingrich sought to repair the shattered party fabric by canceling all television appearances and renewing efforts for a new budget deal that would win back the Republican faithful by putting a real freeze on discretionary government spending. But contact between the White House and Gingrich Friday was mainly by rumor.

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

Republican congressmen supported the veto even though they question the president's tactics. "I guess he's embittered," a puzzled Rep. Henry Hyde, a widely respected Republican loyalist, told us. If Bush really shuts down the government, said liberal Democratic political operative Russell Hemenway of the National Committee for an Effective Congress, "then we'll win some seats [in Congress]—a lot of seats.

That fear grips Republicans across the land. Not one serious GOP congressional challenger supported the budget agreement. Incumbent Republicans, contaminated by inside-the-Washington-Beltway wisdom, were less prudent. Rep. Peter Smith, fighting for his political life in Vermont, faxed his endorsement to the news media before anybody could dissuade him. That may well elect Bernie Sanders, the longtime socialist mayor of Burlington running as an independent, who could then thank the White House for the excesses of bipartisanship.

The Washington Post

TUESDAY, OCTOBER 9, 1990

Tiring of Hardball, Hill Ready to Bench Sununu

By Dan Balz and Ann Devroy
Washington Post Staff Writers

At a private, Republican political dinner at the Hay-Adams Hotel last summer, White House Chief of Staff John H. Sununu got into an argument with Edward J. Rollins, co-chairman of the National Republican Congressional Committee, over Sununu's handling of House Republicans.

Sununu blew up with an expletive aimed at the GOP lawmakers, according to sources. "They're never satisfied," he said bitterly.

But Rollins persisted. "Sooner or later, they're going to turn around and kill you, John," he warned. "They're not like the New Hampshire legislature."

Last week, Sununu got his comeuppance as House Republicans joined with a majority of House Democrats to crush the bipartisan deficit-reduction plan that the former New Hampshire governor helped negotiate.

In the wake of the debacle, Sununu and the administration's other chief budget negotiator, Office of Management and Budget Director Richard G. Darman, have become targets of sharp criticism from Capitol Hill.

They are blamed for prolonging and complicating the negotiations that last week produced a package few members would buy. The White House view, however, is that the tough tactics were needed to force Democrats to make real spending cuts.

Sununu and Darman are also being criticized for "ham-handed" and arrogant treatment of the congressional negotiators, failure to appreciate the political realities of the package they were negotiating and hardball treatment of fellow Republicans last week as they tried to sell the package of tax increases and spending cuts just a month before midterm elections.

Neither Sununu nor Darman returned phone calls yesterday. On Sunday, Sununu defended himself. "Everyone understood you have to break a little china" to get a significant package, he said on CNN's "Newsmaker Sunday." He predicted that "all these big waves will be seen really as ripples in the long run."

But by last weekend, the two men were distrusted enough that congressional Democrats asked to exclude them from further negotiations, while Rep. Jim Lightfoot (R-Iowa) sent a letter to Bush asking him to come to Congress to patch up relations but to leave the "pit bulldogs at the White House." Ironically, as they came under this criticism Sununu and Darman were urging Bush yesterday not to veto another short-term measure to fund the government, saying they should continue to work with congressional leaders.

Much of the resentment of Sununu and Darman among Democrats grew out of their conduct during the long days of closed-door negotiating.

One incident occurred last month at Andrews Air Force Base as the two sides wrestled with cuts in entitlement programs, one of the most politically delicate portions of the negotiations that the administration considered crucial to the long-term success of the budget talks.

The administration wanted $120 billion in entitlements cuts over five years. The Democrats, reluctant to tamper with programs aimed at their core constituents, had offered to cut just $59 billion. But after much debate, the Democrats came forward with a package of $100 billion in cuts, including Medicare and Social Security.

Most participants recognized it as a significant move by the Democrats, but Sununu mocked the proposal. "Where's the rest of it?" he asked. Sensing tensions rising among the Democrats, Senate Minority Leader Robert J. Dole (R-Kan.) immediately asked for a recess.

When the group reconvened, the White House team continued its sniping, with Darman lecturing the Democrats on how to negotiate. Sen. Robert C. Byrd (D-W.Va.), the former Senate majority leader and now chairman of the Appropriations Committee, finally erupted, saying he had never been treated so rudely in his life, sources said.

The legacy of the 1988 battle for the Republican presidential nomination, in which Sununu helped torpedo Dole's then front-running campaign in New Hampshire with a television ad that attacked the Republican leader as a supporter of tax hikes, also hung over the budget talks.

Tensions between the Dole and the White House were obvious to everyone involved in the talks, sources said. When Sununu and Darman arrived at Andrews last month, they put their nameplates along the row of chairs set aside for the congressional leaders. Moments later, aides to Dole moved the nameplates to the foot of the table. "Staff doesn't sit with the leadership," Dole was overheard to say.

Last week, Sununu created an uproar among House Republicans with his lobbying to sell the doomed budget package and in his attacks on House Minority Whip Newt Gingrich (R-Ga.) for his opposition to the agreement.

At a closed-door caucus, Sununu said that Bush would come into members' districts and challenge them if they voted against the package. As GOP backbenchers hooted, Rep. Carl D. Pursell (R-Mich.) angrily responded that he did not like to be threatened.

"I don't think that's tough. I think that's real," Sununu said on CNN Sunday in defense of his tactics.

Sununu still has some sympathizers. "Capitol Hill is filled with egos and it's pretty easy to bruise them," said Rep. C. Christopher Cox (R-Calif.). "You need Dr. Joyce Brothers as White House chief of staff."

"He's an extraordinarily bright and intelligent man," said one House Republican. "But his basic problem is that he was effective as a governor dealing with people who were part-time legislators. Frankly, you can bully them around. . . . You don't get anywhere in this town by bullying people around. That lesson has not quite soaked through."

Sununu appears willing to accept the criticism, and there is no sign that Bush has lost any confidence in either of his two negotiators. "As long as we get a package that really reduces the deficit, and I think over the next few weeks that will happen, what I have to absorb in the process is worth the success of the result," Sununu said.

The Washington Post

TUESDAY, OCTOBER 9, 1990

Bush, Hill Leaders Agree on Emergency Funds

By John E. Yang and Steven Mufson
Washington Post Staff Writers

President Bush and congressional leaders reached an agreement late last night that would reopen the federal government today after a three-day shutdown and give Congress another 11 days to come up with a detailed package of tax increases and spending cuts.

Bush said he would sign a stopgap omnibus spending bill to fund government operations through Oct. 19 at the same level as the fiscal year that ended last month. The Senate approved the measure by a voice vote last night and the House began considering it shortly before 1 a.m. today. Final approval was expected within hours.

The Senate early this morning then took the next step in the months-long effort to break the budget impasse, giving final congressional approval to the outlines of a five-year deficit-reduction plan that would save $500 billion, including $40.1 billion in this fiscal year. The vote was 66 to 33. Sen. Pete Wilson (R-Calif.) did not vote.

"Tonight we reap the bitter harvest of 10 years of national self-indulgence," said Senate Majority Leader George J. Mitchell (D-Maine). "We all know the problem and we all know the solution. And it has to begin here tonight."

The congressional action came amid fresh evidence of public disillusionment with Congress's handling of the budget. According to a new Washington Post-ABC News poll, a majority of Americans believes that Congress and not the president is most to blame for the budget impasse that has brought the federal government to a virtual halt. [Details on Page A8.]

Final congressional approval of the budget resolution cleared the way for Bush's signature of the emergency spending bill, expected shortly before working hours this morning, allowing the government to resume normal operations today. But it was only an incremental step toward breaking the deficit-reduction gridlock between the White House and Congress.

The action set the stage for various congressional committees to fill in the blanks of the sketchy budget outline, determining the precise details of whose taxes would be raised and whose benefits would be cut in order to save $500 billion over five years.

"That's where the real battle will come," said Sen. Warren B. Rudman (R-N.H.).

"We have brought this nation to the brink of fiscal collapse," Senate Budget Committee Chairman Jim Sasser (D-Tenn.) said during the debate. "This is not a shining moment for anyone. . . The citizens of this country are tired of it; I'm tired of it also."

Most offices are normally to reopen this morning after the three-day holiday weekend. Funding ran out at 12:01 a.m. Saturday, and Bush rejected an initial emergency spending bill that would have kept the government functioning because Congress had missed its self-imposed deadline for approving a budget. The House failed to override his veto.

Then, ending a long and tumultuous session at 3:45 a.m. yesterday, the House voted 305 to 105 to approve the new stopgap spending bill, which would also delay the automatic, across-the-board spending cuts mandated by the Gramm-Rudman-Hollings law. The measure would have been effective until at least Oct 20.

Administration officials had wanted to shorten the life of the stopgap bill to next Monday. They argued that that would keep pressure on lawmakers to come up speedily with specific tax increases and benefit program cuts to implement the deficit-cutting plan.

But House Speaker Thomas S. Foley (D-Wash.) resisted the change on grounds it would not provide enough time. Foley has been angry with Bush for vetoing the previous spending bill and shutting down the government.

"You can just write this in every paragraph of my remarks, how totally gratuitous and unnecessary this whole fiscal crisis is," he said. "There is no reality to it other than as a presidential effort to, quote, 'Put pressure on the Congress.' "

The final measure would also extend the federal government's borrowing limit through Oct. 19, averting default on Thursday when $17.5 billion in Treasury notes come due.

If an emergency spending bill is not signed into law by this morning, federal employees who are not absolutely needed would probably be sent home after reporting to work.

Bush and his top advisers wrestled with the question of whether to sign or veto the short-term spending bill throughout the day. The decision put Bush in a difficult position, with either choice likely to result in further resentment from the competing factions on Capitol Hill.

Bush also faced the prospect that he would be blamed for shutting down the federal government, with congressional Democrats arguing that they had met his terms by approving a budget resolution. But White House hard-liners have pushed brinksmanship for months in the talks, making it difficult to yield at this point in the negotiations.

"The president's stuck in a box," an administration official said.

Final congressional approval of the budget resolution, which does not require a presidential signature, sets the stage for congressional committees to begin work on the details of a deficit-reduction plan.

With scant GOP support, the House approved the measure at 1:30 a.m. yesterday on a 250 to 164 vote. Democratic leaders had crafted the plan from the wreckage of the agreement between administration officials and congressional leaders that the House rejected last week.

The budget resolution sets overall spending ceilings and targets for tax increases and benefit program cuts. Hill committees will make changes in permanent law to meet those targets in an often-quarrelsome process called "reconciliation."

The earlier budget agreement was dragged down by its politically painful policy proposals, ranging from higher taxes on home heating oil, gasoline, cigarettes and alcoholic beverages to higher out-of-pocket expenses for Medicare beneficiaries.

To make it more palatable to lawmakers and attract votes, congressional leaders stripped out the specifics, leaving it to congressional committees to make the decisions. "The biggest improvement is it gives flexibility to the committees," said Sen. David L. Boren (D-Okla.).

But the lack of precision bothered others. "It's a promise, not a program," complained Sen. Phil Gramm (R-Tex.), one of the negotiators who came up with the earlier, failed plan.

"It's just a shell, and you can look in that shell and see anything you want," said Sen. Trent Lott (R-Miss.). "I would not have voted for the summit agreement and I like this even less."

A group of GOP senators led by Pete V. Domenici (N.M.), the Senate Budget Committee's ranking Republican, planned to set a maximum tax figure and a minimum benefit program cut for the reconciliation bill.

The task of filling in the biggest part of that shell will fall to the House Ways and Means and Senate Finance committees, which have jurisdiction over taxes and such benefit programs as Medicare and Medicaid. With the details left up to the panels, the process, which could begin as soon as today, will likely be a supermarket for lobbyists and lawmakers seeking to protect specific interests.

The panels will be asked to raise a net of $118.8 billion in new taxes over five years and save $55.6 billion over that time from benefit programs. In addition, they would be directed to produce another $20 billion in savings from any of the tax or benefit programs under their jurisdiction.

Senate Finance Committee Chairman Lloyd Bentsen (D-Tex.) said yesterday he believed lower capital-gains taxes in return for higher income tax rates on the wealthy could be part of the package. "I think that will be the trade," he said. "People who benefit from [the capital gains tax cut] will have to pay for it by an increase in rates."

The House-passed deficit-reduction plan would make minimal spending changes from the earlier bipartisan agreement. Military spending, not including the cost of operations in the Persian Gulf, would be cut $64.2 billion over three years below the amount needed to keep pace with the projected rate of inflation. A wide array of domestic programs would be held to the projected rate of inflation during that period.

Savings in the fourth and fifth years would not be allocated between military and non-military spending.

Staff writers Helen Dewar and Don Phillips contributed to this report.

The Washington Post

TUESDAY, OCTOBER 9, 1990

Majority in Post-ABC Poll Blames Crisis on Congress

By Richard Morin
Washington Post Staff Writer

A majority of Americans believes Congress and not President Bush is most to blame for the budget impasse that has brought the federal government to a virtual halt, according to a new Washington Post-ABC News Poll.

The survey found that 57 percent of those interviewed over the weekend said Congress was more to blame for the current budget stalemate, while 14 percent said Bush was more responsible. Another 16 percent said Bush and Congress were equally to blame, while the remainder said neither side in the dispute should be faulted or expressed no opinion.

Still, Bush's overall approval rating in the latest poll fell 10 percentage points to 65 percent in less than a month, an apparent sign that the American people are holding both the president and Congress accountable for the budget debacle.

Big majorities also disapproved of the way that Bush and Congress were handling the budget deficit, with six out of 10 persons questioned expressing disapproval of the way Bush as well as both congressional Republicans and Democrats were handling the deficit.

While neither Bush nor Congress escaped the public's apparent anger over the budget bottleneck, many Americans seemed to view the current legislative crisis as symptomatic of larger problems in Congress.

Barely half of those questioned—54 percent—said they believed Congress was "able to deal with the big issues facing this country."

Among the 42 percent who disagreed, 9 out of 10 said Congress most often failed to act on problems like the deficit because members were "afraid to do unpopular things." Just 9 percent attributed congressional inaction on major national problems to the fact that the issues were so complex.

At the end of what many regard as the single worst week of his presidency, Bush's 65 percent approval rating is still among the highest ever recorded for any president in the postwar era at this stage of his presidency. It is identical to his standing with the public in July before the crisis in the Persian Gulf boosted support for Bush. And despite his recent drop from 75 percent approval, a majority of both parties expressed approval for the president's job performance.

A total of 756 randomly selected adults were interviewed nationally Oct. 5-7 for this survey. Margin of sampling error for the overall results was plus or minus 4 percentage points.

The Washington Post

TUESDAY, OCTOBER 9, 1990

For House GOP, Political Paralysis Is Byproduct of Budget Crisis

By Tom Kenworthy
Washington Post Staff Writer

The budget crisis that has paralyzed the government has produced a political crisis that has paralyzed Republican members of the House.

Split by their own president's disavowal of his—and their—credo of no new taxes and torn further by a near civil war among their leaders, the 176 members of the House Republican Conference appear to be undergoing a collective identity crisis. On one side are those Republicans who see themselves as part of a governing coalition with the GOP White House; on the other are those who see themselves as an insurgent opposition within the Democratic-controlled Congress.

"It's a fundamental conflict," observed Thomas E. Mann, director of governmental studies for the Brookings Institution. "The governors and the opposition types are drawn up aginst each other along battle lines."

"I do not know where we go from here," lamented Rep. Jack Buechner (R-Mo.), who compared relations within the House Republican Conference to those of a warring family that stays together only because it cannot afford the economic strain of breaking up.

The war broke into the open last week when a majority of House Republicans, led by their second-ranking leader, Minority Whip Newt Gingrich (R-Ga.), defied President Bush and helped defeat a compromise budget plan proposed by the administration and a bipartisan group of congressional leaders. Though the House GOP briefly reunited to sustain Bush's veto of a stopgap spending measure to keep the government operating, the strains quickly reappeared on Sunday.

Divisions over whether and how to negotiate with Democrats on a new budget resolution paralyzed the House GOP late into the night. Minority Leader Robert H. Michel (R-Ill.) was eager to proceed to conference with the Democrats to keep the process moving, but he had only scattered support among junior GOP leaders. Those lawmakers opposing him figured Democratic conferees would simply ram through their proposal with little heed for GOP demands for deeper domestic spending cuts and assurances of a capital gains tax cut.

In the end, Democrats convened and concluded the budget conference without the presence of the House GOP representative, Rep. Bill Frenzel (R-Minn.). Early yesterday morning, the House approved the new budget plan, 250 to 164, with 32 Republicans supporting it and 136 voting against it.

Moderate Republicans aligned with Michel believe that, by opting out of the process over the weekend, they have given the Democratic-controlled Ways and Means Committee what Rep. Marge Roukema (R-N.J.) called "a blank check" to write Democratic legislation implementing whatever budget agreement is finally reached.

Gingrich's wing of the party, said Roukema, has "badly harmed the president and certainly dispirited our leadership."

But other Republicans say their party's long-term interests could well be served if the revenue and spending legislation is covered with Democratic fingerprints just before the November congressional elections.

"If they want to go to the country with a budget that is largely taxes, that's fine with me," said Rep. Mickey Edwards (R-Okla.). "I'll even pitch in to buy them air time."

The stakes in this GOP schism go well beyond the immediate issue of the fiscal 1991 federal budget. They also involve control of the House Republican leadership once Michel retires, probably in 1992, and whether Republicans will soon gain majority status in an institution they haven't led since the first Eisenhower administration.

"The accommodationist wing is not on the ascendancy," said Rep. Chuck Douglas (R-N.H.), a Gingrich ally. "The proof of that is we are willing to take on our own White House."

But more moderate GOP members rue what one called the Gingrich wing's "rule or ruin" strategy as so divisive that it cuts Republicans out of governing altogether.

"We can't just fall back on 'Hell no, no new taxes,'" said Rep. Fred Grandy (R-Iowa). "That's a popular campaign theme in our conference but it has nothing to do with governing."

But Gingrich is clearly playing to a larger national audience beyond Capitol Hill, as illustrated by his and his allies' newly populist rhetoric stressing fairness and equity. The Georgia Republican is even exploring a deal that would lower the capital gains tax rate while raising the marginal income tax rate for the wealthy—a compromise that would fly in the face of many fund-raising letters he has sent this year pledging everlasting opposition to higher taxes.

Which faction of the House GOP will benefit from this year's budget debate depends greatly on the shape of the coming tax and spending-cut legislation and on whether Bush endorses it.

Should Bush work with Democrats and Senate Republicans for enactment of a package of tax increases and spending cuts to implement the House-passed budget agreement, it would undercut Gingrich and his wing of the party. But if Democrats produce legislation unacceptable to the White House, Gingrich's strategy of confrontation may be validated.

All of this is feeding speculation about Gingrich's future and whether he may be challenged for the whip's position when Republicans elect their leaders again in December.

"It's a great mistake to write off Newt," said Mann. "I don't underestimate the extraordinary frustration in the House Republican Party."

But working against Gingrich, at least for now, is the ire of Bush administration officials at what they see as his treachery. As Tom C. Korologos, a lobbyist who frequently works Capitol Hill on the administration's behalf, said, "You don't go around [angering] the barracudas in this town very long and survive."

Staff writer Don Phillips contributed to this report.

The Washington Post

TUESDAY, OCTOBER 9, 1990

Mikulski Budget Message To Senate a Personal One

By Kent Jenkins Jr.
Washington Post Staff Writer

For Sen. Barbara A. Mikulski (D-Md.), the federal budget crisis became very personal yesterday: It took her away from the bedside of her ailing mother.

As her daughter told it on the Senate floor, 75-year-old Christine Mikulski was rushed to a Baltimore hospital early yesterday barely able to talk or breathe. But, the senator said, her mother had one question after being admitted to intensive care: "She asked if I was coming to vote."

"An hour earlier, we didn't know if she would live or die," Mikulski said. "But she said, 'You go to Washington and save Medicare.' "

According to Mikulski, her mother's condition stabilized yesterday. And like most of the Washington area's members of Congress, Mikulski said she would support a budget plan approved by the House early Monday.

The Senate finally approved the plan last night, with Mikulski and fellow Maryland Sen. Paul S. Sarbanes (D) voting for it, as did Virginia Sens. John W. Warner (R) and Charles S. Robb (D).

A few hours later, the House voted overwhelmingly to approve the budget accord.

Earlier, Mikulski demonstrated in an emotional speech on the Senate floor that the rhetoric surrounding the budget plan was becoming increasingly harsh.

Promising that tax increases will fall hardest on the wealthy, Mikulski said, "We're going to go after those who have benefited from this decade of glitz economy. I look forward to voting to raise the tax rate of those who make more than $150,000 a year . . . . It's time that the Wall Street go-go boys start paying their fair share."

Even Robb, who is normally reluctant to criticize politicians of either party, had some strong words for President Bush, calling the stalemate "the ultimate result of an abdication of presidential leadership."

"I am not a regular basher," Robb said, but for Bush "to come out and look like just another of the players is a serious mistake that's bound to have consequences in the long run."

Most Washington area House members, who voted on the budget before dawn yesterday, favored the plan. Supporters included Maryland Democratic Reps. Steny H. Hoyer, Tom McMillen and Beverly Byron as well as Republican Reps. Constance A. Morella (Md.) and Frank R. Wolf (Va.). Wolf and Morella split with the GOP majority in part because their districts include large numbers of federal workers.

The three area House members who opposed the plan yesterday include the two with the toughest reelection campaigns: Stan Parris (R-Va.) and Roy P. Dyson (D-Md.). Also voting against the budget was Rep. D. French Slaughter Jr. (R-Va.).

Parris and Dyson, who also opposed last week's budget plan, have said they are reluctant to increase their constituents' taxes.

All the Washington area's House members supported a stopgap funding resolution to reopen government agencies closed by the budget crisis.

Several lawmakers said they are concerned about a political backlash if federal workers are not able to return to their jobs as scheduled today. "They are frustrated and angry," Morella said. "Federal employees are being left out in all this."

The Washington Post
TUESDAY, OCTOBER 9, 1990

Buying Time

WHAT congressional leaders have done to salvage the budget process is shift the venue and pray for better ideas. The new budget resolution differs from the failed summit agreement it seeks to replace in that, while prescribing the same set of laudable goals, it omits most of the means for achieving them.

Rather, the measure is aimed at buying two or three more weeks atop all that have gone before for congressional committees to work the means out. The required votes would then have to be cast even closer to the election, which in some respects is harder. But perhaps a heightened sense of either crisis or numbness by then could also make it easier.

There is no way of knowing in advance whether the new approach will succeed or, like so many predecessors, fail. But some of the standards of judgment can be laid out ahead of time.

1. The amount and timing of deficit reduction must be no less than the $500 billion over five years and $40 billion in the first year that the summit negotiators constructively kept as their goal. The softening economy will be offered as an excuse to lower or stretch the targets, but delay will merely institutionalize the deficit and the problems it represents at a higher plateau. This is medicine that should have been taken long ago.

2. The cuts can't be fake. No committee likes to penalize the interest groups that look to it, and some committees that would now have responsibility have become notorious confectioners at budget time. The leaders have to say no to games this year.

3. The idea of trading a cut in the capital gains tax for a higher top income tax rate has been revived as a way of rescuing a deal by giving each side a victory. A rate increase would indeed be the fairest way to raise extra money if the president would buy it, but so far he has not. But a gains cut would be a terrible idea, both costly and regressive, and in combination with a higher rate would undo tax reform by breeding tax shelters. It would be the ultimate irony if, in the name of progressivity and the middle class, the Democrats reintroduced the distinction in the tax code between investment and "ordinary" income.

4. The elderly now take up more than a third of the budget; there's no equitable way to cut the deficit without them. The summit negotiators turned to Medicare because Social Security was declared for political reasons to be off limits. The House then balked at exacting the sought-after contributions from Medicare recipients as well. One idea now is to protect recipients by making high earners pay increased Medicare taxes instead. That would be fine but still doesn't speak to the intergenerational issue of having recipients also pull an oar in deficit reduction. The right way to achieve that, if anyone had the political courage, continues to be to subject a higher percentage of Social Security benefits to the income tax.

The Washington Post
TUESDAY, OCTOBER 9, 1990

The Rest of the Agenda

CONGRESSIONAL Quarterly published a list a couple of weeks ago of all the current legislation President Bush has threatened to veto. It includes just about every major bill still pending, which is to say almost every important question to which the 101st Congress has given time. It is not just the budget that remains in dispute, but the child care, clean air, campaign finance, civil rights, immigration, housing, farm, crime and defense authorization bills, all 13 appropriations, and all the way down to the fish inspection bill and the president's own proposal to make EPA a Cabinet-level department.

A lot of these bills depend on the budget, and most may still be passed this year. If they are, the administration's first Congress could still end with a creditable record. With just a little bad luck or rancor, it could also turn out to be as barren a Congress as any in years.

Its accomplishments (and the administration's on the legislative front) thus far are spare. A largely inadequate savings and loan bailout bill was passed last year, and a modest first increase in nine years in the minimum wage. The government took greater control over doctors' fees, a step still underappreciated nationally, but otherwise little was done to reduce the deficit (compounding this year's problem). The House (but not the Senate) banned honoraria. This year an important bill extending civil rights protection to the disabled has also been passed—and that is about all.

Child care is hung up in part on cost, in part on a grant-giving program the Democrats want to include that the administration says would be heavy-handed and intrusive. A civil rights veto is threatened on grounds (not so) that the bill would force resort to quotas. Many issues are unresolved in the clean air bill, most of them bearing on its presumed cost to industry. Campaign finance reform has foundered in part on spending limits, which Democrats favor and Republicans don't (and in part on the fact that both parties in Congress are too well kept). The issues in housing are partly cost, but partly also the depth of the government's involvement. And so it goes.

It's true the budget has to be dealt with. But that is not the only issue outstanding between the president and this drifting Congress. Most of the other work of the Congress is also undone.

The Washington Times
TUESDAY, OCTOBER 9, 1990

House Republicans warn of 'blank check' in deficit plan

By Donald Lambro
THE WASHINGTON TIMES

As Republicans remained deeply divided and without a strategy to tame the deficit, the Democrats united yesterday behind a budget bill that could boost taxes even higher than last week's defeated spending package.

On the surface, the five-year, $500 billion budget resolution approved by the Democratic-controlled House on a strongly party-line vote of 250-164 appeared roughly similar to the compromise measure killed by a bipartisan House vote last Friday.

NEWS ANALYSIS

The spending blueprint for the fiscal year that began Oct. 1 sought to soften the politically painful cuts in Medicare and erased any mention of specific excise taxes that had stirred widespread popular resentment, including levies ranging from gasoline to home heating oil.

But the revised and vaguely worded resolution crafted by Democratic leaders — which House Republicans condemned as "a blank check" for congressional tax writers — would leave most of the critical tax and spending details up to Democratic-controlled committees.

A key change was a reduction of $20 billion from the $60 billion in Medicare savings contained in the old bill. The new bill would leave it up to the tax-writing Senate Finance and House Ways and Means Committees to determine whether the difference would be made up by taxes or spending cuts.

A number of Republicans feared the change would result in new taxes far beyond the $134 billion in last week's bill that could include raising the top income tax rate — a goal that Ways and Means Chairman Dan Rostenkowski has long championed.

Republican Rep. Margaret Roukema of New Jersey said she wasn't willing to give the Ways and Means panel — where Democrats outnumber Republicans 23-to-13 — "a $20 billion blank check" to raise whatever taxes they determine are necessary to make up the difference.

But Rep. Robert Torricelli of New Jersey reflected the pent-up hostility on the Democratic side of the aisle in the long budget battle when he angrily told Republicans, "Get out of the way so the rest of us can start governing America."

Yet Republicans also complained the revised Democratic package had thrown out any pretense of budget process reform and offered no guarantees that the promised spending cuts would be made. Many key advisers to GOP leaders were comparing the Democrats' budget plan to the 1982 Tax Equity and Fiscal Responsibility Act that President Reagan signed into law on the promise that $3 in spending cuts would be made for every $1 in new taxes.

"Reagan never got the spending cuts and our members are afraid the same thing is going to happen under this bill," a chief aide to Senate Republicans said last night.

"It's a new day but it's not a new deal," Republican Rep. William Thomas of California told his House colleagues early yesterday. "It's the same old shift."

Republicans were also voicing fears that President Bush — stung by last week's overwhelming defeat of the compromise package he had endorsed — had abandoned them and had no long-range strategy to deal with the higher tax increases that the tax-writing committees could produce by Oct. 15. That is the deadline when Congress must reconcile the program changes, tax increases and expenditures approved by the committees to avoid drastic automatic budget cuts under the Gramm-Rudman deficit-reduction law.

Republican senators meeting in a closed party caucus yesterday wondered, "What's the White House game plan? Have they thought through the next set of steps in the process?" a GOP aide who attended the meeting told The Washington Times.

The emerging consensus among nervous GOP lawmakers was that neither they nor the White House had a strategy to combat a possibly tax-heavy reconciliation bill that Democrats may present as a virtual fait accompli.

"Under the rules the bill is on a fast-track procedure, it is hard to amend, it will be very close to election time when members will be under pressure to pass it and go home and to prevent the government from closing down," the GOP aide said. "That's the position we may be getting ourselves into."

"Right now there is no real game plan on the Republican side to deal with that eventuality," a top Senate GOP aide said.

The Washington Times
TUESDAY, OCTOBER 9, 1990

Funding extends to Oct. 19

By Major Garrett and Frank J. Murray
THE WASHINGTON TIMES

The Senate last night passed an emergency spending bill that apparently will end the government shutdown and avert thousands of federal-worker furloughs this morning.

Bush administration and House officials said after the voice vote that it would be approved.

The compromise amendment, struck between the White House and Senate Democrats, will provide emergency funding to Oct. 19 — shaving one day off the original proposal at the request of the White House.

The amendment also would establish the lowest domestic spending levels — either passed in congressional 1991 appropriations bills or at 1990 levels — with spending for defense slightly higher than 1990 levels.

A non-binding amendment also was offered to require the Senate committees to submit their bills implementing the budget agreement by Oct. 13. This was seen as a nod to the White House, which seeks swift consideration of the budget package.

The move came as the Senate pressed for passage last night of a declawed budget deal and the stopgap spending.

Late yesterday the Bush administration was seeking ways to increase the pressure on Congress to draft an acceptable budget deal. Its tool was the emergency spending bill. Without the bill, more than $105 billion in across-the-board spending cuts were to be unleashed.

The Senate was debating a budget deal, passed by the House early yesterday morning, that would cut $40 billion in 1991 and $500 billion over five years. It is a non-binding resolution that would lead to spending legislation.

Government cuts began Saturday when the government officially ran out of funds because of a lack of congressional agreement on a budget. The effects were nominal because most government functions were dormant during the three-day holiday weekend.

Late yesterday, it was unclear if the Senate action would satisfy Mr. Bush, who remained coy about his position while the nation moved ever-closer to a massive shutdown of basic transportation, health and safety services.

"We're not sending any signals at this point," White House Press Secretary Marlin Fitzwater said after a meeting with Vice President Dan Quayle, Treasury Secretary Nicholas Brady, Budget Director Richard Darman and White House Chief of Staff John Sununu.

The White House has not threatened a veto, and Mr. Bush sidestepped questions about the matter during a ceremony yesterday in which David H. Souter took one of two oaths necessary to become an associate justice of the Supreme Court.

Mr. Bush pointed out the government slowdown scuttled plans for drinks and a buffet reception for Judge Souter. A simple receiving line was substituted for the event.

"It is not because of his strict Yankee tradition that the reception will be lacking a lot of largesse," Mr. Bush said. "I think we all know the circumstances."

The last time he discussed the matter publicly, Mr. Bush told reporters: "I'll sign one [an emergency spending bill] if it puts some discipline on the system. And if it doesn't discipline the system, then I stay with my current position."

Mr. Bush has said he would be satisified with the measure if its deficit-reduction levels matched those in the first bipartisan budget agreement. Some at the White House suggested late yesterday that only imposition of some automatic spending cuts would meet the test.

In addition to last-minute work to keep the government running, debate also continued over the possibility of raising marginal income tax rates on the highest-income earners in exchange for a reduction in the capital gains tax rate, a centerpiece of Mr. Bush's 1988 campaign. That appeared to be a debate set aside for the tax-writing House Ways and Means Committee, which is scheduled to meet today.

On Saturday, Mr. Bush said he remains flexible even for raising income tax rates on top earners.

Mr. Fitzwater said all government employees were expected to report to work today under an order from Mr. Darman. Non-essential employees would be sent home after three hours if it appeared Congress would not pass the emergency spending bill.

Senators debated a budget resolution late into the night.

Senate Majority Leader George Mitchell of Maine predicted the budget resolution and emergency spending bill would pass. He stressed that Congress had to move forward or risk serious disruptions to the national economy.

"We're not dealing with numbers here and we're not just dealing with programs," said Mr. Mitchell. "We're dealing with real human beings and their families and their hopes and fears and concerns."

Passage of both measures seemed likely, primarily because neither party is required to produce a majority of its members to pass the deal. That was the previous requirement under the first budget deal defeated in the House on Friday.

Mr. Bush has demanded the budget resolution pass before he considers the emergency bill.

Any amendments in the House budget resolution would require further action in a House-Senate conference before being approved by both chambers.

The country operated under one emergency funding bill from Oct. 1 to Oct. 5,passed after the first budget agreement was announced. That agreement, which called for $60 billion in reductions in Medicare and $134 billion in tax increases, including taxes ongasoline, cigarettes, beer and alcohol, went down to defeat in the House early Friday morning.

Government funding expired at 12:01 a.m. Saturday.

"What we're trying to do here this evening is to reopen the government," said Sen. James Sasser, Tennessee Democrat and chairman of the Budget Committee. This is not a shining moment for anyone. The American people are saying [to Congress], 'For goodness' sake, fix it.' "

Instead of listing the specific tax increases and spending cuts that provoked a nationwide outcry, the new budget document leaves those painful decisions to be decided by congressional committees.

Democrats control all committees, and Republicans are fearful of losing fights over spending cuts and tax increases fought there.

"I'm not going to sign onto this fill-in-the-blanks package," said Sen. Phil Gramm, Texas Republican, who supported and helped write the first package.

The House passed it 250-164, with 218 Democrats and 32 Republicans voting for it and 136 Republicans and 28 Democrats opposing it.

Votes on the resolution were fraught with political peril. Both parties did all they could to grant "free passes" to vote against it to any senator in a tight re-election race. Eighteen Republicans and 16 Democrats are vying for re-election this year.

The current resolution extends government funding at 1990 levels until Oct. 20.

The Washington Times
TUESDAY, OCTOBER 9, 1990

Harsh tax on the working elderly

WILLIAM ARMSTRONG

Phyllis and Dean Farley of Durango, Colo. are like most Americans who have raised a family: They've worked hard, paid their debts, even saved a little.

But at 65 years of age, Dean Farley still works. Not just to pass the time or to remain active, but because he has to. The Farleys lost their farm two years ago — a way of life to four generations of their family was auctioned off to settle debts. Sold, too, was the Farleys' hope for a peaceful, relaxing retirement. Rent. Groceries. Medicine. The bills add up.

At times, Mr. Farley has held three part-time jobs, working 70 hours per week. He currently works at the Durango landfill, a full-time job of early mornings and long hours. He pays his taxes — lots of them. In fact, Dean Farley pays a higher percentage of his income in taxes than does Donald Trump.

Why? The answer is as simple as it is unfair: Americans over 65 years old who work have $1 cut from their Social Security payments for every $3 they earn above a $9,360 annual earnings limit. This is a harsh tax on the working elderly. Those who have the good fortune to retire on income from investments such as stocks or bonds do not have $1 deducted from their Social Security checks for every $3 they earn; only those who work for their money have their Social Security checks slashed.

But that's only the beginning. Like the rest of us, they also have to pay the usual federal income and Social Security taxes, and state and local taxes.

What does this mean for Dean and Phyllis Farley? If they wished to receive their entire Social Security payment, Mr. Farley could not earn more than $780 per month. They would have to use this meager wage and their Social Security benefits to pay the rent and utilities, buy food and clothing and other necessities and try to save for the future. Pretty tough.

On top of that, they also have to pay their $4,000 annual medicine bill. No question about it: Mr. Farley must work to make ends meet. Consequently, he loses a good portion of his Social Security check.

"Losing a big chunk of our Social Security check really hurts us," says Mrs. Farley. "It's tough.... We have our insurance, but it's not very much. It really hurts."

Ironically, it also hurts the government. The earnings test actually drains millions from government coffers. The Social Security Administration spends more than $200 million and uses 8 percent of its employees to police income levels. Estimates say eliminating the earnings test at normal retirement age eventually would save the Social Security Administration 2,500 work years and close to $100 million per year in administrative costs.

The American economy suffers, too. In a country that values not just the monetary, but the physical, mental and spiritual benefits of labor, the earnings test is a harsh incentive *not* to work. Long hours, working overtime to get time-and-a-half, working weekends to beef up take-home pay — these are a few things the politicians in Washington have forgotten. But not for long. Washington's insiders need to be reminded how most people — especially the working elderly — work to feed families and prepare for the future. When legislation to scrap the earnings test is proposed, you'll hear howls of protest from Capitol Hill.

But the earnings test is hardly sacrosanct. Every year since 1977, marginal increases of the earnings limit on the working elderly have been put into place. In 1983, Congress showed its "generous spirit" when it voted to take away from elderly workers' Social Security checks, beginning in 1990, only $1 of every $3 earned over the earnings limit instead of $1 of every $2. Some on the Hill are even so bold as to suggest the government take out of some seniors' Social Security checks only $1 of every $4 earned above the earnings test.

And who says the government doesn't help people?

It's most ironic that the earnings test was instituted during the Depression to do just that — help people. But a Depression-era policy meant to encourage older Americans to make way for the young unemployed no longer is a remedy to America's economic challenges — it's a handicap.

The U.S. work force is growing at its slowest rate since the 1930s, and the fastest-growing segment of our population is senior citizens. The earnings test severely cramps the size of our labor force. An estimated 700,000 seniors would go back to work if the earnings test were scrapped. The income and payroll taxes generated by these workers would generate millions in new taxes. Over-65 workers would contribute more than a billion years of collective experience from those who have met life's challenges and are willing to do more in business, science, medicine and child care.

What's hard to understand is why repealing the earnings test has so many critics. It has been part of the Republican Party platform since 1964, but opponents charge repeal is a sop to the rich, a scheme to undermine Social Security.

But the Farleys don't fit the big-money picture conjured up by the critics. The facts don't fit their arguments, either. Who will benefit if the earnings test is repealed? It's easy to figure out when you consider that many older workers who have an outside income of $25,000 have marginal tax rates of 79 percent; those who earn $22,500 fork over 61 percent, and seniors who earn $10,000 pay 4 percent.

The earnings test is the culprit behind these confiscatory marginal tax rates. If we scrap the earnings test, more than two-thirds of the Social Security benefits paid after repeal would go to those with incomes below $40,000 — still someone's idea of "rich," no doubt.

Does America live up to her claim that her people are her greatest resource? Do we believe in the right of citizens of all ages to "the pursuit of happiness"? Not when government policies punish work, hurt lower- and middle-income senior citizens and coerce them into retirement. The earnings test has got to go.

The Washington Times
TUESDAY, OCTOBER 9, 1990

Locking in place unfriendly economic policies

PETE DU PONT

President Bush has admitted that the budget summit agreement did not reflect the philosophy he was elected on, but that "the philosophy I was elected on runs out of gas in terms of votes in the United States Congress."

He is right, of course. The Democratic-controlled Congress is deeply committed to an ideology directly opposed to the small-government, strong defense, pro-economic growth principles that elected George Bush president of the United States. It is not surprising, then, that the budget agreement turned out to be antithetical to everything Mr. Bush's coalition believes.

In the last several days, I have talked to leaders across the country who were saying what the president was saying: The budget summit deal was the best deal we could get under the circumstances.

Perhaps. But it was an awful deal. It would be fatal to the policies of economic growth that have created the jobs and opportunities enjoyed during the past decade. Consider the violence the summit agreement would do to the principles of economic growth:

- Spending would go up. The $500 billion in savings is subtracted from a baseline that has increased $778 billion since January — so the agreement was, in reality, a $278 billion spending increase.
- The summit agreement would permit discretionary domestic spending to rise 6.2 percent this year, and 5.4 percent next year — a rise 40 percent greater than the rate of inflation. Further, the spending *base* would rise with inflation, so that spending increases become larger, not smaller. So much for spending control.
- Taxes would go up. They would rise on heating oil for the poor, health care for the old and on gasoline for everyone. So much for no new taxes.
- Payroll taxes would be guaranteed to stay up — to reduce them by even $1 requires a 60 percent supermajority in the Senate, instead of a simple majority. So much for tax relief for working families.

Spending up; taxes up — a pitiful result for summiteers with the assignment of driving the deficit down. But wait. There's more:

Tax *cuts* of any kind would have to be offset by tax *increases* of an equal amount (unless that supermajority can be mustered). Want to spur alternative energy source research with an investment tax credit, spur economic growth in the inner city through a lower capital gains rate, offer tax-free individual retirement accounts for kids who want to save for college? Well, some other taxes would have to be raised to make up for the revenue loss. That's anti-growth, anti-jobs, anti-opportunity. It's bad economics, bad politics and awful policy.

Finally, the summiteers would have locked a high tax policy into the budget for the remainder of Mr. Bush's presidency. A decade ago, I had some experience with a similar deficit problem in state government. In 1979, a Republican governor and a Democratic legislature in Delaware agreed on a plan to curb runaway spending. One element: a 60 percent supermajority in both houses to raise taxes; a simple majority to reduce them. In Washington, a Republican president and a Democratic Congress agreed upon the *opposite:* a 60 percent supermajority vote to cut taxes, a simple majority to raise them. Bad economics, bad politics, catastrophic policy, locking in place policies that would prevent the economic growth we need to prosper.

To paraphrase Pyrrhus: "Another such victory over the [deficit] and we are undone."

The New York Times

NEW YORK, TUESDAY, OCTOBER 9, 1990

In Poll, Both Bush and Congress Faulted for Crisis

By MICHAEL R. KAGAY

A majority of Americans blame President Bush and Congress equally for the difficulties in dealing with the Government budget deficit, and they overwhelmingly say the current crisis is due to "political bickering" in Washington, according to a CBS News Poll.

The public was closely divided over whether President Bush did the right thing in letting some Government services halt to pressure Congress to come up with a revised budget plan. Forty-four percent of the 775 adults interviewed nationwide on Sunday said Mr. Bush had done the right thing, while 42 percent disagreed.

Forty-seven percent of those in the telephone poll said they thought the situation was a "genuine crisis," while 38 percent said it had been "manufactured for political reasons."

The one-day poll, which had a margin of sampling error of plus or minus four percentage points, was conducted at a time when Congressional negotiations on a revised budget were still in progress after the House of Representatives had rejected the initial plan fashioned by White House and Congressional negotiators. The New York Times, which frequently conducts joint polls with CBS News, decided not to poll on the subject until the outlines of the revised plan were announced.

Who's to Blame?

When asked by the CBS News poll who was more to blame, 5 percent singled out President Bush, 32 percent cited Congress, and 54 percent blamed the President and Congress equally. Of those who singled out Congress, most indicated in answer to an additional question that they blamed both the Democrats and Republicans.

Mr. Bush's standing with the public dropped by 14 percentage points, to 62 percent, since the last Times/CBS Poll, in mid-August.

A Gallup Poll, conducted Sept. 27-30, before the initial budget plan was announced, showed Mr. Bush's approval rating had already dipped to 67 percent.

Still, when it came to Mr. Bush's handling of the budget deficit in particular, only 36 percent of the public approved in the new poll, while 48 disapproved. Similarly, 39 percent said Mr. Bush had shown "strong enough leadership in trying to settle the budget" while 49 percent said he should have been stronger.

Congress Criticized

Americans also criticized Congress. When asked whether Congress was likely to come up with a plan of program cuts and tax increases that would be "fair to people like you," only 32 pecent of those polled said that was likely, while 53 percent saw it as unlikely.

Public skepticism toward Congress was also reflected in perceptions of the lawmakers' motives. Only 11 percent of those polled said members of Congress had made decisions in recent days based on what was best for the country, while 76 percent said they thought the lawmakers' decisions were based on what would get them re-elected.

Seventy-five percent said the difficulties in reaching a budget agreement were mainly due to "political bickering," while only 12 percent said they were mainly due to "important disagreements about the issues."

The public expressed clear preferences about many of the increases in taxes and cuts in benefits that have been discussed. Americans were most supportive of tax increases on people with incomes over $100,000 and higher taxes on beer, wine and liquor. More than 8 of 10 people were willing to raise each of these kinds of taxes.

The public was least supportive of raising the charges paid by people who get Medicare. Only 17 percent were willing to take this step.

Fifty-eight percent were willing to reduce military spending as a way of reducing the budget deficit.

A preponderance of those polled said the House was right to reject the first budget plan last Friday. Forty-four percent said Congress did the right thing, while 32 pecent said the House should have passed the plan.

The public was closely split on whether across-the-board cuts in all Government programs and services would be a preferable alternative, with 43 percent saying they would be and 42 pecent saying they would not.

The New York Times

NEW YORK, TUESDAY, OCTOBER 9, 1990

Helter-Skelter Day Reflects Miscalculations at the Top

By MAUREEN DOWD

Special to The New York Times

WASHINGTON, Oct. 8 — It was the sort of day for the Bush Presidency that can only be described as cheesy.

What should have been a triumphant moment for President Bush, the East Room swearing-in ceremony of David H. Souter as an Associate Justice of the Supreme Court, was meager and barely noticed. Mr. Souter, Mr. Bush's first appointment to the High Court, was not even given a reception, because there was not enough White House staff on duty to set up the party.

Since the Navy Yard was closed as part of the great Government shutdown, the Secret Service had to take the two Presidential limousines to the Mr. Wash car wash downtown, where agents did their part for the bankrupt Government by using dollar-off coupons and not tipping.

The President himself took a page from the diminished Presidency book of Jimmy Carter and carried his own suitcase into the White House when he returned home from Camp David this afternoon. Instead of the usual majestic landing on the South Lawn in Marine One, the President pulled up to the driveway of the residence in a tan Chevrolet Suburban four-wheel-drive utility vehicle. He had forsworn helicopters for the weekend trip to the Maryland mountain retreat to save money because, as his spokesman Marlin Fitzwater said, "Every little bit helps."

Worse yet, the ragtag Presidential motorcade got stuck on the way home in Beltway traffic, forced to wait in a half-mile backup at a construction site along with the common folk. One of the Secret Service cars blew a tire, and agents bearing machine guns had to commandeer a Park Service police car in order to rejoin the motorcade. The Presidential helicopter, meanwhile, on standby at Camp David, flew back to Washington empty.

The shabby, slapstick imagery was telling, a reflection of a Presidency whose calculations had gone wrong. The White House had managed to misread the American public and Congressional Republicans, and today the President and his men tried to figure out ways to climb out of their budget muddle.

Just a little over a week ago, the President was gathering praise at the United Nations for his handling of the Persian Gulf crisis and, in between meetings with world leaders, dashing down to Washington to unveil a bipartisan budget agreement.

Today, the chief Administration budget negotiators — John H. Sununu and Richard G. Darman — were closeted in Mr. Sununu's West Wing office, drinking Diet Cokes and watching Senate sessions on C-span, the Congressional cable channel, as they struggled to pick up the pieces of a shattered budget deal that has ruptured the Republican Party and damaged the Bush Presidency.

Since their abrasive and peremptory lobbying tactics had left them, in the words of one top Republican strategist, "persona non grata" with many Democratic and Republican members of Congress, the chief of staff and the budget director conferred mostly with Treasury Secretary Nicholas F. Brady, Vice President Dan Quayle and the Congressional leadership.

'In a Little Tunnel'

"They've gotten themselves in a little tunnel," one Administration official said of the barricaded White House negotiating team. "And in the darkness of that tunnel, they can't see the guideposts or markers that would tell them up from down, right from wrong, left from right."

For days, White House officials were giving Representative Newt Gingrich, the rebellious Republican whip, the silent treatment. Today, the freeze against the Georgia lawmaker began to thaw, but the White House team did not seem to be involved in any real negotiations with anyone on Capitol Hill. They just tried to track the action in Congress with phone calls and on television.

"No one's talking to anybody," said a Republican counselor to the White House. "It's scary. It's like being on some planet in outer space."

Or, as a senior White House official joked, alluding to the time after the assassination attempt on President Ronald Reagan when Secretary of State Alexander Haig Jr. took over the situation room, "Where is Al Haig? We need someone in control around here."

Mr. Sununu realizes the White House has a serious problem but he and Mr. Darman were feeling more defiant than contrite today, those who talked to the top advisers said. "They're confident that they were right and that they will prevail sooner or later," said one Bush adviser.

The basic problem, several Republican strategists and Administration officials said, is that this is a White House that has become so complacent and cocky about the smooth sailing of the last 20 months — particularly in the foreign policy arena — that it does not know how to handle failure.

Some members of the Bush inner circle, they argue, have mistaken popularity for influence, stubbornly believing that the President's high approval ratings were the only political strategy they needed and the only justification they ever had to offer to win support for programs and deals.

The inner circle ignored all the signals this summer that Republican members of the House up for election in November were getting anxious and upset as President Bush moved toward the middle and jettisoned some of the traditional Republican issues, like his no-tax pledge.

"With all due respect to these people, they are missing Lee Atwater," said Eddie Mahe, a Republican consultant, referring to the ailing chairman of the Republican National Party. "There is no gut politician in the mix whose only job description is to be a gut politician."

Mr. Mahe said that the last week, in which the White House alligned itself with Democrats and angered House Republicans, underscored a basic weakness in the Bush Presidency, a weakness that haunted the Bush campaign: the question of what Mr. Bush really stands for.

"The White House has just been floating, without any strong ties to causes or issues or philosophy," Mr. Mahe said. "George Bush doesn't understand people who really believe and are really committed and who don't want to compromise on principles in the budget process, because he is the ultimate pragmatist who just wants to make government work."

The budget process has thrown Mr. Bush's taste for expediency into sharp relief. At conservative gatherings all over town, conservatives discuss who they might run against Mr. Bush in 1992 and they note that Mr. Sununu has lost credibility this week as any sort of messenger to the right.

Conservative's Assessment

"George Bush has destroyed his base, he will never put Humpty Dumpty back together again," said Richard Viguerie, the militant conservative. "The only core base he pays attention to is the Yale Alumni Association."

In line with Mr. Bush's shifting beliefs, Republicans around town were struck by the ironic scene of Bob Dole, the Senate minority leader, trying desperately to sell Mr. Bush's tax rises to balking House Republicans — after Mr. Dole lost the New Hampshire primary to Mr. Bush on the issue. It was after the Bush camp ran a tough commercial suggesting that Mr. Dole had "straddled" on taxes, while Mr. Bush was firmly against them, that the tide turned and Mr. Bush won the race.

Like polls by news organizations, internal Republican Party polls show "severe slippage," for Mr. Bush's popularity ratings, as one strategist who has seen them puts it. And although the President always says he does not pay attention to the polls, those close to him say that he is obsessed with the popularity surveys.

"There's no question now that there is confusion between what he stands for and what the party stands for," said a Republican adviser to the White House. "From this day forward this is going to be a tough Presidency. Once the Democrats know they can lick him, they'll never be afraid of him again."

Democrats, naturally, were gleeful over the President's turn in fortunes. "Even if the voters think they're all a bunch of clowns, there's no special distinction in being the head clown," said Geoffrey Garin, a Democratic consultant. "From now until the end of his Presidency, as long as there is an intensive focus on domestic politics, George Bush is in trouble."

THE WALL STREET JOURNAL

TUESDAY, OCTOBER 9, 1990

Treasurys Fall in Quiet Holiday Session, Hurt By Higher Oil Prices, More-Lenient Budget Plan

By CONSTANCE MITCHELL
And SAM ALCORN
Staff Reporters of THE WALL STREET JOURNAL

NEW YORK – Rising oil prices, a weaker dollar and a more-lenient deficit-reduction proposal prompted investors to sell long-term bonds and bond futures yesterday, sending prices moderately lower.

The benchmark 30-year bond fell 3/8 point yesterday to a price of about 99 4/32 to yield 8.83%, according to traders. Yesterday's decline translates into a loss of about $3.75 for a bond with a $1,000 face amount. Junk bond prices firmed with stock prices while municipal bonds were largely unchanged. Mortgage securities didn't trade.

The 30-year bond futures contract settled at 90 15/32, down 15/32 from Friday. Short-term securities, in both the futures and cash markets, ended little changed.

Activity was quiet, however, due to the Columbus Day holiday. Although the U.S. Treasury market was officially closed, several large bond dealers on Wall Street were open half a day. The futures market opened, but closed earlier than usual, as did the corporate and municipal bond markets.

Dealers said the market weakened early on news that the House of Representatives passed a new budget resolution plan that many on Wall Street considered less effective than the proposal worked out last week by White House and Congressional leaders during the budget summit.

Like the original proposal, the latest resolution would cut the deficit by $40.1 billion in fiscal 1991 and by $500 billion over five years. But analysts say the original proposal gave Congress less flexibility in meeting the deficit-reduction goals, and therefore was considered tougher than the current proposal.

Bonds were also hurt by surging oil prices and a weaker dollar, which fell to another record low against the German mark. November crude settled at $38.95 a barrel, up 96 cents.

Although the continuous rise in the price of oil and the slumping dollar were disturbing, investors seemed to pay far more attention to the budget mess in Washington.

The new proposal is "much less credible than the original" budget, which was voted down by the House, said Susan Hering, an economist at Salomon Brothers Inc. "Anyone focused on deficit reduction is going to be discouraged."

The resolution, which now goes to the Senate, does not require the signature of President Bush and simply makes deficit-reduction instructions that must be approved by several House and Senate committees and enacted into law.

Stephen Roach, senior economist at Morgan Stanley & Co., said, "It is stretching to say this is anything close to credible. . . . This is business as usual and smacks of the smoke and mirrors Congress has become so adept at over the last decade."

Mr. Roach said the measure "is very, very discouraging" and calls it a "type of vacuous solution to budget ailments that are clearly the most fundamental problem facing this country's economy right now."

He questions whether the new proposal will get Federal Reserve Chairman Alan Greenspan's seal of approval. Mr. Greenspan has hinted that the Fed would reduce short-term interest rates if Congress passed a "credible" budget agreement.

Treasury Securities

The Treasury is scheduled to sell $27.3 billion of securities this week, including a record $18.8 billion of three-month and six-month bills due to be sold today and $8.5 billion of seven-year note scheduled to be sold tomorrow.

However, both auctions are contingent on President Bush approving a bill to increase the size of the debt ceiling. On Saturday, the debt limit reverted to $3.122 trillion from its temporary level of $3.195 trillion.

Until the debt cap is extended, the Treasury won't be able to borrow money for any purpose. The government said it could last until this Thursday before it runs out of cash and defaults on some interest payments.

Few investors or bond analysts, however, believe that the a default will occur. Instead, they are counting on President Bush to approve the debt ceiling increase by Wednesday, at the latest.

Corporate Bonds

Junk bonds, speculative-grade issues that carry low ratings or no ratings at all, firmed on the strength of higher stock prices.

Prices of most junk bonds, which lost ground Friday after the $500 billion budget deficit-reduction accord was defeated on the House floor, ended as much as 1/4 point higher yesterday.

Among the high-yield issues that rose were widely held bonds of **RJR Nabisco** Inc. RJR's 17.375% convertible pay-in-kind debentures, due in 2009, were quoted up 1/4 point late in the day at 105 7/8 on the New York Stock Exchange. Pay-in-kind securities pay interest in the form of additional securities.

The action in RJR issues was a result of RJR's proposed exchange offer, in which holders of RJR's 17.375% convertible pay-in-kind bonds will receive a combination of cash and a new convertible preferred stock for the bonds they tender.

Despite the lack of volume in the markets Monday, RJR Nabisco's convertible preferred stock traded in surprisingly heavy volume. RJR's when-issued preferred stock ended 1/8 point higher at 19 3/8 on volume of 3,048,100 shares. Traders said a 2.3 million share block trade by Goldman, Sachs & Co. contributed to the heavy volume in the issue.

"It's the third day in a row [Goldman Sachs] has done a substantial trade" in the convertible preferred, said one trader.

John Ward, managing director in charge of convertible sales at Kidder, Peabody & Co., said that "it appears that someone is selling (other RJR junk bonds) to buy the preferred."

Some traders speculated that investors were trying to eliminate the risk that their bonds will not be accepted for tender by buying the preferred at a premium to its underlying value.

Also stronger were junk bonds of **Bally Manufacturing** Corp. As previously reported, the company's directors didn't approve the 7.5 cents-a-share quarterly common stock dividend at a weekend meeting and are likely to suspend the payment.

Although many on Wall Street were still grim about the company's long-term prospects, they said investors were encouraged that the company is actively seeking to trim its costs.

Bally's 13.625% subordinated debentures were offered in the mid-20s after being quoted in the high-teens Friday.

Foreign Bonds

The German government, which has been raising cash to finance the cost of unification with East Germany, offered bonds yesterday with a coupon rate of 9%, the highest rate in eight years.

The new 10-year bond issue was priced at 100.60 to yield 8.99%. As expected, German investors such as insurance companies and mutual funds targeted at individual investors were the big buyers of the new, three billion mark ($1.94 billion) issue. International investors showed "zero interest," said one trader.

In trading, Germany's 8.50% bond due in 2000 rose 0.19 point to 96.45 to yield 9.05%. The German Unity Fund's 8.75% issue due in 2000 rose 0.04 point to 98.31 to yield 9.01%.

Elsewhere:

–Japanese government bonds ended stronger on a sharp rise in the yen and expectations that the Federal Reserve in the U.S. will soon reduce short-term interest rates.

At the close of the Tokyo Stock Exchange, the yield on the benchmark No. 119 10-year bond was 8.06%. The price rose 0.64 points on the day to 83.32.

–Bond prices ended mixed in Britain, with longer maturities losing the upward momentum seen on Friday after the government entered the pound into the exchange rate mechanism of the European Monetary System and after the Bank of England cut the base lending rate 1 percentage point to 14%.

Britain's benchmark 11.75% bond due 2003/2007 was quoted at 102 27/32, down 31/32 from late Friday to yield 11.29%.

YIELD COMPARISONS

Based on Merrill Lynch Bond Indexes, priced as of midafternoon Eastern time.

	10/8	10/5	–52 Week– High	Low
Corp.-Govt. Master	8.72%	8.70 %	9.40%	8.21%
Treasury 1-10 yr	8.14	8.13	9.09	7.75
10+ yr	8.95	8.91	9.32	8.02
Agencies 1-10 yr	8.46	8.46	9.32	8.10
10+ yr	9.25	9.20	9.61	8.41
Corporate				
1-10 yr High Qlty	9.13	9.12	9.75	8.75
Med Qlty	9.96	9.90	10.40	9.28
10+yr High Qlty	9.77	9.73	10.13	9.11
Med Qlty	10.35	10.31	10.58	9.67
Yankee bonds(1)	9.54	9.50	9.96	8.91
Current-coupon mortgages				
GNMA 9.50%	9.78	9.78	9.78	9.40
FNMA 9.50%	9.73	9.74	9.73	9.38
FHLMC 9.50%	9.73	9.74	9.73	9.47
High-yield corporates	17.17	17.16	17.17	13.95
New tax-exempts				
10-yr G.O. (AA)	6.85	7.85	7.85	6.40
20-yr G.O. (AA)	7.33	7.33	8.15	6.85
30-yr revenue (A)	7.65	7.65	7.90	7.32

Note: High quality rated AAA-AA; medium quality, A-BBB/Baa; high yield, BB/Ba-C.

(1) Dollar-denominated, SEC-registered bonds of foreign issuers sold in the U.S.

The New York Times
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Senate Debates Bill to Avert Federal Shutdown; No Word on a Bush Veto

By DAVID E. ROSENBAUM
Special to The New York Times

WASHINGTON, Oct. 8 — Facing the shutdown of most Government services Tuesday morning, the Senate debated tonight whether to approve the broad outline of a budget and another measure to allow the Government to function normally for a few more days.

By 9 P.M., President Bush had not said whether he would veto the legislation, approved by the House early today, which would let the Government continue to spend money until the end of next week.

The latest developments reopened the questions of capital gains taxation and income tax rates that deadlocked budget negotiators for months. Today, the prospects were that capital gains taxes would be lowered and the income tax rate of the wealthiest taxpayers increased.

Mr. Bush rejected a temporary spending bill on Saturday, and the House sustained his veto. The result was that some Government facilities, like parks and monuments, were closed over the three-day Columbus Day weekend.

Alarm for the Country

If nothing is changed by Tuesday morning, hundreds of thousands of Government workers will be sent home, the Treasury will be unable to sell bonds and bills and the disruption will be felt across the country.

Mr. Bush and the Democratic leaders in Congress were jockeying to put themselves in the best possible position to control the most important tax-and-spending legislation in years.

"I've been in the Senate 16 years, and I've never seen a time more ominous for the country than now," said Senator Dale Bumpers, an Arkansas Democrat, at the outset of the Senate debate.

Trying to move the Senate toward a vote, Senator George J. Mitchell of Maine, the Democratic leader, declared: "We're not just dealing with numbers. We're not just dealing with programs. We're dealing with real human beings, and their families, and their hopes and fears and concerns."

Bush's Advisers Divided

While the Senate talked about the budget and the temporary spending legislation, the President was huddled in the Oval Office with Vice President Dan Quayle and such top aides as John H. Sununu, the White House chief of staff, and Richard G. Darman, the budget director.

In a long day of meetings and internal debates, White House advisers were divided over whether Mr. Bush should veto the measure, officials said.

Some argued that a veto would hold Congress's feet to the fire and lay the ground for vetoes later of Democratic spending and tax measures. But others argued that Democrats and Republican leaders like Senator Bob Dole of Kansas would be so antagonized by a veto that a satisfactory budget deal would be much more difficult to strike.

According to some accounts and the officials' public comments in the past two days, Mr. Darman, who only a few days ago was one of the loudest critics of Congress, was leading the group arguing in favor of Mr. Bush's signing the stop-gap measure, while Mr. Quayle was more sympathetic to those who were arguing for a veto.

Mr. Bush vetoed a temporary spending bill Saturday, hoping it would force Congress quickly to adopt a budget outline.

Bush Gives Conditions

He told senators this evening he would sign a new stopgap bill if it cut Government spending across the board each day it was in effect by an amount equivalent to an annual deficit reduction of $40 billion. The condition was unsatisfactory, at least initially, to Democrats, who objected to the symbolism of only cutting spending, while every budget deal being contemplated would both reduce spending and raise taxes.

But some White House officials were urging the President to sign the temporary spending bill anyway, even if Congress did not meet his condition.

The budget measure passed by the House early today and debated by the Senate tonight was almost precisely like the measure the House had dramatically rejected 72 hours before, with one main exception. The new budget would give the Democratic-controlled House Ways and Means Committee and the Senate Finance Committee broad leeway to recommend which taxes to raise and which benefit programs to cut.

The main effect of giving the Government continued spending authority would be to postpone for another 10 days or so the fundamental decisions on taxes and spending.

Fight Now Or Later?

The "basic question," Senator Warren B. Rudman of New Hampshire said after a lunch meeting of Senate Republicans, was whether the issues should be joined now or later. Mr. Rudman said that he favored later but that many of his colleagues wanted the fight now.

Typically, the Senate debate consisted mostly of monologues by individual senators and long periods of silence, while senators clustered in small groups on and off the floor trying to reach a political accommodation.

That was in sharp contrast to the spirited House debate last night and early today, when tempers were frayed and sparks flew.

At one point Sunday night, for example, Representative Newt Gingrich of Georgia, the Republican whip who had led the fight against the budget compromise President Bush and Congressional leaders reached Sept. 30, blamed Democrats for the Government shutdown.

"When the Democratic majority fails to override a veto," he asserted, "it has an obligation to respond to that failure by cooperating with the President."

Weariness and Anger

The Speaker of the House, Thomas S. Foley, his weariness showing in his slumped shoulders but his anger flashing in his eyes, fired back: "Of all the people in this House, of all the people in the country with little claim to cooperating with the President, it is the gentleman from Georgia."

The House cheered and jeered at that thrust and parry and many others. It then approved a budget outline about 2 o'clock this morning by a vote of 250 to 164, all but 28 Democrats voting for it and all but 32 Republicans voting "no."

Then, just before 4 A.M., the House voted, 305 to 105, to allow the Government's spending authority to continue through Oct. 19.

The budget measure is supposed to cut the budget deficit, now nearly $300 billion, by $40 billion this year and by a total of $500 billion over five years. It contained only totals for revenues and broad categories of spending like agriculture, education and the military and did not specify specifically how the money would be raised or allotted.

Senators and representatives said the newfound flexibility for the committees controlled by Democrats would mean that Medicare benefits would be shaved much less than in the earlier compromise arrangement, and that the various tax breaks for business agreed to by the President and Congressional leaders would not see the light of day.

Other parts of the compromise that would have little effect on the deficit but were politically dicey would also probably be abandoned, the lawmakers said. Such measures include a 2-cent-a-gallon tax on home heating oil and the denial of unemployment benefits the first two weeks someone was out of work.

Predictions From Bentsen

More important, the tax committees seem likely now to approve a lower tax rate on capital gains and a higher income tax rate for the wealthiest Americans.

Senator Lloyd Bentsen, the Texas Democrat who heads the Finance Committee, predicted that those provisions would be written into an omnibus tax-and-spending bill that Congress will probably vote on no later than the end of next week.

The chairman of the House Ways and Means Committee, Representative Dan Rostenkowski, Democrat of Illinois, has given indications he would go in the same direction. However, the chairman provided no clue as to what they thought the new tax rates should be.

The action in the Senate and House underscored important differences between the two chambers.

In the House, Democrats hold a 3-to-2 majority, large enough to steamroller Republicans. But in the Senate, where the Democratic margin is only 55 to 45 and where it takes 60 votes to break a filibuster, Democrats cannot move without Republican cooperation.

G.O.P. Strategy Talks

During the day, House Republicans sought to set aside internal divisions to fight the Democratic budget proposal. But several lawmakers said that a closed-door meeting of House Republicans on Sunday was particularly stormy, with members clashing over strategy for countering the Democrats.

But many Republicans conceded that about the only leverage they have would be in mustering the votes to sustain a Presidential veto of the measure.

"We're in a Mexican stand-off where they can pass whatever they want," said Representative Chuck Douglas, Republican of Rhode Island. "But they can't override a veto. And that makes it a very dynamic, fluid situation."

Representative Ralph Regula, an Ohio Republican, said "the really fundamental question is whether to support revenue increases or to stonewall — you've got a fundamental issue the House Republicans have to face and it's hard to determine exactly what the sentiment is."

A Republican moderate, Representative Sherwood L. Boehlert of New York, said there is "a clear division" amnog House Republicans. "Some people cling to the unrealistic dream that you can accomplish what you really want to accomplish without spending any money."

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After Budget Trauma, Still More Trauma Lies Ahead

By SUSAN F. RASKY

Special to The New York Times

WASHINGTON, Oct. 8 — For all the trauma that Congress has put itself through in the past four days to produce a budget, the real struggle lies ahead.

Over the next week and a half, nearly two dozen Congressional committees will be deciding how to make the spending cuts or raise the taxes needed to reach the deficit reduction targets in the budget for the 1991 fiscal year. If the past 15 years are any guide, the process promises to be a collision of competing regional, constituent and political interests as powerful chairmen and rank and file members vie to protect their pet projects or programs from the budget ax.

This fractious process is known as "reconciliation."

Finding Cuts, Piece by Piece

Under the process devised in the 1974 budget act, each committee is given a figure designating the amount that must be cut from benefit programs under its jurisdiction. The House and Senate Appropriations committees, which do not deal with entitlement programs, will be directed to hold spending for other types of domestic programs to levels that rise no more than the rate of inflation in each of the next three years.

When the final tallies from all the committees are in, the result is supposed to be a $40 billion reduction in the deficit for 1991 and a $500 billion reduction over five years.

The two panels with the biggest responsibilities are the House Ways and Means Committee and the Senate Finance Committee, which have jurisdiction over both taxes and much of the Medicare program.

The tax committees have been asked to find about $3 billion in spending cuts and to raise about $13 billion in new revenues for the 1991 fiscal year, and they have been given the choice of spending cuts or tax increases to reduce the deficit by an additional $2 billion.

Lobbyists at Work

Their Democratic chairmen, Representative Dan Rostenkowsi of Illinois, and Senator Lloyd Bentsen of Texas, were involved in many of the negotiations that produced the original deficit reduction package rejected by the House last week. And it is on their panels where most of the intrigue and horse trading will occur. Both chairmen, however, were excluded from the final deal struck by top Congressional leaders and the White House, and both have expressed misgivings about the tax breaks for investments in small businesses that were included in that package.

"Every lobbyist in the world is now coming at us and saying, 'If you've got all that wiggle room, take care of me,'" said one senior member of the Senate Finance Committee.

Many of these measures are likely to be substantially redesigned or jettisoned altogether. If a trade-off linking a cut in the capital gains tax rate and an increase in income tax rates for the wealthy comes to be, these are the two who will broker it.

Mr. Rostenkowsi, who favors a gasoline tax, may have trouble with Mr. Bentsen, who does not. While the two chairmen are expected to soften the blow to the Medicare program, they have a longstanding rivalry about how to do it.

To spare Medicare recipients from the brunt of the cuts in the program, the tax committees will be looking for alternatives like reducing Government payments to hospitals and health care providers. In that battle, Mr. Rostenkowski, who represents Chicago, has traditionally tried to protect large urban hospitals.

Mr. Bentsen, on the other hand, has tried to look out for smaller rural hospitals, many of which have been forced to close their doors in the past few years because of previous Medicare cuts.

Cuts in Farm Programs

The two other panels that will bear a major share of the burden of finding budget cuts are the House and Senate Agriculture committees. Under the plan, the committees will have to find about $1 billion in cuts for the 1991 fiscal year and more than $13 billion over the next five years.

For Representative E. (Kika) de la Garza, the Texas Democrat who heads the House Agriculture Committee, and Senator Patrick J. Leahy, the Vermont Democrat who heads the Senate panel, the task may be slightly less complicated than it will be for other committees, where negotiators will have to reconcile conflicting House and Senate versions of deficit-reduction measures. By contrast, the two chairmen have already spent months working on major legislation overhauling farm programs, and that legislation is now before House and Senate negotiators.

Most of the decisions on spending cuts will thus be made by the agriculture negotiators. That means fewer lawmakers and fewer competing consituencies to mollify. But that does not mean the cuts will be painless, particularly for committee members like Senator Tom Harkin, Democrat of Iowa and Senator Jesse Helms, Republican of North Carolina, both of whom face tough re-election battles this year.

A senior aide on the Senate Agriculture Committee estimated that the spending cuts required under the budget will mean a 10 percent reduction in income for the average farmer. Essentially, the lawmakers face three choices to make the savings: reduce the number of farmers eligible for various subsidy and price support programs, cut the level of existing benefits or eliminate lower priority programs like those that help farmers sell their crops abroad.

Members of both the House and Senate Agriculture panels would like to tie some of the future year reductions to the outcome of current international trade talks. The United States has been trying to get its trading partners, particularly the European Community, to reduce farm subsidies.

Farm politics tend to have more to do with region than party affiliation, and the battles ahead will pit cotton and peanut interests against those of wheat and corn. In some ways, the House committee members have an advantage. They know the details and intricacies of farm programs better than their Senate counterparts, whose duties and outside interests involve them less in farm business.

On the other hand, Senate committee members will have an important and powerful champion in their corner: the Senate Republican leader, Bob Dole of Kansas, who is a member of the conference committee.

Two other committees that will play critical roles in the deficit-reduction process are the House and Senate Appropriations panels, headed by two of the most senior and wily lawmakers in Congress, Senator Robert C. Byrd, Democrat of West Virginia, and Representative Jamie L. Whitten, Democrat of Mississippi. In the past 15 years, they have chafed at the incursion by the House and Senate Budget committees on more of their turf. But they remain a sanctum for last-minute deals.

Mr. Whittten, contemplating the spending strictures imposed on him by the lawmakers involved in writing the defeated budget package and their efficient plans to save money, does not relish the task. "These folks just don't think like I do," he said.

In the House: Cutting the Budget

The new version of the budget agreement passed by the House early Monday is intended to produce the same deficit reduction as the agreement rejected last week: $40 billion in the fiscal year 1991 and $500 billion over five years. But unlike the earlier version it is not intended to represent the specific revenue and spending measures. These will be determined by various committees, all of which are headed by Democrats.

Following are the authorizing committees in the House that are responsible for various mandatory benefit programs — like food stamps and Social Security — that grow automatically because they are available to anyone who meets the eligibility requirements. Altogether, these committees would be responsible for producing more than $24 billion of the $40 billion in deficit reduction in 1991. Each committee's contribution is listed below.

The remainder would come from increased enforcement by the Internal Revenue Service and from reductions in military spending, and from other discretionary programs, which are handled through the annual appropriations process. In the Senate, the authorizing committees would be required to come up with similar savings.

Committee/ Chairman	In millions FY 1991	5-Year Total
Agriculture E. de la Garza (Tex.)	$1,022	$13,627
Banking, Finance & Urban Affairs Henry B. Gonzalez (Tex.)	1,507	13,258
Education and Labor Augustus F. Hawkins (Calif.)	215	3,770
Energy and Commerce John D. Dingell (Mich.)	3,731	43,721
Interior & Insular Affairs Morris K. Udall (Ariz.)	343	2,918
Judiciary Jack Brooks (Tex.)	91	495
Merchant Marine & Fisheries Walter B. Jones (N.C.)	222	1,231
Post Office and Civil Service William D. Ford (Mich.)	2,165	14,350
Public Works & Transportation Glenn M. Anderson (Calif.)	42	254
Science, Space & Technology Robert A. Roe (N.J.)	5	25
Veterans' Affairs G. V. (Sonny) Montgomery (Miss.)	620	3,350
Ways & Means Dan Rostenkowski (Ill.)		
Spending reductions	3,320	55,603
Tax and revenue increases	13,225	118,800
Unspecified Deficit Reduction	2,000	20,000
TOTAL* Deficit reduction reconciled to committees	24,307	246,206

*The sum of the individual targets exceeds the totals shown because of overlapping committee jurisdictions.

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OBSERVER

Russell Baker

What a Direness There Was

Gleanings from a weekend of listening to the House of Representatives talk budget talk:

1. The situation is dire, maybe catastrophic.

2. The direness is the fault of former President Reagan. He told us it was "morning in America" when it was really late Saturday night and everybody had had three drinks too many and was refusing to go home to bed.

3. Actually, however, it's the fault of the Democrats in Congress. They are wastrels who delight in squandering the nation's wealth despite Republican warnings that money doesn't grow on trees.

4. In fact, though, it's the fault of President Bush because, after urging everybody to read his lips, he said, "No new taxes," when he should have said, "The Gipper was kidding us about its being morning in America, folks, and now it's one minute to midnight and we all have to get the wagons drawn up in a circle to keep the wolf from the door."

5. What's more, speaking of direness, listening to Congress talk for a whole weekend can start straight-talking Americans speaking in mixed and excessively melodramatic metaphors about encircling wagons at midnight and keeping wolves from the door.

6. Not only that, but also this: Congress should be ashamed of itself for letting the Washington Monument close down on a Saturday, thereby ruining the entire weekend for many Boy Scouts who had planned to ascend it.

7. Well sure, but the person who should really be ashamed of himself is President Bush. He could have signed a simple piece of paper that would have ended the whole fuss, reopened the Washington Monument and let the Congress go home for supper, but he refused to sign that paper. And he calls himself a President! What a shameful way to act.

8. However, if the President signed the paper, Congress would once again just fool around doing nothing until next weekend. Then the Washington Monument would have to be closed all over again. So it's really Congress that ought to be ashamed of itself.

9. True, but not all members of Congress ought to be ashamed. Just the Democrats. The Republicans, who love the taxpayer, struggle tirelessly to bring about a new era when the taxpayer will have to pay no taxes at all and will be known ever after as "the nontaxpayer." The Democrats struggle to prevent this. The Democrats' goal is to bring pain and tears to the taxpayer.

10. One thing is clear, however: The Republicans care only for the very richest of the taxpayers and are determined to load down the very poorest taxpayers with unbearable tax bills in order to save the very richest taxpayers from having to pay any taxes at all. Except for the Democrats, in whose veins courses the milk of human kindness that makes them love the poor and downtrodden, the Republicans would destroy —

11. Nevertheless, the situation is much too dire, far too incipiently catastrophic, for either party to engage in partisan debate, simply because the fall elections are just a few weeks off. It is a cynical cheap shot for cheap-shot press cynics to say there is no prospect more dire for a Congressman than defeat in the next election. In fact, Congressmen will make any sacrifice necessary to save the nation from the dire catastrophe said to be looming, provided of course it really is looming and is not just an invention of the Democrats, or the Republicans as the case may be, designed to give the Democrats, or the Republicans as the case may be, an advantage in the coming elections. This goes for Congresswomen as well.

12. Admittedly, though, Congress's failure to produce even a mouse of a budget agreement leaves no doubt that the United States Government can no longer govern and is, therefore, in collapse.

13. Nevertheless, all who love democracy must applaud the House for rejecting that mouse of a budget agreement worked out by the White House and a few Congressional leaders without consulting the hundreds of Congressmen who are devoted to and always in touch with the American people. What made Congress's rejection so noble was not that the budget agreement was a mere mouse of an agreement, but that, mere mouse though it was, it was profoundly unfair.

14. Though, of course, any agreement, whether mouse or mastodon, whether fair or unfair, would be intolerable, since the nation can be saved only by doing away with all taxes.

15. However, and so forth ...

16. True, but etcetera, not to mention inter alia ...

THE WALL STREET JOURNAL

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Budget Battle Is Propelling Bush Away From Conservatives, Toward Democrats

By MICHEL MCQUEEN
And GERALD F. SEIB
Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON—The budget mess is likely to force President Bush to look toward centrist Democrats to form a working coalition on domestic policy, a move that would deepen the schism between the president and conservatives.

The feud between the White House and conservatives over last week's ill-fated budget agreement is proving to be the most serious breach between Mr. Bush and the political right in his presidency. The president now seems better-positioned to work with moderate Democrats than to deal with his party's right wing.

Conservative anger at Mr. Bush for supporting a budget package that raised taxes hasn't been assuaged by the failure of the plan or by Mr. Bush's subsequent decision to shut down many government operations to force a better package.

'Reversal of Reagan Revolution'

"On the one hand, there is anger at just how messed up the whole situation is, and [on] the other there's disillusionment at what seems to be a reversal of the Reagan revolution," says Gary Bauer, a conservative activist who was a Reagan administration domestic policy adviser. "Signing tax increases is casting aside what gave the Republicans a majority in the '80s."

Mr. Bush has never been a favorite of conservatives. He isn't identifed with any strong ideological movement; his popularity depends on achieving results rather than defending the kind of principles conservatives hold dear. That's especially true because Mr. Bush seems to lack an essential weapon that Mr. Reagan had, an ability to sway public opinion.

"Bush's problem is, unlike Reagan, he doesn't have outside-the-Beltway support; he doesn't have that special relationship with the American people," says William Schneider, an analyst with the American Enterprise Institute here. "Bush looks bad now because he failed. He recovers with success. Something has to work for him."

Democratic congressional leaders also need to get results. Otherwise, their party will face the voters less than a month from today as the congressional majority that failed to produce a budget despite months of negotiations.

Recent polls show a slide in Mr. Bush's popularity in the wake of the budget debacle, but they suggest Congress is in an even more precarious position in public opinion. An ABC News/ Washington Post poll last weekend showed Mr. Bush's approval rating slid to 65% from 75% in September. But a majority of Americans surveyed, 57%, thought Congress deserved more blame than the president for the current situation. And Congress and the president got equally negative ratings on their handling of the deficit. Six out of 10 people surveyed disapproved of the president's performance, and an equal number disapproved of Congress's performance.

Thus, Mr. Bush's short-term interests neatly coincide with those of many Democrats, such as House Ways and Means Chairman Dan Rostenkowski of Illinois.

Marriage of Convenience

"If I were Bush I'd be figuring out how many times I could get together with Rostenkowski in the next couple of weeks to stroke him," says theorist Kevin Phillips. "Bush's most logical allies are the status quo Democrats who are also up to their eyeballs in the failures of the last decade."

But it's precisely Mr. Bush's involvement with such figures that has outraged conservatives, who have considered themselves, sometimes reluctantly, part of Mr. Bush's base. "It's not a disaster to be a president and lose a big fight; in fact, it can even be an advantage if it points out the differences between you and your opponents," Mr. Bauer says, "But this president has done worse than that. He has gone to the mat for Michael Dukakis's principles."

Some conservatives even want Mr. Bush to fire his aides who were most associated with the effort to cooperate with Democrats in budget talks. Burton Pines, vice president of the Heritage Foundation, says Mr. Bush is in danger of splitting the Republican coalition and should dismiss Budget Director Richard Darman and Treasury Secretary Nicholas Brady.

"Why don't we have a team who are going to develop policies, which are in fact going to lead to economic growth?" asks Mr. Pines. "That's what Bush should be asking." Such conservatives as Mr. Pines advocate cutting taxes and reducing government spending.

Something for Nothing

Some analysts say Mr. Bush is trapped by his anti-tax rhetoric, which certainly helped elect him, and public unwillingness to take strong measures to reduce the deficit. "We have a government that still believes—because the people believe—that they can provide all the services that the people want without raising taxes," Mr. Schneider says. "That is the fundamental problem."

Some Republicans who aren't part of the conservative movement think Mr. Bush should get out in front of what they see as a new, bipartisan movement, a drive toward more fairness in economic policy. The fairness issue, they contend, has exploded in importance because of public anger over the failed budget deal's emphasis on Medicare cuts and such regressive taxes as a proposed rise in the gasoline tax.

"It's dawned on people that the fairness thing is very big," says Rep. Jim Leach, a moderate Republican from Iowa. By staunchly opposing higher tax rates for the wealthiest Americans, Mr. Leach says, conservatives may alienate the low and middle-income Americans on whom they depend for their strongest support. "The movement conservatives have staked out a position that's in contradistinction to the people they're tryng to represent."

Rep. Leach thinks the new budget proposal taking shape will help Mr. Bush. "What has occurred, extraordinarily, is a budget package passed by the liberal Democratic party in the House of Representatives that is fractional inches away from the Bush package," he says. "And the improvements implicit are improvements designed to save the Republican party from itself."

While Mr. Bush is fighting with conservatives now, some predict that he will try to mend fences with them while building bridges to centrist Democrats. Says Kenneth Duberstein, who was President Reagan's chief-of-staff: "I think George Bush is going to try to do both—put the Humpty Dumpty of the Republican Party back together again, as well reach out to Democrats in a bipartisan fashion."

THE WALL STREET JOURNAL

TUESDAY, OCTOBER 9, 1990

Congress Votes Plan to Cut The Deficit by $500 Billion

By DAVID ROGERS
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—The Senate gave final congressional approval to a $500 billion, five-year deficit-reduction plan, as the bipartisan leadership sought to expedite action on a stopgap spending bill to resume government operations today.

The vote on the budget blueprint sets the stage for intense activity in both houses, which have committed themselves to move quickly over the next two weeks on legislation required to meet the prescribed deficit reductions.

The accompanying stopgap spending bill would run through Oct. 19 and end a three-day government shutdown that has come to symbolize the political impasse that has undercut both Congress and the Bush administration.

Senate passage of the spending bill came on a simple voice vote, and House leaders hoped to send the measure to President Bush this morning in expectation that he would sign it into law before federal workers return from the holiday weekend.

A White House official said Mr. Bush was expected to sign the interim spending bill. As approved by the Senate, it would run through Oct. 19, and it incorporates spending adjustments sought by Republicans in return for supporting the separate budget resolution.

These provisions call for a tighter schedule in carrying out the deficit-reduction plan in Congress. The bill also would freeze spending for various domestic accounts near fiscal 1990 levels until Congress and the White House agree on legislation to carry out the plan's tax increases and spending cuts.

The restrictions have the most immediate impact on energy, transportation and rural-development accounts. At the Pentagon, spending would be permitted to rise temporarily to an annualized level of $265.4 billion, or $2.4 billion above the original House-passed version of this stopgap bill.

Seeking GOP Votes

Both the budget resolution and the accompanying spending bill first passed the House early yesterday, but Senate action was delayed by negotiations for badly needed Republican votes. With only a 55-45 majority, Democratic Leader George Mitchell of Maine needed bipartisan support for the budget because 16 of his party's incumbents are up for election and nervous about voting for so large a tax and spending package this fall.

Senate Minority Leader Robert Dole (R., Kan.) had promised to provide votes even after Democrats made revisions in the earlier budget accord with the White House. But Republicans threatened to withhold support unless across-the-board spending cuts were first imposed. The final adjustments agreed to are less severe, but as part of the same package, Senate committees would be asked to report back legislation to implement the budget accord as early as Friday.

The White House has given tacit approval to moving the budget process forward, but Republicans want to exact some political price as the November elections approach. "He's a little bit of honey and long on leverage," one Republican aide said of Mr. Dole. However temporary, the proposed spending adjustments have a symbolic importance for the GOP, looking for bargaining room in the weeks ahead.

House Approval

House approval of the budget resolution, at 2:30 a.m. yesterday, came after days of confrontation following the failure of an earlier version by the White House and congressional leaders. The 250-164 roll call closely matched the margin of defeat for the earlier resolution three nights before, but the internal dynamics of the vote were different as the chamber split along party lines.

Only 32 Republicans, including three Northern moderates on the tax-writing Ways and Means Committee, backed the revised plan, while Democrats voted 218-28 in support of their leadership. The show of strength was welcomed after Friday's defeat, but the tortured budget fight has betrayed conflicts in both parties that could dog the bipartisan leadership in the coming weeks.

Behind closed doors Sunday, there was an angry, shouting Republican leadership meeting that matched Minority Leader Robert Michel of Illinois against his younger conservative lieutenants, including Minority Whip Newt Gingrich of Georgia.

Though less visible, the budget debate also demonstrated dissension in Democratic ranks over the tactics and style of Speaker Thomas Foley. The opposition to the initial accord was driven in part by an effort to reassert the power of the Democratic Caucus and test the still-new leadership team elected last year.

Ways and Means Committee Chairman Dan Rostenkowski was among the most outspoken critics of the package, and while the Chicago Democrat supported final passage, he brought along few of his committee Democrats or those aligned with him in the House.

Always guaranteed of a pivotal role, Rep. Rostenkowski has emerged that much stronger under the revised resolution, which underscores his flexibility in redesigning its tax components. But his endeavors could be at risk as well unless he can strike an accord with his friend President Bush, and can overcome the partisan divisions in the House when he returns with a tax bill.

THE WALL STREET JOURNAL
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Top Personal Tax Rate May Be Increased

Boost Would Be Paired With Capital-Gains Cut

By JEFFREY H. BIRNBAUM
And ALAN MURRAY
Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON – Congress's two top tax-writers are moving toward proposing an increase in the top personal tax rate on the wealthiest Americans to 33% and a cut in the capital-gains tax.

Chairman Dan Rostenkowski (D., Ill.) of the House Ways and Means Committee and Chairman Lloyd Bentsen (D., Texas) of the Senate Finance Committee have been working closely together to devise starting-point proposals to give their committees this week. Yesterday, Sen. Bentsen acknowledged that, in his plan, he "will certainly propose" coupling higher personal tax rates with "some version" of a cut in the capital-gains tax. Rep. Rostenkowski is expected to do the same.

For the Democrats, the deal could prove more troublesome than it appears on the surface. Many Democrats are demanding that the final tax plan put more of the burden on the wealthy. But pairing a 33% rate with a capital-gains tax cut would actually end up *reducing* the tax bite on the rich.

"The distributional effects are clear: This is a major regressive move," Henry Aaron of the Brookings Institution said of the trade-off. "It would result in a sharp reduction of the progressivity of the income tax."

Unpublished estimates by the congressional Joint Tax Committee, for instance, show that linking a 33% top rate with a capital-gains rate of about 20% actually reduces the tax bite on those earning more than $100,000 annually by 2.5% to 3%.

Other Methods Sought

As a result, the two committee chairmen are looking at ways to modify the capital-gains tax cut. And they are searching for other methods to increase the tax bite on the rich.

One plan being looked at: an increase in the alternative minimum tax rate to 26% from the current 21%. That would force many high-income Americans to pay the minimum tax, which disallows capital gains and most tax deductions, rather than the ordinary tax.

The Democratic leaders in Congress have scored political points in this year's budget debate by stressing that the rich should pay their fair share. But their skill in fighting the rhetorical war has outstripped their ability to produce results.

The plan they negotiated with the White House left high-income taxpayers with a substantially smaller tax increase than middle-income taxpayers. "The package will again hit lower- and middle-income earners harder than the wealthy," complained Democratic Rep. Marty Russo of Illinois before voting against the package last week.

The new proposal to trade off capital gains and the top tax rate will make the task of producing a progressive plan even harder. That's because the nation's wealthiest taxpayers–those making more than $1 million annually–earn more than a third of their income from the sale of assets. The cut in the capital-gains tax rate being contemplated thus provides them with enormous benefits. "From a policy point of view, I'd prefer to drop both" the top-rate increase and the capital-gains cut, said Joseph Minarik, executive director of the congressional Joint Economic Committee.

Instead, the two tax chairmen are looking for ways to fix the progressivity problem. But any proposals they make could cause them to lose support from congressional Republicans and from President Bush.

Easy Way vs. Veto

The easiest way to boost the tax bite on the wealthy would be to raise the top rate even higher than 33%. But that's almost certain to bring a presidential veto. And in any event, Mr. Aaron said the top rate would have to rise as high as 40% to offset the effects of capital gains.

Another possibility is to devise a more modest version of the capital-gains tax cut that isn't so generous to the rich. For instance, congressional Democrats have discussed a plan that would eliminate taxes on capital gains that resulted from inflation, but only for stocks and other assets purchased in the future.

But that idea may not fly in the tax-writing committees. In the past, the Ways and Means Committee has rejected efforts to apply the tax cut only to newly purchased assets.

Proponents of the capital-gains tax cut say the debate over the distribution of the tax burden is misguided. Instead, they say, members of Congress should focus on the boost such a tax cut gives to investment. "The majority of members look at capital gains as a growth issue," said Mark Bloomfield, head of the American Council for Capital Formation and a strong proponent of a capital-gains tax cut.

Moreover, Mr. Bloomfield argues that the distribution figures are misleading. The calculations don't take into account the fact that a lower capital-gains tax rate will lead some people to sell more assets and, in turn, pay more taxes.

But Congressional Budget Office Director Robert Reischauer defends the distribution charts, saying they "provide the more accurate picture of the relative sacrifice being made by individuals at different income levels."

Messrs. Rostenkowski and Bentsen hope to begin with similar tax plans so that reconciling the two in a House-Senate conference could be done quickly. The two chairmen intend to meet as early as today to put the finishing touches on their documents. Drafting sessions might begin in midweek.

Many provisions of the plans are likely to be the same as those outlined in the budget-summit agreement that was defeated in the House last week. The chairmen aim to alter mainly the parts of the plan that helped cause its demise.

In particular, the pact's small-business growth section, which would cause a loss of $12 billion in revenue over five years, is likely to be altered significantly or replaced. Both chairmen have complained that the section, added at the request of the White House, would spur tax evasion through a boon in tax-sheltering.

In its stead, the tax-writers are considering establishing a lower capital-gains tax and extending for at least a year a variety of expiring tax breaks for corporate-research expenditures, low-income housing development and the purchase of health insurance for the self-employed.

The $60 billion in Medicare savings that the defeated budget accord proposed could be reduced by as much as a third. Heating oil might be exempted from a petroleum tax. And a provision that would prevent people from receiving unemployment-insurance benefits for two weeks also probably would be dropped.

That would leave essentially intact a variety of provisions, including increases in so-called sin taxes, a boost in airline-ticket taxes, a 10-cent rise in the excise tax on a gallon of gasoline, and the establishment of a 10% tax on luxury items.

THE WALL STREET JOURNAL

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New Budget Plan Shuns the Accords Reached at Summit

By DAVID WESSEL
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON – The differences between the budget that Congress passed yesterday and the agreement President Bush unveiled a week ago go far beyond the specific figures in the budget resolution.

In fact, many of the specific understandings between administration officials and congressional leaders–particularly on taxes–have been thrown out.

The bottom line is that any deficit-reduction package that emerges from Congress now is likely to rely more on tax increases and less on spending cuts than contemplated by the original.

Specifically, the hard-to-swallow changes in Medicare are being scaled back. The proposed tax breaks for small and medium-sized investors are likely to change form substantially. The two-cent-a-gallon tax on home heating oil may vanish. So may the proposed two-week delay in paying unemployment benefits to newly jobless workers.

And instead of being told to do little more than tinker with specific tax changes negotiated by the administration officials and congressional leaders, the House and Senate tax-writing committees have been granted substantial leeway.

"Specific policy decisions–for example, capital gains, home heating oil, gas tax and tax rates–will be determined by the committees in consultation with the bipartisan leadership," the Republican House leadership told its members.

The budget resolution, which doesn't require the president's signature, tells various committees to come up with legislation that would cut the deficit by specific sums. Congress must vote again on the specific proposals before they take effect.

Although the budget resolution rejected last week by the House didn't list the detailed agreement negotiated by congressional leaders and the administration, there were separate written understandings that spelled out what congressional committees were expected to do. No such understandings accompany the new resolution.

The biggest change in the resolution came in the instructions to the tax-writing panels. In the rejected version, the Senate Finance Committee would have been told to cut spending on government benefit programs–largely Medicare–by $65.8 billion over five years and to raise taxes by $128.8 billion.

The new one shaves $10 billion off each of those totals and lets the committee decide whether to make up the $20 billion in higher taxes or in lower spending. Similar changes were made in the instructions to the House Ways and Means Committee.

And, given a choice, congressional committees, controlled by Democrats, rarely chose to squeeze government benefit programs to avoid raising taxes.

"I don't think anybody contemplates they will cut spending . . . more than the original package calls for," said Carol Cox, director of the Committee for a Responsible Federal Budget.

The Agriculture committees also got a break. Although they still are supposed to come up with more than $13 billion in savings over the next five years, their original target for the first year has been shaved by about 25%, or $387 million.

"It's infinitesimally less painful," a Senate Agriculture Committee aide said of the new $1 billion target for fiscal 1991 savings. One reason for the change, farm-budget experts said, is that farmers made 1990 planting decisions based on government commitments to make certain payments in fiscal 1991, which began Oct. 1.

As previously reported, lobbyists for the elderly are rallying around a plan, crafted by Rep. Fortney Stark (D., Calif.), that calls for a $10 billion increase in the share of Medicare costs paid by beneficiaries over the next five years; the rejected agreement called for a $30 billion increase.

Specific changes are up to the Finance Committee and the Ways and Means Committee, but the lobbying groups advocated increasing the annual Medicare deductible for doctors' services to $100 from $75; the original plan would have raised it to $150 over three years.

The groups back an increase in the $28.60 monthly premium so that it covers 25%, instead of the proposed 30%, of the costs of Medicare Part B, which applies to doctors' fees. The groups say that would mean a premium of about $30 next year and $48 in 1995. The budget negotiators' plan to make the elderly pay 20% of the cost of clinical laboratory services would be dropped.

To make up the lost revenue, the groups called for extending the Medicare payroll tax, which is 1.45% on employers and a matching 1.45% on employees, to wages of up to $150,000. The tax currently applies to the first $51,300 in wages. Such a change would raise $17.6 billion over five years.

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Budget Flap Sinks Dollar; Stocks Rise

MONDAY'S MARKETS

By CHRISTOPHER WINANS
Staff Reporter of THE WALL STREET JOURNAL

NEW YORK – The dollar plunged against most other major currencies as investors grew more doubtful that any good news will emerge from the U.S. budget wrangle.

During trading in Europe, the dollar fell to a record post-World War II low of 1.5302 marks. Hardly any trading occurred in the U.S. because banks were closed for the Columbus Day observance.

The Dow Jones Industrial Average rose 13.12 points to close at 2523.76, but New York Stock Exchange volume of 99.5 million shares was the slowest since Sept. 4, the day after the Labor Day holiday. Sharp increases in overseas markets, especially Tokyo and London, gave the Dow a strong start, and it was up 33 points by 10 a.m. EST.

The FT-SE 100 Soars

London's Stock Exchange surged 2.7%, bringing the two-day total to a 6.3% rise. The market's rise was fueled by England's entry yesterday into Europe's exchange rate mechanism. **Story on page C12.**

Bond prices fell, also in thin trading, largely because of the weaker dollar, higher oil prices and disappointment about the budget talks. Crude oil for November delivery closed at $38.95 a barrel, up 96 cents from Friday.

Nicholas Sargen, international fixed-income analyst at Salomon Brothers, said the dollar will be under pressure regardless of how the budget logjam is resolved. "If you don't get something, there's a loss of confidence," he said. "If do you get something, the Federal Reserve eases interest rates."

Lower rates would hurt the dollar by reducing the attractiveness of dollar-denominated investments for foreign investors, who tend to put their money in currencies of countries with higher rates.

"The only thing left supporting the dollar is the possibility of military confrontation in the Mideast," said David Gilmore, senior foreign exchange analyst at McCarthy, Crisanti & Maffei.

Timothy Clark, stock market analyst at Avatar Associates, said the currency market action indirectly helped U.S. stocks, as the sharp jumps in stock markets in Europe were attributed to news of Britain's entry into the European Monetary System. The follow-through in the U.S. market, however, was lame, as a weaker dollar ultimately hurts U.S. stocks, Mr. Clark said. "You can see the world's lack of confidence in our budget-making process with the dollar being down as much as it is," he said.

In major market action:

Stock prices rose. Advancing Big Board issues led decliners, 822-627.

Bond prices fell ¾ of a point, or $3.75 for each $1,000 face amount. The yield on the Treasury's benchmark 30-year bond rose to 8.83%.

The dollar fell. In late New York trading, the currency was quoted at 1.5323 marks and 130.50 yen, compared with 1.5465 marks and 132.15 yen late Friday.

THE WALL STREET JOURNAL

TUESDAY, OCTOBER 9, 1990

REVIEW & OUTLOOK

As your President, I've felt a heavy responsibility to walk the extra mile to achieve an agreement with the Congress on the federal budget. It was painful to me to give up my opposition to new tax increases, and it was painful to abandon my long campaign for a cut in the capital-gains tax, which I still believe would be the quickest way to give our economy the extra spark it needs. But the best agreement I could reach with the congressional leadership was rejected by the Congress, reacting to widespread opposition from the public.

I sympathize with the public's impatience. I agree that the government is not working well. At the Federal level, I have proposed changes in the budget process to instill a greater sense of discipline and responsibility. But the Constitution does not give me the power to implement such changes unilaterally, and my proposals have been rejected by the Congress. We have now arrived at a point of impasse on budget procedures, spending and taxing for the new fiscal year, and how to deal with the economy.

I have reluctantly concluded that the impasse cannot be broken by negotiations in Washington. It can only be broken by the voters, who go to the polls four weeks from today. I am coming before you tonight to ask you to change the Congress, sending me new representatives pledged to budget reform to end the deadlock in Washington, to restraint on government spending to curb the federal deficit, and to a reduction in the capital-gains tax to stimulate the economy.

This is the speech George Bush could have given, indeed can give yet, whether or not government workers show up at their offices this morning. The reason for signing an embarrassing cats-and-dogs deal, we read, is for the President and the Congress to prove that "we can still govern." Judging from the tidal wave of anti-Washington anger building across the land, virtually no one believes this; an embittered public is laughing at the preposterous notion that doing this deal constitutes governance. What this beleaguered process, and the nation, needs most now is leadership.

If, however, George Bush is going to lead an enraged American public and its faltering economy away from this broken-down process, he is going to have to separate himself from it. He will need to do what both FDR and Harry Truman did in the face of an inveterate Congress: Go on the offensive.

The offensive should be run right at the Democrats' citadel, the "fairness issue." Democrats tried to raise this hoary issue during the Reagan Presidency, but were kept at bay for on economic growth. The monster came back to life when Budget Director Richard Frankenstein agreed to accept the Joint Tax Committee's estimates of the effect of tax proposals on government revenues, and thereby their effect on income distribution.

These estimates are based on "static analysis," which makes no allowance for the behavior of either taxpayers or the economy. Even by Beltway standards, they have no relation to what happens in the real world. Bush administration economist Lawrence Lindsey showed persuasively in his recent book, "The Growth Experiment," that in fact in recent years the share of taxes paid by "the rich" *increased*, as the nearby chart illustrates. The President could take the opportunity to explain this to the American people.

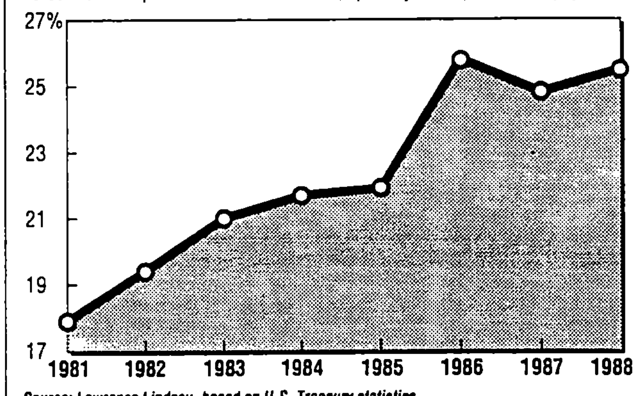
Similarly, Mr. Bush could point out that the people who were wrong the first time about the revenue effects of the previous tax cuts are the same ones now claiming that the proposed capital-gains reduction would lose revenue while enriching the wealthy. Yet in fact nearly everyone agrees a capital-gains cut could gain revenue in its early years, which is now when recession looms. A host of other measures, tax changes to boost the American savings rate, help investment and improve international competitiveness, are also doomed so long as the altar of static analysis demands sacrifices.

Given the choice between economic growth and income redistribution, the American people have picked growth every time. There is even more reason to believe that they would do so again this year, given a clear choice. Disgust with the general ineptitude of government has been written large in the primaries this political season. Virginia's Democratic Governor Douglas Wilder caught the general mood: "It is more apparent than ever before that our two-party system is becoming a competition between the party inside Washington and that new party, the vast majority of Americans who live outside."

Like Governor Wilder, the public is not making distinctions between Republican and Democrat or between Congress and the White House. A parade is forming up; President Bush still has the opportunity to get out in front and lead it.

Taxes and the Rich

Percent of total personal U.S. income taxes paid by the top 1% of taxpayers



Source: Lawrence Lindsey, based on U.S. Treasury statistics

THE WALL STREET JOURNAL
TUESDAY, OCTOBER 9, 1990

Devil You Knew vs. Creature From the Populist Furnace

Business World

By Tim W. Ferguson

This week's focus was to have been on an industry rife with the sort of venture businesses granted special dispensation under the Bush-Mitchell budget agreement. But we interrupt that program to consider the changed political economy in the wake of the deal's demise.

First, financial markets hardly hiccuped when a populist revolt sank the package, contrary to what the Washington establishment of both parties was predicting. The talking point of immediate peril has worn thin over years of these standoffs. The fact is that fiscal obesity is a long-run strain on the economic heart, and global capital treats it that way. The damage occurs gradually. Monetary games are what spur sudden flight.

Optimistically speaking, the end game of Gramm-Rudman could be upon us, impelling a choice between spending growth and revenue limitation. That's if the president holds to a serious sequester. And if Republicans, hurt by Democrats' effective use of the "rich pay their fair share" mantra, resist pressure for tax-rate increases or at least insist on a "growth" alternative: Some supply-siders believe a meaningful capital-gains cut would more than make up for a higher top rate, especially in a financial recession.

If the parties do remain sufficiently distinct and the center cannot hold, where then? To an election.

The recent past suggests even that won't settle matters. Unless a tide against incumbents is real enough to sweep out individually popular representatives, the same cast will be back for the next act. But late yesterday, House GOP activists were trying to get their leadership and the White House to endorse an aggressive "veto strategy" keyed to confrontation through Nov. 6. Minimal federal operations would continue until Congress passed firm budget reform; the group also sought a 15% capital-gains rate, popping of the income-tax "bubble" at below 33%, and a lid on "discretionary" domestic spending in place of higher Medicare charges.

Let's say a choice could be framed for the minority of citizens who actually vote. Would popular discontent work against the Democrats who control Congress? Some polls suggest instead that Republicans are on the run, at least as they've argued their case to date, and this has to be sobering. It may be that GOP-led rejection of the Bush-Mitchell package will end up leaving tax foes with worse.

That risk still may have been worth taking. The proposal had a lot wrong with it from almost any perspective, and acquiescing in it amounted to signing off on a slump. Indeed, the whole summit exercise seems to have cast national politics against the Republicans. They were no longer the party of no new taxes, and they emerged as the party of "unfair" new taxes. The Democrats masterfully spun a story of being dragged along by the president to tax those who live paycheck to paycheck. Once again they proved they're better politicians, at least on the domestic economy, than the old-line Republicans.

The difference after the uprising last week is that the tax code is still very much on the table, subject to the changed winds of the moment, rather than being laid aside for a while. Enterprises and investors can only be additionally anxious.

In American politics today, no one will give up anything and virtually every interest exercises a veto. The winners are those whose subsidies and benefits account for the steady growth in government's real size. The losers are those whose programs are being squeezed and, of course, the taxpayer with few protective deductions.

An ideological campaign could shake that arrangement. If the tax minimizers somehow were to gain, they might be able to get real appropriations restraint to a floor vote. But the reaction to the attempted Medicare changes in the summit pact is cautionary. No domestic program cries out more for restraint than Medicare, yet the firestorm that greeted the ham-handed attempt to deal with it augurs poorly for even gradually placing a lid on so-called entitlements. And it's apparent that overseas military obligations aren't going to be pared back, either.

So even a more-Republican Congress likely would be revenue-hungry. (And let's face it, most GOP members want their pork as much as anyone, although on a macro level their spending appetite cannot compare with the Democratic caucus's.) Where would they get the money?

Curbing deductions is one possibility, but even the most suspect of the big ones, for state and local taxes, has a GOP following. Every tax increase outside of luxury goods (where lease-type deals would dodge much of the blow) is explosive. Are cigarettes and booze off-limits? Hitting up boaters to pay for the Coast Guard? Maybe it was the prospect of higher gasoline taxes that had multimillionaire Rep. Nancy Pelosi bewailing the cost of ground beef in San Francisco.

An extension of the "growth experiment" of 1980's tax policy is the great GOP hope for dealing with the populism of 1990, in which no claim on benefits or additional tax dollar is surrendered without a fight. Capital gains remains the linchpin.

If Republicans give up or lose their fight, the private sector can only cringe at what might follow from the paradox of a revolt against incumbents that strengthened the Democrats' hold.

Surely they would go after the rate bubble—if they don't get the GOP to give it up before the election. This satisfies a craving to strike back at Ronald Reagan but wouldn't generate the desired revenue. (Again, some supply-siders believe a corresponding capital-gains cut would.)

So the Democrats would have to come looking for more, and the upper middle class will be where they find it. We got a sign of that in the summit legislation, which would have raised the ceiling for payroll taxes for Medicare. Look for more of this mischief in the $60,000 to $150,000 household-income area. It benefits from some facile logic about consistency. The effect would be to transform social-insurance programs into a purer form of income redistribution, as higher earners pay more in but take no more out.

The saving grace for successful strivers may turn out to be Jim Florio, the governor of New Jersey whose frontal tax attack on the upper middle class has bombed politically. This will act as a brake.

At that point Gucci Gulch will have to gear up because the Democrats would need business to act as revenue collectors through taxes that will generally be passed along to consumers. To the extent they can't be, and in a global economy that is increasingly true, shareholders of domestic companies will suffer. Somebody should forewarn Dick Gephardt of that. (On second thought, better not: He'd just raise the import barriers to compensate.)

All of this makes the summit deal, bad as it surely was, appear at least to have had the attribute of greater certainty. Some businesses may be ruing the fact that, once having made the mistake of entering into the negotiations, the GOP didn't wrap things up.

But that would have denied us whatever election choice we now will get. Moreover, as the young-Turk Republicans argue, it well could have left the party legislatively impotent for years longer. As it stands, rise or fall in November, they can leverage their influence through the presidency—as long as Mr. Bush is of a mind to help them do it.

The Philadelphia Inquirer
Tuesday, October 9, 1990

Senate Passes Emergency Bill

By Charles Green
Inquirer Washington Bureau

WASHINGTON — The Senate passed an emergency spending bill last night that would end the government shutdown and allow agencies to open this morning for normal business.

After clearing the Senate on a voice vote, the emergency bill headed to the House, where approval was expected. House Speaker Thomas S. Foley (D., Wash.) predicted passage. Senate Republicans said that Bush had agreed to sign the bill on the condition that the Senate later pass a 1991 budget plan.

"If this government does not open for business as usual Tuesday morning ... the American people will never forgive us and they should not," said Senate Budget Committee Chairman Jim Sasser (D., Tenn.).

The Senate began debate on the emergency measure after all-day backroom negotiations. The bill would operate at normal levels through Oct. 19. Congressional leaders hope all budget work will be completed by then.

A partial government shutdown began Saturday after Bush refused to sign an earlier short-term spending bill on the ground that Congress needed to first approve a 1991 budget plan to reduce the deficit.

Over the three-day weekend, the effects of the government's legal inability to spend money were spotty. Essential services such as air traffic control and federal prisons functioned normally, but the Statue of Liberty and many other national parks shut down.

The House passed both a 1991 budget plan and an emergency spending bill during a rancorous session that began Sunday and stretched into yesterday.

The 250-164 House vote on the budget plan came at 2:30 a.m. yesterday. The measure contains far fewer specific spending cuts and tax increases than the version that went down to defeat last week, putting off those decisions for later in the month. The new proposal would eliminate many of the specifics from savings proposals that had driven a majority of both Democrats and Republicans in the House to reject an earlier package.

Gone was one-third of the earlier plan's $60 billion in Medicare reductions — including higher costs and lower benefits for beneficiaries. Specifics on higher taxes for gasoline, home-heating oil, alcohol, tobacco and other items were also deleted.

The House budget plan, drafted by top congressional Democrats, includes smaller fee increases for Medicare beneficiaries and vaguer wording on new taxes than the budget plan defeated last week. But its deficit reduction goals are similar to the earlier plan's.

A second bill approved by the House was the stopgap measure providing enough money for the government to function normally through Oct. 19. That is the date by which lawmakers would like to finish all budget business and adjourn for the year.

After hours of delay yesterday, the Senate began up to 10 hours of debate on a 1991 budget plan for the fiscal year that began Oct. 1. The Senate broke into the debate after the White House and congressional leaders reached agreement on the emergency spending bill needed to restore routine governmental operations.

"We're not just dealing with numbers. We're not just dealing with programs. We're dealing with real human beings and their families and their hopes and fears and concerns," Senate Majority Leader George J. Mitchell (D., Maine) said earlier.

Lawmakers had said that the Democratic-drafted budget plan was being quietly backed by Bush as a way of breaking the deadlock on Capitol Hill.

"We either do something or we abandon deficit reduction for this year," said Sen. Pete V. Domenici (R., N.M.), a supporter of the measure.

The budget plan faced opposition from Republican conservatives who argued that the Democratic plan was too vague to warrant support.

Much of the deficit reduction in the plan would be left to congressional committees to achieve during later deliberations this month.

"It's a promise and not a program," complained Sen. Phil Gramm (R., Texas). "It's easy to pass a promise and it's tough to pass a program and someday we have to pass a program."

One possibility for a tax increase under the new House budget plan that was receiving more attention was raising the top income tax rate for upper-income taxpayers from 28 to 33 percent, in return for providing a reduction in the capital-gains tax rate.

That could allow both Democrats who want to make the tax code more fair to the middle class and poor and Republicans who see capital gains as a key to stimulating economic growth to declare victory in the budget battle.

"That idea is growing in popularity in the Congress," said Foley.

Republicans who said they were uneasy about approving a budget plan that lacked specifics complained that congressional committees with Democratic majorities would enact phony spending cuts and big tax increases.

But Senate GOP leaders, including Dole, told Republicans in closed-door sessions that those battles could be fought later in the month — after the committees act.

As he struggled to work out an agreement to speed consideration of the budget matter, Mitchell told colleagues last night that prompt action was imperative.

Fowler and other Senate were optimistic that the plan would be supported by most of the 55 Democrats and by less than a majority of the 45 Republicans.

"I believe we are going to pass it with substantial Republican votes. Then we are going to roll up our sleeves and go to work on reconciliation" — budget jargon for the process of reconciling the plan's vague money targets with specific tax increases and program cuts.

Sen. Pete V. Domenici (R., N.M.), ranking minority member on the Senate Budget Committee, said that he and a number of other Republicans would vote for the plan's outline "because it moves the process along."

Domenici said that he was drafting a letter in which Republican senators would declare that they would not support implementing legislation unlikely to produce savings.

Representatives from the Philadelphia area who voted for the budget resolution passed by the House early Monday morning were Robert A. Borski (D., Pa.), Thomas R. Carper (D., Del.), Thomas M. Foglietta (D., Pa.), William H. Gray 3d (D., Pa.), William J. Hughes (D., N.J.) and Peter H. Kostmayer (D., Pa.).

Voting against the resolution were R. Lawrence Coughlin, (R., Pa.), H. James Saxton (R., N.J.), Richard T. Schulze (R., Pa.), Christopher H. Smith (R., N.J.), Robert S. Walker (R., Pa.) and Curt Weldon (R., Pa.).

The Philadelphia Inquirer

Tuesday, October 9, 1990

The soaring cost of U.S. debt

Interest soon will outstrip defense budget

By Glenn Somerville
Reuters

WASHINGTON — Within a few years, it will cost more to pay the interest on America's debts than to defend the country.

By the end of this week, the government will owe $3,195,000,000,000. That's $3.195 trillion — amounting to about $13,000 for every man, woman and child — and the figure is rising daily.

Congress and the Bush administration are struggling to reduce the size of the budget deficit, which each year adds to a mountain of debt that has tripled in the last 10 years alone.

But the fact remains that debt-service costs — interest payments to lenders for all the money the U.S. government has borrowed — are getting so large that they will soon surpass the defense budget.

It will be 1996 at the earliest before the government will be in a position to pay off any of its debts and so reduce the interest payments. The latest government-spending plan calls for a defense budget of about $290 billion a year for the next three years. Though subject to some revision, possibly downward, the Pentagon's budget likely will stay close to that target.

According to the White House's midyear review of the economy, interest outlays on the public debt are expected to be $260 billion in 1990, rising to $277 billion in 1991 and $293 billion in 1992. In 1993, interest payments will be $309 billion.

"It's mind-boggling really," says economist David Jones of Aubrey G. Lanston & Co. in New York. "And there's no give-and-take on the debt costs because that's the one area that cannot be cut, or else we're bankrupt."

Much of the debt burden was inherited from the Reagan administration and its supply-side economic theories that said taxes could be slashed, regulation eased and military spending raised, with the private sector generating the wealth to balance the budget.

Under those policies, the debt ballooned from $1 trillion on Oct. 1, 1981, to $2 trillion by April 3, 1986, and to $3 trillion on April 2 this year.

Now Treasury Secretary Nicholas F. Brady has told Congress that the permanent debt limit must be raised to $3.44 trillion just to get through the financial year that started Oct. 1.

Even with a deficit-cutting budget plan such as Congress is considering, projected deficits for the next several years are expected to run as high as $250 billion, and that shortfall between income and spending is largely financed by debt.

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FOUNDED IN 1801 BY ALEXANDER HAMILTON
TUESDAY, OCTOBER 9, 1990

BUDGET-MESS POLS SWEATING

By DEBORAH ORIN
Bureau Chief

WASHINGTON — Even on Capitol Hill, the message was getting through yesterday — voters are fed up with the budget mess and there could be hell to pay on Election Day.

"I cannot tell you how much hostility there is," said Sen. Tim Wirth (D-Colo.) as he told of angry constitutents buttonholing him to ask: "When are you all going to get your act together?"

The heat was rising as the Senate scrambled last night to pass a budget deal that would avoid thousands of furloughs for federal workers and restore "non-essential" government services — if President Bush went along.

The plan, already approved by the House, would reduce Medicare cuts, cancel plans for a 2-cent tax on heating oil — and possibly hike taxes for the wealthiest Americans while cutting the capital-gains tax.

The plan was needed because Bush, embarrassed when a tentative budget deal was voted down last week despite his TV appeal for support, vetoed a stop-gap funding measure, cutting off all but "essential" services at 12:01 a.m. Saturday.

Bush — whose staff alienated fellow Republicans last week by playing budget hardball that was a little too hard — ducked for cover and generally stayed out of sight yesterday.

But angry Democrats went on the attack again in a populist "blame Ronald Reagan" mode.

Sen. Dale Bumpers (D-Ark.) ominously warned that the nation is facing "literally a state of chaos and anarchy" unless a budget deal is approved — and charged that Reaganomics is to blame for the whole budget mess and rising deficit.

He said the Reagan years saw tax giveaways to the rich, and pointedly wondered aloud if Bush's decision to stop most government services was the president's way to "show his leadership skills."

THE NEW YORK
DAILY NEWS
NEW YORK'S PICTURE NEWSPAPER®
Tuesday, October 9, 1990

Both sides are to blame for the budget fiasco

BUDGET FIASCOS are nothing new in Washington. But the 1990 version is unique. It goes beyond the usual Democrat-vs.-Republican wrangling. It is, in fact, the collapse of an old and discredited budget-making system.

During the 1980s, Republicans, led by Ronald Reagan, hammered the issue of taxes so long and successfully that it became impossible for anyone in Washington to talk about raising taxes and survive politically. Democrats counter-attacked by focusing on domestic issues. They made Social Security and similar social programs into sacred cows, which endangered the career of any Republican who urged cuts in federal spending.

Thus developed a kind of mutually irresponsible standoff: The GOP talked up tax reductions but remained silent on offsetting spending cuts. Democrats pushed social programs while going along with tax reduction. Meanwhile, both sides accepted mammoth deficit financing. The national debt ballooned from $1 trillion in 1980 to $4 trillion now.

The Gramm-Rudman law was created to eliminate the deficit. But the law was too easily rewritten and postponed. The result was government by conference: Every so often, the White House would get together with congressional leaders. Out of these high-level talks would come a package that mixed together lumps from both worlds — some taxes, some cuts. Congress would grudgingly go along, using the conference's take-it-or-leave-it mandate for political cover.

That's what was supposed to happen last week. Another conference, another package. Only this time, Congress said no. This time, with elections just around the corner, members of the House said the tax-and-cut pain was more than they could bear. Politically speaking, they were undoubtedly right. Fiscally speaking, it was an act of collective irresponsibility.

The predictable upshot: A budget "solution" that gives Congress and President Bush the illusion of fiscal responsibility and deficit reduction without the reality.

Still missing: Plain talk about the national sacrifices that must be made in an era of soaring debt and sagging economic activity. But after 10 years of misleading the public, who in Washington is going to show such courage? Who will stick his neck out to tell taxpayers the truth if it means getting his political head chopped off?

THE WALL STREET JOURNAL.

MONDAY, OCTOBER 8, 1990

Sununu's Old Abrasive Self, Submerged Since Joining White House, Returns in Budget Talks

By MICHEL MCQUEEN
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON – When George Bush named John Sununu as his chief of staff, critics suggested Mr. Sununu's abrasive and arrogant manner could spell disaster for the new administration.

But for almost two years these critics have been proven wrong. The brilliant but belligerent former New Hampshire governor has been adept at avoiding fights and winning allies. "I think I'm a pussycat," he would say.


John Sununu

Last week, however, Mr. Sununu's old identity appeared to re-emerge with a vengeance. He seemed to alienate almost everyone he came in contact with during the marathon negotiations over the deficit-reduction accord. Not only did Mr. Sununu manage to annoy Democrats, he infuriated many members of his own Republican Party, including some influential conservatives such as Sen. Trent Lott of Mississippi and House Republican Whip Newt Gingrich of Georgia.

As stories of arm-twisting and heavy-handed tactics emerged from the cloakrooms and closed caucuses, the old adjectives once applied to Mr. Sununu came flying back, such as "threatening," "bullying," "supercilious" and "insulting."

All of which raises the question: Has John Sununu become such a liability that President Bush can ill afford to keep him in such a visible role, or is he merely playing his accustomed bad-cop role in an especially demanding script laid out by the president?

Mr. Sununu brushes off complaints about his tactics. In an interview with Cable News Network yesterday, he dismissed much of the criticism as all in a day's work. "I think after it all takes care of itself, after this country does have a deficit-reduction package, all these big waves will be seen as ripples in the long run," he said.

"For some reason it has become vogue in Washington to become part of Sununu lore, so people are eager to take an incident and embellish it in hopes of becoming part of the folklore," says Mr. Sununu's chief aide Ed Rogers, the executive assistant to the chief of staff and the White House political director.

If Mr. Bush is displeased with his aide's work he has kept it well-hidden. Vice President Dan Quayle, although he has disagreed with Mr. Sununu on some tactics, defended him in an interview with ABC News yesterday, saying, "He is not the problem, the problem is Congress. Congress has failed. They failed to pass the budget resolution. . . . the government is shut down because the Congress isn't doing anything." And at Friday's cabinet meeting, Mr. Bush sought to quell second-guessing by some aides, saying the failure of the budget agreement can't be laid at one person's door, according to a participant.

But for some members of Congress and the Bush administration, the question remains whether Mr. Sununu is making himself a liability. Other top administration participants in the budget summit, Budget Director Richard Darman and Treasury Secretary Nicholas Brady, have been clearly uncomfortable with the chief of staff's tactics. And although no one criticized Mr. Sununu during Friday's cabinet meeting, several members of the administration and former lawmakers, including Vice President Quayle, emphasized the need to mend fences with congressional Republicans while still strongly defending the president's position.

Certainly there isn't any love lost between some members of Congress and Mr. Sununu. After Sen. Lott came out and attacked the budget agreement, he was deemed "insignificant" by Mr. Sununu. Sen. Lott shot back: "I may be insignificant but I was elected by 2.6 million people. Who elected him?"

In a White House staff meeting, according to an official who was there, Mr. Sununu tweaked Rep. Robert Walker of Pennsylvania, normally a fierce Republican partisan who had announced his early opposition to the budget deal. Hearing this, Mr. Sununu was said to have remarked, "Well, why don't we campaign for Bob Walker's Democratic opponent? Who is his opponent?" The official added that Mr. Sununu "must have known something like that would get back."

Mr. Sununu and his supporters acknowledge one episode that seemed to set off a furor among the House Republicans, although several administration officials who were there say it didn't seem as dramatic at the time as it has appeared in subsequent retellings. At a closed meeting with House Republicans last Monday, Mr. Sununu sought to make clear how important the Republicans' support for the budget accord was to President Bush, who has been actively campaigning and fund-raising for Republican candidates.

According to a number of people who were there, Mr. Sununu said, "The president's not going to be shy about looking you in the eye and asking for your vote, and he might have to do it while he's standing with you on the stage in your district."

While several administration figures who were present say Mr. Sununu didn't mean to offend, a number of lawmakers were angered by what they saw as an implied threat to use the president's popularity against members of his own party. Rep. Carl Pursell (R., Mich.) was among those who reacted in what some members describe as a testy exchange with the chief of staff.

Mr. Pursell, who voted against the budget accord, now calls it a "a little family feud," but he adds that he was miffed that he was being asked to "rubber-stamp something written by people who weren't elected."

But other members of the administration say that part of Mr. Sununu's value to Mr. Bush has been playing the heavy while Mr. Bush uses a soft touch. Mr. Sununu alluded to this in the CNN interview yesterday when he said: "As long as we get a budget through, and I think we will get a budget through, and as long as we get a package that really reduced the defict . . . what I have to absorb in the process is worth the result."

"Bush has always had that kind of guy working for him," said one administration official. "That's the genius of George Bush, he's always had somebody like Lee Atwater or John Sununu to use the brass knuckles for him. He looks reasonable by comparison."

And other officials say that Mr. Sununu's loyalty to Mr. Bush runs so deep that he cannot abide what he sees as undue criticism of him. One official says that what sparked Mr. Sununu's comment about Sen. Lott was his perception that the senator had unfairly criticized the budget deal as a sellout.

Administration officials also say the budget talks have been especially frustrating for Mr. Sununu because he didn't like the concept of a full-blown summit to begin with, preferring instead to let Congress struggle through its own deliberations as the Gramm-Rudman deficit-reduction law's deadline closed in. Then when the president decided to go forward with the summit, Mr. Sununu bent over backwards to try to please the renegade House Republican faction led by Rep. Gingrich, but in the end had to watch as Mr. Gingrich and his followers abandoned the president.

In any event, Mr. Sununu's defenders point out that despite his perceived disregard for members of Congress, he still managed to attend two congressional fund-raisers last week, one for a supporter of the budget deal and one for an opponent.

And some observers see one silver lining in the bashing Mr. Sununu is taking in Congress: Budget Director Richard Darman, who must bear much of the burden for resolving future budget battles with Congress but has long been an irritant for his highhanded ways, is actually winning praise from lawmakers because he is seen as more reasonable than Mr. Sununu.