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THE WALL STREET JOURNAL.

MONDAY, OCTOBER 8, 1990

House Democratic Leaders Offer Changes in Medicare and Tax Plan

By DAVID ROGERS
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—The House Democratic leadership, looking for votes to break the budget deadlock in Congress, proposed tax and Medicare revisions to strengthen liberal and moderate support for a proposed $500 billion, five-year deficit-reduction package.

Modest adjustments would be made in spending levels for defense and agriculture, but the thrust of the proposed changes would be to soften cuts from Medicare while giving the Democratic-controlled Ways and Means Committee more flexibility in designing the package's tax component.

The strategy has the tacit support of the Bush administration, and though House Republicans remain opposed, Senate Minority Leader Robert Dole indicated that he would support quick adoption of the revised plan if it clears the House. "We want the process to move forward," said the Kansas Republican. "My view is we still have a strong bipartisan relationship on the Senate side and we want to preserve it."

Democrats last night brought up the resolution shortly before midnight as a revised conference report. "Our troops are really mad," said House Majority Whip William H. Gray III (D., Pa.), who predicted passage with the united Democratic caucus and marginal Republican help.

Adoption of the resolution would clear the way for action on a stopgap spending bill to fund the government through Friday. Democrats were hopeful of moving both the budget resolution and the spending bill to the Senate in time for final congressional action before the federal work force returns tomorrow after today's government holiday.

The compromise respects the basic assumptions of the ill-fated accord reached between the White House and congressional negotiators Sept. 30, but it blurs the lines surrounding $20 billion in previously specified revenue and entitlement provisions. Medicare savings, estimated at $60 billion in the first agreement, could be reduced by almost a third, and further concessions would be made to exempt home-heating oil from new energy taxes and to restore proposed cuts from unemployment benefits.

The revisions address concerns raised by Republicans as well, but the immediate priority is uniting House Democrats to ensure enough votes to move the process forward to legislative committees responsible for putting the package into law.

By acting now, the leadership hopes to demonstrate its ability to govern after losing Friday's floor vote on the original plan.

As the talks continued, there were heated exchanges with Republican conservatives who were instrumental in undermining the White House package. Speaker Thomas Foley was drawn into the debate, and with sarcasm he chastised Rep. Newt Gingrich of Georgia, the GOP whip, as an unlikely person to speak of "cooperating with his president."

The tensions will make it that much more difficult to win significant Republican support for the revised package, and the whole endeavor risks failure when the

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The tensions will make it that much more difficult to win significant Republican support for the revised package, and the whole endeavor risks failure when the
final deficit-reduction plan comes back before Congress in two weeks. "I just see it as a hidden way to let Ways and Means raise taxes," said Rep. Willis Gradison (R., Ohio), who backed the initial accord. By peeling off moderates like Mr. Gradison, conservatives hope to isolate the Democrats on taxes before the election.

The prolonged stalemate also provoked embarrassment and humor as the House marked time waiting for word from the budget talks. Tourists in the gallery loudly booed Rules Committee Chairman Joseph Moakley, when the affable Massachusetts Democrat announced another recess. Pizza trucks came and went from the Capitol, and on the floor, Democrats baited conservative Californian Rep. William Dannemeyer into a long discussion of the gold standard. Back at his office, a Texas Democrat told of coming in late and receiving an irate call from a constituent. "I said the congressman was out," he said.

Last night's maneuvering capped a weekend of negotiations as both parties sought to pick up the pieces after last week's vote. The 254-179 roll call was a defeat for President Bush and the bipartisan leadership, which has been forced to work in an atmosphere where its own authority is being questioned as is Congress's ability to function.

"I can't think of anyone who wasn't hurt," said Chairman John Dingell (D., Mich.) of the House Energy and Commerce Committee. Rep. John Murtha (D., Pa.), a burly Vietnam veteran who oversaw the debate from the speaker's chair, likened the outcome to being shot in combat. "You might know it's going to happen, but until you are, you don't feel it."

The stunned silence that followed the vote gave way to partisan confrontation. House Democrats failed Saturday to override President Bush's veto of a stopgap spending bill, and the resulting government shutdown contributed to a restless uncertainty.

Shopping his own amendments to the budget plan, Sen. Phil Gramm was asked if the leadership was backing his ideas. "I am the leadership," said the Texas Republican, smiling.

What was described as a "rank-and-file" rebellion against the budget accord in fact involved many of the most influential members in the House. The vote demonstrated resentment toward the process and perceived inequities of the package, but there was at least an equal fear of making any hard choices before next month's elections.

Tax revolts in New Jersey and Massachusetts made it more difficult for the leadership to win support in the Northeast, and in older industrial states across the North, there was a fear of inviting competition in 1992, after redistricting. House Science Committee Chairman Robert Roe resisted pressure to back the leadership, for example, but after a party caucus, the New Jersey Democrat indicated that the state delegation was likely to support the revised proposal.

The leadership was hurt by its relative inexperience, but the greater problem for Democrats was their own discomfort with the pact struck with the administration. Throughout the long budget talks, the party was more successful in shaping the outside debate than the inside bargaining. Once a deal was finalized a week ago, the leadership found itself in conflict with not only many in the caucus but also its own essential character.

Majority Leader Richard Gephardt's populism was at odds with concessions made on taxes. And Speaker Thomas Foley, the embodiment of the "honorable" member, was torn between standing up for the integrity of the agreement and assuring his caucus that committees had the flexibility in the normal course of the budget process to make changes.

Most striking were the number of defections on the major tax-writing and appropriations committees, where 40 out of 93 members, both Democrats and Republicans, opposed the bipartisan accord that promised them a major role in its implementation.

In the case of the House Appropriations Committee, the resolution promised an increase of more than $20 billion in domestic spending in fiscal 1991 to help fund an array of House-passed initiatives from environmental cleanup to the education of low-income schoolchildren. Yet rather than seize the opportunity to fulfill these promises and have a greater role in policy making, the hierarchy of the committee, including Chairman Jamie Whitten (D., Miss.) opposed the measure.

Ways and Means Committee Chairman Dan Rostenkowski, in a fiery floor speech, vowed to use his power to make changes in the package, but the Chicago Democrat expended little effort to bring along his committee, where Democrats voted 13-10 against the deficit plan.

The focus now on Medicare and taxes reflects broader concerns than those of Democrats alone. Elderly constituents served by the health-insurance program represent a powerful constituency for Republicans as well, and there is increased sensitivity in the GOP over the question of fairness in the tax package.

"I think it was damn productive," said Rep. David Obey (D., Wis.) of Friday's vote to kill the initial accord.

Looking back over the past decade, the debate now carries echoes of another major deficit-reduction effort in 1982. That package won bipartisan support because of its appeal to tax fairness, but its principal author, Sen. Robert Dole (R., Kan.), paid a price years later when anti-tax ads undercut his presidential campaign in New Hampshire, home of the current White House Chief of Staff John Sununu.

The same year, 1982, was when Democrats most successfully exploited the Social Security issue in House elections, and Medicare is only an extension of this debate. By a 3-1 margin, Democrats who ousted GOP incumbents in 1982 voted against the budget proposal last week, and in his televised response to the president last week, Senate Majority Leader George Mitchell spoke of equity not between rich and poor so much as the wealthy and elderly. "We prefer a budget that asks more from the wealthy and less from the elderly," he said.

"I know what the responsible vote was and I know what the political vote was," said one New York Democrat, after reviewing poll data at home showing an anti-incumbent mood in his district. "Women over 60 love me," he said, "and I'm not going to hurt them."

THE WALL STREET JOURNAL.

MONDAY, OCTOBER 8, 1990

Darman Gives Explanation Of Bush Appeal on Budget

By a WALL STREET JOURNAL *Staff Reporter*

WASHINGTON – You may have thought that President Bush, in his televised address last week, was asking you to urge your congressman to vote for the budget agreement. But if you did, Richard Darman says you're wrong.

President Bush was merely apprising the public that they should blame the White House, not Congress, for the painful tax increases and spending cuts in the agreement, Mr. Darman, director of the Office of Management and Budget, said on CBS News's "Face the Nation" yesterday. "I thought this was a very generous act," Mr. Darman said. "He wasn't actually asking the public to support this."

In fact, Mr. Bush last week asked Americans to "tell your congressmen and senators you support this deficit-reduction agreement. ... Urge them to stand with the president. ... Urge them to do what the bipartisan leadership has done. ... Urge them to stand with their congressional leaders. ... Ask them to fight for the future of your kids by supporting this budget agreement. ... Your senators and congressmen need to know that you want this deficit brought down. ... This is the first time in my presidency that I have made an appeal like this."

Mr. Darman didn't explain any further what President Bush, whose plea provoked an overwhelmingly negative response, meant by those statements.

THE WALL STREET JOURNAL.

MONDAY, OCTOBER 8, 1990

Politics as Usual: Congress Is Split Over Deficit Plan

By DAVID WESSEL and JACKIE CALMES
Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON – Confronting the biggest domestic challenge to his presidency, President Bush has vowed: "No more business as usual." But business as usual is exactly what they're reverting to on Capitol Hill.

Unable to convince the rank-and-file to back their sweeping and pain-filled plan to reduce the deficit by $500 billion over five years, President Bush and the top leaders of Congress are reversing course. They are trimming back some of their deficit-cutting plans and preparing to turn more decisions over to the very congressional committees that have been unable or unwilling to make them for a decade.

> **Budget Deadlock**
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> **The House Democratic leadership proposed tax and Medicare revisions to strengthen liberal and moderate support for a proposed $500 billion, five-year deficit-reduction package. Story on page A3. In other developments:**
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> - **Chief of Staff Sununu's tactics drew some complaints, page A14.**
> - **Only tourists seem to have noticed the government's closure, page A4.**
> - **Rep. Gingrich's anti-pact stance has alienated many Republicans, page A14**
> - **Washington's lobbyists have returned to action, page A4.**

The likely result is less deficit reduction than administration and congressional negotiators pledged a week ago, and continuing budgetary chaos in Washington, where a final budget package is still in flux five months after negotiations began.

The spectacle that's occurred over the budget plan has raised serious questions about the ability of a divided government to grapple with problems as large and complex as the budget deficit. The president and the Democratic leaders of Congress were repudiated by their own parties. The government was allowed to shut down for lack of funds. "We're no longer a working institution," says a frustrated Rep. Nancy Johnson, a Connecticut Republican.

Last night, members of Congress were still huddling around the Capitol, trying to cobble together a budget agreement that could garner a majority. Frustration was high, and the outcome uncertain. Democratic leaders said they hope to pass a resolution outlining a new plan in time for Mr. Bush to sign a bill allowing the government to function normally tomorrow. Most federal offices are shut today for the Columbus Day holiday.

Budget negotiators agreed to scale back cuts in Medicare, eliminate a tax on home heating oil, and otherwise alter the plan. In addition, they were arguing again over an old idea: Whether to exchange an increase in tax rates on the rich for a cut in the capital gains tax.

But behind it all, the basic disputes that have dogged the budget talks from the very beginning seemed stronger than ever. Democrats continue to talk of cutting the deficit by soaking the rich—conveniently ignoring the fact that big bucks can only be raised by hitting the far larger middle class. And Republicans continue to talk of cutting the deficit by cutting domestic spending and avoiding tax hikes—even though they can't swallow the spending cuts that approach would require.

Political Gridlock

It's a play that never seems to end. The Democrats control Congress. The Republicans control the White House. Both parties suffer from internal divisions and eroding party discipline. The public resists the tax increases and spending cuts that the experts prescribe. And nothing happens. "There is no cohesive program for which there is majority support," says Aaron Wildavsky, a political scientist at the University of California at Berkeley. "This has been true since the last year of Carter. The only year they didn't kill each other was the years they decided not to fight about these things."

Americans say they're growing tired of government by gridlock. Members of Congress "are really a disappointment to the world," says Al Climer of Rochester, N.Y., picnicking outside the Washington Monument, which was closed because Congress and the president failed to agree on a way to keep the money flowing. "It takes them six months to take out a handkerchief and blow their nose," he says.

Standing outside the Smithsonian's Air and Space Museum, Robert Beverly of Sacramento, Calif., vowed, "I know I'm not going to vote for anybody that's in office." Some politicians hear those cries and cringe. "There is a very strong disapproval of the [government] shutdown in the sense that 'Why can't you guys govern?' " says Rep. Rod Chandler, a Republican from Washington state who supported the rejected budget plan. "If there was an anti-incumbent feeling before this, it just got multiplied by 10."

But many members of the House figured that their constituents preferred an uncontrolled deficit to a package that raises their Medicare premiums or boosts the cost of gasoline and home heating oil.

"When the '80s were over, people said,

'Well that's goodbye to the me generation,' " says Peter Teeley, a close political associate of Mr. Bush. "Well, they just came back in hordes."

The odds are still high that Congress will eventually come up with some sort of deficit-reduction plan. And many parts of the package rejected by the House of Representatives last week are likely to survive in the end. But the direction of change is clear: Congress is in retreat from last week's bold plan.

The budget process itself long has been a troubled one, but this year was supposed to be different. Mr. Bush's repudiation of his no-new-taxes pledge opened the door to bargains that were unthinkable a year ago. And the leaders and members of Congress insisted the era of budget gimmickry was over. The president convened a bipartisan budget summit designed to move the notoriously slow process along and limit the powers of the congressional committees.

The result was the universal agreement that this was to be a five-year plan to cut the deficit by $500 billion from projections that assumed current policies remained in place.

But in the end, neither Democrats nor Republican leaders in Congress could deliver their members. House Budget Committee Chairman Leon Panetta of California couldn't deliver even one his of three roommates—liberal Democrats George Miller of California, Martin Russo of Illinois and Charles Schumer of New York. And three of the four other Missouri Democrats failed to follow the lead of their Missouri colleague, Majority Leader Richard Gephardt.

In fact, the leaders couldn't even deliver all of the other leaders. House Republican Whip Newt Gingrich of Georgia wasn't alone in voting no last Thursday. Rep. Jamie Whitten of Mississippi, chairman of the powerful House Appropriations Committee, ignored the advice of his staff and voted no, too, and was joined by six of his subcommittee chairmen with him.

The day after the vote, Rep. Silvio Conte of Massachusetts, the senior Republican on the appropriations panel, wore a hat with visors facing opposite directions and the legend: "I'm their leader, which way did they go?"

In fact, it wasn't lack of leadership that was the problem. The leaders led. It was lack of followership. "You've got the crazies in control of the process," says Rep. Marvin Leath, a Texas Democrat.

It is the latest, and perhaps most significant illustration of the decentralization of power in Congress that dates to the early 1970s. Both House Speaker Thomas Foley of Washington and Senate Majority Leader George Mitchell of Maine were elected in part as a reaction to more autocratic predecessors. As divisions within the parties have become wider and more public, party loyalty and party discipline has eroded. At the same time, fear of a 30-second television spot by an opponent reminding constituents of, say, a members' vote to raise beer taxes or Medicare premiums is omnipresent.

The budget paralysis has some members of Congress comparing the institution—unfavorably—to the British parliamentary system where the administration and the parliament always represent the same party.

"In Great Britain, Margaret Thatcher's budget is accepted two days after it's presented," Mr. Gephardt told his hometown paper, the St. Louis Post Dispatch. "We don't have that luxury. We have to find a way to reach a compromise between people who have fundamental differences about important issues."

"This is like a tie in a football game," Mr. Gephardt says he told the president just before the Rose Garden announcement.

Mr. Bush has been damaged politically by his inability to generate even a modicum of public support for the bipartisan plan in a nationwide address and his inability to bring House Republicans into line.

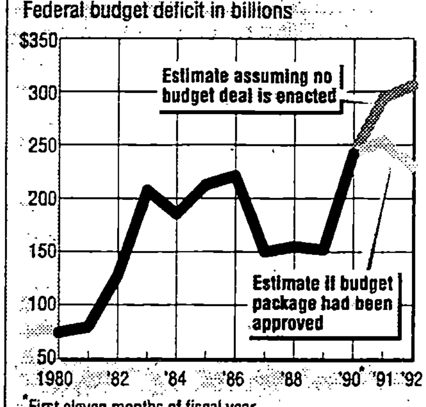
But the football game isn't over yet. "It depends how it ends," says Thomas Mann, a political scientist at the Brookings Institution, a Washington think tank. "I have long felt that Bush's only credible way of governing over the long haul is with a centrist coalition—with Republicans in the Senate but not a lot in the House. That's what might emerge out of this deal."

Indeed, even some of those who criticize Mr. Bush's failure to sell the package will also give him credit for his willingness to negotiate a compromise package. The biggest surprise may not be that the House rejected the package, but that the Republican president and the Democratic leaders of Congress ever agreed to such tough medicine in the first place.

"Particularly in an era of divided government, it's remarkable that you've got a president and a bunch of congressional leaders that have tried to put together a package—and that after their first loss, they're still continuing," says Mr. Mann.

The Ballooning Deficit

Federal budget deficit in billions



*First eleven months of fiscal year

Sources: Treasury Dept.; Estimates from OMB

The administration and congressional budget negotiators set out to cut the fiscal 1991 deficit by $50 billion from their projections. They came down from the mountaintop, and said they had agreed to cut it by $40 billion, although it was actually closer to $34 billion and much of that was left unspecified. With Election Day four weeks away, the committee chairmen who must legislate the plan are likely to dilute it further. While the president and congressional leaders continue to insist the final plan must cut the deficit as much the as original proposal, committee chairmen will be under heavy pressure to replace hard deficit reductions with paper savings.

And it isn't just the major tax-and-spending directives that are in trouble. Concessions to the elderly on Medicare are sure to prompt pleas for the same treatment from others, including farmers, veterans and government employees.

Smaller provisions may be jettisoned as well. The House Merchant Marine Committee is ready to ignore the instruction to impose a $25 annual user fee on boat owners to help pay for the Coast Guard—just as it has in the past. "The time is not ripe yet," Chairman Walter Jones, a North Carolina Democrat, says with a smile.

Administration officials say they hope that the goal of cutting $500 billion over the next five years, which is still endorsed by congressional leaders, will impose discipline on the committees of Congress. In the past, the easiest budget gimmicks to adopt were those that saved money one year, but increased costs the next. With a five-year target, that sort of game playing is more difficult.

Budget cutters will also have to meet the test set by Federal Reserve Board Chairman Alan Greenspan. Mr. Greenspan has indicated he will cut interest rates if Congress enacts a "credible" deficit reduction plan. With the economy showing signs of slipping into recession, that's a significant incentive for the administration and Congress to deliver on their promises. But Mr. Greenspan's strong endorsement of the original package last week didn't seem to make much difference. "It doesn't move votes here because it doesn't move votes back home," said Rep. Tim Penney, Democrat of Minnesota. "Medicare cuts do."

And if Congress needed any reminder of their constituents' impatience, they got it yesterday when the Capitol was clogged with tourists shut out of other Washington attractions. After leaving a House Democratic caucus, Rep. Gephardt was stopped by a group of tourists who berated him about the impasse. As he was trying to explain the current state of play, one woman in the group told the Democratic leader: "You're going to have to do a lot better than this, sir."

THE WALL STREET JOURNAL.

MONDAY, OCTOBER 8, 1990

Gingrich Alienated Many Republicans By Opposing Deficit-Reduction Package

By JACKIE CALMES
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON – Rep. Newt Gingrich may have been on the winning side of the budget debate, but the victory could prove a Pyrrhic one.

By opposing the $500 billion deficit-reduction package that both his president and the House Republican leader supported, the Georgia conservative chose to play his nationally known role of anti-tax maverick. In doing so, Mr. Gingrich, the No. 2 House Republican, alienated many fellow Republicans who expect loyalty to party and president from their leaders.

Rep. Nancy Johnson of Connecticut, one of the moderate Republicans who supported Rep. Gingrich in his close leadership race last year, said the whip "has brought some strengths to our leadership," but she is "very disappointed" with his part in the budget defeat.


Rep. Newt Gingrich

"In the eyes of a lot of people, including people who voted for him as whip, he has hurt himself," says moderate Rep. William Goodling of Pennsylvania. "He is very, very talented, but he has to be careful how he channels his enthusiasm."

Some Republicans have tried to justify Mr. Gingrich's defection by comparing it with then-No. 3 House GOP leader Dick Cheney's opposition to the 1986 tax bill that President Reagan wanted. Rep. Johnson says the comparison isn't apt: "Then, the president's prestige was not so clearly on the line, the economy was not nearly so soft, and thousands of our troops were not stationed abroad on very dangerous territory."

Also, Mr. Cheney was for the most part a quiet dissident; while Mr. Gingrich did turn down a number of television appearances, he was a regular naysayer on the networks in the days before the budget's defeat.

His performance enraged officials in the administration, some of whom now are putting out the word that Rep. Gingrich is desperate for a deal that will put the controversy behind him—so desperate that he would even agree to higher income-tax rates on the wealthy in exchange for a capital-gains tax cut.

To be sure, Mr. Gingrich emerges as a gutsy advocate in some quarters—both among House Republicans and within the party at large—and for that he could be stronger. And his opposition to higher taxes is wholly consistent with his career. "It's not like we've learned something new about Newt," says GOP Rep. Hank Brown of Colorado, a fellow conservative.

Mr. Gingrich likewise points to his longheld economic principles in defending his stance, and dismisses the uproar over his break with the president and House Minority Leader Robert Michel (R., Ill.). "In effect, we're having a family disagreement," he said before Friday's budget vote. "We'll get through this as a family."

But Mr. Gingrich won his leadership post last year by just two votes over Rep. Edward Madigan of Illinois, in a contest that posed a stark choice between Mr. Gingrich's aggressive and confrontational conservatism and Mr. Madigan's moderate, deft hand at political compromise. Though conservative activists all but dominate the House GOP, Mr. Gingrich couldn't have won without the support of key moderates who voted for him in hopes of invigorating their party against the entrenched Democratic majority.

"He has sharpened the differences in the party," says Rep. Steve Bartlett, a Texas conservative. "He has clearly placed himself as leader of one side, heightening the case for those who don't like him but also heightening the reasons to like him among those who do."

But Rep. John Porter of Illinois, a moderate Republican who supported the budget package, complains that, by their actions, Mr. Gingrich and his followers have shown "they're incapable of doing the things necessary to govern when there's a crisis." He adds, "We have to compromise or we don't get anything done."

That argument is lost on Mr. Gingrich. He represents those Republicans who believe that chaos and paralysis in Congress help their cause of breaking the Democrats' record 36-year hold on the House. At the same time, the budget impasse highlights Mr. Gingrich's national pitch that Republicans are the party of low taxes. The fact that Rep. Gingrich has most recently made that pitch at the expense of the president is what could come back to haunt him.

But even those Republicans who say Mr. Gingrich's claim to his leadership job could be in danger add one caveat: He cannot be beaten unless someone challenges him when House Republicans later this year elect their leaders for the Congress that convenes in January. So far, no challenger has come forward. Rep. Henry Hyde of Illinois is often mentioned as a conservative alternative—but for some future race for the No. 1 job when Minority Leader Michel retires.

Also, an ouster would go against the House GOP's modern tradition of stability; not since Gerald Ford beat Minority Leader Charles Halleck in 1965 have Republicans thrown out an incumbent leader. Says Mr. Bartlett, "Republicans just hate the idea of turning out one of their colleagues."

THE WALL STREET JOURNAL.

MONDAY, OCTOBER 8, 1990

Interest Groups Gear Up For New Spate of Lobbying

By TIMOTHY NOAH
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—The Aircraft Owners and Pilots Association was so pleased last week with the outcome of the budget summit that it issued a news release boasting of its role in killing a luxury tax on small planes.

The release congratulated Sen. Robert Dole (R., Kan.) for his role in defeating the tax, which would have affected two Kansas-based manufacturers—Beech Aircraft Co., a unit of Raytheon Co., and Cessna Aircraft Co., a unit of General Dynamics Corp.

By this past weekend, however, after the deficit package collapsed, the small-aircraft users' group had to send five lobbyists scurrying to Capitol Hill to try to retain its victory. Asked whether the triumphant news release was well-advised, President John Baker confessed: "We obviously screwed up."

With members of Congress frantically seeking to cobble together a new budget deal, Washington's lobbying community is working itself into a frenzy. Friday's House rejection of the deficit agreement negotiated by the White House and congressional leaders sent lobbyists back into action as the agreement's tax-bite winners risked becoming losers—and vice versa.

Some lobby groups—small-airplane users among them—avoided being hit by the deficit agreement, only to watch in horror as Congress voted down the deal. Other lobbies, such as those for tobacco and beer companies, previously made their peace with the relatively minor sacrifices required by the accord, and now must decide whether to stand pat or shoot the moon.

The prospects have brightened for interest groups like the truckers' association, which spent last week vigorously lobbying against increased fuel taxes proposed by the deficit accord and now entertains the hope of reprieve.

Among the lobbying groups most at sea in the wake of events in past several days are those representing tobacco companies and brewers. These groups hadn't openly endorsed the increased excise taxes on cigarettes and beer included in the failed budget summit agreement. But most lobbyists for these groups judged the proposals as inevitable and comparatively mild.

"They would have preferred no tax on tobacco," lobbyist Bill Signer of Keefe Co., a consulting firm, said of his client, R.J. Reynolds Tobacco Co., but earlier proposals "were a lot worse" than the final summit proposal to raise cigarette excise taxes to 24 cents a pack from 16 cents.

The summit agreement's collapse, however, leads some tobacco lobbyists to hope that they can eliminate any increase in the cigarette tax. Tom Lauria, spokesman for the Tobacco Institute, said that "if everything's up for grabs," his organization will rethink its previous acquiescence on the issue. "We'd love to have it not be raised."

But if everything truly is up for grabs, still another outcome is possible: an even higher excise tax. One beer company spokesman concedes that his company wasn't vigorously opposing the proposed boost in the beer excise tax, but now is worrying that it will be increased further. The summit agreement called for the excise tax on beer to climb to 32 cents a six-pack from 16 cents.

The final mix of tax provisions will depend partly on the jostling that has resulted among special-interest groups since the deficit agreement's collapse. Tom Green, a lobbyist for the National Automobile Dealers Association, says he initially judged a proposed 10% luxury tax on automobiles priced above $30,000 "non-lobbyable." Now, he says, he believes he may be able to persuade legislators to raise the price threshold to $35,000 by pointing out other items that escaped the summiteers' attention—including private planes.

Meanwhile, the American Trucking Association, which had mounted a vociferous campaign against a proposed 12-cent-a-gallon gasoline tax increase, is jubilant at the budget summit's fate. As soon as the agreement was announced, the group sent out notices to its 4,100 members asking them to contact their representatives in Congress.

"I certainly don't want to take credit or blame, as the case may be," says the group's chief economist, Kenneth Simonson, "but many members of Congress seem to have mentioned the gas tax as one thing that was unacceptable."

THE WALL STREET JOURNAL.

MONDAY, OCTOBER 8, 1990

Tax-Rate Fight May Yield Trade-Off on Capital Gains

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

WASHINGTON—The battle of the bubble is about to resume, and maneuvers over the issue by Congress's two top tax-writers could yield a cut in the capital-gains tax rate.

The so-called bubble is the oddity in the tax code that gives the wealthiest Americans a marginal tax rate of 28%, and upper-middle-income taxpayers a 33% marginal rate. Democrats and a growing number of Republicans say they want to burst this bubble by raising the marginal rate on the rich to 33% as well.

Dan Rostenkowski

An increase in the top rate, which is a favorite of the Democrats, could well be linked to the Republicans' favorite tax cut: a reduction in the capital gains tax rate. Democrats of many stripes see the tax rate increase and the capital-gains rate cut moving arm-in-arm toward inclusion in this year's tax bill.

Drafting sessions could begin as early as this week, led in the House by Dan Rostenkowski (D., Ill.), chairman of the Ways and Means Committee, and in the Senate by Lloyd Bentsen (D., Texas), chairman of the Finance Committee. Both men have insisted in the past that if the capital-gains rate were reduced, as President Bush has sought, the marginal rate on the richest Americans also be increased to compensate.

"The bubble is on the way out," predicted Rep. Ed Jenkins (D., Ga.), who last year led an unsuccessful drive to reduce the capital-gains rate. "And some form of capital gains could be part of the package," he adds.

So far, at least, Messrs. Rostenkowski and Bentsen are either silent or cool to the idea of cutting the capital-gains rate. Friday, Sen. Bentsen said he detected among his panel members a lot less enthusiasm for cutting capital-gains taxes—which are largely paid by the richest Americans—so long as President Bush continues to hold to his refusal to accept higher individual tax rates.

"I don't think you can get the White House to give on that," he said. "We've fought that battle."

An aide to Mr. Rostenkowski said the Illinois Democrat hasn't yet decided about what tax provisions he would recommend that his committee adopt.

Yesterday, however, the White House appeared to be relenting on the issue of raising the top tax rate. They indicated some willingness to agree to an increase in the tax rate on the wealthy in exchange for a cut in the capital gains tax.

Asked about raising rates on the wealthy, Treasury Secretary Nicholas Brady said on NBC News's "Meet the Press": "I don't think [tax rates are] sacrosanct." And Vice President Dan Quayle said on ABC News's "This Week With David Brinkley,": "We're going to be willing to explore all options as we've explored options for the last six or seven months."

But it was far from clear how big an increase in income-tax rates the administration would accept, or how broad the capital-gains tax cut would have to be to satisfy them.

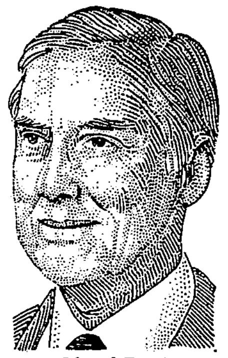
Some Republicans have talked about raising the top rate to 31% or 32%, which would actually be a tax cut for some upper-middle-income taxpayers who now pay a marginal rate of 33%. That's unlikely to satisfy many Democrats.

Some Democrats are talking about a capital-gains tax cut that would apply only to assets purchased in the future, and would tax capital gains only in excess of inflation. That's won't satisfy many Republicans.

"If they're talking about a capital-gains tax cut that is not very meaningful, not substantive, not real, and changing that for increasing the tax rate, then I'd say there'd be no deal," said Vice President Quayle.

With the details of the trade-off so troublesome, White House Budget Director Richard Darman predicted the deal won't be cut in the next few days. "I would be surprised to see that as part of any agreement between now and Tuesday morning," he said on CBS News' "Face the Nation."

The administration appeared willing to support a proposal that leaves the congressional tax-writing committees with significant leeway to determine the tax details. Their hope is that Rep. Rostenkowski and his panel, which probably would act first, will adopt a generous capital-gains tax cut and avoid any plan that increases tax rates too steeply.



Lloyd Bentsen

That is probably a vain hope, however. The strongest instruction that the tax-writing committees are likely to be given by their leaders is to be sure that the tax plan hits rich people harder than middle- and low-income people.

In contrast, the budget plan that was rejected in the House early Friday morning hits low- and middle-income taxpayers proportionately harder than Americans who earned more than $200,000 a year.

Depending on the size of the capital-gains tax reduction, experts estimate that the top tax rate may need to be increased to more than 33% in order to offset the benefit to rich people. The bulk of the benefits from cutting the tax rate on capital gains—which are the profits from the sale of property and securities—goes to taxpayers who make more than $100,000 a year.

House Republicans were moving toward the Democrats' view on shifting the tax burden. In a straw vote that surprised even some GOP leaders, a significant proportion of House Republicans said they favored a tax plan that reduced the top capital gains rate to 20% from 28% and raised the top personal tax rate to 32%.

—Alan Murray in Washington contributed to this article.

THE WALL STREET JOURNAL.

MONDAY, OCTOBER 8, 1990

Three-Day U.S. Holiday Damps Impact of Bush Veto on Spending

By Hilary Stout
And David Wessel
Staff Reporters of The Wall Street Journal

WASHINGTON—What if the U.S. government shut down and nobody but the tourists noticed?

That's been the story for the past two days. And with the federal government observing the Columbus Day holiday, today won't be much different.

Mr. Bush vetoed the bill that would have extended the government's spending authority, saying he wanted to put some discipline in the system.

Yet the mail is being delivered. The National Weather Service continues to forecast. Federal meat inspectors are on the job. The White House switchboard is answering phone calls. And the space shuttle Discovery, launched Saturday morning several hours after government operations deemed nonessential shut down, is orbiting Earth. And Army lost to Duke 17-16 in a football game Saturday at West Point, N.Y.

The postal service, which isn't funded directly by Congress, isn't affected by a government shutdown—although, as usual, there will be no regular mail delivery today because of the holiday. And the National Aeronautics and Space Administration says it was relying on last year's appropriations to pay for the weekend launch of Discovery.

About the only people outside of the federal government to notice were newspaper headline writers and tourists, who were shut out of the Washington Monument, the Statue of Liberty and the Smithsonian Institution and ordered to leave campsites at Yosemite National Park in Calfornia.

"Although we clearly have a serious budget problem, it seems that for political reasons all the people who came to this great city for the weekend are being caught in a political game," griped Leon Mener, a lawyer from Scarsdale, N.Y., who trouped with his family to the White House and the Washington Monument only to find them closed.

At the Great Falls National Park on the Potomac River, traffic backed up almost a mile as closed park gates left it nearly impossible to turn around at the park entrance.

But the anger of many tourists was directed as much at the American governmental process as it was over ruined vacations. "It's a disgrace. I think the so-called geniuses that we the citizens have voted in to make our decisions are sadly lacking," said Kenneth Nesbitt of Saugus, Mass. "They're not doing their job," his wife, Joan Nesbitt, said.

As Ernestine Osburn of Ashland, Ky., stood on the Mall wondering how to spend her one-day visit here, she mused: "I really feel that politics has entered in a little too much. I think they should lay aside politics and do what's best for the country rather than worry about whether they'll be elected."

If budget gridlock persists for another day, the headache will spread. Budget Director Richard Darman told federal agencies that nonessential employees should report to work tomorrow to help close their agencies but should be sent home "during the first three hours of the work day."

Telephones would go unanswered at many government offices. Applying for Social Security or Medicare would be next to impossible because there would be nobody to process the paperwork—although benefits will continue.

In the absence of any appropriations bills, President Bush is relying on an opinion written in the waning days of the Carter administration by then-Attorney General Benjamin Civiletti to keep the government functioning. Both the Constitution and federal laws governing federal spending "leave the executive leeway to perform essential functions and make the government 'workable,'" Mr. Civiletti wrote.

Before the Civiletti opinion, federal agencies suspended travel and new hiring when their appropriations ran out, but never contemplated closing their doors. This is the fourth time since then that the government has run out of spending authority. The previous three produced some furloughs of government workers for one day or less but otherwise had little noticeable effect.

The Civiletti opinion gives the president more flexibility than he gets under the Gramm-Rudman deficit-reduction law. If Congress had passed a routine stopgap spending bill, agencies would have had money but would have been restricted from spending about one-third of it under spending cuts required by the Gramm-Rudman deficit reduction law. The agencies would have had little flexibility in juggling the books to keep more important personnel on the job. The air-traffic control system would have been disrupted, for instance. Although Gramm-Rudmam remains in effect, there isn't any appropriation from which to deduct the across-the-board spending cuts.

THE WALL STREET JOURNAL.

MONDAY, OCTOBER 8, 1990

Plan to Ease Medicare Cost For Elderly Gains Support

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

WASHINGTON—Lobbyists for the elderly, whose outrage over rising Medicare costs sank last week's budget compromise, are rallying around a Medicare proposal that would be less costly for senior citizens and less painful for politicians.

The new proposal would still boost costs to 33 million Medicare beneficiaries by lifting the annual deductible for services from doctors to $100 from $75; by contrast, the defeated plan would have raised the deductible to $150 annually over three years.

The new plan also would abandon two unpopular provisions of the rejected compromise—a big increase in the monthly premium for bills from doctors and a 20% co-payment for clinical laboratory tests. The plan also would expand an existing program that protects low-income beneficiaries from Medicare cost increases.

The package, based on a proposal made by Rep. Fortney Stark (D., Calif.) last week, was endorsed by a coalition of major senior-citizens groups in a letter to members of Congress Friday. It would produce Medicare savings of about $40 billion over five years, down from the $60 billion in the compromise the House overwhelmingly rejected Friday. Both the rejected compromise and the new plan envision $30 billion of savings from doctors and hospitals. The difference between the two plans reflects lower proposed payments by Medicare beneficiaries.

To fill the revenue hole, the groups backed a proposal to extend the hospital insurance payroll tax, which is 1.45% each for workers and employers, to salaries of up to $150,000 from the current cap of $51,300. The rejected compromise would have raised $13 billion over five years by boosting the ceiling to $73,000. Pushing the ceiling to $150,000 would bring in an additional $17.6 billion.

The Stark proposal has broad support from Democrats because it addresses complaints that the burdens of the first compromise fell too heavily on lower- and middle-income taxpayers.

"This is a win-win-win proposal," said Ron Pollack, the executive director of Families USA, one of the groups supporting the plan. "It solves the Medicare problem, deals with progressivity, and doesn't violate the president's pledge to hold down tax rates."

The overwhelming defeat of the budget compromise Friday is the second time in two years that senior citizens have imposed their will on Congress over Medicare. Last year, the elderly forced Congress to repeal a catastrophic-illness insurance plan that many claimed was too expensive for too little additional coverage under Medicare.

The attack on the budget compromise, unlike the slow-building opposition to the catastrophic-illness insurance plan, was swift, spontaneous and broadly based. Even before groups could publicize the details, "We were flooded with phone calls," said John Rother, legislative director of the American Association of Retired Persons. "People were saying, 'We're really hurting from rising health-care costs, and we're worried that we won't be able to keep up.' " Many elderly voters also complained that the compromise unfairly placed too heavy a burden on the elderly.

Elderly groups moved quickly to capitalize on the disarray caused by the rejection of the budget compromise. The new plan recognizes that the elderly must bear some of the cost of deficit reduction, yet it attempts to limit their share to politically acceptable levels. "We tried to be constructive," said Martin Corry, AARP's director of federal relations. The groups believe that their support of the plan will offer some protection to politicians who endorse it.

Of particular importance to groups such as Families USA is a provision that would help low-income elderly meet rising Medicare costs. Even though the plan would keep monthly premiums at 25% of the cost of Medicare Part B, which pays bills from doctors, rather than boosting premiums to 30% as the compromise proposed, monthly premiums would continue to rise with inflation from $28.60 this year to about $30 next year and $48 in 1995.

The proposal would pay the monthly Medicare premiums for people whose incomes exceed the poverty level by 50%. This provision, which would cost $3.9 billion over five years, would apply to single people with incomes up to $9,420 and couples with incomes up to $12,630. Senior citizens in these income groups currently spend 19% of their income on health care.

The current program to help poor people pay their Medicare premiums (that are subtracted from monthly Social Security checks) is far more limited than the proposal. It covers people with incomes up to 90% of the poverty level. The original budget compromise proposed expanding that to 125%. Although the groups are advocating income protection up to 150% of the poverty level, a compromise could limit the increase to 133%.

In its efforts to piece together a new budget compromise, the House is likely to outline broad goals for spending reduction and revenue increases and then let individual congressional committees figure out how to meet the goals. The senior groups hope their unified endorsement of the Stark plan will help push it into law.

While the letter that the groups sent to Congress specifically mentioned increases in the 1.45% hospital insurance payroll tax paid by both workers and businesses, it added that it would accept other "progressive" taxation plans to pay for the Medicare changes. The higher payroll tax, which would add about $1,430 to the taxes paid by a worker making $150,000 annually, could encounter opposition from tax-averse Republicans and business alike.

But businesses haven't mobilized against the payroll tax expansion.

THE WALL STREET JOURNAL.

MONDAY, OCTOBER 8, 1990

With or Without a Budget Deal, Analysts' Ranks Are Full of Bears

By CHRISTOPHER WINANS
And CRAIG TORRES
Staff Reporters of THE WALL STREET JOURNAL

NEW YORK—The budget bluster in Washington may delay a drop in interest rates, but bigger problems threaten stock investors.

News of the House of Representatives' rejection of the budget accord early Friday morning sent the Dow Jones Industrial Average tumbling 59 points in the first half hour of trading. But the panic faded quickly as investors decided that the politicians have to come up with *something*. The industrials poked briefly above Thursday's close, then ended 6.19 points lower at 2510.64.

If the politicians don't come up with anything and the automatic spending cuts mandated by the Gramm-Rudman deficit-reduction law go into effect, "one has to sell" stocks, says Chung Lew, head trader at Kleinwort Benson North America Inc. Such a development would tell investors world-wide that U.S. politicians can't get a grip on fiscal policy, he says.

But strategists say that even if a budget accord is worked out, the stock market will remain in peril, because the weakening economy is a bigger threat to stock prices than balking budgeteers.

It's not that budget policy is irrelevant; Federal Reserve Chairman Alan Greenspan publicly stated that lower interest rates would follow adoption of a "credible" budget, and easier monetary policy is essential for stock prices to start climbing again.

"For a new bull market to begin, we will have to have a resumption of rapid money supply growth," says Stefan Abrams, chief investment strategist at Kidder, Peabody & Co. Suresh Bhirud, chief market strategist at Oppenheimer & Co., adds, "The lack of a budget accord keeps the Fed from easing aggressively."

However, neither strategist believes a moderate reduction in interest rates—which is all that can be expected from the Fed—will forestall a recession. "We are already in a recession," Mr. Bhirud contends, "and a small easing by the Fed doesn't change recessionary forces or the deflation [in real estate values] we are now seeing."

The more immediate concern for investors, as the deluge of third-quarter earnings reports draws near, is that profit expectations for this year and next are still too high, these strategists say.

The average estimate of per-share earnings for the 500 companies in the Standard & Poor's stock index is $23.86 this year, compared with $22.87 last year, according to Institutional Brokers Estimate System, a division of Lynch, Jones & Ryan. The estimate for 1991—the year when more and more economists are predicting a mild recession—is still higher, at $24.84.

"Bottom-up" forecasts—a tally of individual analysts' estimates for the 500 companies—are higher still: an average of $26.07 a share this year and $26.98 next year.

By contrast, Mr. Bhirud is looking for S&P 500 earnings of $20 a share this year and $19 in 1991. Mr. Abrams says Kidder is looking for earnings of $24 a share on the S&P 500 this year and $23.50 next year, although he thinks both figures are "a little too aggressive."

In this situation, strategists say, the best defense is still a good defense.

"What happens down in Washington with the budget isn't going to make or break the market," says James Solloway, chief economist at Argus Research. He advises investors to concentrate on avoiding negative earnings surprises. Buy and hold only "quality" stocks of companies that have something on the ball, such as **Merck**, Mr. Solloway says. "Don't take a flier on a **Chase Manhattan** or a **UAL**. Stick with quality and visible earnings consistency."

That strategy has dominated the market much of this year, and many strategists agree with Mr. Solloway that there's little in the budget process to warrant changing themes now.

"Employment is dropping, and therefore incomes will decline," says Charles I. Clough, chief investment strategist at Merrill Lynch. "That signals a period of severe weakness ahead, and that hurts earnings. If the Fed is tighter longer [because of the budget-policy failure], the earnings outlook becomes even drearier and prolongs the adjustment phase." He sums up his strategy as: "utilities, utilities, utilities."

Still, stocks of all sorts are reaching his idea of fair value for the first time since early 1988, Mr. Clough says. As a result, there may be some buying by investors who can ignore such uncertainties as oil prices and how long and deep the recession may run. He says that when the Treasury bill yield divided by the dividend yield on the S&P 500 falls to 1.75, the stock market may be at a bottom. The ratio currently, he says, is 1.9.

Richard B. Hoey, chief economist at Barclays de Zoete Wedd, says the way the budget is resolved won't change his bearish approach, either. "The surgeons are arguing, but the patient is dead," Mr. Hoey says. "One guy wants to use leeches and the other modern medicine, but we're in a recession," which will only get worse if taxes are raised, he says.

"There are two possible cases on the budget for the stock market," Mr. Hoey says. "The bear case is that they will succeed in getting a deal. The other bear case is they won't. If they get one, we worsen the recession. If they don't get one, they collapse [investors'] confidence and it's too late to do any good."

The solution? If you subscribe to this view, buy Treasury bills and avoid almost-certain losses in stocks. "If you believe we're in a full-scale recession, then avoid losing money by staying out of the stock market," Mr. Hoey says.

But like Mr. Clough of Merrill Lynch, Mr. Hoey offers a caveat to the bearish argument: In its own recent survey of portfolio managers, Barclays found bears outnumbering bulls 11-1. With many investors presumably already out of the market, Mr. Hoey says, "temporarily it will be harder for bad news to drive stocks lower."

Friday's Market Activity

Stocks recovered from a deep morning plunge to finish only slightly lower. But traders said the recovery came on light volume.

Despite Friday's loss, the industrials gained 58.16 points for the week, or 2.37%. The S&P 500-stock index gained 1.8% for the week, and the New York Stock Exchange composite index rose 1.7%.

Hanson's American depositary receipts were the most active issue on the Big Board, rising ¾ to 19¾ on more than 3.2 million shares. U.K. issues listed in the U.S. got a boost from news that the British pound will enter the exchange-rate mechanism of the European Monetary System.

U.K. Chancellor of the Exchequer John Major surprised many analysts when he said the pound will be brought into the currency-stabilization mechanism today with a value of 2.95 German marks and will be allowed to fluctuate in a range of only 6% above or below that value. As part of the move, Mr. Major asked the Bank of England to cut its base lending rate by one percentage point to 14%. Other British banks followed suit.

Other U.K. stocks benefiting from the moves included **Beazer**, which rose ⅞ to 7⅞; **British Petroleum**, which gained 2⅜ to 82⅝; and **Glaxo Holdings**, which jumped 1¾ to 32½.

British Telecommunications rose 4⅛ to 55⅛, **Racal Telecom** jumped 4 to 52½, and **Cable & Wireless** closed at 26¾, up 2⅛.

Among other active issues, **Philip Morris** dropped ¼ to 47¾, and **RJR Nabisco** cumulative convertible preferred warrants declined ½ to 19¼.

Waste Management lost ⅛ to 32, **General Electric** fell ⅛ to 54¼, **Wal-Mart Stores** was off ¾ at 26¾, **Unisys** was unchanged at 3⅝, **International Business Machines** was up ⅜ to 108¼, and **Citicorp** gained ¼ to 14⅛.

Orion Pictures said **Metromedia** exercised warrants to buy 4.3 million Orion common shares for $6 each. The news sent Orion ⅜ higher to 9⅞.

Travelers plunged 4⅜ to 16⅜. The company projected a net loss of $500 million for the third quarter and said it will cut its quarterly dividend on common to 40 cents a share from 60 cents. Travelers attributed the loss to $650 million it will add to its reserves for mortgage loans and real estate investments. In the 1989 third quarter, Travelers earned $94 million.

UAL dropped 2⅝ to 102¾ after falling 6⅜ Thursday. Investors learned that its chairman, Stephen Wolf, sold most of his UAL rights last spring when the stock was around $150 a share. Mr. Wolf has been trying to persuade the UAL board that the company shouldn't be sold for less than $201 a share.

General Motors got a boost from reports of progress in the auto maker's contract talks with union officials representing Canadian workers. GM also said it would extend the shutdown of one U.S. car assembly plant and idle another. GM shares rose 1¼ to 36⅞.

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MONDAY, OCTOBER 8, 1990

Action by Fed Aimed at Lowering Interest Rates Seen by Many to Be Only Delayed, Not Blocked

Fed's Move on Rates Is Seen Only Delayed

CREDIT MARKETS

By CONSTANCE MITCHELL
Staff Reporter of THE WALL STREET JOURNAL

NEW YORK—The budget wrangling in Washington will only delay, and not block, Federal Reserve action to lower interest rates as the economy continues to weaken, economists and analysts say.

With the U.S. economy apparently on the skids, the question for many bond analysts is not whether the Fed will ease interest rates, but when and by how much.

Fed Chairman Alan Greenspan has hinted on numerous occasions that the Fed would reduce short-term interest rates if Congress passed a "credible" budget deficit-reduction package. Although Friday's employment report should have provided the Fed with an additional reason to lower rates, many economists believe that by linking lower interest rates to the deficit-reduction package, the Fed is now paralyzed.

"The employment report was sufficiently weak to justify an easing right away," said Robert Chandross, chief economist at Lloyds Bank. "But the Fed has put itself in a corner. It can't ease unless Congress adopts a budget plan."

The Bureau of Labor Statistics said on Friday that the nation's unemployment rate rose to 5.7% in September and that private industry payrolls fell by 67,000 workers. Manufacturing employment, which has lost more than half a million workers since January 1989, accelerated its decline last month with the loss of 65,000 factory jobs. Construction and business services also logged declines.

Judging by those figures, "if we are not in a recession, we are very close to one," said Norman Robertson, chief economist at Mellon Bank Corp.

Mr. Robertson believes the employment statistics were so weak that once the Fed policy makers decide to act, they may reduce the closely-watched federal funds rate as much as 1/2 percentage point to 7.5%. If that were to happen, if would be a departure from the Fed's preference for small 1/4-percentage-point changes in the key rate. The federal funds rate, which is the rate banks charge each other on short-term loans, is one of the few rates the Fed uses to signal changes in monetary policy.

But whether the Fed reduces rates by 1/4 or 1/2-percentage points, traders and economists say yields on long and intermediate-term bonds aren't expected to fall much, if at all.

"Even if Congress comes up with a new budget, we will still have a record budget deficit this year, and that means the government will have to auction a significant amount of new supply" of Treasury bonds, said Lawrence Leuzzi, a manager of government bond trading at S.G. Warburg & Co. But at a time when the dollar is trading at historical lows, and interest rates in other countries have moved up sharply, international investors are now shunning the U.S. markets.

To attract sufficient domestic investors to buy the government's bonds, Mr. Leuzzi says, the U.S. will be forced to keep yields on long-term bonds near current levels, or even raise them, for the remainder of this year to encourage foreigners to buy U.S. securities.

The Mideast crisis also has put upward pressure on rates. Mickey Levy, economist at CRT Government Securities Inc., says that because there isn't any way of knowing when, or how, the Mideast crisis will be resolved, there's no way of determining when long-term interest rates will decline. But he adds: "As soon as the logjam is broken, rates will come down substantially."

Yields on the benchmark 30-year Treasury bonds have risen sharply this year, from just under 8% in early January to 9% a few weeks ago. The 30-year bond was yielding 8.78% on Friday.

If a new budget deficit-reduction plan is passed in Washington—and a separate measure to raise the federal debt ceiling is approved—then the government will sell $18.8 billion of Treasury bills tomorrow and $8.5 billion of seven-year notes on Wednesday. With or without a budget accord, the government will auction $5 billion of 30-year bonds on Thursday for Resolution Funding Corp., the proceeds of which will be used to finance the thrift industry bailout. And next month the government is expected to sell more than $30 billion of notes and bonds in the quarterly refunding of the federal debt.

The government could default on some debt payments as early as Thursday if it can't borrow more money. But few traders believe the situation will get that bad.

Meanwhile, the collapse of the budget deficit- reduction package and the continued crisis in the Persian Gulf have caused confusion and turmoil in the bond market. "Until some of these issues are resolved, it will be a very difficult time for bond investors," said Warburg's Mr. Leuzzi. "There is no way of properly weighing the risks and rewards of various outcomes" to the myriad of issues facing the market.

The confusion was evident during Friday's chaotic [illegible]ing session. Investors were torn between selling bonds on news that Congress rejected the budget proposal and buying bonds on news that the latest employment report provided fresh evidence that the economy is slipping closer toward a recession. At the end of a hectic day of trading, bond prices ended mostly unchanged.

So far this year, bonds have posted modest returns. The best performers during the nine months ended in September were mortgage-backed securities, which had a total return of 5.61%, according to Salomon Brothers Inc. Short-term Treasurys posted positive returns of more than 5%. But long-term Treasury bonds performed poorly, posting returns of between 0.07% for 10-year bonds to a negative 4.57% for 30-year bonds. Junk bonds, which are high-yielding, speculative-grade corporate bonds, logged the worst performance with total returns of about minus 6.48%, according to Salomon Brothers.

Friday's Market Activity

Bond prices ended little changed in hectic trading as investors tried in vain to get a handle on the government's budget mess.

Amid confusion about the budget process and frustration with Washington, retail investors stayed away from the fixed-income markets.

Dealers and speculators, however, were active bond market players, although their investment decisions varied widely.

"The market was all over the place," said Lloyds Bank's Mr. Chandross, adding: "Everyone was covering positions."

The Treasury's 30-year benchmark bond ended at a price of 99 16/32 to yield 8.78%, unchanged from Thursday's price. The latest two-year notes ended 2/32 higher at a price of 100 18/32 to yield 7.79%.

Some short-term rates were sharply lower. The discount rate on three-month Treasury bills fell to 7.04% from 7.13%, while the bond-equivalent yield on the three-month bills fell to 7.245% from 7.34%.

Early in the day, news that the five-year, $500 billion deficit-reduction accord had been defeated on the House floor overshadowed a September employment that was bullish for bonds and fueled fears that spending cuts mandated by the Gramm-Rudman deficit-reduction law would be delayed.

"That's the most unappetizing option for the market," said Fred Leiner, fixed-income market analyst at Continental Bank in Chicago. "People would much rather have the Gramm-Rudman sequestration go into effect" and see some evidence that the government had lightened its borrowing needs, he said.

In the corporate bond market, traders said junk bonds plunged as stocks tumbled, then rebounded as stock prices recovered. Many junk bonds were as much as two points lower earlier in the day, but recouped some of their losses and ended 1/2 point lower on average.

The closely watched **RJR Nabisco** Inc.'s 17.375% convertible pay-in-kind debentures due in 2009 ended 1 1/2 points lower at 105 5/8 on the New York Stock Exchange. RJR's 17% exchangeable pay-in-kind debentures ended 1 3/4 points lower at 78 5/8.

Casino bonds were battered again on Friday. Among the biggest losers: **Caesars World**'s 13.50% subordinated notes tumbled four points to 82; **Aztar Mortgage Funding**'s 13.50% first-mortgage notes slid two points to 64, and **Trump Plaza**'s 12.875% first-mortgage bonds ended down three points to 54.

Casino bonds took a beating all last week as nervous investors unloaded the bonds on fears that a frail economy will translate into weakness for the gambling industry.

The Washington Times

MONDAY, OCTOBER 8, 1990

GOP conservatives urge tough stance in budget debate

By Ralph Z. Hallow
THE WASHINGTON TIMES

NEWS ANALYSIS

President Bush's apparent decision to abandon the last shred of his no-tax campaign pledge has staked his future, if not the Republican Party's, on a grand alliance with the Democrats.

"We are at a crossroads and have to decide whether we are going to form a coalition government with the left or use our control of the White House and our veto strength in both houses of Congress to forge a distinctly Republican policy," Rep. Christopher Cox, California Republican, said yesterday.

He and other anti-tax Republicans in the House think that the coalition route leads to disaster.

They are urging the president to do what Republican National Chairman Lee Atwater did for Republicans all his professional career as a campaign stratetgist, and what National Republican Congressional Committee Cochairman Ed Rollins has begged the White House to do virtually all of this year.

The plea to the president is simply this: Keep the distiction between the two parties sharp.

"The recession we are already in is muddying things badly," said Rep. Dan Burton, Indiana Republican. "A tax rate hike will make it worse, and the American people won't know whom to blame, so they'll load the blame on the Republican administration."

This creates an alarming view from Capitol Hill, at least for conservative Republicans. Mr. Burton sees a confused, dispirited electorate moving Congress to the left in coming elections. "Why not, since there are no delineations any more?" he said. "We all look the same up here now."

As a way out of this mess, anti-tax GOP lawmakers like Mr. Cox and Mr. Burton are offering the president a guarantee that his budget vetoes will be sustained if he will only use them to get back to the pro-growth, anti-tax policies that they say worked so well for President Reagan and the economy.

The president, however, has been all over the place. First he opposed all new taxes, then said he would consider any new taxes without preconditions.

But he supervised a compromise with congressional summiteers that called for huge excise-tax increases. This he justified by saying he would not tolerate an increase in personal income tax rates.

Along the way he implied he wouldn't accept anything that didn't have a capital gains tax rate cut. Then he tried to dragoon Republcian lawmakers into accepting a package that did not have such a cut. And now he appears willing to sacrifice his no-tax-rate-increase pledge for capital gains.

"All his positions went down the tubes," said Mr. Burton, who added that the administration is practicing a totally value-free pragmatism that would be bad enough in itself but for the worse fact that it is not working.

Nevertheless, yesterday, Mr. Bush's surrogates, from Vice President Dan Quayle to Chief of Staff John Sununu, said that, well, yes, increasing tax rates on the rich would be negotiable if it included a capital gains tax cut.

Needless to say, the Democrats were ecstatic. "Rates and capital gains are no longer off limits," beamed Rep. Jim Moody, Wisconsin Democrat and member of the House Ways and Means Committee.

For anti-tax Republicans, it was a different matter. "The [captial gains-personal rates] trade is outrageous,' said Mr. Cox. "The fact is, Bush's 'no new taxes' pledge isn't a millstone around the neck but an advantage, based on solid economics and a disposition to free enterprise over big government."

But House Minority Whip Newt Gingirch, who angered the White House by leading the opposition to the deficit compromise last week, appeared to go along with the tax rate increase for the rich yesterday.

Behind that seemingly strange posture for Mr. Gingrich was a desire to show he could construct compromises as well as destroy them.

A veteran Republican observer on the Hill and a friend of Mr. Gingirch's said the Georgiah enjoys the publicity attendant on dong high-wire political acts. "But he's constantly nervous about it and so checks to see if he's gone too far.

He added: "Having scuttled a bad agreement he now has to show he's a true leader. Newt is saying, 'OK, I've done what any mule can do, kick over the barn, and now let me show you how I can build one.' "

But even his conservative colleagues hope he fails on this exercise in "true leadership."

The Washington Times
MONDAY, OCTOBER 8, 1990

Bush gives in on taxes, gets cap gains cut

By Frank J. Murray
and J. Jennings Moss
THE WASHINGTON TIMES

White flags were run up at both ends of Pennsylvania Avenue yesterday, with President Bush signaling surrender on raising income taxes and congressional Democrats showing a willingness to cut taxes on investment profits.

The new plan is said to reduce the impact on Medicare by $18 billion, cut defense another $2.2 billion, raise the rate of taxation on top earners to produce another $42 billion, and cut the capital gains tax.

The cut in capital gains would fulfill one Bush campaign pledge, but his agreeing to raise income taxes removes the last vestige of his celebrated "read my lips" promise to resist raising income taxes, which was the centerpiece of his 1988 campaign.

Republicans and Democrats alike had considered raising income taxes the next battle, after Mr. Bush aligned himself with a coalition of Democrats and liberal Republicans, abandoning stubborn conservative Republicans.

Even Rep. Newt Gingrich, the Republican whip who led last week's tax revolt, was said by incredulous White House officials to back an income tax increase, but no one met his terms.

The political flip-flops came as a House-Senate conference committee worked into the night to craft a non-binding budget resolution and a one-week, stopgap funding measure to reopen government facilities closed since Saturday by the budget stalemate.

Over the objections of some top staffers, Mr. Bush vetoed on Saturday a continuing resolution sent by Congress to keep the government going. The House rejected early Friday a bipartisan $500 billion deficit-reduction proposal that would have included $134 billion in new taxes and $366 billion in spending cuts.

The House convened five times yesterday, with tempers rising steadily as the day turned into night. In the fourth meeting — after Republicans snubbed conference discussions — House Speaker Thomas Foley got into a yelling match with Mr. Gingrich, of Georgia, over how to proceed.

Then the top three Democrats — Mr. Foley, Majority Leader Richard A. Gephardt of Missouri and Majority Whip William H. Gray III — stood at three microphones and in turn harshly questioned GOP tactics.

"We are ready to confer. We have been sitting in a room for six hours [without the House Republicans who were supposed to attend]. . . . It's time to do the nation's business," Mr. Gephardt said, adding that Senate Republicans were at the meeting.

Mr. Gingrich accused Democrats of blocking progress.

Mr. Foley snapped back: "Of all the people in this House, of all the people in this country, who have little claim to cooperation with his president, it is the gentleman from Georgia."

The Republican point man during the debate, Rep. Robert S. Walker of Pennsylvania, said GOP House members had not gone to the conference committee because they believed Democrats were using it only to push their plan through.

House members debated into the night, but final passage was impossible because the Senate had recessed.

The non-binding budget resolution is more of a general marching order than a road map and does not explicitly bind committees to specific spending cuts or tax increases. It is targeting cuts of $40 billion this year and $500 billion over five years.

A proposal to set the new top income tax rate at 32 percent and the capital gains rate at 20 percent emerged from the Republican caucus, while Democrats talked of a top income tax rate of 33 percent.

Republican House members said they reached consensus to accept higher income taxes in exchange for a break on capital gains, but the vote count was disputed.

Rep. Jim Leach, Iowa Republican, said the idea had the support of more than half the Republicans. Rep. Hank Brown, Colorado Republican, said his count was 4-1 against any tax increase. Rep. Jack Buechner, Missouri Republican and a Budget Committee member, was less explicit but said two-thirds of GOP members backed a bold initiative for the party to escape being tagged the party of the rich.

House Minority Leader Bob Michel of Illinois would say only that he needed to talk to more people. Another GOP leadership meeting was held last night.

There also was talk of omitting the proposed 2 cent tax on home heating oil that was a part of the defeated bipartisan plan. Left unanswered was the fate of tax increases on gasoline, alcohol, cigarettes, plane tickets and luxury purchases.

President Bush, who spent yesterday with advisers at his Camp David, Md., retreat, publicly opened the door to exchange higher tax rates for lower capital gains taxes after meeting with congressional leaders Saturday.

Asked if he finally was "willing to give on tax rates for the wealthy" — which Senate Majority Leader George Mitchell of Maine called the Democrats' objective — Mr. Bush said he was flexible.

"Let them go up and negotiate it. This is the business of the Congress," Mr. Bush told reporters. "I won't mislead them. If there's something that's so outrageous I can't accept it, I'll let them know at the beginning so they don't waste their time."

On NBC's "Meet the Press" yesterday, Mr. Foley said his intuition led him to predict higher tax rates and lower capital gains rates.

"I would rather think the odds now are shifting that it will include changes in income tax rates . . . and a capital gains provision rate change as well," said the Washington Democrat.

Vice President Dan Quayle, who has spoken for the president on Capitol Hill throughout much of the budget crisis, said on ABC's "This Week": "The president is not going to say, 'I'm not going to talk about that, period.' "

Treasury Secretary Nicholas Brady also said higher income tax rates would be up to congressional committees.

Meanwhile, White House Chief of Staff John Sununu said Mr. Gingrich was "flipping" on the tax question. "He's talking about raising the rates 32 percent, 33 percent," Mr. Sununu said on Cable News Network's "Newsmaker Sunday."

A spokesman for Mr. Gingrich confirmed that but said such a concession would be exchanged for a radical cut in capital gains taxes to 15 percent and full indexing for inflation.

Several Democrats emerged from an afternoon party caucus to **say the Ways and Means Committee would meet tomorrow to begin plugging the $18 billion gap in savings originally proposed for Medicare.**

Asked if it would come entirely from new taxes, Mr. Foley said, "Not necessarily."

"I personally do not look forward with any great optimism or euphoria to attempt to fight out all these battles in a committee where we're outnumbered 23-13," said Rep. Bill Archer, Texas Republican and ranking minority member on the Ways and Means Committee.

The Congressional Budget Office estimates 600,000 taxpayers would pay about $8 billion a year more if the top marginal income tax rate, the so-called bubble, went to 33 percent. If it were held to 32 percent, the take would be $1.6 billion less a year.

Rep. E. Clay Shaw, a conservative Florida Republican, said in floor debate last night he had no doubt the bubble would burst.

"The bubble and capital gains are on the table and up to Ways and Means," said Rep. Sam Gejdenson, Connecticut Democrat, after his party caucus.

Rep. Barbara Kennelly, Connecticut Democrat and member of the tax-writing Ways and Means Committee, said the panel will meet tomorrow. "The process has shaken out what's unacceptable," she said, alluding primarily to changes affecting Medicare.

The Washington Times
MONDAY, OCTOBER 8, 1990

Budget freeze idea getting a second look

By Donald Lambro
THE WASHINGTON TIMES

When George Bush was running for president in 1988, he proposed erasing the federal deficit through a modified budget freeze. It is an idea that some observers think can break the government's paralysis over spending.

NEWS ANALYSIS

The president's plan would have allowed expenditures to grow at no more than the rate of inflation. By keeping a lid on spending, the government would let the normal growth in federal tax revenues from an expanding economy gradually shrink the deficit, achieving a balanced budget in four years.

In addition to the spending-freeze proposal, some congressional negotiators indicated yesterday that they would consider the idea of breaking the logjam over taxes through a trade-off with the White House.

Under one scenario, the Democrats would agree to reduce the capital gains tax rate in exchange for raising the top tax rate paid by the wealthiest Americans to 33 percent. Because of a much-debated anomaly written into the tax code as a result of the 1986 tax-reform act, some upper-income taxpayers pay a 28 percent rate, while some people earning less are taxed at 33 percent.

Democrats have consistently pushed to eliminate this so-called "tax bubble," while Republicans fought the proposal, arguing that it would amount to raising the top income tax rate and hurt economic growth.

Yet in the face of a declining economy, the possibility of substantially reducing the 28 percent capital gains tax rate — which Mr. Bush says will stimulate new business investment and increase jobs — may lead the administration and its congressional supporters to cut a compromise deal.

Republican Sens. Bob Kasten of Wisconsin and Connie Mack of Florida have proposed cutting the capital gains rate on the sale of assets to 15 percent, a change that some economists say would bring in $4 billion to $5 billion more in taxes and stimulate economic growth.

But Democrats have said they remain strongly opposed to cutting capital gains rates, which they call "a giveaway to the rich," without enacting corresponding tax increases on the wealthy.

The budget freeze idea was politically marketable in 1988, when Mr. Bush insisted he could achieve a balanced budget without new taxes.

But that was when the country was entering the seventh year of a seemingly non-stop economic recovery, the gross national product was growing at 2.5 percent, unemployment was down to nearly 5 percent nationally and the Treasury was facing substantially larger infusions of tax revenue from a steadily expanding business sector.

Now, however, the administration is facing a possible recession. Even the usually bullish U.S. Chamber of Commerce predicts that the economy is going to "grind to a virtual standstill during the third quarter of this year and actually contract in the fourth quarter."

Thus the nation's slowing economy has substantially cut into the Treasury's revenue growth, ballooning the estimated deficit for the new fiscal year to well over $160 billion.

Nevertheless, the idea of returning to the modified budget freeze remains one of the more politically attractive options available. Known as the "4 percent solution", it appeals to many conservative lawmakers who want to slow down the growth in government spending and reduce the deficit without raising new taxes.

At the same time, it offers a way out of the budget logjam for moderates and liberals who do not want severe cuts in social programs such as Medicare or increases on gasoline and home heating oil.

An analysis released this summer by the Citizens for a Sound Economy, a Washington-based research group concluded that spending can grow by over $200 billion over the next five years and still produce a balanced budget without new taxes.

"Because of economic growth, previously enacted tax increases and inflation, tax collections are predicted to increase by $373 billion over the next five years," the group explains. "With the current deficit at about $160 billion, Congress can increase spending by $213 billion over the next five years and still balance the budget."

A declining economy has since reduced those revenue projections, but the group says higher revenues will continue to flow into the Treasury as long as the economy keeps growing.

The Washington Times
MONDAY, OCTOBER 8, 1990

Hill hears from home – loud and clear

By Carleton R. Bryant
THE WASHINGTON TIMES

Rep. Pat Roberts, Kansas Republican, says he has to handle the telephone carefully when taking calls from constituents upset at the defeat of the budget deal.

"It's an arm's-length deal," Mr. Roberts said, describing how he has to hold the receiver to endure the yelling. "I am not a happy camper."

Trying to keep the government's operations afloat for one more week, Congress passed an emergency spending bill Friday. But President Bush vetoed the measure, shutting down non-essential government enterprises at midnight Friday.

"Since the proposal was defeated, there hasn't been a great deal of calls one way or the other," said Rep. Arthur Ravenel Jr., South Carolina Republican.

Before the vote, Mr. Ravenel said, his office was deluged with calls, with about 90 percent against the budget. But he's received no calls from voters about the government shutting down non-essential operations, Mr. Ravenel said.

Rep. Mike Espy, Mississippi Democrat, echoed Mr. Ravenel's experience, explaining: "It is a weekend occurrence. . . . Of course, if we haven't settled it by Tuesday, we'll probably start hearing something about it."

But Kansans visiting the District over the weekend informed Mr. Roberts of their displeasure. "Since everything is shut down, they're talking about going to the zoo — the House visitors' galleries," Mr. Roberts said.

Mr. Roberts, who voted in favor the budget compromise, also voted to sustain Mr. Bush's veto of the emergency spending bill.

"The pressure is on to reach an agreement, and I anticipate one soon," he said.

The Washington Times
MONDAY, OCTOBER 8, 1990

Sununu investigates

There's a lot going on that you would think would keep the top people at the White House fairly busy these days, so it's interesting that White House Chief of Staff John Sununu is digging into the POW-MIA issue. The only clue we have to his interest is the presentation to Vice President Dan Quayle of a stack of declassified documents by some POW-MIA activists recently. The documents concerned live sightings and efforts of U.S. officials to dissuade citizens from investigating reports on their own.

It's also possible Mr. Sununu was inspired by a new book, "Kiss the Boys Goodbye; How the United States Betrayed Its Own POWs in Vietnam," by William Stevenson, author of "A Man Called Intrepid," and his wife, Monika Jensen-Stevenson.

Whatever the cause, Mr. Sununu is said to have put in a call to Veterans Affairs Secretary Ed Derwinski to ask for the department's files on the matter. Mr. Sununu was told VA has no files. "It's not our ballgame," he was reportedly told. So the search for federal POW-MIA files continues, now focusing on the Defense Department.

"For Sununu to be looking into the POW-MIA situation while he's got Iraq and the budget on his mind indicates it could be heating up as a political issue," our source suggested.

The Washington Times

MONDAY, OCTOBER 8, 1990

PATRICK BUCHANAN

The Yalta of the GOP

The GOP sellout in the initial budget deal, it now appears, was total. A Republican Yalta. Not one principle survived before it met defeat at the hands of a rebellious House, and the arm-twisting began all over again.

Not only was there a record $134 billion in new taxes in the package that emerged from the summit, many of the "cuts" turned out to be "user fees," or higher costs on old folks. What "reform" did 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 would kill the Moynihan Social Security tax cut, and any future capital gains tax cut; it was a formula for a permanent Establishment blocking force, to prevent any rollback, ever, of federal power. If the Bush-Mitchell deal overcomes its initial defeat and 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 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 are holding 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 that 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 subbasement 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 bipartisan act of larceny.

If ever there were 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 increase 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.

The Washington Times
MONDAY, OCTOBER 8, 1990

Federal workers fear loss of income

By Matt Neufeld
THE WASHINGTON TIMES

A newly hired Department of Transportation lawyer is worried about suddenly making less money than she made as a law clerk.

An upper-level Maritime Administration analyst is worried about meeting expenses for a daughter in her first year at college and future college expenses for a son, a high school junior who is leaning toward college.

And a foreman for the General Services Administration worries about a potential rash of crime stemming from thousands of people struck by a month of unemployment.

These are concerns expressed — often bitterly — by federal workers in the District on the eve of an expected government shutdown. Fears of the shutdown and impending financial difficulties are nothing new. They have faced similar furlough threats in the past and during annual talks of pay cutbacks or unpaid days off.

"We are salaried employees," said John Graves, 48, who has worked as a subsidy analyst for the Maritime Administration, a division of the Department of Transporation, for what he called "17 excruciating years."

"I don't think there's any justification for us taking it in the ear because the president and Congress are having this battle," Mr. Graves said. "Hey, give me a break! I came here to work for the government in good faith. There's no reason we should bear the standard for the rest of the country."

Mr. Graves said he makes about $52,000 a year but added, "Believe me, that doesn't cover it," referring to his college payments, his saving for his 16-year-old son and mortgage payments.

"They're talking about taking money out of my pocket. They've touched a whole new nerve," Mr. Graves said. "I'm going to be in trouble financially. I can't change my lifestyle that much, because I'm living payday to payday right now."

Two lawyers for the Department of Transportation who asked not to be identified said they find it ironic that with a possible 20 percent cut in pay they would earn less than they did as law clerks.

"We're both attorneys here, but we're entry-level attorneys," the first lawyer said. "It's very hard to come into a new job: I haven't even been paid yet, and the thought that my first check could be less than my check as a law clerk is quite disheartening.

"It's a very frightening thing. There's supposed to be stability in the government, but there isn't. I have rent, I have student loans. I was very enthusiastic about this job. And I thought it would be secure. I'm single, my parents aren't here — I'm self-reliant. And I want to be."

"I agree," the second lawyer said. "I also feel it is despicable and a great shame that the political leadership allows the military to continue its path of destruction, violence, domination and waste. Yet at the same time it's willing to shut down the civilian work force."

She said she didn't know the daily cost of Operation Desert Shield in Saudi Arabia, but, "whatever it is, it's disgraceful. And I would feel that way if I were not a federal employee."

"We're supposed to be in a democracy, and we're faced with this kind of fiscal upheaval," the first lawyer said.

The lawyers said their annual salary is in the $35,000 to $42,000 range.

The employees were interviewed Friday on the Department of Transportation plaza in Southwest, where many federal workers eat lunch, hold meetings, enjoy breaks or smoke cigarettes.

Several employees criticized the budget arguments as purely political gamesmanship in an election year. They also said the politicians making the decisions do not realize the full impact of pay cuts on lower-level employees, especially single workers with children. Those workers are in the $18,000-$25,000 annual pay range.

Arthur Miller, a general foreman who has worked for the General Services Administration for 16 years, said he believes if large numbers of people are not working for a long period of time it could lead to an increase in crime.

"People will have nothing to do. You'll have people getting in trouble," he said. "It hits the police force hard."

Mr. Miller said any cut in pay would "hit my pocketbook pretty hard, no question. Especially when you're a house owner. If you don't have anything saved up, it'll put a hurt on you, especially this time of year, with utilities. It'll force you to save, to cut down on something."

The Washington Post
SUNDAY, OCTOBER 7, 1990

House Sustains Veto as Budget Stalemate Continues

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

President Bush yesterday rejected a spending bill that would have kept the federal government running at full force for a week, and hours later the House failed to reverse him.

The House, voting 260 to 138, fell six votes short of the two-thirds needed to override the veto and left the government without the authority to spend a penny as congressional leaders continued searching for a solution to the budget stalemate.

Congressional budget negotiators met into last night and are to meet again today in hopes of striking a deal that could be presented to the House and Senate later today. "That's what we're working toward," said House Majority Leader Richard A. Gephardt (D-Mo.) as he shuttled between meetings.

The battle provided a rallying cry to reunite House Republicans after last week's fractious fight over the five-year, $500 billion budget agreement reached by Bush administration officials and congressional leaders. House Republicans, who had voted 105 to 71 against Bush and the budget agreement, yesterday backed the president, 129 to 25, with 22 not voting, in his veto of the stopgap spending measure.

"It would be a little point of pride if we could do it," House Minority Leader Robert H. Michel (R-Ill.) urged his colleagues during the raucous and partisan debate. "We can do it if we will."

The clamorous House session was played out before galleries filled with tourists, who were unable to visit such other attractions as the Smithsonian Institution and the Washington Monument, which had been closed by the government shutdown that came when federal spending authority ran out.

The House had approved the spending bill Friday night with 66 Republicans joining 234 Democrats in the 300 to 113 vote.

Bush vetoed the spending bill in an effort to spotlight congressional failures in the prolonged budget standstill. Early Friday morning, the House had soundly rejected the five-year deficit-reduction plan agreed upon by administration officials and congressional leaders.

Speaking with reporters outside the White House and in his formal veto message to Congress, a defiant Bush said the government shutdown was made necessary by lawmakers' inability to put aside local politics in favor of the national good.

"The Congress has got to get on with the people's business," he said. "I've had enough of it, and I think the American people have had enough of it. . . . I'm very sorry that I have to do this, but I made very clear that I am not going to be part of business as usual when we have one deficit after another piling up."

House Speaker Thomas S. Foley (D-Wash.) rejected the president's characterization. "We are working very hard," he said. "We are working with Republicans and Democrats to draft a budget resolution . . . that can be agreed to."

Foley called the veto "unnecessary, unjustified, harmful, both to the negotiating process of reaching a bipartisan agreement and to the interests of millions of Americans who will be affected by a shutdown of the government."

At a White House meeting with congressional leaders, Bush said he would accept a stopgap omnibus spending bill if it did not delay the across-the-board spending cuts, called a "sequestration," mandated by the Gramm-Rudman-Hollings deficit-reduction law. But Foley said that would be unacceptable.

"We do not think there should be any interruption in the federal government or any imposition of sequestration at the time when we are seeking to reach a conclusion," he said.

If no deal has been struck by later today, Michel intends to offer a short-term spending bill that would make an across-the-board cut comparable to the $40.1 billion full-year savings envisioned by the failed budget accord.

"We are making some progress," said House Budget Committee Chairman Leon E. Panetta (D-Calif.) said of the negotiations.

A likely compromise would be to keep the overall spending figures of the failed plan but leave such details as which taxes to raise and which benefit programs to cut for congressional committees to decide. "The more we try to build in specifics, the tougher it is to pass," Panetta said.

An increasing number of House Republicans have said they would be willing to raise the personal income tax rate for the wealthiest Americans if Democrats would accept a cut in capital gains taxes. "If anyone can take the hit, and if anyone should take the hit, it's the wealthiest one percent of Americans," Rep. Silvio O. Conte (R-Mass.) said yesterday. "It's time someone, yes, a Republican, came out and said it like it is."

The issue of capital gains taxes and assessments on the rich had deadlocked budget talks for weeks.

Meanwhile, another fiscal deadline looms. The stopgap spending measure Bush rejected also included an extension of the federal government's borrowing authority through Friday. Unless Congress raises the debt ceiling by Thursday, the government would default when $17.5 billion in Treasury notes come due.

During the boisterous House debate, Republicans said the government shutdown was needed to force action on a spending plan for the fiscal year that began last Monday. "The people want change even if it means closing the Washington Monument," said Rep. John R. Kasich (R-Ohio). "We're sick and tired of the old shopworn ways in which we run this place."

The failed budget agreement between administration officials and congressional leaders stated that Bush would not sign any temporary spending bills if a budget resolution had not been given final congressional approval by Friday. "I read his lips on this one," said Rep. Thomas J. Ridge (R-Pa.). "He did what he said he would do, and I urge my colleagues to sustain him."

But lawmakers from both parties argued that Bush's veto should be overturned because it would harm innocent bystanders to a fight between Bush and lawmakers. Rep. Richard J. Durbin (D-Ill.) accused Bush, who motored to Camp David to spend last night, of "treating 2 million federal workers like Saddam Hussein treats his guests in Iraq."

"People are being hurt," Rep. Neal Smith (D-Iowa) told his colleagues. "You may not feel it between the marble walls of the Capitol, but people out there are being hurt."

"We are the ones to blame, not the federal workers and the beneficiaries of government programs," said Conte, the ranking Republican on the House Appropriations Committee, said in arguing against the president's veto.

Rep. John T. Myers (Ind.), another of the 25 Republicans who voted to overturn the veto, said it was not an issue of partisan loyalty but of keeping the government operating smoothly. "It isn't that I love Caesar less, but that I love Rome more," he said.

Toward the end of the debate, Rep. Ronald V. Dellums (D-Calif.), dressed in white tie and tails, went to the House well to a standing ovation. His eldest son's wedding was to begin in less than a half-hour, he explained. "Let's end this debate, let's override this veto and let me love my son," he said.

Boos and catcalls punctuated the rare Saturday session. Lawmakers hissed as the clerk read Bush's veto message, prompting Rep. Byron L. Dorgan (D-N.D.) to say, "Mr. Speaker, there are snakes loose in the chamber."

The tumult moved Rep. Pat Roberts (R-Kan.) to ask his colleagues, "Can we quit lobbing hand grenades back and forth?"

Maryland representatives voted to override the veto, as did all but three Virginians, Reps. Donald M. Payne (D), Thomas J. Bliley Jr. (R) and D. French Slaughter Jr. (R), who voted to sustain it.

Administration officials and House GOP leaders had hoped the veto fight would help reunite the party after last week's budget fight pitted moderate Republicans led by Michel, who supported the accord, and the rebellious conservatives led by House Minority Whip Newt Gingrich (R-Ga.), who opposed it.

To drive the point home, Gingrich posed for photograhers with White House lobbyists pressing their veto effort. "It's a definite unifier for us," said Rep. Jerry Lewis (R-Calif.), the third-ranking House Republican leader.

"They are trying to make up for what happened," a senior administration official said.

But there is still much work to be done to repair damaged relations between House Republicans who opposed the budget agreement and administration officials. "They have no coherent plan," one GOP lawmaker complained.

Rep. Jim Lightfoot (R-Iowa) yesterday wrote Bush to assure him that his vote against the package "was not a vote against you, rather it was the voice of the American people being heard." Lightfoot urged Bush to "come out of the White House" to help House Republicans "heal and unite. . . . Come meet with House Republicans," he wrote. "Your staff did a lot of insensitive and unnecessary things to Republican members. Bring Millie, but leave the pit bulldogs at the White House."

Staff writers Tom Kenworthy and Steven Mufson contributed to this report.

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Tourists' Response: Disbelief, Dismay

By Dana Priest
Washington Post Staff Writer

In the shadow of the Washington Monument, 26 Boy Scouts from Rochester, N.Y., sat dejected and grumpy, having been shut out of the national treasure on the first day of the federal government shutdown.

No one was more upset than troop leader Al Climer. "I waited a lifetime to come here," he said. "I think it's an insult to the American people."

Esma Climer, his wife, tugged at his sleeve. "They've got to do what they've got to do," she said, then paused a moment. "But they're hurting the people coming to honor our country's capital."

There was little forgiveness or understanding for America's leaders yesterday among the thousands of tourists who either did not know the government had shut down or came to the Mall area anyway because they could not believe something as abstract as the budget deficit could matter to National Park Service rangers or Smithsonian museum guards.

The people let their government know they were not happy. At one of the only federal establishments open yesterday, the U.S. Capitol, tourists in the House gallery, normally a place of quiet, respectful observation, erupted into applause and hoots yesterday after Rep. Vic Fazio (D-Calif.) suggested they should not be kept out of the Smithsonian.

At the White House, a 12-year-old from China, Kelun Zhang, was puzzled over this thing called the federal budget.

"What does the budget have to do with visiting the White House?" she asked. "You come to America just to see the White House. This is real disappointing."

Yesterday was the first day of a government-wide shutdown of nonessential services that will last until the president and Congress, which was in session, agree to a stopgap funding measure or a deficit-reducing budget.

Federal employees are to report to work as usual on Tuesday, when those deemed nonessential can expect to be sent home in the first three hours of the day.

Many weekend employees were off yesterday, although the Federal Aviation Administration kept its full staff of air traffic controllers at work and the U.S. Postal Service was unaffected. Federal law enforcement officials stayed on duty at full force, as did the military.

In New York, thousands of visitors were turned away from the Statue of Liberty and Ellis Island. Virginia's federally funded Civil War battlefield parks and Shenandoah National Park visitors centers were closed.

In the Washington area, all 13 Smithsonian museums were closed, as were the picnic areas along the George Washington Parkway, Ford's Theater, Arlington House and Pierce Mill in Rock Creek Park. The National Zoo's outdoor viewing areas were open, but the animal houses were closed.

National Park Service spokeswoman Sandra Alley said there were four rangers on duty at the Mall area yesterday. Because there was no maintenance crew, all the restrooms were closed. "We don't have anyone to clean them," she said. "It has not been pleasant."

Although the threat of a government shutdown has loomed for weeks, tourists said they were surprised to find the doors of prestigious national museums locked.

At the popular Air and Space Museum, a line of children and parents pressed their faces against the building's smoky glass exterior, peering in on a great, empty hall filled with spaceships and airplanes.

"Is it going to open soon?" young Michael Kocurek Jr. of South Carolina whined to his father. "It's closed because the budget's broken," he said, looking down at his shoes. "We could just bring them some money."

At the White House, tourists clung like forlorn refugees to the black fence that surrounds the grounds. At the Washington Monument, oblivious tourists strode up to the locked beige gates to find out what was wrong.

"Will it be open later today?" they asked a visitor.

"Will it be open tomorrow?"

Only some, only the Americans, understood the answer. For the foreign visitors, the shutdown was a curious thing.

"Why is it closed today?" a woman from China asked U.S. Secret Service officer M.T. Piepoli.

"The budget," he answered loudly. "Nobody could agree."

Maria and Tony Valles from Colonia, N.J., brought their two Italian cousins to the White House. "They thought Italy was bad," said Tony Valles. "But this is terrible."

Zhongxuan Jiang, a Chinese student living in Baltimore, laughed when asked what the eight Chinese tourists he was with thought of the situation. "Maybe," he said, "they had a little surprise."

The disappointment was financial as well.

"Come on, put on a sad face," Marsha Wheeler told her two children as she snapped their photo in front of the monument gates.

The Wheelers of Connecticut were not happy with President Bush yesterday. If only he had shut down the government Friday, said Curtis Wheeler, "he would have saved us a couple of hundred bucks."

Across the Mall, a bus load of white-haired ladies from St. Mary's Parish in Lakewood, N.J., filed off their bus and climbed the stairs of a museum. "We had no idea these buildings would be closed," said Corinne Kerod. "It cost us 200 bucks to make this trip. Tell Mr. Bush we are very aggravated."

Group leader Dorothy Lawlor made some inquiries, then returned with a sarcastic grin on her face. She had just been to the Tourmobile kiosk where, she said, she was told "we're giving you this special price, for $4 you can go on the tour, but everything's closed," she said. "They said we could go to Union Station, but who wants to visit a railroad station?"

At the National Zoo, thousands of visitors spent the day waiting for the pandas and apes to come outdoors. "I'm a little disappointed, but it's a nice day," said Pat Lofaro of Fairfax.

There was one federal installation open and in full swing yesterday: the U.S. Capitol. Tourists thronged to the building.

Capitol police officers at entrances on both the House and Senate sides reported heavy traffic throughout the day and the U.S. Capitol Guide Service estimated that 12,000 people would take their tours.

"It's a guess, but it's one of the busiest days, if not the busiest day, we've had," said supervisor Ted Daniel of the U.S. Capitol Guide Service, who was interrupted several times to answer what appeared to be the most pressing question of the day: Where are the bathrooms?

Tourists packed the gallery, the crypt and the rotunda and were jammed two-deep in front of the visitor's booth run by the nonprofit U.S. Capitol Historical Society.

"I can tell you we're a very disappointed family," said Richard Reed from Trenton, N.J. "You come to Washington to show your kids the Constitution and the Bill of Rights and the museums, and I've got to explain to them that everything's closed because the government's run out of money? Give me a break!"

The wait to get into the building grew during the day to three hours.

Informed by a reporter that the wait was so long, Senate Republican Leader Robert J. Dole (R-Kan.) quipped: "That's because we're the only zoo in town."

Staff writers William Booth, Gabriel Escobar, Tom Kenworthy and Jane Seaberry contributed to this report.

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Low Crawl in the House

IN THE people's House on Thursday night and Friday morning, you saw democracy reduced to the low crawl. The flight from fiscal and political responsibility of the past 10 years has produced some memorably craven moments, but none to match this. The president had finally climbed off the cloud of anti-math that helped him win the 1988 election—a disappearing deficit with no tax increases and no painful spending cuts either.

He and the congressional leaders of both parties had negotiated the first solid deficit reduction in years—years in which the national debt tripled to $3 trillion. House members fall all over one another—they did again in this debate—deploring the deficit as an insupportable drain on the economy and on the ability of government to fulfill its responsibilities. Yet their response to the plan, lacking a better one, was to chop it up and vote it down.

Republicans bemoaned the tax increases—but failed as ever to propose specific spending cuts to take their place. They said the approach of a recession was the wrong time to raise taxes, but they said the middle of the boom was the wrong time too. Some even had the effrontery to complain that the excise tax increases proposed would fall heaviest on the middle class, when it was the insistence of their own party that upper-income taxpayers be protected that had forced the middle class to bear the brunt.

The Democrats likewise bewailed the impact on the middle class, and they have somewhat better license to do so, although they have made their own contribution to the 10-year default. What they lack, having lost the last three presidential elections, is the power to make their policy preferences come true. They want to use the budget resolution to repeal the last election returns. That isn't going to happen, any more than the Republicans can find a way to repeal the basic arithmetic that if taxes don't equal spending a deficit occurs.

Some members who voted no made the procedural complaint that they had been left out of the deliberations. They had indeed, and the vote Friday morning in which they scattered in so many contradictory directions suggests clearly why. We have divided government, the parties have genuinely opposing philosophies and the deal that they have to strike sooner or later isn't going to get any better, except perhaps on the symbolic margins. To gain votes from one party is to lose in the other.

There have to be tax increases, and if Republicans have the power as it seems they do to keep income taxes from rising at the top, the increases are going to be disproportionately borne by the middle class. There have to be cuts in programs for the elderly, because they represent more than a third of the budget. If Social Security is untouchable, as the advocacy groups and both parties seem to have made it, there's no practical place to go but Medicare. The last time they tried to make higher-income recipients pay the larger share of Medicare costs was when they enacted catastrophic health insurance. They repealed that, under pressure and in panic, a year after it was passed. The alternative is to spread the cost across a broader range of recipients, who they said the other night shouldn't have to pay either. The poor and near-poor were protected in the agreement from the increased out-of-pocket expenses proposed.

Nor can (or should) the defense budget be the piggy bank that saves them. The votes aren't there. The agreement made moderate cuts in the defense budget; the administration, most Republicans and enough Democrats to make the difference will resist more.

We don't love the agreement they voted down, and maybe someone can come up with a better one that can pass. But no one has all year. For the sake of reducing a deficit that they claim to agree is hurting the country, they were asked to suspend for a moment the fears and preferences that have produced the deficit, and they couldn't do it, nor could their leaders make them. It was the worst kind of politics-as-usual.

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David S. Broder

Loyalty, Ideology, Ambition—And Newt Gingrich

In past days, when individual ambition burned less brightly in some politicians' breasts and party loyalty meant a whole lot more, what Rep. Newt Gingrich (R-Ga.) did this week would have been unthinkable.

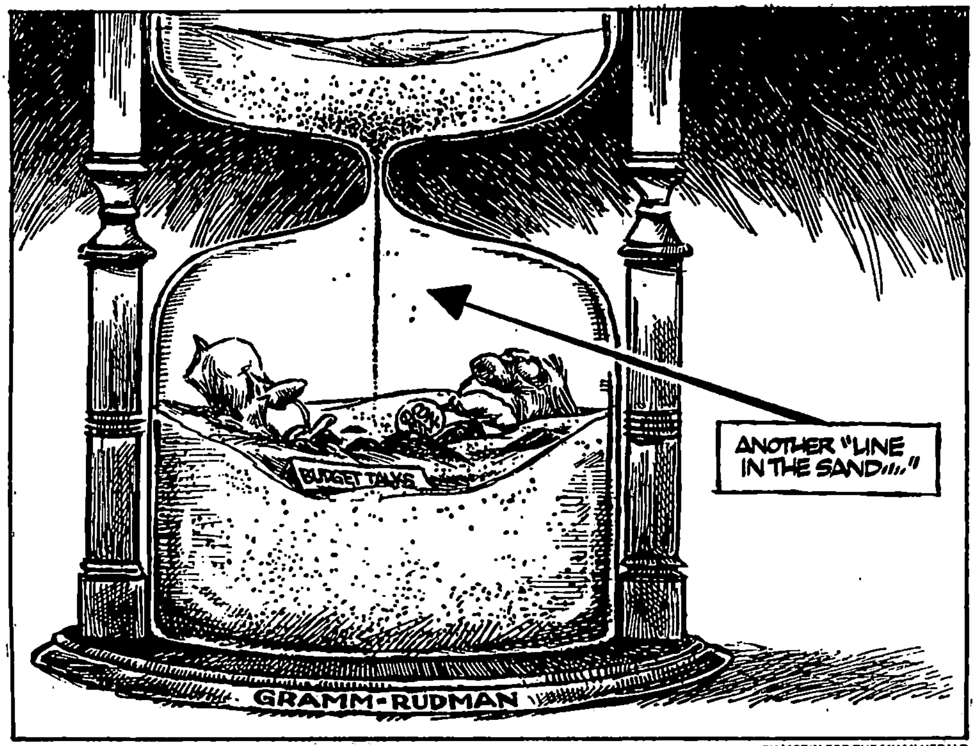
Gingrich, the House Republican Whip, took a walk on his president and his own chief, House Minority Leader Bob Michel of Illinois, on the toughest vote of this Congress—the bipartisan budget-deficit agreement.

After accepting appointment to the small group of legislators who spent months negotiating the agreement, Gingrich decided the final product did not meet his fastidious standards and denounced it. His action, as one involved in the negotiations and as a leader of the party, made it infinitely easier for other Republicans to do the politically easy thing and vote against the spending cuts and revenue increases needed to slow the hemorrhage of red ink that is drowning the government.

Far from being apologetic, Gingrich expressed his pride in helping unleash what he called the voters' "tidal wave of anger" against the package. He cited cases where his predecessors in the Whip's job had ducked out on supporting some of President Reagan's policies. He even harked back to the literary precedent of the senate majority leader in Allen Drury's 1959 novel, "Advise and Consent," who opposed the president's nominee for secretary of state.

It's all very comforting to his conscience—and, unfortunately, all too common a rationalization. It is rarer and rarer to find a politician who is willing to take political risks on a vote—or even give a president or a speaker of the House or a minority leader or majority leader the benefit of the doubt on a close question of policy.

It's not just a Republican phenomenon. The two Democrats who are most visibly preening for places on the 1992 ticket—Govs. Mario Cuomo of New York and L. Douglas Wilder of Virginia—were, not coincidentally, the first two to pipe up with stiff criticisms of the package their party's congressional leaders had negotiated and endorsed.



BY MORIN FOR THE MIAMI HERALD

A year ago, it was newly elected Speaker Tom Foley (D-Wash.) who was embarrassed by a revolt of Democrats eager to pass a capital-gains tax cut despite his strong opposition. One of the agents of that rebellion was Rep. Beryl F. Anthony Jr. (D-Ark.), who heads the Democratic Congressional Campaign Committee, the very body that recruits and supports the Democratic members of the House.

White House officials, who were furious at Gingrich's defection, pointed to Sen. Phil Gramm (R-Tex.) as a contrasting example. Gramm shares Gingrich's aversion to higher taxes and his preference for deeper cuts in domestic spending. But when the final stamp was put on the deal by Bush and the bipartisan congressional leadership, Gramm stayed on board and supported the largest—and most controversial—deficit-reduction package in history.

"Sen. Gramm . . . has been exemplary," said White House budget director Richard G. Darman. "I admire his performance." By contrast, Darman said, Gingrich, the other conservative firebrand in the negotiations, had proved to be "a distraction."

"I like being praised," Gramm said, "but I assure you the praise does not come from every quarter." He is right. The heads of 16 New Right organizations thanked Gingrich for his opposition and pointedly said, "We are dismayed that some people, including some conservatives and GOP leaders, are considering the option of raising taxes."

Among the those same ideological purists, Gramm damaged himself by his stand. Burton Yale Pines of the Heritage Foundation called Gramm "the major casualty" of the budget fight, so far as the conservative movement is concerned. He said Gramm "had built a lot of support for the 1996 presidential nomination as the logical heir to the Reagan legacy, but he's burned those bridges now."

Told of those comments, Gramm said: "It comes down to a philosophical question. Do you view your role as protesting or governing? I have always viewed my role as governing."

But in reality, Gramm has been as much of a freewheeling, independent force in politics as Gingrich. He came to the House in 1978 as a Democrat and in his second term was rewarded by fellow-Texan Jim Wright, then majority leader, with a coveted seat on the Budget Committee. By way of thanks, Gramm worked behind the scenes with Reagan's budget director, David Stockman, to devise the conservative budget that carried, against the Democratic alternative, by a handful of votes.

Expelled from the Democratic caucus for that disloyalty, he resigned his seat, ran and won as a Republican, and then moved on to the Senate, where he is now an overwhelming favorite for reelection in November.

The conservatives who cheer Gingrich and denounce Gramm say the latter is playing the insider game now only in hopes of garnering leadership support in his expected bid for the chairmanship of the Republican Senatorial Campaign Committee next year and his possible presidential candidacy in 1996.

In Washington, no one is ever suspected of doing things for unselfish reasons. And that is probably right.