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The New York Times
WEDNESDAY, OCTOBER 3, 1990

A Presidency on the Line

By ANDREW ROSENTHAL
Special to The New York Times

WASHINGTON, Oct. 2 — With his speech tonight from the Oval Office, George Bush completed a fundamental transition: The President who succeeded for so long at giving Americans only good news is now telling them to prepare for economic pain at home and the possibility of war abroad.

News Analysis

With remarkable speed, Mr. Bush has moved from the most protracted honeymoon in recent White House history to twin crises that could determine the success of his Presidency.

The decision to confront the Republican rebellion on Capitol Hill over the budget agreement quickly and directly in a nationally televised speech represented a judgment that any delay could allow events to spin out of control. If the emerging prospects for passage of the budget package turn into defeat, Mr. Bush would immediately lose his calculated gamble that such an agreement would be good for the economy and thus bolster his re-election campaign in 1992.

For more than a year and a half, everything seemed to be going Mr. Bush's way, especially in Europe. Then on Aug. 8, six days after the Iraqi invasion of Kuwait, Mr. Bush went on national television to announce that he was sending troops to the Persian Gulf and to prepare the country for the possibility that American soldiers and civilians could die in a far-off war.

Tonight, less than two months later, Mr. Bush again spoke from the Oval Office to add the bitter message that American must also prepare for 12 cents a gallon more in gasoline taxes, reduced Federal spending in such touchy areas as medical care for the elderly and a generally tighter economy.

Appeal to the People

Telling his audience tonight that "this deficit agreement is tough and so are the times," Mr. Bush said: "This is the first time in my Presidency that I've made an appeal like this to you, the American people. With your help, we can at last put this budget crisis behind us and face the challenges that lie ahead."

Suddenly, the 1988 campaign events at which loudspeakers blared "Don't worry, be happy," seemed very distant. Mr. Bush was selling a budget agreement that not only violated his no-tax campaign pledge but did not include the reduction in the capital gains tax rate that the President had made a crusade.

So far, public support for the Persian Gulf operation appears to be strong. But the budget crisis is one that tests Mr. Bush's ability to manage the economy, one of his chief selling points in the 1988 campaign, as well as his sway over Congress and his control of his own party.

Good Position, Big Risk

The decision for Mr. Bush to go on television was reached so quickly that speech writers were typing virtually until broadcast time. But the buffeting that top aides like John H. Sununu, the chief of staff, and Richard G. Darman, the budget director, took on Capitol Hill on Monday left a clear message for a seasoned political professional like Mr. Bush: This was a time when there was no substitute for Presidential authority, and not to use it meant the risk of losing it.

"The President recognizes that these are twin tests of his leadership," a White House official said tonight. "But he obviously thinks he can rise to them. It will be a big victory if he can carry this through, just as if we can come through the crisis in the Middle East, the President will have shown leadership in a big way."

The President is in a good position to confront his new challenge; his popularity, higher than any other Presidents' at the same point of his Administration, lends him political armor. The White House was confident that Mr. Bush would win over Congress and succeed in persuading the public that the budget package announced in the Rose Garden on Sunday is, at least, a necessary evil.

But Mr. Bush is also without question taking a major political risk. Not only was he forced to do much of the work for Democrats as well as Republicans in selling the budget agreement with only his fourth nationally televised Oval Office speech, but he was making it a personal test in his own party.

Although they strove to establish an air of bipartisanship, Democrats in Congress did not hesitate to point out Mr. Bush's difficulty. "The President has been reticent until now to tell anybody anything they didn't want to hear," said Representative Richard A. Gephardt of Missouri, the House majority leader.

Vows Public and Private

White House officials said Mr. Bush had intended all along to make a televised appeal on behalf of the budget agreement, something he had promised he would do, both publicly and in private with Democratic leaders of Congress.

But they said the timing assumed new urgency today after two meetings at the White House with rebellious Republican congressmen, and with the first test vote in the House of Representatives only two days away. Mr. Bush will be on the road on Thursday, campaigning for Republican candidates in New England.

"It's not that we are in a panic," one official said. "Things seem to be going our way, but gradually, and there are a lot of people who need the cover to tell their constituents that the President went on national TV and also personally asked for their support."

Mr. Bush's task is complicated by the public defiance of Representative Newt Gingrich of Georgia, the House Republican whip, who should be rallying the troops on Capitol Hill but instead has broken with the bipartisan budget agreement. When the White House invited key Republicans down from the Hill today for the meetings with Mr. Bush, Mr. Gingrich was not included.

Observing this spectacle, a leading House Democrat said, "It's a little like having the secret police turn against you."

'A Serious Moment in Life'

Harry C. McPherson Jr., who served as an adviser to President Lyndon B. Johnson, said, "From what I've read about the Republican cloakroom, this does sound like a serious moment in life for George Bush."

Mr. McPherson said the President was in a far better position than Johnson during a similar moment, when he had to confront American opposition to the Vietnam war, fight inflation at home and impose a surtax on personal incomes to pay for that very conflict.

"Bush has been able to walk across the sands without leaving a footprint on public opinion, and in the minds of the public I think the deficit and Saddam Hussein are stuff that has happened to Bush," Mr. McPherson said. "I don't think the country generally regards him as responsible."

But he said that by taking on the budget agreement as a personal mission, Mr. Bush risks changing that.

"In talking about the pain that has to be endured because of the deficit," he said, "maybe this is finally the time when the public is going to connect the Republican Administration and Bush himself with the deficit and with the steps that have to be taken to address it."

The New York Times
WEDNESDAY, OCTOBER 3, 1990

In Appeal for Support for Budget, President Calls Plan Best for Now

By DAVID E. ROSENBAUM
Special to The New York Times

WASHINGTON, Oct. 2 — Faced with a revolt in his party's Congressional ranks and wariness around the country, President Bush appealed on television tonight for public support of the budget agreement he and Congress reached last weekend, calling it "the best agreement that can be legislated now."

The prime-time address from the Oval Office, only the fourth such speech of his Presidency, fulfilled part of Mr. Bush's commitment to the Democratic Congressional leaders that he would pull out all stops to win passage of the politically dicey compromise that would raise taxes or cut benefits for almost all Americans. It also reflected the difficulty Mr. Bush facesamong many conservative members of the Republican Party who have voiced their opposition to the plan in the last two days.

Dire Predictions

The budget plan, the President declared, "must be judged as a whole, not piece by piece."

He continued: "I ask you to take this initiative: Tell your Congressmen and Senators you support this deficit reduction agreement. If they are Republicans, urge them to stand with the President. If they are Democrats, urge them to stand with their Congressional leaders."

The President emphasized, "If we fail to enact this agreement, our economy will falter, markets may tumble and recession will follow."

The President spent most of the day making personal appeals to Republican lawmakers, who are the crucial to passage. He invited about three dozen of them to the White House in three groups and telephoned several others.

Opposition From Republicans

Early indications were that the arm-twisting, based on personal and party loyalty, was paying dividends.

"I think the President can win," said Representative Vin Weber of Minnesota, a leader of the right flank of the party in the House that is opposing the budget plan.

"The President has already made it a test of party loyalty," Mr. Weber added.

A preliminary count showed 60 or 70 of the 176 House Republicans firmly against the plan, a handful committed to it unequivocally and the rest undecided, at least officially.

Representative Jerry Lewis of California, the third-ranking member of the Republican leadership and a supporter of the President, observed that the most vocal opposition was coming from the most conservative Republicans and the most liberal Democrats.

"There ought to be a lot of room in the middle for a majority of our party to support it," Mr. Lewis said.

In the maneuvering today, John H. Sununu, Mr. Bush's chief of staff, Richard G. Darman, his budget director, and other top policy makers were arguing that it was essential to support the President and enforce party discipline, according to Administration officials and lawmakers who talked to the President.

Many other Administration officials have dropped almost everything to concentrate on winning approval of the budget plan.

Vice President Dan Quayle made dozens of calls to lawmakers and was interviewed by the television networks and local stations. Mr. Quayle and Michael J. Boskin, chairman of the Council of Economic Advisers, canceled campaign trips for Republicans challenging Congressional Democrats so they could stay Washington for the hard sell.

Federal Reserve's View

Alan Greenspan, chairman of the Federal Reserve Board, had nothing to do with devising the budget plan, but he may be a crucial player in selling it. In their lobbying, Administration officials are citing Mr. Greenspan's view that interest rates will come down if the politicians enact a credible longterm plan to lower the deficit.

Lower rates would encourage companies and individuals to borrow and spend and thus stimulate the economy. Moreover, they would mean the Government would have to pay less on the money it borrows.

The Federal Open Market Committee, the policy-making arm of the Federal Reserve, met here today, but as usual its decisions were not announced.

Mr. Bush, meanwhile, was describing the deal as good for America and the best he could get from a Congress controlled by Democrats.

First Test Is Thursday

Republican opponents of the plan are maintaining that the higher taxes it calls for and the lack of a lower tax rate on capital gains would drain an already flagging economy and increase the likelihood of a recession.

The first test votes in both chambers are scheduled for Thursday on the overall budget resolution, which is a broad framework for spending and taxes but not the specific policies. If the measure clears this hurdle, the crucial votes will come week after next on the particular elements of the agreement.

Some lawmakers are predicting that the House might reject the budget resolution Thursday in a sort of protest vote and then pass the measure the next day.

The White House and Congressional leaders are confident that the plan will pass the Senate with the support of a majority of senators from both parties. The party leaders in the Senate, George J. Mitchell, Democrat of Maine, and Bob Dole, Republican of Kansas, worked on a strategy today to have the Senate vote first to increase the pressure on the House. But Mr. Mitchell said this afternoon that the parliamentary rules might make that impossible.

The plan also faces serious opposition among liberal Democrats in the House and around the country. But if a majority of House Republicans backs the measure, a majority of House Democrats will almost certainly go along, some out of loyalty to their leaders, others because they realize that it is the best plan they can get and that reducing the deficit is of primary importance.

The liberals argue that higher taxes on gasoline and other products would place too much of the burden of deficit reduction on poor and middle-income Americans and that deep cuts in Medicare would make the plan even more unfair.

Opposition From Governors

From Albany, Gov. Mario M. Cuomo expressed the liberal opposition. "I believe this deal would be surrender to the failed policies of the last 10 years and should be rejected," the Democrat wrote in a letter to the New York Congressional delegation.

"It makes things worse for the middle class, the elderly, the states and local governments," he continued.

Gov. L. Douglas Wilder of Virginia made similar points in a letter he sent to Ronald H. Brown, the national chairman of his Democratic Party who is a supporter of the plan. "Our two-party system," Governor Wilder wrote, "is becoming a competition between the party inside Washington and that new party, the vast majority of Americans who live outside."

Earlier today at the White House, Mr. Bush gave his pitch to a group of business leaders. "This budget agreement is our last best chance to get the Federal budget deficit under control," he said. "To all the people that disagree and the people on the sidelines that are rushing out and having their press conferences and the critics, let me say this: 'You can pick the package apart, but you cannot realistically put a better package together.' "

He apologized to the business group for abandoning his drive for a lower capital gains tax. "The philosophy I was elected on runs out of gas in terms of votes in the United States Congress," he declared.

Marlin Fitzwater, the White House press secretary, said Mr. Bush would continue to press for the budget compromise in speeches around the country.

"A lot of people who disagree with this," Mr. Fitzwater said. "A lot of people have trouble with it. And they need to be convinced. And we'll do our best."

The New York Times

WEDNESDAY, OCTOBER 3, 1990

Savings Seen as Less Than Predicted

By ROBERT PEAR

Special to The New York Times

WASHINGTON, Oct. 2 — Experts on the Federal budget said today that the deficit-reduction package announced Sunday would not save as much money as President Bush predicted, and they raised questions about the arithmetic used by the budget negotiators.

Mr. Bush said the package would save $500 billion over five years, including $40 billion this year.

Although budget estimates beyond one or two years are notoriously unreliable, a projected decline in spending outlined in the budget agreement appears to be particularly questionable.

Spending Decline Is Seen

Under the budget agreement, Federal spending would increase in the fiscal year 1991, which began this week. But the agreement envisions an $11 billion decline in total Federal spending, from $1,392 billion in the fiscal year 1992 to $1,381 billion in 1993. It then calls for a further decline of $38 billion, to $1,343 billion in 1994.

The projected decline in spending would mark a striking change. Total Federal spending has not declined in any year since 1965.

Lawrence A. Kudlow, chief economist at Bear, Stearns & Company, who served as chief economist at the Office of Management and Budget from 1981 to 1983, said it was highly unrealistic to expect such a drop. "To suggest that the level of total Federal spending will fall by $38 billion indicates that there is some hocus-pocus in these numbers," Mr. Kudlow said. "I am becoming very suspicious that there is much less here than meets the eye."

Too Modest for G.A.O. Chief

Comptroller General Charles A. Bowsher, the head of the General Accounting Office, an investigative arm of Congress, said the deficit-reduction package, even if it achieved savings of $500 billion over five years, was "considerably more modest than we believe necessary" to maintain the health of the American economy and the United States' competitive position in the world.

The savings represent reductions from the level of Government spending needed to continue Federal operations at current levels, with an allowance for inflation but with no change in policy.

The Congressional Budget Office says the deficit for the fiscal year just ended will probably be the highest in American history, more than $220 billion, despite five years of supposed austerity and fiscal discipline under the Gramm-Rudman-Hollings law. The original law, signed by President Ronald Reagan in December 1985, said the Federal budget was supposed to be balanced in the fiscal year that began this week.

'Optimistic Assumptions'

In 1987, Congress amended the law, deferring the goal of a balanced budget till the fiscal year that starts Oct. 1, 1992.

Stanley E. Collender, director of Federal budget policy at Price Waterhouse, and other experts said the budget agreement was unlikely to reduce the deficit as much as advertised for several reasons. The economic assumptions, while realistic for the years from 1991 through 1993, are overly optimistic for the next two years, they said.

"Most of the savings for the last two years are the result of optimistic economic assumptions," Mr. Collender said. "In fact, we don't have the slightest idea what will happen in 1994 and 1995."

The deficit is sensitive to assumptions about the economy. If the economy grows less than projected, Federal tax receipts are normally less than projected. Likewise, if unemployment is higher than expected, the Government typically spends more for unemployment benefits, food stamps and other types of assistance. A recession would throw off many of the calculations in the budget summit agreement.

The fragility of economic assumptions is dramatically illustrated by changes in President Bush's estimate of the Federal budget deficit for the fiscal year 1991, which began Monday. On July 16, Mr. Bush told Congress that the 1991 deficit would total $231.4 billion under current law. But on Sunday he and Congressional leaders disclosed that they were now projecting a 1991 deficit of $293.7 billion if no changes were made in current law.

Richard G. Darman, director of the Office of Management and Budget, listed three reasons for the $62.3 billion increase in his deficit projection, which startled many economists outside the Government. Deterioration of the economy, which causes a reduction in Federal revenue, increased his projection of the deficit by $30.4 billion. "Technical changes," mainly unforeseen costs of the savings and loan debacle, increased the deficit by $31.2 billion, while minor changes in laws and regulations added $700 million.

Much of the cost of deploying American troops in the Middle East was omitted from the calculations in the budget summit agreement, also distorting the savings to be achieved. While negotiators said they had achieved $9.8 billion in savings in military programs for the current fiscal year, the military effort in the Middle East will cost $5.7 billion.

As a result, the "total deficit reduction" to be achieved this year is not $40.1 billion, as listed in the budget agreement, but $34.4 billion.

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WEDNESDAY, OCTOBER 3, 1990

Preserving An Accord: A How-To

By SUSAN F. RASKY
Special to The New York Times

WASHINGTON, Oct. 2 — In an effort to keep the budget agreement from unraveling and to preserve a semblance of the normal legislative process, Congressional leaders have devised a complicated procedure to translate the provisions of the agreement into law.

The first step involves approval this week from both the House and Senate for a budget resolution that incorporates the broad outlines of the compromise: $40 billion in deficit reduction for the 1991 fiscal year and $500 billion over five years. The resolution, which does not require the President's signature, would also include instructions to Congressional committees on total revenue to raise and total spending to cut.

An incentive for lawmakers to adopt the resolution is the threat of a Government shutdown and imposition of deep automatic spending cuts if they do not. The Government is operating under a stopgap spending bill passed in an emergency session Sunday that runs only through Friday.

Under the terms of the budget compromise, President Bush agreed to sign an extension of the stopgap spending legislation through Oct. 19 if both chambers approved a budget resolution. But he stipulated that he would veto any extension if Congress did not pass the resolution.

The second step of the legislative procedure is intended to insure that Congressional committees comply with some very specific decisions that budget negotiators made on tax increases and program cuts. Committees that wish to make changes have been told that they must clear them with House or Senate leaders, who in turn would have to gain approval from the White House.

Where the potential for trouble in arises e is in the inclination of members of the dozen or so committees that will deal with the plan, facing elections in weeks, to tinker with details in ways that could upset the carefully crafted balance of the agreement.

Under the terms of the accord, all committee action on taxes and spending must be completed by Oct. 12. The House and Senate must then vote on their respective versions of the legislation. House and Senate leaders may then have to work out any differences in the details, leaving time for a final vote by Oct. 19.

The final measure would also incorporate language to raise the ceiling on the national debt. A temporary increase in the ceiling approved Sunday will expire Friday, and a second temporary extension, running through Oct. 19, would accompany the passage of the budget resolution this week.

After the final legislation is passed, any Federal regulations needed to carry out its intent would be drafted by the appropriate agencies or Cabinet departments. In the case of the tax provisions, the budget negotiators were very specific about effective dates, and it is not yet clear whether the Congressional tax committees would have the leeway they usually do to adopt rules providing breaks for affected taxpayers during a period of transition.

The New York Times

WEDNESDAY, OCTOBER 3, 1990

Big Companies May Benefit From Breaks for Small Ones

By ALISON LEIGH COWAN

Under the proposed budget accord, many large businesses that went private in leveraged buyouts in the 1980's could benefit from some of the tax breaks tentatively being set aside for qualified small businesses, several Wall Street experts said yesterday.

Though the realization is making its way only slowly through the financial community, the proposed tax breaks, if adopted, could well be the first piece of good news that the leveraged-buyout crowd has had in a long time.

"I've got somebody thinking about it," said Richard Beattie, a partner at the New York law firm of Simpson, Thacher & Bartlett and a leading adviser to Kohlberg, Kravis, Roberts & Company.

Position Is Confirmed

Mr. Beattie's opinion, confirmed yesterday by people on Capitol Hill who were involved in the budget talks, is that the proposal in no way disqualifies big businesses that happen to have little equity because they were taken private in leveraged buyouts.

Yet the sense yesterday on Wall Street was that the politicians would probably shudder to know that they were inadvertently helping some large, but overleveraged, businesses ranging from R. H. Macy & Company, the New York retailer, to Owens Illinois Inc., the glass-container maker in Toledo, Ohio, as well as the advisers who plunged those companies into debt.

"It was an unintended consequence," said Frank A. Weil, a former Commerce Department official in the Carter White House who now runs a boutique specializing in leveraged buyouts.

Many leveraged buyout companies would qualify for the tax breaks intended for small businesses because they have so little shareholders' equity; instead, they are often financed with huge levels of bank loans. But the small-business investment incentives in the budget deal apply to companies with shareholders' equity — or book value — of $50 million or less.

Because the leveraged buyouts have so much debt and comparatively little equity, many would qualify for the "small business" tax breaks, even though some of them may have billions of dollars in sales a year.

The main tax break for qualified companies would allow anyone who buys securities issued by the businesses starting next year to deduct 25 percent of the purchase price, up to $50,000 off that year's tax return, thus subsidizing investment in those companies.

Macy's may be one of the more stunning examples. The retailer reported $7 billion of sales in its last fiscal year, and yet had a negative shareholders' equity of $326 million because of sizable interest costs, thus appearing to qualify it for the tax breaks.

People on Capitol Hill who were involved in the last-minute budget accord confirmed yesterday that it was never their intent to help the refinance the remaining leveraged buyouts from the 1980's, and they said they anticipated that the language would be narrowed by the time Congress voted on a final package. The tighter language would probably close the loophole for the big borrowers of the 1980's, they said.

"I believe that members of the budget summit saw this as a targeted provision for small businesses, those companies that were providing most of the country's job opportunities, and are going to seek to draft the proposal in a way to meet that intent," said Michael Wessel, the policy director for Representative Richard A. Gephardt, the Democrat from Missouri who is House majority leader.

In a leveraged buyout, a financing technique that was in its heyday in the 1980's, investor groups bought companies by borrowing almost the entire purchase price. By putting so little of their own money to work, the buyers risked little, yet stood to make huge returns on their equity investments once the debt was repaid — assuming the businesses could be resold.

> Companies with heavy debt and little equity would qualify.

Though the strategy made instant millionaires of many buyers, it lost favor in the trying economy of the late 1980's. In particular, the collapse of Drexel Burnham Lambert Inc., and the high-yield debt market it had developed, as well as softness in the market for initial public offerings, left many owners with no way to cash out their investments.

But some nimble deal makers and their advisers are now looking into the possibility that the package of tax incentives designed to stimulate small-business activity could also be applied to many leveraged buyouts.

The rewards for qualifying would be well worth it. Businesses that meet the tests would be eligible for a variety of handsome tax breaks, from higher-than-usual tax deductions for research and development spending to a discount on the gain that investors use to calculate their tax owed when they sell their shares.

Many experts did not think the Government would stand for these provisions being applied to heavily indebted large companies. said

Abbie J. Smith, a University of Chicago professor who has studied leveraged buyouts, said, "The climate for the last few years seems unfriendly towards debt and mergers and takeovers and whatnot, so to the extent they foresee that big highly leveraged companies would fall under this $50 million threshhold, I would not be surprised if they would somehow put a ceiling on the debt-to-equity ratio."

The New York Times
WEDNESDAY, OCTOBER 3, 1990

Budget Plan Changes Rules on Tax Interest

Some corporations and their tax advisers said yesterday that they were concerned about one provision in the proposed budget accord that would make it more costly for companies to challenge Internal Revenue Service judgments against them.

Now, corporations that lose tax disputes can deduct the interest that they ultimately pay the service for the use of the tax money owed. But the proposed accord would disallow that interest deduction after Jan. 1, a change that might sway some companies to settle any outstanding litigation rather than risk paying interest that is treated differently than ordinary borrowing for tax purposes.

"It's very serious because it raises the cost of a tax deficiency enormously," said Arthur A. Feder, a tax lawyer with Fried, Frank, Harris, Shriver & Jacobson.

The New York Times
WEDNESDAY, OCTOBER 3, 1990

Lawmaker Who Broke Back Of Deadlock on the Budget

By MARTIN TOLCHIN
Special to The New York Times

WASHINGTON, Oct. 2 — There is nothing flashy about Representative Don J. Pease, the seven-term Ohio Democrat who came up with the tax proposal that broke the budget deadlock.

He is neither an orator nor back-slapper. A more common description from Congressional colleagues is "stuffy."

But they also say he is an intellectual who comes up with original ideas, and who knows how to put together coalitions that advance his proposals.

Indeed, Mr. Pease, a liberal, gets credit for proposing a limit on tax deductions for wealthy taxpayers in a plan that was accepted by the budget negotiators as a new and more politically palatable twist on a concept employed elsewhere in the tax code.

Mr. Pease, a member of the Ways and Means Committee, said he came up with the idea in 1989, as part of what he called a package of progressive ways to raise taxes.

"My forté is facts and information," the tall, slender, 59-year-old Representative said in a telephone interview. "I develop all my own legislation."

"I believe as an article of faith that facts and logic are the way to get things done," he continued. "I've always followed a methodical approach. I try to impose the test of common sense on all my ideas."

After working out the legislative details, Mr. Pease said, "I work behind the scenes trying to promote the ideas I come up with."

This year, those ideas also included removing the ceiling on income subjected to the Medicare tax. The budget negotiators agreed to increase the taxable income for Medicare to $73,000 from $51,000.

Mr. Pease sent his proposals to all Democratic budget negotiators in the House and Senate. A protegé of Representative Dan Rostenkowski, the Illinois Democrat who is chairman of the Ways and Means Committee, Mr. Pease said he received Republican support from Senator Bob Dole of Kansas, the Republican leader.

"It was a logical compromise between the Democrats insisting on progressive taxes and the Republican President who insisted on no increase in tax rates," Mr. Pease said.

Mr. Pease lives in Oberlin, Ohio, and was editor of the Oberlin News-Tribune before serving in the Ohio legislature. In Congress, he has been heavily involved in trade issues, workers' rights and tax overhaul. Concerned about the environment, he takes the subway to work from his home in Bethesda.

"There are a lot of guys around here who are solid players," said Representative Robert T. Matsui, a California Democrat who sits with Mr. Pease on the Ways and Means Committee, "but they're not flashy and don't get much attention. Don's a very steady, solid member who goes unrecognized."

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WEDNESDAY, OCTOBER 3, 1990

Limits on Deductions Could Raise Bill for Affluent

By ALLAN R. GOLD
Special to The New York Times

For most individuals and couples earning more than $100,000 a year, the proposed budget package would mean a higher Federal tax bill because such items as mortgage interest and state and local income tax payments would no longer be fully deductible.

The proposed limits on itemized deductions would mean no more than a modest increase for those earning only slightly more than $100,000. But as the taxpayer's income rises, the proposed change could result in the largest single tax increase from the budget package.

In terms of tax policy, President Bush and Congressional leaders have found a backdoor method of limiting deductions that for years have been politically out of bounds: mortgage interest, state and local income taxes and real estate taxes. These are most taxpayers' largest deductions. Until now, Federal revenue raisers have only been able to limit deductions in categories like charitable contributions and miscellaneous itemizations.

Where It Might Hit Hardest

If enacted as proposed, the changes would affect not only the wealthy but also a great many two-income families, The tax bite might be especially sharp in the metropolitan areas of the East and West Coasts, where home mortgages and state and local taxes — as well as salaries — are typically higher than elsewhere, and a $100,000 income does not automatically buy affluence.

For example, two married New York City schoolteachers each earning the maximum would have combined incomes of $105,500 under the new teachers' contract.

The novel tax proposal would reduce a taxpayer's itemized deductions by an amount equal to 3 percent of his or her adjusted gross income above $100,000. It would be effective in the 1991 tax year.

A person earning $110,000 could lose $300 in deductions, resulting in additional tax liability of $84 a year.

The $100,000 threshold applies as well to married couples filing jointly. But two people who each earn $90,000 and file separately would not be affected.

A couple with $150,000 in income could therefore expect to lose $1,500 in deductions, leading to $495 more in Federal income tax obligations. Someone earning $300,000 might lose $6,000 in deductions, with an increased tax of $1,680.

"At first blush, it doesn't seem like a lot of money, but it's going to depend on the individual circumstances," said William J. Goldberg, national director of personal planning services for KPMG Peat Marwick in Houston.

Some people are concerned about the effect of the proposed change on mortgage interest. "It's really our only deduction," said Diana Norwood, a software manager in Boca Raton, Fla. She and her husband hold two mortgages. "They've gotten all the rest of the interest deductions, so I certainly don't like them playing around with the one thing we have."

Payments Could Be Accelerated

Should the limitations on itemized deductions remain in the budget package, taxpayers could accelerate payments that would have been deductible next year and make them in the current tax year ending Dec. 31. This would assure that the taxpayer obtains the full benefit of the deductions, rather than watching them eroded by the 1991 tax changes.

Because of the limited nature of the proposed deduction change, some tax experts see little decline in charitable giving.

The proposal is aimed at reducing deductions — and increasing tax payments — of people whose adjusted gross income exceeds $100,000. This group represents 2.3 percent of the nation's taxpayers, the Internal Revenue Service says. Adjusted gross income is total income, less certain business expenses. Tax experts say the increase in such a taxpayer's effective tax rate would be less than 1 percent.

Expected revenue gain for the Treasury would be $500 million in 1991, and $18 billion over five years beginning on Jan. 1.

The measure would exclude medical deductions and investment interest expense, categories that already carry deduction restrictions. Allowable deductions could not be reduced by more than 80 percent, which offers a way of limiting the damage for some taxpayers.

How It Works

For a couple whose income totals $150,000, the proposal would work this way:

The amount of income above the $100,000 threshold is $50,000. Three percent of $50,000 is $1,500. That means allowable itemized deductions would be reduced by $1,500.

At $150,000, the couple's effective tax rate is 33 percent. Thus, the pair would pay an added $495 in taxes, or $1,500 multiplied by 33 percent.

Before the $1,500 is subtracted, such a couple might have total deductions of $30,000 to $35,000, said William G. Brennan, a partner and head of the financial planning group for the accounting firm of Ernst & Young in Washington.

The $30,000 figure might include $20,000 in mortgage interest, $3,000 in real estate taxes and $7,000 in state and local income taxes. As a result of the proposal, total deductions would drop to $28,500.

For a person or couple earning $300,000, the tax consequence of the proposed measure increases subtantially. The amount above the $100,000 threshold is $200,000. Three percent of $200,000 is $6,000, meaning allowable deductions would be reduced by $6,000.

At an effective tax rate of 28 percent, taxes would rise by $1,680, or $6,000 multiplied by 28 percent.

A single taxpayer earning $110,000 a year would pay $84 more in taxes. The amount above the $100,000 threshold is $10,000, and 3 percent of that is $300. Deductions would be reduced by $300, resulting in a tax rise of $84, or $300 multiplied by an effective tax rate of 28 percent.

Although the figures may not be high, Mr. Brennan of Ernst & Young said his clients "are still going to feel it and they are still going to be upset."

But he added, "I don't think they are going to be up in arms."

The New York Times
WEDNESDAY, OCTOBER 3, 1990

Tax-Aid Plan for Small Business Called Complex

By ROBERT D. HERSHEY Jr.
Special to The New York Times

WASHINGTON, Oct. 2 — The provision in the budget agreement offering hefty incentives for investment in small business is an unnecessarily complex way to entice individual investors back to the venture capital market and holds the potential for abuse, tax specialists said today.

While there seems little likelihood of a full-blown revival of the tax-shelter industry, which was heavily curtailed in the 1980's by Internal Revenue Service crackdowns and fundamental changes in the tax code, the tax experts warned that the breaks offered for investment in small business may lead to a flurry of aggressive accounting, overzealous promotion and misrepresentation.

Incentives Called Modest

"You're almost certainly going to create situations where people are going to abuse it," said David Brockway, a lawyer at Dewey, Ballantine, Bushby, Palmer & Wood and a former top Congressional tax aide. "There's legions of very sharp professionals waiting to figure out ways to take advantage of this with minimum investments" in small business.

The United States Chamber of Commerce, the National Federation of Independent Business, the Treasury Department and other supporters, however, say they see little danger that the plan, which is expected to provide $8 billion in direct tax breaks by the mid-1990's, will be abused.

"Our judgment is that the incentives are quite modest and quite narrowly circumscribed," said David R. Burton, manager of the chamber's tax-policy center. He noted that, as currently outlined, the plan contained many restrictions and that there was no chance the excesses of a decade ago, when first-year write-offs could be several times the amount of an investment, would reappear. "You can't make money by losing money anymore," he added.

Borrowing Allowed

Under the proposal, publicly still only an outline, those who invest in small companies are to be allowed to deduct 25 percent of their commitment up to $200,000, or a maximum deduction of $50,000 a year. The tax savings on this for somebody in the top statutory rate of 28 percent would be $14,000.

While the money must be at risk, the investor would be allowed to borrow the investment and deduct the interest as well, a Treasury official, Roger Bolton, confirmed. In addition, the investor would receive a tax break on the profit when the shares are sold provided the stock had been held at least five years.

Mr. Bolton said the Treasury had not yet considered whether these incentives could be further enhanced if the investment was in a company situated in an enterprise zone, another idea offered favorable tax treatment by the budget negotiators.

There are now 2.3 million corporations qualifying for such investment, collecting more than one-third of American business receipts. These companies must have less than $50 million in capital and retained earnings and cannot be partnerships or subchapter S corporations that, like partnerships, escape double taxation of their profits.

Not a 'Stunning Giveaway'

Alan Patricof, chairman of a venture capital firm that bears his name, said that while the plan would indeed shift some badly needed funds into new or fledgling companies it was not so generous as to invite abuse. "You have to put $200,000 at risk to get a savings of $14,000, he added. "I can't see this as some major, stunning giveaway."

The tax benefits would also be subject to recapture under various circumstances, including death, and subject to existing restrictions related to the alternate minimum tax and passive income limitations, specialists said. Indeed, some contended that to increase investment in small business by significant amounts, promoters would need to emerge to mobilize large amounts from scattered individual sources.

"To be effective, you have to contemplate pools of capital," said Marvin J. Dickman, tax partner and enterprise specialist for Arthur Andersen & Company, the Chicago-based accounting firm. "There will be syndicators," he added, "but syndication is not necessarily a bad word."

Called Easy to Control

To John J. Motley 3d, a legislative vice president for the National Federation of Independent Business, the incentives will be relatively easy to control because they are not available to individuals and partnerships where "it could get really abusive," he said."

Arthur S. Hoffman, a partner at Spicer & Oppenheim and chairman of the tax executive committee of the American Institute of Certified Public Accountants, called possible abuse "a legitimate concern" but held that a maximum 7 percent tax "rebate" on a $200,000 investment was not the sort of return to inspire attempts to return to the 1970's.

In fact, Mr. Hoffman said, what he most feared was that those who will write the regulations putting the proposal into effect will, in an effort to anticipate every imaginable dodge, make them both so harsh as to be unusable and so complicated as to make the tax code still more unfathomable.

Why, wondered several analysts, did not the negotiators just cut the corporate tax rate for small businesses?

The Washington Post

WEDNESDAY, OCTOBER 3, 1990

Bush Makes Appeal For Budget Support

Voters Urged to Spare Plan's Backers

By Dan Balz and John E. Yang
Washington Post Staff Writers

President Bush intensified his lobbying for the $500 billion deficit-reduction plan last night, warning that the package of tax increases and spending cuts is needed to keep the economy out of recession and appealing to voters not to punish politicians who support it.

As White House officials reported steady progress in their efforts to rally rebellious Republicans, Bush delivered a nationally televised speech from the Oval Office in which he said that, despite its flaws, the new budget plan is the best that bipartisan government can deliver.

"Those who dislike one part or another may pick our agreement apart, but if they do, believe me, the political reality is, no one can put a better one back together again," he said.

The evidence of bipartisanship came moments later when Senate Majority Leader George J. Mitchell (D-Maine), delivering the Democratic response, echoed the president's call, saying that while it demands sacrifice, the package "holds the promise of restoring a sound economy from which all Americans will benefit."

Pointing out that Democrats had made compromises to reach the agreement, Mitchell took note of Republican opposition. "We hope that ... Republican members of Congress will also set aside partisan differences, as we have done, and join us in doing what's right for our country," he said.

Bush and top administration officials met throughout the day with Republicans from the House, where the defection of Minority Whip Newt Gingrich (R-Ga.) and other key conservatives set off initial fears at the White House that the package might be defeated by a mutiny in the president's own party.

After hearing from these members yesterday, Bush suddenly decided to schedule last night's televised address. Aides said it was designed primarily to provide politicians suffering from election-year jitters with the presidential cover they may need to support the plan.

Although many Republicans dislike the package, especially the new taxes that break Bush's 1988 campaign pledge, increasingly they are concluding they may have no choice but to support it.

"There is no alternative," Rep. Don Sundquist (R-Tenn.) said after meeting with Bush. "The alternative is chaos and the alternative is recession, or even depression."

White House officials met with 40 to 50 House Republicans yesterday, and at least one more meeting is scheduled today. "We made very significant progress since [Monday]," a White House official said. "But we do not have the votes."

Nevertheless, one leading conservative opponent of the package, Rep. Vin Weber (R-Minn.), flatly predicted the president's lobbying efforts would be successful. "Sure he's going to win," Weber said. "Anybody who thought that you were going to beat a president in his own party's caucus . . . is fooling himself."

The House is scheduled to take its first votes on the budget agreement on Thursday. The Senate, where support appears much stronger, is expected to follow shortly after that. The first votes will be on the budget resolution itself, along with orders to congressional committees on the targets they must meet.

A second and perhaps more critical round of votes will come later, after the committees have concluded their work and the pieces are stitched back together into one large package.

Bush asked Americans to understand the plight of politicians seeking reelection. "Many worry about your reaction to one part or another," he said. "But I know you know the importance of the whole."

He said voters could have a "real impact" by registering their support with their elected representatives.

Bush called the package tough and fair with spending cuts that will be enforced by law. "No smoke, no mirrors, no magic act," he said.

He said the package does not raise income tax rates, "does not mess with Social Security" and protects national security. Saying he was no fan of new taxes, Bush said some of the taxes in the package will help to create jobs and stimulate the economy, while requiring that everyone "contribute something" to the fiscal solution.

"If we fail to enact this agreement, our economy will falter, markets may tumble, recession will follow," he said.

With it, he predicted lower interest rates and an end to "the cancer gnawing away at our nation's health."

White House officials said concern over the economy had helped persuade Bush to go on television to fight for the package. "If the budget agreement doesn't pass, we tube the economy," one official said. "We're very worried about the market's reaction and the consequences of shutting down the government."

Mitchell underscored the difficult negotiations by noting there were still "deep differences" between Republicans and Democrats over how best to solve the fiscal crisis. The Democrats, he said, preferred a package that "asks more from the wealthy and less from the elderly," the last being a reference to the deep cuts in Medicare that have been roundly attacked by senior citizen organizations.

The House Ways and Means Committee issued a study yesterday showing that the tax increases and benefit program cuts would hit hardest at the poor. The average taxpayer in the poorest fifth of all taxpayers would have after-tax income reduced by 2 percent under the agreement. The after-tax income of the average taxpayer in the richest one-fifth would be reduced by only 0.9 percent, the panel's study found.

But despite Democratic differences with the package, Mitchell said "the nation is more important than partisan differences" and urged the public to join Democratic congressional leaders and Bush in backing it.

House Republicans remained in an uproar over the package. One said the administration appeared "stunned at the level of ill-will among Republicans over this."

The White House was fighting not only conservative criticism of the package but reaction to harsh comments by White House Chief of Staff John H. Sununu. The White House staff chief warned House Republicans on Monday that Bush might come into their districts to hold them accountable if they vote against him. Later he drew criticism for referring to Sen. Trent Lott (R-Miss.) as "insignificant."

"It's Beirut over there," one Democratic aide said.

Initially alarmed by the Republican reaction to the package, White House officials sounded far more upbeat by late yesterday. With Vice President Quayle, Sununu, budget director Richard G. Darman and Treasury Secretary Nicholas F. Brady helping Bush apply the pressure, the administration appeared to stem its losses, even though many members said they were still undecided how to vote.

"Loyal Republicans need to support the president at a time when his prestige is on the line," Rep. E. Thomas Coleman (R-Mo.) said after meeting with Bush.

Rep. Bill Archer (R-Tex.), ranking Republican on Ways and Means, got special hand-holding, including a private meeting with Sununu, Darman and Brady and then a one-on-one with the president. Yesterday afternoon, he announced he would support the package.

The Washington Post

WEDNESDAY, OCTOBER 3, 1990

Bush: Budget Deficit Is 'a Cancer Gnawing Away at Our Nation's Health'

Associated Press

Following is the text of President Bush's televised address last night:

Tonight, I want to talk to you about a problem that has lingered and dogged and vexed this country for far too long: the federal budget deficit. Thomas Paine said many years ago, "These are the times that try men's souls." As we speak, our nation is standing together against Saddam Hussein's aggression. But here at home, there is another threat, a cancer gnawing away at our nation's health. That cancer is the budget deficit. Year after year, it mortgages the future of our children.

No family, no nation, can continue to do business the way the federal government has been operating and survive. When you get a bill, that bill must be paid, and when you write a check, you're supposed to have money in the bank. But if you don't obey these simple rules of common sense, there's a price to pay. But for too long, the nation's business in Washington has been conducted as if these basic rules did not apply. Well, these rules do apply. And if we fail to act, next year alone we will face a federal budget deficit of more than $300 billion, a deficit that could weaken our economy further and cost us thousands of precious jobs.

If what goes up must come down, then the way down could be very hard. But it doesn't have to be that way. We can do something. In fact, we have started to do something. But we must act this week, when Congress will hold the first of two crucial up-or-down votes. These votes will be on a deficit-reduction agreement, worked out between the administration and the bipartisan leaders of Congress. This budget agreement is the result of eight months of blood, sweat and fears—fears of the economic chaos that would follow if we fail to reduce the deficit.

Of course, I cannot claim it's the best deficit-reduction plan possible. It's not. Any one of us alone might have written a better plan. But it is the best agreement that can be legislated now. It is the biggest deficit-reduction agreement ever—half a trillion dollars. It's the toughest deficit-reduction package ever, with new enforcement rules to make sure that what we fix now stays fixed. And it has the largest spending savings ever—more than $300 billion. For the first time, a Republican president and leaders of the Democratic Congress have agreed to real cuts that will be enforced by law, not promises. No smoke, no mirrors, no magic act, but real and lasting spending cuts.

This agreement will also raise revenue. I'm not and I know you're not a fan of tax increases. But if there have to be tax measures, they should allow the economy to grow. They should not turn us back to higher income tax rates, and they should be fair.

Everyone who can should contribute something, and no one should have to contribute beyond their fair share.

Our bipartisan agreement meets these tests, and through specific new incentives, it will help create more jobs. It's a little-known fact, but America's best job creators and greatest innovators tend to be our smaller companies. So our budget plan will give small and medium-size companies a needed shot in the arm.

Just as important, I am convinced that this agreement will help lower interest rates, and lower interest rates means savings for consumers, lower mortgage payments for new homeowners, and more investment to produce more jobs. And that's what this agreement will do.

And now let me tell you what this agreement will not do. It will not raise income tax rates, personal or corporate. It will not mess with Social Security in any way. It will not put America's national security at risk. And most of all, it will not let our economy slip out of control.

Clearly, each and every one of us can find fault with something in this agreement. In fact, that is a burden that any truly fair solution must carry. Any workable solution must be judged as a whole, not piece by piece. Those who dislike one part or another may pick our agreement apart. But if they do, believe me, the political reality is: no one can put a better one back together again.

Everyone will bear a small burden. But if we succeed, every American will have a large burden lifted. If we fail to enact this agreement, our economy will falter, markets may tumble and recession will follow. In just a moment the Democratic majority leader, Senator [George] Mitchell [D-Maine], will offer what is known as the Democratic response—often a rebuttal, but not tonight.

Tonight, the Democratic and Republican leadership and I all speak with one voice in support of this agreement. Tonight, we ask you to help us move this agreement forward. The congressional leadership and I both have a job to do in getting it enacted, and tonight I ask for your help.

First. I ask you to understand how important, and, for some, how difficult this vote is, for your congressmen and senators. Many worry about your reaction to one part or another. But I know you know the importance of the whole. And so second, I ask you to take this initiative: Tell your congressmen and senators you support this deficit-reduction agreement.

If they are Republicans, urge them to stand with the president. Urge them to do what the bipartisan leadership has done, come together in the spirit of compromise to solve this national problem. If they're Democrats, urge them to stand with their congressional leaders. Ask them to fight for the future of your kids by supporting this budget agreement. Now is the time for you, the American people, to have a real impact.

Your senators and congressmen need to know that you want this deficit brought down. That the time for politics and posturing is over and the time to come together is now. This deficit-reduction agreement is tough and so are the times. The agreement is fair, and so is the American spirit. The agreement is bipartisan, and so is the vote. The agreement is real, and so is this crisis.

This is the first time in my presidency that I have made an appeal like this to you, the American people. With your help we can at last put this budget crisis behind us and face the other challenges that lie ahead. If we do, the long-term result will be a healthier nation and something more. We will have once again put ourselves on the path of economic growth and we will have demonstrated that no challenge is greater than the determination of the American people.

Thank you, God bless you and good night.

The Washington Post

WEDNESDAY, OCTOBER 3, 1990

Mitchell: Deal Holds Promise for Economy

Following is the text of the Democratic response by Senate Majority Leader George J. Mitchell (Maine) to President Bush's televised address:

I speak tonight not for the Democratic Party but for America's future. For more than a decade, the United States has endured budget deficits that sap our economic strength. When you have a deficit, there are only two things you can do: cut spending or increase revenue. This agreement does both.

It cuts spending, military and domestic. It raises taxes.

The president has asked you to support the budget agreement. The Democratic leadership in Congress joins in that appeal. We recognize that this budget demands sacrifice from all Americans. But if enacted, it holds the promise of restoring a sound economy from which all Americans will benefit.

The agreement is a compromise. It's not what the president, working alone, would have preferred. It's not what we Democrats, working on our own, would have produced. Neither side got all it wanted.

And many are asking, "Why did it take so long?" The answer is simple. What delayed us for months is what has divided us for years. Democrats and Republicans have deep differences over values and priorities.

We prefer a budget that asks more from the wealthy and less from the elderly. But when the president asked us to join in rewriting his budget, we agreed because the nation is more important than partisan differences.

When the president asked us to help work out a compromise, he got our help. Now we hope that members of his party, the Republican members of Congress, will also set aside partisan differences, as we have done, and join us in doing what's right for our country.

Two centuries ago, the Constitutional Convention in Philadelphia was drawing to a close. The delegates had quarreled for months. Now they were to vote on a difficult compromise. Benjamin Franklin, 81 years old, rose slowly and said to his fellow delegates, "I confess that there are several parts of this constitution which I do not approve. But I doubt whether any other convention may be able to make a better constitution, for when you assemble men to have the advantage of their joint wisdom, you inevitably assemble all their prejudices, their passions, their errors of opinion, their local interests, their selfish views. From such an assembly, can a perfect production be expected? I consent to this constitution because I expect no better and because I am not sure it is not the best."

Of course, no budget can be compared with the Constitution, but Franklin's point applies. Every human work is imperfect, and that's certainly true of this budget.

But it's also true that for America's economic future, we have to pass it. With your help, we will.

Thank you and good night.

The Washington Post

WEDNESDAY, OCTOBER 3, 1990

In 'Paradise' for Elderly, Budget Crunch Would Make Big Dent

By Laura Parker
Washington Post Staff Writer

MIAMI BEACH, Oct. 2—At 85, Bill Sussman spends his days under the palm trees, cooled by gentle sea breezes in a tropical setting that would be the envy of his friends back in New York.

The irony is that the scenic vistas that lured Sussman to Florida in 1968 did not turn out to be paradise. He lives alone in one of the pastel-colored hotel buildings that line the avenues of Miami Beach, and he tries to survive on $455 a month from Social Security and his pension fund.

Miami Beach has one of the largest concentrations of elderly residents in the state and also one of the poorest. Here, in the muggy one-room efficiencies, is where an increase in Medicare costs would be felt most acutely.

"It will hit me very hard," Sussman said quietly. "It will cut off a lot of things that I could buy."

Sussman's income hovers just above the federal poverty level, although elsewhere in his neighborhood some other elderly people fare much better. That is another paradox of old age: Medicare affects all elderly equally, regardless of financial status.

Under the proposed plan, the annual deductible, which covers visits to the doctor and outpatient hospital treatment, would double to $150 in 1993. The cost of the monthly premium would increase from $28.60 to $33.50 next year, the price of a movie ticket, and to $54.30 in 1995.

Such increases may seem minuscule to others in more fortunate circumstances. But Sussman, like others here, measures his purchasing power in equally small increments.

His life is caught up with what might appear to others to be the little obstacles, such as how to carry his groceries home now that he no longer has the strength. His major purchase this fall is not a new automobile or a vacation trip but a new tank for the toilet in his condominium.

"These are people for whom every dollar makes a critical little difference," said Yvonne Lee, director at the Miami Beach Senior Center.

Already, the center has held a session on the proposed increases to Medicare premiums at its Current Events class. Sussman, like others who have discussed the proposed increase, does not speak in angry or accusatory tones about what the government may do to his standard of living. He is far removed from the fiery rhetoric used by lobbyists in Washington to dramatize the effects of the budget axe.

Instead, Sussman and his friends worry. There is not much they can do, they said. By Sussman's account, he is unable to absorb such increases, even when they are as small as the price of a movie ticket.

The electric bill, he began, is $15 a month. He is almost apologetic about this, explaining that the refrigerator and hot-water heater run all of the time, as if he has considered turning them off. Then he added that he cuts back on the air conditioning to keep the bill low. Sussman described this as the temperature topped out at 89 degrees, with near-equal humidity.

Sussman's phone bill runs to $30. Maybe he could trim that, he offered, because he occasionally calls his sister in New Jersey to see how she is.

Sussman lives rent-free, thanks to a friend who died 10 years ago and who had written into her will that he should remain in her condominium for the rest of his life.

But every three months, Sussman must pay a $230 condo maintenance fee. Blue Cross charges him about $90 a month for health insurance, which with Medicare covers most of his medical bills.

He tries to get by on $30 a week for groceries, but sometimes cannot. After these expenses, he has about $125 left for the rest of the month.

From that, he must pay all of his household repairs at the condominium. Right now, he is facing a plumber's hourly labor charges and the new toilet tank.

"I skimp on everything," he said.

Every day, he goes to the Senior Center, where most of the classes and activities are free. He eats lunch at a nearby school that operates a subsidized hot-meals program, and he donates 75 cents every time.

Sussman still strolls occasionally under the palm trees on the sandy beaches. And he said he still likes to dine at a restaurant, although these days it usually is McDonald's.

"I got to eat where it's cheap," he said.

The Washington Post

WEDNESDAY, OCTOBER 3, 1990

Rep. Gingrich Steps Back Onto Political High Wire

GOP Whip Fights Budget Bush Has Embraced

By Tom Kenworthy
Washington Post Staff Writer

Mr. Outside-turned-Mr. Inside has gone outside again.

Eighteen months after Rep. Newt Gingrich shed his mantle as the street fighter of the Republican right by winning election as minority whip, his party's No. 2 leadership post in the House, the Georgia Republican has taken up arms again. This time, he is fighting not just his usual foes in the Democratic leadership but his own president and a considerable part of his own party in trying to torpedo the $500 billion deficit-reduction package that President Bush has embraced.

To many Democrats, Gingrich has merely reverted to form, once again adopting the kind of slashing attack style he used in the ethics fight that led to the resignation last year of Speaker Jim Wright (D-Tex.). By throwing sand in the gears of government, Democrats charge, Gingrich thinks he can prove to American voters that Congress is so inept and venal that only Republicans led by him can save it.

"His sole goal in life is to control the House," said Rep. Dennis E. Eckart (D-Ohio). "To control the House he has to destroy it."

"He's so institutionalized in the minority, he really doesn't know how to govern," said Rep. Vic Fazio (D-Calif.). "He wants Democrats in Congress to not look capable of governing."

But to Gingrich and his allies, the decision to oppose Bush and other Republican leaders on the budget agreement is a case of maintaining allegiance to a broader movement that the Georgia Republican calls "reform populist conservatism" that they believe will lead to Republican control of Congress.

"Real leadership is not risk-free," Gingrich said yesterday.

In publicly breaking with the president and the top Republican leader in the House, Rep. Robert H. Michel (R-Ill.), Gingrich has climbed back out on the high wire where he has spent much of his political career. The tightrope act could provoke a rebellion by Republican colleagues who believe that his disloyalty disqualifies him from being a party leader. But Gingrich and his cadre of followers see it as a calculated gamble in their long-term quest to gain Republican control of the House and to wrest the leadership of the House GOP from what they view as the party's accommodationist wing.

As he has done during most of his political life, Gingrich is addressing a constituency beyond Capitol Hill, where he believes a populist opposition to a budget plan loaded with painful spending cuts and tax increases will find a receptive audience and enhance the appeal of the GOP's right wing to middle class voters. He and his supporters expect to lose this fight, but they consider it only a skirmish in a a long-term war.

The prospect frightens Democrats, who see Gingrich's description of the deal as unfair to ordinary voters as a direct appeal to Democratic constituencies.

"The long-term gamble here is enormous," said Rep. Marty Russo (D-Ill.). "It's all our people who are being taxed and cut, and our handprints are all over it."

After spending months as a member of the Republican negotiating team in the budget summit, Gingrich emerged from a House GOP caucus Monday and blistered the deficit reduction agreement as an anti-growth prescription for recession. His opposition took on added importance because congressional Democrats are demanding that a majority of Republicans in both the House and the Senate vote for the budget agreement as the price of Democratic support.

In breaking with the White House, Gingrich laid bare the inherent tensions between a style of politics he has brandished since his election to the House in 1978 and the responsibilities as a party leader he assumed when he won election as minority whip by just two votes in March 1989.

He also infuriated some of the moderate Republicans to whom he owed his election, a group that at the time was convinced that bringing Gingrich into the leadership would both give the House GOP a more assertive posture and temper the Georgia Republican's go-for-the-throat style.

"I think a person has to decide whether he has to lead or have his own agenda," said Rep. Rod Chandler, a moderate Washington Republican who supported Gingrich for party whip. "It may be Newt has chosen his own agenda, and if that's the case I am going to look for a new leader. I voted for a guy who promised to bring the party together. If you can't be there [for the president], then as a leader you either resign or keep your mouth shut."

But Gingrich is neither the resigning type nor one to keep his mouth shut.

"I'm not on the president's staff," Gingrich said with trademark bravado. His allegiance, he said, is first to his suburban Atlanta district and second to the conservative movement.

Some Democrats see Gingrich's opposition to the budget deal as a warm-up for a coup attempt against Michel before the 102nd Congress convenes next year. "It's the opening shot at trying to run against Bob Michel," said former representative Tony Coelho (D-Calif.), who knows Gingrich well.

But Rep. Vin Weber (R-Minn.), a Gingrich ally, said Gingrich is "an ambitious guy but he's not dumb enough to pick a fight with the president to advance his own interests."

The real objective, said Weber, is to position the conservative wing of the House GOP behind pro-growth economic policies in order to avoid blame for a recession if it comes and to prosper in 1992, when redistricting is expected to provide Republicans with their best chance in decades to gain control of the House.

"It's always complicated to be at odds with your president, but long term it may well be the right position for him to be in," said Weber. Republican House members and Republican congressional challengers, he added, will thrive and cut into the Democratic electoral base "by being on the right side of economic issues."

"It's a roll of the dice," said Coelho, "but it's not unusual for Newt."

The Washington Post

WEDNESDAY, OCTOBER 3, 1990

Lobbyists Rush to Influence Details of Budget Plan

By Steven Mufson
Washington Post Staff Writer

Fred Graefe, a lawyer and lobbyist for Protestant hospitals, cardiologists and medical equipment makers, just happened to be playing golf at Andrews Air Force Base in early September when congressional leaders and Bush administration officials were holding budget talks there. And when some of the negotiators went to the food market on the base, they just happened to bump into Graefe, who put in a word against proposals to cut Medicare reimbursements.

Graefe, who says his golfing handicap is "too high" and concedes that he plays at Andrews "not too often," called the course there "challenging."

Even when secluded at Andrews, lawmakers trying to cut the federal budget deficit were unable to escape lobbyists. And now that the negotiations have produced a proposed $500 billion deficit-reduction package, the lobbyists are rushing to Capitol Hill to make known more of their pent-up longings.

Lobbying is Washington's favorite sport, and the start of the regular budget-lobbying season has been delayed by the secrecy surrounding the budget talks up to this point. Now, with 16 days left for Congress to translate the budget accord into legislation, lobbyists are hoping they can alter multimillion-dollar details within the $1.2 trillion budget.

About half a dozen lobbyists loitered yesterday in the marble-floored hallway outside the private office of House Ways and Means Committee Chairman Dan Rostenkowski (D-Ill.), just off the House chamber, looking like well-dressed vagrants. They accosted passing Ways and Means members or aides, asking not for spare change but for inclusion or exclusion of items worth millions or billions of dollars to their clients.

The lobbyists think Democratic leaders have left some latitude to modify budget details. "There is going to be some commitment to the spirit of the agreement, but I don't think anybody anticipated that there would not be some possible minor variations in how the committees would carry out the agreement," House Speaker Thomas S. Foley (D-Wash.) said yesterday.

Nobody is sure just how much room that leaves to maneuver. Rep. Fortney H. "Pete" Stark (D-Calif.), chairman of the House Ways and Means subcommittee that oversees Medicare, said he intends to rewrite the Medicare provision. Graefe's interpretation: "These are macro numbers, global numbers. It will be up to the committees. The next three weeks are going to be ferocious."

The last few weeks have been pretty busy too. The tentative budget agreement reached Sunday contains many peculiarities and last-minute alterations.

For example, as the budget talks were drawing to a close Saturday, Senate Minority Leader Robert J. Dole (R-Kan.), a veteran of the Senate Finance Committee, re-opened the question of a 10 percent luxury tax, which had been tentatively agreed upon the week before, participants said.

Dole, whose state includes the headquarters of both Beech Aircraft Corp. and Cessna Aircraft Co., got private aircraft dropped from the tax provision, they said. In return, Democratic negotiators won the exclusion of electronic equipment. In addition, the threshold for imposing the tax on private boats and yachts was lifted from $30,000 to $100,000.

The decision to exclude electronic equipment had an ironic twist. Less than 36 hours after the luxury tax was first proposed in the secret budget talks, Japanese electronic equipment makers had obtained a copy of the plan and met with their Washington lobbyists to figure out how to stop the measure. Their representatives wrote background papers that U.S. manufacturers used to lobby congressional leaders while the Japanese companies kept a low profile, according to a source involved in the lobbying effort.

With the help of the Japanese firms and their representatives, a "grass-roots" campaign was organized to get electronic equipment plant managers in the United States to call their congressional representatives. An opinion article was drafted for possible publication under the name of John Roach, chairman of Tandy. And Montgomery Ward wrote a letter to every budget negotiator saying a luxury tax on electronic equipment would hurt its business.

In the end, one Democratic negotiator who urged that the luxury tax exclude electronic equipment was House Majority Leader Richard A. Gephardt (D-Mo.), an advocate of many protectionist measures. Gephardt, whose district includes the headquarters of Anheuser-Busch Cos., is also credited with limiting an increase in the beer tax that is part of the budget agreement.

Other early lobbying efforts didn't turn out so well.

One of the biggest losers in the budget agreement is the life insurance industry, which is expected to pay $8 billion more in taxes over the next five years. Richard S. Schweiker, president of the Amer-

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ican Council of Life Insurance, wrote President Bush a week before the agreement was announced, decrying the "enormous and potentially devastating" tax increase. He added a handwritten post script, "This is a really big hit . . . ."

Ironically, the idea for the new taxes originated with the industry itself, which suggested spreading out its costs for selling policies over 10 years in return for repeal of the current life insurance tax law. "They threw away the carrot [the repeal] and hit the industry with the stick," said ACLI spokesman Gene Grabowski.

The industry has decided to fight the proposed increase by asking insurance company agents and employes to write and call their representatives, Grabowski added.

Other industries hit hard by the budget deal aren't sure what they will do.

The hard-pressed nuclear industry is the target of $1.6 billion in increased costs under a provision that would increase fees it pays the Nuclear Regulatory Commission. Mary Kenkel, spokeswoman for the Edison Electric Institute, said tax experts at the utility trade group think the proposal is "a bad precedent" because it would make the nuclear industry the only one to pay 100 percent of the cost of its regulation. "But being realistic, we think it will be very tough to get anything in or out of the package," she added.

John Maxson, director of government affairs for Commonwealth Edison, a Chicago-based firm with 12 nuclear power plants, more than any other utility, said the change will cost his company about $15 million. "We haven't decided whether to lobby against the provision," he said. Commonwealth Edison also is concerned about the gas tax increase because the utility has a fleet of 2,500 vehicles, he added.

Medicare cuts will cost doctors and hospitals $30 billion over the next five years, but a source involved in the budget talks said effective lobbying all year prevented that figure from being even higher. The final first-year reductions in hospital reimbursements were less than those first proposed in the Bush administration budget plan in January and were several hundred million less than what was planned right up to the final days of the talks.

Michael Bromberg, executive director of the Federation of American Health Systems, said it is "absurd" to suggest that hospitals fared well, but he added, "I don't think our chances are very good" for changing the package. If there is any spending restored to the Medicare program it will probably benefit the program's elderly and disabled beneficiaries. "There are 30 million elderly and only 600 hospital administrators," Bromberg said.

The heavily-subsidized ethanol industry came out a winner in the negotiations, thanks again to Dole. The agreement includes one line that said "incentives for ethanol will be modified and extended."

A Dole aide said the package of modifications hasn't been completed, but options include changing the existing 60 cents a gallon subsidy for the grain-fed fuel to benefit new and small producers more. The extension would be for at least five years, and hopefully until the year 2000, he added.

The ethanol market is dominated by Archer-Daniels-Midland Co., an Illinois firm headed by Dwayne Andreas, a key financial supporter of Dole's political and charitable causes. Congressional experts estimate that extending the tax credit will cost the Treasury about $250 million from 1993-95.

Another big winner in the budget deal is the domestic oil and gas producing industry. It won more than $3.5 billion in exploration and production incentives. Edwin Rothschild, energy specialist at Citizen Action, said that "at a time when crude oil price has doubled, it is no time to give the oil and gas industry tax breaks. They don't need any more incentives."

But with the president, the chairman of the Senate Finance Committee, the secretary of state, the commerce secretary, and budget negotiator Rep. Bill Archer all coming from Texas, the industry doesn't need any lobbyists either.

The Washington Post

WEDNESDAY, OCTOBER 3, 1990

Now for the House Republicans

THE POSTURING House Republicans for whom Newt Gingrich speaks bewail their minority status; they claim to want to govern. But when the responsibility descends, they flee. It is no surprise that they are not supporting the new budget agreement. They will not support any budget. They regularly vote against the Democrats' budget, of course, but they will not bring up their president's budget, either, and certainly not offer one of their own. Claiming to be bold, they practice instead the calculated politics of no fingerprints. The cartoonists who draw them in short pants are right.

It would be one thing if the Democrats had won the distributional struggle on which the budget negotiations hinged. They didn't; if anything, they lost. The tax and benefit provisions at the core of the deficit reduction plan are on balance regressive. The wealthiest Americans, who gained the most from the tax cutting that helped produce the deficit in the Reagan years, are not now asked to give the most back, which was the Democrats' goal. Income tax rates would be unchanged; the upper-income gains are basically preserved. It is Democrats, not Republicans, who should complain as they vote aye.

The balking Republicans say they are against all tax increases. But they are of course against the deficit as well—and no more willing or able than Ronald Reagan or George Bush has been to name the spending cuts that by themselves might bring the deficit out of the red zone. Instead they continue to parrot that what the country needs is more tax *cuts* to grow its way out of the deficit. You last heard that sort of happy talk about $2 trillion in debt ago. They say as well that the likely onset of a recession is the wrong time to raise taxes, and indeed it is. The only reason the country is having to do it now is that these same people argued successfully that the middle of a boom was the wrong time to do it too; there's never a right time for them.

The Gingrich Republicans don't want to give up the political lollipop of the tax issue to do what they were elected to do, which is govern. The president and Bob Michel have instead outlined a constructive course for the party. We don't love this agreement, but the deficit reduction it promises is mostly real and urgently needed; it has to pass. The House Republicans have to decide who leads them and what it is they stand for, fatuousness or substance.

The Washington Post

Wednesday, October 3, 1990

Budget Scorecard

By Mike Causey
Washington Post Staff Writer

If the budget agreement before Congress is approved, federal-military retirees will get a minimum 4.9 percent cost-of-living adjustment and federal workers will get a 3.5 percent raise in January.

At one point, conferees talked of a federal pension freeze. But they dropped that idea under an avalanche of protest. The pay raise proposed by the president in August never was at issue in the budget talks.

The controversial budget proposal does eliminate the lump-sum pension payment option for federal retirees. It appears to give workers until the end of the month to retire and be eligible for the option. But Congress has not yet set a deadline.

The budget agreement has a way to go. This is where it is, and what must happen before it becomes law:

- The government is running on a continuing resolution that expires Friday. The resolution holds off automatic cuts and could mean a government shutdown or furloughs or both. Congress must pass a budget resolution with detailed instructions to committees to approve legislation within their jurisdiction that implements the summit agreements.
- Congress is expected to pass a second continuing resolution suspending sequestration (automatic cuts) and furloughs through Oct. 19. The president will sign it only if action on the budget resolution has been completed.
- Congress must vote by Oct. 19 on a conference report that reflects the summit agreements and conference reports on all 13 pending appropriations bills. The president has said no bill extending the ban on automatic spending cuts beyond Oct. 19 will be signed unless Congress approves those reports.

Congress-watchers caution that nothing in the budget summit agreement is official until it is signed into law. The agreement could be delayed—or it could fall apart. If that happened, there could be shutdowns and furloughs, and the summit group would have to search for new spending cuts that would get through Congress.

Lump-Sum Deadline

The summit agreement eliminates the lump-sum pension option for retirees effective next month. But Congress hasn't officially set a deadline for retiring. That leaves workers who want to cash in on the benefit in a bind. Nothing will be official on the deadline date until Congress says what it intended and the agreement becomes law.

An Office of Personnel Management official said yesterday that "the apparent congressional intent is to give people one month [October] to make a retirement decision." OPM assumes this means workers could retire as late as Oct. 31 and be eligible for the benefit. But OPM cautions that nothing is solid or official until Congress says what it meant.

HMO Update

Premiums for the Virginia-based Physicians CareFirst health maintenance organization will drop next year for U.S. workers. The single option will be $20.04 per pay period, a drop of $2.55. The family option will be $62.69, down $4.58.

The Washington Post

WEDNESDAY, OCTOBER 3, 1990

New Investment Shelters Stir Debate

By Kathleen Day
Washington Post Staff Writer

In 1981, the Reagan administration and Congress adopted tax breaks for real estate investment that unleashed a flood of speculative construction around the country. When Congress closed the tax loopholes five years later and the boom turned to bust, skylines were left dotted with empty "see-through" office buildings as monuments to a tax policy that backfired.

Now, in the name of economic growth, President Bush and congressional budget negotiators have proposed new tax breaks for investors—this time aimed at helping small businesses.

The new provision, which the White House insisted on, offers a series of breaks for individuals who buy stock in companies with equity—non-borrowed funding—of $50 million or less, with some notible exceptions: investments in real estate, banking, thrifts and insurance companies would not qualify.

"It's a powerful tax incentive designed to direct investment to sectors of the economy with the greatest potential for growth," said Roger Bolton, chief spokesman for the Treasury Department.

But as lawmakers, lobbyists and investors begin to digest the budget compromise, some are questioning whether the small business tax break will cause similar damage—a fallout of failed, "see-through" widget companies that provide lucrative tax breaks for wealthy investors but that couldn't survive on their own.

One major feature would allow investors to deduct up to $50,000 a year from their taxable income for investments in newly issued common stocks from qualifying small companies. For investors in the 28 percent tax bracket, that translates into tax savings of up to $14,000.

"Clearly, for companies like ours, it would be an incentive to invest in us," said Steven C. Mendell, chairman and chief executive of Xoma Corp., a biotech company in Berkeley, Calif., with $100 million in assets but less than $30 million in shareholder equity. "The tax benefits would mitigate some of the risk of investing in a development-stage company or companies that don't have an established track record."

But some accountants said the tax break also could lead to too much money chasing after too few good ideas and companies, especially in the field of high-technology. That was the case in the 1980s in several major sectors of the high-technology industry in California, where, for example, an over-investment in makers of computer disk drives and IBM clones resulted in an overcrowded market and then a slew of bankruptcies.

Even more troublesome, congressional aides and accountants say, is the possibility that restoring the kind of special tax breaks eliminated in 1986 would open the way for others, draining revenue from the Treasury and increasing pressures for tax increases.

"It smells like some of the old tax shelters that were used by higher-income taxpayers," said Carl Duyck, tax partner at Price Waterhouse, the New York accounting firm. "It's a crack in the wall.

"I understand what they're trying to do. They're trying to stimulate investment in newer businesses, but, the fact is, they are subsidizing that investment with tax dollars," he said. While there's nothing necessarily wrong with that, he said, it undermines the underlying compromise of the 1986 tax law, where most tax benefits were erased so that the overall tax rate could be lowered. The small business tax proposal could represent a small but significant first step toward the day when overall rates have to be raised again, he said.

The key to whether the proposal proves a boon to economic growth or a misguided tax break may well depend on the detailed language spelling out the provision.

Treasury official Bolton said that the Treasury is committed to minimizing the potential for abuse of the tax benefit. For example, he said, Treasury favors a rule that limits tax benefits under the proposal to investors who purchased stock with their own money or with borrowed money for which they were personally liable. Borrowed money that was collateralized with purchased stock rather than with the personal guarantee of the borrower would not be allowed, he said.

Companies also would not be allowed to spin off subsidiaries to qualify, nor could they carve themselves up into qualifying smaller businesses.

"It's a laudable goal," Duyck said, but even if it works as intended, it will be "but a drop in the bucket," toward the policies the country needs to spark growth and remain competitive.

"The 1986 tax law made debt much more attractive than stock ownership and helped contribute to a lot of the problems in leveraged buyouts and thrifts in the last decade," said C. Richard Kramlich, managing partner in the leading venture capital firm of New Enterprise Associates and a co-chairman of the taxes and incentives committee of the National Venture Capital Association. Reversing that trend will require much more than the small business incentives in the current plan, he said.

"What we're talking about here is competitiveness in the world economy, about job creation and about the replacement of equity for debt, and I'm disappointed that these issues were political casualties in the budget deficit talks," he said.

To the administration, however, the goal of funneling money to smaller companies, from gasoline stations, dry-cleaners and restaurants to medium-size manufacturing firms, has more advantages than potential pitfalls.

The Washington Post

WEDNESDAY, OCTOBER 3, 1990

Bills Would Bring D.C. More Money, More Judges

By Michael Abramowitz
Washington Post Staff Writer

The House District of Columbia Committee approved a $60-million-a-year increase yesterday in the city's federal payment as part of wide-ranging legislation that would represent the largest expansion of D.C. autonomy since Congress granted home rule in 1974.

Under the committee action, the federal government's basic contribution to city operations would rise from $430 million to $490 million in fiscal 1991, which would be the first time the payment has been increased in five years.

The payment bill, approved 9 to 3, also establishes for the first time a formula by which the federal payment would be calculated thereafter, as well as shortening the period in which Congress can review District legislation from 30 days to five days.

In separate action, the committee voted 11 to 1 to establish a Supreme Court for the District and establish four new Superior Court judgeships—a move designed to reduce the backlog of appellate cases in the D.C. court system.

The bills now go to the full House, which is expected to take them up within two weeks, District Committee staff said. The legislation would then be sent to the Senate, where action this year is considered unlikely given the press of business as the session nears its close.

The federal budget deficit also adds to uncertainty about the fate of the funding measure.

Despite the obstacles, some legislators said the prospects are fairly good for an increased federal payment next year, especially given that Congress will be dealing with a new city administration then. Many members of Congress have been unwilling to approve more money for the District as long as Marion Barry remains mayor, Capitol Hill observers say.

Rep. Ronald V. Dellums (D-Calif.), chairman of the House District Committee, said the committee proposal would provide for a "fair and equitable" federal payment.

Dellums noted that the federal payment has decreased as a percentage of city revenue—from 20 percent in 1985 to 14 percent in 1990—at a time when the District has assumed more responsibilities from the federal government, such as the management of St. Elizabeths Hospital. The overall city budget for 1991 is $3.5 billion.

"In short, we have asked the citizens of D.C. to do many things at once while at the same time decreasing the federal payment, which many persons on both sides of the aisle have agreed is both unfair and unjust," Dellums said.

The only opposition voiced yesterday came from the committee's ranking Republican, Rep. Stan Parris of Virginia, who said the committee should defer action on the federal payment bill until after the city explores ways to reduce its work force.

Parris said it appears the city needs more money, but added, "I can't tell you how much or whether the need rises from miscalculation, overly ambitious programs, a failure to cut outmoded, unneeded and unwanted programs, or other bureaucratic inefficiencies."

Sources said Parris had indicated a willingness to compromise on the issue but became angered when Del. Walter E. Fauntroy (D-D.C.), another member of the committee, advocated a commuter tax during his unsuccessful mayoral campaign, a proposal that is anathema to many of his Northern Virginia constituents.

Despite Parris's opposition, Democrats are hopeful of final passage of the bill because they were able to secure the support of the second-ranking Republican, Rep. Thomas J. Bliley Jr. of Virginia.

Bliley was willing to support the measure after Democrats on the committee agreed to make several changes in it, including revising the federal payment formula to provide less money for the District than initially planned. Under the current bill, the federal payment would be fixed at 19.5 percent of local revenue.

The other committee Republicans, Dana Rohrabacher of California and Larry Combest of Texas, voted against the increased federal payment. All the Democrats on the committee voted for the legislation.

The Washington Post
WEDNESDAY, OCTOBER 3, 1990

Wilder Assails Democrats' Embrace of Deficit Plan

By John F. Harris
Washington Post Staff Writer

RICHMOND, Oct. 2—Virginia Gov. L. Douglas Wilder sent a sharply worded letter today to Democratic National Commitee Chairman Ronald H. Brown, accusing him and other party leaders of selling out the middle class through their support of the newly negotiated deficit reduction deal.

The letter was the latest salvo in a verbal barrage Wilder has aimed at members of his own party over this week's budget proposal, prompting renewed speculation that Wilder has trained his sights on national office in 1992.

"With whom did you speak before you put the Democratic Party on record in favor of a back-room tax deal which puts the biggest burden on the middle class and those with moderate means?" Wilder asked Brown in the letter, which gubernatorial aides sent to reporters this afternoon.

Brown could not be reached for comment and a Democratic Party spokeswoman did not return phone calls.

The letter struck the same populist theme that Wilder pushed in recent speeches upbraiding congressional Democrats for agreeing with the Bush administration on a package of tax increases and spending cuts designed to reduce the federal budget deficit by $500 billion over five years.

"It is more apparent than ever before that our two-party system is becoming a competition between the party inside Washington and that new party, the vast majority of Americans who live outside who see the need to unite to protect their interest," Wilder wrote.

Wilder has said he expects to serve out his four-year term as governor, which began nine months ago and during which he has made an unprecedented number of out-of-state political trips.

Press secretary Laura Dillard reaffirmed those comments, but other advisers today were clearly relishing the attention Wilder is winning for his attacks on the national political establishment.

"Speculation is a boom business, particularly when it comes to the presidency," said Paul Goldman, a Wilder confidant and chairman of Virginia's Democratic Party. "I've said before I don't think Bush is invincible."

"This latest broadside calls into question his commitment to stay in the governor's office," said Michael Salster, a state Republican activist. "I think it's obvious he's running for national office."

Whatever Wilder's intentions for 1992, he has freely called attention to his own brief experience in Virginia, in which he has implemented or proposed widespread spending cuts to meet a projected $1.4 billion deficit without raising taxes. And Wilder has invited others to follow his approach.

"Washington Democrats had the opportunity to fill the leadership void—to make meaningful cuts in spending; to tighten the belt around the federal government's all-too-fat waist," Wilder said in a speech Monday at Howard University. "They had that chance, but didn't take it."

In his remarks, Wilder accused the federal government of being "indifferent to the common good and utterly devoid of fiscal common sense."

Wilder's rhetoric, though strikingly conservative for a politician who during the 1970s and early 1980s was regarded as one of Virginia's most liberal legislators, is consistent with his emphasis on "fiscal responsibility" as governor, a tight-fisted approach that has precluded major new initiatives for better transportation or other public needs.

Wilder's attack on Brown is not his first on a fellow Democrat. As lieutenant governor, Wilder had high-profile feuds with then-Gov. Gerald L. Baliles, the first of which came after Baliles backed an increase in the sales tax for new roads.

"Doug Wilder has a long pedigree of anti-establishmentarianism," said Larry J. Sabato, a University of Virginia political scientist. The attack on Brown "is a fine-tuning of Wilder's national strategy."

Wilder, the nation's first elected black governor, may also be in search of a new foil, because Jesse L. Jackson has seemed lately to decline in prominence on the national scene, Sabato speculated.

The Washington Post

WEDNESDAY, OCTOBER 3, 1990

New Weapon for Labor Department

Budget Negotiators' Search for Funds May Increase Safety Fines

By Frank Swoboda
Washington Post Staff Writer

At the Labor Department, they are pretty sure the Democrats did it. But they are not certain. And yesterday most Democrats said they were not too sure themselves how it happened.

But when White House and congressional negotiators finished work this week on a $500 billion, five-year budget package to cut the deficit, the Labor Department suddenly found itself with a potential new enforcement weapon against violators of federal health and safety laws.

Negotiators, in their search for revenue wherever they could find it, had plucked an old proposal for a five-fold increase in the size of the fines that could be imposed by the department's Occupational Safety and Health Administration (OSHA). In addition, the new budget agreement would authorize a tripling of fines by the department's Mine Safety and Health Administration.

Under the agreement, the maximum OSHA fines for non-serious violations would be increased from $1,000 to $5,000 per violation and fines for each serious violation would be raised from $10,000 to $50,000.

Maximum fines for mine safety violations would be increased from $10,000 to $30,000.

It was the only part of the budget where the negotiators decided to increase penalties to raise money. Projected revenues from the increased fines will rise from $95 million in the fiscal year just ended to more than $200 million a year over the next five years.

The five-year revenue projection is $1.1 billion.

The action was not lost on the business community. Mark D. Cowan, a former deputy assistant secretary of OSHA, denounced the action, calling use of fines as a way to increase budget revenues a "dangerous precedent."

Cowan called on the business community to "move quickly to address this proposal to protect the integrity of our occupational safety and health laws."

Cowan is chief executive officer of the Jefferson Group, which represents some of the corporations that have received the largest OSHA fines in recent years.

Earlier this year, the Labor Department had proposed a three-fold increase in safety penalties. A spokeswoman said yesterday that the department is endorsing the increase voted by the negotiators.

Although key officials in the Labor Department and at several congressional committees claimed ignorance when asked how the new fines found their way into the budget, sources at the Senate Labor and Human Resources Committee appeared to have the answer.

Several weeks ago, a committee source said, staff members for the budget negotiators came around to all congressional commitees and asked if there was anything that might be on the shelf that would bring in money.

"They were looking for money and they asked us what we had done lately," the source said. So the committee gave them the proposal to raise safety fines that had been dropped out of last year's budget reconciliation bill. The revenue estimates, the source said, were still fresh.

The Washington Post
WEDNESDAY, OCTOBER 3, 1990

Fiscal Plan Shakes Up Area

Many Are Already Making Adjustments

By Avis Thomas-Lester
Washington Post Staff Writer

The Earle family of Fairfax County is already changing its lifestyle to save money on gas. Woodrow Earle, who drives a truck for a Woodbridge company, now often car-pools with a co-worker on the daily 56-mile round trip to work.

His wife, who commutes 34 miles, is also riding with a friend. The couple's two teenage sons—one travels 50 miles round-trip each day to school and work, the other drives about 25 miles a day to school and "just around"—are also going to get hit: Dad is about to put them back on the school bus.

"These prices are already hitting us hard," Earle said yesterday as he pondered the federal budget proposal to raise the gasoline tax. "I'm already paying more than $200 a month in gas for me and my wife. The idea of paying 12 cents a gallon more for gasoline is awful. We have to make some changes."

While families across the region began worrying yesterday about the impact of the budget proposals, officials in the District, Maryland and Virginia pored over their spending plans to calculate additional costs they would have to bear.

■ In Virginia, officials criticized the five-year, $500 billion deficit-reduction budget proposal, saying it would cost the state hundreds of millions of dollars and hit poor and elderly residents the hardest.

A proposed requirement for local and state governments to expand Social Security and Medicare coverage to employees such as police officers and firefighters who are not now covered by the federal system would cost $28 million in the next five years, officials said.

■ In the District, the budget proposal is not expected to have any major effect on government operations, according to Robert Pohlman, deputy mayor for finance. The city is still awaiting receipt of its annual federal payment, pending final approval of the D.C. appropriations bill, expected later this month.

■ In Maryland, relieved state officials said the proposal would not add much strain to an already-shaky state budget, unlike the alternative automatic spending cuts and temporary furloughs of federal workers, which Gov. William Donald Schaefer said would have devastated Maryland.

"On balance, this package is much better than we anticipated," said Monica Healy, director of the governor's Washington office.

Healy said Maryland could be forced to contribute $4 million to $5 million more annually to Medicare payroll taxes for State Police and an undetermined additional amount of Medicare costs for high-earning state employees.

Proposed tax increases on gasoline, tobacco and alcohol also could result in a loss of revenue by lowering consumption, state officials said. The National Association of State Budget Officers estimates the budget package would cost Virginia $114 million and Maryland $74 million in gasoline revenue in the next five years.

For the typical family, the changes could be painful. The budget plan would bring an increase in taxes on cigarettes, gasoline, beer and table wine, add a 10 percent surcharge to luxury items and decrease some itemized deductions for taxpayers with incomes higher than $100,000.

For an area where an estimated 1.4 million motorists commute to work, the greatest outrage is directed at the gasoline tax.

"When they add that tax is when I get bulletproof glass," said Lee Barrett, 19, a cashier at a Mobil service station in Woodbridge. "People are already frustrated because prices are going up. They are buying less gas and cheaper gas, and a lot of them come in here talking about taking public transportation."

Since Iraq's invasion of Kuwait about two months ago, gasoline prices have risen by more than 25 cents a gallon in some areas. Metro officials said they have not noticed a change in ridership, other than an increase from the opening of the two new Red Line stations in Montgomery County. The regional rail and bus system carries about a million people a day.

But Stephen Rowland, senior transit planner for Prince William County, said 200 more people a day are getting on buses taking workers to the Pentagon and the District. If gasoline costs continue to soar, he said, the county might be forced to increase the $25 and $28 weekly rates.

Jessie Hazelwood, a construction worker who drives 140 miles round-trip from Dumfries to projects in Maryland and central Virginia, already is paying more. Hazelwood's weekly gasoline tab has been about $80 since the prices started rising, his wife, Ethel, said. Before that, he paid about $60 a week.

The potential higher cost of smoking and drinking brought mixed reviews.

In Ellicott City, Rite-Aid pharmacy clerk Pat Busick said she is getting the same comments from cigarette-buying customers that she always gets when there is a price increase. "Every time, they say they'd better quit because they can't afford it," she said.

Bernie Hale, of Haymarket, who stopped by a Fairfax City liquor store yesterday on his way home, said of the proposed liquor tax: "That's a luxury item. I feel people who can afford to drink can afford higher taxes" rather than have new taxes passed on to "people earning $10,000. You don't have to drink. You have to eat."

Said Al Monch, an electrician from Arlington: "They've got to tax someone, and between cigarettes, liquor and gas, they'll catch just about everyone."

The Washington Post

WEDNESDAY, OCTOBER 3, 1990

Rowland Evans and Robert Novak

No Wonder Gingrich Rebelled

A distraught White House chief of staff John Sununu did not learn until Monday that his close ally, House Minority Whip Newt Gingrich, was leading a back-bench Republican revolt against the budget deal—even though Gingrich's decision to do so had been made two days earlier.

Returning to Washington Saturday night from his Georgia district, Gingrich was floored by the word from President Bush's budget negotiators. Having previously abandoned a reduced capital gains tax, they now also dropped a proposal to index that tax for inflation. Even for indexation, Democrats wanted a higher individual income tax rate. The White House said no.

This exchange reflected the ideological confrontation between growth and fairness (though both sides reject the stereotype). The Bush-Republican negotiators at the summit put all emphasis on budget proposals that would stimulate the economy and stave off recession, while the Democrats insisted on a tax distribution that would hit the rich harder.

The collision resulted in compromise formulas that are ugly even against the hideous standard of what normally emerges from behind Washington's closed doors. This makes the deal so unappealing that congressional hard-liners on both sides feel free to oppose it because of what they really care about: Democrats contend the budget agreement spends too little on domestic programs, Republicans say it is too much.

While the spending debate waxed until agreement time Sunday morning, the ideological underpinning was growth vs. fairness. For a real drop in the capital gains rate that would increase the value of all assets to combat recession, Democrats demanded a substantial—and unacceptable—increase in upper-bracket income tax rates. As late as Thursday, the White House thought it would at least get indexing of capital gains. No such luck without raising the present 28 percent top individual rate to 31 percent, which the Republicans refused.

This deadlock was resolved by two proposals that give the agreement its peculiarly unappetizing shape.

The substitute for capgains reduction was the special tax deduction for investment in new, small companies—a device more suitable for the Third World than the leading superpower. It generated no fervor on Wall Street, where Monday's stock market rise seemed to reflect only gratitude that the negotiators had vetoed a ruinous income tax increase.

Why would the Democrats swallow a Rube Goldberg contraption to foster investment while rejecting a tried-and-true capital gains cut? "We've always been pro-growth," a Democratic summiteer insisted to us. "We just want the growth to be fair. I'm not interested in giving General Motors another tax break"—a glittering non sequitur.

But even the pathetic investment gimmick brought Democratic demands for a few ounces of "fairness" in return. The result was another tax contraption, this one limiting deductions taken by upper-bracket taxpayers. The effect: raise the current 28 percent rate to 28.8 percent for $100,000-plus taxpayers.

Why should such a laughably inadequate scourge on the rich satisfy Democrats and infuriate Gingrich enough to push him into revolt? Because it is the thin edge of the wedge.

It is the brainchild of Rep. Don Pease, an obscure Democrat from Ohio who devised it as a substitute for raising the top marginal rate. Once written into law, the Pease formula can be expanded in the future to make the tax system more progressive. It could even be used to achieve the 30-year-old quest by liberal tax reformers to limit deductions for mortgage payments and charitable contributions.

The Pease formula will surely reappear and grow because the budget summit made no pretense of settling the ideological dispute. Even while agreeing to a grand $134 billion in new taxes, the Bush team tried to keep them from crippling an economy going into recession. "There's a lot that can be said against this deal," a presidential aide told us, "but we did try to write in constraints against recession." Presidential economic adviser Michael Boskin succeeded in limiting gas tax hikes to 5 cents now and 5 cents next year on grounds anything more would hurt the economy.

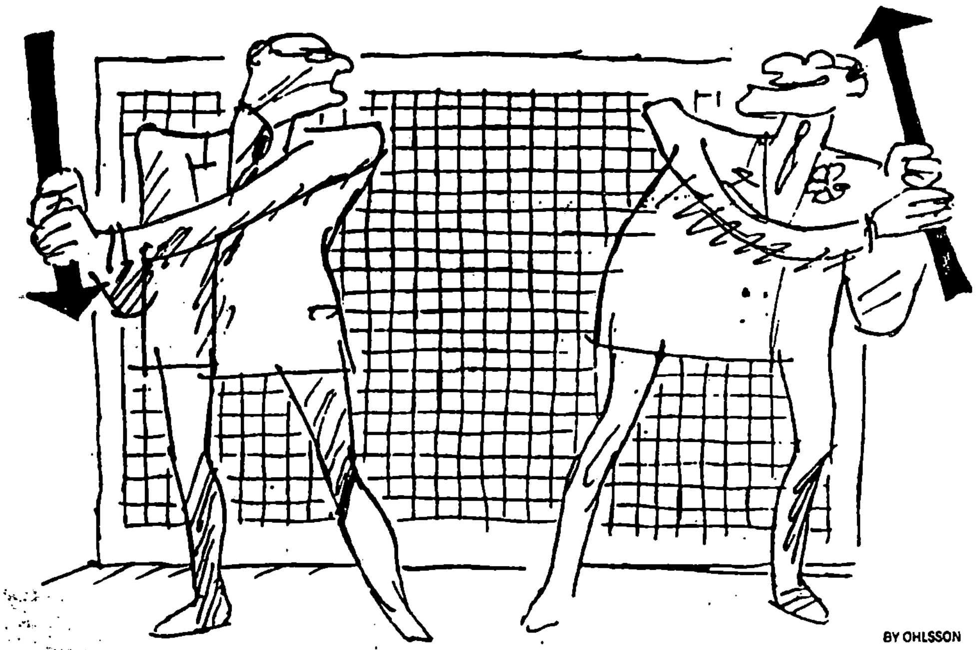
Democrats at the summit never did soak the rich as much as they wanted. But they got something else, put this way by one of their party leaders with a fine sense of irony: "The country Sunday read the president's lips: no capital gains cut, and I will raise your taxes." Of Republicans at the summit table, only Newt Gingrich decided the trade-off between growth and fairness was not worth such lipreading.

The Washington Post

WEDNESDAY, OCTOBER 3, 1990

Hobart Rowen

Too Much for the Rich



BY OHLSSON

At first, I thought that the deficit-reduction package would be better than nothing at all, and that Congress should hold its collective nose and vote for it: without some action, there would be a mindless across-the-board sequester bringing many elements of essential government to a screeching, irrational halt.

But after reflection, my conclusion is that the price is too high: the budget "summiteers" at the last minute sneaked into the deal a slew of new tax shelters that would cost $12 billion over five years.

It breaks faith with taxpayers who bought the 1986 Tax Reform Act, which cut the top tax rate for the wealthy to 28 percent, on the basis that tax loopholes and shelters were to be eliminated. Now, the wealthy would get the low tax rate and tax shelters.

The $12 billion cost is merely the official estimate: once tax lawyers and accountants go to work on such goodies as a 25 percent deduction of the cost of stock in one of the qualified small companies, that figure is likely to soar.

The Bush team appears to have put one over on the Democrats, selling the new tax-shelter provisions at the eleventh hour, ostensibly to provide "new incentives to stimulate economic growth." Billed as a consolation prize for Bush, who gave up his vaunted capital-gains tax-cut proposal, the new plan in some ways is worse than preferential rates for capital gains.

"The Bush team appears to have put one over on the Democrats, selling the new tax-shelter provisions at the eleventh hour . . ."

A capital gains tax cut would primarily benefit the rich but also provide some benefits to lower-income persons. The new tax shelter for stock purchases benefits only the rich, who can put up big chunks of money to earn an immediate tax credit.

It is nonsense to suggest, as did The New York Times, that this year's ugly compromise is acceptable only if Congress rights the wrongs next year. The time to repair the damage of the tax-shelter gimmick is now, before it gets written into law.

Even then, the budget compromise won't be a thing of beauty. It won't help bring the economy out of recession. In fact, the small contraction in the deficit may make it worse, unless there is prompt offsetting action to lower interest rates. Such relief is desperately needed to prevent a collapse of American businesses and banks, which are in deeper trouble than anyone wants to admit.

The proposed $40 billion reduction in the deficit for this fiscal year (not the highly ballyhooed $50 billion) doesn't even keep pace with the increase in the deficit as projected as recently as July. Then, the Bush administration estimated the red ink for fiscal 1991 at $231.4 billion. The new estimate has swelled—because of the dip in the economy, a worsening S&L crisis and the cost so far of the military buildup in Saudi Arabia—by $62.3 billion to $293.7 billion.

So the agreed-upon deal, even if the economy doesn't plunge into recession, only nibbles at the accumulated red ink. And whether it works to stimulate growth in the long run depends on the dubious proposition that future Congresses will keep a commitment that this Congress makes to cut spending and raise taxes.

Moreover, the package is regressive because it extracts most of the deficit reductions from lower- and middle-income groups that can least afford it. Excise taxes on beer, wine, liquor and cigarettes obviously take a bigger chunk of income from less-well-off taxpayers than from the rich.

Increased Medicare premiums also place a relatively greater burden on poor taxpayers than on the rich. A better alternative would have been to tax more of the Social Security benefits received by wealthier taxpayers.

Against regressive tax and spending measures, the only progressive element offered is a limitation on itemized tax deductions for taxpayers with incomes over $100,000 a year. That's equivalent to an extra marginal tax rate of 1 percent for richer taxpayers. In addition, there is a 10 percent luxury tax on expensive cars, yachts, jewelry and furs.

Balancing it all out, the Democrats, who promised to shift the burden more to upper-income brackets, failed in their objective. As Tennessee Sen. James Sasser, chairman of the Senate Budget Committee, ruefully conceded, the package "has not corrected the regressivity, which has stormed through the tax structure over the last 12 years."

In particular, the package deal raises the question, once again, of whether the Democratic Party is a mere appendage of the Republican Party rather than a true opposition party, as banker Felix Rohatyn suggested earlier this year. Sen. George Mitchell, Speaker Tom Foley and Majority Leader Richard Gephardt have gone along with a compromise that puts the monkey on the back of the lower and middle class. It gets harder to see real differences between them and moderate Republicans such as George Bush, Bob Dole and Minority Leader Robert Michel.

The Washington Times

WEDNESDAY, OCTOBER 3, 1990

Bush asks nation to bite the bullet

By Frank J. Murray
THE WASHINGTON TIMES

President Bush last night asked the nation to swallow the bitter pills of higher taxes and spending cuts just hours after he said the campaign philosophy on which he was elected had run out of gas.

Mr. Bush, who ran on a platform of spending cuts and no new taxes, warned of dire consequences if the bipartisan budget deal to trim the federal deficit by $500 billion over five years is not approved.

"If we fail to enact this agreement, our economy will falter, markets may tumble and recession will follow," Mr. Bush said on a day when he twice suggested survival of the government was at stake.

Calling the soaring budget deficit "a cancer gnawing at the nation's health," Mr. Bush asked Americans to urge passage of the package written in "eight months of blood, sweat and fears — fears of the economic chaos that would follow if we fail to reduce the deficit."

The plea came in a 10-minute televised speech arranged so suddenly that neither the networks nor congressional leaders were informed of it until after Mr. Bush announced his decision at 1:17 p.m.

"Those who dislike one part or another may pick our agreement apart, but if they do, the political reality is no one can put a better one back together again," Mr. Bush said.

Senate Majority Leader George Mitchell followed with a brief, supportive address that generally hewed to the non-political approach.

"The nation is more important than partisan differences," he said.

But in the only partisan swipe of the night, Mr. Mitchell said Democrats and Republicans have "deep differences over values and priorities."

"We prefer a budget that asks more from the wealthy and less from the elderly," the Maine Democrat said.

On the eve of an expected vote on the $500 billion deficit-reduction measure — billed as having almost $3 of spending cuts for every $1 of new taxes — the White House launched a strategy described by spokesman Marlin Fitzwater as "cajoling and arm-twisting."

Mr. Bush cajoled while his staff twisted arms under the direction of Chief of Staff John Sununu, who assigned the tasks yesterday morning before the daily senior staff meeting.

Mr. Sununu bluntly dismissed objections yesterday.

"Everybody gets nicked," he said. "As everybody gets nicked, everybody doesn't like something from the package."

Administration officials pushed harder to wrest votes from Minority Whip Newt Gingrich's conservative followers opposing the budget deal. By day's end, it appeared the pressure had won several converts, and Mr. Gingrich conceded that the White House's intensive efforts probably would succeed.

On Capitol Hill, congressional offices reported calls from Mr. Sununu, but the lead there was taken by Vice President Dan Quayle, who canceled a campaign trip to Nevada and Illinois to lobby for the budget deal.

Rep. William Broomfield, a 17-term Minnesota Republican, said he had never seen such pressure. Presidential lobbyist Fred McClure likened the effort to the full-court press launched on last year's nomination of John Tower as secretary of defense.

Mr. Bush took a softer tack while talking to a gathering of almost 200 business leaders and interest groups where he told his audience he compromised on the budget "because the country, frankly, is at stake here."

But Mr. Bush told them there is no support for holding the line on taxes and forcing spending cuts. "The philosophy I was elected on runs out of gas in terms of votes in the United States Congress," he said.

To get the budget deal, the president abandoned his proposal for a cut in the capital gains tax, a centerpiece of his 1988 campaign, and agreed to new taxes on a wide variety of items.

"It is the best agreement that can be legislated now," Mr. Bush told the TV audience.

"I'm not, and I know you're not, a fan of tax increases," he said.

As he did in private meetings with 33 balky GOP House members, Mr. Bush then went on to list "what it doesn't do" including raise income tax rates, lower Social Security cost-of-living increases or tap federal retirement funds.

"When you go down the list of the things the package doesn't do, you get into a more favorable frame of mind," said House Ways and Means Committee member E. Clay Shaw, Florida Republican, after a session with Mr. Bush in the Cabinet Room. "My initial reaction was no. Today, I let him know I was leaning heavily in favor."

Economist Dan Mitchell of the Heritage Foundation, reportedly the only person to challenge Mr. Sununu at the meeting, said, "The big selling point the White House is using to get representatives to commit hara-kiri turns out to be a big fraud."

He said that by listing dire options, "basically he was threatening the business groups, saying if this falls apart we're going to come back and raise your tax rates."

National Association of Manufacturers President Jerry Jasinowski said the president was persuasive but his organization had been ready to endorse the plan anyway. Asked if NAM members felt threatened at the meeting, Mr. Jasinowski said, "If you mean are we worried about something worse, yes."

The president's efforts seemed aimed solely at Republicans and Mr. Fitzwater said the GOP was counting on House Speaker Thomas Foley and Mr. Mitchell to tend to fellow Democrats. "We are working with the leadership in this. We are in lock step," Mr. Fitzwater said.

A senior adviser, sounding resigned, said: "We have a Republican Party, a healthy wing that runs on no taxes, to cut spending, efficiency, no pork. And in practice that philosophy isn't what is applied on the floor of the House, both among Republicans and among Democrats — and I mean good Republicans."

• *Major Garrett contributed to this report.*

The Washington Times

WEDNESDAY, OCTOBER 3, 1990

Fiery Gingrich may get burned

By Major Garrett
THE WASHINGTON TIMES

House Minority Whip Newt Gingrich is out on a limb.

By standing at the forefront of the House Republican revolt against the bipartisan budget package, the Georgia lawmaker risks frosty relations with the White House.

But he also could be tampering with the fragile coalition that elevated him to the No. 2 position in the party hierarchy — the post he hopes will serve as a launch pad in a future bid for party leader.

Yesterday, administration officials pushed harder to wrest votes from Mr. Gingrich's conservative followers opposing the five-year, $500 billion budget package. By day's end it appeared the pressure had won several converts, and Mr. Gingrich conceded that the White House's intensive efforts would probably succeed.

"This is very difficult for all of us," said David Dreier, a California Republican who counts himself among the conservatives inclined to oppose the package. He said he has received several appeals from the White House but was not persuaded.

President Bush invited 60 Republicans to the White House yesterday for a face-to-face lobbying session. The list was drafted by House Minority Leader Robert Michel, Mr. Gingrich's immediate supervisor in the party hierarchy and part of the congressional negotiating team that drafted the budget document.

Therein lies the difficulty for Mr. Gingrich. His defiance exposes glaring differences with Mr. Michel, who has cultivated loyalty and friendship with many Republicans — even those who consider themselves Gingrich loyalists.

"It's not a happy ship," said Rep. Henry Hyde, Illinois Republican. "I regret that very much. But it is inevitable when you have strong-minded people."

Mr. Gingrich won the party whip position by two votes last year over Rep. Edward Madigan of Illinois. To some, the victory affirmed Mr. Gingrich's combative style — but just barely.

And while Mr. Gingrich opposes the president in perhaps the most vulnerable political moment of his presidency, the Georgian's effort is more rhetoric than political hardball.

When about a dozen conservatives opposed to the deal asked to use his office yesterday for an organizational meeting, Mr. Gingrich declined, so it was held in the office of Pennsylvania Rep. Robert Walker.

Yet Mr. Gingrich has appeared on at least three nationally televised news shows in the past 36 hours to criticize the deal, which President Bush went on TV last night to defend.

By partially disassociating himself from the grass-roots efforts coalescing to sink the deal, Mr. Gingrich appears to be keeping an eye on the party's moderate wing.

He and Mr. Michel clash on ideological grounds and in the way they approach politics. Mr. Michel's retreat on cutting the capital gains tax — a reluctant concession made in the waning days of the talks — reflects his moderate views and willingness to compromise.

Mr. Gingrich has a zest for provocation, evidenced by his opposition to Mr. Bush and his accusations that the Democrats are to blame for foisting higher taxes on an already weakened U.S. economy.

Generally, those who have served in the House for several terms tend to side with Mr. Michel. The hot-blooded newcomers fall into Mr. Gingrich's camp.

In essence, the current dispute highlights the deep generational and ideological divisions in the party. But will airing all this now backfire on Mr. Gingrich? Most Republicans say it is too early to tell.

Some fear the squabble is deflecting attention from House Democrats, who also appear to be having some difficulty getting enough votes to pass the deal.

"The divisions over there should be getting more attention, but they're not," said Rep. Jerry Lewis of California, chairman of the House Republican Conference. "When you have division in the leadership of the president's party, that creates more of a sensation."

Those close to Mr. Gingrich admit he must hold some of his fire lest he alienate those loyal to Mr. Michel and others made queasy by open party warfare.

Privately, Republicans say that Mr. Gingrich's methods will be carefully scrutinized as the GOP budget battle develops. If he is perceived as too critical of Mr. Bush or disrespectful of Mr. Michel, he could lose favor.

"He must be prudent," Mr. Hyde said.

Alternately, if he simply states his case, gives the White House unobstructed access to his followers and yet still maintains a competitive number of votes, his leadership status will likely be enhanced.

The Washington Times
WEDNESDAY, OCTOBER 3, 1990

Right wing directs heavy fire at Bush

By Carleton R. Bryant
THE WASHINGTON TIMES

Conservatives who read President Bush's lips in 1988 say they are angry about what those lips are saying in 1990.

"It is old news that George Bush is not a man of rock-solid convictions. He has proven time and again that what he says is not what you get," said Howard Phillips, chairman of the Conservative Caucus.

Mr. Phillips was one of several conservative leaders and activists who blasted Mr. Bush and the budget compromise yesterday. Led by longtime Bush critic and direct-mail fund-raiser Richard A. Viguerie, the conservative coalition called on Congress to reject the proposal during a news conference.

"Does anyone here believe that President George Bush would announce massive new taxes on the middle class and reduced benefits to senior citizens 36 days before standing for re-election? Of course not," said Mr. Viguerie, chairman of United Conservatives of America.

"Yet he has no qualms about sending the 1990 Republican candidates to the chopping block. In fact, he's the one raising the ax," Mr. Viguerie said, adding that Mr. Bush is weakening the Republican Party and wrecking the economy.

The budget plan calls for a $500 billion deficit reduction over the next five years with $134 billion in tax increases and spending cuts of $366 billion. Under the proposal, taxes on gasoline, alcohol and cigarettes will increase 40 percent to 200 percent. And $119 billion will be sliced from benefit programs such as Medicare.

"The proposed compromise tax package is a sham and a shame. It dodges the 'kosher test' which all Americans should insist be applied: It is loaded with pork," said Robert G. Grant, president of the American Freedom Coalition.

"The biggest part of our fiscal disaster is traceable to plain, old-fashioned waste. Where is the waste reduction in this plan?" Mr. Grant said.

According to Mr. Grant, the U.S. comptroller general admitted that upwards of $180 billion in federal spending — about 34 percent of collected revenue — is wasted.

Federal revenues have exceeded inflation by 28 percent, Mr. Viguerie noted, saying: "Congress is a body addicted to spending. Congress can't control its spending like an alcoholic who can't control his drinking habits."

Voters next month should withhold their votes for Republican and Democratic candidates who support the budget plan, Mr. Phillips said.

"After Nov. 6, we should plan to recruit and field candidates who will run in 1992 against incumbents of both parties who are more fearful of offending federally funded special interest groups than of breaking their word to the American people," he said.

And some House incumbents will be watched closely to ensure they keep their word, a spokesman for a taxpayers activist group said.

"One hundred and three members of the House of Representatives pledged . . . not to vote for an increase in income tax rates," said David Keating, executive vice president of the National Taxpayers Union. "We are contacting every one of these legislators, which includes a majority of Republicans, to hold them to their pledge."

The Washington Times
WEDNESDAY, OCTOBER 3, 1990

Voters rain abuse on Hill for new taxes

By Siobhan McDonough
THE WASHINGTON TIMES

Congressional phones have been ringing, and if the honorable members were expecting a little heat from constituents over the proposed deficit-cutting tax increases, they were not disappointed.

"I don't want my beer and cigarettes messed with," said a man calling from House Minority Leader Robert Michel's downstate Illinois district.

"We haven't had one phone call saying it's good," said an aide in Republican Rep. William Dannemeyer's California office. "Every single person has said: 'I regret having voted for George Bush. I will never vote for another Republican again.' "

Some callers were choleric in general: "Anyone who votes in favor of this should be voted out."

Others were specific: "I don't like the gasoline tax.... That's harsh."

Even politicians who had nothing to do with the deal came in for abuse. "Are we to be asked to accept Jimmy Carter's solutions rather than demand real control over federal spending?" one Virginia caller wanted to know.

Some protesters, possibly after getting busy signals at the overloaded Capitol switchboard, set their complaints down on paper.

"With our hard-earned incomes come relatively large numbers of families which drive larger cars, enjoy recreational boating, buy furs and jewelry and imbibe an occasional spirit or bottle of wine," warned a constituent objecting to the so-called luxury taxes.

And some sought sympathy while suggesting betrayal. "Taking someone when he's down is not what I expect from my elected officials," wrote the proprietor of a yacht club opposing the luxury surcharge.

The few callers who weren't outraged over one or more of the laboriously negotiated budget compromise expressed themselves in something less than high praise. Grudgingly they called the compromise "an imperfect solution" or "better than the alternatives" or "better than nothing."

A random sampling of Capitol Hill offices showed that most constituents who took the trouble to call or write were adamantly opposed to the budget package, which would raise taxes on cigarettes, alcohol, gasoline, airplane tickets, furs, jewelry and other luxury items, and increase Medicare payments by the elderly.

"Most people appear to be upset about one particular thing," said an aide to Virginia's Democratic Sen. Charles Robb. "It depends on whose ox is being gored."

Sen. Barbara Mikulski's spokeswoman said virtually all the calls to the Maryland Democrat's office are from "people who are upset about this," especially senior citizens saying it will be hard to make higher Medicare payments on fixed incomes.

Mr. Michel's office said 85 percent of the calls received in Peoria and 80 percent in Washington were negative.

"A lot of senior citizens who don't want their Medicare premiums increased have called," a Michel aide said. "They say they are uncomfortable with the plan and feel they shouldn't have to take it on the chin."

Republican Sens. Pete Wilson of California and Phil Gramm of Texas reported that calls to their offices were about evenly split between those who don't like the budget package and those who support it, however reluctantly.

The Washington Times

WEDNESDAY, OCTOBER 3, 1990

How Democrats got off the hook

The clap-clap you hear this morning is Democratic applause for George Bush's noble and selfless generosity.

As soon as the lady of the evening told the regiment she was in a family way, there was George at the door. The petunias were wilted, but he had the marriage license.

Everybody else in town, excluding Bob Dole and Bob Michel but including the Democrats who put this scam over on the Republicans, is running as hard as he can for the city limits, never dreaming the Republican president would claim paternity. And on national television, yet.

Certain people at the White House spent yesterday afternoon telling anyone who would listen that the president's television speech, meant to drum up support for vast new tax increases, was all George's idea. You can't blame them for wanting him to make that perfectly clear.

By taking on responsibility for getting it through Congress, the president eliminates all argument that this is his baby now. The Democrats, who understand as well as the anonymous Republicans at the White House what a dog of a deal this budget "compromise" really is, are naturally relieved, delighted and not inclined to argue.

But the president's impulsive eagerness to assume paternity of the world's ugliest baby offers Republicans an unexpected opportunity to reassert their primacy as the tax-cutting party. By calling the president's incredible renunciation of himself, circa 1988, for what it is, congressional Republicans can be seen as putting principle above partisan interest. But there's no retreat route open. Caving in after resisting the president would be the biggest Republican disaster of all.

The contempt for the budget scam is as bipartisan as bipartisan gets in the House of Representatives. "The budget agreement stinks," says

Father of the year

Rep. William Schuette of Michigan, a Republican waging an uphill struggle for a Senate seat. Rep. James Traficant of Ohio, a Democrat, couldn't agree more: "This tax deal stinks."

The stink stinks beyond Congress. "Members of Congress are rightly nervous," says Edwin Rothschild, spokesman for Citizen Action, a consumer group. "The country is headed into a recession and people are going to look around for someone to blame."

Campaign consultants, the soundbite doctors and negative-TV specialists who never agree on anything, agree on this one. "Every Republican candidate is going to run away from this," says a Republican consultant in Michigan. "Who out there thinks they ought to pay more taxes?"

Who, indeed. "To get it through Congress is going to require very strong lobbying and leadership from the president," says David Keene, a campaign consultant in Washington. "He'll suffer as a result."

Rarely has Washington seen such a firestorm, and the puzzle is not that the budget scam set off a firestorm — anyone could have guessed that it would — but that President Bush thinks he can put it out with one toy fire truck. Some fires, like the storm over the 1989 attempt by Congress to raise its pay by stealth and crookery, are beyond the control even of presidents.

The only Republicans willing to stand with the president do it with expressions of wistful regret. Rep. Thomas Coleman of Missouri concedes that he was seduced by the president's plaintive pleading. "It's the only ball game in town," he says, like the cowboy who explained that he knew the game at the saloon was fixed but it was the only poker table in town. "If this goes down, you're going to see chaos."

Mr. Bush himself professes to count on a miracle. "It will all work out," he said yesterday. "Everybody will do what's right."

No doubt, but what the president, safe until '92, may think is right is not necessarily what others think is right for them.

"We've put together the pain," says Sen. Wyche Fowler of Georgia, a Democratic negotiator who seems willing enough to let the president call this his own. "Now it's his job to sell it."

Happy Father's Day, Mr. President.

BY WESLEY PRUDEN.

The Washington Times
WEDNESDAY, OCTOBER 3, 1990

• PATRICK BUCHANAN •

Bubba takes the tax hit

A man defines himself by the choices he makes.

In breaking his pledge of "no new taxes," in surrendering his capital-gains tax cut for a budget "deal" imposing new taxes on the people who elected him, President Bush has defined himself. He is a Big Government man all the way.

What was the alternative to $134 billion in new taxes?

The federal government would have had to accept $85 billion in spending cuts Monday. To Mr. Bush, this was as intolerable as it was to liberal Democrats. He simply could not face the "chaos."

Inescapable conclusion: Mr. Bush believes that the U.S. government, which takes a fifth of America's income in taxes, and spends closer to a fourth, must grow. It cannot be reduced in size. Political conclusion: No major party in America still believes in reducing the size of government.

After this "deal" takes hold, the higher taxes will become a permanent fixture. Yet, somehow, the budget cuts will be restored, lest they result in "hardship." As Ronald Reagan, who called the 1982 budget deal the worst mistake of his presidency, learned, the $100 billion in new taxes he accepted proved permanent; the $300 billion in cuts he thought he had locked in proved illusory.

The Democrats were gracious in victory, as befits champions who have just humiliated their rivals on the field. They talked of what a hard-fought game it had been. But, everyone knows the real score. After a decade of dealing with Reaganite Republicans, the city is rid of them. We were routed, horse, foot and dragoons; George Bush, Big Government Republican, is prince of the city.

Who gets hit? Bubba gets hit. The fellow who was ready to vote Democratic in '88, until he got a look at the Little Duke's record on taxes and prison furloughs, on Willie Horton and gun control, on the American Civil Liberties Union and Pledge of Allegiance.

The price of Bubba's smokes is going up; the price of his Lone Star Beer is going up; the price of the Texaco he needs to commute 80 miles a day is going up. The price of Sunday at the Legion Hall watching Joe Montana lead the 'Niners to glory is going way up. Why? Because our congressional incorrigibles are unable to hold federal spending to that 20 percent of GNP they annually consume in taxes. And because Mr. Bush has thrown in with them. If Bubba takes a walk on the GOP next time out, who can blame him?

Our most successful citizens face an added income tax wallop of $18 billion. Washington is going to skim off the cream of America's investment capital from the individuals who earned it, so Teddy Kennedy and the Democratic Congress can invest the money more wisely. Good Republican doctrine, eh?

There is no modern economic theory — Keynesian, Friedmanite, supply-side — that argues for hitting an economy that is tottering on recession with new taxes. But there is a Republican precedent for what Mr. Bush has done: Herbert Hoover, rest his soul.

Mr. Bush's party has forfeited a grand opportunity. The mortgage interest deduction, the charitable deduction and the deduction for state and local taxes could have been traded in — for a reduction in the top rate on federal income taxes to 20 percent and the bottom rate to 12 percent. Add a 60 percent exclusion on capital gains and interest income — to promote saving and investment — and the Moynihan cut in Social Security taxes to bring along Democrats, and we could have left House Speaker Tom Foley and Senate Majority Leader George Mitchell out there sucking wind. The United States would have become again the most attractive investment bargain in the world; we could have blown Japan's doors off. Instead, we have a tax bill drafted by the firm of Scrooge & Marley.

In the television age, a party is defined in the minds of voters by its leader, and the policies he adopts. Consider, then, the GOP in 1990.

It stands for continued growth in social spending — paid for by cuts in defense — and higher taxes on working folks. It stands for sharpened oversight of business so the private sector does not behave bigotedly toward blacks, women or the handicapped. It stands for owls against loggers, feminists against Virginia Military Institute. It stands beside the Big Spenders and against the conservatives. It stands for a New World Order, where our wealth is spread around the globe through foreign aid and institutions like the United Nations and the World Bank.

Jack Kemp was right when he said in South Carolina that, if Mr. Bush were nominated, the Reagan Revolution would be over. Not only has the Democratic Congress taken the GOP into camp, it has persuaded Mr. Bush to provide political cover for tax increases and a huge congressional pay raise. President Michael Dukakis never could have gotten away with this. The GOP would have raised the roof, stopped him cold, routed the Democrats in '90, as prelude to a total government takeover in '92.

Where are the conservatives? Some are battling bravely in the House. Others, however, have stacked arms. They need the money the Big Man can raise; they need those presidential visits; they need the committee assignments GOP Hill leaders pass out to those who go along. They like going to White House socials, sitting in the president's box at the Kennedy Center. They love it here; they don't want to leave; and they don't want to be left outside in the cold.

Anybody got a fishing trip lined up for Election Day?

The Washington Times

WEDNESDAY, OCTOBER 3, 1990

• BY PAUL CRAIG ROBERTS •

Numerical chicanery

The budget deal serves the needs of the handful of Washington insiders who put it together, but it totally ignores the needs of the economy.

Moreover, the agreement is a fraud, pure and simple. In fact, it is outrageously shameful, and it's easy to see why. The numbers reveal it. Do you believe that budget outlays in 1995 will only be $25 billion higher than in 1991 — the equivalent of a five-year budget freeze? Over the previous five years (1987-1991) budget outlays rose by $380 billion.

Do you believe that the federal government is going to spend fewer dollars in 1993, 1994 and 1995 than it spends in 1992? Do you believe that the congressional budget negotiators, President Bush and budget director Richard Darman, believe that dollar outlays in 1994 will be $50 billion below the amount the government spends in 1992?

The outlay and revenue numbers agreed upon by the budget dealmakers show that federal outlays for the next five years peak in 1992 — an election year — and that revenues are up $100 billion in 1992 over the adjusted base revenue path in 1991. There you have what the budget deal is about — buying the 1992 reelection.

The savings are based on the assumption that spending in absolute dollar terms in 1993, 1994 and 1995 is below the level of 1992. In other words, the savings are based on the assumption of three years of budget cuts that individually are more severe than the threatened 1991 budget sequester, the fear of which has allegedly driven Congress and the White House to a budget deal.

Do you believe that politicians, who fear a sequester that would still allow a spending increase in 1991, are going to implement a budget plan that actually cuts spending, not in relation to some projected growth figure but in relation to a previous year's spending?

And that's not the half of it. Consider the economic assumptions that underlie these "savings." There is no recession in the forecast, which assumes a 3.8 percent average rate of real economic growth over the four years 1992-1995.

We have here a "rosy scenario" with a tax increase! In 1981, when the Reagan administration, with a major tax rate reduction, forecast less real growth than had occurred over the previous five years, it was greeted by critics with howls of "rosy scenario." Now the government is proposing comparable real growth numbers, but this time they will result from a tax increase.

But the government knows that this is not really true. It has secret paths for outlays and revenues that adjust the figures in the budget summit agreement of Sept. 30, 1990, for revisions in the economic assumptions showing slower growth [illegible] and 1991 than previously projected.

These revisions show th[illegible]ing will be $75 billion highe[illegible] advertised "agreed" amoun[illegible] 1991-95 period, while receipts for the five-year period will be only $8 billion above the previous baseline path. In other words, the economic slowdown eats up all but $8 billion of the $133.8 billion tax increase!

These adjustments reduce the claimed five-year savings from $500 billion to $300 billion, and that's with all the tricks and no recession.

This makes it clear that a pro-growth budget would do far more to reduce the deficit than the absurd budget agreement that is before us. If the economy and the budget are to survive, Mr. Bush must quickly find a budget director with a pro-growth budget.

It remains to be seen whether the Reaganite-Kemp-populist members of Congress will allow this fraud against the public, or whether they will demand the resignations of Mr. Darman and the congressional leadership who together concocted this absurd collection of numbers.

Reporters no longer report. They just print whatever tricksters like Mr. Darman hand them. The Wall Street Journal, the New York Times, and The Washington Post all had front page stories on Monday emphasizing that the deal would "soak up $500 billion in federal red ink over five years." Not a single story revealed the unbelievable agreed outlay path that makes this claim ludicrous.

Mr. Darman succeeded in deflecting attention to the claimed deficit reduction and the various features of the proposed new taxes. "Bush May Be Winner in the Long Run" is a headline straight from Mr. Darman's office.

The fraudulent budget agreement is so blatant that it shows the government's total disrespect for the public. The national press' complicity in the fraud shows the media will perpetuate any lie in behalf of a tax increase. It would be a light sentence if the budget negotiators and the reporters were tarred and feathered and run out of town.

The Washington Times
WEDNESDAY, OCTOBER 3, 1990

VA mortgages put in jeopardy

By Miles Maguire
THE WASHINGTON TIMES

Budget negotiators have started playing taps for a popular program that has made it easier for veterans to buy a house in reward for their military service.

Since World War II the U.S. government has helped veterans qualify for 13 million mortgages by guaranteeing a portion of their loans. But the federal budget agreement suggests that the Department of Veterans Affairs revamp its mortgage program to help achieve $3.4 billion in savings and new revenues over five years.

"It is unfortunate that at a time when our military personnel are sacrificing so much on behalf of their country, our nation's leaders are taking actions that would result in the elimination of one of their most basic entitlements," said Warren Lasko, executive vice president of the Mortgage Bankers Association.

One proposed change would expose private lenders to $200 million in additional annual losses, the group said yesterday. Rather than take this risk lenders will simply drop out of the program and bring new lending to an end, the group warned.

Congressional and administration sources agree that the housing program is in danger, but they caution that the committees that are responsible for veterans issues can take steps to spare it — if they are willing to cut other popular benefits to meet their budget goal.

"Everything is still on the table at this point," one committee source said yesterday. "The housing program could be affected, but so could every VA program."

"I am of course concerned about the possible impact of the administration's proposals to modify the VA loan guarantee program," said Sen. Alan Cranston, California Democrat and chairman of the Senate Veterans Affairs Committee. "Right now we are exploring all possible alternatives in this program and others."

The budget plan suggests three major changes in VA mortgages. These are an increase in fees, a reduction in eligibility and new criteria for deciding when the agency will absorb the full costs of a default.

The department's increased fees would bring $120 million over five years. Although the budget plan does not specify a source for these funds, this is roughly the amount that would be raised by increasing the borrower's initial fee from its current 1.5 percent of the loan amount to 2 percent.

"This would further erode a key benefit of the program — the low up-front fee," Mr. Lasko said.

The second change would impose a limit on the amount of time veterans are eligible for VA mortgages. They would have up to 10 years after they leave the service. "In one blow, veterans from World War II, Korea and Vietnam will be swept from the program," the association official said.

The biggest change would come in the way that the VA decides what to do about a foreclosed house. In most cases it takes title to the property and tries to resell it.

But this is a costly process, and the budget plan calls for the VA to refuse to take title more often and leave it to the private lender to absorb more of the cost.

"The proposed budget will significantly increase the number of homes lenders will have to sell rather than turn over to the VA," Mr. Lasko said.

"The situation is unacceptable to the lending community and inherently unfair," he said. Lenders originated loans under one set of rules and the government is now changing the rules."

Last year the VA issued 180,000 mortgage guarantees nationwide. The mortgage bankers predict that the budget will cut the program in half almost immediately. Ultimately "it will just become a shell operation," said Brian Chappelle, vice president for government affairs. "Realistically, they're shutting down the program."

"We don't agree with that assessment," said Alan H. Schneider, deputy director of the loan guaranty service at the Veterans Department. "What the [Congress] will do, we have little way of knowing. It's possible that they would take some other measures."

Although Congress can look for other ways to meet the budget goals, "from the veterans' perspective, they're probably more concerned about health benefits," Mr. Chappelle said. "It's kind of a balancing act between the issues."

The District has about 58,000 veterans, Maryland 546,000 and Virginia 667,000.

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WEDNESDAY, OCTOBER 3, 1990

Gas tax increase may not cut use

By Susan Zeidler
REUTERS NEWS AGENCY

NEW YORK — A 12-cent-a-gallon increase in gasoline taxes proposed as part of the federal budget agreement will do little to change the driving habits of U.S. motorists, who get off cheaply compared with their European counterparts, environmentalists say.

"Clearly the U.S. consumer has been receiving very cheap subsidized gasoline for decades," said Jim Lyon, project director for Friends of the Earth, a Washington-based national environmental group.

"The budget accord is . . . significantly below the level needed to signal a major change in energy consumption levels."

The gasoline tax increase would be phased in over the next 10 months and would more than double the current federal tax of 9 cents a gallon.

But environmentalists say the added tax will not be enough to stem motorists' thirst for gasoline.

"It would take a 50 cents to a dollar-a-gallon tax increase to get Americans to drastically conserve, and that's a very unpopular political notion," said Mr. Lyon.

Since Iraq invaded Kuwait Aug. 2, U.S. retail gasoline prices have risen 27 cents to an average $1.35 a gallon for unleaded regular, according to the American Automobile Association. But after adjusting for inflation that's still well below the record average of $1.39 a gallon set in 1981.

And compared with prices in Europe, the cost of gasoline here is just a drop in the tank, due mainly to much higher taxes there.

For example, gasoline in Britain costs about $3.72 a gallon. In Germany, motorists pay about $3.65 a gallon and will pay more when federal taxes rise there Jan. 1.

The 30 percent increase in retail gasoline prices since the Gulf invasion has caused some people to drive less, but analysts think motorists will get back behind the wheel when they get over the shock of rising fuel costs.

"Cutbacks in U.S. demand due to recent price increases will not be permanent," one analyst said. "And if the Gulf situation is resolved, oil prices will go down, enhancing our ability to absorb the tax increase."

Wholesale gasoline prices have fallen more than 12 cents to about 90 cents a gallon on the New York Mercantile Exchange over the past two days amid an easing of Mideast tensions.

The budget accord reached Sunday between the Bush administration and congressional negotiators has come under fire from some because of its reliance on consumption taxes, such as the gasoline tariff, that fall most heavily on the middle classes. The deficit-cutting plan faces a tough fight in the full Congress, especially in the House.

The gas tax plan "puts the deficit reduction a little unfairly on the shoulders of motorists and not the rest of the population," said Jeffrey Spring, spokesman for the Automobile Club of Southern California.

He and others complained that fuel taxes disproportionately affect residents of the West, where wide open spaces mean motorists rely on their cars even more than people in other parts of the country.

Some consumer advocates say the tax increase would send the already-sluggish economy into recession.

"Unlike our European counterparts, we have no tradition of higher taxes and more fuel-efficient vehicles," said Edwin Rothschild, energy policy director of Citizen Action. "The first effect of this budget is going to be a recession."

Others said that while the tax would hurt consumers, it would ultimately cut fuel consumption. Gasoline accounted for about 43 percent of all petroleum products burned in the United States in late September, according to the Energy Information Administration in Washington.

"Eventually [the tax increase] will cut into gasoline demand," said Peter Beutel, analyst with Pegasus Econometrics. "The tax increase will certainly distort the price picture and comes at a bad time for the consumers."

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BEN WATTENBERG

Rays of economic sunshine

BUDAPEST and LONDON

There is bad news and good news on the global economic front. They are not only different, but of different sorts. The good news is more important than the bad news.

The most-publicized economic news concerns recession coming to America and perhaps recession coming everywhere.

The roots of the gloom: soaring oil prices due to the Gulf crisis, a sluggish economy, volatile stock prices and plummeting real-estate values, higher inflation and unemployment, bad banks and bad loans.

Behind the headlines we get profundity: Experts say we may or may not already be in a recession, if we are not, we may or may not be in one soon, such a recession may or may not be mild, may or may not be long, and we may or may not know the remedy. Thanks.

Fortunately, there is no dearth of opinion regarding the cause of this long, short, shallow, deep, real, not-real recession. The ones we hear most about are: greed, profligacy, debt, deficits, leveraged buyouts, junk bonds, corruption, Reaganism, Thatcherism.

Aren't these super reasons? They answer everything except what caused the other nine postwar recessions.

(Flash! Experts unanimously agree that the new congressional summit budget deal, which may or may not actually pass the Congress, may or may not yield a recession, sooner or later.)

Upon such a playing field of certitude, mortals may cavort. Accordingly, I will explain why the economic situation is much better than it seems.

Recent economic philosophizing restates a powerful theme: What makes people prosper is a culture of political freedom and free markets, which buttress each other and buttress other roots of bullishness — stability, motivation and creativity among them.

The culture of freedom and markets is expanding at remarkable speed. Here is a medley of validation from a recent short trip overseas:

In Hungary, the debate is about Thatcherism, not pro and con, but which major party is more pro.

In England, Mrs. Thatcher may be in political trouble, but her opponents dare not talk about unprivatizing the economy.

In the land area now known as the Soviet Union, there will be markets. As CIA man Jack Ryan says to the Soviet submarine commander at the end of "The Hunt for Red October," "Welcome to the New World, sir."

In Prague, Mrs. Thatcher says there will be a band of democracies and free markets stretching from "the West Coast of the U.S. right across to the Soviet Far East."

In Budapest, Prime Minister Joseph Antall says that Central Europe must pay attention to "the Atlantic idea." He is talking about America, freedom and markets.

On Oxford Street in London, the stores are jammed, the merchandise sensational, the service remarkable and typically rendered by clean-cut yuppie clerks with perfect English accents. Many of their parents came from Pakistan. Talk about motivation.

Back in America, Congress may pass an intelligent immigration bill, raising the number of skilled legal immigrants. They do more for an economy than a capital-gains tax reduction.

In Massachusetts, voters show that democracy is self-renewing, and even Democrats vote against too much dumb government.

Elsewhere, the "Uruguay Round" of trade negotiations, the most ambitious attempt to bolster global economic amity and sanity, is moving silently ahead.

In Baghdad, it is dawning upon Iraqi President Saddam Hussein, the bandit who tried to steal stability, that he will pay for it. Other bandits will think twice. Oil prices will decline. Mr. Hussein may soon be very dead.

The bad news is mostly transitory. The good news is now deep in the economic and political culture.

The global population will double. If additional people arrive in cultures that are free, they will advance the sum of global well-being. Every once in a while, a cliche is accurate. "Interdependence" is accurate. They gain, we gain.

It's not all peaches. Free economies still seem to be cyclical. There is still political volatility. Debt must be paid. There has been no moratorium on stupidity or venality.

We may, or may not, have some short-term difficulty. It's not great, only better.

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Bush Appeals To the Public In Budget Battle

By DAVID WESSEL
And DAVID ROGERS
Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON—President Bush, trying to rally reluctant members of his own party to back the bipartisan deficit-reduction accord, asked Americans "to fight for the future of your kids" and support the package.

"If we fail to enact this agreement," Mr. Bush said in a televised address from the Oval Office, "our economy will falter. Markets may tumble. And recession will follow."

The first test of the plan is expected to come tomorrow, when the House is to vote on a resolution embodying the tax increases and spending cuts agreed to by the White House and congressional leaders last weekend. The bipartisan pact requires a vote by Friday. Final legislation to cut the deficit by $500 billion over five years is supposed to be approved by Oct. 19.

The president faces a difficult fight in persuading a majority of House Republicans to back the plan as Democrats have demanded. Nevertheless, congressional leaders and Bush administration officials were growing more confident of success yesterday. House Majority Leader Richard Gephardt (D., Mo.) described himself as "cautiously optimistic." But the ebb and flow among the members made it difficult to get an accurate reading of lawmakers' positions.

White House Chief of Staff John Sununu bustled through the Capitol with the air of a linebacker on a roll. "We're picking them up all the time," said the former New Hampshire governor, who portrayed himself as a gentle voice of persuasion. "I just told them, 'The president is going to look you in the eye,' " Mr. Sununu said of his sometimes testy exchanges with House Republicans. "And the president has been looking them in the eye."

Mr. Bush last night warned of dire economic consequences if the budget accord is defeated, but his speech lacked any great rallying cry and occassionally sounded defensive. "Those who dislike one part or another may pick our agreement apart," the president said, "but if they do . . . the political reality is that no one can put a better one back together again."

Speaking for the Democrats, Senate Majority Leader George Mitchell echoed the president's endorsement of the package, but drew a distinction between his party and the GOP. "We prefer a budget that asks more from the wealthy and less from the elderly," said the Maine Democrat. "When the president asked us to work out a compromise, he got our help. We hope members of his party . . . will also set aside partisan differences, as we have done, and join us doing what's right for our country."

Attempting to keep a promise to deliver the votes of a majority of Republicans in each chamber, Mr. Bush and top aides met with 34 of the 176 House Republicans at the White House yesterday. The second-ranking House Republican, Newt Gingrich of Georgia, is leading the fight against the plan.

Mr. Bush himself appealed for support from business representatives who were summoned to the White House complex yesterday, and aides said they have been asking sympathetic chief executives from districts with wavering congressmen to lobby for the package.

The White House also has been trying to drum up support among business interests that fared better than they had feared in the final compromise. John Damgard, president of the Futures Industry Association, said a White House aide noted in a telephone call that the package excluded the securities transfer tax that the association so strongly opposed. The White House asked Mr. Damgard to write letters supporting the package; he plans to do so.

Among those House members targeted are the 11 Republicans from Florida, a relatively large delegation that already has suffered the defection of Rep. Bill McCollum, a member of the leadership.

One of those invited to the White House yesterday was Rep. Clay Shaw, former mayor of Fort Lauderdale and now an influential moderate on the Ways and Means Committee. Elderly constituents as well as the tourism and boating industries in his district would be hurt, but Rep. Shaw said he will support the plan. "The alternative is sending out the message to the whole world that we can't govern," he said.

The Midwest and Northeast are the traditional bases for moderate Republicans, but the administration must contend here with regional concerns about rising energy prices and the impact of the pending Clean Air Act. "I see it as a shot to the solar plexus of the Midwest," said Rep. Michael Oxley. But the Ohio Republican said he was open to supporting the budget resolution if he could win concessions on the clean-air legislation.

Rep. William Thomas (R., Calif.), one of those called to the White House yesterday, asked the administration for a letter ensuring him some flexibility when the package is refined in the Ways and Means Committee, on which he sits. "Don't tell me I have to accept all the sub-deals," he said. "I am willing to be a carpenter on somebody else's house, but I'm not going to be a houseboy."

The mix of loyalties was evident among Republicans from New Jersey, where political upheaval over recent state tax increases has heightened sensitivities. Rep. Marge Roukema, a supporter of Mr. Bush, said she couldn't vote for the resolution because it would, in effect, limit the federal tax deduction for state and local taxes.

Other Republicans see a "no" vote as an opportunity to draw a sharp line between their party and New Jersey Gov. James Florio, a Democrat. But the Republican who lost to Mr. Florio, Rep. James Courter, said he was open to supporting the plan because he has long backed energy and gasoline taxes.

In his brief and blunt televised address, Mr. Bush described the deficit as "a cancer gnawing away at our nation's health" and the deficit-reduction accord as the product of eight months of "blood, sweat and fears—fears of the economic chaos that would follow if we fail to reduce the deficit."

He said that although the package would raise taxes, it doesn't touch personal or corporate income-tax rates, doesn't "mess with Social Security in any way" and doesn't endanger America's security. (In fact, the plan does effectively raise personal tax rates by as much as one percentage point by limiting tax deductions available to those with incomes above $100,000.)

To deflect criticism of individual elements—such as the absence of a broad cut in capital-gains tax rates—Mr. Bush has been emphasizing that the package was the product of negotiations with congressional Democrats. "Everybody has had to compromise," he told business representatives yesterday. "I did it because the country, frankly, is at stake here."

"The philosophy that I was elected on runs out of gas in terms of votes in the United States Congress," he said.

To quell Republican fears of political harm for supporting higher taxes, the president has been invoking the memory of Ronald Reagan, who accepted big tax increases without paying a political penalty. "There wasn't a political fallout because I think the country understands when the president concludes that a deal is necessary they incline to give him the benefit of the doubt," Mr. Bush said earlier this week.

But Rep. Bill Frenzel (R., Minn.) said that opposition to the tax increases may not be the true source of resistance. "I have always felt that in the end, Republicans are going to be more troubled by reductions in expenditures than they are against raising taxes," he said. Anti-tax rhetoric serves as a cover for concern about cuts in Medicare and agricultural benefits important to GOP constituencies.

Vice President Dan Quayle failed in his mission to recruit Rep. Gingrich to support the package. The Republican whip "chose in this case not to be persuaded by superior wisdom," said William Kristol, the vice president's chief of staff.

Rep. Gingrich tried to play down the intra-party tensions yesterday. But the fight has reopened old wounds between himself and House Minority Leader Robert Michel (R., Ill.) as well as Senate Republicans. "I want to do my fair share, dammit," said Mr. Michel, angry at the suggestion that he couldn't deliver GOP votes for the president.

In a clear slap at Mr. Gingrich, Senate Republican leaders suggested that the Senate take up the package before the House because Republicans there were better equipped to carry the president's cause.

Mr. Quayle, who was to appear on ABC News's "Nightline" to defend the deficit-reduction package last night, is also scheduled for interviews today that will be beamed by satellite to regions such as the Milwaukee and Chicago areas, where the administration expects cuts in farm subsidies to be a problem.

—Michel McQueen contributed to this article.

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Budget Accord Allows Fivefold Increase In Fines for Workplace Safety Violations

By ALBERT R. KARR
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—Employers could see a fivefold boost in fines for workplace health-and-safety violations, under the bipartisan budget agreement.

They also would incur higher premium payments for federally insured pension plans and increased excise taxes on pension surpluses when the companies terminate the funds.

The provisions are part of the budget accord between the Bush administration and congressional leaders, attempting to reduce the federal deficit. Not surprisingly, the health-and-safety and pension provisions of the agreement, subject to changes by congressional committees before the measures are voted on by the House and Senate, brought outcries from various interest groups.

The plan to boost the maximum civil penalties that could be levied by the Labor Department's Occupational Safety and Health Administration, to $50,000 from $10,000 for each willful violation and to $5,000 from $1,000 for each serious violation, may cause employers to deny access to OSHA inspectors without warrants, as they have in the past, said Mark Cowan, a former OSHA official. Mr. Cowan is head of the Jefferson Group, a corporate lobbying concern.

"OSHA was created to provide increased safety and health in the workplace, not to raise revenue to offset budget deficits," he said.

The agreement also includes an increase in maximum civil penalties by the department's Mine Safety and Health Administration to $30,000 from $10,000. The Bush administration previously endorsed pending legislation that would triple OSHA civil penalties, along with a separate measure to raise the maximum allowable criminal fines for especially egregious employer conduct.

In recent years, OSHA has significantly increased its penalties for employer violations, frequently seeking penalties of several million dollars against firms. And if enacted into law, the budget-pact provisions on OSHA are likely to increase the pressure further on employers to avoid violating workplace health-and-safety regulations.

Separately, the budget pact would boost insurance premiums paid to the federal Pension Benefit Guaranty Corp. by employers with defined-benefit pension plans. The basic premium would rise from $16 annually for each worker and retiree participant in pension plans. It also would lift the additional variable-rate premium for underfunded plans.

The combined premiums now can't exceed $50 annually for each participant. Under the budget accord, the increases would have to yield an additional $120 million annually. It will be up to Congress to decide how to raise that amount.

Pension Benefit Guaranty's executive director, James Lockhart, said the boost of 0.2 cents an hour in employer costs "will not break anybody's back." He said it would help the agency deal with the projected $7 billion to $8 billion in pension plan underfunding, especially if Congress restructures the insurance program to put more of the premium burden on underfunded plans—a proposal the agency will seek.

But James Klein, an official of the Association of Private Pension and Welfare Plans, said the boost in premiums will further discourage employers from offering defined-benefit plans, under which they guarantee retirees certain pension benefits. Such plans have been on the decline.

Another budget-accord provision would raise the excise tax that employers pay when they terminate pension plans to 20% of pension surpluses from 15%. It also would require the transfer of 20% of the excess to a new retirement plan, as a cushion for pension benefits, or apply a second 20% excise tax if no new plan was created, as long as the company wasn't in bankruptcy liquidation. Mr. Klein said that these changes could reduce federal revenues by discouraging fund terminations that generate the excise tax payments. If the employer boosted retiree benefits to cover cost-of-living increases, the cushion would be only 15%.

Finally, certain transfers from overfunded pension plans would be allowed to cover rising retiree health benefits. But pension fund assets couldn't be reduced below 125% of current liabilities, compared with 150% now, or the funds' projected benefit obligations, whichever is higher.

Though congressional committees may tinker with specifics, the budget accord contemplates several other new or increased fees. Among them are a new decal for which boaters would pay $25 to help fund the Coast Guard; new fees on permits and certificates issued by the Environmental Protection Agency; higher fees on utilities with nuclear power plants, to underwrite regulatory costs; new fees to cover the cost of animal and plant health inspections at ports of entry; increased fees on patent and trademark applications; and a new fee on commercial airlines and cruise ship carriers, to cover the U.S. Travel and Tourism Administration budget.

In all, higher fees and fines are supposed to bring in about $17 billion in revenue over the next five years. This total includes about $4 billion in higher premiums on banks for deposit insurance, as proposed in pending legislation that is supported both by the administration and the chairmen of the congressional banking committees.

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Bigger Tax Bite for Most Folk Imperils Democratic Support for Budget Accord

By JEFFREY H. BIRNBAUM
And JACKIE CALMES
Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON – Democratic support for the budget accord is being jeopardized by new figures that show its tax provisions would take a proportionately larger bite from middle and lower-income Americans than from the wealthy.

Indeed, the largest tax increase in percentage terms would befall the poorest Americans; and the smallest tax boost would go to the richest.

According to final tabulations distributed to lawmakers yesterday by the Joint Tax Committee of Congress, taxpayers with annual incomes of less than $10,000 on average would have a tax increase of 7.6%, more than quadruple the 1.7% average tax rise slated for those who earn $200,000 a year and over.

The middle class also would face a hefty tax increase. People with annual incomes of between $30,000 and $50,000 would see their taxes rise an average 2.9%. Those who earn between $20,000 and $30,000 would incur a 3.3% increase.

"The proposal is upside down," said Rep. Byron Dorgan (D., N.D.). "It imposes too severe an obligation on the low- and middle-income groups and not enough on the upper-income groups."

"I consider it a fundamental flaw in the package," said Rep. Martin Sabo (D., Minn.), chairman of the liberal Democratic Study Group. Added Rep. Sander Levin (D., Mich.): "It's more Republican than Democratic in nature. It's not a fair distribution of the pain."

Dissatisfaction with the budget accord already is causing some Democrats to consider alternatives. A leading proposal, being suggested on several fronts, would revive an idea that was rejected by budget negotiators: Raising the top marginal tax rate on the wealthiest taxpayers from the current 28% and cutting the tax rate on capital gains, which is now as high as 33%.

Democratic leaders have acknowledged that the lack of progressivity in the budget plan is a deep disappointment to them. To help soothe this wound, they have had a second revenue table prepared. Unlike the figures showing the impact of just the budget agreement (see chart), the second table also shows the effects of separate child-care legislation, which Democratic leaders hope will be enacted but isn't part of the pact. The child-care bill would be very beneficial to lower-income groups.

The second chart shows that families with incomes of less than $20,000 a year would get a tax cut when the impact of the child-care bill is considered along with the budget agreement. But middle-income people still would get a bigger tax increase than upper-income groups.

"It just makes it less bad for the lower incomes," said Rep. Levin, referring to the child-care bill. "Still, you get an unfair proposal."

Many lawmakers are withholding judgment on the whole deficit-reduction plan.

Reducing the Deficit: Who Pays the Tax Increases

INCOME*	CHANGE IN FEDERAL TAXES
Less than $10,000	+7.6%
$10,000–$20,000	+1.9
$20,000–$30,000	+3.3
$30,000–$40,000	+2.9
$40,000–$50,000	+2.9
$50,000–$75,000	+1.8
$75,000–$100,000	+2.1
$100,000–$200,000	+1.9
$200,000 and up	+1.7
ALL TAXPAYERS	+2.4%

*Adjusted gross income plus tax-exempt interest, employer contributions for health insurance, non-taxable Social Security benefits and other adjustments.

Source: Joint Tax Committee of Congress

Even angry Democrats, while disparaging the plan as disproportionately hurting those who can least afford higher taxes, balk at saying they will vote against the whole package. The alternative, shutting down or drastically paring the government, might be too onerous, they say.

"This package represents political blood [that is] ankle deep," said Rep. Pat Williams (D., Mont.). "But [an across-the-board cut] is hip deep."

"Everybody wants to see this pass," said Rep. Wayne Owens (D., Utah), referring to the deficit-cutting plan, adding: "But nobody wants to vote for it."

On Monday and again yesterday, House Democratic leaders met with conservative and moderate Democrats, and found that most are likely to support the budget package. "Bad as this is, do I want to cast a 'no' vote that in effect endorses continued deficits?" asked Rep. Timothy Penny (D., Minn.). He plans to vote for the budget this week.

But almost all the members of the Congressional Black Caucus are expected to vote against the budget compromise, and a good number of other liberals may join them. Many liberals cited the deep proposed cuts in Medicare payments and benefits.

"The single biggest issue is Medicare," said Rep. Richard Durbin (D., Ill.). "This could become the rural hospital foreclosure act of 1990."

Liberals dominate the Democratic caucus in the House, so their antipathy for the plan could present the leadership with a big problem. But many of the House's liberals have safe seats and thus wouldn't be politically threatened by voting for the budget. Moreover, they tend as a group to be loyal to the leadership. Democratic vote-counters, now at work assessing the prospects for the budget plan, say many liberals would vote "yes" if cajoled by the leadership.

Still, when the vote on the budget resolution occurs later this week, Democrats of many stripes probably will wait to see how many Republicans vote for the plan before casting their own votes. "If Republicans can't get a majority on their side, there isn't a snowball's chance in hell that [House Speaker Thomas] Foley gets half the Democratic votes," said Rep. Pat Williams (D., Mont.), using obvious hyperbole.

If the resolution passes, then the hard part comes. The plan must be written into legislation, and lawmakers in both chambers are gunning to make changes. "When the details come out, I think it will be a different story," said Sen. Daniel Inouye (D., Hawaii). Added Rep. James Oberstar (D., Minn.): "That's when we shoot with the real bullets."

The tax plan would hit low and middle-income taxpayers harder because of its heavy reliance on regressive excise taxes on such items as gasoline, alcoholic beverages and cigarettes. These levies are only partly offset by tax increases on the wealthy, such as provisions that limit itemized deductions and impose a tax on luxury items.

Amid the tax increases, there are plenty of tax cuts, most of which help wealthy investors. One of the biggest winners in this group are independent oil drillers and small-business executives, who would get billions of dollars in tax breaks.

Two prominent Democratic governors, New York's Mario Cuomo and Virginia's Douglas Wilder, said they opposed the package largely because of its regressivity. Gov. Wilder attacked Ronald Brown, chairman of the Democratic National Committee, for endorsing the plan.

"With whom did you speak before you put the Democratic Party on record in favor of a backroom tax deal which puts the biggest burden on the middle class and those with moderate means?" Gov. Wilder said in a letter to Mr. Brown.

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Pull the Plug on the Budget Deal

By JIM MILLER

As one who participated in a (1987) budget summit lasting half as long, my heart goes out to those brave, honorable souls who did their duty as they saw it in the negotiations at Andrews Air Force base. However, the result deserves to be rejected by Congress.

The agreement's greatest deficiency is that it contains no budget process reforms to rectify the bias toward ever-expanding government and increasing reliance on deficit finance. There is no line-item veto, no balanced budget amendment, no legally enforceable budget resolution.

The spending caps don't apply to some accounts, such as the International Monetary Fund and Egyptian debt forgiveness and to presidential requests for "emergency supplementals." The caps do not apply during the first two years of the agreement to revisions in spending because of "technical and economic adjustments."

Nor do they apply during the remaining three years if the president's representatives and the congressional leadership agree that revisions are in order. Since the economic assumptions for the out years are especially optimistic—for example, 4.1% real growth, 3.2% inflation and 4.9% T-bills in 1993—revisions almost certainly will be found to be in order. Moreover, the caps can always be waived by a three-fifths vote in both Houses.

It is truly remarkable that the compromise is so unbalanced. Roughly speaking, one side (led by the president) wanted to avoid increases in taxes and reductions in defense spending. The other side wanted to avoid cuts in domestic spending. Even if we were to take the results of the deal at face value, the president's side would have been outfoxed: The agreement calls for 1991 tax increases of $16.2 billion, defense cuts of $9.8 billion, and entitlement cuts of $12.1 billion.

However, the face value is inaccurate. $1 billion of the alleged $12.1 billion in domestic spending cuts is phony: It replaces a lump-sum payment to retiring civil-service employees with an annuity. Another $4 billion of "cuts" consists of new user fees that are counted as "negative outlays." Disregard the phony cut and count the user fees as what they are—taxes—and the "cost" of the agreement to the president's side is on the order of $30 billion in the first year, while the "cost" to the Democratic leadership's side is only $7.1 billion. And this imbalance persists throughout the five-year term of the agreement.

The agreement says that revenues are to rise by $73.9 billion next year, a 7.1% increase. Spending would go up by $109 billion, an 8.6% increase. Domestic spending would rise even faster. Evidently, the taxes raised by the agreement would be used to finance spending, not reduce the deficit.

Despite all the hype, the current agreement would not reduce the deficit, which would rise from approximately $218.5 billion this year to an estimated $253.6 billion next year. On the other hand, if there were an $85.4 billion initial sequester (as required by Gramm-Rudman), the deficit would fall to $168.2 billion.

President Bush gave up a lot for this agreement, and he has little to show for it. He broke his "no new taxes" pledge, and even accepted an increase in rates in the disguised form of a limitation on deductions. He cast aside the jewel of his negotiating demands—a cut in the tax rate on capital gains—which would have done much to stimulate economic growth and would have more than "paid for itself" through higher federal receipts.

Although he is honor-bound to support the agreement, the president should be ready with a quick response if Congress refuses to pass it. He should order a sequester. This would result in something approximating a nominal spending freeze. Then, he should challenge Congress to reorder spending priorities. Even if spending were permitted to rise as fast as inflation and even if there were no tax increase, the deficit would still be lower next year than it would be under this much ballyhooed but fatally flawed agreement.

Mr. Miller, budget director under President Reagan, is chairman of Citizens for a Sound Economy in Washington, D.C.

THE WALL STREET JOURNAL.

WEDNESDAY, OCTOBER 3, 1990

Budget Accord May Spur Offerings by Small Firms

By Anne Newman
And Michael Siconolfi
Staff Reporters of The Wall Street Journal

NEW YORK—Wall Street is hoping that a proposed tax break for small-business investors will revive the moribund market for new stock offerings.

The provision, part of this week's budget accord, is designed to encourage investment in small companies. It comes at a time when the market for initial public stock offerings is mired at a five-year low, and when small-company stocks have plunged nearly 25% this year.

"If it passes the way it's been talked about, it's sure to be a huge shot in the arm" for the IPO market, says Thomas Pratt, contributing editor of the IPO Reporter newsletter.

The provision of the budget-reduction plan would give up-front tax deductions of 25% to individuals who invest up to $200,000 in newly issued stock of small companies with less than $50 million in equity. And it would provide additional tax breaks when shares of small companies, including existing stock, are sold, if the shares were bought after Sept. 30, 1990, and are held for at least one year.

At Morgan Stanley Group Inc. in New York, emerging-growth stock analyst Keith Mullins already has advised clients that investments in half of the 50 companies he follows could qualify for the proposed tax break.

In San Francisco, Hambrecht & Quist Group investment bankers, who specialize in bringing technology companies public, hope to see the new-issues market revive for computer-related, life sciences and environmental companies. And investment bankers at Merrill Lynch & Co. are cautiously studying whether investors can form partnerships to pool their investments in small businesses and still get some tax breaks.

"I tell you, this will be exciting, but there's much to be learned," says Gordon Macklin, chairman of Hambrecht & Quist. Still studying the proposal, Mr. Macklin and other brokerage-firm executives say the plan is still too preliminary for them to predict with any certainty how it will affect their business and the market for small stocks.

"It looks to us like it will encourage sophisticated individuals to commit more money to these investments which, by definition, are higher-risk and involve considerably less marketability," Mr. Macklin said.

If the proposal lives up to its billing, the tax advantages may help revive the battered market for the shares of small, high-risk companies that trade over-the-counter, Mr. Macklin said. Since 1983, investors have shunned those shares in favor of the stocks of larger companies, which are easier to trade. "If this proposal lives up to its advance, it could well direct a significant amount of capital" toward small stocks, he said.

Tax benefits from Washington's new proposal should flow through to mutual-fund investors, Mr. Mullins of Morgan Stanley believes. He is particularly enthusiastic about the provision that allows investors to benefit from the profit of sales of existing stock. More than half of the 50 stocks he follows qualify for the deduction, he says.

But tax breaks may not be enough to offset the losses for small stocks if the U.S. economy slips into a recession. Indeed, the specter of such a recession has already pummeled the OTC and new-issues markets.

Furthermore, if the tax proposal unleashes a flood of IPOs by untested young companies, investors would need to scrutinize these new issues carefully. That's the lesson from Quebec, which in 1983 initiated a similar tax break for investors in small companies, said Alan Radlo, portfolio manager of the Fidelity OTC Fund.

Mr. Radlo, who managed three mutual funds that invested in Canadian stocks at the time, said that the Quebec program launched more than 175 new small companies on the stock exchange in Montreal—until the stock market crashed in 1987. The dismal stock performance of some of those companies tainted the shares of better-quality concerns in the program, he added.

"There will be a proliferation of every Joe and Harry donut shop trying to go public," he said. The quality of new issues in Quebec deteriorated after an initial spurt of strong offerings.

"There were some abuses," agrees Normand Roy, financial analyst with Levesque, Baubien & Co. in Montreal, who explained that new offerings of some companies in Quebec were sold at hefty multiples to their earnings power. But for at least 50 companies, he adds, the launch was "very successful."

For the moment, though, U.S. investors don't have an appetite for new stock offerings. And that isn't likely to change until the uncertainty over the Mideast crisis and the U.S. economy lifts and the stock market turns up, investment bankers say.

Indeed, executives at several securities firms said that, considering the skittish environment, they're more interested in trying to sell investments already in the marketplace.

"We have nothing on the drawing board" based on the new tax provision, says Joseph Plumeri, president of Shearson Lehman Brothers Inc.'s private client group for individual investors. "We have created enough products to fill people's needs for a long time," he says.

Nevertheless, the IPO market is desperate for any signs of new business. Since the Mideast crisis erupted in August, new public offerings have come to an abrupt halt. For the third quarter, IPOs hit their lowest level in five years, with only $1.6 billion being brought to market, according to Securities Data Co.

One bright spot for small businesses looking to come to market anytime soon is that securities firms are more willing to launch tiny IPOs than they were just two months ago. That's because the atrophied IPO market isn't currently able to absorb big offerings.

When activity picks up again, says Thomas Marino, first vice president and institutional syndicate manager at Shearson, "We'll see more small deals getting done."

THE WALL STREET JOURNAL.

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Proposed Tax Incentives May Disappoint Entrepreneurs

A WALL STREET JOURNAL *News Roundup*

Proposed tax incentives for small business that have created a political controversy may also disappoint companies hoping for a windfall, entrepreneurs say.

Business owners and investors say the incentives could open a desperately needed spigot of capital for start-ups. But they say the impact will be limited because the provisions hold few inducements to attract big money.

Critics charge that the proposals emerging from the budget negotiations could revive tax shelters for wealthy investors. But as business owners and their financiers took a look at the tax package, their main concern was how effective the plan would be in stimulating capital formation—and their assessment was mixed.

'Won't Lure Institutions'

"I don't see any of this as bringing institutional money back to the table," says Wilton S. Sogg, a lawyer with Hahn Loeser & Parks in Cleveland. "That's the money that has run away." The incentives apply to small sums of money by institutional standards.

Instead, Mr. Sogg says, the incentives will mainly attract informal investors, known as angels, who usually aren't persuaded by tax breaks, anyway. "Angels don't go by a formula; they go by their tummy, or by their friends, or by what turns them on," he says. Francis Mechner, chairman of General Clutch Corp., a maker of hinges and clutches in Stamford, Conn., says the tax package "is just a Band-Aid" rather than a cure.

But for some entrepreneurs, it is a much-needed bandage. James Nixon, an investor with stakes in over 15 companies, says the key provision—a tax deduction of 25% of an individual's investment in newly issued stock in eligible small companies, up to a maximum deduction of $50,000 a year—could be the extra inducement needed to make or break some deals.

"Somebody who puts up $200,000 gets savings of $14,000; that's a 7% return right off," he says. "It could make the difference between being able to start up or not."

Effect on Businesses

Some entrepreneurs are already contemplating how the incentives could affect their businesses. Marilyn Miglin, owner of a Chicago-based maker and marketer of cosmetics and perfume, says they might help her raise the backing for a major rollout of her new fragrance, called Destiny.

And Robert Clarke, president of Alpen Inc., a Boulder, Colo., maker of windows, says his firm has been seeking half a dozen investors to put up $50,000 each to help finance the opening of an East Coast branch. The tax proposals look "perfect for us," he says. They would also be a step toward aiding "core" businesses in the U.S.. "Some of us who have been chugging away for 12 hours a day trying to make things kind of resent the past decade of financial gamesmanship," he says.

The venture-capital industry stands to gain from the proposals, too. Paul Kelley, a managing partner at Zero Stage Capital of Cambridge, Mass., a venture-capital firm, says the proposals couldn't have come at a more opportune time.

Institutional venture capital, which has been the major source of financing for most fast-growing small companies, has declined in recent years. Venture-capital funds invested $3.3 billion in 1989, a 15% drop from $3.9 billion in 1987, says Venture Economics, a Cambridge, Mass., consulting firm. Increasingly, venture capital is now going to less risky, generally larger and more mature companies.

"This is a major investment in the future of U.S. business," says Mr. Kelley. "It's important for both state and federal government to develop policies to stimulate the birth rate of new companies."

Steven Piper, a spokesman for Venture Economics, adds that the venture-capital industry "has been hammered by the relative performance of the stock market in recent years." The supply of financing from the venture-capital industry, he says, "will continue to drop off unless a new influx of money comes into the industry, and this proposal seems tailor-made to do that."

The tax plan also includes capital-gains tax breaks for shares purchased in either the primary or secondary markets between now and the end of 1995.

Investment bankers could exploit the tax provisions by raising capital for groups of eligible companies, according to San Francisco investment banker Sanford Robertson. He considers the tax package "extremely promising," with even greater potential than the small business investment companies, or SBICS, that recently have fallen on hard times.

Russell Hindin, a managing director of Hindin, Owen & Engelke Inc., a Los Angeles company that helps small firms obtain financing, is more cautious. "In terms of the number of companies affected, it could have a very minor impact," because most businesses don't sell equity, he says.

But Mr. Hindin says capital-gains tax breaks for buyers in the secondary equity market would make it easier for initial investors to sell their stock.

Sam Starr, a tax partner with Coopers & Lybrand in Washington, worries about the proposals' narrow scope. They exclude so-called Subchapter S corporations, in which only the owners, and not the company itself, pay taxes. These are typically the smallest of small enterprises, and thus the most in need of funding. Indeed, fairly large concerns—those with up to $50 million in equity—would benefit from the small-business incentives. "You're not talking about a mom-and-pop grocery store," Mr. Starr says. "You're talking about a fairly sizable corporation."

His view was echoed by John Motley, chief lobbyist for the National Federation of Independent Business, the nation's largest small-business group, whose members tend to be very small companies. "I wouldn't oppose [the plan]," he says, but "it's an awful lot of money to spend to help a relatively small number of uppercrust businesses."

In contrast, the National Association of Manufacturers and National Small Business United, which represent growing industrial companies, is happy with the proposals. "They're all things we've supported," says Paul Huard, NAM's vice president for taxes.

Whatever the plan's flaws, many business owners don't see it as a windfall for the rich. "If you want to stimulate the economy and employment at the entry level, you have to structure things with a bias for people to invest in small business," says Mr. Nixon, the investor. Besides, comments Zero Stage Capital's Mr. Kelley: "None of these things are perfect. People are always figuring out ways to benefit themselves."

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The No-Growth Budget

By Paul Craig Roberts

The $500 billion deficit reduction that the budget agreement claims for 1991-95 is unlikely to be realized, and the government knows it. The revised assumptions that the government expects to release next month (see below) show that lower-than-projected real growth in 1990 and 1991 reduces the claimed outlay reductions by $72.6 billion and eats up all but $8.1 billion of the $133.8 billion tax increase.

Nothing better shows the failure of the budget agreement than the fact that 40% of the claimed deficit reduction has already been lost to changed economic circumstances. A slowing economy drifting into recession demands a pro-growth budget. The budget negotiators have failed the job entrusted to them.

Mr. Roberts, an assistant Treasury secretary in the Reagan administration, is now at the Center for Strategic and International Studies in Washington.

(In billions of dollars)	1991	1992	1993	1994	1995	1991-95
TOTAL OUTLAYS						
Adjusted baseline	$1,384.7	$1,441.8	$1,451.5	$1,443.1	$1,506.4	$7,227.5
Savings	23.9	50.0	70.9	100.4	121.0	366.2
Agreed level	1,360.8	1,391.8	1,380.6	1,342.7	1,385.4	6,861.3
Revised assumptions	1,369.2	1,412.4	1,400.4	1,356.5	1,395.4	6,933.9
Net savings	15.5	29.4	51.1	86.6	111.0	293.6
TOTAL RECEIPTS						
Adjusted baseline	1,121.4	1,194.2	1,278.6	1,363.0	1,441.1	6,398.3
Savings	16.2	26.7	27.0	32.1	31.8	133.8
Agreed level	1,137.6	1,220.9	1,305.6	1,395.1	1,472.9	6,532.1
Revised assumptions	1,115.6	1,183.1	1,271.0	1,373.1	1,463.6	6,406.4
Net savings	–5.8	–11.1	–7.6	10.1	22.5	8.1

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Postmaster General Says Budget Pact May Spur Another Rise in Mail Rates

By ALBERT R. KARR
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—The budget agreement between the White House and congressional leaders may mean still another big postal-rate increase by 1995, Postmaster General Anthony Frank warned.

The agreement calls for about $5.4 billion in savings to be achieved mainly by having the Postal Service take over health benefits for postal employees who retired between 1971 and 1986. Currently, those costs are borne by the Treasury, and shifting the costs would shrink the budget deficit because the Postal Service isn't counted on the federal budget.

Having to assume the new costs would put added pressure on the agency to seek another first-class rate increase of perhaps five cents for a one-ounce letter, Mr. Frank said. This would be on top of a five-cent increase to 30 cents that is pending before the Postal Rate Commission and would take effect early next year.

"This means more, sooner," Mr. Frank said in an interview. He previously had said that he hoped a rate rise in 1996 would be the last for this decade.

While enacting the budget plan is still up to Congress, Mr. Frank expressed little hope that the new mandate won't be imposed on his agency. "We'll just have to work that much harder, or pass it along to the public, or get our labor people to work much harder," he said. The Postal Service is locked in negotiations with four unions and three supervisor associations on a contract to replace one that expires Nov. 20. The agency is trying to hold down costs mainly by gaining more flexibility over work rules.

"This is a body blow, but body blows aren't a knockout," he said. Mr. Frank said that the agency has in the past year improved labor productivity substantially, reducing its sizable work force as a major automation program begins bearing fruit. The agency at one time had forecast a deficit of $1.6 billion or more for fiscal 1990, which ended Sunday, but has since said the loss would end up at about $900 million.

"We've gotten hit, and hit and hit, and now we're going to get hit again," Mr. Frank said. The $5.4 billion would be on top of $4.7 billion in deficit-reduction commitments imposed by Congress in 1985, 1987 and 1989, he said.

But unlike what occurred in 1987, when the agency was part of the federal budget, it won't have to reduce operations or capital spending in order to help reduce the budget deficit. "We will not cut back on service" this time, Mr. Frank said, since the federal budget would be helped by simply switching cost obligation to the off-budget Postal Service.

The agency's $40 billion-a-year operation is financed almost entirely by mail revenue. Only $436 million, to subsidize free or reduced mailing by members of Congress and others, comes from government appropriations, a spokesman said.

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'One by one,' GOP standing behind deal

By Richard Wolf
USA TODAY

A reluctant Congress moved toward grudging support for a five-year, $500 billion deficit-reduction package Tuesday as President Bush and Democratic leaders intensified their arm-twisting efforts.

The most notable progress came amid disgruntled House Republicans, dozens of whom were called to the White House for group sessions with Bush, Vice President Dan Quayle and other top officials.

"People are being moved, one by one," said Rep. Vin Weber, R-Minn.

Even House Minority Whip Newt Gingrich, R-Ga., the only top congressional leader opposing the plan, conceded Bush was likely to sway more than half the 175-member House Republican Conference to support the package of tax hikes and spending cuts.

Congressional leaders have made separate majorities of Democrats and Republicans in the House and Senate a prerequisite for passage of the plan, so neither party can use the vote for political advantage.

Recalcitrant Democrats, already upset by $60 billion in Medicare cuts and $134 billion in new taxes that may hit the middle class hardest, added complaints Tuesday about a legislative process leaving them little room to maneuver.

While the budget resolution scheduled for its first test on the House floor Thursday will embody the spirit of the agreement, its details will be left for a deficit-reduction bill scheduled for a vote in two weeks. But any changes made by committees must be approved by the same White House and congressional negotiators who spent more than four months sealing the unpopular pact.

"The process has everyone up in arms," said Rep. Marty Russo, D-Ill. "This is a horrible precedent that's being set."

"I don't think process is the problem," said Rep. Steny Hoyer, D-Md., chairman of the House Democratic Caucus. "Substance is the problem."

House Speaker Thomas Foley, D-Wash., expressed confidence a majority of Democrats would back the package, which boosts taxes on gasoline, alcohol, cigarettes and luxury items and pares defense, Medicare and farm benefits.

But when the initial budget resolution hits the floor Thursday, liberal Democrats — denied any chance to offer an alternative plan — will denounce it as too hard on social programs and too soft on defense cutbacks.

Their arguments were boosted Tuesday by a House Ways and Means Committee report showing the deficit-cutting package would hit low-income taxpayers hardest, while largely sparing the wealthy.

The report said the poorest 20% of families would pay 11% more in taxes and lose 2% of their income as a result of the package, while the wealthiest families would pay only 1.7% more in taxes and lose 0.7% of their income.

Republicans with different concerns — opposition to most of the taxes, fears that domestic spending will not be curbed — were herded to the White House for pep talks that most participants called effective.

"The president's done a pretty good job of moving some people," said Rep. Jack Buechner, R-Mo., who was leaning against the plan when he entered the White House and leaning for it when he left.

Weber said arm-twisting by the president could overwhelm the opposition from his conservative wing.

"I expect the administration will win," he said. "When you make it a personal test of loyalty to the president, it's very hard to vote 'no'."

A taxing burden

How the new budget agreement changes taxes for people within these income groups:

Income	Change
Up to $9,999	-0.1%
$10,000 to $19,999	-3.8%
$20,000 to $29,999	3.0%
$30,000 to $39,999	3.3%
$40,000 to $49,999	3.3%
$50,000 to $74,999	2.0%
$75,000 to $99,999	2.0%
$100,000 to $199,999	1.5%
$200,000 and above	0.3%

Source: USA TODAY research

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Bush calls deal 'tough, fair'

By Jessica Lee
USA TODAY

President Bush, capping a day of non-stop lobbying, Tuesday night sought public support for the deficit-cutting pact in a nationally televised address.

The deficit is a "a cancer," Bush said. "If we fail to act, next year alone we will face a budget deficit of more than $300 billion."

The pact hammered out by White House and congressional negotiators will erase $500 billion in red ink over five years.

Putting his personal prestige on the line, Bush enthusiastically pitched the compromise.

Senate Majority Leader George Mitchell, D-Maine, added his backing in the Democratic response.

Approval of the pact won't come easily. Bush spent Tuesday jawboning 35 GOP members of Congress.

But many left without pledging their votes. Republican lawmakers have been among the loudest to denounce the plan because it raises taxes — a factor many fear will mean trouble come election time.

To convince them — and Democrats opposed to entitlement cuts — Bush has undertaken an all-out lobbying drive. Tuesday night, he encouraged voters to urge their congressmen to approve the plan to avoid "economic chaos."

Congress takes its first vote on the budget Thursday.

Bush told the TV audience:

▶ "Everyone will bear a small burden. But if we succeed, every American will have a large burden lifted."

▶ The plan has "no smoke, no mirrors, no magic act."

▶ The "agreement is tough, and so are the times. The agreement is fair, and so is the American spirit. The agreement is bipartisan, and so is the vote. The agreement is real, and so is this crisis."

In his response, Mitchell quoted Benjamin Franklin on the Constitution: "I confess that there are several parts of this Constitution which I do not approve. But I doubt whether any other convention may be able to make a better Constitution."

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Ex-coach wrestles with wishes of voters, Bush

By Richard Wolf
USA TODAY

Where Rep. J. Dennis Hastert comes from, farmers haul their corn and soybeans to market on gas-guzzling trucks, and staunchly conservative voters frown on big-spending government programs.

So it's not surprising that Hastert, a two-term Republican whose Illinois district stretches from the Chicago suburbs to rural outposts like Wenona, frowns at the deficit-reduction package that cuts agricultural subsidies, raises gas taxes and goes easy on most domestic programs.

"If I had a chance to write this bill, I'd put other things in it," he says matter-of-factly.

But Hastert, 48, doesn't have that luxury. What he has, as the House heads for a Thursday showdown, is one undecided and coveted vote.

He's not lacking advice:

▶ Tuesday morning, House Minority Whip Newt Gingrich, R-Ga., the leading opponent of the package, spotted Hastert on the House floor. "You're not going to vote for 12 cents in new gas taxes, are you?" he asked.

▶ Tuesday afternoon, Hastert, along with 19 other Republicans, was summoned to the White House to hear a different message from President Bush. "He really thought he got the best deal he could get," Hastert says.

By day's end, the former wrestling coach was caught between voting the interests of his district or his president.

"This is probably one of the most far-reaching votes that we're going to have," he says. "If we screw up, we'll have no one to blame but ourselves."

His dilemma:

▶ On the pro side, Hastert finds Bush's arguments persuasive: The alternatives — $100 billion in across-the-board spending cuts or a second "bite of the apple" in which Democrats might win more battles — could be worse.

He's pleased Social Security benefits weren't cut and income tax rates weren't raised. "The best part of this package is what's not there," he says.

▶ On the con side, he looks to the banks of the Illinois and Fox rivers, where his constituents commute to Chicago or plow their fields, and senior citizens living on Social Security checks are lobbying against the Medicare cuts.

"I think a 'yes' vote on this bill would be a vote against what's perceived as right in my district," he says.

Because of his indecision, he's hearing from both sides. Hastert says no new bridges or water projects have been promised in the package.

"There is no 'pork' out there. That's why it's tough, because you've got to look at this thing on the merits."

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After the rhetoric, passage

By Richard Benedetto
USA TODAY

You'll hear much wailing and gnashing of teeth, but when the din subsides, the $500 billion deficit-reduction agreement is expected to pass, political analysts say.

"What's going on now is a stylized ritual. Everybody has to have their say, then they'll hold their noses and vote for it," said Stephen Hess, presidential scholar at the Brookings Institution.

Said Democratic consultant Victor Kamber: "There's really little time to mount a grassroots campaign against it — and there's no alternative."

But it's a tough sell. Few have anything good to say about the accord that raises taxes by $134 billion and slashes key federal programs. A USA TODAY Poll found 52% of the public opposed. Special-interest groups are gearing for a fight. Lawmakers facing voters Nov. 6 are scared.

"Unless President Bush and the congressional leadership insist on passage, it could fall apart," said University of Virginia political scientist Larry Sabato. "It depends on how serious they all are."

A strategy fueling passage: Party leaders will let incumbents in tight races vote in a way that blunts a challenger's criticism. Those representing districts or states where the issue is highly unpopular can take a walk. Most of the rest are asked to vote for the good of the party.

But Democratic pollster Peter Hart says that in this age of negative campaigning, many faint-hearted lawmakers who fear TV ads hitting their vote will ask to be let off the hook, complicating the leaders' job.

"There aren't a lot of profiles in courage being written by members of the 101st Congress," he said.

Bush went on national TV Tuesday night to sell the package to a skeptical public, and calm nervous lawmakers.

He'll also make the pitch on the road as he visits at least 10 states before the Oct. 19 deadline. GOP leaders around the country stand ready to help.

"I don't like taxes, but I'll do anything the president asks me to do," said Florida Republican Chairman Van Poole. "We face tough times unless we get the deficit under control."

But the stakes are high for Bush. He's given Democrats a leg up by abandoning his no-taxes pledge. And if voter anger is expressed, he and his party could bear the brunt.

"Voters will hold Bush accountable," said Sabato.

If Bush fails, the economy slowdown will worsen and he'll lose face. "If the president, with a 75% approval rating, can't get a majority of his party to go along," Hart said, "he will be getting a very powerful message."

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Medicare: Eye of the storm

'The elderly are both our richest and poorest. It's difficult to make policies'

By Sharen Shaw Johnson and Bob Minzesheimer
USA TODAY

Plans to hike Medicare charges — already the deficit deal's powder keg — are blasting open fissures between the elderly haves and have-nots.

The Hoffmans of Huntington, W.Va. — ex-factory worker Eugene, 86, and ex-department store clerk Elizabeth, 83 — live wholly on $970 a month Social Security.

He says, "One-third of the money ... goes to medicine" Medicare doesn't cover. "After we pay utilities, there's not a lot left. One month, I had $4 to live on for the last week."

Investments help Dorothy Montena live comfortably on Florida's gulf coast. Her hobby: ocean cruises.

Under the budget plan, each likely would pay at least $92.20 more a year in Medicare premiums. The Hoffmans say that'll hurt. Says Montena: "Others are a lot worse off."

Says Karen Meredith, founder of the American Association of Boomers, a lobby group for the post-war generation: "Once again, we have an across-the-board kind of cut that's going to hurt the elderly poor and elderly middle class a whole lot more than it hurts the elderly wealthy."

Says Elizabeth Hoffman: "They ought to get that money from them that's got it. And I don't think that's people like us."

There are many like the Hoffmans, says Marilyn Moon of the Washington-based Urban Institute: In 1988, more than half the 29.02 million elderly lived on $10,000 or less per year. The problem for policy makers: There also were 3.22 million living on $25,000 or more.

Says Moon: "The elderly are both our richest and poorest ... it's difficult to know how to make policies taking both those facts into account."

Rep. Fortney Stark, D-Calif., House health subcommittee chairman, agrees. He'll try to make changes during the next two weeks, he said Tuesday — but acknowledged any effort to alter the Medicare agreement likely will fail.

That's in line with recent history: Medicare — spurred by a 2% annual growth in the elderly and disabled population, more doctor visits, longer hospital stays, more expensive medical technology and rising health-care costs — is the fastest-growing part of the federal budget. It increases each year by 11% to 14%.

Budget officials, and some lawmakers, have failed repeatedly to rein in the runaway spending. But this year, President Bush warned, "Unless policies are implemented to stem this growth, spending on Medicare will exceed spending on Social Security retirement and defense after the turn of the century."

Susan Hering, Salomon Brothers budget expert, translates: "Medicare is a huge problem for us. We have spent $10 billion on it in a single month. So you really have to attack that" before Wall Street will believe Washington is making a serious attempt to curb the deficit.

Ex-Colorado Gov. Dick Lamm, a Democrat, agrees, calling the proposed Medicare hike "a litmus test for the markets: You can't make fiscal sense out of the future of America without taking on some entitlement" programs such as Medicare.

"The Congressional Budget Office has estimated 73% of all new social spending in the next five years will go to the elderly. The reason: Medicare is growing about 2½ times faster than any other federal program."

That turns it into a fairness issue for Lamm, now with the Public Policy Institute think tank in Denver. "Poverty in America is much more likely to be found in diapers than a hearing aid," he says. "Poverty among children is twice what it is among the elderly."

In recent years, about 12% of those 65 and older have lived in poverty, Census Bureau figures show. But the elderly "get about 30% of total federal spending," Lamm says. "Every poor kid in America ought to have access to a Head Start program, yet the elderly get an ever-increasing share of the federal budget. ... We can't continue to put this albatross around our kids' necks."

In Las Vegas, retired airline pilot Dan Hawley disagrees — to put it mildly. "Any congressman who comes home over Columbus Day can expect a fight on their hands if they even think of agreeing to this plan," says Hawley, who played a high-profile role in elderly protests of Congress' ill-fated plan to charge them for catastrophic care insurance.

Hawley calls the new Medicare plan "catastrophic costs without the benefits" — and warns: "Hell hath no fury like seniors enraged."

Health economist Stephen Zuckerman of the Urban Institute blames the catastrophic brouhaha for the inequitable nature of this year's Medicare plan. "It could have been more equitable if the high-income elderly were asked to pay a larger share of these costs," he said, "but last year's experience with catastrophic just wouldn't allow Congress to distribute the burden unevenly like that."

Zuckerman doesn't see the Medicare plan generating protests comparable to those erupting over catastrophic care because this time, "the elderly aren't being asked to bear the full cost of the new benefits."

Sen. Bob Graham, D-Fla., expects more of an outcry. With catastrophic care, he said, seniors at least "were getting increased benefits for increased premiums."

But for now, the American Association of Retired Persons, the largest senior citizens lobby group — were it a corporation, it'd be in the Fortune 500 — is holding fire.

Sunday, the group expressed "concern" about the Medicare proposals but noted, "We are very pleased that Social Security's cost-of-living adjustments (COLAs) and taxation of benefits are not in this package."

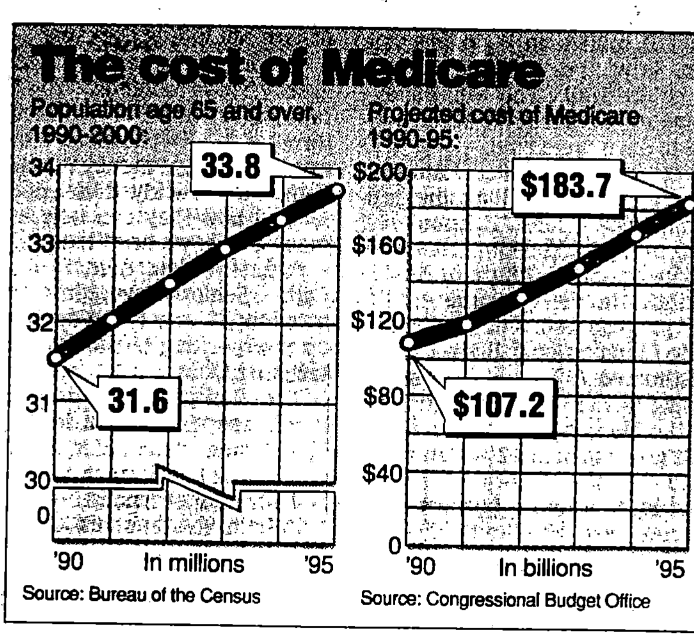
"I don't think senior citizens are greedy," says Montena. "You have to remember, most of us have lived through the Depression. We know, even if you have money invested in a bank, how quickly it can disappear ... and how they can take away so many things we have today."

Still, says Sen. Alan Simpson, D-Calif., "Seniors have come off magnificently. We've taken care of them by not touching Social Security, not touching COLAs in any way."

The Hoffmans, who live frugally in a house they bought for $5,000 in 1962 "when you could afford things," don't think that's much help.

They neither smoke nor drink but Elizabeth has diabetes. Eugene has had several strokes and heart attacks. "When you get old, you got to take a lot of medicine," says Elizabeth, adding she'd write Congress to complain, "but I don't think it'd do any good."

Contributing: Jessica Lee, Leslie Phillips and Richard Wolf



THE NEW YORK DAILY NEWS
Wednesday, October 3, 1990

Bush goes to the people

By MAUREEN SANTINI
News Washington Bureau

WASHINGTON — President Bush last night sought to stave off a Republican brawl about a controversial deficit-cutting plan with an urgent prime-time television appeal for support.

The speech was hastily scheduled amid signs that the deal — so painstakingly negotiated during the last several months — was in danger of unraveling because of internal GOP warfare.

"The country is at stake here," Bush told business leaders before speaking to the nation. "We need you. We need you bad."

"You can pick the package apart, but you cannot realistically put a better package together," Bush said.

As Bush appealed for support, Gov. Cuomo and Mayor Dinkins blasted the budget deal and the effect it would have on New York City and State.

Cuomo sent a statement to all members of the New York congressional delegation saying the package "makes things worse for the middle class, the elderly, the states and local governments." He said, "The winners are the handful of people who are the richest in the country."

Dinkins warned that the tax increases, elimination of certain deductions and Medicare cutbacks "will have a deleterious effect on the already stressed city budget." Republican moderates mainly support the deal but many conservatives do not.

Both House GOP Whip Newt Gingrich (R-Ga.) and Sen. Trent Lott (R-Miss.) are among those who have broken ranks with the White House. Lott was publicly upbraided by White House Chief of Staff John Sununu when he refused to support the deal.

Bush yesterday began lobbying for the deal by inviting dozens of congressmen to the White House to hear his arguments for the five-year, $500 billion package.

Rallying support

The deficit-cutting measures includes higher taxes on beer, wine, alcohol, cigarets, luxury items and gasoline, along with dramatic cuts in Medicare. Analysts say the burden of the package would fall heavily on the middle class.

Several lawmakers urged Bush to make the televised appeal to rally public support and, hopefully, quash the nasty partisan bickering and finger-pointing.

Even with an all-out selling job by Bush — who isn't comfortable with hardball tactics — a vote on the package in the House will be close.

Part of the budget deal was that it be supported by a majority of both parties. But with the Nov. 6 election approaching, political strategists warned that Republicans in difficult races who back off their earlier "no new tax" pledges could be in trouble.

"Anybody who is in a tough race, on the Republican side, certainly they must have — 'political cover' sounds too sleazy — they need political support from the President," said Rep. Bob Dornan (R-Calif.).

THE NEW YORK
DAILY NEWS
Wednesday, October 3, 1990

Fed cuts sicken our hospitals

By ELLEN TUMPOSKY
Daily News Staff Writer

The proposed federal budget deal would strike a disproportionately heavy blow on the city, costing local hospitals as much as $150 million a year.

"It's almost like someone sat down and said how can we maximize the hit on New York," said Bruce Vladeck, head of the United Hospital Fund.

Evaluating the local impact of the proposed $2.2 billion Medicare cut agreed on by Washington negotiators, experts said local hospitals would lose at least $79 million through a proposed 20% cut in the Medicare reimbursement rate to teaching hospitals. Vladeck said the cost could go as high as $100 million.

The city trains 12% of the nation's interns and residents.

Ken Raske, president of the Greater New York Hospital Association, said hospitals would be hit with an additional $70 million in cuts under the plan.

The 5.2% allowance for inflation in reimbursement to hospitals would drop to 4.1%, costing $25 million. And a 15% slash in reimbursement for construction would cost $45 million.

Voluntary hospitals that have built large pavilions, such as Mount Sinai and Columbia-Presbyterian, would be hardest hit by those cuts.

Dr. Emilio Carrillo, president of the Health and Hospitals Corp., said municipal hospitals would bear about $15 million of the burden of the cuts. "We've had contraction of federal support to the city health-care system throughout the '80s. This is adding insult to injury," he said.

Carrillo said the budget accord also meant an even bleaker outlook for federal AIDS funding in the city. The Ryan White AIDS bill would have meant $50 million for the city, but a Senate committee has refused to appropriate funds for it.

The accord would also raise deductibles for Medicare from $75 to $100 and to $150 after 1992. It would require Medicare recipients to pay 20% of lab bills.

Those stipulations would mean a further drain on the state and city budget. The Medicaid program pays for Medicare premiums and deductibles for the elderly poor.

THE NEW YORK
DAILY NEWS
Wednesday, October 3, 1990

Budget blues hit nation's ailing veterans

By RICHARD SISK
News Washington Bureau

WASHINGTON — Veterans nationwide were being told yesterday that the Department of Veterans Affairs will no longer pay travel allowances to vets in need of medical help at veterans hospitals.

"We will not be providing beneficiary travel allowances because of the budget situation" in Congress, said Dennis Duffy, acting deputy assistant secretary.

He said the payments had been "suspended indefinitely," but might be restored if Congress provided additional funding. The decision announced Monday by Secretary Edward Derwinski to cut off the $85 million for travel reimbursements caught veterans' service organizations off-guard.

David Gorman, associate legislative director for the Disabled American Veterans, said, "This is going to hurt a lot of people, stop a lot of people from getting into the system."

Under the travel allowance program, in-patient and outpatient vets were reimbursed for public transportation, or at the rate of 11 cents per mile, whichever cost less.

Vets who needed to make many trips paid the first $18 of their monthly transportation costs, and the government picked up the rest. Hundreds of veterans throughout New York, particularly those receiving cancer or dialysis treatment, are affected.

The Philadelphia Inquirer
Wednesday, October 3, 1990

Bush asks support for budget accord

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

WASHINGTON — President Bush last night appealed to the nation to "bear a small burden" and support tax increases and spending cuts, which he said would reduce the deficit and revive the economy.

The deficit is a "cancer gnawing at our nation's health," Bush said, and it must be lowered or "our economy will falter, markets may tumble and recession will follow."

"No nation can continue to do business the way the federal government has been operating — and survive," the President said in a nationally televised address on the budget.

With a crucial vote on the five-year, $500 billion deficit-reduction package scheduled for tomorrow, the White House capped a day of intensive lobbying of House Republicans with a 10-minute television appeal to voters to implore their representatives and senators to approve the bipartisan package.

By late yesterday, it looked as though the White House effort — the most intensive of the Bush presidency — was softening initial strong opposition to the agreement to lower the budget deficit.

"We've made significant progress," said House Republican leader Robert H. Michel of Illinois, who must deliver more than half his party's 175 House votes if the package is to pass.

Conservative Republican opponents, such as Newt Gingrich of Georgia, the second-ranking Republican in the House, predicted eventual congressional approval as Bush continued his lobbying effort.

Appealing for support, the President said that "everybody who can, should contribute something. Everyone will bear a small burden, but if we succeed, every American will have a large burden lifted."

"Each and every one of us can find fault with something in this agreement" and critics can "'pick our agreement apart," Bush said. "But if they do, believe me, the political reality is no one can put a better one back together again."

With every House seat and a third of the Senate up for election a month from now, Bush asked the voters to go directly to their lawmakers.

"Now is the time for you, the American people to have a real impact," Bush said. "Your senators and congressmen need to know that you want the deficit down. That the time for politics and partisanship is over, the time to come together is now."

As part of the bipartisan unity of congressional leaders behind the budget accord, Senate Majority Leader George J. Mitchell (D., Maine) appeared after Bush on television and echoed his call for approval of the package.

"We recognize that this budget demands sacrifice from all Americans," Mitchell said.

Earlier yesterday, Democrats, who have tried to make an issue of tax fairness, expressed concern over $60 billion in Medicare cuts and analyses that show the deficit proposal's spending cuts and tax increases would put a proportionately heavier burden on lower- and middle-income taxpayers than on the wealthy.

Leaders of both parties in the House were struggling yesterday to line up support for the agreement.

Rank-and-file House Democrats have threatened to vote against the agreement unless a majority of Republicans go along. On Monday, it was clear there was nowhere near a GOP majority for the agreement. If it is defeated, the government would face automatic spending cuts, beginning Saturday.

The President also met at the White House with small groups of Republican lawmakers throughout the morning and afternoon, "twisting arms, cajoling ... pushing," said presidential spokesman Marlin Fitzwater.

Thirty-five House members made the trip down Pennsylvania Avenue from Capitol Hill. Top administration officials called others at home, in their offices and on their car phones.

Interior Secretary Manuel Lujan Jr. lobbied Rep. Cass Ballenger (R., N.C.) in the House gym after a workout. Ballenger turned him down.

Rep. E. Clay Shaw Jr. (R., Fla.) made two trips to the White House in the last two days. He has been lobbied by Bush, Vice President Quayle, chief of staff John H. Sununu, budget director Richard G. Darman and Defense Secretary Dick Cheney.

"I've gotten about as much attention as I can stand," said Shaw.

It worked.

"I am really convinced that the economic problem we'd get into in the event we don't pass this is going to be rather severe," said Shaw, who described himself as "heavily leaning yes."

Said another White House visitor, Rep. Lawrence Coughlin (R., Pa.): "While it does have some things I don't like, I have yet to hear another proposal that makes sense. I think more people are coming around to the realization that there aren't simple solutions that can pass the Congress."

Also yesterday, the House Ways and Means Committee released a study of the budget deal's impact on various income groups. It showed that the lower and middle classes would bear a heavier share of the proposed taxes and benefit cuts.

The bottom fifth of the population, with an average after-tax income of $7,316, would see their earnings reduced by 2 percent if the budget package were approved. The top fifth, averaging $81,934, would see their incomes reduced by 1.2 percent.

The middle fifth, with an average after-tax income of $25,896, would see their earnings reduced by 1.3 percent.

"It's a bookkeeping entry for the people at the top; for the people at the bottom it's another notch on the belt," said Rep. Andrew Jacobs Jr. (D., Ind.).

Studies show that federal taxes took a growing share of the incomes of lower- and middle-class Americans during the '80s, while the wealthy saw their tax burden reduced. Democrats vowed to redress the balance at the budget summit but were unable to get a higher income-tax rate for the wealthy.

"It's Reagan II," said Jacobs. "The way I read it, they want to take 10 cents more from you at the gas pump and turn part of it over to the oil companies in still more loopholes."

One of the few lawmakers speaking out in favor of the deal was Rep. Lee H. Hamilton (D., Ind.), chairman of the Joint Economic Committee, and long an advocate of finding a combination of tax increases and spending cuts to reduce the deficit.

While Hamilton does not like the gas tax and the Medicare cuts, as well as the alcohol taxes that will affect distilleries in his district, he says he will support the package because it is the first credible attempt at deficit reduction in 10 years.

"This is a major policy shift toward a responsible fiscal policy," said Hamilton.

David Hess, John Monk and Mike Sante of the Inquirer Washington Bureau contributed to this article.

The Philadelphia Inquirer
Wednesday, October 3, 1990

Balanced-budget forecast relies on renewed growth of economy

By John M. Berry
Washington Post

WASHINGTON — The Bush administration's new forecast that the federal budget can be balanced in three years, which accompanied the deficit reduction agreement, hinges on White House hopes that a recession can be averted and that soaring oil prices will turn sharply downward again next year.

In their updated projections for 1990 through 1995, Bush economists are counting on a drop in world oil prices to help the economy bounce back late next year from a period of slow growth that has already lasted for 18 months.

The oil price assumption, in turn, is dependent upon resolution of the confrontation with Iraq quickly enough to knock the average price of domestic crude, which recently hit $40 a barrel, down to $24.15 during 1991 and to $21.10 in 1992.

White House economists do not see recession in 1991 but project the economy will grow at 1.3 percent next year, after allowing for inflation, and 3.8 percent in 1992.

The forecast is similar to that of a number of private economists, who also assume that the Iraqi situation will be resolved one way or another by next spring. It also assumes that if the resolution involves war, the ability of Saudi Arabia to produce oil will not be significantly damaged.

But it is more optimistic than those of other private forecasters, such as Donald H. Straszheim, chief economist of Merrill Lynch & Co., who declared late last week that the economy fell into a recession around mid-year — before the Persian Gulf crisis erupted.

A recession would not have much effect on the spending cuts and tax and fee increases in the budget agreement. Likewise, the proposed $500 billion worth of deficit reductions over five years would not depend on how well the economy performs.

But a recession could cause the deficit to soar beyond $300 billion this year even if the proposed $40 billion deficit-reduction package for 1991 is enacted.

The new forecast released with the budget accord on Sunday already shows a deficit for this year that is $30.4 billion larger than the one predicted just two months ago. For the 1991-95 period, the forecast shows a deficit higher by almost $200 billion. In other words, the deficit outlook has deteriorated to the point where $200 billion of the proposed $500 billion in spending cuts and tax and fee increases will be used just to offset the effect of the worsened economic outlook, according to the figures released by the budget negotiators.

Under the Gramm-Rudman deficit-reduction law, further deterioration of the economic outlook could cause problems next year in meeting a new target for deficit reduction. To avoid this possibility, budget negotiators proposed changing the way in which the Gramm-Rudman law works.

If the changes are adopted, next March administration and congressional representatives will agree on an economic forecast that would be used in projecting the 1992 deficit even if the outlook changed between then and the beginning of the fiscal year. That way, a decline in economic growth could not trigger a set of vast automatic spending cuts in discretionary spending programs, as nearly happened this week.

The Philadelphia Inquirer
Wednesday, October 3, 1990

The near-poor would bear burden of Medicare cuts

By Charles Green
Inquirer Washington Bureau

WASHINGTON — Under the proposed Medicare cuts, a millionaire retiree and an elderly widow with an annual income of $8,000 would have to pay the same amount — more than $300 a year — in additional health-care expenses by 1995.

"It's clearly inequitable to charge all Medicare beneficiaries the same increase. It puts the burden on those least able to bear it," said Fernando Torres-Gil, a gerontology professor at the University of Southern California.

"God forbid if the near-poor elderly have to go into the hospital," said Thomas Burke, former chief of staff of the Department of Health and Human Services.

As health-care costs skyrocket, Medicare is becoming increasingly burdensome for the elderly. They also are caught between the government's desire to have them shoulder a greater share of health-care costs and government's fear of provoking politically potent, well-off retirees.

Negotiators seeking ways to lower the budget deficit briefly considered proposals to have upper-income elderly pay more for their Medicare benefits, but they quickly dropped the plan amid concerns that it would trigger an outpouring of opposition. Negotiators also backed away from proposals to impose higher taxes on the Social Security benefits of middle- and upper-income beneficiaries.

Defenders of the current Medicare system worry that any attempts to make upper-income elderly pay more for Medicare would erode their support for the program and weaken its political base.

Instead, budget negotiators opted to raise the premiums, deductibles and copayments equally for all Medicare beneficiaries above the poverty line. For Medicare beneficiaries under the poverty line, the Medicaid program for the poor would pay for the out-of-pocket expenses.

The budget deal would set aside $2 billion to help defray costs for those just above the poverty line, but analysts question how far the money would go.

John Rother, legislative director of the American Association of Retired Persons, said the assistance would be targeted to those with incomes between $5,947 and $7,434. A single retiree making $8,000 would, thus, be ineligible.

"The premium is not that much of a burden for moderate to upper-income seniors, the problem is the near-poor category," said Rother. "For them, it pretty much has the same impact as a Social Security benefit cut."

About 11 percent of the elderly are poor, and an additional 15 percent, or nearly five million, have incomes between 100 percent and 150 percent of the poverty line.

To enhance political support for Medicare, the program was designed on the premise that out-of-pocket expenses for beneficiaries would not be altered by their incomes.

The decision initially had a minor impact on Medicare beneficiaries. Monthly premiums for Part B of Medicare — the portion that covers doctor bills and outpatient hospital expenses — were only $3 when Medicare was started. Now they are $28.60 and would climb to about $54.30 under the budget plan.

Twenty-five years ago, the annual deductible for the typical hospital stay was $40. Today, it is $592.

Then and now, Medicare beneficiaries typically must pay 20 percent of the cost of medical procedures. But with the cost of medical care rising twice as fast as other prices, that payment is significantly higher.

Looking at the trends in Medicare spending, some health-care analysts have concluded that it is inevitable that upper-income elderly will have to bear a larger share of the cost of the program.

"The status quo is not an alternative," said Richard Lamm, the former Colorado governor who now heads a public policy institute at the University of Denver. "Why should our kids support programs for the rich elderly? Why do we transfer all of this money from the workers to the retirees, some of whom have a hell of a lot more money than the poor people we're taxing?"

The Philadelphia Inquirer

Wednesday, October 3, 1990

Budgetary baloney

The deficit-cutting plan is a fraud, but the alternative could be worse

The federal budget summit has cooked up a stew of taxes, cutbacks and gimmicks that is far less potent than its supporters or critics will admit. It will let spending exceed revenue by more than $250 billion over the next year — a record.

What President Bush and congressional leaders are touting, then, is not a plan to cut the deficit any time soon, but to keep it from growing even larger. That said, it would be dangerous for Congress to reject the deal, particularly since nearly all the flak is coming from politicians and interest groups that want to weaken it further. Better to approve it now and try harder next year.

How did the summiteers come up with something so weak after five months of bargaining? It's simple. They didn't cut military spending enough, they scarcely touched domestic spending, and they didn't raise taxes very much either.

Look at taxes. Even after the Democrats made Mr. Bush abandon his "no new taxes" rhetoric, the deal doesn't have much to show for it — just $16 billion for the first year. The biggest change is a phased, 10 cents-per-gallon increase in the tax on gasoline and a new, two-cents-per-gallon tax on all petroleum products. The second-biggest tax item is a stale gimmick: getting the IRS to squeeze an extra $3 billion from deadbeats and cheats. Good luck.

The next-biggest item would *lose* nearly $3 billion: letting small businesses write off certain business costs more quickly than big business can. And despite all the hoopla about higher taxes on cigarettes and alcoholic beverages, that would raise only $2 billion in 1991.

The only other tax hike that's outside the miscellaneous category known as "cats and dogs" is a slight limit on deductions for people with six-figure incomes, but that has almost no impact until 1992. And, apart from taxing a few big-ticket luxury items, that's about it in terms of raising money from wealthy people who made out like gangbusters in the 1980s.

As for defense spending in 1991, it would be about $303 billion, which would nearly keep pace with inflation. (The summit deal tried to create the illusion of defense savings by excluding the cost of Operation Desert Shield from the budget figures.) This figure is hard to fault when nobody knows how long the Persian Gulf crisis may continue — and whether it can end without war. But for later years, the plan to freeze military spending isn't a bold enough departure from Cold War levels for arms and men.

Thanks to Democratic pressure, most domestic programs would keep pace with inflation not only this year, but for the next three years. The prime exception is Medicare, where fast-growing costs would be cut by nearly $5 billion for 1991. Health care providers and beneficiaries would share the burden. Despite the yelps from senior citizen groups and the health care industry, that's a sensible target. But for 1991, the only other big-ticket item is a $1.3 billion cut in farm programs.

To make their deal appear more serious, the summiteers used some major gimmicks. First, they claimed their plan would reduce deficits so much that it would save $65 billion over five years in interest charges. That's ridiculous. Second, despite claiming to have written a five-year deal, they deadlocked over how to reduce spending on defense and on most domestic programs in 1994 and 1995, so that fight's still to come.

Sorry, this isn't a five-year fix. It's a one-year slide. And the only thing worse than approving it would be to weaken it.

THE SUN
TUESDAY
OCTOBER 2, 1990

Md. delegation remains undecided on endorsement of deficit-reduction package

By Tom Bowman
Washington Bureau of The Sun

WASHINGTON — The deficit-reduction package may have won the endorsement of President Bush and congressional leaders, but most members of the Maryland delegation remain undecided, with a proposed increase in Medicare payments their chief complaint.

Only Representative Steny H. Hoyer, D-Md.-5th, a member of the House leadership, and Sen. Paul S. Sarbanes, D-Md., said they could support the package. Both men said the alternative to the budget accord would be automatic spending cuts, which would be devastating to the economy.

"It's something that I can support," said Mr. Hoyer, chairman of the House Democratic Caucus. "It's better than the alternative, and the alternative is sequestration, gridlock .. future deterioration in the confidence of the American economy."

Added Mr. Sarbanes: "We're up against some very tight deadlines. If we don't get a package we're going to be back with chaos."

The remaining eight members of the delegation said they were engaged in fiscal fence sitting.

"I'm still studying it," said Representative Tom McMillen, D-Md.-4th, a refrain echoed by his colleagues.

Most of the members grumbled about a nearly $6 increase in monthly Medicare premiums — from the current $28.60 to about $34 — by Jan. 1 for the elderly and disabled.

"Medicare is my highest priority," said Representative Benjamin L. Cardin, D-Md.-3rd, a member of the tax-writing Ways and Means Committee, who said the 5 percent increase in monthly premiums is too high. Mr. Cardin also said he was opposed to an increase in the annual deductible paid by Medicare beneficiaries, which would rise from $75 to $100 on Jan. 1, $125 in 1992, and $150 in 1993-1995.

Mr. McMillen and Representative Kweisi Mfume, D-Md.-7th, also said they were troubled by the suggested increases in Medicare premiums, while Representative Constance Morella, R-Md.-8th, proposed taking more money out of the defense budget to put into Medicare.

Representative Helen Delich Bentley, R-Md.-2nd, said she found it difficult to support an increase in Medicare premiums while foreign corporations still owe the treasury $35 billion in taxes.

Since the state of Maryland bears the Medicare costs for lower-income residents, the initial increases would cost the State House about $2 million, said Monica M. Healy, director of the state's Washington office.

But she agreed the budget accord is better than across-the-board cuts that would have kicked in yesterday — the start of the fiscal year — without an agreement. Gov. William Donald Schaefer said such drastic cuts would "wreak havoc" on the state's economy.

Representative Roy P. Dyson, D-Md.-1st, said that while he can support the "luxury item" liquor and cigarette taxes, he found the gasoline tax "most onerous" to his auto-dependent constituents. "We don't have any Metros or subways in the 1st District," he said.

Meanwhile, many of the delegation members said they were relieved that the budget accord did not eliminate the 3.5 percent cost-of-living raise for federal workers.

The Dallas Morning News

Dallas, Texas, Monday, October 1, 1990

Measures aim to reduce need for energy imports

By Anne Reifenberg
Washington Bureau of The Dallas Morning News

WASHINGTON — The budget deal struck Sunday would give oil and gas producers new incentives and boost taxes on gasoline and other petroleum products while giving home heating oil customers a break.

The agreement includes a five-year, $4 billion incentive package that congressional aides said would substantially increase domestic oil and gas output in Texas and other energy-rich states.

It also proposes a 2 cent-a-gallon tax on all petroleum products except home heating oil. The tax on gasoline and diesel fuel would go up a nickel a gallon Dec. 1 and another nickel next July 1.

The combination of energy measures could help reduce U.S. dependence on foreign suppliers, which President Bush said was "an objective whose importance has become increasingly evident in the face of the Iraqi invasion of Kuwait."

Similar ideas were discussed before the invasion Aug. 2 and received scant attention. Mr. Bush outlined a number of production incentives earlier this year in his annual budget proposal but never moved to have his recommendations transformed into legislation. Bills that were introduced by lawmakers from the Southwest were all but ignored.

"We are paying the price for not having had an energy policy for the last dozen years, and you can't turn that around overnight," said Sen. Lloyd Bentsen, D-Texas. "I don't think we will ever again be totally energy-independent, but to the degree that we can moderate it, we should."

Mr. Bentsen called the incentive package "a major plus for Texas," the nation's largest producer of oil and a leader in natural gas.

Industry leaders in Texas were skeptical, however. They noted the decision to exempt heating oil from the product tax — a relief to Northern states — while boosting the tax on gasoline and diesel fuel. Those are big-ticket items in automobile-dependent Texas and other sprawling Sun Belt states.

"I'd say that decision was about 90 percent political and 10 percent understanding of the needs of the region," said Danny Conklin, chairman of Philcon Development Co. in Amarillo and a former chairman of the Independent Petroleum Association of America. "They're trying get $12 billion a year off gasoline sales and nothing off heating oil.

"But that (the higher gasoline tax) will curtail some of our usage," he conceded, "and I can't argue with conservation."

Mr. Conklin called the $4 billion energy incentive package "not too shabby." Some in Washington, he suggested, "have determined that the domestic petroleum industry is important to the country and that it needs to be healthy."

Oil and gas production in the United States has fallen dramatically since the worldwide price collapse of 1986, when crude prices were more than halved in six months to about $10 a barrel.

Prices have jumped to nearly $40 a barrel since Aug. 6, when the United Nations imposed sanctions against Iraq and occupied Kuwait, cutting world supplies by about 4 million barrels a day.

But the volatility of the market and Middle East unpredictability have made companies — and lending institutions — reluctant to react by backing new U.S. drilling projects. The United States is the world's largest consumer of petroleum, importing half of all its oil.

Mr. Bentsen had sought to persuade congressional and White House budget negotiators to include in the new budget agreement a provision for an oil price floor at $20 a barrel. It would establish an oil import fee once U.S. crude prices slipped below that level, giving the industry and banks some sense of price stability.

That proposal, however, was an early casualty. "I had total opposition from the Northeast," said Mr. Bentsen, the chairman of the Senate Finance Committee and one of the key budget negotiators.

Sen. Phil Gramm called the energy package "dramatic," saying it would "induce billions of dollars in finding and producing new oil to turn the wheels of industry and agriculture in America."

But the Texas Republican added that the gasoline tax increase was "a bitter pill to swallow."

"Had I written the package by myself," he added, "it wouldn't have been there."

The present federal tax on gasoline is 9 cents a gallon. Should Congress accept the accord announced Sunday, the tax would rise to 21 cents a gallon next July 1.

Texas collects an additional 15 cents a gallon. Some members of the state highway commission are calling for a 10-cent increase to rehabilitate deteriorating state roads.

The energy production incentives in the budget agreement include tax breaks for owners of stripper wells, which produce 10 barrels a day or less, and for producers who extract costly natural gas from certain types of geological formations that are common in Texas.

But many of the package's provisions — including the size of the tax credits that would spur drilling and encourage use of costly enhanced oil-recovery methods — were not specified before negotiators signed off on the agreement.

"Those details are being worked out," said a congressional aide. "There will be credits to encourage production, of some kind."

Mr. Gramm, a member of the Senate Budget Committee and a budget negotiator, said he, Mr. Bentsen and other lawmakers from oil-producing states "got 90 percent of what we wanted" on energy.

"We think it's going to help," he said.

Chicago Sun-Times
TUESDAY, OCTOBER 2, 1990

Martin raps budget deal; Simon says he's undecided

By Lynn Sweet
and Basil Talbott
Staff Writers

Rep. Lynn Martin (R-Ill.), seeking to unseat Sen. Paul Simon (D-Ill.), said Monday she will vote against the new federal budget compromise while Simon said he is opposed to part of the agreement but does not know how he will vote.

Neither Martin nor Simon offered an alternative budget plan to match the one Congress and the White House worked out to add $134 billion in higher taxes over five years to reduce the deficit by $500 billion.

President Bush and congressional leaders agreed to the compromise, which will raise taxes on gasoline, beer, wine, cigarettes and luxury goods. Medicare costs for senior citizens and the disabled would also increase.

The compromise "is a very ugly camel, and the committee that came up with it should be sent back to the zoo," said Martin while campaigning at a retirement home at 616 W. Arlington.

Martin's position is at odds with President Bush, who has been to Illinois twice to stump for her, most recently last week. "If I have to disagree with him, I do," said Martin, who has voted for tax hikes in past years.

"But I took a position long before this that new taxes were not the answer," she said. Asserting that the plan has "all the things he's [Simon] for," Martin said, "So he better vote for this bill."

In Washington, Simon said he is postponing final judgment until he has read the full proposal, but his initial reaction was "negative."

"I've been willing to listen to what the president and others are saying about this package. But the more I see of it, the less willing I am to support it," he said.

Simon said he did not object to higher taxes on cigarettes or luxuries, such as furs or jewelry, and called an alcohol tax increase "reasonable."

The senator faulted the bill for the Medicare increases, for taking a "huge chunk" out of farm aid and for raising the gasoline tax, which he said would hit rural areas and middle- and lower-income families.

Simon, whose attendance record has been attacked by his opponent, criticized Martin for not flying back to Washington for a vote at Sunday's budget agreement deadline as he did.

Simon and Martin were both at Comiskey Park on Sunday for the final game at the old White Sox park. "I left the game at Comiskey Park after the third inning," he said. "She stayed at the game."

Chicago Sun-Times
TUESDAY, OCTOBER 2, 1990

Budget agreement was disappointing

Common wisdom says that if you get people from both sides mad at you, you must be doing a pretty good job.

Not necessarily.

A case in point is the federal budget agreeement crafted over the weekend.

The noise from both sides is loud indeed. From the right, Rep. Dana Rohrabacher (R-Calif.) wailed, "I don't think it's a compromise. I think it's totally caving in to the Democratic liberals."

And from the left, Rep. Charles Rangel (D-N.Y.) laments that the package hurts the people who are hurting the most, while leaving the "richest of the rich alone."

So while common wisdom would suggest that such barrages from opposite ends of the political spectrum only demonstrate the genius of the budget compromise, they in fact may only show that reality dictates that we can't expect anything better.

The package could have been better if it had more fairly distributed the added tax burden among all taxpayers, instead of concentrating it on motorists and others. It could have been better if it had not relied on a catchall of tax increases that leaves the deal open to wide-ranging attack from an array of special interest groups, from California wine growers to the petroleum industry. It could have been better if it hadn't shifted more financial burdens onto state and local governments by requiring them and their workers to pay a Social Security tax. It could have been better if it had not been based on a shaky assumption that there will be no recession, or that crude oil prices will fall by a third or more.

It would have been best of all if the politicians earlier had exercised fiscal courage and restraint, and had not gotten us into this mess in the first place.

But, it also could have been worse if, for example, budget negotiators had settled on a series of Republican tax cuts that the negotiators themselves had said in a confidential analysis would have provided an over-all tax cut for the richest Americans while increasing the tax burden of everyone else.

And it could have been worse if they had done nothing at all, leaving the nation vulnerable to mandated, automatic spending cuts.

It will be even worse, though, if Congress and the president fail to carry through and do not approve what appears to be the only politically feasible deal that's on the table. Failing would leave the country a half trillion dollars further in debt, and that would be a drag on interest rates and the economy. And a ticking time bomb for future generations.

Chicago Sun-Times
TUESDAY, OCTOBER 2, 1990

Budget pact is too little, too late

First, let us give credit where credit is due. The credit is due Senators Phil Gramm (R-Texas), Warren B. Rudman (R-N.H.) and Ernest F. "Fritz" Hollings (D-S.C.), without whose efforts in fashioning the Gramm-Rudman doomsday law there wouldn't have been any budget agreement at all.

Congress has lost its courage; it won't make tough decisions that cause voters pain. The desire to get re-elected has overwhelmed the desire to lead.

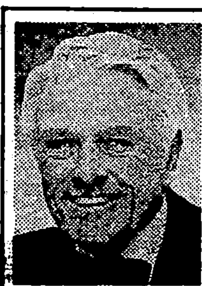
Gramm-Rudman, with its threat of automatic spending cuts requiring layoffs of tens of thousands of government workers, forced the negotiators to reach an agreement.

Our government always runs behind the curve.

It responds only to crises and then acts just enough to hold off the immediate crisis.

It never does enough to prevent the next one.

That is all the budget negotiators have done. They have staved off this year's political crisis, but they haven't put us on the road to ending the deficits or balancing the budget.



Otis Pike

From where they start, after a truly disgraceful four months of finger-pointing and posturing, they cannot get to where they claim to be going.

It is always easy to balance the budget five years from now. The first version of Gramm-Rudman promised to do it this year.

The new package offers Gramm-Rudman III and 1996.

This year's cuts are always the tough ones. Only a week ago, they were still promising a $50 billion cut in the deficit for the fiscal year that started Monday. All they came up with was $40 billion. From that we subtract our estimated cost of operations in the Persian Gulf, $5.4 billion, leaving a "real" cut of only $34.6 billion.

Compare this merely possible cut with the fact that between January and Sept. 30, the administration's own estimates saw the 1991 deficit increase by more than $230 billion.

How real are the deficit reductions? The tax increases are real enough to have most of Congress and most of the people screaming. We can take it if Saddam Hussein raises the cost of our gasoline by 25 cents a gallon in two months, but if Congress threatens to raise it by 12 cents in two years, we scream. There are petitions in thousands of liquor and grocery stores across the land telling Congress not to raise the tax on beer. The White House pretends that lowering deductions is not raising taxes. We scream.

The cuts in spending are illusory, but still cause screams. Cutting spending on our military programs by 14.5 percent over three years is a promise as transitory as tomorrow's headlines. Cutting farm programs 25 percent is something Congress has never learned. Cutting Medicare by $60 billion over the next five years has liberals screaming. Taking $34 billion out of an economy on the brink of a recession has conservatives screaming.

"Now comes the hard part," said Senate Majority Leader George Mitchell (D-Maine). The package may not pass. The Republicans like it less than the Democrats, and the Democrats won't vote for it unless the president can sell it to the Republicans. The package produced by the congressional leaders and White House negotiators, presumably the best and brightest, is being savaged by the least and loudest. The opportunities for demagoguery are unlimited. You're all for reducing the deficit, but this deal is unfair to old folks (if you're from Florida), to farmers (if you're from Kansas), to wine growers (if you're from California), to oil producers (if you're from Texas). There are hundreds of nits to be picked and politicked.

The package has plenty of fakery in it. There is the assumption that the economy will avoid the recession most economists feel we're already experiencing.

There is the assumed $9 billion in revenues from that hoary old standby, "better enforcement" of the tax laws.

Gasoline and airline taxes are diverted out of the highway and airport trust funds and into general revenue. It still uses the Social Security surplus to mask the true size of the deficit.

Still, it is the only package they have, and they had better vote for it just to get past this year's crisis.

For the long haul, despite all the screaming, it is too little and too late.

Chicago Sun-Times
TUESDAY, OCTOBER 2, 1990

Budget deal is bad deal to lower-income people

Dennis Byrne

If you listen to the politicians, you would think they had scaled Mount Everest by coming up with the federal budget deal.

But the deal was little more than an exercise in political wimpsmanship. Faced with tough choices about whom to gouge, the politicians did what they increasingly do best—they put the heaviest load on those least able to pay.

True, they tossed a bone of progressivity into the deal, by imposing higher taxes on luxury purchases and limiting deductions that wealthier people can claim. But compare the revenues that these measures will produce with what will be generated by the package's biggest and most regressive tax increase—higher gas taxes. The gasoline tax will raise $45 billion over five years. The limits on wealthy folks' deductions will generate only $18 billion. And the ballyhooed luxury tax? A paltry $1.9 billion.

Unless the rich begin driving a half million miles a year, the gasoline tax will not be nearly as painful for them as it is for lower- and middle-income Americans. While most of the complaints about the gas tax increase will come from rural or suburban areas where people depend more on their cars, the measure falls even more heavily on the growing legions of low-income inner city workers who increasingly need a car to get to the tens of thousands of jobs that have fled to the suburbs, beyond the reach of public transit lines.

The increased taxes on beer, wine, liquor, cigarettes and petroleum products—consumer taxes all—also are fundamentally regressive.

In the next few weeks, you'll hear endless debate about the impact of the tax package, debate that will grow arcane and confusing. And needless, because we could have clearly known the impact had the pols simply relied on the most progressive tax around—the income tax. It would have distributed the pain over the broadest segment of society, but in a way that takes into account each person's ability to pay.

But politicians aren't interested in spreading the pain broadly and fairly when they can get away with lumping it in one spot—among people who have the least ability to complain. Astonishingly, Democrats gave up on an income tax increase in order to get Republicans to give up on a capital gains tax cut—as if there were parity between the two proposals. It's like saying you can either accept a regressive tax package or a horrendously regressive tax package.

Some choice.

But who should be surprised? Politicians of all stripes, in order to maintain the fiction they are fighting taxes, are saddling Americans with all kinds of burdensome, regressive levies. Locally last week, we saw the sorry spectacle of two Democrats—Mayor Daley and Ald. Edward M. Burke (14th)—proposing to make what is already the most insidiously regressive tax—the lottery—even more so by backing a 25-cent surcharge on every $1 spent on lottery tickets sold in Chicago.

And the Democratic gubernatorial candidate, Neil F. Hartigan, is sounding more like a Republican all the time with his approach to the income tax. Hartigan opposes continuation of the state income tax surcharge, which is designed to fund schools and reduce the regressive local property tax burden. Not to worry, Hartigan says, he'll make up for much of the loss of the income tax with some fairy-tale concoction of unspecified budget cuts.

I guess we've got no other choice but to accept the budget package. The alternative to accepting—a worsening national debt and the certain catastrophe we'd be leaving our children—is even more unacceptable than regressive taxes. What it comes down to is this: Shaft us now, or shaft our kids later.

Dennis Byrne is a member of the Chicago Sun-Times editorial board.

The Miami Herald
TUESDAY, OCTOBER 2, 1990

Approve budget accord

IT'S AS GOOD AS IT CAN GET

IN ANY OTHER year since the Federal Government began to amass huge budget deficits, Sunday's bipartisan budget agreement would have been hailed as a painful, yet necessary combination of tax increases and program cuts totaling $40 billion for the fiscal year that began yesterday.

Such praise will not be forthcoming this time around, however. Even with an accord that promises to pare $500 billion from Federal deficits over the next five years, the 1991 deficit will be approximately $293.7 billion. In addition, recession and war stalk the United States; the savings-and-loan catastrophe has added billions of dollars to budget shortfalls; higher and rising oil prices are sure to slow growth in the world's economies this year.

Nonetheless, the budget accord deserves quick passage through Congress. Given a woeful political and economic climate, it is probably as good as the American people are likely to get. As House Speaker Thomas Foley noted: "This isn't the kind of thing that the political system wants to go racing out into the streets saying, 'Joy, Joy!' " But at least it saved the economy from the disaster of meat-ax Gramm-Rudman sequestrations.

Still, the accord will be widely regarded as insufficient in one way or the other for several reasons: Either because it makes untenable assumptions about oil prices and economic growth, places new burdens on the middle classes, lets the rich off the proverbial fiscal hook, or, according to some Republicans, it fails to stimulate economic growth adequately.

To reach the accord after four months of tortuous negotiations, both the Democrats and the White House gave up something. Some Republicans have flayed President Bush for making concessions on a capital-gains tax cut and for abandoning his no-new-taxes pledge. Democrats will not be pleased by the negotiators' decision not to increase tax rates for the wealthy.

Already some economists are saying that the accord will help the economy, as the Federal Reserve will see the "deficit-cutting" measures as sufficient reasons for lowering interest rates. That may be an expression of premature optimism. The deficit has not been pared significantly. But Democrats and Republicans, two months before elections, have at least shown a rare willingness to detain its growth.

The Hartford Courant

Tuesday, October 2, 1990

The shotgun marriage worked

After all their huffing and puffing, the White House and congressional negotiators agreed on a deal to bring down the projected budget deficit to $250 billion for the fiscal year that began Monday. The quarter-trillion-dollar gap is still wider than required by the Gramm-Rudman-Hollings deficit-reduction law, but don't expect miracles; the target has been missed every year since the law was enacted in 1985.

Once upon a time, Gramm-Rudman-Hollings called for a balanced budget in five years, but the timetable has repeatedly been stretched out. Faced with reality, congressional and White House negotiators agreed Sunday on pushing back the target to 1996. No one should bet on a balanced budget by 1996, however. Remember when Ronald Reagan campaigned against the deficits in 1980 and promised a balanced budget in the third year of his administration?

To greet the negotiators' accomplishments guardedly, however, is not to call for rejection of the tax and revenue package. If Congress fails to approve even so minimal a package, the nation's future will be grim indeed.

As Senate Republican Leader Bob Dole said, the deal is easy to pick apart. Lawmakers worried about re-election will find, in Mr. Dole's words, "something you don't like and vote no." Leaders of both parties already are saying they may let members facing tough re-election battles vote no if they think it would save their seats. But would voters really be impressed with gutlessness and expedience?

Of all the participants in the negotiations, President Bush deserves the most credit for traveling the greatest distance toward compromise. His read-my-lips nonsense on taxes is now history. His obsession with cutting the capital gains taxes to benefit the richest 1 percent of taxpayers was based on a dubious economic assumption.

In the compromise, there will be some tax breaks but narrowly and fairly aimed at increasing incentives for investment only in small businesses and for a one-year extention of incentives to encourage energy investments and low-income housing.

The higher taxes are fairly distributed, with increases on gasoline, tobacco and beer having their greatest impact on people nearer the bottom of the economic pyramid. For the better off, there would be a new 10 percent excise tax on luxury items (for example, cars costing more than $30,000 and boats more than $100,000). The tax on airline tickets would increase by 2 percent, and taxpayers whose incomes exceeed $100,000 would lose some deductibility.

The weakness of the revenue side of the equation is its modesty. Gasoline, cigarette and liquor taxes could be higher for reasons of public health, conservation and for incentives to develop alternative energy sources. Negotiators should also have burst the so-called bubble that gives the very wealthy (a couple with an income of at least $200,000 a year) a lower tax rate on a portion of their income than the upper middle-class.

Tax increases alone will not solve the deficit crisis. White House and congressional negotiators no doubt will boast of the $170 billion in budget cuts over five years that they agreed upon. They could have done better.

Moreover, the highly-touted cuts are at least partly deceptive because included in the so-called trims are increased premiums and a higher deductible for Medicare for the better off recipients of this government service. Higher premiums and deductibles are revenue enhancers, not program shrinkers.

Although agreement has been reached in principle, much remains to be done in the next month. Lawmakers can thank the Gramm-Rudman-Hollings deadlines for forcing them to make decisions. Since 1985, the law has been widely denounced as unworkable, but it has done the job in that crucial respect.

As Republican Sen. Phil Gramm observed, "This is not a marriage of love or convenience. I'm afraid if we take the shotgun away, they may not say I do."

THE SUN

BALTIMORE, MARYLAND
OCTOBER 1, 1990

At Last, a Budget Package

President Bush and the congressional leadership have finally produced a solid, responsible budget package that deserves prompt legislative approval. Unless a positive response comes from Capitol Hill within the next three weeks, the nation once again will be threatened with fiscal chaos, governmental breakdown and a worldwide perception that U.S. economic policy is paralyzed.

Despite needless delays and fundamental differences between a Republican emphasis on "growth" and Democratic appeals for "fairness," there is now bipartisan agreement on the largest deficit-cutting formula in the nation's history — a $500 billion retrenchment over five years.

Especially heartening in light of the Persian Gulf crisis was the proposal to more than double gasoline taxes over two years. Mr. Bush rightly said this will "help reduce America's vulnerability to the interruption of supplies of foreign oil."

Also reassuring was the decision to rebuff moves within both parties to undermine the landmark 1986 tax reform act. The president's stubborn insistence on a cut in the capital gains tax would have marked a retreat from the concept that all kinds of income should be taxed alike. He deserved a defeat on this issue, and got it. Democrats responded to the Bush capital gains tax gambit by trying to raise marginal income tax rates on the wealthy, the other part of the 1986 tradeoff. This maneuver also got a well-warranted rejection.

Negotiators came up with proposed increases in beer, wine, liquor and tobacco taxes that are long overdue. Any kind of flat excise tax on items widely purchased by consumers is regressive. But such Joe Six-Pack "sin taxes" were balanced by proposed federal levies on high-priced cars, furs and other luxury items. The affluent will also be hit by limitations on itemized deductions that can be claimed by taxpayers in the $100,000-plus range.

Probably the most difficult proposal, politically, would increase monthly premium costs for Medicare. Less controversial would be a reduction in fees paid to doctors and the imposition of payroll taxes to support Medicare on income up to $73,000. Washington could not get up its collective gumption to increase the amount of Social Security benefits taxed as regular income.

If Congress accepts the bipartisan compromise, the projected deficit will be cut $40 billion in fiscal 1991 but will still be the largest in history ($250 billion plus.) So the new package really should be judged not as a quick fix but as a genuine attempt to impose and maintain deficit-reduction enforcement. This will depend on the endurance of its limits on spending as much as on its tax provisions. If expenditures can be held at or below the inflation rate, the nation might be pointing at last in the direction of fiscal sanity.

Chicago Tribune

October 2, 1990

A need for political courage . . .

With his usual insight, Sen. Bob Dole of Kansas issued an apt warning about the bipartisan agreement reached Sunday to cut the federal budget deficit.

"The naysayers, the nitpickers may have a field day," the Republican lawmaker prophetically observed, "because the easy vote in this case is to find something you don't like and vote no."

If the early potshots from the populists in Congress who want more taxes on the rich and from the conservatives who want no new taxes at all are any indication, President Bush and the legislative leadership will face a gargantuan task trying to sell this deficit-cutting plan to the rank and file.

There are legitimate concerns about the plan's risks to a slowing economy, and some of its specifics are troublesome. But it would have been impossible to make any significant dent in the deficit without risks and quibbles. This proposal spreads its burden over a broad range of people and programs, utilizing spending cuts as well as tax increases with what appears to be a minimal amount of pain to the less affluent and a bigger burden to the more affluent.

A prime concern is whether the lower deficit projections are based on economic assumptions that are too rosy. The first-year savings of $40 billion, for example, ignore the cost of the military buildup in Saudi Arabia. And savings in future years are based on the unlikely expectation that oil prices will stabilize at only $24 a barrel next year and then decline slightly.

There shouldn't be much controversy, however, over raising taxes on gasoline, alcohol, cigarettes and luxury items. (It's reasonable to wonder, though, why the floor for taxing yachts is $100,000, while it's $30,000 for automobiles. A $35,000 car is a luxury, but a $95,000 boat is not?)

With angry motorists already moaning about higher gasoline prices because of the Persian Gulf crisis, there will be complaints about the two-step, 10-cent boost in the federal gas tax, raising it to 19 cents a gallon by next July 1. But even at prices over $2 a gallon, gasoline will still be considerably cheaper here than in other industrialized countries. And the higher prices should encourage motorists to drive less or to purchase more fuel-efficient cars.

Older Americans will not be happy about paying nearly twice as much a month for their Medicare insurance, raising their premiums to $54.30 a month by 1992. But health care is a rising expense for everyone, and the plan provides about $2 billion to help poorer Medicare recipients bear the higher costs. And about half of the Medicare savings would come from reduced payments to physicians. As onerous as this will be for many retired people, it should be preferable to raising the tax on Social Security benefits, an option rejected by the budget negotiators.

Not all of the details of the agreement have been finalized, and that leaves room for special-interest politics. The plan calls for a $13 billion cut over five years in payments to farmers, for example, but it opens the way for the congressional agriculture committees to concoct some illusory savings rather than real ones. In this area, the negotiators tread too lightly. Farm subsidies could have taken a bigger hit.

There is economic risk in this agenda, but with the '91 budget shortfall soaring close to $300 billion, there is a far greater risk in picking this plan to death and falling back on the usual fiscal flimflam.

If Washington doesn't start down this road toward budgetary responsibility, it will continue to strangle the nation's economic growth by siphoning off money from private investors and become increasingly dependent on foreign capital. America cannot maintain a leadership position in the post-Cold War world if it doesn't break its habit of spending hundreds of billions more each year than it takes in.

That can't happen with cuts alone. The deficit is too huge. Some new tax money is essential. Fears that higher taxes will push a teetering economy deeper into a recession should be eased by the plan's measures to boost research and development, housing construction and small businesses.

And in the long run, if deficits are cut and Washington begins to live within its means, interest rates are bound to decline, stimulating growth.

Bob Dole is right. Politicians more concerned about their political hides than the nation's welfare can pick this agreement apart. Let's hope that enough of them will muster the courage to act together and pass a credible deficit-reduction plan. This one deserves to be put in place quickly.

. . . And an irresponsible reaction

For a vivid example of what Senate Minority Leader Bob Dole meant when he warned about the naysayers and the nitpickers jumping all over the deficit-reduction plan, there is Rep. Lynn Martin of Illinois.

Martin, who hopes to join Dole's team by beating Democratic Sen. Paul Simon in November, didn't bother looking for nits in the $500 billion package. All she said was nay, nay and nay:

"I say, 'Kick the rascals out.' They're back at your pocketbook again. These are muggers in pinstripes suits. . . . This bill just increases taxes and places all the burden on seniors, on farmers and on productive members of society. For Illinois, it's a disaster."

Well, yes, the bill does place its burdens on seniors, farmers and productive members of society. Who else could Congress ask to help share the burden? Babies and the jobless? Seniors and farmers, in general, are relatively well off today. And the proposal does attempt to protect older Americans who live at or near the poverty level.

The "productive members of society" that Rep. Martin frets about would, it's true, pay more for expensive furs, cars and yachts, and a little more for cigarettes, alcohol and gasoline. This would be a "disaster" for Illinois? Surely not as much of a disaster as soaring interest rates, a certainty if Congress fails to make a sizable cut in the $300 billion 1991 deficit.

Simon's response to the deficit-reduction plan was only slightly better. His initial reaction was "negative," he said, but he admitted that he hadn't yet read the full proposal. Lynn Martin should take time to do that, too. And if "nay" is still her only response, then perhaps she will present her own plan for $500 billion in deficit cuts.

The Boston Globe
TUESDAY, OCTOBER 2, 1990

State's delegation finds little appeal in deficit plan

By John Aloysius Farrell
GLOBE STAFF

WASHINGTON – The Massachusetts delegation to Congress found plenty not to like and little to praise in the new budget accord.

"What I see disturbs me tremendously," Sen. John F. Kerry said yesterday, echoing the thoughts of many in the state's delegation. "I think the little guy ends up paying in a lot of pain.

"I'm concerned about some of the regressive aspects of it. I'm particularly concerned about what happens to some of the elderly," Kerry said. "I think given the state of the New England economy I'm particularly concerned about the effect on the region. We are obviously hurting already and I don't want to see something passed that's going to make it tougher for us."

But like almost all the state's delegation, Kerry would not rule out the option that in the end, he might vote to support the budget compromise. "I'm looking at it," he said.

Kerry's stand was generally mirrored by his Massachusetts colleagues. It was clear that if congressional leaders would make adjustments to those elements of the plan that deal with Medicare, the proposed tax on home heating oil, and the way new taxes are spread among poor, working- and middle-class constituents, they could win more support from Massachusetts.

Rep. Chester G. Atkins said, "It piles all of the cost of the decade-long orgy of greed of the Reagan era onto middle-income families, basically people earning $20,000 to $70,000 a year. At this point, I'm looking to see how much flexibility we have in changing the package."

"There is little justice in placing new burdens on the poor. Meanwhile the President and his negotiators brag that the wealthy have been spared even modest increases in income tax rates," said Rep. Edward J. Markey. "I intend to discuss these issues . . . with those who have forged the compromise before deciding whether to support or oppose this package."

If the compromise was unappetizing, the prospect of huge cuts in the federal budget mandated by the Gramm-Rudman deficit-reduction law could, in the end, be even more unpalatable, said Rep. Joseph P. Kennedy 2d.

"The budget summit agreement asks something for everyone. The problem though, is that it asks too much from those with a little and too little from those with much. Instead of asking more from the wealthy, whose income have gone up 94 percent over the last decade, while their taxes dropped 23 percent, the agreement soaks the poor and middle class.

"But allowing automatic budget cuts to go into effect would hurt even more. Therefore, before I decide how to vote on the agreement I want to carefully study the consequences. Gramm-Rudman budget cuts would hurt many more people, requiring cuts of $100 billion in the next year alone."

Said Rep. Gerry E. Studds: "I came to work this morning and found a large bottle of castor oil on my desk and the decision I have to make is drinking it or not. I guess the real question we face is what alternatives are there which are less unsatisfactory.

"It is a miserable rotten choice to be confronted with," he said. "I don't think there is a single member of Congress who likes the damn thing."

Rep. Barney Frank said that President Bush could help overcome his reservations about an increase in home heating oil if the administration acted to cut oil prices by more aggressively tapping the Strategic Petroleum Reserve.

Rep. Brian J. Donnelly said he needed some significant adjustments in the Medicare cuts before he could support the package. Rep. Silvio O. Conte, the delegation's only Republican, remained firm in his belief that the two-cent rise in home heating oil taxes must be deleted from the final agreement.

Sen. Edward M. Kennedy's spokesman said Kennedy is studying the agreement, and is "very concerned" about provisions affecting student loans, Medicare, the "unfair" impact of the home heating oil tax on New England families and by the "harsh tax burden on low- and middle-income families."

Aides for Reps. Joseph D. Early and Nicholas Mavroules said the congressmen were also studying the compromise, while a spokesman for Rep. J. Joseph Moakley said that the influential chairman of the Rules Committee believed the deal could be made more acceptable for his colleagues as the legislative process continues this week.

Few said they felt any pressure to accept the pact from hard-pressed constituents worried about the national economy.

"Obviously we were looking for some kind of economic stimulus, but I don't think this is it," said Rep. Richard Neal. "My inclination is not to be for it."

The Boston Globe
TUESDAY, OCTOBER 2, 1990

Bentsen confirms he secured higher home heating oil tax

By Michael Kranish
GLOBE STAFF

WASHINGTON - Sen. Lloyd Bentsen acknowledged yesterday that he was responsible for the last-minute inclusion of a new 2-cent-per-gallon tax on home heating oil, an act that outraged New England politicians and that some say could create enough opposition to kill the entire budget deal.

Bentsen, confirming a story in yesterday's Globe, said that when he learned Sunday morning that home heating oil was exempted from taxation, he "protested in the strongest possible terms." Indeed, several congressional officials said Bentsen threatened to oppose the budget deal unless home heating oil was taxed.

As a result, just hours before the budget was unveiled by President Bush in a Rose Garden ceremony, the powerful Texas Democrat managed to insert a tax on home heating oil into the budget deal. The change was so late that the initial White House document said "2 cent petroleum tax, without home heating oil," but the later documents said simply "2 cent petroleum tax," with an obvious erasure of the words "without home heating oil."

The White House chief of staff, John H.Sununu, was asked yesterday in an interview why he went along with the taxation of home heating oil. He said: "You'll have to ask the Democratic negotiators. They called up at the last minute and insisted it be taxed."

Rep. Silvio O. Conte, Republican of Massachusetts, said yesterday that he is livid that Bentsen inserted the tax at the last minute. Conte said that when he went to the White House for the ceremony, he was assured that home heating oil was not on the list of items to be taxed, but that when he left he learned that Bentsen had engineered the new tax.

Conte, who appeared in the ceremony with Bush believing that home heating oil was exempted from taxation, said yesterday that he might oppose the budget deal unless the exemption is restored. Conte said that many other members of Congress from New England, which is more dependent on home heating oil than any other region, told him they might oppose the deal because of the tax.

"This could cause the whole thing to come down," Conte said. "I was all set to try to sell this package, but now with this double-cross on home heating oil I don't know what I am going to do."

Mitchell reportedly pressured

Conte said he understood that Bentsen threatened to oppose the budget deal unless home heating oil was taxed and that Bentsen pressed the Senate majority leader, George J. Mitchell of Maine, to press for the taxation. Conte said that upset Mitchell, who vigorously opposed the tax. But in the end, Mitchell did what Bentsen demanded, Conte said.

Mitchell did not return telephone calls requesting comment. A spokeswoman, Diane Dewhirst, said Mitchell opposed the home heating oil tax, but that he accepted it as part of a compromise.

Bentsen's acknowledgement yesterday that he inserted the tax into the budget deal at the last minute created an uproar on Capitol Hill, where many members were not even aware that heating oil was to be taxed. Sen. James R. Sasser, a Tennessee Democrat and chairman of the Senate Budget Committee, said he was shocked to learn about the tax, which he thought was not included in the deal he approved.

Bentsen said that because he gave in to demands that gasoline be heavily taxed, he believed home heating oil should be taxed as well. Bentsen said he thought on Saturday that home heating oil was on the list of items to be taxed. But Bentsen said that on Sunday morning, just hours before the deal was to be unveiled at the White House, he learned that home heating oil had been exempted from taxation during negotiations Saturday night.

"When I learned Sunday morning that, in a midnight deal, home heating oil had been totally exempted from any tax at all, I protested in the strongest possible terms," Bentsen said in a statement.

Bentsen said the taxation of home heating oil accounts for $200 million out of the $500 billion package. Bentsen said that is a small portion of the package, "but symbolically it is important to send a signal that the different regions of the United States will all carry a fair share of this burden."

Representatives of home heating oil companies in New England said, however, that the tax will not distribute the burden fairly. They said the tax strikes at home heating oil, which is used in 57 percent of Massachusetts homes, but not at natural gas, coal or other forms of energy.

Jeff Raynes, president of the Better Home Heat Council, which represents oil companies in Massachusetts, wrote to the Dukakis administration yesterday and suggested that the governor contact his former vice presidential running mate and urge Bentsen to rescind the tax.

Raynes wrote: "As the governor's former running mate, Sen. Bentsen should be aware of the fragile economic framework of our region and our reliance on home heating fuels."

The Boston Globe
TUESDAY, OCTOBER 2, 1990

Both Rappaport and Kerry fault US budget plan

By Michael Rezendes
GLOBE STAFF

Voicing opposition to tax increases and raising doubts about spending cuts in the plan, both Massachusetts candidates for US Senate backed away yesterday from the federal budget proposal announced Sunday by President Bush and Democratic leaders.

Republican Jim Rappaport, running against incumbent Democrat John Kerry, yesterday flatly opposed the five-year, $500 billion deficit-reduction proposal.

"I understand President Bush's efforts to negotiate this agreement, but the fact is that he would not have been forced to accept these Democratic taxes if Republicans were a majority in Congress," Rappaport said in a prepared statement.

Kerry, at an afternoon press conference said he was leaning against the measure for a variety of reasons, although he has not arrived at a final decision. "I am very negative about this proposal," Kerry said. "I have very, very serious reservations about the regressive taxes in it. I have very serious reservations about the unfairness to our region in New England. I have serious reservations about the fact that it whacks the little guy."

Kerry and Rappaport both said that many of the taxes in the proposal fall disproportionately on middle-income families, and both faulted the proposed increase in Medicare premium payments for the elderly and the disabled. "The new taxes in this deal are regressive and unfair, especially to the working men and women of Massachusetts," Rappaport said. "The so-called spending cuts are not equitable, especially the Medicare cuts."

Kerry, in addition, said he doubted whether the spending cuts in the plan are sufficiently deep to win public support for the tax increases.

"I do not want the United States Congress to do what the turkeys up on Beacon Hill did when they refused again and again and again to listen to people," Kerry said. "People do not want to be asked to pay more taxes until they know the government has cut where it can cut."

Rappaport's unequivocal opposition to the federal budget proposal worked out by Bush and Democratic congressional leaders comes as Bush is scheduled to appear at a Boston fund-raiser Thursday and express support for Rappaport's candidacy.

"He's opposed to the compromise and will respectfully inform the president on Thursday that he cannot support it," said Jack Quinlan, Rappaport's campaign director.

Both Kerry and the Rappaport camp yesterday called for debates and highlighted the issues they plan to raise in joint appearances.

At his press conference, Kerry, who has released his tax returns covering the past five years, called on Rappaport to do the same.

To date, Rappaport has released incomplete federal tax information for 1989, no federal returns for previous years, and no state returns at all.

Kerry also criticized Rappaport for opposing a wide array of government subsidies while profiting from his part-ownership of the Charles River apartment complex, a federally-assisted project.

Quinlan, meanwhile, said Rappaport plans to use debates to underscore Kerry's connection to David Paul, former chairman of CenTrust, a failed Florida bank that will become part of the federal bailout expected to cost taxpayers billions in coming years.

Paul raised funds for the Democratic Senatorial Campaign Committee while Kerry was committee chairman.

The Boston Globe
TUESDAY, OCTOBER 2, 1990

Special interests gird for an uphill battle

By Stephen Kurkjian
GLOBE STAFF

WASHINGTON – A wide range of special interests, severely hit by the budget deal, began to rally their forces yesterday in what many feel will be an uphill battle to kill or alter the terms of the agreement.

From breweries to the elderly, groups protested that they are being asked to shoulder most of the "pain" that President Bush and congressional leaders referred to when they unveiled the budget package's proposals for tax increases and benefit cuts.

Groups representing the elderly cried foul the loudest on Capitol Hill. Under the agreement, approximately half of the $60 billion in program cuts will be made in the Medicare program, a toll considered far too heavy by the coalition called Save Our Social Security.

"President Bush and the budget summiteers are asking one-eighth of the population to shoulder one-half of the cuts in domestic spending, and that eighth represents the oldest, the sickest, the poorest adults, those least able to pay," said Ron Pollack, director of Families USA, a member of the coalition.

The Medicare coalition was considered most likely to win changes in the budget deal. The group combines two of the most potent ingredients for success on Capitol Hill: an ability to portray its burden as unfair, and the clout that comes with having a vocal and broad-based constituency.

Congress is expected to vote on the entire budget package by the end of the week.

"There's such a short time to manuever here that they've got to be willing to play hardball here," said one veteran lobbyist who asked not to be identified. "You've got to let them know if they vote against you, you'll vote against them."

However, the executive director of the American Association of Retired Persons, the organization with the most political clout in the Medicare coalition, said his group was not prepared to deliver such a explicit message to individual congressmen. "We don't engage in targeting of members or report cards," said Horace B. Deets, executive director of the association.

Because there is such little time to persuade a majority of the congressmen to vote against the entire package, most of the lobbyists said they would concentrate efforts today and tomorrow on trying to reach members of the committees that will be voting on the budget areas of their specific concern.

"I expect we will be inundated from a variety of groups," said a spokesman for Rep. Brian Donnelly, a Dorchester Democrat who is a key member of the House Ways and Means Committee. That panel will vote on the recommendations for tax increases.

"We're up against the President of the United States and the leadership of the Congress, both Republican and Democrats, saying that this deal is in the best interests of the country. Who are we to say otherwise?" said an official of the automotive industry, which has opposed earlier increases in the gasoline tax.

In fact, within hours of the announcement of the budget deal, Lee Iacocca, president of Chrysler Corp., released a statement calling the plan a "solid step." As a spokesman for Chrysler said yesterday, "If the economy goes down the drain, we all go with it."

According to some analysts, Iacocca's support of the package has caused Ford and General Motors to reconsider their past opposition to the gasoline increases.

The Beer Institute, which represents US breweries, knows how difficult it is going to be to make changes in the budget deal.

Although the proposed new beer tax is less than some brewery officials had feared, it still calls for a doubling in the beer tax to 32 cents per six-pack.

BOSTON HERALD

October 2, 1990

Reps rip home oil tax-hike plan

By JOE BATTENFELD

WASHINGTON — Stunned New England lawmakers slammed a proposed tax hike on home heating oil yesterday, calling it an unfair "sneak attack" on low and middle-income homeowners.

The 2-cent-per-gallon tax increase was inserted into the budget plan by Texas Sen. Lloyd Bentsen minutes before a deal was struck by Congress and President Bush Sunday.

Bentsen, Gov. Michael Dukakis' running mate in the 1988 presidential race, said yesterday he took the action to ensure that "all regions" of the country shared in cutting the federal deficit.

Rep. Silvio Conte (R-Pittsfield), a budget negotiator, had exempted heating oil from an overall tax hike on petroleum products prior to Sunday's announcement.

Conte and Sen. Edward Kennedy (D-Mass.) were reportedly infuriated with Bentsen for not consulting them about the last-minute maneuver.

Several lawmakers yesterday called on Dukakis to lobby Bentsen to reverse his move. An aide said the governor was not happy with the tax but was still studying its impact.

"This guy here is zinging us and zinging Mr. Dukakis, his running mate," an angry Conte said in an interview. "He (Dukakis) wants to do something for New England — he ought to get that yo-yo to change his tune."

Bentsen, however, said the move was necessary to counter an increase in the gasoline tax which would hit Western and rural states hardest.

"When I learned Sunday morning that in a midnight deal, home heating oil had been totally exempted from any tax at all, I protested in the strongest possible terms," he said.

A congressional aide said yesterday lawmakers from the Northeast and the Midwest were "shocked" by the inclusion of the home heating oil tax.

"This is really a sneak attack," said the aide. "It's a big issue everywhere it gets cold in the winter. I think everyone was pretty shocked about it."

A number of northern lawmakers worked feverishly yesterday to remove the Bentsen proposal from the budget deal, but it was unclear if that was possible. Some were not even sure that the heating oil tax hike was included in the deal, but the White House yesterday confirmed that the tax is there.

"It's part of the agreement," Bush spokesman Steve Hart said. "As to how the agreements were made, I don't know."

The House and Senate are set to vote on the agreement this week — as early as tomorrow — and it's unlikely lawmakers will have time to tinker with the compromise.

Lawmakers, however, may get a shot at removing the tax hike before the actual budget is voted on next week.

"I think we're going to have to wait," said Rep. Brian Donnelly (D-Dorchester), a member of the tax-writing Ways and Means Committee. "The members of the House ought to have some input on the final document."

Kennedy was working behind the scenes yesterday to eject the tax from the final package, according to aide Paul Donovan.

Rep. Barney Frank (D-Newton) said of the oil tax, "I think it's a mistake."

BOSTON HERALD®

October 2, 1990

State may feel pinch from '91 federal budget cuts

By PHIL PRIMACK

State revenues, already in a near free-fall, will slip at least a little more as a result of the weekend's federal budget deal, state Revenue Commissioner Stephen Kidder said yesterday.

Kidder said higher costs for gasoline and other products taxed by the state could lead to even lower consumer confidence and spending, both of which are already way down from last year.

He said gas tax receipts will dip by $10 million to $15 million as a result of the higher cost of gasoline. Total fuel tax revenue for fiscal 1991 is estimated at $450 million.

Kidder said his department will try to estimate other state tax losses once details of the federal package are known.

Kidder, noting that last month's sales tax take was down nearly 19 percent from a year ago, said the new taxes could cause consumers to defer purchases even longer, thus helping prolong the state's economic slump.

Another piece of the budget compromise — a $297 billion cut in non-Middle East defense spending next year — could also affect the state's economy.

But the actual impact cannot be gauged until the areas of military cuts are defined, said Federal Reserve Bank of Boston economist Yolanda Henderson, author of a Fed study on the regional economic effects of defense cuts.

In her study, Henderson said Massachusetts will suffer less than other states because much of its defense work is in research and development and electronics, areas likely to be cut less than major hardware projects.

BOSTON HERALD
OCTOBER 2, 1990

Deficit plan could boost CLT

By ED CAFASSO

A federal deficit-reduction pact that includes $134 billion in tax and fee hikes only fuels the public fire for passage of a ballot question that would rollback state taxes and fees.

Frustrated Massachusetts voters, unable to exercise any control over their federal tax burden, may decide to target their state taxes and vote for Question 3 Nov. 6, advocates on both sides of the rollback issue and analysts agreed yesterday.

As state officials implemented a new 5 percent tax on monthly residential phone bills — part of this summer's $1.2 billion state tax hike — Bay State voters awoke yesterday to the news of a potential hike in federal taxes on gasoline, cigarettes, beer, liquor, wine and luxury items.

"In the short run, it clearly hurts. The public reaction is, 'Oh my God, more taxes,' " said James Braude, director of the coalition trying to defeat the Question 3 rollback.

"But, in the longer run, voters will realize that — just like George Bush's tax-free pledge couldn't stand the test of time — it's just a matter of time until Barbara Anderson comes to grips with the same reality."

Anderson, leader of Citizens for Limited Taxation, offered a simple analysis of the federal tax plan's likely impact on her efforts to convince voters to pass Question 3.

"It can't hurt," she said. "There's nothing we can do about federal taxes. We already tried voting for a president who pledged no new taxes."

John Becker, president of the Becker Institute, a Sudbury think-tank, said the federal tax proposal "certainly isn't going to help" state rollback foes, but he also does not believe it will trigger "an automatic massive public opinion reaction" in favor of Question 3.

Added Paul Watanabe, chairman of the University of Massachusetts at Boston Political Science Department: "People are going to feel they're getting the whammy from 400 different directions. That, on top of th : hit people took here this summer, is going to make people much angrier."

The Philadelphia Inquirer

Tuesday, October 2, 1990

Mass. budget cuts threaten shelter for homeless veterans

Associated Press

BOSTON — New England's first shelter for homeless veterans, honored by President Bush, faces possible closure because of state budget cuts.

"To do this is unconscionable," Ken Smith, president of the shelter, said yesterday. "These guys have already paid the price."

Officials of the financially strapped state said they were considering closing the New England Shelter for Homeless Veterans and one other homeless shelter in the Greater Boston area. That could put nearly 400 people onto the streets. The Boston veterans shelter opened in January.

The Boston Globe
TUESDAY, OCTOBER 2, 1990

A deficit-addressing step

The best thing to be said about the tax-budget compromise worked out between the Bush administration and congressional Democrats is that it represents progress toward reducing the federal deficit in a coherent manner. Sound arguments can be brought to bear on practically every detail of the package, but the overriding need to end uncertainty over the deficit trend submerges all of those problems.

The most important unseen player in the compromise package remains Alan Greenspan, chairman of the Federal Reserve System. The agreement, assuming its passage, should permit the central bank to loosen up a bit on credit and, above all, to work toward lower interest rates. Lower rates remain a key factor in restimulating the economy and maintaining the competitive position of the dollar in international exchange markets.

Assuming passage.

That assumption cannot be made lightly. The swift response of political opponents among both Democrats and Republicans represents a serious, perhaps insurmountable obstacle to the hard-fought agreement won with less than no time to spare for avoiding wholesale, mindless cuts in federal spending under the terms of the Gramm-Rudman-Hollings deficit-reduction program.

Wall Street's reaction, with stock prices moving up smartly in the wake of the agreement, can only be encouraging. Although some may attribute the rise to the assertion that the tax provisions are a boost for the wealthy and a burden on the poor, the larger element appears to be expectations of falling interest rates. That would work to the advantage of all sectors of the economy.

Accepting the package in essentially its present form, for the sake of finally doing something tangible about the deficit, need not close forever the debate on taxes and spending programs. Virtually every part of the package has some opponents, and the implications of some aspects of it are disturbing in terms of basic tax policy. Once again, a tax package has moved away from the sound principle of progressivity. Fortunately, some steps can be taken to overcome that shortcoming.

The consumption taxes that dominate the package guarantee a regressive bias to the compromise. Political convention has insulated part of that from heavy criticism because few people rise in objection to heavier taxes on "sinful" activities like smoking or drinking alcoholic beverages, but the fact remains that such taxes do fall more heavily on those with lower incomes.

Ground has been broken in two other fields. A 10-cent increase in the gasoline tax is more than justified by the pressing need for additional funds to maintain and improve the federal highway system and other elements in the transportation network. The negotiators, however, refused to commit the revenues to the federal highway fund, retaining the option of using them for deficit reduction.

Of all the arguments for a fuel tax rise, this is surely the weakest. The increase will do little to encourage conservation of gasoline – a much stiffer tax would be necessary to achieve that goal – and threatens to undermine political support for the overall package.

At the same time, it does open the way for much more serious use of taxes to influence energy consumption. In the future, with a better budget outlook, Congress would do well to consider earmarking some of the funds to relieve the regressive nature of the tax through some form of subsidy for low-income families.

The tax on heating oil also may serve as a precedent for other moves in that direction, but sooner or later it will have to be accompanied by additional help for those most vulnerable to its costs. For the time being, it is relatively minor – $20 a year for households using 1,000 gallons. At that level, one wonders whether the cost of collection will not absorb most of the revenue raised.

Some of the savings are illusory from a societal point of view. Proposed changes in Medicare coverage may merely shift costs from that system to individuals, either for direct payments for services or through higher premiums for supplementary insurance. Again, Congress will have to consider means of providing assistance for lower-income beneficiaries.

All these shortcomings notwithstanding, the negotiators have at last made a meaningful step forward on the difficult task of chipping away at the deficit. Economic health demands no less.

The Hartford Courant

Monday, October 1, 1990—6 Sections

Deficit-cutting plan draws criticism from state's delegation

By SCOTT WENGER
Courant Staff Writer

Despite requests from President Bush and Democratic congressional leaders for bipartisan support of a federal deficit-reduction package, members of Connecticut's U.S. House delegation were quick to complain Sunday about portions of the plan.

None of the congressmen surveyed said they had decided to oppose the agreement, which is intended to save $40 billion the first year and a total of $500 billion over five years.

The agreement averted widespread layoffs of federal workers that would have begun today, the start of the federal government's fiscal year. It also means that Congress can defer a budget vote until at least Friday.

"I'm trying to put the good face on it. I'm trying to find reasons to vote for it," said Rep. Barbara B. Kennelly, D-1st District.

Rep. Sam Gejdenson, D-2nd District, said he was concerned about proposed cutbacks in Medicare and whether the plan adequately addressed the state of the nation's economy.

"The entire package may have missed its mark entirely by not dealing with the recession. .... This may be a budget agreement that is not designed to deal with the current economic condition we are facing," Gejdenson said.

Kennelly said she would study the deficit-reduction plan in light of reports that the Northeast would likely bear the highest cost of the government's bailout of the savings-and-loan industry.

"I have to be very sure that the effect on Connecticut is fair in relation to other states. ... How much more are people paying in Connecticut than in Texas?" she asked.

Kennelly said she was most concerned about proposed limits on itemized income-tax deductions and the Medicare cuts.

Rep. Nancy L. Johnson, R-6th District, said she was "concerned that the spending-cut side is weak and not well balanced. It hurts the ordinary working person."

Johnson said more study was necessary before she would decide on the plan. "It's not the strongest package as I had hoped for," she added.

Rep. Christopher Shays, R-4th District, said he was concerned that promised future spending cuts might be restored, once again adding to the nation's deficit. "I'm taking a look at those spending cuts to see how real they are."

"The easy part might have been the last three months trying to forge this agreement. The hard part might be trying to get support for this package over the next five days," he added.

Just five weeks before Election Day, the two Connecticut congressmen competing in the gubernatorial race, Bruce A. Morrison, D-3rd District, and Republican John G. Rowland, R-5th District, continued on the campaign trail Sunday.

Morrison said he would be in Washington most of the week to review the deficit-reduction agreement and other matters. After news of the accord was released, Morrison canceled plans to fly to the capital.

Rowland, who according to his campaign staff did not intend to return to Washington Sunday, could not be reached between campaign stops in Torrington, Canaan and Cheshire.

Morrison, who was briefed on the agreement, said, "I'm concerned [whether] the burden of sacrifices is being equitably shared. I think there are some disturbing elements of this."

Referring to the proposed Medicare cuts and tax increases, Morrison said, "I think it falls on the middle-class families. I'm very skeptical to that approach."

Chicago Tribune

October 2, 1990

Politicians cringing over budget deal

By Tim Jones
and Tom Hardy

Like a doctor trying to convince a child of the medicinal benefits of castor oil, U.S. Rep. Dan Rostenkowski (D-Chicago) brought his deficit reduction potion back to Chicago on Monday and found many patients preferring the illness to the cure.

The combined tax-hike/benefit-cut package is precisely what many Illinois politicians, such as Senate hopeful Lynn Martin, did not want to see a month before the Nov. 6 election.

"This is a very ugly camel and the committee that came up with it should be sent back to the zoo," the Rockford-area Republican congresswoman said while campaigning Monday at a senior citizen apartment house in Lincoln Park.

Martin, who has painted her Democratic opponent, U.S. Sen. Paul Simon, as a classic tax and spend liberal, is now in the awkward position of having to break with Republican President George Bush and GOP committee members supporting the deficit-reduction plan.

Martin said she would vote against the budget deal and preferred limits on spending, including defense spending, to cut the deficit.

It is not the first time Republicans have been undercut by Bush, who campaigned two years ago on a "Read my lips" promise not to raise taxes. Bush backed away from the pledge earlier this year, weakening the anti-tax solidarity that many Republicans wanted to carry into the November elections.

In Illinois, Republicans are in stiff competition with Democrats to claim the title of protector of the taxpayer. With his aggressive anti-tax campaign, Democratic candidate for governor Neil Hartigan has portrayed his Republican opponent, Jim Edgar, as pro-tax because Edgar supports extension of an income tax surcharge.

The deficit-cutting proposal has enabled Democrats to seize the no-more-taxes banner, thereby blurring the partisan difference.

Illinois politicians, attuned to the public anger over gasoline price hikes and the political danger of diluting health care benefits in a year when incumbents seem to be particularly vulnerable, joined in bipartisan loathing of the budget accord.

"I am not going to vote to cut benefits to seniors, and I am opposed to new taxes," said U.S. Rep. Frank Annunzio (D-Chicago). Annunzio's opponent, state Sen. Walter Dudycz (R-Chicago), mouthed the same objections.

"With gasoline taxes and some of the benefit cuts, you'll see the biggest taxpayer revolution in recent memory," Dudycz said.

Even Simon chimed in with criticism.

"Once again it seems to put too much of the burden on middle-income families and older Americans who depend on Medicare," Simon said. David Carle, Simon's press secretary, said he would say more about the proposal after he studied it.

U.S. Rep. George Sangmeister, a Mokena Democrat, called the budget agreement "seriously flawed." Sangmeister also voiced as his major concern the reductions in Medicare, concluding that the proposal "tries to balance the budget on the backs of the middle class and the elderly."

A lone voice of support, though qualified, came from U.S. Rep. William Lipinski (D. Ill.).

"I'm leaning in favor of it," Lipinski said. "It seems like the only responsible thing to do at the present time."

Lipinski said, however, that he was "withholding a firm commitment" until he can more closely scrutinize the package.

"If we don't pass this budget agreement, we will have chaos out here," Lipinski said in a telephone interview from his Capitol Hill office.

Carol Jouzaitis contributed to this report.

THE SUN

TUESDAY
OCTOBER 2, 1990

Md. delegation remains undecided on endorsement of deficit-reduction package

By Tom Bowman
Washington Bureau of The Sun

WASHINGTON — The deficit-reduction package may have won the endorsement of President Bush and congressional leaders, but most members of the Maryland delegation remain undecided, with a proposed increase in Medicare payments their chief complaint.

Only Representative Steny H. Hoyer, D-Md.-5th, a member of the House leadership, and Sen. Paul S. Sarbanes, D-Md., said they could support the package. Both men said the alternative to the budget accord would be automatic spending cuts, which would be devastating to the economy.

"It's something that I can support," said Mr. Hoyer, chairman of the House Democratic Caucus. "It's better than the alternative, and the alternative is sequestration, gridlock .. future deterioration in the confidence of the American economy."

Added Mr. Sarbanes: "We're up against some very tight deadlines. If we don't get a package we're going to be back with chaos."

The remaining eight members of the delegation said they were engaged in fiscal fence sitting.

"I'm still studying it," said Representative Tom McMillen, D-Md.-4th, a refrain echoed by his colleagues.

Most of the members grumbled about a nearly $6 increase in monthly Medicare premiums — from the current $28.60 to about $34 — by Jan. 1 for the elderly and disabled.

"Medicare is my highest priority," said Representative Benjamin L. Cardin, D-Md.-3rd, a member of the tax-writing Ways and Means Committee, who said the 5 percent increase in monthly premiums is too high. Mr. Cardin also said he was opposed to an increase in the annual deductible paid by Medicare beneficiaries, which would rise from $75 to $100 on Jan. 1, $125 in 1992, and $150 in 1993-1995.

Mr. McMillen and Representative Kweisi Mfume, D-Md.-7th, also said they were troubled by the suggested increases in Medicare premiums, while Representative Constance Morella, R-Md.-8th, proposed taking more money out of the defense budget to put into Medicare.

Representative Helen Delich Bentley, R-Md.-2nd, said she found it difficult to support an increase in Medicare premiums while foreign corporations still owe the treasury $35 billion in taxes.

Since the state of Maryland bears the Medicare costs for lower-income residents, the initial increases would cost the State House about $2 million, said Monica M. Healy, director of the state's Washington office.

But she agreed the budget accord is better than across-the-board cuts that would have kicked in yesterday — the start of the fiscal year — without an agreement. Gov. William Donald Schaefer said such drastic cuts would "wreak havoc" on the state's economy.

Representative Roy P. Dyson, D-Md.-1st, said that while he can support the "luxury item" liquor and cigarette taxes, he found the gasoline tax "most onerous" to his auto-dependent constituents. "We don't have any Metros or subways in the 1st District," he said.

Meanwhile, many of the delegation members said they were relieved that the budget accord did not eliminate the 3.5 percent cost-of-living raise for federal workers.

The Dallas Morning News

Dallas, Texas, Monday, October 1, 1990

Measures aim to reduce need for energy imports

By Anne Reifenberg
Washington Bureau of The Dallas Morning News

WASHINGTON — The budget deal struck Sunday would give oil and gas producers new incentives and boost taxes on gasoline and other petroleum products while giving home heating oil customers a break.

The agreement includes a five-year, $4 billion incentive package that congressional aides said would substantially increase domestic oil and gas output in Texas and other energy-rich states.

It also proposes a 2 cent-a-gallon tax on all petroleum products except home heating oil. The tax on gasoline and diesel fuel would go up a nickel a gallon Dec. 1 and another nickel next July 1.

The combination of energy measures could help reduce U.S. dependence on foreign suppliers, which President Bush said was "an objective whose importance has become increasingly evident in the face of the Iraqi invasion of Kuwait."

Similar ideas were discussed before the invasion Aug. 2 and received scant attention. Mr. Bush outlined a number of production incentives earlier this year in his annual budget proposal but never moved to have his recommendations transformed into legislation. Bills that were introduced by lawmakers from the Southwest were all but ignored.

"We are paying the price for not having had an energy policy for the last dozen years, and you can't turn that around overnight," said Sen. Lloyd Bentsen, D-Texas. "I don't think we will ever again be totally energy-independent, but to the degree that we can moderate it, we should."

Mr. Bentsen called the incentive package "a major plus for Texas," the nation's largest producer of oil and a leader in natural gas.

Industry leaders in Texas were skeptical, however. They noted the decision to exempt heating oil from the product tax — a relief to Northern states — while boosting the tax on gasoline and diesel fuel. Those are big-ticket items in automobile-dependent Texas and other sprawling Sun Belt states.

"I'd say that decision was about 90 percent political and 10 percent understanding of the needs of the region," said Danny Conklin, chairman of Philcon Development Co. in Amarillo and a former chairman of the Independent Petroleum Association of America. "They're trying get $12 billion a year off gasoline sales and nothing off heating oil.

"But that (the higher gasoline tax) will curtail some of our usage," he conceded, "and I can't argue with conservation."

Mr. Conklin called the $4 billion energy incentive package "not too shabby." Some in Washington, he suggested, "have determined that the domestic petroleum industry is important to the country and that it needs to be healthy."

Oil and gas production in the United States has fallen dramatically since the worldwide price collapse of 1986, when crude prices were more than halved in six months to about $10 a barrel.

Prices have jumped to nearly $40 a barrel since Aug. 6, when the United Nations imposed sanctions against Iraq and occupied Kuwait, cutting world supplies by about 4 million barrels a day.

But the volatility of the market and Middle East unpredictability have made companies — and lending institutions — reluctant to react by backing new U.S. drilling projects. The United States is the world's largest consumer of petroleum, importing half of all its oil.

Mr. Bentsen had sought to persuade congressional and White House budget negotiators to include in the new budget agreement a provision for an oil price floor at $20 a barrel. It would establish an oil import fee once U.S. crude prices slipped below that level, giving the industry and banks some sense of price stability.

That proposal, however, was an early casualty. "I had total opposition from the Northeast," said Mr. Bentsen, the chairman of the Senate Finance Committee and one of the key budget negotiators.

Sen. Phil Gramm called the energy package "dramatic," saying it would "induce billions of dollars in finding and producing new oil to turn the wheels of industry and agriculture in America."

But the Texas Republican added that the gasoline tax increase was "a bitter pill to swallow."

"Had I written the package by myself," he added, "it wouldn't have been there."

The present federal tax on gasoline is 9 cents a gallon. Should Congress accept the accord announced Sunday, the tax would rise to 21 cents a gallon next July 1.

Texas collects an additional 15 cents a gallon. Some members of the state highway commission are calling for a 10-cent increase to rehabilitate deteriorating state roads.

The energy production incentives in the budget agreement include tax breaks for owners of stripper wells, which produce 10 barrels a day or less, and for producers who extract costly natural gas from certain types of geological formations that are common in Texas.

But many of the package's provisions — including the size of the tax credits that would spur drilling and encourage use of costly enhanced oil-recovery methods — were not specified before negotiators signed off on the agreement.

"Those details are being worked out," said a congressional aide. "There will be credits to encourage production, of some kind."

Mr. Gramm, a member of the Senate Budget Committee and a budget negotiator, said he, Mr. Bentsen and other lawmakers from oil-producing states "got 90 percent of what we wanted" on energy.

"We think it's going to help," he said.

THE WALL STREET JOURNAL.

WEDNESDAY, OCTOBER 3, 1990

Souter's Progress: How New Hampshire Nominee Won in a Classic Clash With the Capital's Culture

By DAVID SHRIBMAN
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—The afternoon before his Supreme Court confirmation hearings began, David Souter asked to take a look at the Senate Judiciary Committee chambers where he was to be questioned. A committee aide unlocked the door to the darkened room, and Mr. Souter stepped inside.

But he did not find himself alone. There in the middle of the room stood Democratic Sen. Joseph Biden of Delaware, the chairman of the committee. Addressing Mr. Souter simply as David, Mr. Biden advised the nervous nominee to relax and invited him to sit in the chair where he would testify and to try out the microphone. The senator told Mr. Souter that the first question he would ask the next day would be about the right to privacy. Finally, the senator assured him, nobody on the committee would know more about the law than Mr. Souter himself.

David Souter

The nominee's journey from a New Hampshire farmhouse to that quiet meeting—and finally to yesterday's 90-to-9 confirmation vote by the Senate—seemed altogether effortless. But the 51-year-old Mr. Souter's transformation from a solitary New England scholar to the 105th associate justice of the U.S. Supreme Court actually took months of study and preparation.

From the moment his nomination was announced, on July 23, until he completed the toughest job interview in America before the Judiciary Committee in September, Mr. Souter plowed through 26 books of briefing materials, watched videotapes of previous confirmation hearings, benefited from the research of 10 Justice Department and White House lawyers (not to mention various statehouse lawyers in Concord), and heard from several sitting justices on the nation's highest court. He himself produced 1,600 pages of material in response to inquiries from the Senate—"not bad," Mr. Souter quipped, "for a guy with no paper trail."

The Essential Souter

His many advisers, of course, knew that Mr. Souter would be judged on more than his writings, and not merely on his answers to questions posed by senators. One of their objectives was to gird him for a collision of cultures—modern Washington vs. rural New Hampshire, a state where ascetic bachelor intellectuals living in dark houses are familiar if not exactly common figures.

Mr. Souter is definitely a familiar figure at the Cracker Barrel, the Hopkinton, N.H., store where he customarily stops each Sunday to pick up his copy of the New York Times. And he is well-known at Gould's Hill Orchard in Contoocook, where he buys his McIntosh apples and pressed cider. But he was a stranger to Washington, a "stealth nominee" in the words of Democratic Sen. Howell Heflin of Alabama, something of an invisible man. And critics immediately found fault with what they saw as a narrow, idiosyncratic life style.

"We told him that the hearing wouldn't take place in a courtroom but on a television set, with an audience beyond the 14 senators," says Kenneth Duberstein, the former Reagan chief of staff brought in to help prime Mr. Souter. "The goal was to have a conversation with the American people."

"We wanted to make him look like a person, not a caricature," says former New Hampshire Attorney General Thomas Rath, who along with GOP Sen. Warren Rudman led the effort to ready Mr. Souter for confirmation hearings.

The Sununu Connection

From the start, the strategists agreed that Mr. Souter would have to reassure the broad center of the Senate and the public. They knew that some conservatives were uncomfortable with Mr. Souter, but they made a deliberate early decision not to try to mollify the right. They figured such an effort would merely rile the center and the left.

For that reason, they stressed Mr. Souter's ties with Sen. Rudman, a moderate, and played down his ties with former New Hampshire Gov. John Sununu, the White House chief of staff, a conservative. Sen. Rudman turned his office into central headquarters for the confirmation effort. He even bought Mr. Souter a bed and invited him to stay at his Washington home. Just this past week, Mr. Rudman has been doing some house hunting for Mr. Souter, looking at apartments and town houses. The nominee had worried it would be presumptuous to do that himself before his new job was nailed down.

The Souter strategists knew that questions about abortion would be a problem for him on Capitol Hill. But they also worried about getting the support of senators with strong views on civil rights. The strategists urged Judge Souter to endorse the Supreme Court's 1954 desegregation decision and to stress his commitment to racial equality. But they urged him to skirt politically sensitive topics, such as racial quotas, so as to avoid being drawn into the controversy about civil-rights legislation now before Congress.

Pressing the Flesh

They wanted to take the edge off the judge's loner image by having him mingle with the Washington power elite. When Mr. Bush flew to Pease Air Force Base in New Hampshire on his way to Kennebunkport, Maine, Mr. Souter went along for the ride on Air Force One. When Mr. Souter dined out, he frequently chose the Monocle, a Capitol Hill restaurant popular with senators.

Mr. Souter drew the line at meeting with retired Justice William Brennan, whose seat Mr. Souter is now to fill (the swearing-in is next Tuesday). In an extraordinary letter to the nominee, Mr. Brennan intimated that he looked forward to a friendship with the new justice. A liberal New Hampshire Democratic activist who knows both men suggested that Mr. Brennan might welcome a meeting. But Mr. Souter, knowing of no precedent, decided against it, and sent Mr. Brennan a polite note speaking generally of honor and principle.

Reasons for Anxiety

The preliminaries revealed some things about New Hampshire and its son David Souter. At one point, for instance, Mr. Rath had to accompany Judge Souter to a Concord bank in order to assure a bank officer that Mr. Souter had good prospects for employment and therefore ought to be approved for a gold Visa card. He needed to be able to charge airplane tickets to Washington.

Fearing he was late for a dinner engagement a few weeks after he was nominated to the court, Mr. Souter arrived at a Concord home with a brown paper bag containing a sandwich he bought at Shaw's Supermarket. And when he watched old Robert Bork and Anthony Kennedy hearings on tape, he marveled at the capabilities of a videocassette recorder.

Mr. Souter was worried from the start that he wouldn't be adequately prepared for the fusillade of questions he could expect from the Judiciary Committee. But his advisers were almost as concerned with the outcome of the courtesy calls he was making on Capitol Hill.

The calls, if they generally went smoothly, didn't always go warmly: Some senators found Mr. Souter hard to get to know. But he was able to demonstrate that he isn't a humorless bibliophile. He joked, for example, that he believed in the right to privacy but saw it violated when he was nominated to the court. When Democratic Sen. Patrick Leahy of Vermont told him he would read all of his decisions during the summer recess, Mr. Souter replied: "Senator, you will sleep very well in August." When New York's Democratic Sen. Daniel Patrick Moynihan told Mr. Souter he'd have become a Democrat had he taken Mr. Moynihan's class at Harvard, Mr. Souter answered: "I would have flunked the course."

The extent of attention focused on Judge Souter over the summer truly astonished him. When Mr. Rath arranged to have the judge's lawn mowed, news photographers were there to snap pictures. Democratic Sen. Howard Metzenbaum of Ohio demanded to see a demographic profile of Camp Mahew, a New Hampshire summer camp to which Mr. Souter had contributed.

Human Touch

When Judge Souter's advisers gathered in August at a breezy condominium on the shores of New Hampshire's tranquil Newfound Lake, they were determined to draw Mr. Souter out, to warm him up. Time and again, they urged him not to make his answers to senators so limited they would be of only academic interest. "The key is to make sure that it's clear the things you do as a judge have impact on real people," Mr. Rath remembers saying.

"We didn't tell him what to say," says Sen. Rudman. "But we felt it was very important that he state principles clearly."

The group also worried that the judge's lack of wife and children might suggest he was isolated from the experience of millions of Americans. "You have to make your connection with real life," Mr. Rath told him. "There's a lot less concern about what you think about the Ninth Amendment than about who you are."

That admonition, repeated endlessly in the condominium and later at mock confirmation hearings in Washington, got through to him, but slowly. Mr. Souter still exhibited a clear reluctance to talk about himself. In the first day of the mock hearings, for example, the judge was asked whether he considered himself qualified. His impulsive answer was to say that the issue was for senators to answer, not him.

That evening Sen. Rudman and Mr. Rath took the nominee to an Italian restaurant and Mr. Rath told him straight out: "They have a right to know who you are, how you were brought up, what you are like."

Says Sen. Rudman: "We didn't want him to be afraid to show who he was. He was being portrayed as some kind of a recluse, and we thought he had to show understanding and compassion."

Later that evening, Mr. Souter was being driven back to Sen. Rudman's apartment. When the cab passed the Supreme Court, there was a silent, awkward moment. Mr. Souter turned away from the window; he couldn't bring himself to look at the building.

But by early September, Mr. Souter had hit his stride. In rehearsals with Mr. Duberstein playing Sen. Biden, Judge Souter was more confident, more vigorous, more comfortable. He was performing, not walking through the part. He was talking, not calculating.

But the jitters remained.

There were some substantial concerns for Mr. Souter and his advisers. First, they worried that conservatives might defect, having seized on his praise of Justice Brennan and hints that Judge Souter might actually believe in an activist court. The Souter camp simultaneously worried that opposition from liberal Democrats like Massachusetts Sen. Edward Kennedy, who had raised questions about the judge's commitment to civil rights (and who ultimately was the lone vote against him in committee), might cause Mr. Souter's support to collapse. "There were some frantic moments," says Mr. Rath.

One worry the strategists had was that Mr. Souter might be tarnished by some of his actions as attorney general under Gov. Meldrim Thomson, who practiced an eccentric brand of conservatism. The governor, for instance, claimed to believe the New Hampshire National Guard ought to have nuclear weapons.

The men discussed how Judge Souter might distance himself from Mr. Thomson. But Mr. Souter recoiled at the thought. "That's not right," one of the preparers recalls his saying. "I'm not going to trash him in front of that committee." And he didn't.

His handling of the extraordinarily delicate abortion issue had been carefully worked through in the mock hearings: He planned to say that he wouldn't comment on the issue because he expected it to come before the court. The strategists were pleased with that answer. But they profess to have been astonished when, a few days later in the actual hearings, he told a story about how he had once at Harvard counseled a student who was considering an abortion. He hadn't told that story in rehearsals. "He told me that he was sitting there and it came back out of the dim, dark past," says Sen. Rudman. "He hadn't thought about it in years."

In the end, it was the human touches as much as anything else that carried the day with the Judiciary Committee—his remark, for instance about the consequences of judicial decisions: "At the end of our task, some human being is going to be affected." As the first day of hearings ended, Sen. Biden said to Mr. Souter, the committee and the national TV audience: "You've given us a little glimpse at your heart."

The night after his three days of testifying, Mr. Souter—the performance over, the pressure off—celebrated his birthday at the Palm in Washington. He ordered a big steak and two glasses of scotch-and-water. The waiters sang "Happy Birthday." They called him "Davey."