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The Washington Post
TUESDAY, OCTOBER 2, 1990

Budget Optimism in Senate Isn't Echoed by House GOP

By Helen Dewar
and Tom Kenworthy
Washington Post Staff Writers

Senate leaders expressed growing confidence yesterday that the new bipartisan budget agreement will be approved by the Senate as the Bush administration moved to quell a mounting rebellion among House Republicans that could endanger final passage of the pact.

"We feel very optimistic," said Senate Minority Leader Robert J. Dole (R-Kan.). "It won't be easy but the alternatives are so grim I think it will be approved," said Senate Majority Whip Alan Cranston (D-Calif.).

Their comments followed party caucuses in which most senators reportedly indicated they could reluctantly support the tax increases and spending cuts endorsed Sunday by President Bush and congressional leaders as part of the largest deficit-reduction plan ever proposed.

"It's like drinking a gallon of castor oil, but we're going to do it," said Sen. John W. Warner (R-Va.).

But prospects for the five-year, $500 billion deficit-reduction plan were far less clear in the House, where Minority Whip Newt Gingrich (R-Ga.) and four other GOP leaders denounced the pact after an hour-long Republican caucus attended by Vice President Quayle and other top administration officials as part of the administration's lobbying effort.

"It is my conclusion it will kill jobs, weaken the economy and that the tax increase will be counterproductive and that it is not a package that I can support," said Gingrich. "We need to do better than this."

The budget agreement includes a politically painful combination of spending cuts in popular domestic programs, increased health care costs for the elderly in the Medicare program, higher excise taxes on cigarettes, liquor and wine, and a 12-cent hike in federal gasoline taxes that will affect virtually every American.

Financial markets gave the budget agreement a generally warm welcome. The Dow Jones industrial average, which also was buoyed by a slide in oil prices, rose 63.36 points to close at 2515.84.

Denunciation of the agreement by Gingrich and Reps. Vin Weber (Minn.), Bill McCollum (Fla.), Duncan Hunter (Calif.) and Robert S. Walker (Pa.), all members of the House GOP leadership, underscored expectations that the House will be the main battleground in the fight over approval of the pact.

House Republicans appear to be more hostile to the plan than Senate Republicans in part because all of them face the voters next month and many feel that Bush's reversal on his promise not to increase taxes has exposed them politically.

The first test for the plan will come as early as Wednesday when the House may take up a budget resolution incorporating the deal that was cut by the president and leaders of both parties in Congress after lengthy negotiations. Other equally critical votes will follow to implement the plan before Congress adjourns later this month.

Democrats have demanded that a majority of Republicans in both houses vote for the budget plan as the price for their support, meaning the package may be doomed if Bush and Minority Leader Robert H. Michel (R-Ill.) cannot produce at least 89 GOP votes for it in the House.

However, even some of the House Republican leaders who oppose the budget plan indicated they thought Bush may be able to get at least half of the House Republicans to support him. "I do not underestimate the ability of the White House to get a majority based on appeals to loyalty," said Weber.

To accomplish this, the White House dispatched Chief of Staff John H. Sununu, Treasury Secretary Nicholas F. Brady and Office of Management and Budget Director Richard G. Darman to meet with Republicans in both houses. The three senior administration officials were joined by Quayle in courting conservative Republicans in the House.

The group, including Quayle, also met separately with at least two groups of House Republicans at the White House, and Cabinet members were phoning wavering lawmakers. Bush is expected to participate in similar meetings at the White House today.

But White House officials expressed misgivings about the idea of a nationally televised speech by the president to build public support for the budget plan, which some Democrats have been urging as a key element in bringing pressure on Congress to approve the plan. They said timing was a problem and indicated reluctance to risk the president's political capital when the outcome is uncertain.

In remarks at a ceremony in New York to sign the stopgap spending bill approved by Congress Sunday, Bush used what aides said would be his major sell-the-budget theme. "This is a time for leadership," he said. "We must put aside partisanship for the sake of our nation. We must act now to solve this budget problem."

Bush also said the pact should result in lower interest rates. "I would look to the Federal Reserve to lower the rates," he said. "I hope they would once they see that a sound budget agreement has been put into effect."

The president acknowledged that he may come under attack for dropping his campaign pledge against tax increases and for giving up his quest for a cut in the capital gains tax rate. "I'm not interested in talking about that," he said. "Fine. Take the heat. Take the hit. There have been changed times. It didn't work out the way I want. I don't have the horses in the Congress to do it exactly my way. So you have to govern. You have to lead."

Democratic leaders in the House and Senate met yesterday with Democratic lawmakers who have problems with the package, including conservatives and members of the black caucus.

But Democratic aides insisted that the primary burden for passing the agreement into law rests with Bush and his ability to win over dissidents in his own party. Some Democrats privately expressed the hope that Republican defections will kill the plan so they don't have to. "Let them screw it up," said one member.

"I expect that we are going to get 50 percent plus one in each party," said House Speaker Thomas S. Foley (D-Wash.).

But others appeared less certain. The office of one House member from the Southwest reported receiving 50 phone calls on the issue yesterday, with 49 of them opposed to the plan. "I don't sense any enthusiasm. How do you pass this thing? The middle is not that big," said another lawmaker, Rep. Michael A. Andrews (D-Tex.), in reference to opposition to the pact from the political extremes within the Democratic Party.

In both houses, leaders indicated that the package may be modified somewhat to satisfy complaints and win approval but cautioned that the basic outlines of the agreement must be retained. "If the final product strays too far from the agreement, I think it will be difficult to pass," said Foley.

In the Senate, the middle appeared to be holding in both parties—largely because of the specter of huge automatic spending cuts that would take effect if deficit reductions are not approved, members said.

"If you're floating in the water and a life preserver looms up but it looks a little shabby, you grab it because the alternative is drowning," said Sen. Warren B. Rudman (R-N.H.).

Lobbying efforts against various aspects of the plan appeared to be gathering steam slowly, including pressure from some groups of the elderly against proposed increases in Medicare premiums. But lawmakers said the lobbying so far is nowhere near as intense as they expect it to become, especially when committees begin to consider details for implementation of the plan.

Staff writers Dan Balz in Washington and Ann Devroy, traveling with Bush, contributed to this report.

The Washington Post

TUESDAY, OCTOBER 2, 1990

For Candidates, Pure Political Poison

By David S. Broder
and Thomas B. Edsall
Washington Post Staff Writers

Last Wednesday, Rep. Lynn Martin, the Illinois Republican senatorial challenger, had a fund-raising visit to her state from President Bush. Last night, Vice President Quayle was scheduled to boost her campaign.

But in between, Martin announced that "I cannot and will not support the proposed budget agreement" that Bush and Quayle had blessed at Sunday's Rose Garden ceremony because "it is bad for seniors, bad for taxpayers and bad for the state of Illinois."

"It wasn't a hard decision at all," her campaign manager, Mark Schroeder, said yesterday. Nor, as it turned out, was it difficult for her opponent, Sen. Paul Simon (D-Ill.), to dump on the agreement his party's congressional leaders had framed and approved. He said the budget accord puts "too much of the burden on middle-income families and older Americans."

Simon was still reserving judgment on his vote yesterday but his rhetoric was nearly as tough as Martin's.

Although Senate leaders expressed growing confidence that a majority of senators from both parties would support the deal, Martin and Simon were part of a bipartisan wave of senatorial candidates who swiftly announced their opposition to the agreement that was hammered out after months of painful negotiation. The quick, negative reactions of the Senate candidates illustrated the gulf separating campaign politics from the realities of governing a country beset by a giant budget deficit.

The pollsters and campaign consultants on both sides said simple politics virtually dictated that stance for anyone in a seriously contested race.

"Anybody who is for it is probably a masochist," said Democratic pollster Harrison Hickman. "There are a hundred things in it to hate."

National Republican Congressional Committee Co-Chairman Edward J. Rollins said, "I would certainly not argue" with candidates who oppose the package. He said he expected virtually all GOP challengers to adopt that stance and expressed the hope that "my vulnerable incumbents will be left off the hook" when the administration tries to round up votes for passage.

The list of politically poisonous elements cited by political strategists includes proposed increases in Medicare premiums for the elderly, higher gasoline, cigarette, beer and liquor taxes, and cuts in politically popular health, housing, education, urban and farm programs.

A host of Senate candidates in close races quickly determined that these liabilities far outweighed any advantage to be gained in supporting the package, regardless of the economic consequences for the country. Democrats and Republicans, liberals and conservatives who face tough opposition in November, all found reasons to object.

Without exception, the Senate candidates premised their decision on substantive objections to the agreement. Some of the same objections came from House and Senate members with few reelection problems. But the political calculus for people in tough races was evident.

Last month, well before the final agreement was reached, Garin-Hart Strategic Research Group, a Democratic polling firm, argued in a memo to clients that a vote for a major deficit-reduction package carried serious political dangers.

Using a sample of 506 likely voters in a Midwestern congressional district, the firm found that "overall voters in this district say by 67 percent to 23 percent that they would oppose the budget plan" after its major elements had been described to them.

In one of the clearest statements of the political logic, the firm wrote: "Voting for a budget settlement . . . may be the most responsible course, but do not expect much credit from voters for doing the responsible thing. . . . If you vote for the budget compromise, you should recognize that many voters will resent it. The dominant feeling voters appear to have on this issue is: 'We did not create the deficit, we did not benefit from it, and it is not fair to put the burden of solving the deficit on our backs.' "

The candidates' comments seemed to reflect that judgment. "The budget plan," declared Ted Muenster, the Democratic Senate nominee in South Dakota, "is not a victory. It's largely an attack on the average American."

Rep. Hank Brown (R-Colo.), who is running for the open Colorado Senate seat against Democrat Josie Heath, denounced the plan as a "fraud. The estimates [of budget savings] are so flakey I don't think it's much to hang your hat on."

Some Democratic incumbents with serious reelection contests held their fire. Simon and Sen. Claiborne Pell (D-R.I.) took the judicious stance, while expressing distaste for key provisions. Sen. Carl M. Levin (D-Mich.) issued a one-sentence statement: "I'm going to give the complete package careful review."

Sen. Tom Harkin (D-Iowa), in a tortured statement, left open just a sliver of a chance that he will cast a "yea" vote: "Senior citizens and our family farmers will suffer disproportionately. More than half the cuts in entitlement programs will come from the Medicare budget. . . . Nevertheless, I recognize the bipartisan effort that went into this agreement, but I believe it is seriously flawed. . . . I will spend the next couple of days studying the agreement carefully."

Harkin's challenger, Rep. Thomas J. Tauke (R-Iowa), was less hesitant in making his decision. "I've decided to vote against it," he said in an interview. "It's a business-as-usual package. It is bad for Iowa and for the country."

In New Hampshire, both Senate candidates came out against the measure, but former senator John Durkin (D) sought to escalate the battle by calling on his opponent, Rep. Robert C. Smith (R), to "disinvite" Bush from a scheduled campaign appearance in New Hampshire for Smith on Friday.

Illinois candidate Martin lost her date with Quayle last night—but not because she jumped ship on the budget agreement. Quayle stayed in Washington to help lobby for the package and promised Martin a makeup appearance.

While candidates were defecting right and left, the leaders of both parties rallied behind the agreement. Democratic National Chairman Ronald H. Brown told reporters, "I support the leadership position" and promised he would "not be critical of those who vote for the package," even if they are Republicans he would love to see defeated.

Brown and others suggested that the alternative of deep, across-the-board spending cuts and the resulting "chaos" would make the budget package seem preferable. But Democratic pollster Geoff Garin disagreed.

"If it [the budget agreement] goes down," he said, "it would be further proof to people that the system doesn't work. But that generalized anger is small compared to the personalized anger [an incumbent might face] for an individual vote" for the package.

The reaction pointed up what many observers have noted as the growing gap between campaign politics and governing. Some campaign advisers said that they had to distinguish between the country's interest in having the deficit reduced and their clients' desire to reduce their political risks.

Hickman tacitly acknowledged this when he was asked what counsel he was giving to candidates. "The Republic is better off if nobody asks me," he said.

Political researcher Bruce Brown contributed to this report.

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Budget Success Depends on Economy

White House Betting Against Recession and on Lower Oil Prices

By John M. Berry
Washington Post Staff Writer

The Bush administration's new claim that the federal budget can be balanced in three years, which accompanied the weekend 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 a year and a half.

The oil price assumption, in turn, is dependent upon resolution of the current confrontation with Iraq quickly enough to knock the average price of domestic crude, currently just under $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 rather project the economy will grow at 1.3 percent next year, after allowing for inflation, picking up to 3.8 percent in 1992.

The forecast is similar to that of a number of private economists, who also assume that the situation in the Persian Gulf will be resolved one way or another—and that if the resolution involves a war, the ability of Saudi Arabia to produce oil will not be significantly damaged—by next spring.

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, "We are in a recession: The U.S. economy fell into a recession around mid-year—before the Persian Gulf crisis erupted."

"Some of the economic forecasting used to arrive at the [deficit reduction] targets may, in fact, be too optimistic," said Drew Lewis, chairman of the Business Roundtable, a lobbying organization for major corporations. "But there is no question that this is real deficit reduction, of the magnitude the roundtable for years has called for," said Lewis, chairman of Union Pacific Corp.

A recession, if it occurred, would not have much effect on the specific spending cuts and tax and fee increases included in the budget agreement. Likewise, the proposed $500 billion worth of deficit reductions over the next five years would not be dependent on how well the economy performs.

But a recession could cause the federal budget deficit to soar beyond $300 billion this year even if the proposed $40 billion deficit-reduction package for 1991 is enacted.

The new forecast already shows a track for the U.S. economy far enough below what the administration was predicting only two months ago, that adoption of the predictions raised the projected deficit for this year by $30.4 billion and those for the 1991-95 period by a total of almost $200 billion. In other words, the deficit outlook had deteriorated to the point that $200 billion worth of the proposed $500 billion in spending cuts and tax and fee increases will go just to offset the effect of the worsened economic outlook, according to the figures released by the budget negotiators.

Even with passage of $40 billion worth of deficit reduction measures for 1991, this year's gap between federal income and spending is projected to be a record $253.6 billion. That figure would not be as high, however, as some of the deficits in the mid-1980s when compared to the size of the U.S. economy.

To guard against having a further deterioration of the economic outlook cause problems next year in meeting a new target for the fiscal 1992 deficit, the budget negotiators proposed changing the way in which the Gramm-Rudman-Hollings deficit reduction 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 cause a large sequester—a set of automatic spending cuts in discretionary spending programs triggered if appropriations exceed a set amount—as nearly happened this week.

The negotiators also agreed on a set of other changes, including increasing from $10 billion to $15 billion the amount by which the Gramm-Rudman-Hollings target could be exceeded before a sequester would take effect, to lessen the impact of economic changes on the budget process.

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Months of Contentious Talks Lead Budget Negotiators to 'Big Fix'

By John E. Yang and Steven Mufson
Washington Post Staff Writers

When President Bush boarded Air Force One in New York Sunday morning for the quick flight back to Washington, he wasn't sure whether he was coming back to bless a budget deal or to face a roomful of snarling negotiators at the White House.

"We were not convinced there was going to be a deal," a Bush administration official said. "He was going to try to close the deal when he got in the room."

Hours later, Bush, who had won election pledging "no new taxes," was standing with congressional leaders in the Rose Garden, squinting into the sun and announcing the largest package of tax increases and spending cuts ever proposed.

The road to that ceremony began on a cool evening in early May, upstairs in the private quarters of the White House, when Bush asked four of the top congressional leaders who stood with him Sunday to begin talks aimed at getting the burgeoning federal budget deficit under control.

The journey took the bargainers from the Cabinet Room of the White House to a converted bar at Andrews Air Force Base and finally to House Speaker Thomas S. Foley's private dining room in the Capitol. The main issue had not changed since Office of Management and Budget Director Richard G. Darman defined it in February: "It is a question of when to invest the political capital in a big fix."

For each side, that meant giving up something dear. For Democrats, it meant accepting large cuts in social programs they had long fought to protect and the postponement of their efforts to shift more of the tax burden from the middle class to the rich. For Bush it meant abandoning his campaign pledge against new taxes as well as his personal crusade to cut taxes on capital gains.

Partisan bickering surrounded congressional deliberations over the budget from early January, when the administration first proposed its fiscal 1991 spending plan, until Bush suggested talks in May. Democrats only agreed to go the table after the president cracked open the door to the possibility of new taxes.

When the talks began in May, they did not look promising. Senate Majority Leader George J. Mitchell (D-Maine), still smarting from last year's fight over capital gains, distrusted Darman. The president disliked House Majority Richard A. Gephardt (D-Mo.), who had scrapped with Bush on issues ranging from tax fairness to foreign policy.

In addition, there were more than two sides to these talks. House GOP Whip Newt Gingrich (Ga.) did not subscribe to a basic premise of the talks: that new taxes were needed. At one point, Gingrich advertised his lack of enthusiasm for the process by ostentatiously reading books and magazines during bargaining sessions, participants said, exasperating even fellow GOP negotiators.

Darman and White House Chief of Staff John H. Sununu took the Republican lead, to the irritation of some GOP bargainers. "We meet every day before the other meeting just to see what Mr. Darman has in mind so we're not surprised—as much surprised," said Senate Minority Leader Robert J. Dole (R-Kan.).

On the Democratic side of the table, House leaders, were more eager to cut a deal with the administration than their more partisan Senate counterparts.

The talks dragged on through the summer, past self-imposed deadlines, as the bargainers engaged more in political posturing than serious negotiating. At several key points, administration actions saved Democrats from embarrassing splits in their own camp. In late June, for instance, when the Democrats were deeply divided over how to proceed, Bush threw GOP negotiatiors into turmoil by declaring that "increased tax revenues" would be necessary.

Hoping that a change in scenery would lead to a change in attitude, the negotiators moved talks to the Andrews Air Force Base Officers' Club. What began as a weekend retreat became an 11-day siege so slow-moving that one participant likened it to "being in a 10-reel Fellini film."

"There was a great rush of optimism after the first two or three days," said an administration participant. "We got past some easy hurdles."

But the early enthusiasm wore off.

The talks nearly broke down the fourth day at Andrews. At one point, participants recalled, Sununu rebuffed a Democratic offer by remarking, "It's worse than before." Darman tried to keep the talks moving. As Sununu kept complaining in a rising voice, Darman glanced at Sununu and laughed nervously, participants said.

Later that day, participants recalled, when a Democratic domestic spending plan fell $20 billion short of Republican demands, Sununu cried: "Where's the rest of it? Where's the other $20 billion?"

His outburst prompted Sen. Robert C. Byrd (D-W.Va.), the venerable Senate Appropriations Committee chairman, to rebuke Sununu and Darman, calling them "arrogant" and "rude," participants said.

The Republicans quickly retired to a private caucus and returned with a counterproposal that moved toward the Democrats in several areas.

Gephardt rose in the esteem of the administration, meeting daily in private with Darman to try to hammer out differences. Gephardt "was the glue that held their side together," said an administration official.

For the first time, the talks turned to taxes, and the Democrats clearly established that their price for the president's cherished capital gains tax cut would be a higher income tax rate for the richest Americans.

Republicans complained that Democrats caucused for hours on administration offers, but Democrats said they wanted to consult crucial committee chairmen.

Progress slowed. During one long break, some Republican bargainers played nine holes on the base golf course. Republicans were irritated when House Majority Whip William H. Gray III (D-Pa.) arrived at meetings in tennis clothes. Food became a high point. Participants said they were particularly fond of the vanilla ice cream and hot fudge sauce and the base's regular Monday night prime rib special. Rep. Silvio O. Conte (R-Mass.) called the scene "Camp Run-Amok."

"Maybe it would have ended sooner if the food wasn't so good," said one participant. "It wasn't going to end before prime rib night rolled around again. On Monday night, we had our prime rib and left."

After 11 days, "We had hit the wall," a participant said. Gephardt, Mitchell and Darman met and acknowledged that this phase had ended. They decided the negotiations should continue in a smaller group of top congressional leaders and administration officials.

To accentuate the differences between administration and Democratic bargainers on taxes, Gephardt and Mitchell persuaded their team to make significant concessions on spending in order to portray capital gains as the main remaining obstacle.

The bargainers left Andrews significantly closer. "There was no way else you could have gotten them to move that much," a participant said of the self-imposed seclusion. "But you should have been able to do that in two days."

When the smaller group of top-level negotiators, dubbed "The Big Eight," convened in Foley's red-walled dining room, congressional officials expected it to be a brief interlude between the larger bargaining group sessions and final meetings, in which Democrats wanted to involve Bush directly so as to make him share responsibility for an unpopular package.

The talks centered almost exclusively on taxes, officials familiar with the proceedings said. As the talks dragged on, cracks formed in GOP unity. First, Dole suggested that capital gains be considered in a separate legislative package from spending cuts and tax increases. But administration bargainers knew the quest for the capital gains tax cut was dead when the man from Peoria—House Minority Leader Robert H. Michel (R-Ill.)—said no.

Never as enthusiastic as Bush about reducing the capital gains tax, Michel had been growing increasingly frustrated with the pace of the negotiations. Last Tuesday, the plainspoken midwesterner finally broke his public silence, telling reporters: "The doggone price is too steep. . . . Politics is the art of what's possible."

"Sununu knew, when Michel said what he said, that he couldn't get capital gains," an administration official said.

But administration bargainers were determined not to give in until Democrats stopped demanding an income tax rate hike, fearing that if they conceded too quickly the Democrats would try to trade something else for a higher rate.

As yesterday's fiscal deadline approached, one top administration official accused the Democrats of "playing chicken" with the nation's economic well-being. Finally, in the early hours of Sunday morning, the administration bargainers dropped their capital gains issue in favor of other tax breaks for investments. Democrats retreated on higher tax rates, settling on a limitation of tax deductions for the wealthy.

Within hours, the rest of the deal fell into place.

They rushed to the White House with a sketchy plan, leaving staff to work out many of the details. But at the last minute, there was confusion. A draft agreement said heating oil would be exempt from a 2-cent-per-gallon petroleum tax when Senate Finance Committee Chairman Lloyd Bentsen (D-Tex.) had removed the exemption, irritating northeastern lawmakers.

A dispute over military spending prompted Darman to threaten, "If you do that, the deal is off!"

For many bargainers, Sunday night meant the first full night's sleep in days. "It's good to be back to life," Gephardt joked, "taking fluids and seeing my family."

Staff writer Dan Balz contributed to this report.

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From Post Office to Gas Pump, Almost Everybody Will Take a Hit

By Albert B. Crenshaw
Washington Post Staff Writer

Much of middle America isn't going to like this. Their beer will cost more and so will their cigarettes and gasoline for the pickup.

But if they are unhappy, these folks can take comfort from the fact that the two-career couple in their uptown condo also will feel the tax collector's bite if the budget package fashioned over the weekend by congressional and White House negotiators becomes law.

The prosperous couple's next Mercedes would cost more and their wine tab would go up. Their payroll taxes also would rise and their deductions would be trimmed under the terms of the package.

In both cases, however, if the people don't smoke, don't drink and don't drive a lot, the impact of this new budget plan will fall much more lightly upon them. That is what makes the new plan most unusual by traditional standards. While it will be more costly for the well-to-do, much of its impact depends on the lifestyle of the individual taxpayer rather than his or her economic situation.

For example, heavy smokers and drinkers would see the price of their habits rise, but abstainers would feel no impact. Long-distance commuters and drivers of gas-guzzlers would be hit hard, but in-town dwellers and drivers of fuel-sipping economy cars would get off easy.

The combination will make it difficult for many people to figure out just what size tax increase they face because the calculations depend on how much of the taxed items they consume.

"I guess that's the biggest question mark—how much additional tax am I really paying?" said Stephen R. Corrick, a tax partner at Arthur Andersen & Co. here in Washington. "There's a nickel here and 16 cents there and that limitation on itemized deductions. That will have some effect but not like a higher [overall tax] rate. Maybe that's the point of this whole exercise: to raise $130 billion without anyone really knowing how big a hit they're taking."

Most significant of the proposed "lifestyle" tax boosts are:

- A 12 cents-per-gallon increase in the tax on gasoline, phased in between Dec. 1 and July 1, 1991.
- An 8 cents-per-pack boost in the tax on cigarettes, beginning Jan. 1 and fully implemented in 1993.
- A 22 cents-per-bottle increase in the tax on table wines, a 16 cents-per-six-pack boost for beer and a boost in the tax on hard liquor that will work out to about 24 cents on a 750-milliliter bottle.
- A new 10 percent luxury tax on a variety of expensive items.

In all, the budget negotiators are counting on these taxes, including a tax on motor fuel, to raise nearly $75 billion over the next five years.

The items that are aimed at the well-to-do:

- A complicated formula to reduce the itemized deductions of taxpayers whose adjusted gross income exceeds $100,000. Under this formula, to the extent that adjusted gross income exceeds $100,000, deductions must total more than 3 percent of the excess before they become effective. For example, if a taxpayer had adjusted gross income of $130,000, he or she would lose $900 worth of deductions ($130,000 minus the $100,000 threshold leaves $30,000; 3 percent of $30,000 is $900. Only itemized deductions in excess of $900 would be allowed.) This system is much like the ones that apply now to medical expenses and miscellaneous business expenses, and the thresholds on those items would remain, so deducting them would require them to exceed both requirements.
- An increase in the ceiling for collection of the Medicare component of the Social Security payroll tax. This tax is now a 1.45 percent levy collected on incomes up to $51,300, but the agreement would extend the tax up to incomes of $73,000. This would add roughly $300 a year to the taxes of any worker earning $73,000 or more.

Workers earning between $51,300 and $73,000 can get an idea of their new liability by subtracting $51,300 from their wages and multiplying the result by .0145. For example, a worker earning $65,000 would pay about $198 more next year under the plan. (The figure is not exact because the $51,300-wage base is adjusted each year and next year's figure is not yet known.)

Some targeted industries warned that the cost to consumers will be sharply higher than the tax increases published in the budget package.

Because the taxes are assessed at the producer level, they tend to be treated as part of the base price and are marked up further by wholesalers and retailers. The Beer Institute calculates that this effect will cause the price of a six-pack of beer to rise 22 cents when the tax increase is only 16 cents.

Wine industry representatives said they feel particularly victimized because the budget package switches from the traditional method of taxing wine by the gallon to taxing it by the bottle.

"We have never been taxed by the bottle before," said John De Luca, president of the Wine Institute, a trade association of California wineries. He charged that it "was done to obscure the size of the increase" which he put at 647 percent from the current 3 cents a bottle to 25 cents.

De Luca said that the tax would add 50 cents to the current $2.89 average retail price of the 750-milliliter bottle cited by the negotiators. But he said most of his members' volume is in larger containers, whose prices would jump more sharply. A three-liter bottle currently retailing for $5.99 would jump to $8, he said.

The impact of the gasoline tax increase would vary greatly with the amount of driving a taxpayer does and what kind of mileage his or her car gets.

For instance, the motorist who drives 15,000 miles a year in a car that gets 25 miles per gallon would pay an extra $72 a year when the 12-cent increase is fully implemented. Driving 40,000 miles in a 12 miles-per-gallon car, however, would cost $400 extra annually.

A pack-a-day smoker would not be hurt too badly. His or her year's supply of 365 packs would cost $29.20 more under the plan.

The package had accountants and tax lawyers poring over its provisions in search of ways to minimize its impact. However, most said the pickings seemed slim.

Carl W. Duyck of Price Waterhouse in the District noted that the restriction on deductions apparently will not become effective until next year, creating added incentive to accelerate deductions. Where possible, he suggested deductible items that can be paid this year or next year should be taken this year—assuming the package becomes law, which is not a certainty.

William G. Brennan, an accountant with Ernst & Young in Washington, said the plan would create "more incentive than in the past for determining what are my expenses and getting them paid." It's only a proposal, he added, but "it's not going to be good news no matter how you cut it."

Duyck also expressed concern about charities. Since adjusted gross income is difficult to predict for many people, he worried that they may become less willing to make large gifts if they are not able to calculate the value of their write-offs precisely.

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Cuts to Affect Cherished Programs: Medicare, Student Loans, Agriculture

By Guy Gugliotta and Spencer Rich
Washington Post Staff Writers

The budget agreement announced Sunday reaches deep into programs long cherished by members of Congress, social workers and millions of Americans, young and old. If it is approved, almost everyone would take a hit, and while some hits will be harder than others, all of them will hurt.

Under the agreement, the U.S. Postal Service in the next five years will be asked to absorb $5.38 billion in employee and health care benefits now paid by the government. Student loan defaults would be slashed by $2 billion during the same period.

Medicare would take the biggest single non-military spending cut. The health insurance program for 33 million aged and disabled Social Security recipients would be reduced by $4.9 billion in fiscal 1991 and $60 billion over the next five years.

And projected farm subsidies would be cut by $13 billion over the next five years. Compliance could mean a major structural change in the way government oversees the welfare of U.S. agriculture.

These four programs are key elements in the government spending side of the budget equation. In all, cuts in government benefits are expected to save $104.8 billion over five years. The rest of the $500 billion deficit-reduction package was expected to come from tax increases and cuts in military spending.

For the Postal Service, the budget agreement would mean picking up $689 million this year and $5.38 billion over the next five years in benefit and health care premium costs.

The new obligations, Postmaster General Anthony M. Frank said, will nearly wipe out $700 million in expected productivity gains this year. "This is pretty discouraging to our people," he added.

Frank criticized the budget proposal as a hidden "stamp tax," predicting that the post office's new summit-induced costs would cause postage rates to go up "five cents higher in 1995 than they otherwise would have been." The post office already has sought to raise the cost of mailing a first-class letter from 25 cents to 30 cents next year.

In the administration of student loans, the budget agreement envisioned reducing defaults by $2 billion over five years. The administration had projected that defaults would reach $2.3 billion in the fiscal year just ended, and $2.6 billion in 1991.

Provisions of the pact suggest restricting borrowing among students at proprietary trade schools and, to a lesser extent, community colleges and historically black colleges.

Some education advocates raised questions about the impact on opportunities for poor and high-risk students. One suggested change would bar schools with high default rates from student loan programs. Other proposals could eliminate correspondence schools and students without a high school diploma or the equivalent.

Another proposal would require credit checks on students 21 or older before they could receive a student loan: "We are only going to make these loans available to people who don't need the guarantee. Then why have the program?" said Stephen A. Blair, president of the National Association of Trade and Technical Schools.

In Medicare and Medicaid, the budget agreement made recommendations on how savings could be achieved, but spokesmen for authorizing committees said they will be the ones making the changes.

The agreement suggested that almost half the $60 billion in cuts would come from three major changes in charges to Medicare patients. The doctor-insurance deductible—the amount a patient pays each year before Medicare starts paying the bills—would rise from the current $75 a year to $100 in 1991, $125 in 1992 and $150 thereafter.

Also, Medicare patients would have to pay 20 percent of the cost of clinical laboratory tests. Finally, the premium for Part B of Medicare would rise from $28.60 per month to about $35 in 1991.

Rep. Fortney H. "Pete" Stark (D-Calif.), chairman of the House Ways and Means subcommittee on health, called the cuts "obscene," and said he would offer an alternative plan, "hitting rich people of all ages."

The rest of the $60 billion would come from cutting payment rates to hospitals, doctors, producers of durable medical equipment and others who care for Medicare beneficiaries. The document suggests raising Medicare payment rates to hospitals 4.1 percent in fiscal 1991, less than the 5.3 percent needed to keep pace with inflation.

Reimbursements to hospitals for the costs of capital investments would be cut by 15 percent, extra payments for use of interns and residents would be cut as would rates paid to doctors in radiology, anesthesiology and procedures Medicare deems to be overpriced.

In Medicaid, the federal-state welfare program for the poor, the budget agreement suggested a major new program to save $1.6 billion over five years for outpatient prescription drugs. Manufacturers could only charge a state Medicaid program the lowest price for drugs given any bulk purchaser in the state.

The summit document also suggested states be permitted to pay for the health insurance premiums of family members when a worker has employer-provided health insurance only for himself. Projected savings are $1 billion over five years.

Despite the magnitude of the Medicare-Medicaid cuts, the budget agreement asks that the programs simply be trimmed. For farm legislators, however, the required cuts are likely to mean major structural revisions in the decades-old crop subsidies paid for cotton, wheat, corn, rice and other grains.

Senate and House conferees drafting the joint 1990 farm bill were scheduled to meet today for preliminary discussion on the budget cuts and how to make them. The farm bill will define the government's role in U.S. agriculture for the next five years.

The conference is working with savings suggestions prepared for the summit by the Office of Management and Budget, but House Agriculture Committee Chairman Rep. E. "Kika" de la Garza (D-Tex.) said lawmakers would "look at everything."

"I've said all along that if they [the summit] give us the number, we'll be the ones to fill in the blanks," de la Garza said. "I've talked with the [House] leadership, and they're of the same opinion."

The Senate and House two months ago passed their respective versions of the farm bill, envisioning program benefits calculated at $53 billion to $55 billion spread over the five-year life of the bill.

Even then, however, legislators from both parties agreed the budget agreement would require significant cuts in benefits, especially the crop subsidies that are the core of any farm bill. The final summit figure—$13 billion in cuts over five years, $1.3 billion in the first year—was seen as high, but not altogether unexpected.

"I don't think anyone was blindsided," said Charles Connor, minority staff director for the Senate Agriculture Committee. "We [Republicans] were prepared for that; the range that we always used was $11-to-$13 billion."

Still, the size of the cuts rendered obsolete much of last summer's arcane debate on how to fine-tune subsidies. Under last weekend's deficit guidelines, subsidies are going to be hit with a hammer: "If you have to revise the policy to get money, that's a structural change," de la Garza said.

After what Connor called "nickel and diming" the subsidy program, the conference committee has two basic options for removing the lion's share of $13 billion from farm spending: lower the subsidized prices paid to farmers for their crops; shrink the acreage eligible for farm benefits.

Lowering subsidy levels—so-called "target prices"—would continue a practice begun under the old 1985 farm bill but abandoned in the legislation currently before the conferees. Shrinking eligible acreage under a program known as the "triple base option," however, has never been tried.

"There really are only those two choices, and they're both in the commodity programs," said Rep. Jim Jontz (D-Ind.). "Those are the payments that come directly out of farmers' pockets."

Jontz, de la Garza and other Democrats had sharp words for a program of cuts that appeared to reinforce the Bush administration's desire to emphasize free trade practices and take the government out of farm spending alogether.

"We play by the rules, and we will give them their cuts," de la Garza said. "Their [the administration's] intent is to change the structure of the programs. They couldn't do it with a frontal attack, so they wanted to use the budget summit."

Staff writers Dana Priest and Kenneth J. Cooper contributed to this report.

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TUESDAY, OCTOBER 2, 1990

Budget Plan Would Tighten Tax Scrutiny of Foreign Firms

Package Seeks to Widen Special IRS Powers

By John Burgess
Washington Post Staff Writer

In their search for ways to raise taxes, congressional budget negotiators had little trouble taking aim at one target in particular: foreign banks and foreign companies operating in this country.

The budget package before Congress proposes to raise $300 million through 1995 by tightening tax reporting requirements for the foreign firms, a group that legislators contend is systematically cheating on U.S. taxes.

The package would broaden special powers that the Internal Revenue Service was granted last year concerning inspection of the books of the U.S. subsidiaries of foreign companies. The IRS would now be free to scrutinize branches of those subsidiaries and use the special powers in audits that are already underway.

Budget negotiators adopted these measures from a bill authored by House Majority Leader Richard A. Gephardt (D-Mo.) and Rep. Dan Rostenkowski (D-Ill.), chairman of the House Ways and Means Committee. Cracking down on foreign tax evaders offered a politically easy way to promise to raise revenue.

But the package they agreed on does not include several of the bill's more controversial features, to which the White House objected. Notably absent are proposals to impose a withholding tax on foreigners for capital gains and to allow the IRS broad rights to unilaterally extend the statute of limitations on foreign companies' tax affairs.

Congress and the IRS are pursuing tax investigations of a broad range of foreign companies and banks. Suspicions of wrongdoing have been stoked by Treasury Department figures showing that the U.S. subsidiaries of foreign companies reported sales of $650 billion in 1987 but profits of only $5.6 billion, a far lower rate than for American companies as a group.

Critics contend that profits are improperly transferred overseas through the inflation of prices that parent companies charge in sales to U.S. affiliates. This, critics say, short-changes the U.S. Treasury and also gives the offending companies an unfair advantage in the market by lowering their tax bills. Japanese companies have been called particularly frequent offenders.

"Foreign companies operating here are going to have to be treated more like domestic" firms, a Democratic congressional aide said yesterday. "They're going to need to pay taxes as a U.S. citizen, pay their fair share."

Foreign firms have responded that they do pay their fair share, but that exchange rate fluctuations and low profits due to investment in start-up operations have made them as a group less profitable than U.S. companies in selected years.

Foreign companies have criticized the 1989 measure, which created new reporting requirements and strengthened the IRS's powers to fine them and gather documents and testimony. The companies say it is a violation of a long-standing U.S. principle that foreign and U.S. companies should be treated alike under the law. The Bush administration has also opposed measures that it believes would soften this guideline.

Yesterday, officials of foreign firm seemed to indicate that they could live with the new arrangements, which would expand the 1989 law. "They're certainly not thrilled with this," said Catherine Porter, an attorney who represents the Organization for the Fair Treatment of International Investment, which is composed of foreign investors. "But they are relieved that the even more onerous and discriminatory provisions suggested this summer were not adopted."

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Proposed Luxury Tax Takes Aim at the High Side

By Warren Brown
Washington Post Staff Writer

If you're thinking about putting another chinchilla in your closet, BMW in your garage or boat in your slip, you have 91 shopping days left until proposed new taxes would make that purchase a bit more pricey.

Starting Jan. 1, if Congress and the Bush administration can agree, a new luxury-goods tax of 10 percent would be added to purchase prices that exceed $100,000 for a private boat, $30,000 for cars and $5,000 for jewelry and furs.

Upwards of $100,000 may seem like a lot of boat, but according to Phil Keeter, executive director of the Marine Retailers Association of America, that price range represents 25 percent of the private boat market. "Those are just normal pleasure boats," Keeter said. Normal, in this case, gets you something like a 31-foot-long, 12-foot-wide Express Cruiser, outfitted with twin eight-cylinder engines and sleeping space for four to six people.

"It's nothing that Donald Trump would look at. It's something purchased by people just attaining success," said Jeff Martini, sales manager of Harbor Yacht Sales in Deale, Md.

People who buy such boats usually finance them over a 30-year period, paying about $1,000 a month. "They're not tycoons," said Martini, who added that a 10 percent excise tax "would scare a lot of those people away."

"We just don't need something like this, now," Martini said of the proposed tax.

It's not exactly great news for automakers like Jaguar or BMW, either.

With car prices ranging from $39,700 to $53,000, the proposed tax would affect everything Jaguar sells in the United States. It wouldn't be any better for Porsche, whose cars start at $58,500. BMW sneaks one model in under $20,000, but most of its offerings are in the $30,000 to $70,000 category.

Overall, about 20 percent of the cars sold in America cost $30,000 or more, said Susan Jacobs, president of Jacobs Automotive, a New Jersey market research company specializing in luxury-car sales.

The excise tax alone "won't be catastrophic for luxury-car sales," which have been slowing over the past year. But all of the other taxes in the package wrapped by President Bush and the congressional leaders "could accelerate the decline in sales," Jacobs said.

The picture in the fur and jewelry department isn't much prettier.

It's fairly easy to drop $5,000 for a decent mink or an engagement ring worth wearing.

At Fendi Furs, $1,300 will buy you just a shearling jacket, but if you are thinking of the more exotic furs such as chinchilla, prices can escalate as high as $100,000.

Jewelry prices range, for example, from a $25 silver key chain at Tiffany into the gem stratosphere.

Some suggest that there may be sneaky ploys around the taxes, such as selling expensive earrings separately, but most retailers said they would comply with any new taxes.

Staff writer Kara Swisher contributed to this report.

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TUESDAY, OCTOBER 2, 1990

Financiers, Entrepreneurs Cool to Budget Package

By Evelyn Richards
Washington Post Staff Writer

MENLO PARK, Calif., Oct. 1— At the Sundeck, a favorite lunch spot here for financiers who control much of the nation's $33 billion in venture capital, people might have been beaming today about the tax provisions included in the congressional budget package. But they weren't.

Instead, many venture capitalists and entrepreneurs in Silicon Valley were unhappy with Washington's budget compromise and uncertain about how well it would stimulate job growth of the type and proportions that can significantly bolster the country's competitiveness.

But while these and other backers of a full-blown capital gains tax cut criticize the accord as doing too little, most saw the package as at least one small step toward encouraging investment in small and medium-size companies.

Indeed, the tax package does promise several benefits for "small" entrepreneurial corporations—those with equity of less than $50 million that are engaged in a trade or business.

The object is to make these companies more attractive to individual investors. For example, investors would receive a 25 percent deduction on the purchase price of stock in such companies, with a maximum deduction of $50,000 per year. The provision apparently will apply only to newly issued shares.

Also, individuals who hold their shares for five years would be taxed at a lower rate when they sell, provided the company had remained "small" at any point during the previous two years. Finally, stock held for at least a year would be indexed to eliminate taxes on increased gains due solely to inflation.

The companies themselves would benefit, too, from a one-year increase in the amount of deductions allowed for spending on research and experimentation and from a measure that allows certain equipment purchased by firms with assets of $50 million or less to be taken as an expense.

All this won praise from some. "From the small business perspective I think it's an extraordinary deal," said Allen Neece, a lobbyist for several small-business and venture-capital trade associations.

Some critics were worried, however, that the tax breaks would spawn creation of many companies with doubtful prospects solely to create tax savings for wealthy investors.

The measures may help attract individual investors who are willing to remain loyal to a start-up company during its early years, thus sheltering it from the "hot and cold" swings of Wall Street, said Gary Steele, president of a California biotechnology company that recently surpassed the $50 million mark in equity. For small firms, "it's been brutal to do financings," he said.

But venture capitalists and institutional investors, who see themselves as the real forces behind growth, said the measures just nibble around the edges of the investment problem.

For example, the 25 percent deduction, because it would be limited to individuals who invest only $200,000 a year and wouldn't benefit institutional investors in venture capital funds, likely would do little to spur capital-intensive high-technology companies—firms like those in Silicon Valley that cost millions of dollars to start but have been huge job generators.

"I don't see it as a big benefit to the economy overall . . . unless we feel we need a lot more dry cleaners and shoe repair shops," said venture capitalist Dave Marquardt.

Start-up companies may benefit indirectly, venture capitalists said, by being able to use the tax breaks as a lure to attract employees, who would be paid in part in stock. But many said the measures aren't enough.

"This is a politically nice thing to do and it's helpful for small companies," said Ken Oshman, a two-time entrepreneur who started Rolm Corp. "But my question is why did they stop with small companies. . . . I wish I could be more enthusiastic, but I think it's a narrow view."

Staff writer Stan Hinden contributed to this report.

The New York Times

NEW YORK, TUESDAY, OCTOBER 2, 1990

White House and Top Democrats Take Budget Accord to Congress

Senate's Approval Is Likely; House's Is Uncertain

By DAVID E. ROSENBAUM

Special to The New York Times

WASHINGTON, Oct. 1 — Using the heaviest weapons in their arsenal, the White House and Congressional Democrats joined forces today to overcome spirited opposition from the rank and file to the sweeping five-year budget deal struck over the weekend.

President Bush dispatched his top lieutenants, Vice President Dan Quayle and the Administration's chief economic policy makers, to the Capitol to quell a rebellion among conservative Republican lawmakers by appealing to their party loyalty. Democratic leaders in the Senate and House called their troops into separate meetings to try to sell the plan to wary liberals.

Senate Likely, House Uncertain

At this stage, Senate approval of the package, which is supposed to reduce the deficit by $40 billion in the fiscal year that began today and by $500 billion over five years, appears likely. But the outlook in the House of Representatives is uncertain and seems to depend largely on whether Mr. Bush can use personal appeals to persuade a majority of Republicans in the House to support him.

Representative Robert H. Michel of Illinois, the House Republican leader, suggested that the plan might well be voted down in the House on the first try but would eventually be enacted.

The critical votes are not expected until the week after next. Lawmakers will probably be given the opportunity only to vote for or against the entire package, not to amend it.

Richard G. Darman, the budget director, said Mr. Bush planned to call many lawmakers personally to solicit their support.

At a news conference in New York, the President said: "I've had to compromise. The Democrats have had to compromise. And I hope that other voices who are troubled by one aspect or another of this would also compromise. Every once in a while you come to a time when you have to do that to get something done."

Supporters of the deficit-reduction plan hope that a tighter fiscal policy will encourage the Federal Reserve Board to lower interest rates. The Federal Reserve's policy-making group meets here Tuesday.

The main complaint of conservative Republicans is that the package would raise taxes by $134 billion over five years and would not lower the capital gains tax.

A comment from Representative Duncan Hunter of California was typical. "The President," he said, "gave away the crown jewel of his campaign promise to bring the Democrats to the table. That was 'no new taxes.' The President was extorted."

Working the Hill

Five top Administration officials spent the day lobbying on Capitol Hill: Mr. Quayle; Mr. Darman; Treasury Secretary Nicholas F. Brady; John H. Sununu, the White House chief of staff, and Michael J. Boskin, chairman of the Council of Economic Advisers.

At a luncheon meeting, they managed to mollify most Republican senators. Afterward, Senator Warren B. Rudman of New Hampshire said he expected at least 30 of the 45 Republican senators to vote for the package.

But House Republicans were a different matter. "I think we will get a majority of Republicans in the Senate, but the House is going to be more difficult," Mr. Darman said.

After meeting with Republican members of Congress this afternoon, Mr. Quayle said: "I felt a little bit like a friendly dentist applying a lot of Novocain and trying to extract a few votes. We're not there yet."

Mr. Bush and the Congressional leaders pledged to provide the votes from a majority of lawmakers of both parties in both houses. That was done to prevent either party from bearing too much of the political pain from voting for unpopular measures like higher gasoline taxes, lower Medicare benefits and a reduction of payments to farmers.

Enjoying the Fray

In the House, Democratic leaders urged their troops to keep quiet while Republicans fought with the President.

Some liberals, like Representative Charles B. Rangel of Manhattan, announced their opposition. But most said they were still studying the details.

Democratic dissatisfaction is strongest over the $60 billion cut in Medicare benefits over the next five years and new excise taxes that would hit middle-income taxpayers harder than the wealthy.

But the prevailing view is that if the Republicans produce a majority of their members, Democrats will go along.

"Despite the grumbling and real concerns," said Representative Charles E. Schumer of Brooklyn, "there's a quiet undertone that we have to do something and that the leadership did the best it could under very difficult circumstances."

The 16 Democratic senators who are up for re-election have been "given a free pass," as one of them put it, to vote against the measure. But most of the other 39 are expected to support it.

"The key committee chairmen have a responsibility to do all they can to help the leadership," said Senator Patrick J. Leahy of Vermont. He is chairman of the Agriculture Committee and is upset about cuts in payments to farmers, but he said he would vote for the plan.

Two important Democrats, Senator Lloyd Bentsen of Texas and Representative Dan Rostenkowski of Illinois, the chairmen of the tax-writing committees, are annoyed about the package, in large part because they did not participate directly in the main tax decisions.

Mr. Bentsen is said to be upset over the size of the gasoline tax increase, a total of 12 cents a gallon over two years. Texans drive more than residents of more densely populated states and would thus be affected more than Easterners. On Sunday, Senator Bentsen reopened the compromise to add a two-cent-a-gallon tax on home heating oil, which would hit the Northeast hardest.

The Bentsen-Rostenkowski Factor

Among other items, Mr. Rostenkowski is said to oppose a provision that would require state and local government workers to pay Social Security taxes. That is important in Illinois, where state employees have their own retirement system and are now exempt from the Federal program.

Mr. Bentsen and Mr. Rostenkowski will be largely responsible for drafting the tax plan into law. The two chairmen can cause problems if they exercise their authority to make changes in the plan.

At a meeting Sunday night of Democrats on the Ways and Means Committee, Mr. Rostenkowski, who controls his committee with a firm hand, expressed his disappointment in the plan, according to a lawmaker who was there. The chairman reportedly said he could not personally take on the Democratic leadership, but he gave his followers a free hand to do so.

Representative William H. Gray 3d of Pennsylvania, who is in charge of mobilizing Democrats behind the plan, said that changes "on the margins" might be permissible but that fundamental changes would not.

Senator Jim Sasser of Tennessee, chairman of the Budget Committee, made the same point. "This package is supposed to be non-amendable," he said.

Warding Off Amendments

Under the agreement, if committee chairmen like Mr. Bentsen and Mr. Rostenkowski want to make changes, they will have to clear them with the party leaders, who in turn will have to clear them with the White House before they can be authorized.

Floor amendments by back-benchers will be nearly impossible.

In the House, the measure will come up week after next under procedures that prohibit or sharply limit amendments.

In the Senate, the party leaders have promised to mobilize opposition to all amendments, even those they might personally support.

"We who support this package are going to have to vote against amendments we might wish to sponsor or cosponsor ourselves," Senator Sasser said.

Those procedures were employed successfully in 1985 and 1986 to gain enactment of the monumental Tax Reform Act of 1986.

There are other parallels to the tax legislation, a measure like the new budget package that had strong opposition from interest groups and was pushed jointly by a Republican President and Democratic Congressional leaders.

The tax bill was rejected the first time it reached the House floor, but heavy lobbying by President Ronald Reagan turned enough votes around to win passage on the second try.

Across the Capitol and around Washington, experts examined the budget compromise carefully for the first time today. They discovered items that could mean that the reduction in the deficit would be considerably smaller than advertised.

One was the $7.5 billion the Administration expects to spend for military operations in the Persian Gulf, which is not included in the deficit reduction calculations.

Another was the $3 billion in additional revenue the Internal Revenue Service is to collect by hiring more agents and doing more tax audits. The increased enforcement effort should indeed lead to more revenue in the years ahead, specialists said. But it will take more than a year to hire and train the new agents.

In an effort to convince the financial markets that this agreement is serious about lowering the deficit, the White House and Congressional leaders agreed to the most rigid system ever devised to control new spending or lower taxes.

For the first three years, the expenditure side of the budget would be divided into three categories: military spending, domestic spending and international spending.

Any measure that exceeded the spending ceilings set by the agreement for each category would have to be offset by a spending reduction or tax increase within 15 days. Otherwise, across-the-board spending cuts would go into place immediately in the category where the increase fit.

For instance, if a law were passed increasing spending for education by $1 billion and no spending cut or tax increase were enacted to balance it, all domestic programs would be cut by the percentage necessary to make up for the $1 billion.

The New York Times

NEW YORK, TUESDAY, OCTOBER 2, 1990

Rebellion Flares Among Republicans Over Accord

By RICHARD L. BERKE
Special to The New York Times

WASHINGTON, Oct. 1 — Civil war broke out among Republicans today as dozens of House members insisted that White House lobbying would not stop them from seeking to thwart the budget package announced on Sunday.

The rebellion against the plan, which includes major increases in taxes, was particularly strong among conservative Republicans, whose strength was magnified by the defection of a member of the party leadership, Representative Newt Gingrich of Georgia, the Republican whip.

"It is my conclusion that it will kill jobs, weaken the economy, that the tax increase will be counterproductive," Mr. Gingrich said as he emerged from a meeting at which top White House officials tried to persuade House Republicans to support the plan. "And it is not a package that I can support. We need to do better than this."

As much as anything, the opposition was driven by elections that are five weeks away. To many Republicans, voting for a plan calling for new taxes is tantamount to forfeiting the best issue they have against Democrats. An attempt to scuttle the agreement fits the strategy of some conservatives to portray Congress as a corrupt institution controlled by liberals who want nothing but higher taxes.

'Unreasonable and Irresponsible'

Democrats are also in the middle of re-election campaigns, and are particularly sensitive about the political repercussions from voting for cuts in domestic programs. Representative Henry A. Waxman, a liberal Democrat from California, vowed to oppose the package, asserting that increases in Medicare premiums and cuts in how much doctors and hospitals would receive from the Government were "unreasonable and irresponsible."

Representative Vin Weber of Minnesota, a member of the Republican leadership, offered this advice to his party's candidates: "The candidates across the country who are listening to us for some signals today, they should take on this agreement, label it a Democrat tax increase agreement that was basically stuffed down our President's throat. They should oppose it out in the hinterlands."

But Vice President Dan Quayle; John H. Sununu, the White House chief of staff; Richard G. Darman, the budget director, and other top officials spent much of today seeking to persuade House Republicans that they would look better at the polls having supported a package that the President strongly wanted to win approval.

Risks for Both Parties

"If they are thinking in strictly political terms," Mr. Quayle said after meeting with House Republicans, "I think it would be politically risky not to pass a good budget package. If, in fact, a budget package is not passed, all are going to suffer, the Republicans as well as the Democrats."

White House officials said that because of the opposition of Mr. Gingrich and the core of conservatives, the toughest selling job would be among House Republicans. And no one on either side was willing to predict whether the lobbying effort would be successful, at least on a first pass.

As Representative Dan Burton, an Indiana Republican, said, "This is guerrilla war, and you may be rest assured that whatever it takes to scuttle this terrible budget package, we will do it."

Representative Dick Armey, a Texas Republican, was among several conservatives who said the plan would touch off a recession. "The historians will look back and call this is pre-plummet summit," he said.

Although they were not as outspoken, some Republicans declared their support for the plan and emphasized that the conservatives did not speak for the their entire caucus.

Representative Jerry Lewis of California, who heads the House Republican Conference, said that among House Republicans "my guess is there's 25 percent on each end who have really made up their mind, but there's a sizable number of the conference that are kind of in neutral."

"We're going to see movement back and forth," he predicted. "My guess is that a majority of our caucus will end up supporting the package — I didn't say that yesterday."

Another Republican, Representative Jim Leach of Iowa, was less hopeful. "At the moment, it's not close to half," he said. "What it symbolizes is there is no more fun in legislating. The fun is in giving tax breaks. The 90's are all going to be about taking."

White House officials who fanned out across Capitol Hill to lobby reluctant Republicans were careful in their public comments not to underestimate the resistance among their party's House contingent, whose members were described as courteous but cool at meetings with Administration officials.

"It's going to come slowly," Mr. Darman said after appealing to House Republicans' loyalty to the President. "It's going to be difficult. It's going to be hard."

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Capital Gains and Circles Within Inner Circles: Behind the Budget Accord

By SUSAN F. RASKY
Special to The New York Times

WASHINGTON, Oct. 1 — Ten days of tedious and seemingly unproductive bargaining at Andrews Air Force Base in early September laid the groundwork for the budget compromise that President Bush and Congressional leaders unveiled at the White House on Sunday.

They called it "Camp Runamuck," a chaotic blur of days and nights in which lawmakers from both parties postured, politicked and found little to agree on except the high quality of the food. But, according to interviews today that gave at least a partial picture of the long process that lead to the agreement, two developments occurred that would eventually prove important in sealing the pact.

The House majority leader, Richard A. Gephardt of Missouri, who was heading the talks, and Richard G. Darman, the White House budget director, established their own private sessions, ostensibly meeting each day to plan logistics, but in fact spending hours discussing areas in which the two sides might come together.

Core of Tax Plan

At the same time, members of the negotiating team who serve on the Congressional tax-writing committees were meeting separately from the larger group. They slowly put together a package of items to raise revenues, that unlike a tax on capital gains or a limit on deductions for state and local taxes, were relatively noncontroversial.

When the talks at Andrews ended in deadlock on Sept. 17, Congressional Democrats and Republicans and the Administration had tentatively agreed on $59 billion of such tax items. Those items would ultimately become the core of a five-year plan to raise $134 billion in taxes.

"The exit offers we left with from Andrews were political documents," said one Democrat involved in the talks, explaining that the offers were intended to show that neither side had given ground on major issues but had made a sincere effort. "They were designed to cover our rear ends in case the whole thing blew up."

A Smaller Group

The negotiators agreed that if there was any hope of a compromise, the talks would have to be confined to a smaller group consisting of the top five Congressional leaders and the Administration's three representatives, Mr. Darman, Treasury Secretary Nicholas F. Brady and the White House chief of staff John H. Sununu.

In addition to Mr. Gephardt, the Democrats were represented by the House Speaker Tom Foley of Washington and the Senate majority leader, George J. Mitchell of Maine. The Senate minority leader Bob Dole of Kansas and the House minority leader, Robert H. Michel of Illinois represented Congressional Republicans.

By the time the "Big Eight" resumed deliberations on Capitol Hill on Sept. 18, it was clear that resolution of the deadlock hinged on two central issues: Would Democrats agree that the Social Security program should bear a share of the spending cuts and would Republicans abandon President Bush's goal of a cut in the capital gains tax rate or accept a Democratic demand that tax rates be increased to pay for it.

Democrats say Mr. Sununu made clear that the White House had to extract a concession on Social Security to balance the political heat Mr. Bush had already taken for agreeing to consider tax increases. Their own strategy also clarified. Match the Administration on spending cuts and isolate the tax issue to embarrass the White House.

For two days, the top-level negotiating group circled around the issues, going nowhere. In Republican strategy sessions, Senator Phil Gramm of Texas, part of the larger Republican negotiating team, argued that Democrats would eventually accept a capital gains cut because so many of their rank and file members actually favored the reduction.

Mr. Michel, convinced that restive House Republicans would never agree to any measure that could be construed as an increase in tax rates, counseled otherwise. Mr. Dole and moderate Republicans who were not part of the negotiating group watched with mounting frustration as the press reported a budget deadlock caused by the President's demand for tax breaks that would help the rich.

On Wednesday night, Sept. 19, Senator Dole reached the breaking point, those close to the talks said. Separate the cuts in capital gains from the other issues, he suggested at a late night bargaining session. If it worked, fine, he said. If it did not, at least Republicans would not be blamed for blocking an agreement.

Throughout the discussions, the capital gains proposal advanced by Republicans called for reducing the rate to 15 percent. That was a more generous cut than the one proposed by President Bush in his January budget, which would have lowered the rate to 19.6 percent. Capital gains, the profits on sales of assets like stock or real estate, are currently taxed at the same rate as ordinary income, 28 percent for most taxpayers.

Among the negotiators, Mr. Dole's proposal went nowhere. Although Democrats had been privately pondering a similar notion, they were nearly as surprised as the White House that Mr. Dole had suggested it, and they watched silently as Mr. Sununu blew up.

"We saw a Republican fissure and we did our best to keep quiet," is how one Democratic strategist explained it. A day later, on Sept. 20, Mr. Dole made his proposal public, and by Sunday, Sept. 23, when the Kansas Senator appeared on a television news program with Mr. Mitchell, both men were suggesting that if left to their own devices they could swiftly have an agreement.

In negotiations that night, Republicans offered two new proposals, one that would address the Democratic demand to even out tax rates paid by the wealthiest Americans and those with incomes in the $100,000 to $200,000 range and provide a two-tier tax rate on capital gains — a higher rate for old assets and a lower one for newly acquired assets. The other proposal would abandon any effort to change the capital gains tax if Democrats would drop their demand for higher taxes on wealthy Americans.

In addition, the Republicans sought an extension of an expiring business tax credit for research and development and various other tax breaks for smaller businesses. Stunned Democrats ignored the first offer and began responding to the second, realizing that the dike on capital gains had finally been broken.

By Monday night, Sept. 24, however, Republicans appeared to reverse course, offering a proposal to exclude from taxes the portion of capital gains solely due to inflation.

Democrats said the indexing proposal, like a cut in the capital gains tax, would require a tax increase on the wealthy to balance out expected losses in revenues and to keep the tax system progressive. As the Democratic staff members searched for tax alternatives that would accomplish that goal without running afoul of the Republican stricture that rates not be increased, Mr. Mitchell became increasingly agitated, one Democrat who was present recalled.

Slamming down his yellow legal pad, he turned to other Democrats in a private party caucus and complained that the situation seemed hopeless because the most efficient method for raising revenue and keeping the tax code progressive was a rate increase, and that avenue was blocked.

At the White House, Administration officials were coming to a similar conclusion about the Democratic insistence that rates be increased. President Bush began talking less about capital gains in his public appearances and referring instead to "growth incentives."

"You saw us backing away from capital gains, or if not exactly backing away from it, then recognizing that there might be another way to skin the cat in terms of capital incentives a couple of days before Dole's comments," one Administration official said. "Signals were being sent in public statements and in private."

Visible Animosity

But by Tuesday, Sept. 25, the animosity between Congressional Republicans and the White House was barely disguised, and Mr. Michel began sending some public signals of his own. He told reporters that the price for capital gains had simply become too high.

The negotiators worked through the night on Saturday, eventually finding enough spending cuts elsewhere to avoid any changes in the Social Security program. Exhasuted staff members rushed to put the final documents together in time for a hastily convened announcement in the White House Rose Garden on Sunday afternoon.

"It's good to be back to life and taking fluids again," Mr. Gephardt said today.

The New York Times

NEW YORK, TUESDAY, OCTOBER 2, 1990

Aches Aside, An Eclectic Accord That Economists Say Seems to Fit

By PETER PASSELL

"There's a puff of smoke here and a glint of mirrors there," said one grudgingly satisfied Congressional staff member. "But the budget deal is mostly made of beef."

Economic Analysis

His sense of relief is shared by many economists, who have been hoping for a compromise on the contentious issues that delayed the budget settlement until the 11th hour. For while almost none are impressed by the hodgepodge of tax increases and spending cuts, the size and timing of the projected deficit reduction seems about right to all.

The agreement is perhaps most notable for what it does not contain. President Bush was forced to give way on his effort to reduce taxes on capital gains. Congressional Democrats lost their bid to raise income tax rates for families making more than $200,000. And reformers in both parties threw in the towel on a plan to trim Social Security payments to affluent beneficiaries.

A Little of This and That

What did emerge from the negotiations was a little of this and a little of that — a mix of excise taxes, user charges, limits on income tax deductions, military spending and farm subsidy cuts and Medicare trims. First-year deficit reduction amounts to $40 billion. But by the fifth year the savings have grown to about $150 billion.

Budget definitions were juggled to meet targets imposed by the Gramm-Rudman-Hollings deficit reduction law: Roughly $100 billion needed for the savings and loan bailout over the next three years will not be counted. So, too, were assumptions about the economy's midterm prospects — assumptions that David Hale, an economist at Kemper Financial Services calls "pure fantasy."

The budget brokers guessed, for example, that in 1995 the Treasury would be able to borrow money at 4.2 percent interest (down from 7 percent today), and that a combination of the highest growth rate since the 1960's and the lowest inflation rates since the 1950's would jack up tax revenues and tame spending.

But such political legerdemain, now a routine of every budget crisis, is not likely to upset economic analysts. Fiscal experts like Robert Litan of the Brookings Institution have long insisted that the savings and loan bailout does not belong in the budget. Deficits and surpluses, he argues, are useful as indicators of the Government's impact on overall economic activity. And spending on the bailout, money returned to insured bank depositors, is unlikely to affect their spending or savings behavior because they never thought they lost the cash in the first place.

Outlook on the Deficit

What is more, the budget negotiators have actually weighted the deficit game against themselves in the later years by excluding a portion of what is conventionally defined as the Social Security surplus. In 1994, for example, the combined effect of excluding both Social Security and the savings and loan bailout increases the projected deficit by $128 billion.

For political reasons this five-year plan, like many in the past, shows a zero deficit in the last year. That still does not mean the deal will eliminate the deficit by anyone's definition. But to Benjamin Friedman, an economist at Harvard and a leading critic of the fiscal policies of the 1980's, "there's nothing magic about a balanced budget." Indeed, in the view of many economists, there would be real mischief done is attempting to balance the budget too quickly.

For Mr. Hale, the $40 billion reduction next year is "about right." Any less restraint on national spending and the budget deal would lack political credibility; any more, and an already sluggish economy could easily slip into deep recession. In later years the deficit restraint would cut more deeply. But by then, Mr. Friedman points out, the Federal Reserve will have had time to compensate with lower interest rates, "giving monetary policy a chance to make a graceful transition."

With a little luck, America will enter the mid-1990's with a budget deficit of about 1 percent of the Gross National Product — roughly one-third the level of the late 1980's. Is that good enough?

It would not displease Mr. Friedman, who despite his reputation as a "neo-Calvinist" economist, would be satisfied by any deal that allows a decline in the ratio of the national debt to national income. And it would probably also satisfy economists who worry that Japanese and German investors are rapidly losing their enthusiasm for lending money to the United States Treasury. "This is the first fiscal reform" Mr. Hale notes, "which was driven by international finance."

What it would not do, however, is make fiscal room for a surge in public and private investment — a surge that some economists believe is needed to cure ills ranging from chronic poverty to lagging productivity growth. But as Mr. Hale suggests, it may be wiser to focus on "one deal at a time."

The New York Times

NEW YORK, TUESDAY, OCTOBER 2, 1990

Cost Increases for Medicare Recipients Stir Protests

By ROBERT PEAR
Special to The New York Times

WASHINGTON, Oct. 1 — A bipartisan budget agreement that would significantly increase costs for 33 million Medicare beneficiaries stirred angry protests today from elderly people, who threatened to take political vengeance against members of Congress who support the measure.

The first stirrings of anger from the elderly were felt on Capitol Hill, but it was unclear whether lobbyists for the elderly would succeed in blocking the changes, which were agreed on Sunday by the Bush Administration and Congressional leaders.

Members of Congress who specialize in health policy, including Representatives Pete Stark and Henry A. Waxman, both California Democrats, criticized the Medicare provisions of the agreement, saying they imposed a disproportionate burden on the elderly.

"To put such a burden on the backs of the elderly, while the budget summit agreement lowers the burden on the rich, is obscene," said Mr. Stark, who is chairman of the House Ways and Means Subcommittee on Health. Mr. Stark, one of the more liberal members of his party in Congress, said he would ask the Ways and Means Committee to approve an alternative that would increase Medicare payroll taxes for the affluent.

Mr. Stark, who has served in the House for 18 years, expressed irritation with the Speaker of the House, Thomas S. Foley, saying he had been "too lenient" in negotiating with the Administration.

"The Speaker is too willing to compromise just to keep peace," Mr. Stark asserted. "That's not what the leader of the Democrats ought to be doing. He ought to be fighting for Democratic principles.

He added, "There's disillusionment with the Speaker among more than a few Democrats up here."

Mr. Waxman, the chairman of the Health Subcommittee of the Energy and Commerce Committee, said in an interview that he would vote against the deficit-reduction package because "the elderly take an enormous hit under this agreement."

"The budget agreement would freeze public health programs at current levels," Mr. Waxman said. "Unfortunately, infectious diseases will not be frozen at current levels. There is a measles epidemic in the United States. Tuberculosis is growing, and AIDS continues to increase, especially among those least able to pay for their own care."

No Real Cut in Medicare

Representative Bill Gradison of Ohio, the ranking Republican on the Ways and Means Subcommittee on Health, said he could "live with" the changes envisioned in the deficit-reduction package. "We didn't write this budget agreement, but we have to offer the House a means of implementing it so the House can work its will," Mr. Gradison said. "I haven't decided how I will vote on the overall package."

Mr. Gradison said it was incorrect to suggest that Medicare would be cut as a result of the budget agreement. The program, which cost more than $100 billion in the fiscal year that just Sunday, would still grow at an annual rate of 11 percent in the next five years, he said. The agreement would make "a modest cut in the rate of growth" of 12.6 percent a year envisioned under current law, Mr. Gradison said.

Arthur S. Flemming, who served as Secretary of Health, Education and Welfare in the Eisenhower Administration and now leads a coalition of advocates for the elderly, said, "If the budget summit agreement is put into effect, it's clear that Medicare beneficiaries would be paying far more out of their own pockets than has been the case up to the present."

$60 Billion in Savings

The agreement would save $60 billion in Medicare over the next five years. That represents nearly one-fifth of the $301 billion to be saved through cutbacks in Federal spending and half of the $119 billion to be saved in Federal benefit programs.

"That's an indefensible, inequitable situation," said Mr. Flemming, who is 85 years old. "Older and disabled citizens are not going to tolerate it. People at the grass roots are aroused and will express themselves in no uncertain terms between now and the elections in November."

About half the $60 billion to be saved would come from restricting payments to doctors, hospitals and others who provide health care services.

Details of the budget agreement have not yet been worked out, but the budget agreement would result in three other major changes in the Medicare program. The Medicare premium for insurance covering doctors' bills, now $343 a year, would rise to $651 in 1995 under the agreement. The Medicare deductible, which must be paid by beneficiaries before the Government starts to pay doctors' bill, would rise to $100 on Jan. 1, then to $125 in 1992 and $150 in later years. The deductible has been $75 a year since 1982. The budget agreement would also require Medicare beneficiaries to pay 20 percent of the cost of work done for them by medical laboratories. Under current law, Medicare now pays the entire cost of such work.

More Income Subject to Tax

In addition, the agreement includes a related provision that would increase the amount of wages subject to the Medicare payroll tax. Currently, employer and employee each pay 1.45 percent of the first $51,300 of a person's annual earnings. The agreement would increase wages subject to the tax to $73,000 a year, effective Jan. 1, 1991. The extra tax, which Mr. Stark said would generate $13 billion a year, is not counted as part of the savings from Medicare.

Mr. Stark said he wanted to impose the Medicare payroll tax on earnings up to $150,000 a year, so "the rich would bear more of the burden" of reducing the Federal budget deficit.

For most elderly people, Medicare premiums are automatically deducted from monthly Social Security checks.

The New York Times

NEW YORK, TUESDAY, OCTOBER 2, 1990

Tax Rises Seen Hitting Hard At People of Moderate Means

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

WASHINGTON, Oct. 1 — The substantial tax increases agreed to by Administration and Congressional negotiators over the weekend would be paid mostly by people of moderate means, despite various provisions aimed specifically at buyers of yachts and others with six-figure incomes, private specialists said today.

The taxes, especially the 12-cent increase for gasoline to be phased in by next summer, also appear to cut across economic lines to favor urban over rural Americans and older taxpayers over younger ones.

According to a Government document made available to The New York Times, taxpayers in the income ranges of $30,000 to $40,000 and $40,000 to $50,000 would be hit hardest, paying an average 3.3 percent more under the plan. Those in the range of $20,000 to $30,000 would pay 3 percent more while those in the ranges of $50,000 to $75,000 and $75,000 to $100,000 would see their total tax bills rise 2 percent, assuming they do not alter their spending patterns.

1.5 Percent More for Some

Taxpayers with incomes of $100,000 to $200,000 are to pay 1.5 percent more and those reporting $200,000 and more are expected to pay an extra three-tenths of 1 percent.

Only those in the lowest income rungs are expected to pay less. A 3.8 percent decline is forecast in overall taxes for those in the $10,000-to-$20,000 bracket and a drop of one-tenth of 1 percent for those with less than $10,000 a year. These taxpayers would benefit heavily from an increase in the earned income tax credit.

Over all, Federal collections — sales as well as income taxes — are to rise 1.6 percent, the calculation showed.

Despite the reduction for those with the lowest incomes, economists generally regarded the tax proposals as mildly regressive. This means that the burden would falls relatively more heavily on those of ordinary means — though the dollar amount of their increases may be no greater — than on the wealthy.

An extra 12 cents for a gallon of gasoline, for example, could be a serious blow to a $350-a-week clerk who drives long distances to work while the additional amount would scarcely be felt by a high-income corporate executive.

Unlike the major tax overhaul enacted in 1986, when economic theory was served by a slash in income tax rates and an expansion in the types of revenue subject to taxation, this year's negotiations were driven by a need to cut the budget deficit in some politically palatable way.

The only major assault on the principles governing the 1986 law appeared to be a limitation on itemized deductions for individuals or couples with adjusted gross incomes above $100,000 a year, a move that has the effect of raising their tax bracket — either 28 percent or 33 percent — by as much as one percentage point. This is to raise $18 billion over the 1991-95 period.

With medical expenses and investment-related interest payments exempted, such taxpayers would lose deductions equal to 3 percent of all income exceeding $100,000.

Regressivity Balanced

Other big revenue raisers, $13 billion and $11.7 billion respectively, are an increase, to $73,000, in the cap on wages and self-employment income considered in calculating the tax for Medicare hospital insurance and a requirement that state and local government workers not covered by a public employee retirement system join the Social Security program and pay its taxes.

By including the deduction limitation and raising the cap for health insurance, which hit hardest at the better-off, the negotiators seem to have roughly balanced the regressivity that attaches to the excise levies on cigarettes and alcohol, as well as gasoline.

The package "doesn't seem to be highly regressive at all," said Isabel V. Sawhill, an economist at the liberally inclined Urban Institute.

According to the Congressional Budget Office, American families spent 2.7 percent of after-tax income on gasoline, 2 percent on liquor, wine and beer and 1.1 percent on tobacco. The poorest 20 percent, however, spent 6.9 percent for gasoline, 3.7 percent for alcohol and 4 percent on tobacco. The second-richest 20 percent, with incomes averaging $38,000, spent 2.9 percent for gasoline, 2.2 percent for alcohol and 1.1 percent for tobacco.

The budget office also reported earlier this year that families headed by someone under 30 spent a greater portion of their incomes on all three of these categories than did other age groups. Geographically, rural Americans spent 29 percent more of their incomes for gasoline than did those in the urban Northeast.

Norman Ture, president of the Institute for Research on the Economics of Taxation and a former Treasury Department official in the Reagan Administration, said, "My instinct tells me this is more regressive than not." But he added that this was a highly complex issue not amenable to quick analysis. He observed, for example, that it might be progressive to impose a luxury tax on fur coats, as the budget negotiators propose, but a thorough analysis would also consider the fact that mink ranchers or the furriers who sell the coats might lose their jobs if demand fell, a result he called clearly regressive.

Much analyses of progressivity and regressivity, moreover, assume that higher taxes will not induce people to alter their behavior significantly — indeed, the proponents of the measures are counting on people to buy nearly as much gasoline. Otherwise, revenue targets would not be reached. Some groups, however, will undoubtedly cut purchases more than others, shifting the regressivity-progressivity balance.

"The budget process focuses on 'the deficit' to the exclusion of all other issues. No rational policy will emerge as long as this remains true."

Real estate tax and marketing experts suggested today that limits on deductions for people with incomes over $100,000 would probably have little impact on the real estate market. M. Jack Duksin, a partner with the law firm of Berlack, Israels, Liberman, calculated that the total additional Federal tax bill to someone making $250,000 would be about $1,260.

"Nobody making a quarter-million dollars is going to base a big decision about buying a new condo or vacation home on a tax impact of $1,260," he said, adding that he had already taken several calls from clients wondering about the impact of the budget compromise on their real estate purchasing plans.

"I think it's a step in the right direction," Mr. Duksin said, "because it's an attempt to redistribute wealth without seriously damaging the incentive to be a high wage-earner."

The Washington Times

TUESDAY, OCTOBER 2, 1990

House GOP leaders buck Bush on budget

By Major Garrett
and Frank J. Murray
THE WASHINGTON TIMES

The White House launched a heavy lobbying effort yesterday for the proposed $500 billion bipartisan budget deal, but the plan provoked open defiance from prominent House Republicans, including Minority Whip Newt Gingrich.

Despite heavy lobbying and some veiled threats from the Bush administration, Mr. Gingrich and other GOP leaders announced they would buck President Bush and oppose the five-year budget plan offered Sunday by congressional and White House negotiators. The deal included $134 billion in new taxes and savings of $366 billion.

"It is my conclusion that it will kill jobs, weaken the economy. The taxes will be counterproductive, and that it is not a package that I can support," said Mr. Gingrich of Georgia, the No. 2 Republican in the House. "It's not good for America."

Mr. Gingrich and members of the House Republican leadership met with reporters after a stormy meeting with Bush administration officials.

According to sources, White House Chief of Staff John Sununu, who helped craft the budget deal, warned that defectors would hurt their relations with President Bush. Many took the comment as a threat and hooted Mr. Sununu, sources said.

Mr. Bush and Vice President Dan Quayle, who canceled a scheduled trip, telephoned GOP lawmakers in an effort to round up their support for coming votes on the budget package.

In New York, Mr. Bush brushed off questions about Mr. Gingrich's defection, saying, "I'd expect all Republicans and all Democrats to support me, but that's not the way it works in real life."

And moments after urging Congress to keep debate on the new budget free of partisan politics, the president said that only the election of Republicans could control taxes.

"We must put aside partisanship for the sake of our nation," Mr. Bush said during a signing ceremony for the continuing resolution passed Sunday to keep the government operating while the budget plan is being implemented.

"Now it's up to Congress," he said. "It is balanced, it is fair."

But he quickly rose to the bait when reporters asked what a $134 billion tax increase and no reduction in capital gains taxes say about his "read my lips" campaign promises.

"It says you need more Republicans and then we'll do it exactly my way," Mr. Bush said. "I'll be glad to take my case out [to the people] and say 'If you want all these things, give me more Republicans.' "

But, according to the ABC News public poll, 32 percent of those questioned considered the pact good and 1 percent called it excellent. But 65 percent rated it unfavorably.

"The Republican Party has done quite well for the last 10 years standing for modest levels of taxation and regulation and championing economic growth," said Rep. Vin Weber, Minnesota Republican and secretary of the House Republican Conference.

"And our candidates across the country who are listening to us for some signals today should be aware they should take on this agreement, label it for what it is — a Democratic tax agreement that was basically shoved down our president's throat."

Several Democrats also criticized the budget agreement, hammered out over five months of negotiations between the White House and Congress.

Congress must pass the first stage of the budget agreement by Friday or risk more than $105 billion in spending cuts under the Gramm-Rudman-Hollings deficit-reduction law.

The political fault lines splitting Republicans are familiar. Mr. Gingrich represents conservatives adamantly opposed to higher taxes and higher spending.

On the other side is House Minority Leader Robert Michel of Illinois, who spent yesterday stitching together a coalition of moderate and liberal Republicans he hopes will be large enough to beat back Mr. Gingrich's affront.

It is a crucial task for Mr. Michel, one of two congressional Republicans involved in the budget talks. The success of the budget deal depends on a risky political compact: The deal must win with majority support of both parties in both chambers.

An aide to Mr. Gingrich said at least 100 of the 176 Republicans opposed the package yesterday. To meet the political ground rules so far established, at least 89 Republicans would have to support the package.

"We represent a substantial number of members who are deeply concerned about avoiding a recession and about preserving jobs," said Mr. Gingrich.

An aide to Mr. Michel said a formal vote count had not been taken and would not estimate the depth of GOP support for the package.

But after separate private meetings with fellow lawmakers from their respective chambers, Senate Majority Leader George Mitchell of Maine and Senate Minority Leader Robert Dole of Kansas took to the Senate floor to say they were moving toward lining up majority support for the budget compromise.

"I feel optimistic we'll produce half or more from the Republicans," said Mr. Dole.

"All we can do is try," said House Majority Leader Richard Gephardt, Missouri Democrat. "This is a big decision for members. It's a very tough call and a close call."

Mr. Mitchell and House Speaker Thomas Foley of Washington expressed similar optimism yesterday. An aide to Mr. Mitchell said many senators had questions about the package and were withholding judgment.

Numerous Democrats do not like the package's $105 billion in spending reductions for benefit programs such as Medicare and the fact that many of the taxes — such as those on gasoline and alcohol — take a deep bite out of poor people's incomes.

"Obviously, it is not a proposal that most members of Congress want to rush out screaming in the streets with joy about," Mr. Foley said of the overall plan.

Mr. Bush, on his flight back to Washington on Air Force One last night, was asked about the $60 billion in Medicare cuts that would strike the elderly.

"Well, what are you going to do?" Mr. Bush said. "You can't keep everybody happy. I learned that long ago. You've got to do what's right. That's what we're trying to do."

Democrats said yesterday that the task of molding support for the package would be helped greatly if Mr. Bush would deliver a television address explaining to Americans why the nation's ailing economy needs such bitter budgetary medicine.

"We in Congress can't prepare them," said Sen. Wyche Fowler, Georgia Democrat who participated in most of the five months of budget bargaining this year. "It is only the president going on national TV who can convince the public it is in their long-term best interest. . . . If he convinces them of that, it will pass."

Democrats had asked Mr. Bush at the White House Sunday to make the speech, according to meeting participants. Mr. Bush told reporters in New York that he had not yet decided whether to go on television.

"But if it would help, I would be glad to do that," the president said.

• *This article is based in part on wire service reports.*

The Washington Times
TUESDAY, OCTOBER 2, 1990

GOP candidates quick to condemn 'bad' deal

By Donald Lambro
THE WASHINGTON TIMES

Republican officials, campaign strategists and candidates gave President Bush's budget deal mixed reviews yesterday as they assessed its likely political impact.

While top GOP officials stressed that Mr. Bush had grabbed the deficit problem by the horns and achieved the best compromise he could with the Democrat-controlled Congress, some of the party's candidates moved quickly to condemn the package's taxes and Medicare cuts.

Illinois Rep. Lynn Martin, who is challenging Democratic Sen. Paul Simon, was one of two GOP senatorial candidates who lashed out against the agreement, saying it was "bad for senior citizens, bad for taxpayers and bad for the state of Illinois."

Similarly, Rep. Bill Scheutte of Michigan, who is opposing Democratic Sen. Carl Levin, said the budget plan was "the wrong medicine for a soft economy."

But other party leaders at both the national and state level were generally supportive of the agreement the president had reached with the Democrats and dismissed suggestions that the tax and spending package would hurt their party in the fall.

"I don't think this will do any damage to us in the near term," said Frederick Meyer, chairman of the Republican Party in Texas.

Mr. Meyer acknowledged that the package "can't help but blur" the differences between the two parties over taxes "for those who pay little attention to the particulars."

But he said the voters would give the president credit for trying to extract "the best deal he could from a Democratic Congress that would have raised taxes more and spent more if it were not for this compromise."

Ray Shamie, the GOP chairman in Massachusetts where Republicans have mounted a major campaign offensive against higher state taxes, said "the idea that we're going to increase taxes substantially is a cause for concern. How this plays out politically is beyond me at the moment."

Yet, like his Texas counterpart, Mr. Shamie chose to blame "the Democratic big spenders in Congress" for putting Mr. Bush in the position of having to accept higher taxes. "The answer is not to get mad at the president, the answer is to throw out of Congress the Democrats who opposed the spending reductions that brought about this budget compromise."

Other state party officials from around the country were supportive of the White House budget deal with the Democrats, according to Mary Matalin, chief of staff at the Republican National Committee.

"Nationally, our committee members and state parties are happy with the agreement," she said. "I think they'll generally be supportive."

Miss Matalin suggested that more was being made of the budget package's taxes here in Washington than "out there beyond the beltway. When you get outside the capital, you find that people are saying we need deficit reduction, so let's get on with it. They're saying 'raise some taxes, cut some spending and balance the budget.' "

When the smoke clears from the congressional battle over whether or not to approve the budget, she said, "the American peple will support the fact that George Bush had the tenacity to jam this thing through."

Party officials acknowledged yesterday that there was growing opposition among conservative Republicans in the House, but aides to Senate Republicans said they did not detect any groundswell of opposition in their caucus.

"There are going to be some votes against it," said a Senate Republican Conference official. "But I don't see somebody planting the flag and rallying the troops against this side on our side."

Republican campaign consultant Eddie Mahe described the package's gas tax increases as "politically mindless in the face of quadrupled oil prices."

In the end, Mr. Mahe predicted that the measure would end up protecting most incumbents "because they'll have time to go home and tell their constituents what would have happened if we didn't have a compromise and that triggered across the board budget cuts.

"This goes into the history books if it passes," he said.

The Washington Times
TUESDAY, OCTOBER 2, 1990

Critics of budget pact find forum on call-in America

By Alan McConagha
THE WASHINGTON TIMES

Reaction from callers to radio talk shows yesterday over tax increases on gasoline, cigarettes and alcoholic beverages ranged from apathy to outrage. There was, however, clear agreement on one point: Nobody is for it.

Across the country, talk-radio hosts found no support for the budget agreement that has already raised intense criticism from some members of Congress and other political leaders.

As they took calls from their listeners, talk-radio stations also found criticism of both the Democrat-dominated Congress ("a sham") and Republican President George Bush ("betrayal") over taxes.

The callers were reacting to agreement on a $500 billion deficit-reduction package that includes $134 billion in new taxes.

Among the proposed measures are an increase of 10 cents on a gallon of gasoline by July, a boost of 8 cents over three years on a package of cigarettes and a doubling of the tax on a six-pack of beer to 32 cents.

In San Antonio, WOAI producer Kevin Geiger said, "There was definite opposition. One guy said, 'If I'm sitting at home on a Saturday night smoking a cigarette and having a beer, I'm really in trouble.'

"I would say that it [the agreement] added fuel to the flames of the anti-government, anti-incumbent fire," Mr. Geiger said after the morning session with callers to his station. "People are really ticked off."

On the other hand, Drew Hayes, operations director of WLS in Chicago, said: "Are you ready for this? They hardly care. Hardly anybody mentioned it. It's two-by-four marketing out here. They haven't felt it yet."

Callers to WWDB in Philadelphia complained about the inability of Congress and the White House to "get their act together" earlier on a budget package, according to David Rimmer, program director.

Susan Hanson, producer at KING in Seattle, said: "Not a lot of reaction yet. . . . People are waiting to see the fine print before they shoot their congressman — or what."

Mike Rosen, host of a talk program at KOA in Denver, said: "People think it's bull. They think it is a sham, that Congress is doing this to be doing something. It's purely symbolic."

Tim Morrissey, station manager of WTDY in Madison, Wis., said: "A lot of callers felt betrayed. They used the word. They felt that President Bush, with his 'Watch my lips,' sold out the Republicans."

Listeners calling WABC in New York also thought the GOP got "the short end of the stick," according to Harley Carnes, who does both news and talk shows. "There's resentment on gas, yes; beer and cigarettes, less so."

Joan Isabella, executive producer at Detroit's WXYT, said: "The biggest thing is gas. There is no public transportation here. They aren't real angry, but after hour after hour of these calls, you know they are ticked off."

In Cheyenne, Wyo., KFBC host Ed Gezzi also reported gas is an issue: "They don't think it's fair. They say, 'What about a tax on rapid transit? Let's get the big cities in on this.' Out here people often drive 60, 70 miles to work."

Brenda Vaughn, producer at KVOR in Colorado Springs, Colo., said: "With gas prices already so high anyway, the price is already $1.47 a gallon. There was lots of grumbling about that."

Ed Rich, news writer at KMOX in St. Louis, one of the country's brewing centers, said: "There is local concern for the beer industry. But the reaction is hard to characterize. Outrage, no. Furor, no. More wait-and-see."

In Philadelphia, Mr. Rimmer found the day's single nugget of enthusiasm. It was for the so-called sin taxes: "Some," he said, "thought people OUGHT to pay more for beer and cigarettes."

The Washington Times
TUESDAY, OCTOBER 2, 1990

Yeas, nays spill out after budget deal

By Carleton R. Bryant
THE WASHINGTON TIMES

Less than 24 hours after President Bush and Congress announced their budget summit compromise, Washington facsimile machines were already spewing out yards of favoring and opposing opinions.

Special interest groups from the American Association of Retired Persons to the American Federation of Government Workers weighed in yesterday with faxed press releases and instant news conferences. Even the Postmaster General Anthony M. Frank entered the fray.

"Postal rates could be as much as five cents higher by 1995 than they would have been otherwise" because of the budget agreement, Mr. Frank said in his faxed statement.

"The news media has been widely reporting that this budget agreement will increase taxes for Americans who drink, smoke, fly or drive. Unfortunately, the same is true for those who mail," the statement reads.

Mr. Frank said that although the Postal Service will have to absorb more than $5 billion in new costs over the next five years, it will not cut back on service.

At a news conference yesterday, Save Our Security, a coalition of senior and disabled citizens groups, attacked the proposed Medicare cuts in the budget package.

"President Bush and the budget summiteers are asking one-eighth of the population to shoulder one-half of the cuts in the domestic spending proposals," said Ron Pollack, executive director of Families United for Senior Action, a coalition member. "And that one-eighth represents the oldest, the sickest, the poorest adults — those least able to pay."

The budget compromise calls for a $60 billion cut in Medicare — half to be borne by doctors and hospitals, the other half by Medicare recipients.

The coalition, calling the budget agreement regressive taxation, called on Congress to use the income tax to correct the deficit. Other coalition members include the AARP, the American Association of the Blind, the National Council on the Aging Inc. and the National Council for Senior Citizens.

"The summiteers have declared war on seniors and the disabled," Mr. Pollack said. "Those who wage budget war against seniors and the disabled shouldn't expect pacifism on Election Day."

Federal workers unions were split on the budget compromise: the AFGE tepidly supported the budget proposal, while the National Federation of Federal Employees was undecided.

"This is no time for political posturing. It's time for everybody to accept the necessary pain associated with this deficit reduction," AFGE President John N. Sturdivant said.

"We were trapped between a rock and a hard place — either accept furloughs or employee program cuts," NFFE spokesman Josh Neiman said, adding that his organization is analyzing the entire budget package.

Thousands of federal workers faced lay-offs if a budget agreement had not been reached. AFGE represents 700,000 government employees and NFFE represents about 150,000 federal workers.

BUDGET BACKLASH

Since the president and Congress agreed to a budget compromise Sunday, several special interest groups have weighed in on the plan.

In favor:

- American Federation of Government Employees.
- National Small Business United.

Opposed:

- American Association of Retired Persons.
- American Council of the Blind.
- Families United for Senior Action.
- National Council of Senior Citizens.
- National Council on the Aging.
- U.S. Chamber of Commerce.
- U.S. Postal Service.

Undecided:

- Action on Smoking and Health.
- National Federation of Federal Employees.

The Washington Times

The Washington Times
OCTOBER 2, 1990

The voodoo budget

Now at last we know why the federal government has been running such an enormous budget deficit. It's not because lawmakers have been spending dough by the boatload. No, it's because the folks out there who drink an occasional beer or glass of wine just haven't been paying enough in taxes. Same for the people who drive cars. Or smoke cigarettes. Or ride airplanes. Or buy furs or cars. Or take deductions. So say the federal budgeteers.

Well, we at least are darn glad they brought the matter up. There's no time like an election year to find out whether Joe Sixpack really thinks he is undertaxed. Here's Congress' big chance to make the case that it's about time he and his fellow shirkers started pulling their weight at budget time. President Bush can take to the campaign trail for candidates with his message that a tax increase "is what the United States of America needs at this point in its history." Then let's see what happens Nov. 6.

Already lawmakers are bracing themselves for criticism from "naysayers and nitpickers," as Senate Minority Leader Robert Dole describes them. This budget agreement, he says, should demonstrate to the American people, "who are sometimes somewhat cynical," that Congress and the president can do the right thing for the country. Or at least their campaign supporters. While Mr. Dole and Co. were busy sticking it to Mr. and Mrs. Sixpack, the senator was slipping tax breaks worth $500 million into the accord to help his buddies over at Archer-Daniels-Midland Co., the giant Illinois commodities company. He also arranged to keep private airplanes, which two major Kansas manufacturers help produce, from being hit with the new luxury tax applied to car and fur buyers.

Another aspect of the budget accord that may spur a certain amount of cynicism concerns gasoline taxes. Congress, after all, just got finished bashing oil companies for price hikes in the wake of the Iraqi invasion. The budget agreement would raise the federal gasoline tax 12 cents a gallon. We'll let budgeteers explain why that increase isn't "gouging."

But perhaps the most cynical aspect of the deal involves federal spending levels, something no one seems interested in talking about very much. Total federal outlays in fiscal 1987 were about $1.003 trillion. Estimated outlays for fiscal 1991 are $1.233 trillion and rising. Maybe if Congress weren't spending so much more money so fast, it wouldn't be tying itself in knots over deficit reduction. But the new agreement allows overall spending on foreign aid and on domestic discretionary programs — say, funding for all those Department of Education programs we can't do without — to rise at the rate of inflation. Defense spending, meanwhile, would fall $67 billion behind inflation over three years.

Mr. Bush hopes to generate some of that reduction by reining in spending. But some of the so-called cuts are less than a sure thing. Spending on farm subsidies, for instance, are supposed to drop by $13 billion over five years. But the budget agreement doesn't bother to say where. Postal Service changes are supposed to save another $4.2 billion, but details have yet to be worked out. And so on. No wonder big spenders prefer this deal to Gramm-Rudman.

Hopes for a capital gains cut to spur growth in the face of an economic slowdown gave way to a handful of small, face-saving tax breaks that the president's advisers could claim as a victory for the entrepreneur. Rather than letting the market decide which sorts of businesses should benefit from risk-taking investment, the budget agreement decided that that responsibility should fall to government. Certain kinds of companies would be allowed to "expense" certain kinds of investments. Some would get breaks on research and development. Only the government, in its wisdom, knows for sure now, but you can bet your last tax dollar that an army of accountants and tax consultants will be gearing up to find out.

In all, this budget agreement represents for Mr. Bush a promise to break all promises. His no-new-tax pledge during his 1988 presidential campaign is in shreds, this in the face of a looming recession. His effort to win across-the-board tax relief for people who sell houses or stock is down the tubes. Across the sea, one Saddam Hussein must be looking on with interest to see what all this means for the Middle East: If Mr. Bush can sell out his own supporters, why not his distant Arab allies?

Yes, we'd say there's a lot of cynicism about the deal out there, Mr. Dole's tut-tutting notwithstanding. If lawmakers think it's such a good idea, they have a chance to bet their careers on it.

The Philadelphia Inquirer

Tuesday, October 2, 1990

House GOP rebelling at budget deal

By Helen Dewar
and Tom Kenworthy
Washington Post

WASHINGTON — Senate leaders expressed growing confidence yesterday that the new bipartisan budget agreement will be approved by the Senate, as the Bush administration moved to quell a mounting rebellion among House Republicans that could endanger final passage of the pact.

"We feel very optimistic," said Senate Minority Leader Bob Dole (R., Kan.). Senate Majority Whip Alan Cranston (D., Calif.) added, "It won't be easy, but the alternatives are so grim I think it will be approved."

They spoke after party caucuses in which most senators reportedly indicated that they could reluctantly support the tax increases and spending cuts endorsed Sunday by President Bush and congressional leaders as part of the largest deficit-reduction plan ever proposed.

But prospects for the five-year, $500 billion deficit-reduction plan were far less clear in the House, where Minority Whip Newt Gingrich (R., Ga.) and four other GOP leaders denounced the pact after an hour-long Republican caucus attended by Vice President Quayle and other top administration officials as part of the administration's lobbying effort.

"It is my conclusion it will kill jobs, weaken the economy and that the tax increase will be counterproductive and that it is not a package that I can support," said Gingrich. "We need to do better than this."

The budget agreement includes a politically painful combination of spending cuts in popular domestic programs, increased health care costs for the elderly in the Medicare program, higher excise taxes on cigarettes, liquor and wine, and a 12-cent increase in federal gasoline taxes that will affect virtually every American.

Denunciation of the agreement by Gingrich and other members of the House GOP leadership — Vin Weber of Minnesota, Bill McCollum of Florida, Duncan Hunter of California and Robert S. Walker of Pennsylvania — underscored expectations that the House will be the main battleground in the fight over approval of the pact.

House Republicans appear to be more hostile to the plan than Senate Republicans in part because all of them face the voters next month and many feel that Bush's reversal on his promise not to increase taxes has exposed them politically.

The first test for the plan will come as early as tomorrow, when the House takes up a budget resolution incorporating the deal cut by the President and leaders of both parties in Congress after lengthy negotiations. Other equally critical votes will follow to put the plan into effect before Congress adjourns later this month.

Democrats, as the price for their support, have demanded that a majority of Republicans in both houses vote for the budget plan — meaning that the package might be doomed if at least 88 of the 176 GOP House members do not vote for it.

However, even some of the House Republican leaders who oppose the budget plan indicated that they thought Bush might be able to get at least half of the House Republicans to support him. "I do not underestimate the ability of the White House to get a majority based on appeals to loyalty," said Weber.

To accomplish this, the White House dispatched chief of staff John H. Sununu, Treasury Secretary Nicholas F. Brady and budget director Richard G. Darman to meet with Republicans in both houses. The three senior administration officials were joined by Quayle in courting conservative Republicans in the House.

The group, including Quayle, also met separately with at least two groups of House Republicans at the White House, and cabinet members were phoning wavering lawmakers. Bush was expected to participate in similar meetings at the White House today.

But White House officials expressed misgivings about the idea of a nationally televised speech by the President to build public support for the budget plan, which some Democrats have been urging as a key element in bringing pressure on Congress to approve the plan. The officials said timing was a problem and indicated reluctance to risk the President's political capital when the outcome is uncertain.

In remarks at a ceremony in New York to sign the stopgap spending bill approved by Congress Sunday, Bush used what aides said would be his major sell-the-budget theme. "This is a time for leadership," he said. "We must put aside partisanship for the sake of our nation. We must act now to solve this budget problem."

Democratic leaders in the House and Senate met yesterday with Democratic lawmakers who have problems with the package, including conservatives and members of the black caucus.

But Democratic aides insisted that the primary burden for passing the agreement into law rests with Bush and his ability to win over dissidents in his own party. Some Democrats privately expressed the hope that Republican defections will kill the plan, letting them off the hook. "Let them screw it up," said one Democratic member.

"I expect that we are going to get 50 percent plus one in each party," said House Speaker Thomas S. Foley (D., Wash.).

In both houses, leaders indicated that the package may be modified somewhat to satisfy complaints and win approval but cautioned that the basic outlines of the agreement must be retained.

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Property and Casualty Insurers Say Tax Package Item Will Hurt

By KENNETH SILVERSTEIN
Journal of Commerce Staff

WASHINGTON — Property and casualty insurers are opposing a provision in the budget package that would raise their taxes by a total of $1.1 billion over the next five fiscal years.

The provision would require such insurers to estimate the salvage and other future income they are entitled to recover when they pay out losses.

The package, agreed to by President Bush and congressional leaders Sunday, would increase those taxes by having insurers immediately recognize such future income, said David Pratt, vice president for government affairs with the American Insurance Association. The Washington group represents larger property/casualty insurers.

For instance, an insurer could reduce its losses by salvaging something of value after a claim or by suing a third party. It could be some time before such money is collected, if at all. But under the proposal, insurers would be required to predict those future income streams and pay taxes on them.

Such a provision would allow the government to speed up the tax payments it collects. The budget agreement estimates that the additional revenue from it would amount to $300 million in fiscal year 1991, which began Monday.

Mr. Pratt said Monday that the 1986 tax reform act already had increased the taxes that property and casualty companies pay by an additional $7.5 billion in the five years since the act.

Furthermore, "Annual surveys and current estimates show that the industry is likely to overshoot that by 20% or possibly more," Mr. Pratt added.

David Farmer, vice president of federal affairs for the Alliance of American Insurers, Schaumburg, Ill., said the industry is united in its opposition to the provision because of the increased taxes.

"All taxes impact on the bottom line of business and these changes will be no exception if passed," he said.

Mr. Pratt, while emphasizing his group's opposition to the tax provision, said insurers will offer an alternate proposal.

Such a plan would make make the tax provision affect only future fiscal years so that taxes aren't paid on income that has already been accounted for, Mr. Pratt said.

If the proposal is accepted, he estimated that the industry's tax burden under the budget package could be reduced by as much as 50% to $500 million.

Officials at the National Association of Independent Insurers, Des Plaines, Ill., said that the tax provision is punitive and agreed that relief could only be provided by applying the provision to future fiscal years.

But a spokesman for the alliance said they would remain opposed to the entire provision, maintaining that it could still be defeated because the congress is divided on the budget package.

The provision is bad, the alliance said, because it would undermine the ability of state regulators to evaluate company financial statements accurately.

The current accounting system that insurers must use is considered more appropriate and conservative, the association said, because it is solvency-based, not tax-based.

The Philadelphia Inquirer

Tuesday, October 2, 1990

Feared backlash is slow to appear

By Edwin Chen
Los Angeles Times

WASHINGTON — The public backlash against the new White House-congressional budget accord may be less vehement than expected — at least at the start.

An informal survey of industries and groups that would be hardest-hit by the proposed $134 billion in higher taxes and $40 billion in spending cuts showed that many key groups were either grudgingly going along or being extremely cautious in their responses.

Despite direct hits on their pocketbooks, groups such as the tobacco and alcohol industries, the American Association of Retired Persons and even General Motors were all taking wait-and-see positions.

"With so many targets hit all at once and with so little time to influence the debate, maybe there's a sense of resignation out there," said Gary Burtless, a Brookings Institution economist.

President Bush and the congressional leadership have expressed the hope that Congress will pass the new budget by Friday.

Burtless and other analysts said that GM's stance, for one, was noteworthy because, in the past, the giant automaker has vigorously opposed any gasoline-tax increase earmarked for deficit reduction.

William Noack, a company spokesman, explained: "This is a complex package, and we are studying it. We're not going to rush it."

The American Petroleum Institute, facing two tax increases of 5 cents a gallon each, seemed to support the agreement. The institute is sponsored by the oil industry.

"We recognize that the nation needs to reduce the U.S. budget deficit," an API official said. "While we have concerns about some of the individual components of the agreement, we believe it is in the best interest of the nation to return to fiscal responsibility."

But not everyone was ready to roll over.

Representatives of the elderly were outraged by the deficit-reduction package, which calls on the 34 million Medicare beneficiaries to pay significantly more for the coverage that helps pay physicians' bills.

On Capitol Hill yesterday, a coalition of 125 organizations representing senior and disabled citizens vociferously expressed unhappiness with the deal.

"Those who predict a firestorm of protests across the country are absolutely correct," said Ron Pollack, executive director of Families USA, a senior-citizens advocacy group.

Most other groups who would be hard-hit by the proposals were less passionate. Peggy Laramie, a spokeswoman for AARP, said that the organization of 32 million members was "relieved that Social Security was not in the mix." She said that AARP's board did not plan to take a public position until Friday.

A Tobacco Institute official said that the industry was "extremely disappointed" by the package's call for a cigarette tax increase. "But the magnitude is certainly much better than the previous proposals," said Tom Lauria.

"We may not have any choice but to go along," he said.

Officials of the wine, beer and hard-liquor industries said that they planned to study the proposals further before adopting a position.

The agreement also would cut $13 billion from farm commodity subsidies, but the American Farm Bureau Federation said it was not ready to take a position.

The Philadelphia Inquirer

Tuesday, October 2, 1990

Lower-income families would feel a bigger bite from tax increases

From Inquirer Wire Services

WASHINGTON — Poorer, younger, non-urban families — who generally spend a greater share of their earnings on gasoline, cigarettes and beer than do other groups — would be hit hardest by tax increases in the new deficit-reduction plan.

Other parts of the plan target state and local government employees; workers whose wages exceed $51,300; taxpayers with incomes over $100,000, and anyone with a taste for expensive cars, furs or jewels.

There's also a new 2-cent-per-gallon tax on all kinds of refined petroleum products — gasoline again, home-heating oil, diesel fuel — that are not used in farming or manufacturing.

But unlike the 13 other tax-increase packages that have been enacted since 1981, the effect this proposal would have on individuals at various income levels is hard to determine. That is because it contains no broad changes in income taxes but relies instead on a potpourri of excise taxes and on payroll taxes that affect relatively few people.

There is little question, however, that excise taxes on such commodities as fuel, alcohol and tobacco have a greater impact on lower-income people.

Earlier this year, the Congressional Budget Office found that the poorest 20 percent, with after-tax incomes averaging $8,200, spent 6.9 percent for gasoline, 4 percent on tobacco and 3.7 percent for alcohol. The budget office also determined that the 20 percent just below the richest, with incomes averaging $38,000 after taxes, spent 2.9 percent for gasoline, 1.1 percent for tobacco and 2.2 percent for alcohol.

Here are some major parts of the deficit-reduction proposal, which congressional leaders hope will become law this month:

Taxes. The current federal gasoline tax of 9 cents a gallon would rise by 5 cents on Dec. 1 and another 5 cents on July 1. On Jan. 1, a 2-cent-per-gallon tax on most refined petroleum products, including gasoline and home-heating oil, would take effect. Almost 94 percent of families buy gasoline.

The cigarette tax, now 16 cents per pack, would rise by 4 cents in 1991 and by another 4 cents in 1993. Taxes on cigars, chewing tobacco and snuff would be increased at each step by 25 percent.

About 71 percent of taxpayers would be affected by new taxes on alcohol. The tax on beer, now 16 cents for a six-pack, would double. The tax on hard liquor of 100 proof would rise 30 cents for a fifth. Taxes on lower-proof liquor would go up in the same ratio. Most wines also would face higher taxes. The 3-cent tax on a fifth of table wine would rise to 25 cents.

Cars costing more than $30,000, yachts exceeding $100,000, furs and jewelry exceeding $5,000 face a 10 percent tax on their costs exceeding those levels. The tax applies to newly manufactured items.

Itemized deductions. A couple or individual with adjusted gross income above $100,000 could continue to deduct all allowable medical expenses and investment interest expense. But they would have to reduce other deductions by $3 for each $100 that their income exceeds $100,000. A person with $120,000 income and $20,000 in allowable deductions, for example, could deduct only 97 percent, or $19,400. About 2.5 million people would be affected.

Medicare. The federal health care program for 33 million elderly and disabled Americans would take the largest hit of any of the entitlement programs facing spending cuts. About half would come from recipients, whose $28.60 monthly premium for doctors' care would increase to $34.30 next year, and whose $75 deductible on doctors' bills would double by 1995.

The other half would come from cutting back on reimbursements to hospitals and physicians. The 1.45 percent tax that helps support the Medicare program, which now applies to the first $51,300 of income, would be extended to the first $73,000.

About two million employees of state and local government hired before April 1, 1986, who do not now pay for Medicare, would be required to pay the 1.45 percent tax.

Post office. Postmaster General Anthony Frank says the price of stamps will go up more and sooner than had been planned because the budget agreement calls on the Postal Service to absorb about $5 billion in cuts over the next five years. "Postage rates will be as much as 5 cents higher by 1995 than they otherwise would have been," Frank said. There already is an increase scheduled for next February, expected to raise the price of a first-class stamp to 30 cents.

Federal pensions. Part of the budget deal would eliminate the popular lump-sum federal pension option. Under the lump-sum option, retirees receive two payments — one shortly after they retire and the second a year later — equal to the amount they have contributed to the pension plan. Although between 85 and 95 percent of the payment is taxable, nearly 70 percent of all retirees have chosen to take the lump-sum payments. In the Washington area, the average payment is about $32,000.

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Pact Includes Prior Maritime Proposals

Journal of Commerce Staff

WASHINGTON — In the maritime sector, the five-year, half-trillion-dollar budget pact includes revenue items that the president proposed in January in his fiscal 1991 budget package.

Those proposals would raise $1.8 billion over five years through an increase in the harbor maintenance fee and $1 billion over the same period through a $25 yearly decal fee on recreational and commercial boaters using the nation's waterways.

While the proposed motor fuels tax that starts at 5 cents a gallon will not directly apply to bunker fuel for ocean and inland waterway vessels, the additional 2-cent-a-gallon petroleum tax likely will add to the cost of fueling ships and tug/barges.

The package also reinstates a 0.1-cent-a-gallon "leaking underground storage tank" tax imposed on various categories of fuels, including fuel used on inland waterways.

The harbor maintenance fee on shippers will increase to 0.125% of cargo value from 0.04%. The increase is intended to offset the total cost of harbor maintenance dredging by the Army Corps of Engineers.

Dena L. Wilson, vice president of legislative affairs for American Waterways Operators, which represents the inland and coastal tug and barge industry, said the "cumulative effect" of the taxes "hits tank barge operators and petroleum transporters hard."

A House maritime committee source said it was unclear whether members will go along with the Coast Guard decal proposal. In the past the House has resisted the idea.

If that resistance holds, then the House will have to devise an alternative proposal that raises comparable revenue.

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Budget Tax Proposals Anger Transport Sector

By LEO ABRUZZESE
Journal of Commerce Staff

WASHINGTON — The transportation sector reacted angrily to proposed fuel and ticket tax increases that make up more than half of the $134 billion in new taxes in the government's controversial deficit reduction plan.

"The new taxes, on top of skyrocketing fuel costs, seriously threaten the ability of the airline industry" to move people and freight, said Robert Aaronson, president of the Air Transport Association.

"A (fuel) tax is unfair," said Robert Farris, vice president for policy at American Trucking Associations, "because it places a disproportionate burden of the nation's debt on highway users."

A 10-cent-a-gallon increase in the federal tax on gasoline and diesel fuel is a centerpiece of the new budget summit agreement that would reduce the federal budget deficit $500 billion by 1995. The package, which is expected to draw some congressional opposition, also calls for an additional 2-cent-a-gallon petroleum tax on motor fuels and aviation jet fuels.

"Every 1-cent-a-gallon increase in jet fuel costs us $150 million a year," said an airline industry lobbyist, "so the petroleum tax means $300 million in new taxes."

Kenneth Simonson, chief economist for the trucking trade group, said truckers use 24 billion gallons of diesel fuel a year. "A 12-cents-a-gallon increase works out to about $3 billion a year in new taxes," he said.

The budget agreement, which faces its first test in Congress on Friday, also would increase the airline passenger ticket tax to 10% from 8% and the domestic air cargo tax to 6.25% from 5%. Both increases mirror proposals first advanced in President Bush's budget in January.

"Cycling another $1 billion in user taxes through the (aviation) trust fund . . . to offset the deficit breaks faith with the 'user-pays' principle of financing infrastructure," said Drew Steketee, executive director of the 265,000-member Partnership for Improved Air Travel.

A fight also looms over a proposal by budget negotiators to raise the railroad industry's payments into its pension system by $200 million over the next five years.

"It is not clear from the proposal who would pay for the $200 million," David Lucci, legislative council for the Railroad Retirement Board, said.

Of the $134 billion in new taxes over the next five years, $45 billion would come from the 10 cents a gallon increase in motor fuels. A five cents a gallon hike would take effect Dec. 1, the other five cents next July. The two cents a gallon petroleum products tax is effective Jan. 1.

The agreement also would extend for five years the current 0.1 cents a gallon fuel tax for leaking underground storage tanks and increase slightly the harbor maintenance excise tax on commercial cargoes, including petroleum.

All told, about $70 billion of the $134 billion in taxes would come from transportation.

In addition to the higher taxes, the overall budget package would cut benefits $119 billion and trim defense and domestic programs to make up the rest of the $500 billion in savings.

Both Houses of Congress must approve the budget agreement in broad terms by Friday. Individual committees then will work up the legislation needed to fully implement the agreement.

"This is not going to be easy for everyone, but it is necessary . . .," House Speaker Tom Foley, D-Wash., said Monday.

Last week, the full House approved a resolution calling for all highway and aviation user fees to be channeled into the highway and airport trust funds, not deficit reduction.

"At a time when we are facing a growing infrastructure crisis, we should not be considering diversion of transportation user fees to other purposes," said Rep. Glenn Anderson, chairman of the Publics Works and Transportation Committee.

The budget earmarks 50% of the new motor fuels tax for deficit reduction, the rest for the Highway Trust Fund. But in years when trust fund money is not spent, it effectively reduces the size of the budget deficit. All funds from the higher aviation tax rates would go for deficit reduction.

Another railroad-related proposal calls for the Federal Railroad Administration to collect $20 million in fees from railroads for safety inspection programs in 1991 and $170 million in fees over the next five years.

Washington reporter Geoffrey Brown also contributed to this story.

Chicago Tribune
35¢ Monday, October 1, 1990

11th-hour accord averts disruption in government

By Elaine S. Povich
and Mitchell Locin
Chicago Tribune

WASHINGTON—President Bush and the leaders of Congress agreed Sunday on an unprecedented $500 billion five-year deficit-reduction plan, averting at the 11th hour a massive government shutdown.

The plan drew almost immediate criticism from both Republicans and Democrats and is expected to face angry debate in Congress over the next few weeks.

Agreement was reached after Bush abandoned his demand for a reduction in the capital gains tax and accepted additional taxes on gasoline, cigarettes, liquor, airline tickets and luxury items such as autos over $30,000 and yachts and furs.

Medicare recipients would pay higher deductibles and premiums, and higher wage-earners would be taxed more for Medicare. While the income tax rate remains unchanged, wealthier taxpayers would experience an increase: Deductions would be reduced by 3 percent on incomes over $100,000.

The agreement also cuts military spending by $67.2 billion over the next three years and by a further amount to be determined in fiscal 1994 and 1995, up to a maximum of $182 billion over five years. Another $13 billion would be saved by cutting agriculture support programs.

The package contains some tax breaks, which Republican negotiators argued would spur economic growth. Companies that explore for gas and oil, conduct research or do business in depressed areas would get tax credits.

Without a deal, 2.1 million federal employees would have been furloughed at least one day a week, disrupting air travel and a wide range of vital government services. Government authorities on Sunday told every federal employee to report for work Monday morning.

Bush and the congressional leaders announced the deal in a ceremony in the Rose Garden of the White House, but there were no smiles on their faces. They agreed the deal is painful and will be tough to sell to the rank-and-file of Congress as well as the American people.

"This is priority. This is priority for our nation," Bush said. "I will do everything I can to lay aside partisanship here and to take the case for this deal to the American people in every way I can."

Bush said he did not "welcome" the tax increases, which he had campaigned against just two years ago. "Sometimes you don't get it just the way you want, and this is such a time for me, and I expect it's such a time for everybody standing here," Bush continued. "But it's time we put the interest of the United States of America first and get this deficit under control."

While the package contains many controversial items, negotiators decided to scrap two of the most difficult—the proposed cut in the capital gains tax and a commensurate increase in tax rates, and reductions in Social Security benefits. While those items would have been big revenue-raisers, they proved too hot to handle politically. As a result, the bargainers were forced to reduce their deficit-cutting goal in the first year to $40 billion from $50 billion.

Federal Reserve Chairman Alan Greenspan had indicated that the Fed would reduce interest rates if $50 billion in deficit-reduction was achieved. It was not known if $40 billion would satisfy him.

The visibly haggard budget negotiators reached final agreement on the package Sunday morning after negotiating for 11 days and nights and continuously from Saturday evening until nearly dawn. That followed 10 days of negotiations at Andrews Air Force Base and months of talks at the Capitol. White House Chief of Staff John Sununu, budget director Richard Darman and Treasury Secretary Nicholas Brady represented Bush at the talks.

After the leaders announced the agreement, the House and Senate convened to approve a temporary spending bill that will keep the government running through Friday and avert government layoffs under the Gramm-Rudman-Hollings balanced budget law. That bill also included $2 billion to sustain the Desert Shield military operation in the Persian Gulf.

The five-day delay will allow time for the deficit-cutting agreement to be formally written into a budget, which will then have to be passed by the Congress to avoid another government fiscal crisis.

If the budget resolution succeeds, still more bills must be passed actually carrying out the spending cuts and tax increases. As part of the agreement, congressional leaders said they would complete all legislative action by

Oct. 19, two weeks later than Congress' scheduled adjournment date for the fall campaign.

At each step along the way, there is bound to be controversy because raising taxes and cutting spending are difficult actions for politicans just weeks away from election day. In addition, the package may be changed in small ways by each committee that studies it. For example, Sen. Lloyd Bentsen (D-Texas), chairman of the Senate Finance Committee, said he reserves the right to make changes.

The package cuts $182.4 billion from discretionary government spending over the five-year period, reduces mandatory payment programs such as Medicare and agriculture by $119 billion, raises $133.8 billion in taxes and saves $64.8 in interest payments that will not have to be made on government borrowing.

The deficit agreement re-writes the Gramm-Rudman law to stretch out its deficit targets for the next five years. The federal deficit now is projected at its highest level ever: $293.7 billion in fiscal 1991 without implementation of the deal. Under the agreement, the deficit is projected at $68.3 billion in fiscal 1995, which is about $4 billion higher than the deficit originally was supposed to be this year, with a balanced budget projected for fiscal 1996.

There are some fragile elements to the package, especially in the economic assumptions on which it is based. For instance, it projects oil prices at $21.15 a barrel this year and $24.15 a barrel next year. Oil currently is priced at about $40 a barrel and shows no signs of declining. The agreement projects inflation at 5.2 percent in 1990 and interest rates measured by 10-year Treasury notes at 8.7 percent.

"Now comes the hard part," said Senate Majority Leader George Mitchell (D-Me.), referring to the leadership's attempt to sell the deal to other senators and House members.

Mitchell reiterated that a majority of both Republicans and Democrats must support the package for it to be enacted. Initial reactions from both Democrats and Republicans were negative.

House Minority Whip Newt Gingrich (R-Ga.) refused to attend the Rose Garden ceremony and afterward grimly walked into a caucus of House Republicans. The normally forthcoming Gingrich said he was "still looking at" the budget agreement and would have no further comment.

Other House Republicans, especially conservatives, were more critical, especially about the tax increases and cuts in Medicare subsidies.

Under the agreement, the monthly $28.60 premium for doctors' bills would increase to about $34.30, although not for the poorest people. Also, recipients would have to shoulder the first $150 in each year's doctors' bills, up from $75 now.

Liberal Democrats also attacked the Medicare changes.

"I'm tremendously offended that the elderly have been singled out for taking such a hard hit," said Rep. Henry Waxman (D-Calif.). He accused the negotiators of being "scared to touch" Social Security and going instead to Medicare because they thought "maybe the elderly wouldn't notice."

The elderly noticed. Within hours of the announcement of the deal, The National Committee to Preserve Social Security and Medicare was out with a statement calling the Medicare premium increases unfair "because it places a disproportionate amount of deficit reduction on the backs of older Americans."

Younger Americans will feel it, too. The 1.45 percent tax taken out of paychecks to support the Medicare program would be levied up to $73,000 in annual earnings. It now applies only up to $51,300.

Members of the negotiating team reminded their critics that without deficit reduction, the slowing economy would be worse off and there would be immediate furloughs of federal employees and disruption of government services.

"Balancing the budget is like going to heaven; everybody wants to go there but no one wants to do what you have to do to make the trip," said Sen. Phil Gramm (R-Texas). "People have to decide if they want to govern or they want to protest."

Chicago Tribune
35¢ Monday, October 1, 1990

The political price of tax accord

GOP howls, but Democrats fear anger by voters most

By Steve Daley
Chicago Tribune

RALEIGH, N.C.—Incumbents in both parties, already skittish about an angry electorate, could find little comfort in the federal budget-deficit deal fashioned Sunday.

Five weeks before the midterm elections, rank-and-file Democrats and Republicans found differing reasons for unhappiness with the agreement.

Democrats control the House and Senate, the former by a wide margin. They understand that whatever the level of public distress with the tax increases and spending cuts, it is primarily their party and not President Bush that is facing the voters this autumn.

Republicans, undercut on the tax issue when President Bush reneged in June on his "no new taxes" pledge, were in near revolt over the proposed boost in excise taxes and the White House abandonment of a cut in the capital gains tax rate.

Many Republicans, among them Sen. Jesse Helms of North Carolina, say that despite Bush's shift, they cannot retreat from longstanding opposition to tax increases.

Helms, in a close race against Democrat Harvey Gantt, told voters while campaigning over the weekend that he will seek to block the tax hikes when the deficit-cutting package reaches the Senate.

"There is a great deal of grumbling," said Rep. Phil Crane (R-Ill.) of Sunday's meeting of the House Republican Conference, where shouts of protest could be heard from behind closed doors.

Democrats and Republicans alike are concerned about anti-incumbent sentiment manifested this year by voters in Massachusetts and District of Columbia primary elections, and by a growing movement to limit legislative terms in several states.

Despite Bush's vocal support for the agreement, some Democrats remain worried they are being outmaneuvered by the White House.

"The trick is in the income tax rates," said one angry House Democrat. "Republicans are going to tell people that Democrats wanted to raise income tax rates, but Bush stopped them."

"This is all based on the next presidential campaign," said Rep. Brian J. Donnelly (D-Mass.).

Many Democrats felt compromised on the issue of burden-sharing as well, contending that party leaders should have pressed for an increase in the top tax rate for the wealthiest Americans.

Others are irate that half the domestic budget cuts over five years consist of shifting Medicare costs to the beneficiaries and providers of medical services.

"The tax package is unconscionable," Donnelly said. "It comes down on poor and middle-income people, with these so-called business incentives built in instead of a capital gains cut for the wealthy."

Incumbents do agree with House Speaker Tom Foley (D-Wash.) on one of his assessments: that there is real pain in this budget agreement, pain for taxpayers and pain for legislators standing for re-election.

The budget summiteers have called for sacrifice, and that is a message no member of Congress wants to take home in the closing weeks of a campaign.

"Right now, it's a coin flip on how all this stuff will actually play out politically," said one Democratic political consultant. "With the situation in the Persian Gulf and the onset of a recession, nobody is sure what happens next."

Some political cost seems certain, however, as the reality of higher gasoline prices and costlier Medicare benefits show up at the gas pumps and the doctor's office.

Where will the political blame be placed?

"I think it's a pox on all incumbents, across the board," said Rep. Donnelly. "But there are more Democratic incumbents in Congress that Republican, so the risks for our party are obvious."

Chicago Tribune
35¢ Monday, October 1, 1990

Fed under pressure to lower rates

By Terry Atlas
Chicago Tribune

WASHINGTON—With President Bush and congressional leaders in agreement on a $500 billion deficit-cutting plan, the Federal Reserve will come under increased political pressure to respond by giving the weakening economy a boost through lower interest rates.

A number of economists and fiscal experts Sunday reacted favorably to the budget deal, saying it goes a long way toward imposing the kind of fiscal discipline that the nation needs and that the Fed has long demanded as a condition for eased credit.

"We may get interest rates coming down now that the deficit is on the way to coming down," said economist Alice Rivlin, former director of the Congressional Budget Office and now a senior fellow at The Brookings Institution.

Both congressional and administration negotiators have anticipated that a credible demonstration of fiscal responsibility would be rewarded by the central bank.

In fact, action by the Fed to stimulate the economy through easier credit is essential to offset the economic effects of the higher taxes and curtailed government spending called for in the deficit-reduction plan. Otherwise, many economists agree, the plan could speed the nation's current slide toward recession.

Federal Reserve Chairman Alan Greenspan suggested as recently as nine days ago that he would be willing to respond to a serious deficit-reduction accord. But the Persian Gulf crisis has caused oil prices to spiral, threatening a new round of inflation that could restrain the Fed's ability to ease credit.

Both the White House and Congress will be watching closely Tuesday when members of the Fed's powerful policymaking group, the Federal Open Market Committee, hold their regular meeting.

"Politically, they will be under intense pressure to cut rates at that meeting," said economist Roger Brinner at Data Resources Inc. "If they don't, I believe that congressmen and senators and the president will cry foul."

President Bush, giving his blessing Sunday to the budget deal that resulted from nearly five months of intensive negotiations, pointed to lower interest rates as one of the early benefits that could be expected from the accord.

"Long-term interest rates should be able to come down," he said.

But Carol Cox, head of the Committee for a Responsible Federal Budget, a reform group, said the Fed shouldn't act until Congress puts the new deficit-reduction agreement into law.

Applauding the projected reductions as "big and real . . . with a surprisingly small amount of blue smoke and mirrors," she said the Fed should wait to see whether the members of Congress follow through.

"They have to produce a budget resolution, they have to produce a reconciliation bill, they have to pass the reconciliation bill, the president has to sign it—all of which is supposed to occur between now and the 19th of October. And I think we all can wait until then for the Fed to act and to keep a little pressure on us to do what is right."

Perhaps the most important measure of the budget deal will come on Monday, when the financial markets have the first opportunity to react. . . .

"If you look at the bond market tomorrow, I think you will see interest rates start to decline," said Sen. Phil Gramm (R-Texas).

In fact, that process began Friday when bond prices rallied and yields declined as traders anticipated that the budget summit would be successful.

Greenspan told the Joint Economic Committee of Congress Sept. 19 that if the budget talks succeeded and Congress enacted a "credible, long-term, enforceable budget agreement, I would expect long-term interest rates to decline.

"In that context," he said, "I would presume that the Federal Reserve would move toward [lowering short-term rates] to accommodate those changes in the capital markets."

What that means is that if investors believe that the budget deal will mean less federal borrowing in the future, they would bid down interest rates and the Fed would support that development by cutting short-term rates.

Whether Sunday's budget deal can deliver what it promises resides partly on the Fed's actions.

All the numbers in the new budget plan are drawn from computer projections of how the economy is likely to perform, taking into account the expectation that interest rates will fall this year and next and spur economic growth.

A weaker-than-expected economy would raise the deficit by reducing government tax revenues; higher-than-expected interest rates would raise the deficit by raising government financing costs.

THE NATION'S NEWSPAPER

USA TODAY

TUESDAY, OCTOBER 2, 1990

Analysts: Poll reflects cynicism on budget

By Sharen Shaw Johnson
USA TODAY

More than half of Americans reject the 1991 budget deal, saying it favors the rich but won't curb the deficit, a USA TODAY Poll found Monday.

"I would suspect this deficit reduction process has become such a charade over the past couple of years that it's feeding the cynicism," says David Hensley of UCLA's Business Forecasting Project.

One result, he predicts: President Bush and congressional leaders "have got their work cut out for them" trying to sell the package to lawmakers..

The major findings:

▶ 52% disapprove of the plan; only 37% approve.

▶ 69% say it won't lead to major deficit reduction.

▶ 56% say the plan favors the rich; 28% say it doesn't.

▶ But 52% say the new budget and taxes will have only minor impact on their lives.

▶ Most unpopular change: cutting Medicare benefits, cited by 52% of those opposing the plan. Second most unpopular: gasoline tax hike, 24% — but only 2% disapprove most of the planned luxury tax.

"People are cynical," said Norman Robertson, chief economist at Mellon Bank, Pittsburgh. "We just keep pushing out the year when we're going to balance the budget. First it was going to be 1986 ... now it's going to be 1995."

But Murray Weidenbaum, ex-chairman of the Council of Economic Advisers, sees a different reason for the lack of enthusiasm: "the way the package was presented.

"Almost the entire emphasis was on tax increases — even though most of the package deals with spending cuts. ... It comes across as trying to reduce the deficit via tax increases; people don't like that."

Among the reasons: They've seen "most tax increases result in more spending rather than really reducing the deficit."

Adding salt to the wound, Weidenbaum says: "The taxes seem unfair." Example: "People still think of old folks as poor and hence the Medicare tax increase seems unfair."

The Gordon S. Black Corp. telephone poll of 852 adults Monday night has an error margin of 3.5%.

THE NATION'S NEWSPAPER

USA TODAY

TUESDAY, OCTOBER 2, 1990

Bush TV pitch on budget deal urged

By Richard Benedetto
and Leslie Phillips
USA TODAY

As Republican and Democratic carping over tax hikes and program cuts creates a din on Capitol Hill, there's talk of putting President Bush on TV to coax an alarmed public into taking the bitter medicine.

"Only the president ... can convince the public it is in their long-term best interest.... If he convinces them, it will pass," said Sen. Wyche Fowler, D-Ga.

Senate Majority Leader George Mitchell, D-Maine, said he hopes Bush can get public support and "encourage members of Congress to support the president and Congress."

Congressional leaders and Bush settled on a package of spending cuts and tax increases Sunday to cut the deficit by $40 billion next year, $500 billion through 1995. Deadline: Oct. 19.

Bush, at the United Nations Monday, said the compromise is painful, but takes major steps to reduce the deficit and boost an ailing economy.

"Like most compromises, it's certainly not going to satisfy everyone," he said. "But this is the time to move beyond these individual concerns and exercise leadership for the good of the country."

A simple majority of the 535 members of Congress is needed to pass the budget — 218 in the House, 51 in the Senate. Leaders will try to get a majority from each party to go along so neither side is blamed.

Bush did his bit by phoning six lawmakers to ask their support. Vice President Quayle and a group of Bush aides were on Capitol Hill making the pitch Monday.

"I felt a little like a friendly dentist applying a lot of Novocain and trying to extract a few votes," quipped Quayle.

Senate Minority Leader Robert Dole, R-Kan., and Senate Budget Committee Chairman James Sasser, D-Tenn., said most senators from both parties will back the plan.

"Everyone knew this package would be an ugly duckling ... but it's greatly preferable to the artificial crisis of a sequester," said Sasser.

A sequester would have produced $100 million in cuts, hitting most federal programs.

Budget director Richard Darman foresees a big fight in the House, where all 435 seats are up for election five weeks from today, and members are more sensitive to voter and special-interest pressure.

"You try to persuade everybody to go along, but if you can't, you move lightly on those in close election contests, which isn't very many," said Republican National Committee spokesman Charles Black.

Bush lost a powerful ally at the outset when fiery House Minority Whip Newt Gingrich, R-Ga., expected to line up GOP votes, jumped ship. He's miffed over tax hikes.

But many lawmakers predict the package will survive.

"If you're floating in the water and somebody throws you a life preserver, and it looks a little shabby, you grab it," said Sen. Warren Rudman, R-N.H. "The alternative is drowning."

Contributing: Jessica Lee and *Richard Wolf*

THE NATION'S NEWSPAPER
USA TODAY
TUESDAY, OCTOBER 2, 1990

Lobbyists get set to descend upon Congress

By Tracy Walmer
and Lori Sharn
USA TODAY

Most lobbying groups look at the federal budget deficit agreement and prepare for a tough fight.

Only a handful may decide to swallow it.

Transportation and business groups, hurt by proposed tax hikes on airline tickets and gasoline, are geared up.

"The conventional wisdom is not good," says Bill Kelleher, a lobbyist for the U.S. Chamber of Commerce.

But, says Kelleher, "We expect to convince members (of Congress) on the floor of the fundamental unfairness of gas taxes for deficit reduction."

His target: members of the House Budget and Ways and Means committees.

The American Road and Transportation Builders Association, fearing the gas hike, has contacted 200 members of Congress and placed ads in Washington papers.

Among other lobbies:

▶ The Tobacco Institute, facing tax hikes up to 50% on tobacco products, is cautious. "No commercials, no full-page ads ... lobbying through our regular channels," says spokesman Thomas Lauria.

▶ Farmers, facing a $13 billion cut in subsidies, talk fairness. "Our interest... will be in seeing that they (cuts) are proportionate among all farm programs," says Carl Schwensen of the National Association of Wheat Growers.

▶ Senior citizens are cranking up a nationwide network of activists to challenge changes in Medicare, says Ron Pollack, director of the lobbying group Families USA.

Their weapon: the vote. "Those that wage this war shouldn't expect older Americans to be pacifists on Election Day," Pollack says.

▶ Douglas Metz of the Wine and Spirits Wholesalers of America says lobbying efforts already have reduced their tax bite. "If this package is defeated, it could be worse," he says. "We're assessing it."

▶ The National Beer Wholesalers Association also is evaluating it. "There is lobbying and there is lobbying," says spokesman Jack Lewis. "Sometimes you have to lobby to preserve what you got."

THE NATION'S NEWSPAPER
USA TODAY
TUESDAY, OCTOBER 2, 1990

Execs: Budget deal not enough

By Daniel Kadlec
USA TODAY

The weekend deal to cut the federal budget deficit isn't bad, but it isn't nearly enough, Wall Street leaders said Monday.

The deal is a step in the right direction, they concede. Indeed, stocks roared higher Monday partly on positive feeling that a deal was struck by a Sunday deadline. But most brokerage industry leaders interviewed Monday said they believe the deal by itself will not lead to significant progress in solving the deficit problem.

The deficit has emerged as a key issue on Wall Street partly because it is hampering the Fed's ability to push interest rates lower and spur the economy. John Bachmann's response was typical. "I wish they would have done more," said the managing partner of Edward D. Jones & Co.

Other comments:

▶ **Raymond "Chip" Mason, chairman of Legg Mason Inc.,** likes the extra tax on gasoline, saying it brings the USA closer to what consumers pay around the world. But the 12-cents-a-gallon levy should have been at least 25 cents, he says. That would take a meaningful bite out of the deficit. "People understand what this issue is all about," he says. "If you have to drive a little less, then you're just going to have to do it."

▶ **Jack Barbanel, president of First Global Asset Management in Princeton, N.J.,** says, "The only thing positive about the deal" is that the gasoline tax might encourage the USA to look closer at its energy policy. Long term, if the USA could produce all the energy it consumes, it would do wonders for the economy, he says. He calls other provisions a Band-Aid approach to reducing the budget gap and says provisions that call for fewer tax deductions for the wealthy could backfire: "Typically, the wealthy continue to spend in a recession. This may deter them and put an added pinch on the economy."

▶ **William Schreyer, CEO of Merrill Lynch & Co.,** says, "Increasing our personal saving is key to a prosperous America. Much more needs to be done." He says the proposed family savings account or restored deductibility for individual retirement accounts should have been part of the deal. But it would have been worse, he adds, had it included the once-considered special tax on securities transactions. That "would have been extremely harmful to our economy and our markets."

▶ **Bachmann** criticizes the deal for putting off most of the cuts until near the end of the five-year plan. By then, who knows what the economy will look like and if the savings will be possible? he asks. "You're not going to have the kind of impact you need until you get tougher on the spending programs. The most important issue is a stable economy that people can believe in. You have to get your spending and your revenues more in sync."

THE NATION'S NEWSPAPER
USA TODAY
TUESDAY, OCTOBER 2, 1990

Boost could further brake car sales

By Micheline Maynard
USA TODAY

U.S. auto-industry officials say a proposed 12-cents-a-gallon increase in the USA's gasoline tax might prompt some buyers to shift from large cars and trucks to smaller ones but won't cause a mass exodus from showrooms.

Analysts, however, fear that a gasoline-tax hike will be one more piece of bad news — on top of a series of economic blows — that will frighten car buyers further.

The proposal would raise the 9-cents-per-gallon federal gasoline tax 12 cents — 5 cents Dec. 1, a 2-cent energy tax Jan. 1, and another 5 cents July 1.

Chrysler Corp. and Ford Motor Co. officials, who've supported gasoline-tax hikes, backed the deficit-reduction package Monday and say they will try to get lawmakers to vote for it.

"We think it will be very, very tough (to win passage), but we also think it's inevitable, because there's no other policy alternative," says Chrysler lobbyist Robert Perkins.

He says Chrysler can build 700,000 more fuel-efficient cars equipped with four-cylinder engines per year than it currently produces if consumers demand them.

General Motors, which has strongly opposed gasoline taxes imposed solely as a deficit-fighting tool, still is studying the plan. But GM's support could be garnered because the package also calls for part of gasoline-tax revenues to be returned to states for highway projects — an idea GM has backed.

Even if overall sales totals don't change, a shift away from large cars and trucks could cut even more deeply into profits of the Big Three automakers, which were down 40% in the first half of 1990.

Analyst Michael Luckey of Luckey Consulting Group says buyers would barely notice a 10-cent tax hike in a healthy economy. "In a weak environment, which we have now, the gas-tax hike will certainly have more of an impact," he says.

California psychologist Stanley Plog, a marketing consultant who tracks car-buyer confidence, thinks a deficit-fighting tax hike could cut already-slow U.S. auto sales by 5% to 10% in the next year.

The hike in itself won't dissuade buyers, "but there are a lot of things to make people a lot more uncomfortable right now," he says.

Among them: worries about the economy, concern over the Iraq-Kuwait crisis and higher prices on 1991 cars and trucks.

Buyers most likely to be scared by a gasoline-tax hike include young, first-time homebuyers, retirees on fixed incomes and middle-level executives who are worried about corporate cutbacks, says Plog.

THE NATION'S NEWSPAPER

USA TODAY

TUESDAY, OCTOBER 2, 1990

Medicare offered expanding target

By Richard Wolf
USA TODAY

To federal budget cutters, Social Security remains a sacred cow, but Medicare is a pig worthy of poking.

The nation's health care program for 34 million elderly and disabled persons takes the second biggest cut in the five-year, $500 billion deficit-reduction agreement — topped only by the Pentagon.

Congress has been working to control rapidly rising Medicare costs. But this time recipients as well as doctors and hospitals are being asked to pay.

"You save money ... by going where the big spending is," said Sen. John Chafee, R-R.I. "And for a whole variety of reasons, the other big spending program was left out."

That program is Social Security, the "third rail" of politics, untouched by budget negotiators for fear of political fallout. Proposals to limit cost-of-living increases or raise taxes on benefits were dropped at the 11th hour.

But Medicare enjoyed no such reprieve. Negotiators decided to cut $30 billion in payments to health-care providers and reach into the pockets of recipients for $29.9 billion.

The key provisions would raise monthly premiums to cover doctor bills by 20% — a $65 annual hike — and double annual deductibles to $150.

Negotiators bit the bullet on Medicare for a simple reason: despite a decade of cost-paring, it continues to grow in double-digit percentages.

"Medicare has been the fastest rising cost of any government entitlement program," said House Speaker Thomas Foley, D-Wash.

Without cost controls, Medicare is projected to cost $184 billion by 1995, rising each year by 11% to 14%. Premiums, which paid for 50% of doctor bills in 1965, now cover only 25% of costs.

Reasons for the rapid rise: a 2% annual increase in the elderly and disabled population, and a 7% to 8% annual increase in what Medicare analysts call program "volume."

Volume includes: more doctor visits, longer hospital stays, more intensive services, more expensive technology and higher medical fees.

THE NATION'S NEWSPAPER

USA TODAY

TUESDAY, OCTOBER 2, 1990

Elderly lament: 'It's not fair'

By Jeanne DeQuine
USA TODAY

MIAMI BEACH — When Kathleen Col heard about the proposed Medicare increases, she got busy.

"I've been calling people all day with the numbers to lobby Washington," says Col, 64, a local member of the American Association of Retired Persons.

MEDICARE

Pro: Scales back fastest growing part of budget.
Con: Forces elderly to pay more.

Many among AARP's 500,000 members in south Florida complain about the proposed Medicare increases, which would hike monthly insurance payments to $34.30 and increase the minimum payment on doctor bills by $75.

Together, the increases mean $143 more a year — a hefty sum for many elderly who live on as little as $300 a month.

"Why should they fix the deficit on our backs?" says Joseph Fox, 68, who lives on $391 a month in Miami Beach. "If I have to pay any more money, I'll be ruined.

"The ones that can pay should pay for the ones that can't," says Fox, who suffers from arthritis.

Sam Staff, 73, who lives in an exclusive waterfront high-rise in Hollywood, Fla., agrees. "We need to balance the deficit, but we're eating up the fixed incomes of the poor."

"We are already paying through the nose," says Martha Bodner, "80-plus," who lives on a fixed income in Miami Beach. "Rent, food — everything is higher now."

However, Jose Salzedo, 85, who is recuperating from a cataract surgery, says he'll pay the increase. "I will find the money somewhere. I need to rest a lot. I don't have the energy to fight it."

But Fox protests: "Where am I going to come up with this money? I can't just take it out of my pocket. It's not there."

THE NATION'S NEWSPAPER
USA TODAY
TUESDAY, OCTOBER 2, 1990

'Sin' taxes fuel the fear of lost jobs

By Michelle Duell
Special for USA TODAY

ST. LOUIS — Beer drinkers are fuming about the proposed increase in the federal taxes on beer — while beer makers fear for their jobs.

"People are a little hot about it," says Bob Hardy of KMOX/CBS radio, who heard plenty from his audience about the agreement by congressional leaders and the White House to raise so-called "sin" taxes:

▶ Beer, from 16 to 32 cents a six-pack.

▶ Liquor to $14 a gallon, from $12.50.

▶ Cigarettes, now 16 cents per pack, up 4 cents Jan. 1 and another 4 cents in 1993.

▶ Wine up 3 cents, to an average 22 cents a bottle.

"There were complaints about hitting the little guy — the middle class," says Hardy. "Yet, Congress didn't eliminate its upcoming pay raise."

Employees of Anheuser-Busch Companies Inc., the world's largest brewery, are worried about labor cutbacks and layoffs, though the company says none are planned.

"That's the main thing," says Al Lancaster, 51, an oiler for Anheuser-Busch. "We will be producing less. It's going to cost us some jobs."

"Our beer is the most expensive," says Mark Ries, 29, a brewer for eight years. "An increase in the excise taxes is going to make people buy beer that costs less."

Salesman Andrew Platts, 24, raises another point about "sin" taxes: "You're penalizing people for doing things that others judge wrong."

The flap doesn't upset Locust Street Underground bar patron Everett Kalkberenner, 46, vice president of marketing for a St. Louis bank. "People will complain," he says, "but they'll keep drinking. St. Louis is a beer-drinking town."

THE NATION'S NEWSPAPER

USA TODAY

TUESDAY, OCTOBER 2, 1990

Car-pool drive may get lift

By Deeann Glamser
USA TODAY

SEATTLE — Beverly Tocci appreciates the federal government's timing of an announcement of a higher gasoline tax.

Tocci, coordinator of the city's commuter service, is ready for a blitz starting Oct. 15 to promote ride sharing.

"The gas tax probably will increase interest," says Tocci, who will use radio ads and billboards on Interstate 5 to sell car pools in an area where 20 miles is a long commute.

But Tim Hamilton, head of a 600-member gas dealer association, complains, "I've had the phone ringing off the hook from merchants all over who are terribly upset.

"The government and oil companies get all the money, and we take the verbal abuse," Hamilton says. "We're people, too, and we don't like it."

The deficit agreement proposes to raise the gas tax by 5 cents per gallon Dec. 1 and another 5 cents July 1, 1991. The deal also calls for a 2 cent per gallon fuel tax starting Jan. 1.

The tax news comes as drivers are fuming over higher gasoline prices since Iraq's invasion of Kuwait in August.

Says architect Dutch Durante, 39: "I do a lot of work outside the office, and I still have to have my car."

Art gallery employee David Davenport, 40, a bus rider, offers no sympathy. "People should pay for the mode of transportation they use."

City Councilman Paul Kraabel sees a blessing for car-pool advocates.

"It's going to make public transportation more appealing," Kraabel says.

THE NATION'S NEWSPAPER

USA TODAY

TUESDAY, OCTOBER 2, 1990

Budget accord targets wallets of the wealthy

By Bill Montague
USA TODAY

"I've been poor and I've been rich — rich is better," actress Sophie Tucker once said. But that won't necessarily be the case for taxpayers if Sunday's budget deal is enacted.

Overall, the plan's tax increases would fall more heavily on the poor because of higher alcohol and gasoline levies. But the reverse is true of one part: a cut in itemized deductions for wealthy taxpayers.

The plan would cut itemized deductions for about 2.5 million households whose adjusted gross income is more than $100,000 a year. Adjusted gross income is total income minus such things as contributions to individual retirement accounts. Affected taxpayers would have to subtract $100,000 from their adjusted gross, multiply the result by 3%, then reduce their deductions by that amount.

The effect would be that the wealthier you are, the more you'll pay. A taxpayer with an adjusted gross income of $1 million a year might have $200,000 in deductions. He would have to slash those write-offs by $27,000 — $1 million minus $100,000 multiplied by 0.03. That would add $7,560 to his tax bill. But someone with an adjusted gross income of $200,000 a year, with $40,000 in deductions, would lose $3,000 in write-offs and pay $840 in extra tax. That's roughly a 3% tax hike for the richer person and a 2% boost for the less-affluent taxpayer. For most wealthy taxpayers, it would be like raising their tax rate from 28% to nearly 29%.

Harder hit, however: Married taxpayers who fall in the "bubble," the 33% tax rate applied to taxable income from $78,401 to $162,770 for couples without children. If a couple's adjusted gross is more than $100,000 and taxable income is still in the bubble, each dollar in lost deductions would add 33 cents in taxes, vs. 28 cents for taxpayers whose incomes escape the bubble.

The plan is slanted against married couples, says Tom Ochsenschlager of accounting firm Grant Thornton. Reduced deductions kick in at $100,000 in adjusted gross for couples as well as singles even though two-earner couples tend to have higher incomes — so they'd see bigger cuts in their deductions than single taxpayers.

The plan also could increase state tax bills. Most states let taxpayers use the same deductions for state income tax that they take for federal tax. If federal deductions are cut, state taxes would go up.

Charities, at least, would come out better than if deductions were capped at a set level. The plan doesn't discourage larger donations because the amount of additional tax is based on income — not total deductions.

THE NATION'S NEWSPAPER

USA TODAY

TUESDAY, OCTOBER 2, 1990

Tax pact could hurt travelers

By Doug Carroll
USA TODAY

The new federal budget accord spells bad news for business travel.

Proposed tax increases on gasoline, plane tickets, liquor and luxury automobiles will make corporate travel and entertainment more expensive. "Travel managers will have their work cut out for them," says Margie Crace, president of the National Business Travel Association.

Most worrisome to some experts is the 12-cents-a-gallon increase in gasoline taxes — to 21 cents a gallon from the current 9 cents — by July. Higher taxes, when gasoline prices already are up more than 20 cents a gallon since Aug. 1, can only discourage travel, they say. "I expect declines in business travel," says Thomas Lattin, national partner of Laventhol & Horwath, an accounting and business-consulting firm. "It couldn't come at a worse time for the hotel industry."

The proposed increase in airline-ticket taxes — to 10% from 8% — comes at a time of rising airfares. Domestic fares have jumped almost 10% since late August, and airlines have made discount fares harder for most business travelers to get. Customs and other fees on international plane tickets are scheduled to rise by a still undetermined amount, and the Bush administration is pushing airport taxes that could cost fliers up to $12 for a round trip. Gripes Air Transport Association spokesman William Jackman: "We think it's a disproportionate burden on air travelers."

"We'll spend more time looking at whether trips are really necessary," says Michael Brooks, travel manager for Republic Mortgage Insurance in Winston-Salem, N.C. "I think we'll see a decline in business travel — more teleconferencing, that sort of thing."

THE NATION'S NEWSPAPER

USA TODAY

TUESDAY, OCTOBER 2, 1990

Deficit-cutting plan may benefit stock offerings

By Beth Belton
USA TODAY

The market for stock offerings by small companies could get a boost from a tax break that's part of the proposed budget deficit-reduction plan.

The proposed tax break should lift a depressed market for new stock issues, says investment banker Robert Willens of Shearson Lehman Bros. "It'll be a real positive for that market."

Here's how the tax break would work: An investor who buys stock from a company with less than $50 million in equity — combined capital and retained earnings — could deduct 25% of the investment up to $50,000. An investment of $10,000 in a qualifying firm would result in a $700 cut in taxes for someone in the 28% tax bracket.

Not all such small firms remain no-names forever. For example, biotech powerhouse Genentech had less than $50 million in equity when it first sold stock to the public in 1979.

One of the hardest sells in a bear market is stock in companies that don't have proven track records of earnings growth or brand-name products. In such markets, investors shun stocks where the risk of dramatic losses is high.

"General Motors can sell stock in a bear market but not mom-and-pop businesses," says Glen Parker, publisher of *New Issues*, a Fort Lauderdale, Fla.-based newsletter.

Initial public offerings — a company's first stock sale to the public — plunged in the third quarter this year from last year's rate. IPOs completed in the quarter totaled $1.6 billion, down 58% from $3.8 billion in last year's third quarter, says Securities Data Co.

"The tax break will mean a lot more deals," says Glenn Cutler, portfolio manager of the Schield Progressive Environmental Fund.

The tax break is for individuals, not institutional investors such as mutual funds. And the stock of real-estate and investment management companies and financial institutions such as banks aren't eligible for the tax break. Newly issued stock from old and new companies, if they're small enough, can qualify for the tax break.

Industries that will gain the most from the tax break include biotechnology, pollution control, high technology and health care, Cutler says. Another plus for investors in small companies: If they hold the stock for at least one year, they can adjust their initial investment for inflation before determining their gain when they sell, effectively cutting their capital-gains tax.

THE NATION'S NEWSPAPER

USA TODAY

TUESDAY, OCTOBER 2, 1990

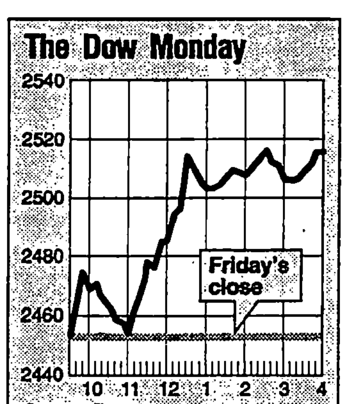
Dow jumps 63.36 on budget pact, oil slide

By Gary Strauss
USA TODAY

The budget deficit-reduction plan and slumping crude oil prices Monday sparked big stock gains.

The Dow Jones industrial average soared 63.36 points to 2515.84. The gain was second this year to the 78.71-point rise of Aug. 27. Broader indexes also surged. Winners outran losers 1,203 to 442 on the New York Stock Exchange on heavy volume of 202.21 million shares.

Behind the market: Stocks opened higher as Wall Street responded to Sunday's budget agreement, which traders hoped would soon prompt the Federal Reserve to ease interest rates. *(Stories, 1B, 6B, 8B; Spotlight, above.)*



Crude oil prices, off sharply on news of a possible diplomatic end to the Middle East crisis, also gave stocks a boost, igniting a spree of buy programs that pushed the Dow up more than 50 points by 12:15 p.m. The 50-point jump triggered a NYSE collar on program-related orders, briefly stifling program activity.

Jack Cantwell, manager of block trading for Dean Witter Reynolds, says the market also got a boost from Shearson Lehman Bros. strategist Elaine Garzarelli, who told clients that stock prices had bottomed and could rally 10% to 12% by the fourth quarter's close.

Market highlights: Among Dow 30 stocks, **IBM** jumped $2\frac{5}{8}$ to \$109, **GE** rose $1\frac{3}{4}$ to \$$56\frac{1}{4}$, **AT&T** added $1\frac{3}{8}$ to \$$32\frac{1}{4}$, **Eastman Kodak** gained $1\frac{1}{8}$ to \$$39\frac{5}{8}$ and **Boeing** rose $2\frac{5}{8}$ to \$$44\frac{1}{4}$. **Philip Morris**, helped by a reiterated buy recommendation from Goldman Sachs, jumped $2\frac{1}{2}$ to \$$47\frac{3}{4}$.

▶ Consumer stocks, many of which received positive comments from Merrill Lynch, were among the day's biggest winners. **Disney** surged $5\frac{5}{8}$ to \$$96\frac{1}{4}$, **Gillette** jumped $3\frac{1}{8}$ to \$$54\frac{3}{8}$, **Procter & Gamble** rose $4\frac{1}{8}$ to \$77.

MARKET WATCH

USA TODAY'S DAILY STOCK REPORT

▶ **U.S. Surgical** rose $2\frac{7}{8}$ to \$57 after the medical-products firm received Food and Drug Administration approval to market a line of synthetic sutures.

▶ Drug stocks jumped: **Merck** rose $4\frac{1}{8}$ to \$$80\frac{1}{4}$, **Schering-Plough** rose $2\frac{7}{8}$ to \$46 and **Syntex** rose $2\frac{3}{8}$ to \$$54\frac{1}{4}$.

▶ **UAL** soared $6\frac{1}{8}$ to \$$103\frac{3}{8}$ on takeover talk and falling oil prices, which also lifted **AMR** $2\frac{3}{4}$ to \$45 and **Delta** $2\frac{1}{8}$ to \$$57\frac{1}{8}$.

▶ Chemical firms dependent on oil also got a boost. **Dow Chemical** jumped $3\frac{1}{4}$ to \$$42\frac{1}{4}$, **Great Lakes Chemical** rose $2\frac{1}{4}$ to \$$56\frac{1}{4}$, **Monsanto** added $2\frac{1}{8}$ to \$41 and **Du Pont** gained $1\frac{1}{8}$ to \$35.

▶ Oil and oil-services stocks slipped on falling crude oil prices. Among the losers: **Atlantic Richfield**, off $2\frac{3}{8}$ at \$132; **Schlumberger**, off $1\frac{7}{8}$ at \$59; and **Apache**, down $2\frac{3}{4}$ to \$17.

▶ Easing Middle East tensions also clipped bullion prices, pushing down **Newmont Gold**, off $3\frac{7}{8}$ at \$$41\frac{1}{2}$; **ASA**, off $1\frac{7}{8}$ at \$$47\frac{1}{2}$; and **FMC Gold**, off 1 at \$$10\frac{1}{2}$.

▶ **Hewlett-Packard** fell 2 to \$$31\frac{1}{2}$ after Sanford C. Bernstein cut 1990-91 earnings estimates. **Microsoft** surged $4\frac{1}{8}$ to \$$67\frac{1}{8}$ on positive Shearson comments.

▶ **Koger Properties** lost $2\frac{1}{8}$ to \$9 after the office developer said it would cut its 70-cent quarterly dividend to 25 cents in January. **Koger Equities**, a real-estate investment trust, fell $1\frac{5}{8}$ to \$11 after saying it would cut its quarterly dividend from 45 cents to 32.5 cents.

▶ **AmBase**, one of the third quarter's biggest losers, sank $\frac{7}{8}$ to \$$7\frac{7}{8}$ after announcing plans to sell its insurance subsidiary in a deal worth \$970 million.

The Journal of Commerce
and Commercial
TUESDAY, OCTOBER 2, 1990

Crippled EPA Benefits No One

By BRUCE HARRISON

Gramm-Rudman-Hollings is hanging over the environmental presidency like the sword of Damocles. A Congress that has shown nearly boundless commitment to environmental causes might allow the Environmental Protection Agency to slip into a budgetary freeze. That would critically handicap the agency and prevent it from carrying out many of its mandates.

That outcome would not, however, lift a burden from industry's shoulders. In fact, businesses would suffer from a seriously crippled EPA as they try to comply with the many permitting and enforcement provisions integral to current and pending environmental protection laws.

The nation faces other economic challenges from oil wars and recession, but Gramm-Rudman looms the largest of the immediate threats. Though the congressional leadership and the White House have reached a budget compromise, the full Congress must act by Oct. 5 or the Gramm-Rudman sequestration is triggered. If reaching a compromise takes several months, the annualized net reduction could slash hundreds of millions from a yearly budget of $5.5 billion dollars.

Program funds will be some of the earliest line-items to go. Superfund, corrective action plans under the Resource Conservation and Recovery Act, wastewater treatment grants, clean air monitoring and research, and many others could all be gutted. New programs promoting recycling, waste minimization and pollution prevention will go unfunded.

There also will be personnel cuts. EPA has had a hiring freeze in effect since Aug. 10 in anticipation of losing funds. Agency staffers have been warned of the possibility of furloughs of more than 20 unpaid days off. This would be equal to at least an 8% reduction in manpower.

Staff furloughs will aggravate an already troublesome personnel situation at the agency. Some programs are shorthanded as it is. The furloughs, which represent pay cuts, will pressure many employees — especially legal staffers watching their private-sector colleagues advance to ever-higher salary levels — to leave EPA.

Because industry is yoked together with EPA in implementing environmental programs, like partners in a sack race, the hamstringing of EPA will extend to industry. Personnel cutbacks will retard the rate of promulgation of regulations, delay the registration and safety investigations of pesticides and other chemicals — and create a potentially disastrous processing bottleneck for permits needed under the provisions of clean air and clean water laws.

These delays will affect a wider range of businesses than ever before, if the proposed Clean Air Act amendments survive. Dry cleaners, auto body shops and a host of other small businesses will be drawn into the permitting loop. This loop is really more of a maze: depending on what version of the Clean Air Act amendments is passed, EPA may face the Herculean task of reviewing all State Implementation Plans, drawing up their own backup versions if the SIPs don't measure up, and writing roughly 20,000 pages of regulations to implement the amendments — all within one to three years of passage. EPA staffers are as conscientious and dedicated as any in government, but the agency is just now issuing clean air regulations that by law were due in 1983.

The firms newly required to comply with clean air laws will join the tens of thousands of firms already seeking permits for discharges, plant siting, waste disposal, introduction of new pesticides and many other industrial activities. In every instance, EPA's capacity, or incapacity, to evaluate and process permits determines the timeliness and efficiency of industrial planning and operations.

This capacity will be influenced by the managerial means EPA picks to achieve its cutbacks. Will it be shorter work weeks for everyone throughout the agency or will selected offices be shut down? Even trivial line-item cuts will have their effect. If travel budgets are slashed to near zero, EPA staffers will be unable to make site visits or interact as effectively with corporate officials.

While EPA's manpower cutbacks conceivably could relax enforcement pressures, for instance by reducing the number of lawyers available to pursue litigation, it is more likely that the agency will beef up its enforcement function to offset the loss of program funds. Even if that is not feasible, lax enforcement is not a boon to industry. If companies should succumb to temptation and ease up on their environmental initiatives in the face of relaxed compliance pressure, environmentalists will be able to press hard for an even stronger and more rigid command-and-control system when EPA's budget is back to normal — and industry will be shackled more painfully than ever.

Companies have locked in on the longer-term business benefits of the environmental programs put in place during the last two decades. Industrial commitments and activity are paired with predictable coaction by the public sector. If EPA is put on a budgetary respirator, industry might as well resign itself to a lengthy bedside vigil. There will be plenty of time for it, while waiting for permits.

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Pretty Good Deal

THE UNPOPULARITY OF THE budget package worked out in Washington over the weekend is the best testimonial to its soundness. The revenue increases it provides for are modest, perhaps too modest. But they have a singular virtue: Almost without exception, the provisions upon which congressional leaders and the Bush administration have agreed increase the tax burden on consumption, not on savings or investment.

Excessive consumption and inadequate investment lie at the root of America's economic malaise. The federal government's fiscal policy has encouraged that trend for decades. Borrowing for home mortgages and, until the 1986 Tax Reform Act, for other personal uses has been subsidized through tax deductions for interest payments. Even as federal spending on transportation, education and research has been squeezed over the past decade, a growing share of revenue has been given to the elderly, regardless of need, in the form of cash payments and subsidized medical care.

The 1986 tax act began to reverse that trend by eliminating certain personal income tax deductions. The new budget package continues it. Every substantial source of new revenue — the 12-cent-a-gallon hike in motor fuel taxes; the increase in cigarette, beer and wine taxes; the excise taxes on expensive cars and furs; and the limits on income tax deductions for families earning over $100,000 a year — all hit consumption. So do the proposed increases in premiums for Medicare, the health care program for the elderly, as well as cuts in spending on Medicare.

Congressional Democrats deserve credit for withstanding administration pressure to gut the basic compromise struck in the 1986 law, which lowered marginal rates but exposed a greater share of personal income to the tax collector. President Bush had sought both a lower tax rate for capital gains, which would have opened the door anew to many of the tax shelters eliminated in 1986, and special treatment for the energy industry. He came away only with a minor tax break for investment in companies with less than $50 million in equity — not a desirable provision, to be sure, but one far less subject to abuse than a lower rate for all capital gains.

However President Bush should be praised for standing up to Democratic demands that the package simply tax the rich. Admittedly, working-class taxpayers have not fared well in recent years, and the nation's income distribution is becoming more skewed. But the Democrats' alternatives, such as a 5 percentage point increase in the top tax rate for many upper-income families, were unsatisfactory answers. They would have cut into discretionary savings while leaving the incentives for consumption unchanged, and would have led to renewed political pressure for tax breaks to offset the higher rates.

The process wasn't pretty, and the result doesn't go far enough. Having taken the political risk of raising the gasoline tax over two years, Congress should provide for additional increases farther in the future. And having reduced the tax benefit that high-income families receive from buying the most expensive homes they can afford, Congress should rein in the mortgage interest deduction even further.

But in tax policy, the best is often the enemy of the good. Given where they started, the deal Congress and the administration struck looks pretty good.

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Bush Campaigns For the Passage Of Budget Pact

By DAVID ROGERS
And MICHEL MCQUEEN
Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON—President Bush began an aggressive campaign to win congressional passage of the bipartisan budget accord, as the administration sought to shore up support in its own party ranks before the first critical votes this week.

"I'll be selling it to everybody I can get to listen to me," said the president, and senior White House aides accompanied Vice President Dan Quayle to the Capitol in an effort to isolate Republican dissent.

Senate Minority Leader Robert Dole (R., Kan.) expressed confidence the GOP can deliver its share of votes for the resolution this week. But in sometimes testy exchanges, officials met resistance from House Republicans, whose conservative whip, Rep. Newt Gingrich (R., Ga.), denounced the package as a threat to the economy.

"It is my conclusion that it will kill jobs," said the Georgia Republican, who sought to portray the plan to reduced the deficit by $500 billion over five years as a "Democratic budget package." Mr. Gingrich, who was flanked by junior members of the Republican leadership outside a party caucus, is the most prominent symbol of rank-and-file GOP resentment toward the accord.

Mr. Quayle, who attended the same meeting, likened himself to a "friendly dentist" appearing before his former colleagues trying to extract votes.

White House Chief of Staff John Sununu was described as bluntly warning Republicans that the president has a heavy political investment in the success of the package. In an implicit slap at Mr. Gingrich, Mr. Sununu pointedly praised Sen. Phil Gramm (R., Texas), who has endorsed the plan, as a conservative leader.

The first test of strength for the administration could come as early as tomorrow, when the House is scheduled to consider a revised budget resolution incorporating the outlines of the tax and spending plan and setting out a series of deadlines for legislative action during the next few weeks. By around Oct. 12, House and Senate committees would be required to report legislation to achieve the promised savings and revenue. The ambitious schedule builds toward a major fight a week after that over final passage of a bill putting the budget changes into effect.

Republicans may seek to delay the first votes until Thursday, but the Democratic leadership is anxious to move quickly in order to head off pressure from labor and groups representing the elderly, both important constituencies to the party. The AFL-CIO is expected to announce its opposition to the package today, and the proposed Medicare savings touch a sensitive nerve after Congress retreated last year from a catastrophic health insurance law.

"I'm reasonably confident," said House Speaker Thomas Foley (D., Wash.), referring to the vote this week. Most observers agree that the greater political tests for the administration will come at the subsequent two stages, when the plan takes form in legislation. Wholesale changes in the sensitive tax portion of the package would jeopardize the pact, but the Democratic leadership said congressional committees would be left some flexibility to make adjustments.

"I'm not pleased with the outcome, but then again I can swallow hard," said House Ways and Means Committee Chairman Dan Rostenkowski (D., Ill.), who walks a line between loyalty to the leadership and the politics of his committee. New business tax incentives in the agreement are "convoluted" and a "weak link in the whole operation," said Mr. Rostenkowski, and he held open the possibility of re-examining the distribution of proposed luxury taxes. "I'm not saying I'm on the warpath, but I'm not saying I won't put on some paint if I'm not given some latitude."

Administration officials, like cowboys steering a skittish herd, are trying to keep Republicans in line by using sometimes heavy-handed warnings against crossing the president. They also hope to counter Mr. Gingrich by finding Republican lawmakers and private interests who will step out front in support of the budget package. The praise heaped on Sen. Gramm was part of this strategy. Similarly, Rep. Clay Shaw, a Florida Republican and member of the Ways and Means panel, was the target of sudden attention yesterday from Mr. Sununu and Vice President Quayle.

The White House hopes that supporters such as the electronics and broadcasting industries and venture capital interests, all of which won concessions in the agreement, can offset Republican defections driven by conservative organizations like the Heritage Foundation. The foundation, a conservative think tank, issued a blistering memorandum warning that the agreement would lower living standards for Americans and "damage the economy very seriously."

Electronic and venture capital organizations, with their corporate members, have leverage with the large California delegation.

And Rep. Sherwood Boehlert (R., N.Y.) expressed satisfaction that the negotiators had heeded his concerns and decided against a provision designed specifically to limit deductions for state income taxes. That is an issue important to New York. "I feel my voice was heard," said Rep. Boehlert.

Moderate northern Republicans will be crucial to the administration's effort, a fact that has heightened political sensitivity about the budget negotiators' failure to exempt home-heating oil from a proposed two-cents-per-gallon tax on petroleum products. There was some confusion about that issue, and initial administration documents describing the accord said such an exemption had been approved. Rep. Silvio Conte (R., Mass.) was infuriated when the exemption was removed after pressure from Senate Finance Committee Chairman Lloyd Bentsen (D., Texas).

While a stopgap spending bill averted the immediate prospect of across-the-board spending cuts under the Gramm-Rudman law, the legislative schedule over the coming weeks is designed to keep the threat of such cuts alive as a means to push reluctant members to approve the package.

"I don't know what choice we have, we're stuck," said Rep. Robert Matsui (D., Calif.). As the majority party in Congress, Democrats have more of an institutional investment than Republicans in moving the process forward. "I think we did the best we can, and we're telling members it's better than the alternative," said House Majority Leader Richard Gephardt (D., Mo.).

As chairman of the budget talks, Rep. Gephardt hasn't hidden his personal frustration. In a speech to his party caucus Sunday night, the Missouri Democrat spoke of being depressed during the final days of the talks, and he seemed to welcome the chance his old committee, Ways and Means, will at least tamper at the edges of the tax agreement.

"I think it is all a matter of degree," he said. "Modifications by the committees will be made."

The agreement bears the clear imprint of Senate Appropriations Committee Chairman Robert Byrd (D., W.Va.), who successfully protected his ability to increase discretionary domestic spending over the next five years. The 29-member appropriations committee he heads is a potent force in building bipartisan support for the package in the Senate.

Pro-defense Republicans on the appropriations panel were pleased by the allocation promised for the Pentagon. While the military share of spending in the budget package would crimp the growth in domestic programs, the agreement in some respects is more generous to such programs than the Senate had been in legislation it approved earlier this year. Domestic discretionary spending would grow to $182.7 billion in fiscal year 1991, which began yesterday, and to $198.3 billion in fiscal 1993—an 8.5% increase that is critical to such major science projects as space exploration and the super-conducting supercollider in Mr. Gramm's home state of Texas.

The budget agreement is the product of prolonged, often rancorous negotiations over the past four-and-a-half months. President Bush called for the talks last May in response to signs of a weakening economy and worsening deficits, and in an effort to put his stamp on the fiscal 1991 budget. On June 26, with the talks near collapse as a result of a deadlock over whether to raise taxes, Mr. Bush retreated from his 1988 campaign pledge for no new taxes.

Many GOP conservatives consider both Mr. Bush's call to a summit and his tax statement serious blunders. But administration officials gambled that if the result were a big deficit-cutting deal, the president would reap a windfall of credit, nudge the Federal Reserve to ease credit and avert the feared recession that could threaten his 1992 re-election hopes. Less credibly, they wagered that a budget package that left income-tax rates unchanged would allow Mr. Bush to claim his campaign promise was intact.

But after Mr. Bush's retreat, the talks stalemated again over which taxes to raise. After Labor Day, negotiators moved from the Capitol to the seclusion of nearby Andrews Air Force Base with the goal of reaching agreement over a weekend. After 11 days, the weary, mutually suspicious negotiators disbanded.

But a smaller group consisting of three administration officials—White House Chief of Staff Sununu, Treasury Secretary Nicholas Brady and budget chief Richard Darman—and the five top congressional leaders began meeting privately in the Capitol. For 12 days, they rehashed the same arguments, with Mr. Sununu leading the fight for a capital gains tax cut and Senate Majority Leader George J. Mitchell (D., Maine) equally adamant that the price would be higher rates on the rich.

As automatic cuts and a government shutdown loomed with the Oct. 1 fiscal new year, both congressional GOP negotiators—Sen. Robert Dole of Kansas and Rep. Bob Michel of Illinois—indicated that they preferred a deficit-cutting agreement to a capital-gains tax cut. Finally, last Friday the president came to the same conclusion.

Looking back at the budget negotiations, Democrats acknowledged yesterday that they paid a price for their own symbolic stands. From the outset, the party sought to craft a package that would shift the tax burden more to higher income families, but they were reluctant as well to tamper with Social Security. In the final days, negotiators chose to scrap a proposal to tax more of Social Security benefits, but this made the package more dependent on gasoline taxes, which fall on working and middle-class families who will also be affected by a variety of excise increases for beer and cigarettes.

—Jackie Calmes contributed to this article.

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Budget Agreement, Unlike Pacts Past May Be for Real

By JACKIE CALMES
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON – Budget-cutting agreements typically promise far more austerity than they deliver, but even cynics believe the new accord between President Bush and congressional leaders may produce real savings.

That's not to suggest that the $500 billion five-year pact is airtight. It includes a number of perennial proposals that turf-conscious congressional committees annually ignore, and a few of the same fiscal dodges that led to such criticism of last year's more modest "Rose Garden" agreement.

"It's much more real than any agreement that we've had for many years," said Rudolph Penner, former director of the Congressional Budget Office. "There's some smoke in it, but not near as much as in past years."

Says Carol Cox, head of the Committee for a Responsible Federal Budget and typically a hard critic of federal budgets: "The deficit may not go down as much as projected because there's no telling what the economy will look like in five years. But for the most part these are real spending cuts and real tax increases."

The credibility of the bipartisan package is crucial because that will help determine whether the Federal Reserve eases credit in coming months.

And the agreement does fudge on a number of figures.

Officials predict that the S&L clean up will require at least $120 billion in the next year, but the budget package doesn't specify its target amount. It says only that the thrift-bailout spending would be counted toward the budget deficit, but not for purposes of determining compliance with the Gramm-Rudman law, which threatens across-the-board cuts if deficit targets are exceeded. Regulators expect about half of next year's spending to be recouped through the sales of assets seized from S&Ls.

First-year savings fall from the promised $40.1 billion to $34.4 billion when the net costs of the Persian Gulf deployment are counted. Beyond that, nearly all analysts dismiss claims to get $3 billion, or $9.4 billion over five years, from changes at the Internal Revenue Service designed to increase tax collections.

The next most widely derided idea calls for ending federal retirees' option of taking their pension in two lump sums. The estimated savings, $8.1 billion through 1995, are considered real in the short run since the government won't have to pay retirees their full benefits at once. But over time, costs are higher as many beneficiaries live longer and thus draw pension payments longer.

The accord vaguely attributes $2 billion through 1995 to "certain business tax provisions." Another $3 billion over the five-year period is linked to "miscellaneous fees . . . to be determined."

The agreement proposes the usual assortment of user fees—$14.2 billion over five years—though typically only a fraction become reality. Among the retread ideas were several that the pertinent congressional committees annually ignore or reject, such as an $25-a-year fee on boat owners to cover Coast Guard services.

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Enterprise Zones Are Close to Reality As Part of Federal Budget Agreement

By JOE DAVIDSON
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—A federal program for enterprise zones, pushed by Housing and Urban Development Secretary Jack Kemp for a decade, finally is on the verge of reality as part of the budget summit agreement.

This past weekend's agreement between President Bush and the congressional leadership calls for a $1 billion, five-year program "to provide tax incentives to specially designated areas in need of economic assistance."

That's smaller than the $1.8 billion, 50-zone program over five years that Mr. Kemp had been pushing as part of President Bush's fiscal 1991 budget proposal. The budget agreement does, however, greatly increase the likelihood that what had long been a concept now will be realized. Congress is under a Friday deadline to vote on the budget package.


Jack Kemp

"It's a good start," said Dick Cowden, executive director of the American Association of Enterprise Zones. "We're overjoyed to see it, especially at a time when so many other things are being cut."

Enterprise zones would provide tax and other incentives to companies locating or expanding their operations in areas of high unemployment. The $1 billion for the zones wouldn't be an expenditure, but an estimated loss in federal revenue because of tax breaks under the program.

Regarding just how the program would work, or the number of zones to be funded, "we have absolutely no details on that right now," said Mary Brunette, Mr. Kemp's chief aide. She said Mr. Kemp had "lobbied, cajoled, begged and pleaded for enterprise zones with everybody for over the last 10 years."

Although enterprise zones were closely identified with Mr. Kemp as a congressman and as HUD's secretary, a breakthrough in gaining wider acceptance for the idea came in June when a former zone opponent, House Ways and Means Committee Chairman Dan Rostenkowski (D., Ill.), introduced legislation that would create 25 zones and cap federal incentives at $20 million a zone annually.

Mr. Rostenkowski, as well as officials in the Treasury and the White House budget office, had argued that enterprise zones would be a revenue loser that couldn't be afforded during a time of deficit. But others, including Mr. Kemp and Rep. Charles Rangel (D., N.Y.), argued that the zones would boost employment and business activity so much that tax revenues would increase over the long run.

With 600 zones created by state governments in nearly every congressional district, "a grass roots movement has brought even Rosty around," Mr. Cowden said of the Ways and Means chairman.

Once the federal zone program is enacted, "it's going to have, we think, a profound effect on the way cities approach development planning," he added. "They'll know they aren't doing it alone."

Mr. Cowden expects the enterprise-zone measure to include a feature called "equity expensing," which would provide personal tax incentives for private investments in small businesses. "We think that would flush a lot of lower-level investment into those companies," he said.

But Mr. Rangel, a sponsor of enterprise-zone legislation, warned that "enterprise zones standing alone mean absolutely nothing. Nothing in the [budget summit] bill would encourage businesses to relocate in inner cities as long as they are festering with homelessness, crime and high dropout rates."

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Low-Cost Loans For Home Buyers Cut in Budget Pact

By JAMES A. WHITE
Staff Reporter of THE WALL STREET JOURNAL

Federal tax breaks that provided low-cost loans to some first-time home buyers and to small manufacturers expired as extensions of the programs were omitted from the proposed budget compromise.

Under the programs, state and local agencies were able to issue tax-exempt revenue bonds providing below-market-rate loans for single-family home buyers and for small industrial development projects under $10 million.

Tax breaks to assist low-income housing and to bolster research and development spending, also expired, but were listed for renewal in the Washington budget compromise.

Some $5.6 billion in the mortgage revenue bonds and $3.2 billion in the manufacturers' revenue bonds were issued last year. "It's a big business, so people are concerned," said Mark Moore, director of policy analysis for Public Securities Association, a bond-industry trade group that is based in New York.

In the weeks leading up to the weekend agreement, Wall Street lobbying groups had placed highest emphasis on keeping a proposed securities transfer tax out of the budget accord. While chalking up that victory, at least for the moment, some securities industry officials were surprised to lose on tax-exempt bonds. "It was a cliff-hanger," one Wall Street official said.

Tax breaks for programs such as that reducing mortgage costs for first-time home buyers have been under fire for a decade. They were sharply curtailed in the 1986 tax overhaul, and have faced repeated expiration deadlines. Until the latest compromise, they were always given new life.

Advocates said the provisions may still survive. "We don't consider the game was ended when the budget agreement was reached," said John McEvoy, executive director of the National Council of State Housing Agencies, which is based in Washington. "We're not going to oppose this agreement, but we know things are going to be added to this, and we want to be one of them."

Mr. McEvoy said mortgage revenue bonds cost federal taxpayers about $10 million in the first year of their issuance. About one million home buyers have obtained lower-cost mortgages in the past 20 years through the program, he said.

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Consolation Prize

Tax Shelters for Rich Could Return in Plan To Aid Small Business

By DAVID WESSEL
And JEFFREY H. BIRNBAUM
Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON—President Bush calls them "important new incentives to stimulate economic growth." But they could turn out to be the newest tax dodges for the rich.

A surprise package of so-called growth incentives slipped into Sunday's budget accord at the last minute is billed as a way of encouraging investment in the small companies that drive the engine of economic growth. It was a consolation prize to the president, who lost out on his effort to foster economic expansion with a reduced tax rate on capital gains.

But look again. Depending on how the rules are written, the growth incentives may have the unintended effect of reviving tax shelters for wealthy investors. Experts say the law could spawn a new class of companies that give investors up-front write-offs and other tax goodies that could benefit them—not to mention tax lawyers, accountants and syndicators—more than they help the economy.

"These could be the seeds for the tax shelters of the 1990s," says David Brockway, former chief of staff of the bipartisan congressional Joint Committee on Taxation and now a tax lawyer at Dewey Ballantine Bushby Palmer & Wood. "They could be enormous."

Syndicators Return

Indeed, Marvin Dickman, a partner at the accounting firm of Arthur Andersen in Chicago who specializes in closely-held companies, is already studying the possibilities. "You will see syndications of investments like this," he predicts.

That's just what worries tax experts in the private sector and in Congress, which essentially killed off shelters in the Tax Reform Act of 1986. "It's highly doubtful policy," Donald Alexander, commissioner of the Internal Revenue Service in the Nixon administration, says of the proposed new tax breaks. "There's a good question of whether benefits of these massive types are really in the national economic interest."

Mr. Bush, in announcing the budget accord Sunday, said that the small-business tax breaks would provide "powerful new incentives for productive investment in the kinds of companies that account for much of America's job growth." Small-business enthusiasts add that besides stimulating a sluggish economy the provisions could also invigorate the market for initial public offerings.

Defending the Plan

The Treasury Department, now moving to sell the budget accord to a skeptical Congress, insists that concerns over abuse of the new proposal are ill-founded. "Some people see any tax incentive as a tax shelter," says Roger Bolton, assistant Treasury secretary for public affairs. "This is clearly a tax incentive."

He says that the law creating these new tax breaks, still being drafted, will prevent abuse. Regulators who will draft the fine print of the law will do likewise. "The incentives will do what they are intended to do," Mr. Bolton says. "They will direct new investment to small companies that are growing and creating jobs."

The most generous of the proposed tax incentives—and the one that caught even close budget observers by surprise—is a provision that would allow investors to deduct 25% of their investment in newly issued stock in eligible small companies, up to a maximum deduction of $50,000. In other words, an investor who sinks $200,000 into an eligible company would get an immediate tax break of about $14,000.

Investors in a stunning 2.3 million corporations would qualify, representing 63% of all companies in the U.S., according to the Treasury. These would be distinctly small businesses on the whole, however; they together hold only 4% of the assets in the U.S.

More Incentives

Additional tax breaks would become available when the shares were sold. Although the text of the bipartisan agreement carefully avoids describing these as a capital-gains tax break, that's what they are. If an investor holds the shares for five years, he or she would be permitted to choose the more favorable of the following two choices:

—Pay tax at the ordinary tax rate—28% for the highest-income taxpayers—on exactly half of the sales price, regardless of the amount of the initial investment;

—Pay tax at the ordinary rate on the investment profit, adjusted for inflation as well as for the initial deduction. (See accompanying chart for an illustration.)

The Treasury says this option would be offered not only to investors who buy newly issued stock, but to investors trading in the secondary market—shares that have been issued in the past. But congressional aides say this particular point wasn't settled by the budget negotiators and remains to be resolved.

Eligible companies are those with paid-in capital and retained earnings of less than $50 million—except finance, insurance, securities, real-estate and personal service companies.

The fabled computer start-up would be covered, of course. So would more prosaic enterprises—cleaners, restaurants and boutiques, for instance. Investors in General Motors Corp. and International Business Machines Corp. wouldn't benefit. Indeed, one risk is that the plan would draw money away from big companies and shift it to smaller ones without increasing the capital available to business as a whole.

Treasury officials and congressional tax staffers swear that several potential loopholes would be closed before the provision is enacted. They say, for instance, that they will prevent big companies from setting up small affiliates to reap the small-business tax breaks. They also say they will prevent bigger companies and takeover artists from subdividing big companies into smaller ones to capitalize on the new incentives.

But some outside tax specialists are skeptical. "How they're going to police it has got to be one of the most serious concerns," says James Gould, a former staff director of the Senate Finance Committee now at the law firm of Vinson & Elkins.

"There's no question that this will provide work for legions of accountants and lawyers to find out how to structure the deals and find out how to deal with the IRS and Treasury in so doing," he adds.

The entire package of incentives was all but an afterthought in the $500 billion, five-year deficit-reduction accord.

Congressional staffers say the portfolio of tax incentives surfaced only Saturday as the Bush administration struggled to find a substitute for the broad capital-gains tax cuts. When the administration concluded it was unable to win a lower capital-gains tax cut for all investments, Treasury Secretary Nicholas Brady explains, it decided, "Why not shift the incentive to those companies who produce the most growth?"

Although pieces of the proposal were drawn from initiatives floating around for years, the package was assembled so hastily that administration negotiators didn't initially have anything put down on paper to show the Democrats. Kenneth Gideon, the Treasury's top tax official, rushed to the talks to explain the incentives. "They were air-dropped in," says a congressional aide.

As a result, details were still fuzzy even yesterday, 24 hours after the agreement was announced. Some specifics won't be clear until congressional tax-writing committees turn the proposals into legislative language.

Tax experts say that a clever investor with a sharp accountant could borrow money to make the initial investment, deduct the interest, deduct 25% of his investment on top of that and then later benefit from the favorable tax treatment when he or she sells the stock.

Even House Majority Leader Richard Gephardt, the Missouri Democrat who served on the eight-member team that put together Sunday's budget package, expressed concerns about the effects. "I am worried about what is finally written and whether it can be abused and used as tax shelters," he said.

Some tax experts say the law and regulations can be written tightly enough to prevent a tax-shelter boondoggle. "I really don't think it's going to open up any stampede of tax shelters," says William Raby, an accounting professor at Arizona State University in Tempe.

And the Treasury promises the rules will keep abuse to a minimum. The agreement states, for instance, the estate of anyone who dies within two years of taking this new deduction will have to pay it back, an attempt to prevent deathbed tax dodges.

But history suggests that lawyers and accountants always find loopholes no matter how tough the rule-writers think they are being. "You never really know all the things people will think up to get around your rules," says Randall Weiss, a former deputy chief of staff at the Joint Tax Committee and now at the accounting firm of Deloitte & Touche.

And even if the abuse is kept to a minimum, others say, the tax break is extremely liberal—particularly the provision that allows an immediate, up-front deduction for investing in eligible companies.

Even Sen. Dale Bumpers, the Arkansas Democrat who chairs the Senate Small Business Committee, is taken aback. "This is a gigantic incentive for people to invest in small business," he says. "It's going to be a bonanza. The question is: Is it too generous?

"It ain't peanuts," he adds.

But Treasury Secretary Brady says that was exactly the point. "We are trying to make it forceful enough so that it has some effect on the economy," he explained.

The Treasury estimates that the new deduction would reduce tax revenues by about $7.3 billion over the next five years, about one-third the cost of Mr. Bush's earlier proposal to slash the top capital-gains tax rate to 15% from the current 33%. Overall, the administration estimates that the package of growth incentives outlined in the budget agreement would cost $12.1 billion over five years.

The costs could rise substantially, undercutting the deficit-reduction goals of the agreement, should investors, accountants, tax lawyers and syndicators exploit the new tax breaks more than the administration figures anticipate.

Clearly, the debate over the little-understood elements in the deficit-reduction plan is just beginning.

"The administration needs to show us that this is more than just expensive window dressing and that it won't open the door to abuse—the sheltering of income for purposes that are either nonproductive or would have occurred anyway," says Rep. Sander Levin, Democrat of Michigan, a member of the House Ways and Means Committee.

And the committee's chairman, Dan Rostenkowski, Democrat of Illinois, says that the plan would be "devastating" to the tax code—a hint that the plan may be altered before it reaches the House floor.

But supporters of the package dismiss the hand-wringing over rip-offs and tax breaks as so much rhetoric, saying it misses the point of these new incentives.

Robert Pavey, a partner in Morgenthaler Ventures of Cleveland and president of the National Venture Capital Association, says the incentives "will provide significant encouragement for early investment by individuals in the new enterprises that make the U.S. more competitive." The American Business Conference, comprising chief executives of successful, fast-growing companies, hails the tax breaks and says they "will spur creation of a whole new generation" of similar companies.

And Secretary Brady says he is convinced that assisting small business is vital to the economy. "The purity that is always alluded to in the Tax Reform Act of 1986 doesn't exactly exist," he says. "I don't think we ought to get hung up over that argument while we try to do something to stimulate the economy, which we absolutely think this will. I believe in the small-businessmen of this country."

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Liquor Lobbyists Assaulting Tax Plan; Complaints Are Unlikely to Affect Vote

By TIMOTHY NOAH
And RODNEY FERGUSON
Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON—Liquor industry lobbyists have already begun to hit the hustings—and each other—over the excise tax increases proposed by the budget summiteers. But their complaints are unlikely to have much effect on the proposal's outcome in Congress this week.

The proposed new taxes are "brutally unfair," according to Douglas Metz, managing director of the Wine and Spirits Wholesalers of America. Mr. Metz said the tax increases would "sow consumer confusion during our industry's busiest season. . . . New Year's Eve is no time to change prices and take inventory."

But the opposition is fragmented among producers of different types of alcoholic beverages, and even those members of Congress who represent producers are inclined to support the tax increase. "If you're going to tax something, sin is a pretty good place to start," said Rep. Jim Cooper (D., Tenn.), whose district includes Lynchburg, home of Jack Daniels Brewing Co.

Politicians eager to raise taxes on alcohol products think they have a compelling case. Federal taxes on beer and wine haven't increased since 1951, and the federal excise tax is only three cents for a 750-ml bottle of wine and 16 cents for a six-pack of beer. Taxes on distilled spirits such as vodka or gin traditionally have been higher.

The new proposal would double the tax on beer to 32 cents per six-pack and increase the tax on table wine to 25 cents. The tax on distilled spirits, last increased in 1985, would rise by $1.50 per "proof gallon" to $14. A proof gallon is 50% alcohol by volume.

The agreement represents something of a triumph for the beer and wine industries, which managed to derail an initial, Republican-sponsored proposal to raise the excise tax on beer and wine to the level of distilled spirits. Industry sources credit Rep. Richard Gephardt (D., Mo.), a budget summiteer whose St. Louis district includes Anheuser-Busch Cos., with limiting the tax increase on beer.

While the tax increase was being considered by the summiteers, lobbyists for the beer companies mounted a vigorous campaign against it. "What's the difference between a diamond bracelet and a can of beer?" asked a print advertisement placed by the Washington-based Beer Institute. "You pay more excise tax on the beer."

Rep. Gerald Kleczka (D., Wis.), whose Milwaukee district includes Miller Brewing Co., said he found the proposed excise-tax increase on beer reasonable, but conceded that "in a perfect world" the brewing companies would have "liked no increase at all."

But the proposal is a defeat to lobbyists for the distilled-spirits industry, many of whom believe that the 1985 excise-tax increase on liquor should have exempted them from the current round of tax increases. "We can't live with $1.50 a bottle," said Geoffrey Peterson, government relations director for the Distilled Spirits Council of the United States.

Mr. Peterson complained that it was "an historical anomaly" that beer and wine are taxed at a lower rate than hard liquor. And Mr. Metz predicted that the beer and wine industries wouldn't unite with the makers of distilled spirits on this issue: "Each party's going to gain the best advantage it can."

The tax proposal isn't endorsed by every beer-industry supporter in Congress. Rep. Steve Neal (D., N.C.), whose district includes two small breweries, said an increase in beer taxes would "hurt our local economy." Nor is everyone in the wine industry flush with victory. "We think it's extremely unfair and will do some nasty things to the wine industry," said Simon Siegl, executive director of the Washington Wine Institute in Washington state.

Traditionally, liquor excise-tax increases have posed a political problem. Republicans avoided the issue out of distaste for raising taxes in general. Meanwhile, Democrats saw beer-tax increases as a regressive and self-defeating assault on a key constituency: urban blue-collar workers often referred to as "Joe Six-Pack." According to Beer Institute spokesman Jeff Becker, 60% of all beer drinkers earn less than $35,000.

Beer drinkers even have their own consumer's lobby—the California-based Beer Drinkers of America, which last year opened an office here. The group has been lobbying vigorously against a tax increase, and compiled thousands of grass-roots petitions to send to Rep. Gephardt and other members of Congress.

The liquor excise tax puts Democrats in a further bind because the "yuppie" connoisseurs that the wine industry is seen as catering to are Joe Six-Pack's class enemy. Yet the industry is largely represented in Congress by such liberal California Democrats as Rep. Vic Fazio.

The tension between these groups is reflected in the attitudes of their respective lobbyists. "It's grapes vs. grain," says Archie Smith, president of the Virginia Wineries Association.

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Budget Dealers Must Like Utah, Hate Wyoming

By Paul Merski

President Bush and congressional leaders have unveiled their budget agreement. They hope to extract a total of $162 billion in extra revenue for the federal government over the next five years—$22 billion of it in the current fiscal year, which started yesterday. That works out to an average tax hit this year of $88 for every man, woman and child.

The effect of the federal government's tax increases will not be felt evenly in every state: states that are heavy consumers of motor fuels, cigarettes, alcohol and luxury goods will pay more, as will states with relatively affluent populations.

Thus, while there are no winners from the president's deal with Congress, some states will clearly lose less. Wyoming, Connecticut, New Jersey, Delaware, Massachusetts and the District of Columbia will face the largest per-capita increases. By contrast, Kentucky, Utah, West Virginia, Mississippi, Louisiana and Alabama will suffer the least. Residents of Wyoming will pay $115 on average more; by contrast, residents of Kentucky will pay $72 on average more. The table below calculates the state-by-state effect of virtually all of the revenue raising measures in the budget agreement, including the reduction of deductibility, the fuel tax and the excise taxes. It does not include the additional Medicare premiums.

This year, the average American will spend 82 days working to pay his share of federal taxes. With the $22 billion tax increase now proposed for next year—and the billions of dollars more to come—every American will be working longer for Uncle Sam. Unfortunately, some citizens will shoulder a disproportionate share of the load.

Mr. Merski is director of fiscal affairs at the Tax Foundation in Washington, D.C.

What the Budget Deal Costs You, State by State

Fiscal Year 1991

	PRE-SUMMIT BURDEN	POST-SUMMIT BURDEN	ADDITIONAL PER CAPITA BURDEN
AVERAGE	$4,596.80	$4,685.02	$ 88.22
Alabama	3,343.33	3,418.84	75.51
Alaska	5,633.07	5,726.07	93.00
Arizona	3,958.44	4,044.26	85.81
Arkansas	3,126.37	3,208.28	81.91
California	5,102.64	5,195.29	92.65
Colorado	4,378.67	4,468.89	88.22
Connecticut	7,440.38	7,551.04	110.67
Delaware	5,434.65	5,536.33	101.68
Florida	4,640.79	4,731.54	90.75
Georgia	4,059.60	4,150.20	90.60
Hawaii	4,495.82	4,573.47	77.65
Idaho	3,166.84	3,244.13	77.29
Illinois	5,170.50	5,257.43	86.93
Indiana	4,018.62	4,101.54	82.93
Iowa	3,836.41	3,919.05	82.64
Kansas	4,282.67	4,373.27	90.60
Kentucky	3,297.89	3,369.65	71.76
Louisiana	3,231.56	3,305.69	74.13
Maine	3,945.40	4,034.67	89.26
Maryland	5,544.29	5,641.40	97.12
Massachusetts	6,101.04	6,201.01	99.97
Michigan	4,669.59	4,756.09	86.50
Minnesota	4,597.17	4,685.91	88.74
Mississippi	2,700.37	2,774.18	73.81
Missouri	4,206.34	4,298.07	91.72
Montana	3,318.68	3,406.95	88.27
Nebraska	3,872.97	3,955.62	82.65
Nevada	4,812.22	4,907.34	95.12
New Hampshire	5,576.24	5,674.73	98.49
New Jersey	6,869.74	6,979.82	110.08
New Mexico	3,220.42	3,301.75	81.33
New York	5,668.10	5,759.33	91.22
North Carolina	3,826.95	3,910.62	83.67
North Dakota	3,423.90	3,509.04	85.14
Ohio	4,349.09	4,432.33	83.25
Oklahoma	3,638.97	3,623.63	84.67
Oregon	3,984.90	4,072.51	87.61
Pennsylvania	4,567.85	4,653.54	85.69
Rhode Island	4,958.60	5,047.80	89.19
South Carolina	3,360.30	3,437.50	77.20
South Dakota	3,218.88	3,300.74	81.87
Tennessee	3,758.12	3,840.85	82.72
Texas	4,067.65	4,152.11	84.46
Utah	3,055.09	3,127.48	72.38
Vermont	4,113.18	4,200.94	87.76
Virginia	4,808.28	4,900.35	92.07
Washington	4,536.43	4,624.71	88.28
West Virginia	3,012.51	3,085.44	72.93
Wisconsin	4,170.03	4,256.02	85.99
Wyoming	3,783.37	3,898.55	115.19
Dist. of Columbia	6,379.52	6,477.90	98.39

Figures may not add because of rounding

Source: Tax Foundation Federal Tax Burden by State model

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Liquor, Luxury Levies Trouble Firms

A WALL STREET JOURNAL *News Roundup*

The bipartisan budget plan calls for new and higher consumer excise taxes to narrow the deficit. The proposed levies on alcohol, cigarettes and luxury goods are bringing loud complaints from most producers of such items, although the tobacco industry believes it is getting off relatively easy. Here's a rundown of marketers' reactions to the plan.

BEER

The beer industry, which waged a public battle against increases in alcohol taxes, isn't going to give up the fight now. The budget plan would more than double the federal excise tax on beer to 36 cents a six-pack from 16 cents, raising about $10 billion over five years through increases on beer, wine and liquor. Beer company and industry estimates had predicted that a doubling of the beer tax could cut domestic beer consumption by 2% to 4%.

The Beer Institute, which sponsored a $1 million campaign comparing the excise taxes paid on a can of beer and a diamond bracelet, hasn't decided yet whether to continue the campaign or pursue the issue differently. But "we will work with Congress" to change the beer tax provisions, says a spokesman for the industry-supported institute.

Anheuser-Busch Cos., which sponsored a "Can the Beer Tax" advertising campaign, says it too will lobby Congress this week "to seek a fair deficit-reduction" package that won't include the increase on beer. Anheuser's campaign garnered about 2.2 million petition signatures, 1.5 million letters to Congress and 400,000 calls to an industry-sponsored toll-free hot line. The ads stopped running in most of the nation after Labor Day, but petitions are still in circulation, and point-of-sale advertising remains in place listing the toll-free number consumers can call to oppose the taxes.

Other beer companies are pledging to work to keep the increase from appearing in the final budget. "It's not a done deal at this point," says a spokesman at **Adolph Coors** Co. He argues that the increase in the beer tax places "more than a fair share" of the burden of solving the national budget problems on beer consumers.

A spokesman for Miller Brewing Co., a unit of **Philip Morris** Cos., says the company "remains opposed to excise taxes" of any kind because they are regressive. But because the budget compromise was supported by "both sides" of Congress, "it appears there's not much we can do at this time" about the beer increase.

WINE AND LIQUOR

Higher taxes would increase pressure on already declining wine and spirits sales, industry officials say.

The budget plan calls for an increase in the federal excise tax on a bottle of wine to 25 cents from three cents, and in the tax on a 750-milliliter bottle of 80-proof liquor to about $2.22 from the current $1.98.

While companies scramble to analyze the effect of the budget proposal, the outlook is clearly pessimistic. Guido Contini, manager of Garnet Wines and Liquors, a retailer in New York City, estimates that industry sales of wine and spirits have dropped 15% in the past year and says the new taxes would cause a further decline of as much as 20%.

For producers and sellers of hard liquor, who endured significant tax increases five years ago, the new legislation only adds to the burden. "We're reeling under any kind of increase in our industry," says a spokesman for Heublein Inc., producer and importer of spirits including Smirnoff and Finlandia vodka. "We've been besieged the last three or four years, so this is not welcome news."

Wine retailers, who haven't faced a tax increase since the 1950s, acknowledge that passing on tax increases will hurt sales, but they are unsure to what extent. "Most wines we sell are generally in a price category where an extra 10 or 20 cents won't make much of a difference," says Michael Aaron, chairman of Sherry-Lehmann Inc., a retailer in New York City. But at some stores, increased wholesale costs may mean reduced volume, translating into fewer product lines available to the consumer.

The biggest losers may be the neighborhood stores and large supermarket-type retailers who sell a high volume of cheaper wines, on which the tax increase would amount to a bigger percentage.

The Distilled Spirits Council of the U.S., speaking for liquor producers and marketers, sent a letter to Congress yesterday opposing the tax increase on distilled spirits, to $14 a "proof gallon" from $12.50. A proof gallon is 50% alcohol by volume. The industry said it "took the full blow of a $2 tax increase in 1985" and argued that the latest increase is out of line in comparison with taxes on beer and wine.

The 1985 tax increase, the council said, "caused over a 5% decline in sales, from which we are still trying to recover. Additionally, there have been over 100 tax increases on distilled spirits at the state level in the past five years."

CIGARETTES

The tobacco industry, though less than pleased with a tax increase of any kind, is heaving a sigh of relief over the proposed rise in the cigarette tax, only the second since the Korean War.

In recent weeks, as word filtered out of Washington that budget planners might double the current 16-cent-a-pack tax, tobacco companies and investors were bracing for the worst. But even amid growing anti-tobacco sentiment, and the increasing effectiveness of anti-smoking crusaders, legislators hammered out only a tiny increase: four cents a pack next year, and another four cents a pack in 1993.

A spokesman for the Tobacco Institute, the industry trade group, calls the tax a "substantial improvement" over some of the pricier proposals under consideration. He says the industry has no intention of launching any advertising campaign to fight the excise tax hike. "If we were going to do that, we'd have done it before now," he says.

Though the increase is small, some tobacco analysts think it may be enough to reduce consumption slightly. On a product that many people admit they'd like to quit using anyway, higher prices don't help. Cigarette consumption is expected to decline 2% to 3% this year. But after the first part of the excise tax increase takes effect next year, consumption could drop 3% to 4%, some analysts estimate.

What won't happen, they agree, is another California. Last year, the state raised its excise tax to 35 cents a pack from 10 cents—and sales of cigarettes plunged 14%. Such price jolts are what lead more people to try to quit or not to pick up the habit in the first place, tobacco industry researchers say. "The market tends to tolerate a moderate increase better than a sharp one," says Diana Temple, a tobacco analyst with Salomon Brothers Inc.

Also, many experts say there is plenty of room for cigarette prices to climb before there would be a widespread consumer revolt. Smokers, partly because they are addicted to their habit, show a remarkable toleration for price increases. By the end of last year, the price of cigarettes had more than doubled since 1980, while the rest of the U.S. Consumer Price Index rose less than 50%.

Higher prices, however, may push more people to buy low-price, generic cigarettes. Already accounting for nearly 18% of cigarette sales, generic smokes can cost as little as 90 cents to $1 a pack, compared with $1.65 for full-price brands such as Marlboro or Winston. As a result of the tax increase, generics could make up 20% of the market next year, Ms. Temple estimates.

But Roy Burry, an analyst with Kidder, Peabody & Co., says sales of generic cigarettes could suffer. Smokers of generic cigarettes, he says, are more price-sensitive and more apt to notice any increase.

FURS AND JEWELRY

Retailers of fine jewelry worry that the proposed 10% luxury tax, which would apply to the amount by which their wares exceed $5,000 in price, will drive affluent customers out of the U.S.

"Many businesses will be hurt because the affluent will go overseas and buy" jewelry and watches, says Michael Roman, chairman of Jewelers of America, an industry group representing 13,000 retailers. The U.S. market for fine jewelry is about $20 billion, Mr. Roman estimates.

Moreover, industry sources are concerned about the psychological impact of a luxury tax, which could chill sales of items priced under $5,000 as well. "In any luxury market with a recession looming, luxury purchases are often the first to be dropped, and with an excise tax, that certainly doesn't help" to encourage buying, says Carol Wynne, executive director of the Fur Information Council of America, a trade group. But Ms. Wynne and other furriers appear less concerned than jewelers because most fur coats sell for less than $5,000.

Retailers may benefit this Christmas from a last-minute rush to buy luxury items. "There is likely to be some anticipatory buying before the tax laws go into effect," says Sandra Shaber, a consumer economist at Futures Group, a Washington, D.C., think tank.

Fortunoff Inc., a New York-based retailer with about one-fifth of its sales in jewelry priced above $5,000, plans to compensate for the luxury tax by targeting "a lot more merchandise to end up retailing under $5,000," says Helene Fortunoff, one of the owners. That would include "lightening the weight of certain items so they will come in for $4,900," she says.

Because of a saturated market and sluggish sales, fur prices have dropped significantly in the past two years, so 80% to 85% of furs already cost under $5,000, says Sandy Parker, co-publisher of Fur World, a trade publication. "Today's $5,000 coat is comparable to the $7,500 coat of two years ago," he says, noting that the "tax won't affect most furs." The fur market in the U.S. is about $1.9 billion.

Furriers who specialize in more expensive coats believe their market is safe. With sable coats costing $40,000 and up, "I don't think someone who can spend that much for a coat will oppose buying it" because of the tax, says Martin Paswall of Martin Paswall Inc., a New York furrier specializing in luxury coats such as sable, lynx and chinchilla.

YACHTS

The proposal to tax expensive yachts could spell even rougher waters for a boat business already slowed by a sagging economy, boating industry officials say.

"No question sales will sink," says Jeff Napier, president of the National Marine Manufacturers Association, about the proposed 10% tax on the amount by which boats and yachts exceed $100,000 or more in price. To those who think that the rich don't count pennies when buying yachts, Mr. Napier says, "That's a myth. How do you think they got rich?"

But the tax hoist would crimp not only the rich, adds John Keim, president of Chris Craft Boats, a manufacturer in Sarasota, Fla. "It's going to hit that hard-working executive as well, not just the idle rich."

The boat makers' association, whose membership includes 1,800 builders, says business could fall by 20% if the tax proposal is passed. The estimate is based partly on the fact that historically every price increase of one percentage point over inflation has resulted in a sales decline of 2%, the group says.

The trade group, which has testified against the tax increase, also complains that the proposal comes at time when boat building has been battered by a soft economy. A slowing boat economy has led to a loss of about 100,000 jobs among builders of all types of boats, repairmen and parts makers, it notes. The tax could lead to a loss of 5,000 more jobs.

"The unfortunate thing about a rich man's tax is they're going to put a lot of poor people out of work," says Jim Schaefer, executive vice president of Richard Bertram & Co., a Miami boat builder.

Last year, about $6 billion of pleasure boats, from yachts to canoes, were sold in the U.S. More than $1 billion of that came from sales of vessels costing $100,000 or more. That was down about 25% from the year-earlier level, which in turn was 15% lower than a year earlier, the trade group says.

Boat builders say for $100,000, buyers can get a 35-foot to 40- foot cruiser "that's not quite oceanworthy," says Michael Kelsey, chairman of Palmer Johnson, a Sturgeon, Wis., builder of top-of-the-line yachts. "I'd say for $100,000, you'll get the equivalent of a middle-class boat."

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REVIEW & OUTLOOK

Back at Gucci Gulch

"And by flattening effective tax rates . . . it encourages investment decisions on the basis of business analysis of markets, more than calculations of how best to game the tax system."

—Richard Darman, Nov. 24, 1986

That's how the current White House budget director once described the benefits of the tax reform he helped pass while at the Treasury Department. Mr. Darman seems to have forgotten this lesson, because his new budget agreement starts the nation climbing back up the ladder to higher tax rates. We are on the return road to Gucci Gulch.

The gulch is the wonderfully pejorative term given to the hallway outside rooms of the congressional tax-writing committees. That's where Gucci-clad lobbyists and lawyers congregate to make sure they can "game the tax system" with loopholes and made-to-order deductions. The 1986 Tax Reform cost them their loafers by trading lower tax rates for fewer loopholes, but Mr. Darman's budget accord is about to buy them a new closetful. Happy Beltway lawyers are doing handstands and cartwheels all along K Street.

The White House denies any such thing, and it's true that this accord includes no explicit marginal tax rate increase. But note well the so-called Pease plan (named for liberal Ohio Democrat Don Pease) to limit itemized deductions for Americans who earn more than $100,000. In effect this amounts to a surtax of one percentage point added to the highest marginal rate for millions of taxpayers.

On the tax-loophole side, meanwhile, the politically well connected are already winning favors. GOP deficit-worrier Bob Dole walked away with $500 million worth of tax breaks for ethanol monopolist, Dwayne Andreas of Archer-Daniels-Midland. (Mr. Dole says it's for farmers in Kansas.) Oil and gas drillers slipped out of the summit with $4 billion worth of "incentives." The low-income housing credit is a $1.7 billion sop to the housing industry.

Even these pale beside the accord's loophole bonanza, a 25% tax "deduction" against investments in "qualified small corporations." This could be Gucci Canyon. The White House says the provision is supposed to apply only for small, entrepreneurial companies with less than $50 million in equity, but tax lawyers will soon stretch its meaning. Big companies will spin off multiple "qualified small" subsidiaries. Tax-shelter syndicates will flourish. This is Republican industrial policy.

The irony is that this deduction is supposed to substitute for a capital-gains tax cut killed because it helped "the rich." In our view, a capital-gains differential is justified to compensate for the fact that capital losses aren't deductible. Its benefits also go to anyone who sells an asset for a gain. But Dick Darman's "small" company deduction has no such economic justification, and its benefits will go mainly to people rich enough to hire tax attorneys.

With low tax rates the economic harm isn't all that great, but politically the new loopholes will create new pressure to raise rates. Democrats have made higher marginal rates a political Holy Grail, and the Bush White House seems intellectually incapable of arguing against it. Sooner or later we can expect Mr. Darman to tell George Bush he has no choice but to raise the top rate to 33% or higher to "pay for" all of these special "pro-growth" tax favors.

That Democrats should like the Gucci tax system isn't surprising, since it gives them the best of both worlds. They can run as populists against "the rich," even as they do favors for business and special interests through the tax code. It's no accident that parts of Sunday's budget agreement will pass through Dan Rostenkowski's Ways and Means Committee, no doubt to be festooned with "transition rules."

Astonishingly, Mr. Darman and the Republicans are playing along. Mr. Darman has even enshrined static-revenue analysis into this accord. From now on any tax proposal that Democratic forecasting models say "lose" revenue will have to be "paid for" by higher taxes elsewhere. Changes in real-world taxpayer behavior are irrelevant. This means Democrats can continue to propose new social programs to be paid for by taxes on "the rich." Republicans for their part will be frozen into a deficit paralysis reminiscent of the 1960s and 1970s.

The 1980s brought us lower tax rates, less political meddling in the economy and a record economic expansion. The 1990s are giving it all back to the lawyers and lobbyists. The Beltway club is intact.

THE WALL STREET JOURNAL.
TUESDAY, OCTOBER 2, 1990

Honor Thy Pledge

"I pledge to the taxpayers of the District of the State of ____ and to the American people that I will:

"ONE, Oppose any effort to increase marginal tax rates from the 15% and 28% rates for individuals and the 34% top rate for businesses; and

"TWO, Oppose any further reduction or elimination of deductions and credits, unless matched dollar for dollar by further reducing tax rates."

* * *

For the past few years, the Washington-based Americans for Tax Reform has circulated the above pledge as an insurance policy that the 1986 tax reform would not be easily subverted. Well, the budget deal is subverting that reform, so it's time to revisit the tax pledge.

The pledge's importance is simple. The budget agreement includes an effective increase in marginal tax rates by forcing taxpayers to reduce their itemized deductions by $300 for every $10,000 in income over $100,000. In effect, it blows the so-called "bubble" up higher and longer so that more taxpayers pay higher marginal tax rates over more of their income.

The budget agreement stipulates that a majority of the Members of each party in both Houses must vote for the entire agreement for it to take effect. To date, 101 Republicans and two Democrats in the House have signed statements saying they will honor the anti-tax pledge. Only 75 House Republicans have not signed the pledge. The White House must persuade at least 14 House Republicans to break a sworn promise or risk defeat of the agreement.

Grover Norquist, the head of Americans for Tax Reform, says that everyone who signed the pledge was told at the time that they would be held to it. "Any politician who took the pledge and votes for the present budget package was elected on a falsehood," he says. "We will hand their opponents their signed pledges so that the voters can decide whether there was some justification for their vote in favor of the second largest tax increase in American history." Half a dozen other tax groups announced yesterday that they will publicize the names of those who break the pledge.

A great many Members will have reasons to support the "bipartisan" budget agreement. Voters deserve to know whether or not their representative earlier promised, without any qualifications, to hold the line on income taxes. Here is the list of Members who have taken the pledge against higher taxes:

Dick Armey (R., Texas)
Richard Baker (R., La.)
Cass Ballenger (R., N.C.)
Doug Barnard (D., Ga.)
Steve Bartlett (R., Texas)
Joe Barton (R., Texas)
Michael Bilirakis (R., Fla.)
Thomas Bliley (R., Va.)
William Broomfield (R., Mich.)
Hank Brown (R., Colo.)
Jack Buechner (R., Mo.)
Jim Bunning (R., Ky.)
Dan Burton (R., Ind.)
Sonny Callahan (R., Ala.)
Howard Coble (R., N.C.)
Larry Combest (R., Texas)
Jim Courter (R., N.J.)
Chris Cox (R., Calif.)
Larry Craig (R., Idaho)
Phil Crane (R., Ill.)
Bill Dannemeyer (R., Calif.)
Kika de la Garza (D., Texas)
Tom DeLay (R., Texas)
Bob Dornan (R., Calif.)
Chuck Douglas (R., N.H.)
David Dreier (R., Calif.)
Mickey Edwards (R., Okla.)
Bill Emerson (R., Mo.)
Jack Fields (R., Texas)
Elton Gallegly (R., Calif.)
Dean Gallo (R., N.J.)
George Gekas (R., Pa.)
Newt Gingrich (R., Ga.)
Bill Goodling (R., Pa.)
Porter Goss (R., Fla.)
Fred Grandy (R., Iowa)
Steve Gunderson (R., Wis.)
John Hammerschmidt (R., Ark.)
Mel Hancock (R., Mo.)
James Hansen (R., Utah)
Dennis Hastert (R., Ill.)
Joel Hefley (R., Colo.)
Wally Herger (R., Calif.)
John Hiler (R., Ind.)
Clyde Holloway (R., La.)
Duncan Hunter (R., Calif.)
Henry Hyde (R., Ill.)
Jim Inhofe (R., Okla.)
Andy Ireland (R., Fla.)
Jim Kolbe (R., Ariz.)
Jon Kyl (R., Ariz.)
Bob Lagomarsino (R., Calif.)
Norm Lent (R., N.Y.)
Jerry Lewis (R., Calif.)
Jim Lightfoot (R., Iowa)
Bob Livingston (R., La.)
Bill Lowery (R., Calif.)
Buz Lukens (R., Ohio)
Ron Marlenee (R., Mont.)
Lynn Martin (R., Ill.)
Al McCandless (R., Calif.)
Bill McCollum (R., Fla.)
Bob McEwen (R., Ohio)
Carlos Moorhead (R., Calif.)
Howard Nielson (R., Utah)
Michael Oxley (R., Ohio)
Ron Packard (R., Calif.)
Stan Parris (R., Va.)
Bill Paxon (R., N.Y.)
Tom Petri (R., Wis.)
John Porter (R., Ill.)
James Quillen (R., Tenn.)
Arthur Ravenel (R., S.C.)
John Rhodes (R., Ariz.)
Matt Rinaldo (R., N.J.)
Don Ritter (R, Pa.)
Pat Roberts (R., Kan.)
Tommy Robinson (R., Ark.)
Dana Rohrabacher (R., Calif.)
Toby Roth (R., Wis.)
Jim Saxton (R., N.J.)
Dan Schaefer (R., Colo.)
Bill Schuette (R., Mich.)
Clay Shaw (R., Fla.)
Norman Shumway (R., Calif.)
Bud Shuster (R., Pa.)
Chris Smith (R., N.J.)
Denny Smith (R., Ore.)
Lamar Smith (R., Texas)
Peter Smith (R., Vt.)
Robert Smith (R., N.H.)
Gerald Soloman (R., N.Y.)
Floyd Spence (R., S.C.)
Arlan Stangeland (R., Minn.)
Bob Stump (R., Ariz.)
Don Sundquist (R., Tenn.)
Guy Vander Jagt (R., Mich.)
Barbara Vucanovich (R., Nev.)
Bob Walker (R., Pa.)
Vin Weber (R., Minn.)
Bob Whittaker (R., Kan.)
Bill Young (R., Fla.)
Don Young (R., Alaska)

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MONDAY, OCTOBER 1, 1990

Major Elements of the Agreement

Where New and Increased Taxes Will Hit

- Raise the gasoline tax, currently nine cents a gallon, by five cents on Dec. 1 and another five cents on July 1, 1991.
- Impose an additional two-cent a gallon tax on petroleum products, including gasoline, on Jan. 1, 1991.
- Increase the current 16-cent-a-pack cigarette tax by four cents in 1991 and another four cents in 1993.
- Increase beer, wine and liquor taxes by a total of $10 billion over the next five years.
- Impose a new 10% tax on autos over $30,000, yachts over $100,000, jewelry over $5,000 and furs over $5,000.
- Limit income tax deductions for individuals and couples with incomes above $100,000 a year.
- Apply the 1.45% Medicare payroll tax to wages up to $73,000, up from the current $51,300 ceiling.
- Increase the airplane ticket tax by a total of $11.8 billion over the next five years.

Where Government Spending Will Be Cut

- Cut defense and possibly other discretionary spending by $182.4 billion over the next five years.
- Cut Medicare payments to hospitals and doctors by about $30 billion and charge beneficiaries about $30 billion more, including increasing the current $75 deductible to $100 next year, $125 in 1992 and $150 in 1993; increasing the Medicare Part B monthly premium, now $28.60, to an estimated $33.50 next year and $55 by 1993; and increasing the share of lab bills paid by Medicare beneficiaries to 20%.
- Cut farm subsidies by $13 billion over the next five years.
- Hold increases for other domestic-spending programs to the rate of inflation for three years.

Economic Assumptions Underlying the Accord

All data are for calendar years

	'90	'91	'92	'93	'94	'95
Real GNP Growth[1]	0.7%	1.3%	3.8%	4.1%	3.7%	3.5%
GNP Deflator[1]	5.2	4.6	3.4	3.2	3.0	2.8
Unemployment Rate	5.6	6.1	6.4	5.6	5.3	5.1
Interest rates:						
3-Month Treasury Bills	7.7	7.2	5.7	4.9	4.4	4.2
10-Year Treasury Notes	8.7	8.3	7.1	6.1	5.6	5.3
Oil prices[2] ($/barrel)	$21.15	$24.15	$21.10	$21.79	$22.41	$23.02

[1]4th quarter to 4th quarter change.
[2]Domestic price.
Source: Office of Management & Budget

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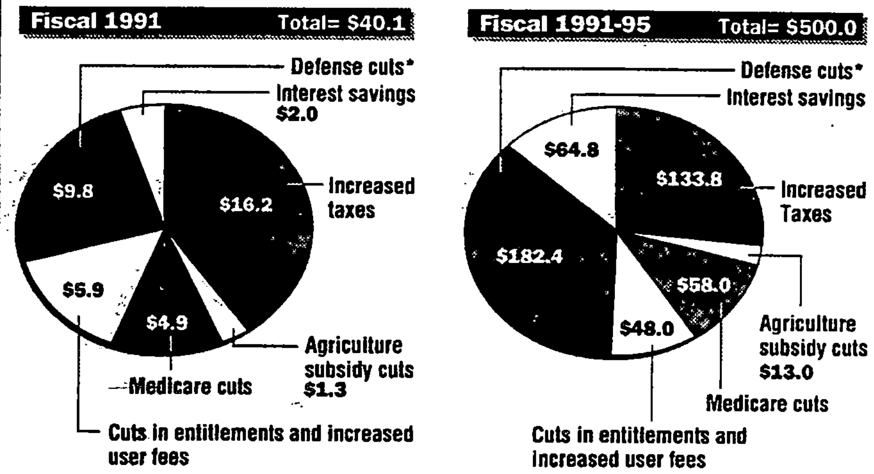
Cutting the Deficit: How They Want to Do It

Spending cuts and increased taxes proposed by lawmakers to cut the federal budget deficit, in billions of dollars



*The defense figures don't reflect the approximately $5.7 billion the government anticipates spending on Operation Desert Shield in fiscal 1991, which would reduce estimated savings to $4.1 billion.

Source: Office of Management and Budget

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Fiscal Foray

Deficit Plan Will Face Dicey Fate in Congress, And Isn't a Cure-All

But in Long Run, the Package Should Help Economy, If Politicians Can Sell It

Red Ink Is Set to Rise Anyway

By DAVID WESSEL and ALAN MURRAY
Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON – President Bush and the leaders of Congress have agreed on a radical redirection of fiscal policy: the largest package of tax increases and spending cuts ever.

But even after four months of scuffling, the conflict is far from concluded. It must now go through a tortuous ratification route in Congress, testing the willingness of politicians to vote for severe pain on the eve of a congressional election. "This is only the third inning," says one top congressional aide.

The bipartisan plan calls for $34.4 billion in spending cuts and tax increases in the fiscal year beginning today, and much greater amounts in the following four years. The biggest items in the package are a 12-cent rise in the federal gasoline tax, cuts in defense spending, and substantial reductions in the Medicare program for the elderly. The agreement averted a shutdown of government that could have begun this morning.

While major portions of the package are likely to survive the coming battles, the deficit cuts could be engulfed over the next few years if the economy continues to slump. Economic weakness could still push the budget deficit to unprecedented size. Even if the U.S. escapes recession, as the plan assumes, the deficit is projected to reach a record $254 billion in fiscal 1991. And if a recession does occur, as many economists now predict, that number could rise to $300 billion or more.

Over the long run, many economists believe the package will help the economy. The package, which is projected to reduce the deficit by $500 billion from what would occur if current policies were continued, will free up money for private investment, and could help reduce the nation's reliance on borrowing from abroad.

Despite President Bush's insistence on a "pro-growth" package, however, there is little in the way of specific measures to help the economy over the next 12 to 24 months. Indeed, the combination of spending cuts and tax rises is likely to have a damping effect on economic growth.

The only benefit the package holds for the economy in the near term is indirect: It is likely to prompt the Federal Reserve to ease credit somewhat in the coming weeks. That, in turn, could give a modest boost to the economy.

Can They Sell It?

The immediate challenge is political. President Bush and the congressional leadership must persuade the rank-and-file to vote for a package that heaps pain on gasoline users, elderly people, beer drinkers, farmers and many other constituencies. It won't be easy.

The only political pleasure in the package comes from what was left out: Republicans can claim they prevented a rise in income-tax rates (although one provision is, in effect, a 1% rate rise for high-income taxpayers). And Democrats can claim they blocked a tax giveaway to the rich by stopping a cut in the capital-gains tax rate (although provisions in the package would give even more generous tax breaks to investors in certain small and medium-size companies).

Both parties can also claim credit for protecting the popular Social Security program from cuts.

In short, it's not a package that politicians would die for. "This isn't the kind of thing that the political system wants to go racing out in the streets and saying, 'Joy! Joy!' " House Speaker Thomas Foley said. "There are going to be some increased taxes. There are going to be some restraints on spending. There are going to be some limitations on services."

More New Taxes

Mr. Bush yesterday tried to put the best face on the package, which represents the abandonment of his campaign pledges of "no new taxes" and a cut in the tax on capital gains. "It is balanced, it is fair, and in my view it is what the United States of America needs at this point in its history," the president said in a ceremony with the budget negotiators in the White House rose garden.

Then he added: "Sometimes you don't get it the way you want, and this is such a time for me. And I suspect it's such a time for everybody standing here. But it's time we put the interests of the United States of America here and get this deficit under control."

Democrats were also restrained in their enthusiasm. They had vowed to make certain the package put more of the tax burden on the wealthy. But with half the tax increase coming from higher taxes on gasoline, alcohol and tobacco, the middle class appears to have taken a heavy blow. "It is a disappointment that the tax burden will not be as fairly shared as I would have preferred," said Senate Majority Leader George Mitchell, a Democrat from Maine.

With so little enthusiasm and so much potential opposition, lawmakers face a mammoth task enacting the package into law by Oct. 19, when Congress is scheduled to adjourn. Already, the lobbyists are gearing up for the attack. The National Association of Counties, for instance, fired out a press release vowing to defeat the proposal because it would modestly trim tax deductions for state and local income and property taxes and increase the federal gasoline tax.

"Is it going to pass?" asked Senate Finance Committee Chairman Lloyd Bentsen rhetorically. "It's going to be tough."

The greatest opposition may come from Republicans in the House of Representatives, many of whom feel betrayed by the White House. "It's a disaster for the taxpayer," New Hampshire Republican Rep. Chuck Douglas said yesterday. "The biggest tax increase in history. A sell-out." And Rep. Mickey Edwards of Oklahoma, the fourth-ranking Republican in the House, said, "There are enough demerits to advocate defeat."

After yesterday's ceremony, White House Chief of Staff John Sununu listed for reporters reasons why Newt Gingrich, for one, should support the plan. But Mr. Gingrich, the GOP whip and a leader of a right-wing faction in the House, wasn't talking. He skipped the rose garden ceremony and refused to talk to reporters; a spokesman said he hasn't taken a position yet on the package.

Many Congressional liberals are also up in arms. Rep. Henry Waxman, a California Democrat, said he will oppose the package because of its cuts in Medicare and its "overall regressivity." The House Democratic Caucus met late into the evening to discuss members' concerns about whether the plan placed too much of the tax burden on the poor and middle class, and too little on the wealthy.

Fill In the Blanks

Even before it reaches the floor, the plan faces considerable uncertainty as it makes its way through individual committees of Congress. Some of the major savings in spending programs are unspecified, with wide discretion left to congressional committees. The agriculture committees, for instance, appear to have been given little detail on how to achieve the $13 billion in cuts over five years required from farm programs. And some cuts in Medicare and Medicaid are also left unspecified. That opens the door for the committees to adopt savings that are more imagined than real.

For those who face tough re-election campaigns this fall, the package poses a special problem. "This opens them up for all kinds of populist attacks," says Gary Orren, a public-opinion specialist at Harvard University.

The big rise in the gasoline tax is sure to attract much public criticism, especially coming on top of the fuel price jump driven by the Persian Gulf crisis. A Wall Street Journal/NBC News poll in July showed that even before the crisis, 59% of voters opposed a rise in the gasoline tax.

Alcohol taxes are also certain to stir up plenty of opposition, not only from individual consumers but regionally. GOP Sen. Pete Wilson, running for governor in California, has already said he won't support what appears to be "a draconian increase in the excise tax on spirits." He says it would have "a crippling effect on the wine industry in California."

Harrison Hickman, a Democratic political pollster, predicts members of Congress will find that "defending necessity" (deficit reduction) is far more difficult than "defending pleasure."

Effects on Economy

President Bush had originally demanded that negotiators cut $50 billion from the deficit for the fiscal year beginning today. But they eventually scaled that back—partly because of a need to come up with $5.7 billion to fund operation Desert Shield in the Mideast, partly because of their desire to phase in the gasoline-tax increase, and partly because they dropped the proposal to cut the capital-gains tax, which was projected to raise billions of dollars in the first year.

The budget negotiators claimed their plan cuts $40.1 billion from the projected deficit. But that excludes the cost of Desert Shield. Factoring in what the U.S. must pay for its Persian Gulf operation, the package provides for $16.2 billion in increased taxes and $18.2 billion in spending cuts.

Though less than envisioned, the $34.4 billion total remains a big number—big enough, certainly, to become a drag on the economy.

White House economist Michael Boskin yesterday defended the assumptions underlying the plans, which suggest the economy will continue to grow this year and next. "The economic assumptions represent our best judgment," he said. "The administration and the Congressional Budget Office were very close in their analysis. But obviously there is a great deal of uncertainty, due to the Mideast situation."

Under the negotiators' assumptions, the plan would eliminate the deficit by fiscal 1994. But if the economy goes into a serious recession, or the savings and loan problem continues to worsen, or the package isn't enacted in its entirety, the balanced budget would become a chimera.

The agreement substantially changes the Gramm-Rudman deficit-reduction law, lifting the law's deficit targets and allowing new targets to be set next March. The costs of cleaning up the savings and loan industry will be applied to the deficit in all official reports, but they won't count against the new Gramm-Rudman deficit targets. Under the new Gramm-Rudman rules, the Social Security surplus won't be counted either.

Budget negotiators from the White House and Congress are clearly looking to the Federal Reserve to give the economy a lift now by bringing down interest rates. "This ought to be something that gets the Federal Reserve to ease up on interest rates to stimulate the economy," Sen. Bentsen said.

Market Reaction

Fed Chairman Alan Greenspan has said a "credible" budget agreement could lead to lower rates. But he has also indicated he will leave it up to the credit markets to determine whether the package is "credible."

Thus, if bond traders today bid down the interest yields on long-term bonds, the Federal Reserve is likely to follow with a reduction in short-term interest rates. But if the bond markets react to the budget deal with a yawn, Mr. Greenspan may stand pat. The Fed's policy committee meets tomorrow to set interest rate policies for the coming weeks.

In any event, the White House is unlikely to get the aggressive easing in interest rates that it hopes for. It would like to see the key federal funds rate, which the Fed largely controls, fall by a full percentage point in the coming months. But with higher oil prices raising the threat of inflation, Mr. Greenspan is likely to move much more cautiously.

As a result, some economists say the Fed will be unable to do much to offset the economically negative effects of restraining the budget over the next 12 months. "I'm a big proponent of budget cutting," says Harvard economist Benjamin Friedman. "But it's simply wrong to think that monetary policy works fast enough to avoid any contractionary effect of raising taxes and cutting spending."

—Jackie Calmes and Hilary Stout contributed to this article.

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MONDAY, OCTOBER 1, 1990

Democrats Display New Savvy in Fight Over Capital Gains

* * *

Bush Retreats as Opponents Propose Trade to Secure Higher Income-Tax Rates

By JACKIE CALMES
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON — After getting clobbered by Republicans on tax issues for a decade, the Democrats scored big by vanquishing the president on his demand for a cut in the capital gains rate.

Their victory is due not only to the changing politics of the tax issue, but also to their new-found shrewdness in dealing with it.

Publicly, the Democrats repeatedly knocked down the Republicans' pro-growth arguments as mere cover for yet another tax break for fat cats. But instead of merely opposing the cut, the Democrats said the beneficiaries of capital gains treatment would have to pay for it—with higher income-tax rates. The price was so high that in the end Mr. Bush and his party had to give up.

"The Democrats have hammered us as a party of the rich very effectively," GOP political strategist Ed Rollins conceded. "They have really forced the debate on favoring the wealthy versus not favoring the wealthy, as opposed to spending versus taxes, where we win."

Concern was heavy among Democrats last night that the package as a whole failed to shift the tax burden higher up the income scale. But where the defeat of capital gains was concerned, the party was delighted to take the credit. "The Democrats have been able to clearly articulate what this fight is about," Ron Brown, the party chairman, said over the weekend. "It's about who pays the tab."

The victory is bigger than even many Democrats expected when the year began. Last year, they defeated an earlier White House effort to cut the rate only on a parliamentary motion, after test votes showed majorities of both the House and Senate—including a critical block of Democratic conservatives—in favor of the tax cut. This year's strategy, in fact, was premised on the likelihood of the White House winning on capital gains, which is why the Democrats, from the beginning, demanded equity—an offsetting tax bite from the rich.

The party remained unified on the issue, repairing fissures that broke out in last year's fight over capital gains. Some Democrats who favor the cuts in principle remained silent this round in the interest of cutting the deficit. Other Democrat proponents of the cut joined their leadership in the strategy of linking the cut to higher income-tax rates.

The Democrats drove home their demand with a simple drumbeat. As Senate Majority Leader George Mitchell of Maine said time and again, "We simply can't accept the proposal that says you're going to cut the tax burden for those making over $200,000 and raise it for everyone else."

A critical moment occurred in mid-September, when the Democrats leaked a confidential analysis from the summit negotiations putting the Republican tax cuts in stark terms—showing that they would result in an overall cut for the richest Americans and an increase for everyone else, thanks largely to the impact of capital gains.

The soak-the-rich theme proved to be a message with resonance, as poll after poll registered public disgust with the greed that voters associated with the 1980s—the junk-bond, insider-trading, S&L-ripoff decade. "This was an easy issue because of the way the public is feeling these days," said Robert McIntyre, director of Citizens for Tax Justice, a labor-backed lobbying group. The Democrats even got an assist from a well-known Republican, political consultant Kevin Phillips, whose book, "The Politics of Rich and Poor," provided intellectual ballast for their arguments.

At the same time, Republicans were left without a catchy theme. "We acted like we're embarrassed to make the pro-capital gains arguments," said Mark Bloomfield, president of the American Council for Capital Formation, a corporate-backed organization lobbying for a capital gains tax cut. Senate GOP Leader Bob Dole of Kansas, asked recently why the tax cut was so important, mentioned the need to fulfill Mr. Bush's 1988 campaign promise and to attract House Republicans' votes for the budget package—and not a word about economic growth.

"It's the fault of the White House," said Rep. Mickey Edwards of Oklahoma, a House GOP leader. "They allowed Democrats to dominate the press as far as defining what capital gains is all about. The Democrats had a message that they kept repeating over and over. We did not have a central theme, and the president never really wanted to get confrontational. The guy with the big microphone never wanted to use it."

In recent days, Republicans in Congress privately began pleading for the party to back off the capital gains issue. Rep. Bill Green, a Manhattan Republican, buttonholed House Minority Leader Bob Michel of Illinois last week to pass on a message: Yet another business group had urged an end to the capital-gains campaign. It was holding up the deficit-reduction package, he explained—and worse, threatening higher income tax rates.

Mr. Michel didn't have to be told. "I'm hearing all the time from people in the business community—we want a budget agreement more than we want capital gains," he said after being approached by Mr. Green. In the end, Messrs. Michel and Dole, the only GOP lawmakers in the final bargaining group, publicly backed away from capital gains in an effort to get a deficit-reduction deal.

Republicans are left the consolation prize of having fended off an increase in income-tax rates, which will help them argue that that President Bush's no-new-taxes promise remains technically intact, despite billions of dollars in miscellaneous tax increases in the compromise budget.

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MONDAY, OCTOBER 1, 1990

Gephardt Walking Political High Wire On Deficit Accord

* * *

Young Democrat Faces Test In Persuading Colleagues That He Made Right Deal

By DAVID ROGERS
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—"It's your fight too" was the rallying cry of Richard Gephardt's 1988 presidential campaign. Now the young House majority leader must convince his Democratic colleagues the deficit-reduction accord he helped strike with President Bush is their "deal" too.

The massive package would not only reshape the federal budget but the political landscape over the next five years. Middle- and working-class families will share in the pain, and Rep. Gephardt walked a tightrope between finding a compromise and giving up his political profile—and that of the Democrats—in future elections.

"It is his baptism by fire," says former Democratic House Whip Tony Coelho, and a portrait too of an emerging leader coming to terms with power. Success will give the Missouri congressman new credibility as a major force in a Democratic leadership still struggling to establish itself. But as chairman of the talks between Congress and the White House, the 49-year-old Mr. Gephardt has been pulled away from his populist past and become party to concessions on taxes and defense spending that will anger rank-and-file Democrats.


Richard Gephardt

"In terms of national politics, this is very high risk for him," says Edward Reilly, a New York political consultant and veteran of Mr. Gephardt's presidential campaign. "There will be some things in this package people will be able to pick apart and say veer from the liberal agenda."

As a presidential candidate, stumping across the South and Midwest, Mr. Gephardt vowed to stand up for workers against a "Yuppie, Harvard" elite that would "anesthetize us" amid America's economic decline. As majority leader, Mr. Gephardt, a former St. Louis alderman, has been sitting for weeks across a mahogany table from Harvard-educated Richard Darman, the ambitious White House budget director. Class and economic divisions colored the negotiations between the two men, but at a time of rising voter anger, Rep. Gephardt's leadership position seemed to muffle his voice on the very themes he was early to advance.

"I find it very hard," he said last week. "I tell my wife every night that divided government doesn't work."

Mr. Gephardt's dilemma is one felt sharply by Congress today amid the budget brinksmanship here. His fellow Democrats are most torn, because of their dual roles as both the "opposition party" and the legislative majority in Congress. But Rep. Gephardt's roots in the Ways and Means Committee are a reminder too that the fiscal crisis is also an institutional crisis that challenges Congress's constitutional powers over taxes and spending.

An early star among a generation of lawmakers elected in the 1970s, Mr. Gephardt found his voice after going outside the House as a presidential candidate. Now that he has returned in a greater leadership role, his challenge is to preserve that identity—and anger—not only for himself but to give renewed direction to the chamber once dubbed "the people's house."

"He has to get the institution angry," says Kevin Phillips, a conservative theorist and writer. "So he can give voice as a leader for Middle America and not just a Washington institution."

His task is that much more difficult because of the suddenness of his rise to power last year, when scandals forced the resignation of top Democratic leaders. Unlike Speaker Thomas Foley (D., Wash.), a committee chairman before climbing the leadership ladder, Mr. Gephardt is almost wholly the product of the Democratic caucus and has the soft underbelly of a man without a fixed power base to fall back on if he should fail.

Probably no relationship is more complicated—or critical—for Mr. Gephardt than that with Ways and Means Committee Chairman Dan Rostenkowski. In style and temperament, the 62-year-old Chicago Democrat is from another era, but as his own leadership opportunities have slipped away, he wants most to be needed. He can't resist slapping down the younger man but also smiles with satisfaction at seeing him learn. When President Bush personally called the chairman to test Democratic loyalty on resisting a capital-gains tax cut, Rep. Rostenkowski held.

The muscular economic populism of his presidential campaign must grow the very different muscles of an institutional insider. "He did a masterful job," says Senate Appropriations Committee Chairman Robert Byrd (D., W.Va.), but this praise is interspersed with cuffs and bruises from other chairmen who find the majority leader too timid.

Instead of a partisan rabble-rouser, the administration faced a Midwest Eagle Scout. Mr. Gephardt paid a price for permitting the talks to drift without resolution, but the process gave him time to build bonds with other lawmakers, even as the more abrasive White House team seemed to wear out its welcome.

Rep. Gephardt walked between competing regional interests, among the negotiators themselves, on energy taxes. And with Anheuser-Busch Cos. headquartered in his St. Louis congressional district, he had both a parochial stake in beer taxes—which the White House played on behind the scenes—and a political need to show he was sacrificing as well.

On bigger issues, the budget negotiations resembled less a legislative conference than a game of cards. Each side made offers—not to be accepted but to force the other side to tip its hand. Democrats had more success in framing the public debate, but the party felt too vulnerable to walk away from the table. The Mideast crisis stole precious momentum, and for a time in the capital-gains fight, Democrats appeared captives of their own symbolism. The president first wanted the capital-gains tax reduction to fulfill his agenda. But the dynamics changed when Democrats sought to keep the issue alive for a period in hopes of setting up a trade for their goal of higher personal rates on wealthy taxpayers.

The gamble for Mr. Gephardt—and his party—is that the agreement reached yesterday will at least establish a fixed playing field in which new battles can be fought over priorities in the coming decade. "We have fundamental differences with Republicans," said the Democratic leader in a Capitol hallway one evening outside the budget meeting room. "I see it now more clearly than ever."

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MONDAY, OCTOBER 1, 1990

Democrats Fail in Top Goal: Shifting Tax Burden to Rich

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

WASHINGTON—The budget accord apparently fails to achieve what the Democrats said was their highest goal in the deficit-reduction talks: to make the tax code more progressive by shifting more of the burden to upper-income individuals.

According to lawmakers and others close to the negotiations, taxpayers in the top categories of income would suffer less of a tax increase in percentage terms than some of those taxpayers in lower-income categories.

In particular, according to one congressional aide, the after-tax income of the top 1% of earners, or those who make more than $200,000 a year, would decline by a smaller percentage than that of lower-income taxpayers. A progressive system would take a larger percentage cut from the upper-income taxpayers.

A caucus of House Democrats last evening produced some shrill complaints about the tax plan's lack of progressivity. Democratic leaders acknowledged the problems but said the compromise was the best they could do.

In addition, they said they were still working on final income-distribution data. Usually Democrats insist on including an income-distribution chart with any group of tax changes. But this time the tax package omitted the chart, and Democrats weren't making one available. Aides hoped that some of the reassessments would make the tax package appear more progressive.

The package "has not corrected the regressivity which has stormed through the tax structure over the last 12 years," said Sen. James Sasser (D., Tenn.), chairman of the Senate Budget Committee. In fact, he added, "There has been some increase in regressivity due to the Republican insistence on higher gasoline taxes" and other excise taxes.

"That will be the single biggest problem in securing Democratic support for this package," he said.

Ironically, it was the Democrats who insisted that the drive to make rich people carry more of the tax burden be the guiding principle of the talks.

In private, the two sides shouted about it. Republicans once even threatened to quit the talks over it. For Democrats, it was a matter of fairness. For Republicans, it became tyranny by revenue chart.

Ever since the budget talks began in May, computers have been whirring in a converted hotel near the Capitol, producing more than 200 income-distribution tables detailing how the latest deficit-cutting proposals would affect taxpayers categorized by income groups.

But by the time the tax talks ended yesterday the tables had turned. Aides said the latest income-distribution charts didn't look the way most Democratic strategists had hoped.

The reason is that most of the revenue raised in the package would come from increases in excise taxes, which are regressive—disproportionately burdensome on lower-income taxpayers. This would mark the first time in recent memory that lawmakers are considering a plan that would raise most of its revenue through excise-tax increases, rather than through the more progressive income tax.

The biggest excise-tax increase would be applied to energy. The plan would raise nearly $57 billion over five years from a boost of 10 cents a gallon in the tax on gasoline and other motor fuels, plus an increase of two cents a gallon on all petroleum products, gasoline included. Also regressive are proposed increases in excise taxes on tobacco, beer, wine and distilled spirits.

A sure-fire way to offset these regressive taxes would have been to increase income tax rates on the wealthy. But Republicans refused. So instead, the tax plan includes a variety of whacks at the wealthy aimed at smoothing out the income-distribution chart, including a new tax on "luxury items," which are presumably purchased more frequently by rich people.

One progressive provision, proposed by Rep. Donald Pease (D., Ohio) would place a limit on the itemized deductions taken by people with incomes above $100,000—the higher the income, the higher the limit. For the upper-income people to whom it applies, the Pease plan is really not much different from a tax-rate increase.

Other proposals also would help reduce the regressive nature of the package. One would raise the earnings limit that is currently applied to the 1.45% payroll tax that goes to Medicare. The income subject to the tax would increase to $73,000 from $51,300.

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Bush Gets Leverage on Spending Caps

By DAVID ROGERS
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—President Bush failed to win the sweeping power he sought over federal spending, but his budget agreement with Congress includes a set of enforcement measures that give the White House added leverage both to set priorities and to curb future expenditures.

The agreement sets five-year ceilings for annual appropriations bills, and the House and Senate Appropriations Committees are given specific caps for defense, domestic, and international affairs spending through fiscal 1993. Any new benefit programs will be subject to a pay-as-you-go requirement, and across-the-board cuts would be triggered if the proposed ceilings were violated.

The same pay-as-you-go approach applies to future tax cuts as well. Any bill that failed to provide offsetting revenue would have to pass a point-of-order vote in the Senate, which requires 60 votes, for example.

The new mechanism is similar to the current Gramm-Rudman law but would be quicker to respond to evidence of overspending and more targeted to the problem area. The White House would have the final word on determining any violators, according to budget analysts, and the agreement provides that an across-the-board cut could be ordered 15 days after enactment of any bill that breaks the prescribed ceilings.

For example, the agreement establishes a base line under which domestic discretionary spending is projected to grow from $197.6 billion in the new fiscal year that started today to $210.1 billion in fiscal 1992, and $221.7 billion in fiscal 1993. If the White House Office of Management and Budget found that future appropriations bills broke these caps, cuts would be ordered within weeks, and this certainty would add to the pressure on all sides to stay within limits.

Similarly, if a future benefit program were adopted, it would be subject to the same requirement. Child-care legislation, now pending in Congress, could be a first test, as the sponsors are proposing to pay for the new program by extending the 3% excise tax on long-distance telephone calls. Assuming the bill is enacted into law, OMB would match the costs against the offsetting revenue, and cuts would be applied to existing benefit programs to ensure no deficit impact.

House-passed appropriations bills for this year will have to be cut to stay within the proposed ceilings, but the budget agreement is in fact more generous to domestic spending than many had expected at the outset of the talks months ago. Senate Appropriations Committee Chairman Robert Byrd was a major force in blunting the administration's efforts to expand the president's power, and as negotiators met in one corner of the Capitol late Saturday night, the West Virginia Democrat waited in his office, smoking a cigar and reviewing a videotape of a lengthy speech he delivered last year on the budget process.

"I just want to be here at my post of duty if the trumpet calls," said Mr. Byrd.

Given the prevailing mood in Congress, Mr. Bush will still face opposition to the defense spending assumed in the agreement. But by establishing caps, the President and Republicans have set targets for themselves through the 1992 elections. An estimated $67.2 billion in Pentagon savings are assumed under the proposal. But as a practical matter, annual military appropriations would be effectively frozen in the range of $288.5 billion to $291.1 billion over the next three years.

Though much smaller, the more immediate issue may be the level set for international affairs, which would grow to $19.6 billion by fiscal 1993. Special provisions were made to meet the cost of forgiving Egypt's military debt to the U.S., but the spending cap serves as a check of sorts on demands from other nations affected by the Mideast crisis or rapid changes in Eastern Europe.

The notion of a third category for foreign aid further narrows Congress's flexibility and has a ripple effect on what remains for domestic accounts. A new set of scoring rules makes it harder for appropriations committees to hide spending in some cases as well, but lawmakers won concessions that allow for adjustments for changes in the economy and the vagaries of long-range estimates.

Aggregate appropriations for the next three fiscal years may exceed the caps as much as 0.4% without penalty, for example, and a further allowance is permitted for technical reestimates. The base for across-the-board cuts from benefit programs would be expanded by relaxing limits protecting Medicare, for example, and in fiscal 1994 and 1995, appropriations committees would be subject to only a single ceiling with no differentiation between domestic and national security accounts.

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Cuts in Farm Subsidies Likely To Provoke Political Turmoil

By Bruce Ingersoll
Staff Reporter of The Wall Street Journal

WASHINGTON – Besides sharply cutting farm income, the proposed $13 billion cut in commodity subsidies over the next five years is likely to provoke political turmoil, pitting farmer against farmer and region against region.

Some commodity-group lobbyists and agricultural analysts expressed fear that the plan would end the Farm Belt's strong recovery from the doldrums of the mid-1980s and trigger another wave of farm failures and foreclosures, particularly in the Great Plains wheat belt and soybean-producing areas of the South.

Under the budget summit agreement, the savings demanded of the farm sector could be achieved by either trimming farm income price supports or shrinking the amount of acreage eligible for subsidies or a combination of the two options.

But critics complained that the nation's wheat, feed-grain, cotton and rice growers would be required to bear a disproportionate share of the economic pain of deficit reduction. Apparently untouched by the plan–at least for now–are dairy, peanut and sugar producers, who don't receive any direct subsidies from the government.

James Barr, chief executive officer of the National Milk Producers Federation, said he sees considerable potential for "divisiveness among commodity groups."

While deep cuts in the $55 billion, five-year farm bill now pending in a Senate-House conference had been widely expected, the plan still left the farm organizations stunned and demoralized. "Farmers come out the losers," said Carl Schwensen, executive vice president of the National Association of Wheat Growers. "You're going to hear some real screaming out there," Mr. Barr said.

The loss of farm income, coupled with the rising costs of fuel, fertilizer and other agrichemicals due to the Persian Gulf crisis, will intensify "economic pressure on farmers," added Robert Nooter, lobbyist for the American Farm Bureau Federation.

The budget summit negotiators appear to have given the House and Senate Agriculture Committee leadership some latitude in deciding how to make the cuts, including $1.3 billion in the fiscal year that begins today. "They're all looking at Nov. 6," said Dean Kleckner, the Farm Bureau's president. "They know they're going to make voters unhappy. It will be very difficult for them to decide [on cuts]."

The consensus among farm groups is that the lawmakers will opt for a combination of price-support cuts and acreage reductions. Under the farm program, the government pays farmers subsidies if market prices fall short of so-called target prices. To qualify for such deficiency payments, however, farmers must idle part of their so-called base acreage.

One option would cut the target prices for wheat, feed grains, cotton and rice 2% each year through fiscal 1995, and would require farmers to reduce their base acreage 3% each year. Such a reduction would decrease the amount of production eligible for deficiency payments. The White House budget office estimates this would save $500 million in fiscal 1991 and $12.4 billion over five years. It's unclear how the remaining $600 million would be saved.

A second possibility is the so-called triple-base option involving a one-time 2% cut in target prices and a one-time 15% cut in acres eligible for deficiency payments and other subsidies. At the same time, farmers would be free to grow oil seeds, including soybeans and sunflowers, and other crops on the ineligible acreage.

This option would hurt thousands of wheat farmers in the semi-arid Great Plains, Montana and eastern Washington, where wheat is about the only crop they can grow profitably because of climate and soil conditions. The result is that they couldn't take advantage of the much-touted planting flexibility of the triple-base option. Mr. Schwensen said he fears it would drive many wheat growers out of business.

Corn Belt farmers, on the other hand, would be able to plant more soybeans on acreage no longer eligible for subsidies, analysts pointed out. The resulting surge in production, however, would lower soybean prices, conceivably to the point where soybean growers in the South wouldn't be able to compete because of their lower yields per acre.

The triple-base option would save $1 billion the first year and $12.2 billion over five years. One way for farm-policy makers in Congress to bring the savings up to the $13 billion goal–and make the plan more equitable and less politically volatile–would be to lower dairy price supports or impose assessments on dairy farmers.

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MONDAY, OCTOBER 1, 1990

Seniors Can Expect to Pay More for Medicare Benefits

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

WASHINGTON – The budget compromise calls for the largest increases in payments by Medicare beneficiaries since the health-insurance program began 25 years ago and is already triggering opposition from senior citizens groups.

Negotiators agreed to raise $30 billion from Medicare beneficiaries over five years by boosting the monthly premium and the annual deductible they pay for doctors' services. The five-year plan also calls for cuts of $30 billion in planned payments to hospitals and doctors, resulting in total savings of $60 billion from Medicare.

And to bolster Medicare's hospital insurance trust fund, workers and employers each would pay an additional 1.45% of earnings on income between $51,300 and $73,000.

"What I hear from my district is that you've got to do a lot more in terms of cutting than look just at the seniors," said Rep. Harris Fawell (R., Ill.). A deficit-reduction package that seniors think demands too much from them is "an explosive pre-election move that may be as impossible a political task as any one might pick. I think there will be a wholesale revolt," Rep. Fawell said.

Today, a coalition of senior citizens groups and labor unions plans to launch a campaign against the proposed Medicare increases. "We want to make it clear that those who wage a budget war against seniors shouldn't expect pacifism on election day," said Ron Pollack, the executive director of Families USA, which represents the elderly.

Martha McSteen, president of the National Committee to Preserve Social Security and Medicare, which led the successful fight to repeal a catastrophic-illness insurance plan that many seniors considered too expensive, called the proposals unfair. "When half of the proposed budget savings from entitlement programs comes from a single program—Medicare . . . well, that's not fair," she said.

But officials at the American Association of Retired Persons, the largest senior citizens group, said the negotiators abandoned other proposals that would have hurt the elderly—higher taxes on Social Security benefits, a postponement in the cost-of-living increase for Social Security benefits, and a big increase in Medicare premiums for wealthy beneficiaries. "You have to judge a package like this not just by what's in it but by what's not in it," said Martin Corry, the AARP's director of federal relations.

In a statement yesterday, the AARP congratulated the negotiators for reaching an agreement, but said it was withholding judgment until it reviews the entire package.

One part of the overall budget agreement dims the prospect of future efforts, increasingly favored by Democrats and Republicans alike, to fill gaps in the nation's health care by expanding coverage to the poor, the uninsured or the elderly who need long-term care. The five-year agreement provides that any new benefits must be enacted on a pay-as-you-go basis, meaning that expanded health care would trigger a dollar-for-dollar increase in revenues or cuts in expenditures. The Bush administration is studying ways to improve health coverage, but officials warn that fiscal realities rule out costly expansion.

But if the Medicare plan contains political risks, administration officials believe it makes good fiscal sense by starting to balance the costs and revenues of a $100 billion-a-year program that is contributing more and more to the budget deficit.

If the proposal survives, the major changes for beneficiaries will be in Part B of Medicare, which pays doctors' bills:

—The annual deductible, which beneficiaries must pay before Medicare begins to pay 80% of doctors bills, would rise from $75 currently to $100 on Jan. 1, $125 in 1992, and $150 in 1993-1995. The negotiators dropped an earlier proposal to index the deductible to inflation after it reaches $150. The change, which would bring in $6 billion over five years, would be the first increase in the deductible since 1982, when it rose from $50.

—The monthly Part B premium would rise to cover 30% of Part B costs from the current 25%. This would boost the current $28.60 monthly premium to about $34 on Jan. 1 and to around $55 in 1995, and would raise $20.17 billion over five years, the Office of Management and Budget calculates. Between 1965 and 1974, the Medicare law required premiums to cover 50% of Part B cost. If current law, which limits Part B premium increases to the rise in the cost of living, remained in place, premium coverage would fall to 21.5% of cost by 1995.

—Seniors would be required to pay 20% of laboratory costs; currently Medicare pays the entire cost. The change would restore a co-payment in place until 1984 and raise $3.88 billion over five years, the OMB estimates.

The package contains about $2 billion in proposed new spending to help elderly beneficiaries near the poverty line bear the higher costs. Medicaid, the health program for the poor, already pays the Medicare deductible and premiums for beneficiaries below the poverty line.

Over time, the combination of the 30% premium coverage requirement and the 20% co-payment for lab fees could change the dynamic of Medicare by making seniors more attentive to medical-cost containment, administration officials say. The faster medical costs rise, the faster their payments will increase.

Of the additional $30 billion of Medicare savings produced by slowing payments to Medicare providers, $16.5 billion would come from hospitals and most of the rest would come from reducing payments to doctors for such "overpriced procedures" as radiology, anesthesiology and diagnostic tests. Hospitals, arguing that inner-city and rural hospitals already face a financial crisis, successfully argued against administration efforts for bigger cuts.

The extension of the 1.45% hospital insurance tax to earned income between $51,300 and $73,000 would boost the revenues of the trust fund that pays for hospitalization under Part A of Medicare. Without the increase, the Hospital Insurance Trust Fund will go bankrupt early in the next century, according to government projections. Currently, the 1.45% levy, which is paid by both workers and employers, like the 6.2% Social Security payroll tax, is capped at incomes of $51,300. Under the plan, the 1.45% tax would be paid by employees and employers alike on income up to $73,000, but not on any income beyond that. The change, which doesn't affect the Social Security tax, would bring in $13 billion over five years.

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Military Spending to Be Cut, But No Peace Dividend Seen

By Bob Davis
And Walter S. Mossberg
Staff Reporters of The Wall Street Journal

WASHINGTON—The budget agreement would force the Bush administration to spend less on defense than it had planned at the beginning of the year, but also dashes remaining hopes for any sizable peace dividend.

The five-year figures agreed to by the summit participants closely track a plan put forward in April by Sam Nunn (D., Ga.), the Democrats' leading defense expert and chairman of the Senate Armed Services Committee. They are the highest levels either party considered politically practical this year—a fact the White House hopes will help sell the package to conservatives.

However, defense hardliners were already warning that the new figures could result in a weaker military. And meeting the new levels is certain to unleash a fight over which programs to cut. The outcome could determine the fate of such weapons programs as the Strategic Defense Initiative and the B-2 bomber.

According to Frank Gaffney, a Reagan-era Pentagon official who now heads the Center for Security Policy, "it will probably result in a significant cut in money that spends out quickly—operations and maintenance." That means, Mr. Gaffney says, that readiness of U.S. forces outside the Persian Gulf, especially in Europe and South Korea, could suffer. "You get back to a hollow military," he said, using the terms Republicans favored in the 1970s to criticize shortages of spare parts and training under the Carter administration.

Under the summit agreement, the U.S. would spend about $290 billion a year on defense for the next three fiscal years. The agreement cuts $67 billion in outlays and $107.4 billion in spending authority from the administration's plans for a slowly growing defense budget over three years. The result—an essentially flat level of defense spending—means that the Pentagon coffers won't be heavily raided to finance social programs.

Only six months ago, liberal lawmakers had hoped to shift significant funds from Pentagon accounts to a host of domestic programs, including education, health insurance for the poor, and highway repair. But the administration has bitterly opposed such moves, and the Persian Gulf crisis sharply reduced the odds that the liberals would succeed.

Democratic budget negotiators argued until the last minute to cut Pentagon funding more sharply, and rank-and-file House liberals will probably be disgruntled that the Pentagon budget wasn't cut more. Even if the first-year figures in the plan survive, some liberals are bound to take aim repeatedly at the Pentagon budget in future years, especially if there is a recession or the Persian Gulf crisis fades.

Rep. Patricia Schroeder (D., Colo.), chairwoman of the House subcommittee on military installations, warned that "it may be we just don't give them that much money." She said she had expected the Pentagon to receive less money for regular operations, provided Congress funded the Persian Gulf deployment separately. "Now, it looks like they've got a win-win situation," with higher regular funding than Democrats sought, plus a separate Persian Gulf fund. "I don't see any peace dividend in it," Rep. Schroeder said. "The peace dividend went to Saudi Arabia."

The budget accord doesn't cut funding considered necessary for the current military operation in the Persian Gulf. That operation, called Desert Shield, is expected to cost $15 billion in fiscal 1991, with foreign countries likely to underwrite about half of that amount. The remaining $7.5 billion will be sought in special legislation over and above the regular Pentagon budget. Those figures would balloon if war breaks out in the Persian Gulf.

Gordon Adams, director of the liberal-leaning Defense Budget Project, praised the agreement because "the baseline is now headed down deeper than [Defense Secretary] Dick Cheney anticipated."

However, Mr. Adams added, "This is certainly not the end of the world for the Pentagon. My guess is that the Pentagon knew that [Sen.] Nunn's plan was about the best they could do."

For fiscal 1991, which begins today, the budget agreement calls for Pentagon spending authority of $288.5 billion and outlays of $296.4 billion. Over the next two years, spending authority would increase to $290.9 billion and $291.1 billion. Outlays would drop to $294.3 billion and $291.3 billion. Budget authority defines which programs the government may carry out and sets spending ceilings for them, while outlays refer to money actually spent.

The agreement didn't specify the reduction in spending over five years compared with administration projections, but an individual close to the negotiations put the figure at $173 billion.

The Senate and House have already passed defense authorization bills for fiscal 1991. The budget negotiators agreed to adopt the Senate's overall budget plan—which has $6 billion more in spending authority than the House bill—but conferees from the House and Senate Armed Service Committees must work out differences in proposed funding for individual programs.

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MONDAY, OCTOBER 1, 1990

Bush, Despite Losing Capital Gains War, Wins Tax Breaks for Small Companies

By ALAN MURRAY
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—While losing the capital-gains tax cut, President Bush did win a handful of face-saving, smaller tax breaks designed to benefit small and medium-sized entrepreneurial companies.

The White House praised the plans as strong incentives to growth. "The growth incentives in this package will be a powerful boost to small, rapidly growing entrepreneurial business," said Michael Boskin, chairman of the Council of Economic Advisers.

But proponents of the capital-gains tax cut were scarcely satisfied. "The capital-formation piece is suitable for a banana republic, but not for the United States of America, which has to compete with major powers like Japan and others, with substantially lower capital costs," said Mark Bloomfield, head of the American Council for Capital Formation and a leader in the effort for a capital-gains tax cut.

The tax breaks in the package are aimed at helping corporations with less than $50 million in equity that are engaged in "active" businesses. That would exclude companies whose principal activity is managing real estate and investments, or financial businesses.

The biggest single item in the grab bag of incentives would allow investors who buy stock in one of the qualified companies to take a deduction of 25% of the purchase price of the stock. The deduction would be limited to $50,000.

A person who bought $200,000 of stock in one of these medium-size companies, for instance, would be allowed to deduct $50,000 of that amount. If the person is in the 33% tax bracket, that would be a tax savings of $16,500. The provision is estimated to cost the government $7.3 billion over the next five years.

In addition, investors who bought stock in these companies wouldn't have to pay taxes on gains due solely to inflation.

The tax breaks would expand the ability of companies that fall into this special category to "expense" certain investments—or write them all off in one year. They would also provide these companies a 30% credit for research and development, although that tax break would be in place for calendar year 1991 only. The total package will cost the government $12.1 billion over the next five years.

The changes marked a dramatic reversal from the Tax Reform Act of 1986, which attempted to roll back the special-interest tax breaks that permeated the tax code.

Large corporations and tax-shelter promoters are certain to put their accountants at work overtime to figure out ways to qualify for the generous but specific tax breaks.

Administration officials say the Treasury will be attempting to devise rules to prevent such game-playing. But if past experience is any guide, the creativity of private accountants may prove to be too much for government regulation writers.

Robert Greenstein of the Center on Budget and Policy Priorities said the tax breaks were "some of the more lucrative and more egregious new tax loopholes to come down the pike in recent years," and said they will "open the doors wide to extensive tax sheltering by wealthy investors."

"It's a typical move by politicians to provide sops rather than substance," said Eugene Steuerle, a senior fellow at the Urban Institute and a former Treasury tax official. "It basically ignores the notion of the '86 act that all income should be treated equally."

"There's no doubt there will be game-playing with this type of thing," Mr. Steuerle said.

Tax Credits for Ethanol Are Extended in Accord

By a WALL STREET JOURNAL *Staff Reporter*

WASHINGTON – Senate Minority Leader Robert Dole got his wish and inserted into the budget accord the extension of tax breaks totaling $500 million a year that prop up the market for corn-based ethanol, which is used to make gasohol.

The major beneficiary of the subsidy is **Archer-Daniels-Midland Co.**, which makes 70% of the fuel component produced in the U.S. Sen. Dole long has had personal and professional ties to Dwayne Andreas, chairman of the Decatur, Ill., commodities company.

Documents released yesterday in connection with the budget pact indicate that the two gasohol tax credits would be extended and modified. They aren't scheduled to expire until the end of 1992. Other details weren't disclosed, and it's still uncertain whether congress will enact these extensions.

The tax credits, one for excise taxes and another for income taxes, amount to a 60-cent subsidy for each gallon of alcohol used for fuel. Although the credits go to companies that mix ethanol with gasoline to make gasohol and not to ADM, they benefit the company by creating a market for ethanol.

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Consumer Excise Levies to Climb; Big Rise on Gasoline Tax Planned

By HILARY STOUT

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—The average American consumer will foot a big chunk of the deficit-reduction bill, mostly through higher gasoline taxes.

The agreement would also boost government revenue through a 10% tax on expensive luxury products, affordable largely to just the wealthiest Americans. But the $1.9 billion gain to the Treasury from the luxury tax over five years pales in comparison with the more than $45 billion to be raised through a proposed 12-cent increase in gasoline taxes.

Overall, more than $74 billion of the proposed $134 billion increase in tax revenue in the five-year deficit-reduction package comes from consumer excise taxes. In addition to the gas and luxury taxes, the accord also would raise taxes on alcohol and cigarettes.

"It's a consumer package," said Alice Rivlin, an economist at the Brookings Institution in Washington. "It's a very special kind of consumer package, a series of taxes on things we would like to discourage the consumption of: gasoline, alcohol, cigarettes."

The broadest and deepest impact would come from a 12-cent-a-gallon increase in the federal gasoline tax, the single largest revenue-raiser in the budget package. The tax would be phased in over two years, with a five-cent-a-gallon increase starting in December and an additional five cents starting July 1991. An additional two-cent-a-gallon petroleum tax would be imposed on gasoline and other petroleum products beginning Jan. 1.

"The average household in America consumes about 1,000 gallons of gas a year, so that's an additional $120" on their gasoline bills, estimates Edwin Rothschild, energy policy director of Citizen Action, a national consumer organization.

If the entire budget package goes into effect, a pack of cigarettes would cost four cents more next year, a six-pack of beer 16 cents more, and a $40,000 Mercedes Benz $4,000 more.

Generally, the plan calls for increasing the federal excise tax on a bottle of wine by 22 cents from three cents and the tax on a 750-ml. bottle of 80-proof liquor to about $2.22 from the current $1.98. Overall the rise in alcohol taxes would garner $10 billion in five years.

The current 16-cent-a-pack cigarette tax would rise by four cents in 1991 and four more cents in 1993. That means a pack-a-day smoker would spend $14.60 more on cigarettes next year and $29.20 after 1993. The increase is estimated to bring in $5.9 billion over five years.

Other excise taxes would probably affect relatively few Americans—those rich enough to buy yachts, furs and $5,000 rings. The accord calls for a 10% tax on the following "luxury" goods: cars with a price tag over $30,000; private boats and yachts over $100,000; jewelry and watches over $5,000; and furs over $5,000, not including artificial furs.

"I don't think people care from a moral point of view whether we buy luxury cars," Ms. Rivlin said. "But clearly if we need more money to reduce the deficit, this hits things that are not really necessary."

Any increased revenue from luxury taxes, however, would be small. For example, economists at DRI/McGraw Hill estimate that only about 5% of all automobiles sold in the U.S. cost more than $30,000.

Budget negotiators considered other candidates for luxury taxes, which would have brought in several billion dollars over five years. A 10% levy on electronics equipment with price tags over $1,000 was dropped from the final package.

Private airplanes were also eventually spared the luxury tax. Two big manufacturers of such aircraft, Cessna Aircraft Co., a unit of General Dynamics Corp., and Raytheon Co.'s Beech Aircraft Corp., are both based in Kansas, the state of Senate Republican Leader Robert Dole, a major player in the budget talks.

THE WALL STREET JOURNAL.

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MONDAY, OCTOBER 1, 1990

Savings Are to Be Achieved At the Cost of a Lot of Pain

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

WASHINGTON – The budget accord, cobbled together by administration and congressional negotiators at the 11th hour, is almost all pain.

Just about three-fifths of the $500 billion in projected deficit savings comes from increasing the federal gasoline tax; squeezing Medicare beneficiaries and their doctors; slashing farm subsidy payments, and cutting the defense budget.

And by limiting tax deductions taken by those with incomes above $100,000, the plan would effectively raise marginal income tax rates by as much as one percentage point for some taxpayers.

"This is all real," contended White House Budget Director Richard Darman, his eyes red from lack of sleep.

Well, almost. The package purports to reduce the projected federal deficit by $40.1 billion in fiscal 1991, which begins today, to an estimated $253.6 billion, a record. But it does that only by ignoring the costs of Operation Desert Shield. Negotiators estimate that will shave the first year's deficit reduction to $34.4 billion – even after contributions from U.S. allies.

And though the agreement relies less on smoke and mirrors than did its predecessors, it still has a few. In the first year alone, the accord assumes $3 billion from the impact of intensified Internal Revenue Service collection, and $9.4 billion over five years. Moreover, much remains to be decided. Congressional agriculture committees, for instance, have yet to decide how to cut by 25% their recently passed 1990 farm bill.

Approved Last Night

The House and Senate last night approved a measure to fund the government through Friday and put off until then the automatic spending cuts due to take effect today. The two houses also extended the Treasury's borrowing authority, due to expire tomorrow, until that day. By then, Congress is supposed to have approved a resolution that embodies the accord. If it does, then all sides agreed to put off the automatic spending cuts again Oct. 20; by that date, Congress is supposed to have put the whole package into law.

The package would raise $18 billion over five years with a new limit on itemized deductions for individuals or couples with incomes above $100,000 that is based on a proposal by Rep. Don Pease (D., Ohio).

Here's how it works: Beginning in 1991, individuals and couples would be forced to reduce their deductions by $300 for every $10,000 in income over adjusted gross income of $100,000.

A couple with income of $200,000, for instance, wouldn't be permitted to deduct the first $3,000 (3% of the difference between $200,000 and $100,000) of their deductions. If their deductions – for mortgage interest, state and local taxes and the like – amounted to $50,000, they would be permitted to deduct only $47,000 ($50,000 minus $3,000). A couple with income of $500,000 would be forced to exclude the first $12,000 in deductions (3% of the difference between $500,000 and $100,000).

In tallying deductions for this purpose, taxpayers wouldn't have to include medical expenses or investment-related interest payments; these remain fully deductible. No taxpayer would lose more than 20% of their total deductions under the plan.

Economists said that, in fact, this amounts to an increase in marginal tax rates for those earning over $100,000, something that Republicans pledged to avoid. For those facing a 33% marginal tax rate, it amounts to a one percentage point increase; for those in the 28% bracket, it works out to an increase of about eight-tenths of one percentage point. But the published income-tax rates aren't altered. White House Chief of Staff John Sununu insisted yesterday: "The rates have not been changed."

Other big tax increases include:

–Increasing the gasoline tax by five cents a gallon on Dec. 1, 1990, and another five cents a gallon on July 1, 1991. That alone raises $45 billion over five years. An additional two-cents-a-gallon tax on all refined petroleum products, including gasoline but not home-heating oil, would be imposed Jan. 1. This raises $11.8 billion more over five years.

–Applying the 1.45% Medicare payroll tax to the first $73,000 of wages, up from the current $51,300 ceiling, to raise $13 billion over five years.

–Increasing the airline ticket tax to 10% from 8%, and raising other aviation taxes to yield about $12 billion over five years.

–Requiring state and local employees to pay Social Security and Medicare payroll taxes to raise about $17.2 billion over five years.

–Increasing beer, wine and liquor taxes to raise $10 billion over five years, with details still to be resolved.

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

In all, tax increases are estimated to produce $16.2 billion in the first year and $133.8 billion over five years. That's after taking account of $5 billion in revenue-losing tax breaks in the first year and $25 billion over five years.

Most of the tax breaks are aimed at stimulating investment, including $1 billion of new incentives for investment in economically depressed areas, known as enterprise zones. But they also include about $7 billion aimed at the poor.

On the spending side, negotiators allowed overall spending on foreign aid and domestic discretionary programs—annually appropriated spending on everything from education to judges' salaries—to grow with inflation. Congressional appropriations committees will divide the pot.

But the defense budget will be cut. Defense spending in 1991—other than the costs of Operation Desert Shield—will be $9.8 billion below what would be required to keep pace with inflation. Over three years, defense spending will be $67 billion less than needed to keep up with inflation.

Government benefits, however, were hit hard. In all, the negotiators slashed $12.1 billion from projected spending on government benefits in fiscal 1991 and $119 billion over five years, the toughest part of the package for members of Congress and their constituents to swallow.

Here are the highlights:

—Spending on Medicare would be slashed almost $60 billion over the next five years with half that coming from reduced payments to doctors and hospitals and the rest from the pockets of the elderly.

—Spending on farm subsidies will be cut by $13 billion over five years.

—Spending on government retirees will be cut by about $8.1 billion over five years by denying them the right to withdraw some of their pension benefits in a lump sum when they retire—with a 30-day window for those who chose to retire immediately.

—Postal service changes, details of which have yet to be worked out, would save another $4.2 billion.

All the spending cuts are from projections that assume that program spending would increase with inflation and changes in demography.

In addition, the agreement would save about $4.6 billion by requiring jobless workers to wait two weeks before collecting benefits. Currently, 41 states require at least a one-week delay; the rest don't have any delay.

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^Bush, Congressional Leaders Begin Selling Painful Budget Plan<
^Eds: Updates with Bush comments, signing of order, inserting new 5th graf and inserting 1 graf after 10th graf pvs, ``Obviously it<
^By ALAN FRAM=
^Associated Press Writer=

WASHINGTON (AP) - President Bush and congressional leaders of both parties began the tough election-year task Monday of selling their painful $500 billion deficit-reduction compromise to wary rank-and-file lawmakers.

Democrats said the task of building support for the package of tax increases and spending cuts would be helped greatly if Bush would deliver a television address explaining to Americans why the nation's ailing economy needs such bitter budgetary medicine.

``We in Congress can't prepare them,'' said Sen. Wyche Fowler, D-Ga., a participant during most of the four months of budget bargaining this year. ``It is only the president going on national TV who can convince the public it is in their long-term best interest. ... If he convinces them of that, it will pass.''

Democrats had asked Bush at the White House Sunday to make the speech, participants in the meeting said. Rep. Silvio Conte, R-Mass., another budget bargainer, said the president has yet to decide.

Bush, meanwhile, signed a stopgap spending resolution to keep the government going for five days while more work is done on the budget. He called the compromise ``the right package at the right time'' and ``our best chance to get the deficit under control.''

The leaders' sales effort was dealt a blow when one of Congress' leading conservatives, Rep. Newt Gingrich, R-Ga., announced he would oppose the proposed tax increases and spending cuts. Gingrich had left the White House Sunday shortly before Bush and congressional leaders announced their five-year agreement.

Gingrich complained on Monday that the plan - the largest deficit-reduction package ever - would enact permanent tax increases while leaving spending cuts up to Congress to enact in the future. He was also upset that the plan did not contain enough measures to help businesses.

``We can do better for America,'' said Gingrich, the No. 2 House Republican. ``This package will lose jobs, raise taxes and deepen the recession.''

The plan's $134 billion in new taxes on gasoline, alcohol, tobacco, airline tickets, incomes of the wealthy and other items have angered many Republicans. They also complained that defense cuts of up to $182 billion were too deep, and that domestic programs were not pared enough.

Numerous Democrats don't like the package's $105 billion in spending reductions for benefit programs such as Medicare and the fact that many of the taxes - such as those on gasoline and alcohol - take a deep bite out of poor peoples' incomes.

``Obviously it is not a proposal that most members of Congress want to rush out screaming in the streets with joy about,'' said Huse Speaker Thomas Foley, D-Wash.

The president, in New York to give a speech at the United Nations, said, ``Like most compromises, it is certainly not going to satisfy everyone. But this is the time to move beyond these individual concerns and exercise leadership for the good of the country.''

Bush and Vice President Dan Quayle began telephoning GOP lawmakers in an effort to round up their support for coming votes on the budget package. One lawmaker, Rep. John Kasich, R-Ohio, said he had received a morning call at his home from Quayle.

House Republican leaders huddled in the Capitol with administration officials, including the vice president.

``He's supporting it,'' said Conte. ``He's telling people what the consequences are if you don't support it - you go to sequester.''

Sequester is the technical name for the $85 billion in automatic spending cuts that would have been triggered Monday, the beginning of fiscal 1991, without a budget agreement.

Those automatic cuts - enough to stagger many federal agencies - were only delayed for five days. The reductions will be postponed further if Congress begins passing legislation that implements the budget agreement.

Bush and congressional leaders have said that to protect lawmakers from attacks by their political opponents, the budget legislation would need a majority of votes from members of both parties in both the House and Senate.

As the sales job to the rank and file began, leaders were not brimming with confidence that they would meet their goal.

``All we can do is try,'' said House Majority Leader Richard Gephardt, D-Mo. ``This is a big decision for members. It's a very tough call and a close call.''

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''All we can do is try,'' said House Majority Leader Richard Gephardt, D-Mo. ''This is a big decision for members. It's a very tough call and a close call.''

Meanwhile, groups representing the elderly protested the budget deal's impact on Medicare, saying budget summiteers placed an unfair burden on older Americans through higher premiums and deductibles for the health-care program.

''The budget summiteers have declared war on seniors and the disabled,'' said Ron Pollack, director of Families USA, a lobbying group for senior citizens. ''Those that wage this war shouldn't expect older Americans to be pacifists on Election Day.''

Medicare spending would be reduced by $60 billion from the amount it would otherwise have grown over the next five years.

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The Washington Post
MONDAY, OCTOBER 1, 1990

Bush, Hill Leaders Approve Budget Package

By John E. Yang
Washington Post Staff Writer

President Bush and congressional leaders came together yesterday to embrace the largest deficit-reduction agreement ever proposed and vowed to work together to push the painful combination of tax increases and spending cuts through a resistant Congress.

The ambitious accord, reached just hours before across-the-board spending cuts were set to be imposed today, would affect virtually every government program, paring health benefits to the elderly, raising excise taxes and making deep cuts in military spending.

"It is balanced, it is fair, and in my view it is what the United States of America needs," Bush said in an afternoon Rose Garden ceremony that culminated five months of often combative, partisan negotiations over the package.

Bush and the bipartisan congressional leadership now face the formidable task of persuading reluctant lawmakers—especially conservative House Republicans—to go against their natural inclinations and vote for spending cuts and tax increases just weeks before Election Day. The difficulty they face was underscored on Capitol Hill yesterday, where the plan was greeted by a firestorm of criticism from conservative Republicans and skepticism by many Democrats. [Details on Page A8.]

"Now comes the hard part," said Senate Majority Leader George J. Mitchell (D-Maine.).

The leaders urged lawmakers to ignore the pain of individual provisions in the package and concentrate instead on the benefits of soaking up $500 billion in federal red ink over five years. "We owe more to the American people than finding fault with what I consider to be a good agreement . . . that will help the American economy," said Senate Minority Leader Robert J. Dole (R-Kan.).

"The alternative to this agreement is fiscal chaos," said House Majority Leader Richard A. Gephardt (D-Mo.).

Economists said the plan should bolster the economy in the long run but is not likely to help ease the country's economic troubles in the short term. [Details on Page A11.]

The accord cleared the way for last-minute congressional approval of an omnibus stopgap spending bill to keep the government funded through Friday and put off massive across-the-board cuts at least until then.

The House voted 382 to 41 to pass the measure yesterday evening. Nearly an hour later, the Senate approved it on a voice vote.

The deal envisions saving $40.1 billion from the deficit in the fiscal year that begins today, with the deficit now reestimated at a record $293.7 billion. Even if all of the savings in the plan are achieved, the shortfall would still be more than twice as high as the Bush administration had previously projected it would be without any action.

The bargainers sought at least $50 billion in savings this fiscal year, but lowered their sights in order to phase in an increase in the federal gasoline tax because of the current escalation of energy prices.

Of the projected five-year savings, $133.8 billion would come from new taxes, much of it from excise taxes on gasoline and other petroleum products, except home heating oil, and higher excise taxes on cigarettes, alcoholic beverages and airline tickets.

As much as $18 billion of that total would be raised by limiting the benefit of federal income tax deductions for those earning more than $100,000 a year. This provision would effectively raise marginal tax rates by one percentage point for taxpayers—single or married filing jointly—who itemize deductions and have adjusted gross incomes of $100,000 or more. Another $14.2 billion would be raised in new federal fees, according to Bush administration estimates.

The issue that had stalled the budget talks for so long—Bush's campaign pledge to lower taxes on capital gains—was not included in the deal at all. Neither was the Democrats' counter-demand that income tax rates on the wealthiest Americans be raised.

Bush did get tax incentives for investment that can be portrayed as meeting his objective of trying to spur the economy. But the package's heavy reliance on excise taxes, which hit lower- and middle-income earners proportionately harder than the wealthy, makes it difficult for Democrats to argue that they had protected those earners.

In other key provisions of the accord, spending for benefit programs would be cut by about $104.8 billion below what would be needed to keep pace with inflation, including $59.9 billion from Medicare. One of the final decisions made as the talks drew to a close early yesterday morning was not to seek any savings from the Social Security program. Negotiators concluded that the likely pain involved in activating opposition by the politically potent organizations of the elderly would not be worth the fiscal savings, officials familiar with the proceedings said.

Military spending would be pared by nearly $180 billion. The costs of operations in the Persian Gulf, projected at $11.5 billion for the next year, would not be included in the spending limit. Most non-military spending would be held to the projected rate of inflation.

"This is real," Bush said. "It is not a phony smoke-and-mirrors deficit-cutting program." House Speaker Thomas S. Foley (D-Wash.) agreed: "There's not a lot of budget maneuvering here."

The agreement does, however, have questionable aspects. It projects, for instance, raising $9.4 billion over five years from stricter Internal Revenue Service enforcement, an outcome the nonpartisan Congressional Budget Office has always looked upon with skepticism.

The deal also advertises $119 billion in benefit program cuts, but $14.2 billion of that would result from new federal fees. Further, the promised savings in programs subject to annual appropriations were not allocated between military and non-military programs beyond the plan's third year, allowing lawmakers to seek deeper cuts in Pentagon accounts in order to allow domestic spending to grow.

Under the agreement, the Gramm-Rudman-Hollings law would get its second overhaul. The deficit law, set to expire in 1993, would be extended through 1995.

The changes would establish three categories of spending: military, domestic and international. The automatic cuts needed to meet the law's deficit-reduction targets would come only from the category that exceeds its limit. Currently, all spending would be cut across-the-board if a deficit target is missed.

In addition, any new program that would either spend or lose more money must be offset to avoid adding to the deficit.

Tucked away inside the package are huge revisions in the forecasts of the federal deficit, the administration's fifth this year.

About half of the increase, $30.4 billion, was due to the slowing economy, while $31.2 billion was attributed to increases in the anticipated cost of the savings and loan cleanup and of increased costs related to problems in the commercial banking system.

Having come to the precipice of total government shutdown, administration officials and congressional leaders agreed as part of the accord to keep moving the cliff to create pressure for enactment of the budget deal with a series of deadlines that threaten government shutdown and default.

"This is a marriage of convenience and if we take the shotgun away, they might not do it," said Sen. Phil Gramm (R-Tex.).

Staff writers Ann Devroy and Steven Mufson contributed to this report.

THE FEDERAL BUDGET DEFICIT

Following are changes in projections of the federal budget deficit stemming from the budget agreement announced yesterday at the White House. Figures are in billions of dollars.

	FY91	1992	1993	1994
July deficit projection	231.4	205.0	135.2	79.6
Increases in deficit projection due to weakening economy, S&L cleanup, etc.	62.3	101.1	92.1	36.2
Proposed saving in budget agreement	40.1	76.7	97.9	132.5
Adjusted deficit projection	253.6	229.4	129.4	−16.7 (surplus)

SOURCE: Office of Management and Budget

The Washington Post
MONDAY, OCTOBER 1, 1990

Conservative Republicans Assail Budget Pact; Democrats Skeptical

By Helen Dewar
and Tom Kenworthy
Washington Post Staff Writers

The budget agreement negotiated by President Bush and congressional leaders drew a firestorm of criticism from conservative Republicans and considerable skepticism from many Democrats yesterday, as lawmakers from both parties predicted that it will be difficult to sell the plan to Congress.

Republicans assailed the deficit-reduction package as a "cave-in" to Democratic pressure for tax increases as an alternative to deep domestic spending cuts. Democratic critics charged that both the tax and spending provisions favored the wealthy at the expense of the middle class.

Particularly strong hostility from House GOP conservatives, who called the plan a "road map to recession" and "the fiscal equivalent of Yalta," cast doubt over whether the White House and Republican congressional leaders can persuade a majority of House Republicans to vote for the plan. The Democrats have demanded that a majority of GOP lawmakers in both houses vote for any deficit-reduction plan as the price for their support.

Reiterating that demand, Senate Majority Leader George J. Mitchell (D-Maine) said last night that "if we can't get a majority [of both parties in both houses], then the agreement can't pass."

Several leaders said they believe the five-year, $500 billion package of spending cuts and tax increases can be passed, but only if the president and congressional leaders make an extraordinary bipartisan effort to sell it to the public as well as Congress.

"It won't be easy, but I think we can do it, although it will take strong bipartisan leadership—and especially leadership from the president," said Senate Finance Committee Chairman Lloyd Bentsen (D-Tex.), who praised the plan's drafters for having made "the necessary but politically unpopular choices."

"It's going to be a real bear to get it passed," said Rep. Henry J. Hyde (R-Ill.).

After briefing a largely hostile House Republican caucus on the plan, Minority Leader Robert H. Michel (R-Ill.) declined to say whether he thought it would eventually win support by a majority of House Republicans, who are considered the key group in determining the package's fate. "This is just the beginning of the process," he said, noting that opposition from anti-tax conservatives came as no surprise.

Other Republicans, mostly moderates, said it is still possible to produce a majority for the plan. But some said Bush must be willing to go to the mat with conservatives on the issue of taxes, which he had vowed to oppose—to the delight of the party's right wing—during his presidential campaign. "It's one thing to take potshots today and another when the president talks to the people and to the members himself," observed Rep. Ralph Regula (R-Ohio), a moderate who said it will be difficult but not impossible to pass the plan.

The mood also may change when lawmakers "consider the alternative," Regula said in a reference to automatic across-the-board spending cuts. Such cuts could eventually total $105.7 billion, disrupt government services and furlough more than 1 million federal workers.

But the initial response to the plan indicated qualms, if not opposition, within senior GOP ranks in both houses. Both House Minority Whip Newt Gingrich (R-Ga.) and Sen. Bob Packwood (R-Ore.), ranking Republican on the Finance Committee, pointedly skipped the unveiling ceremony in the White House Rose Garden. Gingrich later said he was still studying the plan.

To rally support for the plan, Bush assured Democrats that he will lay aside the kind of partisan attacks he has been making in connection with the budget talks and try to "sell" the plan to the American people.

For their part, Democratic congressional leaders put Congress on a tight leash in dealing with the plan by agreeing to a schedule that effectively locks the budget plan to the fate of other must-pass measures needed for the government to retain legal spending authority.

The problem for both parties is

that the budget agreement hits directly at some of their most cherished political tenets, including opposition to tax increases for Republican conservatives and cutbacks or freezes in social welfare programs for Democrats. Many Democrats also criticized the tax components of the package, arguing that higher excise taxes—especially the proposed 12-cents-a-gallon hike in taxes on gasoline—would have a largely regressive impact by hitting poor and middle-income people the hardest.

But the strongest criticism came from members of the president's own party.

"To me, this is the fiscal equivalent of Yalta," said Rep. Chuck Douglas (R-N.H.), referring to the pact among Allied leaders in World War II that conservatives say was responsible for postwar Soviet domination of Eastern Europe. He said he would rather see the automatic spending cuts of the Gramm-Rudman-Hollings law take effect than the tax increases proposed in the plan.

"It looks like a road map to recession, as far as I'm concerned," said Rep. Dana Rohrabacher (R-Calif.). "I don't think it's a compromise. I think it's a cave-in to the Democratic liberal big spenders."

Republican moderates also expressed dismay. "If they're savaging Medicare, it's going nowhere," said Rep. Marge Roukema (R-N.J.). "Deficit reduction on the back of the elderly sick? This is madness."

Although House Democrats were asked by their leaders during a caucus to hold their fire for at least 24 hours, some expressed strong misgivings before the caucus started.

"It just leaves the richest of the rich alone," said Rep. Charles B. Rangel (D-N.Y.). "Everybody I've talked to so far has been negative," said Rep. Bill Alexander (D-Ark.). "The disquiet I have comes from the impression that the investing side of society has come out ahead of the wage-earning side," said Rep. David R. Obey (D-Wis.).

The problem with the package is that "Democrats think it's a Republican budget and Republicans think it's a Democratic budget," said Rep. Charles E. Schumer (D-N.Y.).

The Washington Post

MONDAY, OCTOBER 1, 1990

Long-Term Growth May Get a Boost

Budget Deal Is Little Help for Economic Problems in Short Run

By John M. Berry
Washington Post Staff Writer

The budget deal agreed to yesterday by President Bush and congressional leaders should help bolster U.S. economic growth in the long-run, but it is not likely to provide much help in the short run for an economy flirting with recession.

By cutting into the amounts the federal government would have to borrow to finance a growing deficit, the budget agreement—if enacted and enforced—would leave more money available for private investment and keep interest rates lower than they otherwise would be, economists said.

The short-run question is whether the $40 billion in higher taxes and fees and cuts in federal spending proposed for fiscal 1991, which began today, will cause consumers and businesses to cut their own buying and push the weak economy into a recession.

The problem is that any immediate reduction in interest rates paid by individuals on new cars and homes or businesses financing new investments is likely to be small, financial market analysts said.

Underscoring the economy's vulnerability, the negotiators agreed on a new economic forecast that the nation, already feeling the impact of tighter credit and higher oil prices, is facing more bad news.

The new official forecast shows virtually no economic growth for the rest of the year and a 1.3 percent increase in inflation-adjusted gross national product in 1991. The forecast also shows the nation's unemployment rate, which was 5.4 percent in August, rising to 6.4 percent by the end of 1991.

"Of all the years they could have done the budget deal, this is the least appropriate," said economist Charles L. Schultze of the Brookings Institution. "But it still should be done. I only wish they had done it last year, even more the year before."

Schultze and many other economists have been urging for years that steps be taken to slash deficits to reduce federal borrowing, which they said was eating up too much of the nation's limited amount of savings. As a result, they argue, interest rates have been higher than they otherwise would have been and business investment, essential for long-term U.S. economic growth, has been held down or financed by foreign investors.

The proponents of deficit reduction are hoping that the prospect of lower budget deficits will bring down long-term interest rates. Federal Reserve officials have said they would, in effect, lower short-term rates about as much as long-term rates fall once Congress approves a deal.

Some financial market analysts have warned, however, that long-term rates might fall only by a quarter percentage point or a third of a percentage point because of the deal, particularly if there is any question about whether the deficit reduction proposals will add up to as much as negotiators claim.

Even with the announcement of an agreement, "the process is not over," said Sam Kahan, chief economist of Fuji Securities in Chicago. "Whatever agreement they have, they will have to sell that to the troops . . . No matter what they publish, every one will wonder how much is real and how much is Memorex."

Bush said at the White House that unlike some past budget deals, there were no smoke or mirrors this time. "With a half-a-trillion dollars in real deficit reduction—and let me repeat, the [congressional] leaders here and I think that these are real deficit-reduction figures—long-term interest rates should be able to come down . . . This package should be a strong component of a positive, responsible fiscal and monetary policy."

But come down from what?

Rising interest rates in Japan and Germany and financial market fears of worsening inflation recently pushed interest rates on 10-year U.S. government bonds close to 9 percent. Even with a very soft economy and the new budget deal, the administration now assumes those rates will average 8.3 percent next year. That is higher than the projection of 7.9 percent the administration used in the July forecast.

In other words, the budget deal is not expected to mean dramatically lower rates for home mortgages, new car loans or personal loans, or for business borrowers.

While even modestly lower rates could give the economy a boost, the proposed increases in gasoline, energy and payroll taxes would mean consumers would have less income left to spend for other things. Similarly, federal spending cuts would reduce another source of jobs and income for some Americans, particularly in the defense area.

The increase in gasoline and fuel taxes, expected to raise about $12 billion a year when they are fully in effect, would add about 0.2 percent to next year's inflation rate. Increases in taxes on airline tickets, cigarettes, liquor and certain luxury items such as cars that cost more than $30,000 also would add to the inflation rate next year.

In the new administration forecast, prices are shown rising 5.2 percent this year and 4.6 percent in 1991, compared with last year's 3.8 percent rate.

Brookings's Schultze, chairman of the Council of Economic Advisers in the Carter administration, stressed yesterday that he believes a budget deal should go through as soon as possible to reduce the drain of U.S. savings even though it carries with it added short-term risks for the economy.

At a conference here last week, Sidney L. Jones, assistant Treasury Department secretary for economic policy, said that during the 1980s the U.S. personal savings rate plummeted. That decline, he said, was partly responsible for "a significant erosion" of business investment in the United States "despite borrowing $100 billion to $150 billion" abroad each year.

Schultze, Jones and many other economists would like to see an increase in business investment in hopes that would improve long-term growth of productivity—how much output is produced for each hour worked. This is the primary source of an increase in living standards. Over the past two decades, Jones said, productivity has increased less than 1 percent a year.

Other analysts said a budget deal also was needed now because the higher interest rates in Japan, Germany and some other major industrial countries are encouraging foreign investors, who have been helping finance the U.S. federal budget deficit, to put their money in those nations rather than in the United States.

Investors will be focusing this week on the credibility of the budget proposals, including how much of it might be reversed by future sessions of Congress, Kahan said. At the same time, Federal Reserve officials will be watching the market's reaction.

The Fed's top policy-making group, the Federal Open Market Committee, will hold a regularly scheduled meeting tomorrow to set monetary policy for coming weeks. If Congress approves the budget deal, the Fed is expected to bring short-term rates down—unless "the market gives it a real thumbs down," Kahan said.

Whether because of mounting evidence of a weak economy or news that a budget deal was near fruition, long-term interest rates fell late last week. Yields on 30-year government bonds, which had been as high as 9.17 percent recently, dipped to 8.93 percent Friday.

F. Ward McCarthy of Stone & McCarthy, a financial markets research firm in Princeton, N.J., attributed the drop in rates to "the rumors coming out of Washington. The market responded very favorably . . . It looks like the market is getting fairly excited about it."

The Washington Post

MONDAY, OCTOBER 1, 1990

Most Americans Would Feel the Pinch

By Steven Mufson
Washington Post Staff Writer

The budget agreement unveiled in the Rose Garden yesterday would pinch virtually every American pocketbook by raising taxes on gasoline, booze, cigarettes, boats and furs while shaving benefits paid out to farmers and Medicare recipients.

Even the wealthy get nicked, albeit not as much as some Democrats had hoped. Although the package does not include an increase in the top income tax rate, a complex formula for reducing deductions for people who earn more than $100,000 would have an effect similar to raising their income tax rates by about one percentage point.

President Bush said the deal "requires that virtually everyone contribute in some way."

"This will be seen as sufficient pain from the standpoint of burden sharing," House Speaker Thomas S. Foley (D-Wash.) said yesterday on ABC's "This Week With David Brinkley."

"There will be some taxes raised and we hope that they will go across the income spectrum of the United States, so that there is a fair share of burden sharing except for the lowest income elements," Foley said.

The heavy reliance on excise taxes to close the budget gap is expected to draw criticism from many who feel the package hits lower- and middle-income earners too heavily.

Such taxes are paid by people regardless of income. However, the negotiators tried to target excise taxes at activities they specifically wanted to reduce, such as oil consumption, cigarette smoking and excessive alcohol use.

To make the package more progressive, they increased the earned income tax credit for couples with incomes of less than $19,340.

Leaving the White House yesterday, Senate Majority Leader George J. Mitchell (D-Maine) still expressed "disappointment that the tax burden is not as fairly shared as I would have preferred. . . . That is one aspect that we have compromised."

If the accord is enacted into law, the biggest impact on individuals probably would be interest rates lower than they would have been otherwise, helping to keep down business expenses and mortgage payments for the nearly two-thirds of Americans who own their homes.

But the most immediate and most obvious cost would be higher taxes on gasoline, which would boost prices at the pump by a nickel Dec. 1 and by another five cents next July. The increased gasoline tax is the biggest component of the tax package agreed to by the White House and congressional leaders. Gasoline also would go up Jan. 1 because of a separate 2-cent-a-gallon tax on oil products, except for heating oil.

Edwin Rothschild, director of Citizen Action, said the gasoline tax would cost the average household $120 a year, in addition to the $250 a year in price increases following the Iraqi invasion of Kuwait. This would particularly hurt people in rural areas and western states.

The accord also would hit the 33.3 million elderly and disabled Americans who are recipients of Medicare payments. The government expects to raise $13 billion by increasing to $73,000 the amount of income subject to the 1.45 percent Medicare tax, which now phases out at $51,300 along with the rest of the 7.65 percent payroll tax that goes to Social Security.

The agreement would cut anticipated Medicare spending by $59.9 billion. Half that would come from reduced reimbursements to hospitals and doctors. The other half would come by increasing from $75 to $150 the amount beneficiaries must pay before receiving benefits and by raising the premiums so that they cover 30 percent of the cost of the program, up from 25 percent today. To offset that, lawmakers provided aid to poor elderly Medicare recipients.

Lawmakers have avoided touching the Social Security program, but the change in Medicare premiums and deductibles would affect a similarly vocal constituency and could prompt an outcry.

There are two measures designed to increase the burden on wealthier taxpayers. One is a 10 percent luxury tax on the amount that the purchase price of new private boats and yachts exceeds $100,000, on automobile prices above $30,000 and jewelry and fur prices that exceed $5,000. Thus the surtax would apply to $20,000 of the purchase price for a $50,000 car.

The other is a limit on tax deductions. The measure would disallow deductions equal to 3 percent of a person's or a couple's income in excess of $100,000. For an individual earning $160,000 with deductions of $40,000, the measure would take away $1,800 worth of deductions. This measure would affect the estimated 4.25 million returns of Americans who have over $100,000 in income and who itemize their deductions.

Few people are expected to toast the package, especially because of a doubling of the tax on a six-pack of beer from 16 cents to 32 cents, a jump in the tax on a 750-milliliter bottle of wine from 3 cents to 25 cents, and a boost in the tax on distilled spirits from $12.50 per proof gallon to $14.

In the name of spurring economic growth, however, the package would give tax breaks to businesses, especially those in the oil and gas industry. It would give $4 billion worth of tax credits for new exploration and production, tax incentives for the development of oil that is difficult to extract because it is located in so-called tight sands and a limited exemption to the minimum tax for oil and gas producers.

"This package is aimed at producers," said Sen. Phil Gramm (R-Tex.).

The accord also extends tax credits to firms for research and development and increases the credit from 20 to 30 percent of the expenditure. It adds tax incentives for buying scientific equipment.

The deal also helps out relatively small companies and their investors by giving a 25 percent deduction for up to $50,000 worth of stock purchases in relatively small, high-growth companies. This measure alone would cost $7.3 billion over the life of the five-year budget accord.

Staff writer John E. Yang contributed to this report.

The New York Times

NEW YORK, MONDAY, OCTOBER 1, 1990

ACCORD TO REDUCE SPENDING AND RAISE TAXES IS REACHED; MANY IN CONGRESS CRITICAL

By SUSAN F. RASKY

Special to The New York Times

WASHINGTON, Sept 30 — President Bush and Congressional negotiators agreed today to a deficit-cutting plan that includes major increases in taxes after Mr. Bush decided that the need for economic stability was worth the sacrifice of his main policies on taxation.

Mr. Bush and a weary group of leaders from both parties gathered in the Rose Garden to announce their accord and to disclose that they now project the deficit for the fiscal year 1991 at $293.7 billion, up more than $60 billion from the estimate the Government made in July.

They said the plan would bring the Federal deficit down by $40 billion next year and by $500 billion over five years. But at the same time they agreed to extend the Gramm-Rudman-Hollings deadline for a balanced budget to the fiscal year 1996 from 1993.

Lower Interest Rates Expected

Mr. Bush said he expected that enactment of the plan would stimulate the economy and lead to lower interest rates. But White House officials later said the economic projections underlying the plan also assume that oil prices will fall.

Mr. Bush began selling the package to Congress, which took the first step today of approving a stopgap spending bill that will keep the Government in operation through Oct. 5 and also avoid steep automatic spending cuts that were due to take effect on Monday.

Even Mr. Bush began his sales pitch, dozens of rank and file members of Congress attacked the agreement. Republicans were angry by the tax increases and Democrats by the cuts in domestic spending. [Page B8.]

The compromise, a product of four months of negotiations between the White House and Congressional leaders, would impose steep spending cuts in popular domestic programs, particularly Medicare, while raising taxes on petroleum products as well as gasoline, cigarettes, luxury items and alcoholic beverages. But the Social Security program was spared.

The agreement, however, forced tough political decisions upon President Bush. He gave up his long-sought goal of a cut in the capital gains tax rate and accepted a Democratic proposal that would decrease the amount of deductions that Americans with incomes over $100,000 can take on their Federal income tax returns.

"The fact of the matter is that rates have not been changed," said the White House chief of staff, John H. Sununu, who argued that the change did not constitute a tax rate increase.

Democrats blocked the President on his pet issue, a cut in the tax on gains, the profits on the sale of assets, which are currently taxed at the same rate as ordinary income. The Democrats had insisted that any cut in the gains tax be accompanied by an increase in tax rates for the wealthy. That would have put Mr. Bush at loggerheads with Republican House members, most of whom have vowed to block any package that includes rate increases.

The negotiators, who sealed the final deal at 3 o'clock this morning, decided at the last minute that they were unwilling to take the political risk of including Social Security in the deficit-cutting package. Earlier plans had called for either delaying cost of living adjustments for Social Security recipients or increasing the portion of their benefits now subject to income tax.

The political strain that the negotiations have engendered was illustrated by the absence from the Rose Garden meeting of two top Republicans, Senator Bob Packwood of Oregon and Representative Newt Gingrich of Georgia, who were upset over the tax policies in the agreement.

But the Democratic leaders, who may face their own rebellion from the liberal wing of their party, signed up to sell the plan.

'Get This Deficit Under Control'

As he announced the accord this afternoon, Mr. Bush pledged, "I will do everything I can to lay aside partisanship here and to take the case for this deal to the American people in every way I can.

"Sometimes," Mr. Bush continued, "you don't get it just the way you want, and this is such a time for me. But it's time we put the interest of the United States of America first and get this deficit under control."

The House Speaker, Thomas S. Foley, told the President, "We pledge our efforts with yours to convince our colleagues in the country that this is a strong undergirding of our economic future, our national prosperity and joint national interest."

Both the President and the Congressional leaders noted that while the negotiations had been difficult, the hardest task now lies ahead — getting rank and file members of the House and Senate to go along with the deficit-cutting package. Despite the swift approval by the two chambers of the stopgap spending bill and the delay in automatic spending cuts until Oct. 5, the absence of Senator Packwood and Representative Gingrich could foreshadow some of the difficulties that lie ahead.

Under the complicated procedure the negotiators have worked out to try to assure that the House and Senate approve the final package intact, lawmakers will face a series of deadlines over the next three weeks to consider the specific spending cuts and tax increases their leaders have recommended. If the deadlines are not met, lawmakers would be faced at each step along the way with the alternative of a Government shut down and the imposition of the automatic spending cuts.

"This is not a marriage of love or convenience," Senator Phil Gramm, a Texas Republican, said, referring to the budget accord and the series of deadlines intended to force lawmakers to accept it. "I'm afraid if we take the shotgun away, they may not say I do."

The Easy Vote

Senator Bob Dole of Kansas, the Senate Republican leader, warned that the "nay sayers and the nit pickers may have a field day because the easy vote in this case is to find something you don't like and vote no." But like the other senior Congressional leaders involved in the final negotiations, he called the package "a good, solid, positive package" that would help the economy and demonstrate that even a Congress and White House controlled by different political parties could work together.

Over five years, the budget package would cut $170 billion from military programs and $120 billion from benefit programs like Medicare, farm subsidies and civil service retirement. The package would raise $134 billion in new revenue from higher taxes and user fees for various Government services during the same period.

The main spending cuts in the agreement include increased premiums and a higher deductible for Medicare, cuts in farm programs, military spending and retirement benefits for Federal employees.

The main revenue-raising provisions include a five-cent-a-gallon increase in the Federal gasoline tax, effective Dec. 1, 1990, and an additional five-cent-a-gallon increase effective July 1, 1991. There would also be a separate tax on petroleum that Mr. Darman said would increase per gallon gasoline tax an additional two cents. In addition, the package includes higher taxes on cigarettes, and a 10 percent tax on automobiles with price tags over $30,000, boats with price tags over $100,000 and jewelry and furs over $5,000.

The package would also raise the limit on wages subject to a 1.45 tax that workers and their employers pay to finance the hospital portion of the Medicare program. The tax currently applies to the first $51,300 and would rise to $73,000.

While the President did not get the capital gains tax cut, he did win a package of more narrowly targeted tax breaks totaling about $25 billion over five years and aimed at increasing incentives for investment in small businesses. These included tax credits for business investment in economically depressed areas, partial deductions for stock purchases in small companies, more generous write-offs for small business equipment purchases and more generous tax credits for investment in research and development.

In addition, the negotiators agreed to extend for one year, tax breaks on research and energy investments and low-income housing investments that are due to expire at the end of this year. They also agreed to expand the earned income tax credit now available to lower income taxpayers.

"This set of growth incentives should be judged on their own merits," Mr. Darman said.

The budget director praised the budget deal as one that would "impose a tighter discipline system than than has ever been present in the Federal budget." Under the new system, details of which were still being negotiated tonight, legislation to increase spending above newly imposed limits would have to be accompanied by offsetting spending cuts or tax increases.

The New York Times

NEW YORK, MONDAY, OCTOBER 1, 1990

And the Victor Is: Bush?

Taking Punches Now May Help Him Later

By DAVID E. ROSENBAUM

Special to The New York Times

News Analysis

WASHINGTON, Sept. 30 — It was an unhappy looking group that assembled in the Rose Garden this afternoon. In the politics of the moment, the budget deal does not give any of them, President Bush or the Congressional leaders, a winning hand.

A central question, though, is who will win politically in the longer term. The answer may well be the President.

Already today, he was taking a pounding from his right flank for losing his fight for a capital gains tax cut and renouncing his "no new taxes" pledge to the tune of $134 billion over five years. This may continue for weeks or even months.

Pay Well Before Elections

But Mr. Bush's eye was trained on prosperity and re-election two years from now. With the economy on the verge of recession and the markets unsettled by events in the Persian Gulf, he chose to take his licks now rather than foster the economic chaos that would have resulted from a protracted fight with Congress, hoping that this will put him in a stronger position when he really needs it.

If the economy does slide into a recession, a fate that seems ever more likely with each new release of economic statistics, Mr. Bush will be in a position to deflect part of the blame to Democrats. They are the ones, he can say, who prevented the economic stimulus that he argued would have come from the capital gains tax break he strove for so hard and so long.

That could be especially important if the economy is still weak as the 1992 election approaches, since Presidents

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are inevitably held responsible for the state of the economy.

And if the economy has improved significantly by 1992, a turnaround his economic advisers expect, Mr. Bush can assert that it was his determination to drive down the deficit that led interest rates to fall and the economy to rebound.

Endangered Incumbents

"On balance," said a Democratic Senator, "this package is not helpful to Democrats politically. It helps resolve the fiscal disaster the Republicans put us in with the notion that everybody could have a free lunch."

The immediate political problem for Democrats, who hold the majority in the Senate and House, is that it will be incumbents who will be called on to vote for such unpopular measures as a higher gasoline tax and a cut in Medicare benefits, and then defend them on the stump this fall.

Democratic leaders are trying to assemble enough votes from representatives with safe seats and senators not up for re-election that lawmakers in tough races can vote against the package.

"I may have to vote against it and hope it passes," admitted one Democratic senator in a difficult re-election campaign.

But Democratic strategists saw advantages to their party as well.

First, they said, incumbents would have been held responsible if a budget compromise had failed and Government services had been cut back by across-the-board spending cuts required by the Gramm-Rudman-Hollings budget-balancing law. That was averted by the budget agreement.

Second, they maintain that they were the ones who protected Social Security, the strongest card in the Democratic hand.

Finally, and most important over the long haul, they believe their refusal to budge in their stance against a cut in the capital gains tax reinforces the traditional position of Democrats as the party that favors economic equity.

Recent public opinion polls show that the Republican party is increasingly viewed as the party of fat cats, and Democrats hope to burn that image into public consciousness.

Capital Gains as Weapon

Only 7.8 million of the 109.8 million tax returns that were filed in 1988 reported capital gains, and most of those profits from investments were claimed by the richest 1 percent of taxpayers, those with incomes above $200,000.

"They made a big mistake when they pushed for the capital gains cut for so long," said Senator Jim Sasser, a Tennessee Democrat. "It has now been driven into the heartland that Republicans were insisting on tax cuts for the wealthy."

Though the gains issue seems to be dead for this year, the Democrats would be delighted if President Bush or some other Republican opted to bring up it again next year.

Whatever the immediate consequences, the economic advantages over time could be manifold.

The ever-increasing budget deficit, now $293.7 billion by the Administration's latest estimate, is draining away productive investment by Americans, using Government funds for interest payments instead of better roads, schools and research and eroding the quality of life of the next generation.

Benjamin M. Friedman, a Harvard economist, asserts that failure to solve the deficit problem would lead to "a lower standard of living for individual Americans and reduced American influence and importance in world affairs."

Is Deal Credible?

The White House chief of staff, John H. Sununu, reflected the view of all the budget negotiators today when he said, "The most important impact of this is as a contributor to the overall economic climate."

The crucial question is whether the financial markets believe this is a credible budget deal, one the President and Congress will stick to through thick and thin. If they do, interest rates should soon begin to fall, encouraging companies and individuals to borrow and spend, thus stimulating the economy.

The markets have every reason to be skeptical. In the past, deficit-reduction measures have amounted to little more than what the Speaker of the House, Thomas S. Foley, today called "smoke and mirrors."

The New York Times

NEW YORK, MONDAY, OCTOBER 1, 1990

Shouts of Revolt Rise Up In Congressional Ranks

By RICHARD L. BERKE

Special to The New York Times

WASHINGTON, Sept. 30 — Even before President Bush and Congressional leaders had finished their sales pitch for the budget compromise, dozens of rank-and-file members today attacked it as unacceptable. Republicans were angry about the tax increases, and Democrats derided the cuts in domestic spending.

"It's dead in the water," said Representative Nick Joe Rahall, Democrat of West Virginia. "The package as I see it now does not go far enough in requiring the wealthy to pay their fair share."

Emerging halfway through a briefing of House Republicans on the plan, Representative Philip M. Crane of Illinois had his mind made up. "We are being taxed at all-time high levels," he said. "This is the most inauspicious time I can think of to raise taxes."

Declaring that he was "totally opposed" to the package, Mr. Crane added, "You bet it's an easy vote."

While they emphasized the importance of passing a budget package, many members who are not part of the Congressional leadership were reluctant to commit themselves to voting for it.

'Pledges Have Been Made'

"We are not the Radio City Rockettes that march in perfect precision," said Representative Henry J. Hyde of Illinois, one of the more influential Republicans. "Every fiber in my being wants to support it. But at the same time, pledges have been made, and I want to use my own judgment."

Anticipating the opposition of rank-and-file members, Senate and House leaders at the White House ceremony today sought to promote the package as too crucial to the nation's well-being to be undermined by partisan sniping.

Representative Thomas S. Foley of Washington, the House Speaker, acknowledged that finding majorities in both parties in both houses of Congress would be difficult. But he added, "we pledge our efforts with yours to convince our colleagues and the country that this is strong undergirding of our economic future, our national prosperity and joint national interests."

The nation's well-being was also the centerpiece of a pitch by Bob Dole, the Senate Republican leader,

"The naysayers, the nit-pickers may have a field day because the easy vote in this case is to find something you don't like and vote no," the Kansan said. "But in my view, we owe more to the American people than finding fault with what I consider to be a good agreement."

Looking Past Cynicism

Mr. Dole went on to say that the package will "demonstrate to the American people, who are sometimes somewhat cynical, that the Congress and the President of the United States can work together, and we can look ahead, and we can do the right thing for our country."

But the words of unity sounded hollow to many lawmakers, coming after months of bickering among the parties, the White House and Congress over the details of h a deficit-reducing budget. It was just a few days ago that President Bush was attacking Congressional Democrats for lack of an agreement, and the Democrats were assailing him for not negotiating in what they saw as good faith.

"I think the leadership on both sides are going to have to do substantial lobbying to get the package passed," said Representative Ralph Regula, an Ohio Republican. "There are no pleasant choices. This is not something where people say, 'Boy, I did this vote for me.' There is not a partisan gain in either party."

Mr. Dole implored his colleagues on the Senate floor this evening to "give us an opportunity to explain it" before passing judgment on the plan. Yet few members seem interested in heeding his plea.

"It's going to be one hell of a debate," Senator Daniel Patrick Moynihan, Democrat of New York, said on the Senate floor this evening.

"Oh, I think more than that," Senator George J. Mitchell of Maine, the Democratic leader, responded with a smile.

No Mood for Jokes

But most members were in no joking mood.

"I think its lousy," Representative Charles B. Rangel, a Manhattan Democrat and one of the most liberal members, said of the compromise. "It impacts too heavily on the services to Medicare recipients. It impacts too heavily on the lower and middle income recipients."

Asked if he would vote against the package, he said, "That's without question."

On the other side of the aisle, one of the most conservative members was just as angry.

"It looks like a road map to recession," said Representative Dana Rohrabacher, a California Republican. "I think it's a cave-in to the liberal Democrats. This is totally irresponsible, and the system has broken down."

Leaders tell the nay-sayers to act responsibly.

Representative Robert S. Walker, a Pennsylvania Republican, agreed. "It's a package where the Republicans did the giving and the Democrats did the taking," he said. "The fact is, the Democrats turned out to be ruthless bargainers.

Gingrich Holds His Fire

One of the few conservatives who did not attack the plan was Representative Newt Gingrich of Georgia, the Republican whip. He was conspicuously absent from the White House ceremony where Mr. Bush and Congressional leaders announced their agreement today. He refused to discuss the plan as he walked in and out of a meeting with House Republicans, saying only, "Still looking at it, still looking at it."

But privately, members and aides said Mr. Gingrich was furious about the agreement, notably the tax increases.

"I think he's holding his fire," Mr. Walker said.

Representative Robert H. Michel of Illinois, the Republican leader, refused to discuss Mr. Gingrich's concerns, saying, "He has his reasons." He said, however, that he had anticipated the conservative opposition and believed it could be overcome.

"That generic group of our members, I would have expected that that would be the kind of response," Mr. Michel said. "I feel comfortable with what we've put together."

The New York Times
NEW YORK, MONDAY, OCTOBER 1, 1990

CREDIT MARKETS

Budget Accord Is Played Down

Pact Is Termed 'Just A Starting Point'

By H. J. MAIDENBERG

While Administration and Congressional negotiators reached an 11th-hour budget deficit agreement yesterday, the pact had been expected and discounted late last week by the credit markets.

"Not only is the agreement just a starting point but the disgraceful spectacle gave the nation a fiscal result that must still be hashed over in Congress," Donald H. Straszheim, chief economist at Merrill Lynch & Company, said yesterday. "We still don't have a national fiscal policy."

Last Friday, when Merrill Lynch added its mighty voice to the chorus of credit market analysts who say they believe that the nation is already in a recession, it raised the prospect of a substantial decline in interest rates. How deep will the decline be, and how soon will it become manifest?

Two Wild Cards

"We believe the recession, which probably began in late June, will not be as severe as the ones in 1974-75 and 1980-82," Mr. Straszheim said. "And we expect the Federal Reserve to respond by easing credit within a month. Unless two wild cards turn up, we can expect short-term rates to drop 1.5 percentage points and long yields to fall half as much within six months."

The two wild cards, Mr. Straszheim said, were a further deterioration in the "fragile commercial banking industry and a sharp rise in the debt levels of all sectors of the economy."

As it was, the discount rate on 90-day Treasury bills fell to 7.13 percent Friday from 7.37 percent the week before, while at the long end the yield on the benchmark 30-year bonds declined to 8.93 percent from 9.12 percent. But the decline in short-term rates last week was clouded by the usual "window dressing" that occurs at the end of a quarter, when many investment portfolio managers seek to unload unprofitable investments and show large cash balances on their accounts.

Other Forces Cited

But David M. Jones, chief economist at Aubrey G. Langston & Company, primary dealers in Treasury securities, said he doubted whether the Fed can ease credit and held that other forces had caused the recent decline in rates and yields.

As Mr. Jones explained: "We have two distinct Treasury debt markets, the short term that consists of bills and two-year notes and is most easily influenced by Fed operations, and the longer maturities. The Fed, faced with the threat of an oil-fueled rise in inflation will probably stand pat. The Fed remembers the surge in inflation that attended the sharp rises in oil prices in 1974-75 and again in 1980-82."

As for the recent drop in short-term rates, Mr. Jones said it reflected strong moves by the Securities and Exchange Commission to sharply restrict the holdings of commercial paper issued by smaller corporations. This restriction has forced many of the funds to move out of commercial paper and into Treasury bills.

Commercial paper is the unsecured debt of corporations, normally with maturities of between 30 and 90 days, although an increasing amount of it is for periods of up to a year. Until recent times, only the top blue-chip companies issued such paper, but many lesser names have begun issuing such debt and paying attractive interest rates because they have been unable or unwilling to borrow money from banks.

"At the long end of the Treasury debt market," Mr. Jones said, "yields will continue to be influenced by the Mideast situation and, increasingly, by the growing reluctance of Japanese institutional investors to buy our ever-increasing volume of Government debt. Not only are the Japanese money managers worried about the 46 percent plunge in their stock market thus far this year, but by moves by their Government to restrict credit, which is sharply reducing the liquidity in all their markets as well as driving up their domestic interest rates."

Last Friday, for example, the yield on 10-year Japanese Government bonds, their longest maturity, rose to 8.69 percent, from 8.60 percent the week before. The yield on West Germany's 10-year long bonds rose to 9.12 percent, from 9.03 percent during the week. By comparison, the yield on the Treasury's 10-year long notes dropped to 8.79 percent last Friday, from 8.97 percent the week before.

Erosion of Dollar Seen

A further decline in domestic interest rates would further erode the value of the dollar and dollar-denominated securities for foreign investors. With domestic inflation currently running at an annual rate of just over 6 percent, foreign as well as domestic investors would want a real return of at least 9 percent.

While Mr. Jones noted that domestic rates and yields were reduced late last week in part by anticipation of the budget deficit agreement that was reached yesterday, "the most immediate impact, if any, will probably be on the intermediate Treasury sector, say, from the three-year to seven-year maturities."

Looking further ahead, Philip Braverman, senior vice president and chief economist at DKB Securities Inc., the domestic arm of the giant Dai-Ichi Kangyo Bank of Tokyo, has given interest rates a sharply higher forecast. "Bond yields in the weeks and months immediately ahead," he said, " will remain hostage to the threatened destruction of the gulf oilfields in a hot war. That threat, which continues to push oil prices up, is forcing Treasury bond yields toward 9.5 percent or even 10 percent. But once the threat of higher oil prices is removed or dissipated, interest rates will plunge in response to the deep domestic recession that has begun."

Mr. Braverman added that it was "primarily the uncertainty over oil supplies, and its inflationary consequences, that is preventing the Fed from recognizing the recession or reacting to it." He continued: "What we expect the Fed to do is abandon its practice of targeting interest rates and return to working with reserve aggregates. This would give the Fed greater flexibility and avoid the charge of being soft on inflation."

Also preventing bond prices from rising and yields from falling further is at least a risk of a financial panic stemming from those potential developments and the cash-squeeze vulnerability of business and financial institutions, he said.

The New York Times

NEW YORK, MONDAY, OCTOBER 1, 1990

Budget Pact Called Test Of Theories

Cuts Could Stimulate Economy or Increase Risk of a Recession

By LOUIS UCHITELLE

The long-awaited agreement on the budget deficit, announced yesterday in Washington, might finally test the economic thinking that for the past decade has driven the White House, Congress and millions of Americans to advocate a sharp reduction in the deficit.

If the thesis behind budget-cutting is correct, then the interest rates that consumers and businesses are charged for a wide variety of loans should fall — not this week or next, perhaps, but by the end of the year they should be in a steady decline.

"Other things being equal — ignoring for the moment the rising oil prices, the banking system's weakness and the sluggish economy — then the agreement to cut the budget deficit should lower interest rates, and eventually make stock prices rise," said Ed Yardeni, chief economist at Prudential-Bache Securities Inc., the investment banking firm.

In the credit markets, the budget accord, which some analysts said had been expected, was played down as "just a starting point." [Page D9.]

Choking of Economy Seen

Many economists, including Mr. Yardeni, hold that the budget deficit chokes the economy. Their argument is that the Federal Government, to finance deficits that have ranged above $200 billion a year sometimes, must borrow too much from the nation's pool of savings. The heavy drain leaves an inadequate amount for private borrowing, and the competition for limited funds drives up interest rates.

The new agreement is billed by the Bush Administration as a big enough cut to reverse this process. As rates fall, the private sector, in theory at least, will increase its borrowing and spending, and this should stimulate economic growth, eventually making the stock market boom.

Certainly, the agreed-upon reduction of $500 billion over five years, if approved by Congress, is a huge amount, representing a reversal of the Government's spending practices that have prevailed for more than a decade. And the initial cut of $50 billion in the fiscal year that begins today dwarfs previous attempts to reduce the budget deficit. The biggest one-year budget cut to date was $27 billion in the early 1980's.

But the thesis on which cutting the deficit is based runs into several

Continued From First Business Page

problems, some practical and some theoretical. As Mr. Yardeni puts it, "I would not get fully invested in bonds or stocks just on this news."

One of the problems is that Government spending on weaponry, highways, airports, Medicare, education, Social Security and many other programs sustains the economy by creating jobs, income and widespread demand for the numerous products and materials produced by the private sector.

In addition, the higher taxes on gasoline, cigarettes, alcohol and luxury items that were announced as part of the agreement, cut into household income now dedicated to spending. This further reduces demand, and just at a time when the economy is close to a recession.

"The agreement announced today is a moment of truth," said Robert Eisner, an economist at Northwestern University. "If they go through with this reduction, they will deal a new blow to an economy already teetering near a recession."

The budget-cutters, in Congress, the White House and the economics profession, acknowledge the risks of shrinking demand at this moment. "It would have been much better to have had the deficit reduction just after Bush took office in 1989," said Lawrence Summers, a Harvard economist. "He had great political strength then and the economy was strong."

Mr. Summers and others who applaud the budget agreement are counting on the Federal Reserve to offset the weak demand and the reduced Government spending by lowering interest rates, a power the Fed exercises by manipulating the nation's bank reserves. Their hope might be in vain.

Two Constraints Cited

Alan Greenspan, chairman of the Fed, and others at the central bank point to two constraints. One is the dollar, which has weakened in recent weeks; the other is the Mideast crisis, which has pushed up the price of oil. Both developments are considered inflationary and the Fed has been countering their impact by freezing interest rates at current levels.

Strong rates help to keep a lid on prices by discouraging the borrowing that makes possible robust spending and investment, but the medicine also tends to weaken the already weak economy.

Los Angeles Times

BUDGET: President, Top Lawmakers Reach Deficit Agreement

MONDAY, OCTOBER 1, 1990

By TOM REDBURN
and WILLIAM J. EATON
TIMES STAFF WRITERS

WASHINGTON—President Bush and congressional leaders, capping months of often-acrimonious negotiations, reached agreement Sunday on a sweeping package of tax increases and spending cuts designed to slash the federal budget deficit by $40 billion this fiscal year and by a total of $500 billion over the next five years.

The eleventh-hour agreement, which heads off $85 billion worth of automatic, across-the-board spending cuts that would have gone into effect this morning if the talks had failed, was hailed both by Bush and top lawmakers as a historic breakthrough in the decade-long budget stalemate between Republicans and Democrats.

"It is balanced, it is fair and in my view it is what the United States of America needs at this point in its history," Bush said, surrounded by congressional leaders and aides, in a midafternoon ceremony in the Rose Garden outside the White House.

Bush interrupted a round of meetings at the United Nations in New York to return here for the announcement.

House Majority Leader Richard A. Gephardt (D-Mo.), who had led the closed-door bargaining sessions since they began in May, agreed. "The alternative to this agreement is fiscal chaos," he said.

"What delayed us for months is what has divided us for a decade," he added. "The parties to these talks . . . continue to have deep disagreements over values, the role of government and the fairness of our taxes. But we all made compromises in the national interest."

The package, if approved by Congress, would increase taxes on gasoline, cigarettes and alcoholic beverages; raise Medicare premiums; impose a new tax on luxury goods, and scale back itemized deductions for all taxpayers with incomes above $100,000.

Overall, taxes would rise $134 billion over the next five years.

Under the budget agreement, federal spending would be subject to firm caps, reducing government outlays for domestic and military programs by $182.4 billion—with the bulk of the savings likely to come out of the Pentagon's hide.

At the same time, the new budget pact is designed to restrain the growth of long-standing benefit programs such as Medicare and farm subsidies for additional savings of $119 billion.

Under the agreement, the two houses will have until Oct. 19 to pass final compromise legislation needed to carry out the budget pact—including enactment of 13 appropriations bills that are necessary to provide for government spending in fiscal 1991, which begins today.

But the accord—which has already set off howls of protest from dozens of affected interest groups—must still overcome widespread resistance among lawmakers, who fear that angry voters might retaliate by throwing them out of office this November.

"I have great reservations about supporting the agreement until I look realistically at the alternatives," said Rep. Julian C. Dixon (D-Los Angeles). "The impact of the gas tax is going to hit very hard in Southern California. It's not a done deal."

House Minority Whip Newt Gingrich (R-Ga.), also a participant in the budget negotiations, boycotted the White House ceremony and told reporters that he is "still looking at" the accord. Rebellious House Republicans criticized the package and vowed to try to defeat it.

The GOP lawmakers expressed their frustration at a closed-door caucus that was so raucous it could be heard easily in the hall outside.

Rep. C. Christopher Cox (R-Newport Beach), a former aide in the Ronald Reagan White House, called the budget agreement "an economic Yalta. This is a complete sellout. . . . The American people won't buy it and certainly the Republican conference won't buy it."

But congressional leaders expressed optimism that the initial wave of opposition would diminish as lawmakers face an up-or-down vote on whether to approve the deficit-reduction package intact or bring on the automatic cuts mandated by the Gramm-Rudman deficit reduction law.

"The alternative to this package is economic crisis," said Rep. Leon E. Panetta (D-Carmel Valley), chairman of the House Budget Committee, "not only from continuing high interest rates . . . but also from the disastrous . . . Gramm-Rudman cuts that will take effect if the agreement is not approved."

The final compromise, forged in an all-night session that lasted until dawn, would slice $40 billion off the deficit expected for fiscal 1991—a full $10 billion short of the $50-billion reduction that negotiators originally wanted to achieve.

Even with the agreement, the largest deficit-reduction plan ever proposed, the deficit for the new fiscal year still is expected to hit a record $253.6 billion—partly because of the slowdown in the nation's economy.

In a briefing for reporters, Richard G. Darman, director of the White House Office of Management and Budget, acknowledged that a deteriorating economy and the growing cost of protecting savings and loan depositors meant that officials had to struggle harder and harder just to keep the deficit from growing.

Officials said that the big payoff under Sunday's accord, however, will come starting in fiscal 1993, when most of the S&L bailout should be finished.

Under the plan, which assumes that the economy will achieve only modest gains during the coming year and rebound strongly in future years, the deficit would fall to $129.4 billion in 1993 and turn into a modest budget surplus of $16.7 billion in 1994.

In abandoning the old Gramm-Rudman targets, which had called for a $64-billion deficit in fiscal 1991, the budget negotiators set new goals for future years, with hopes of balancing the budget by 1994 and building up substantial Social Security surpluses starting in 1996.

But if the economy plunges into a recession, the targets would be modified in March—so lawmakers would not have to make additional spending cuts or raise taxes further to achieve the goals set under Sunday's accord.

Initial reaction in Congress was positive. The two houses, meeting in an extraordinary Sunday session for the first time in nearly a decade, quickly approved stopgap legislation that would postpone the Gramm-Rudman cuts until Oct. 5 when another vote must be taken.

The House rammed through the measure on a 382-41 roll call after less than an hour of debate. The Senate approved it shortly afterward.

In the same bill, lawmakers agreed to continue federal spending roughly at current levels for the rest of this week while Congress considers the compromise deficit reduction package hammered out at the budget summit.

Overwhelming votes in the House and Senate, however, did not signal how lawmakers will react when it comes to the final showdown, which is scheduled to occur before Oct. 19.

In one of the final disputes of the budget negotiations, Bush abandoned his effort to win a reduction in the capital gains tax rate. The White House was unwilling to accept higher income tax rates on the wealthy, which Democrats demanded as the price for accepting a lower tax on investment profits.

The two sides also agreed not to tamper with Social Security benefits, often called the "third rail" of American politics because those who touch them risk almost certain political death. Proposals to increase taxes on Social Security or to restrain the growth in benefits fell victim to both parties' fears of well-organized elderly voters.

The most severe cuts would affect the military—$10 billion right away and up to $182 billion over five years.

Among the tax measures was a sharp boost in federal gasoline taxes from its current 9 cents per gallon to 21 cents. The increase would be phased in, starting with a 5-cent-a-gallon gasoline tax hike in December, a separate 2-cent-per-gallon tax applied to all petroleum fuels in January, and an additional 5-cent gasoline tax increase next July.

(California boosted its own gasoline taxes by 5 cents a gallon last August, and will raise them by 1 cent a gallon each year beginning next January.)

Taxes on alcoholic beverages would rise as well.

Luxury items such as expensive cars, jewelry and furs will be subject to a new 10% tax. And all taxpayers with incomes above $100,000 will find that they no longer will receive full credit for their itemized deductions.

But the package contains some modest new tax reductions as well—which Republicans argued were needed to help the economy. Companies that explore for gas and oil, conduct research or do business in depressed urban and rural areas will qualify for tax advantages.

Overall, the Medicare program, whose costs are growing by leaps and bounds, would be cut to provide some $60 billion in savings—split evenly between recipients and physicians or hospitals.

Farm support programs would be cut $13 billion over five years. Changes in the way payments are made to civil service retirees and postal workers would save $12 billion.

The top-level budget discussions produced extraordinary political conflict over tax and spending priorities, dramatically displaying the rival approaches of the Democratic and Republican parties.

At first, shortly after the talks started, Bush dismayed conservative Republicans when he reneged on his famous "no new taxes" campaign pledge by acknowledging, at Democratic insistence, that revenue increases would have to be part of any deficit-cutting agreement.

At the outset of the serious bargaining, Democrats favored larger cuts in Pentagon outlays but, after the Persian Gulf crisis erupted, softened their position and agreed that funds for Operation Desert Shield should not be included in the deficit-cutting package.

Both sides agreed almost immediately that the Gramm-Rudman deficit goal of $64 billion was out of reach.

In addition to congressional leaders of both parties, representatives of the budget, appropriations and tax-writing committees were included in the 21-member group that labored for months to achieve the budget deal.

Los Angeles Times

MONDAY, OCTOBER 1, 1990

Elderly Line Up to Fight Changes in Medicare Costs

By ROBERT A. ROSENBLATT
TIMES STAFF WRITER

WASHINGTON—The budget deal may have bipartisan support in Congress, but it seems certain to generate intense anger and a political backlash among one of the most influential and vociferous groups of voters—the elderly.

Congress could face a replay of the 1989 battle over catastrophic care. Last year, elderly voters forced repeal of the biggest increase in Medicare benefits since the program started in 1965 after they learned that the more affluent among them would have to pay for the benefits. The catastrophic-care program would have provided unlimited days of hospital care and prescription drug coverage with financing coming from the 40% of persons over 65 who pay federal income taxes.

On Sunday, the President and congressional leaders decided again that the elderly should pay more but this time without even compensating them with increased benefits.

If Congress adopts the package proposed on Sunday, the 34 million Medicare beneficiaries would be forced to pay significantly more for the Part B coverage that helps pay doctor bills. The annual deductible, now $75, would climb to $100 next year, and level off at $150 in 1993 and beyond.

The Medicare insurance premiums, now $28.60 a month, would rise to about $33.50 next year and reach $54.30 by 1995, according to estimates by the American Assn. of Retired Persons.

Beneficiaries now pay 25% of the total cost of Medicare's Part B, which helps cover doctor bills. General tax revenues pay for the rest. Under the budget agreement, the beneficiaries' share would rise to 30% of the program's cost. This could mean a significant increase in monthly premiums each year, because inflation in doctor bills has been racing at double-digit levels.

Advocacy groups for the elderly offered quick opposition.

"We are concerned about the level of cuts in Medicare," said Horace Deets, executive director of the AARP. "We urge Congress to seek ways to ameliorate the effects . . . on those for whom any increase in health care costs is unaffordable. We further urge Congress to ensure that any cuts in Medicare do not impede the access of older and disabled persons to quality health care."

"We're going to work strongly against this package to see that more fairness is put in it," said Bill Ritz, a spokesman for the National Committee to Preserve Social Security and Medicare. "Let's share some of the pain with the wealthy—those who had the greatest gain during the 1980s."

And congressional opposition began stirring Sunday night.

One of the congressional leaders on health care issues, Rep. Henry A. Waxman (D-Los Angeles), said he would vote against the budget agreement when it reaches the House floor.

"What troubles me about the budget is that it asks the elderly in this country to take a very hard hit," Waxman said. "It doesn't distinguish between those who can afford it and those who can't. Many of the elderly will have to make a choice between paying for health care and rent."

Rep. Edward R. Roybal (D-Los Angeles), chairman of the House Aging Committee and one of the more influential senior Democrats, said he will vote against the budget because of the impact on the elderly.

Rep. John Bryant (D-Tex.) called the increase in payments by Medicare beneficiaries "a major negative" in the budget package.

Medicare covers persons over 65 and disabled people of all ages. Part A covers hospital bills, and Part B deals with payments to physicians.

The budget agreement aims for savings of $60 billion in Medicare outlays over five years.

Half would come from reduced payments to doctors and hospitals, both of whom are already complaining that reimbursement levels are too low. About $30 billion in budget savings would come directly from the pockets of the beneficiaries.

Some of the reduced spending by the government would result in higher costs to patients under 65 who are not covered by Medicare, because doctors and hospitals are likely to increase their charges to make up for the Medicare reductions.

The increase in the annual deductible would cost beneficiaries $6 billion. For the first time, they would pay 20% of the cost of clinical laboratory fees, spending $3.6 billion.

The biggest item, by far, is the boost in premiums to cover 30% of the fast-growing program. This would cost beneficiaries $20 billion.

Americans over 65 already spend about 18% of their income on health and long-term care, according to a study by the House Aging Committee. The proposed increases would "aggravate an already unacceptable burden on elderly Americans," according to Roybal.

The Part B Medicare premiums are automatically deducted from monthly Social Security checks. The average Social Security check this year is $594 a month, with a Medicare premium of $28.60.

By 1995, the average Social Security check will climb to $713 monthly, but Medicare, rising much faster will be $54.30 a month.

Los Angeles Times

MONDAY, OCTOBER 1, 1990

Lawmakers Prepare to Sell Pact of Pain

By PAUL HOUSTON
and WILLIAM EATON
TIMES STAFF WRITERS

WASHINGTON—To reach the new bipartisan budget agreement that was completed Sunday, White House and congressional negotiators had to go through five hellish months of bargaining, marathon talks at Andrews Air Force Base and grueling late-night sessions at the Capitol.

But, as Senate Majority Leader George J. Mitchell (D-Me.) said, "Now comes the hard part": The leaders must sell their package of pain to the American people and to their representatives in Congress.

"Everybody wants something to pass, but very few people want to vote for it," said Sen. Phil Gramm (R-Tex.), whose 1985 Gramm-Rudman law forced the deficit-reduction plan.

The accord now must be put into legislation, passed by Congress and signed by President Bush. The agreement gives the lawmakers until Oct. 19 to pass legislation enacting the specific spending cuts and tax changes called for in Sunday's budget pact.

"We've got a lot of heavy lifting to do," Gramm noted.

The proposed package will affect every American, or—perhaps more important—every voter. And with November elections fast approaching, it will be that much tougher for senators and House members to support the kinds of sweeping changes that must be enacted in the next few weeks.

"Who wants to vote for Medicare cuts? Who wants to vote for Social Security cuts? Who wants to vote for a gasoline tax?" Sen. Trent Lott (R-Miss.) asked in voicing the anxieties of many rank-and-file members of Congress.

Such leaders as Sen. Pete V. Domenici (R-N.M.), the ranking Republican on the Senate Budget Committee, are answering that question with one of their own:

"Can you support the entire package in order to fix the deficit of this country, get us on the right track, get interest rates down and bring the American economy back into a job-producing mode?"

Similarly, House Majority Leader Richard A. Gephardt (D-Mo.) told fellow Democrats at a recent caucus that "you've got to understand—there is no pleasure in this package. But you've got to look at the positive side of getting it done."

Congressional leaders know well the difficulty they will face in trying to hammer the package into law.

"It will be very tough because it has a lot of pain and a lot of sacrifice," said Rep. Leon E. Panetta (D-Carmel Valley), chairman of the House Budget Committee. "I'm afraid that not enough groundwork has been laid with either the public or the members."

"We'll know in a couple of days," Panetta said.

Leaders of both parties say President Bush must play a key role to get any agreement approved by Congress. And he will have to help muster broad public support for the package through a nationally televised address aimed at persuading lawmakers to vote for it.

"I think it's going to be difficult to pass a deficit-reduction package of this historic size unless there is bipartisan support," said House Majority Whip William H. Gray III (D-Pa.). "The President has got to be out there leading, and it's going to be very, very difficult."

Bush, for his part, seemed to recognize that on Sunday, pledging that although "there will be tough fights ahead," he would do "everything in my power . . . to get this passed in the United States Congress."

Domenici agreed that there is "a great question" as to whether the package could be pushed through.

Lawmakers from more-affluent districts are concerned about tax, Social Security and Medicare changes. Those from working-class areas are worried about proposed cuts in health care or tax increases on gasoline, beer and cigarettes.

"If I go back to Atlanta and say we held the line on capital gains but we did you in on Medicare, they'll say you're not bringing us good news," said Rep. John Lewis (D-Ga.).

Rep. Ronald V. Dellums (D-Berkeley), chairman of the Congressional Black Caucus, has urged his colleagues to vote against any budget agreement that "further savages already decimated programs in housing, health care, education and job training."

Rep. Silvio O. Conte (R-Mass.), a negotiator in the talks that finally ended in agreement and one of the few Republicans who originally favored a tax increase to address the deficit problem, has said that Congress must be made to understand that it faces the stark choice between accepting a bipartisan deficit-cutting package or allowing crippling spending cuts to take place under the Gramm-Rudman deficit reduction law.

"We can't give them any wiggle-room," Conte said he advised House Speaker Thomas S. Foley (D-Wash.).

Under the ground rules for ratifying the new accord that were agreed to by the President and Democratic congressional leaders, a majority of each party in both the House and the Senate must approve any deal or it will not take effect.

Achieving this result appears to be more difficult in the House—whose members all will face the voters in November—than in the Senate, only a third of whose members are up for reelection. But it will be tough in both chambers to get the necessary votes.

One wild-card in any ratification process will be House Minority Whip Newt Gingrich (R-Ga.), a participant in the budget talks who has a large following among conservative Republicans. He had declared his unhappiness with the White House negotiating position.

Gingrich aides said that he may be able to influence more than half of the 175 Republicans to follow his lead in any ratification process, potentially threatening approval of a package that he and his supporters do not accept.

Some Democrats also are unhappy with the course of the budget talks.

They argue that Democratic negotiators made concessions on such issues as Medicare that never would have been made in the normal legislative process, where Democrats have a 3-2 edge over Republicans in the House and a 55-45 advantage in the Senate.

Two early battlegrounds in the ratification process will be the House Ways and Means Committee and the Senate Finance Committee. Both panels have jurisdiction over not only tax matters but also the politically explosive Social Security and Medicare issues.

Thus, Rep. Dan Rostenkowski (D-Ill.) and Sen. Lloyd Bentsen (D-Tex.), the panels' chairmen, will be prominent players in the battle known as "reconciliation"—the act of reconciling current laws with the spending cuts and tax increases in the proposed package.

Los Angeles Times

OCTOBER 1, 1990

Analysts Predict Deal Will Trigger Short-Term Damage to Economy

By TOM REDBURN
TIMES STAFF WRITER

WASHINGTON—The new budget accord may be just what the doctor ordered for the nation's ailing economy but the patient is likely to get a lot worse before it gets better, government and private analysts said Sunday.

Although almost every economist has long prescribed a reduction in federal borrowing, several expressed fears that the short-run impact will be negative, nudging the economy ever closer to a recession.

"The economy is so weak right now that the last thing you want to do is hit it over the head with a massive dose of fiscal restraint—but that's what they've done," said Irwin Kellner, chief economist at Manufacturers Hanover Bank in New York.

"You have to be honest and admit there will be a modest short-term contractionary effect," Benjamin Friedman, a Harvard economist who has long been a fervent proponent of cutting the deficit, said Sunday.

"The problem is that higher taxes and lower spending affect the economy immediately, while lower interest rates take time to boost economic investment," he explained.

Whatever the immediate damage to the economy, however, budget negotiators here believed that they had no choice but to forge ahead.

Officials are hoping that their resolve—which could easily have been diverted by arguments that the Persian Gulf crisis should let them off the hook once again—will assuage financial markets that have long urged Washington to produce a credible long-run deficit-reduction pact.

They also are hoping that the increased leeway on the budget will prompt Federal Reserve Chairman Alan Greenspan to ease interest rates.

"This is not a phony smoke-and-mirrors program," said Senate Finance Committee Chairman Lloyd Bentsen (D-Tex.). "It ought to signal the Federal Reserve to ease up in interest rates and start stimulating the economy."

But the Fed, which appears to be more worried about reviving inflation, is likely to move cautiously as long as the dollar remains weak and oil prices remain high.

To be sure, budget negotiators did not overlook the possibility that the harsh medicine contained in the budget agreement might prove risky.

Sen. Pete V. Domenici (R-N.M.) conceded Sunday that the new budget accord "has a lot of pain in it," but insisted that "the result is good for the country."

"While things may not tomorrow morning get better," Domenici added, "this package is ultimately healthy for the American economy. . . . I'm convinced, having worked on this kind of thing, that we'd better do it because we won't get another chance."

The economic forecast that the budget negotiators published Sunday shows precisely this sort of pattern.

Economic officials now expect the U.S. economy to eke out a bare 0.7% gain in 1990—essentially an acknowledgement that a recession is possible in the months ahead—before slowly recovering at a 1.3% pace in 1991 and 3.8% in 1992.

They also show the inflation rate—expected to reach 5.21% in 1990—slowing to 4.6% in 1991 and 3.4% in 1992.

If the projections prove accurate, President Bush should benefit from the visibly improved economic situation in time for his reelection campaign in 1992.

But a lot of conservatives are convinced that Bush is making a fatal error in signing a deficit-reduction pact that does not contain his long-sought capital gains tax cut.

"This is a bad deal for the economy," said Jude Wanniski, known for his early advocacy of former President Ronald Reagan's "supply-side" tax program. "Getting the capital gains rate reduced and indexed is the only way of pulling the economy out of its slump."

Many Republican lawmakers echoed Wanniski's views. Rep. Dana Rohrabacher (R-Lomita) termed the package "a road map to recession" and added: "It's a cave-in to the Democratic big spenders. . . . It's ridiculous. The system's broken down."

Most economists, however, said that the true test of the deficit accord will come soon on Wall Street.

If investors think the budget agreement will substantially reduce the federal government's long-term borrowing needs, opening up fresh credit for private investment, they could drive interest rates down in the bond market this week.

That will provide a glimmer of hope as Congress debates whether to approve the budget measure.

"If financial markets believe this will put the government on the track of smaller deficits in the future, they could provide a lot of latitude for the Fed to ease," said Jerry Jordan, chief economist at First Interstate Bank in Los Angeles.

Los Angeles Times

OCTOBER 1, 1990

BUDGET: Small Business Gets Some Breaks

By ROBERT A. ROSENBLATT
TIMES STAFF WRITER

WASHINGTON—Small and medium-sized businesses—and their investors—will reap some unexpected benefits if Sunday's last-minute budget agreement is approved by Congress.

President Bush abandoned his long-sought goal of cutting capital gains taxes, but he insisted on some pro-growth measures that would give small business a boost.

The deal struck Sunday between the White House and congressional leaders includes a cornucopia of benefits for firms with less than $50 million in equity—a combination of paid-in capital and retained earnings.

The tax deductions and credits total $25 billion over five years—a drop in the bucket in a $500-billion budget package but a big boost for some modest-sized businesses and the people who buy their stocks.

"It's a triple sweetener, quite a deal," said a congressional staff aide. "The companies themselves receive breaks, and the people who buy the stock get helped both when they buy and when they unload for profits."

The investor gets a 25% income tax deduction for stock purchased in one of these firms. If he buys $100,000 in stock, for example, he can deduct $25,000. The maximum allowable deduction is $50,000.

Taxes on capital gains from stock sales by small companies would be linked to inflation. If the consumer price level has risen 10% during the time the investor holds the stock, then 90% of the profit on the stock sale would be subject to taxes. This technique is called indexing for inflation.

"The tax break is targeted to individuals to get them to invest in these companies. The theory is that the economy is better off if we plow money into the smaller businesses," said another congressional aide.

For the company, the budget agreement offers an array of economic goodies.

The research and development tax credit, now 20%, would be boosted to 30%. A separate credit to encourage experimentation, due to expire, would be extended through 1991.

Expensing, which allows deduction of the full price of some equipment in the year it is purchased, would be expanded to include two years.

Companies also could get a rapid write-off for additional purchases of scientific equipment.

The proposed new tax breaks apply only to companies in business for at least five years. And the firm must have a trade or business producing a tangible product. Banks, real estate agencies and other financial services firms don't qualify.

The budget conferees also agreed to have Congress adopt an additional $600 million in unspecified "growth incentives."

Enterprise zones, an effort to bring business back to economically devastated neighborhoods, also would receive recognition under the budget deal.

The idea of luring business back to the depressed inner-city is a favorite theme of the White House, but has never been embraced by Congress. Sunday's agreement represents another effort to win legislative approval.

The government would issue a list of areas qualifying as enterprise zones. A business operating in the area—with a factory, distribution center or other job-creating activity—would enjoy two tax breaks. The investment would qualify for very fast depreciation under the tax laws, and the company could claim tax credits for a portion of the salaries for all workers in the zone.

The search for oil and gas also would get a boost if Congress approves the budget package. It includes a variety of technical but important tax changes.

Tax credits would be increased for expenditures on exploratory drilling. Capital spending for special techniques to recover the remnants of oil in existing fields would receive expanded tax credits. And taxes on investors in some of these energy-related projects would be eased slightly.

The energy tax breaks, which might have drawn strong opposition earlier from a Democratic-controlled Congress, have a much better chance of approval now because of the surge in oil prices resulting from the Middle East crisis.

"The President wanted something he could call a growth package, even though he lost the battle on capital gains," a congressional aide said of the agreement between the White House and congressional leaders. "This deal represented the best he could do, and it should be attractive to the conservative Republicans who are always talking about helping entrepreneurs."

Los Angeles Times

Bush's Popularity Failed to Provide Clout

MONDAY, OCTOBER 1, 1990

By DAVID LAUTER
TIMES STAFF WRITER

NEW YORK—With his approval rating topping 70% and the nation rallying around his Persian Gulf policy, President Bush seems at the apex of his popularity. But to reach an agreement on the federal budget, he was forced to make major concessions.

Bush dropped his insistence on "no new taxes" just to get the budget negotiations started, and he was forced to abandon his plan to reduce taxes on capital gains to bring them to a close.

In-between, he also gave in to Democratic demands for some $33 billion in increased taxes on upper-income taxpayers, including a complicated limit on tax deductions and increased luxury taxes and an increase in tax charges for Medicare.

The result illustrates the limits on how far a President can translate popularity in foreign affairs into political clout at home. And it also demonstrates the marked difference between Bush and his predecessor, Ronald Reagan, who refused opportunities to take a similar deal to reduce the deficit because of his insistent opposition to higher taxes.

Democrats also faced limits on their power. As Senate Majority Leader George J. Mitchell (D-Me.) noted, it remains unclear whether leaders of either party will be able to get their followers to ratify the politically unpopular compromises that the budget deal comprises.

"Now comes the hard part," Mitchell said as the budget agreement was announced in the White House Rose Garden.

Less than four weeks ago, when he spoke to a joint session of Congress, Bush tried to use support for his Persian Gulf policy to leverage votes for his position on the budget. Strength abroad required strength at home, he told members of Congress. And strength at home, he said, would require a budget plan along the lines he wanted.

The gambit was chancy. Past presidents had "never been able to translate support for foreign policy into support for a domestic agenda," conservative political analyst Kevin Phillips pointed out at the time. President Franklin D. Roosevelt, for example, was forced to give up much of his New Deal program during World War II.

Bush fared no better. During his speech, as on numerous occasions before and since, Bush specifically said that a budget agreement would have to include a capital gains tax cut—an issue he had advocated during his 1988 presidential campaign and one that he had pressed ever since.

But Bush could not budge Democratic leaders, who resisted on grounds that cutting the capital gains taxes favored the rich. In the end, over the last week, key Republicans, led by Senate Minority Leader Bob Dole (R-Kan.), abandoned him as well.

"Sometimes you just don't get it just the way you want," Bush said as he announced the budget deal. "This is such a time for me."

Bush did obtain some items that he and his advisers wanted. The agreement includes new tax breaks for the oil industry, an issue for former oilman Bush, and new tax credits for research and development, which Bush and his aides believe will increase economic productivity.

The deal also provides an enforceable limit on spending for domestic programs—a step that will require congressional Democrats to make difficult choices over the next several years as constituencies clamor for more federal aid.

Above all, there is the deal itself, which will substantially reduce the federal budget deficit and which, at least for now, would break the deadlock over fiscal policy that had threatened to paralyze federal decision-making.

But the fact that getting the deal, in the end, did come before everything else underlines a central element of the Bush presidency. Unlike Reagan, who had a set of issues in which he believed strongly and on which he was unwilling to compromise, Bush, as his aides say, is basically interested in "process," not ideology. There are few specific things the President will not sacrifice to achieve a compromise.

That approach makes it far easier to reach deals. But Bush's style has costs as well. More ideological members of his own party already are angry at the President for giving up on causes they believe in. And the compromise on taxes—which remains one of the most potent political issues of the era—will deprive Republicans of a potent weapon as the fall congressional campaigns head into their final five weeks.

One indication of the problems Bush may face was the conspicuous absence of Rep. Newt Gingrich (R-Ga.), a leader of conservatives in the House, as the budget agreement was unveiled Sunday afternoon. Without the support of Gingrich and his followers, Bush will have to rely ever more heavily on the majority Democrats—a source of support that could prove increasingly shaky if Bush's overall popularity slips.

Los Angeles Times

MONDAY, OCTOBER 1, 1990

CONSUMERS: Cigarettes, Beer, Gas Would Cost More Under New Plan

By EDWIN CHEN
TIMES STAFF WRITER

WASHINGTON—The budget deficit reduction agreement that President Bush and congressional leaders signed Sunday will hit American consumers squarely in their pocketbooks.

If Congress enacts the accord, cigarettes, liquor, gasoline and other fuels soon will cost more. The agreement also calls for a new luxury tax on expensive consumer products, ranging from cars and yachts to furs and jewelry.

Altogether, higher taxes would bring in $134 billion in new revenues over the next five years in a budget package designed to reduce federal borrowing by $500 billion over that same period.

In addition to higher levies on tobacco, alcohol and fuel, the package would require higher-salaried employees to contribute more to help finance the fast-rising costs of the federal Medicare program. Currently, workers pay 7.65% of their income up to $51,300 as Social Security withholding taxes, 1.45% of which is for Medicare. The new agreement would continue the 1.45% up to $73,000 in annual earnings.

Employees of state governments, who currently do not pay the Medicare tax or Social Security, would be brought into the system.

Most individuals or families earning more than $100,000 would pay more income taxes, with the government disallowing itemized deductions equal to 3% of the income above the $100,000 threshold. For example, if a taxpayer had an income of $150,000, the taxpayer would lose deductions equal to 3% of the $50,000 excess or $1,500 worth of tax writeoffs.

But the news isn't all bad.

By reducing the federal government's borrowing needs, the new budget plan is expected to bring down interest rates. "Long-term interest rates should be able to come down," the President said at the White House Sunday afternoon.

The budget pact includes $182 billion in cuts in government discretionary expenditures, with defense spending accounting for the single largest share, $67 billion, in the first three years.

Cuts in popular benefit programs, such as Medicare and farm subsidies, would contribute another $119 billion in savings.

If the package is adopted by Oct. 19, as the President and congressional leaders hope, a 5-cent gasoline tax increase would take effect on Dec. 1, with an additional 5-cent hike next July 1. It is estimated that each penny increase in the gas tax will cost American drivers about $1 billion a year. The current levy is 9 cents per gallon. California drivers would be especially hard hit, since state voters on June 5 approved a doubling of the state gas tax, to 18 cents per gallon.

Separately, a 2-cent tax on each gallon of crude oil would take effect Jan. 1.

Joseph Lastelic, a spokesman for the American Petroleum Institute, said that higher gas taxes in the past have had very little impact on consumption and that the proposed new hikes would be no different. Lastelic also said that the higher taxes would hurt consumers in the West more than elsewhere around the country because they drive greater distances.

The deficit-reduction package calls for a 4-cent-per-pack cigarette tax increase on Jan. 1, and a second 4-cent increase in 1993.

The Tobacco Institute, the Washington-based lobbying group for the tobacco industry, said that the proposed hikes—coming on top of the current 16-cent-per-pack federal excise tax—would be regressive in that the increases would disproportionately hit the middle class and poor, who make up most of the nation's 50 million to 60 million smokers.

The agreement also contains sharp tax increases for beer, wine and distilled liquor. It calls for doubling the current 16-cent per six-pack federal beer tax, which will cost beer drinkers an additional $1.5 billion a year, according to Jeff Becker, a spokesman for the Beer Institute.

The tax on wines would go up by 24 cents a bottle and on distilled liquor by $1.20 per gallon.

According to the Distilled Spirits Council of the United States, the current federal taxes on hard liquor are about $2 on a fifth of liquor or more than 25% of the cost of an average bottle.

The luxury tax calls for a 10% levy on the portion of the retail price in excess of $30,000 for cars, $5,000 for furs and jewelry, $100,000 for private airplanes, boats and yachts.

"This is real, not a phony smoke and mirrors deficit-cutting program," Bush said of the budget agreement.

Times staff writers Tom Redburn and James Risen contributed to this story.

The Philadelphia Inquirer

Monday, October 1, 1990

Plan raises taxes, cuts U.S. spending

By R. A. Zaldivar
Inquirer Washington Bureau

WASHINGTON — President Bush and congressional leaders agreed yesterday on a plan to cut the federal deficit by $500 billion over the next five years.

If approved by Congress, the package would affect virtually every household in America, raising the cost of gasoline by 12 cents a gallon and the cost of a six-pack of beer by 16 cents, while reducing spending for Medicare, farm subsidies and unemployment insurance.

The agreement, which also includes Pentagon cuts and some tax breaks for businesses, averted the automatic spending cuts under the Gramm-Rudman law that would have sent more than a million federal workers home as the 1991 fiscal year began today.

Three hours after Bush announced the agreement from the Rose Garden, the House passed, 382-41, a stop-gap spending bill to keep the government going while work on the 1991 budget was finished. Senate approval by voice vote followed.

Congressional leaders agreed to complete the budget by Oct. 19, though they acknowledged that the benefit cuts and new taxes will be a tough sell to members just one month away from an election.

The agreement would cut the 1991 deficit, projected at a record $293 billion, by $40.1 billion. The Gramm-Rudman law's goal of a balanced budget in three years would be put off until after 1995. In January, the Bush administration was projecting a $100 billion deficit for next year and a balanced budget by 1993.

Domestic benefit programs would be cut by $119 billion over five years, with $60 billion of that coming from Medicare and $13 billion from farm programs. Discretionary spending would be cut by $182 billion, most of it from the Pentagon.

Taxes would go up by almost $134 billion, with the biggest item being a 10-cent increase in the gasoline tax that would bring in $45 billion. Savings on interest costs — one payoff for such a deficit reduction is expected to be lower long-term interest rates — would add nearly $65 billion.

Bush's long-sought reduction in the capital-gains tax rate was dropped Saturday, along with the Democrats' insistence on higher taxes for the wealthy and plans to trim Social Security benefits.

"It is balanced, it is fair, and in my view it is what the United States of America needs at this point in its history," Bush said in announcing the agreement, which concluded budget talks that began in May.

With congressional leaders at his side, Bush said, "I do not welcome" the tax increases." But he said they were needed to help the economy, and "I will do everything I can to lay aside partisanship and to take the case for this deal to the American people in every way that I can."

Congressional leaders said that the President's role would be crucial. "I think it's going to be difficult to pass a deficit-reduction package of this historic size unless there is bipartisan support," said House Majority Whip William H. Gray 3d (D., Pa.). "The President has got to be out there leading, and it's going to be very, very difficult."

"If a senator is looking for a way out, there are a number of difficult issues," said Sen. Pete V. Domenici of New Mexico, the senior Budget Committee Republican. "Those who do not want to face up to this can find reasons, but I think the test is, what would they propose?"

Rep. Newt Gingrich (R., Ga.), long a strident foe of higher taxes, did not attend the Rose Garden ceremony, despite his involvement in the negotiations. An aide said Gingrich was having the package analyzed by a team of economists before he announced his position.

On the Democratic side, Senate Budget Committee Chairman Jim Sasser of Tennessee expressed concerns that the deal did not do enough to address the issue of fairness in the distribution of federal taxes. Studies have shown that during the '80s, taxes took a growing share of the shrinking incomes of those less well off, while the rich saw their tax burden lessened.

"Because of the administration's intractability on rates, and the necessity of increasing excise taxes, it leaves the overall package much less progressive than I would have liked," Sasser said.

Of the $133.4 billion in taxes, $73 billion would come from excise taxes, which affect lower-income people disproportionately. Those include a 5-cent gasoline-tax increase, with another 5 cents by next July; a 4-cent increase in the cigarette tax, with another 4 cents by 1993; doubling the tax on a six-pack of beer from 16 to 32 cents; raising the tax on wine to 24 cents a bottle; increasing the tax on hard liquor by $1.20 a gallon, and a new tax on the petroleum content of manufactured goods that would add 2 cents to the price of a gallon of gas on Jan. 1.

Tax increases aimed at the wealthy account for $33 billion of the revenue package. Those include a new luxury tax on expensive cars and items such as boats and private planes, limits on income tax deductions and subjecting incomes of up to $73,000 to the Medicare tax. Currently, the Medicare tax applies only to the first $51,300 of income.

The package includes $12.1 billion in tax breaks for smaller businesses and those who invest in them, $4 billion in tax incentives for oil and gas exploration, and $1 billion in enterprise-zone credits for businesses going into economically depressed areas.

The increased excise tax burden on the poorest taxpayers would be partly offset by a $5 billion expansion of the earned income tax credit. The elderly poor would also be shielded from the higher cost of Medicare benefits.

The $60 billion in Medicare cuts would be divided evenly between care providers and beneficiaries. Medicare enrollees would see a number of changes in the Part B coverage, which applies to outpatient care. The annual deductible would rise from $75 to $150 in yearly increments of $25, and monthly premiums would be increased from $28.60 to $34.30. Beneficiaries would also be required to pay 20 percent of the cost of home-health visits.

Bush asserted that the plan represented a break with the Washington tradition of cooked-up budgets. "It is not a phony smoke-and-mirrors deficit-cutting program," the President said. For example, the cost of the savings-and-loan bailout is included in figuring the deficit.

But the costs of Operation Desert Shield — estimated at $15 billion next year — will not be counted in figuring the deficit. The temporary-financing bill Congress passed last night included $2 billion in new appropriations for the gulf operations.

The budget plan also assumes that the government will get $9.4 billion over five years from improved IRS enforcement, a promise that has not paid off in the past.

Additionally, the economic assumptions underlying the package predict that domestic oil prices will average $21.15 a barrel this year and $24.15 next year. Oil prices recently passed $40 a barrel, and budget director Richard G. Darman acknowledged that if prices stayed that high, his projections were out the window.

Nevertheless, Domenici said this was the most serious effort at deficit reduction he had seen in 14 years on the Budget Committee.

"I've been at it a long time, and I have never seen a package that attacks the deficit that is as credible as this or as significant as this," Domenici said.

The Philadelphia Inquirer

Monday, October 1, 1990

Deal offers both pain and benefits

By Robert A. Rankin
Inquirer Washington Bureau

WASHINGTON — Americans would pay higher taxes and get reduced federal benefits under the budget agreement announced yesterday, but if the deal works as expected, they also would gain lower interest rates on car loans and home mortgages, as well as a healthier economy.

Taxes would rise for gasoline, tobacco and alcoholic beverages. People who buy luxury goods such as yachts and expensive autos, or who spend more than $5,000 on furs and jewelry, would pay a stiff new tax on those items.

Medicare beneficiaries would pay higher fees, farmers would get smaller subsidies, state and local government workers would be required to pay Social Security taxes and federal workers would lose a big, sweet pension perk — all if the deficit deal becomes law.

The agreement would be good for the American economy, independent experts agreed — but several big questions remain unanswered.

Will Congress enact it? Will financial markets believe the numbers are real and not "blue smoke-and-mirror" budgetary fictions?

Will there be war in the Persian Gulf or deep recession here at home? Will oil prices stay at $40 a barrel, go higher, or fall?

The answer to any of those questions could swamp the deal, or severely reduce its effect on the U.S. economy.

Bush's budget director, Richard G. Darman, conceded that if oil prices stayed near their current $40-per-barrel range long, "it would be seriously disruptive" to all calculations in the budget agreement. This budget assumes that the Persian Gulf crisis will be resolved and oil prices will fall soon, Darman said.

But if negotiators' calculations are borne out, the federal goverment could stop borrowing private funds to pay for current operations by fiscal 1994.

That would end a massive, decade-long federal drain on America's shallow pool of savings, freeing markets to channel that money instead into productive private investment at lower lending fees.

And if financial markets believe the deal truly will lower federal borrowing by $500 billion over five years and possibly end federal deficits, as negotiators claim — that happy prospect in itself should push interest rates down immediately, economists, bankers and market analysts agreed.

"The bond market is going to be the true sounding board, the true arbiter of [the deal's] ultimate impact on the economy," said William Sullivan, senior vice president for Dean Witter Reynolds in New York.

If financial markets find the deal credible, long-term interest rates should drop by half a percentage point, most experts agree, and some see even greater reductions.

"I think that's worth a full percentage-point [drop] on rates across the spectrum," said Jay Woodworth, vice president of Bankers Trust in New York.

Such rate cuts would make homes, appliances and autos cheaper. For example, a $100,000, 30-year mortgage that carries a 10 percent interest fee produces a monthly payment of $877.57 to service principal and interest.

If the interest rate drops to 9 percent, the monthly payment would fall to $804.62, said David Smith of Mount Vernon Realty in Alexandria, Va.

Federal Reserve Board Chairman Alan Greenspan repeatedly has said that a credible deficit-cutting deal would lead to lower interest rates — and the Fed controls short-term interest rates.

But a one-point drop in short-term rates would provide only modest benefits to consumers. For example, a 48-month car loan for $10,000 now carries an 11.25 percent interest rate and costs $259.67 a month.

At 10.25 percent interest, the monthly payment would drop only to $254.82 and interest costs over the life of the loan would fall $233.20, said Darren Zetena of Sovran Bank in suburban Washington.

Falling interest rates would spur business investment as well as consumer spending, perhaps enough to lift the slumping U.S. economy past recession this year, some experts said; all agreed a credible deal that pushes rates down would set America on a firmer economic foundation for the future.

"The drop in rates should offset the impact of the cutback in government spending and the hike in taxes," said Norman Robertson, chief economist of Mellon Bank, of Pittsburgh, Pa.

"I certainly have no hesitation in thinking this will be good for the economy over the long term," said Rudolph Penner, former director of the Congressional Budget Office.

The Washington Times

MONDAY, OCTOBER 1, 1990

Big fight expected on Hill

By Frank J. Murray
and Major Garrett
THE WASHINGTON TIMES

President Bush and congressional negotiators ended the budget deadlock yesterday by agreeing to wipe out the deficit in five years with a $134 billion tax boost and spending cuts that would save $366 billion.

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.

The agreement, which must get House and Senate approval, would increase taxes on cigarettes, alcohol, gasoline, airplane tickets, fur coats, jewelry and luxury cars. It raises income taxes and Social Security premiums for the wealthy and increases medical expenses for the disabled and elderly while cutting back unemployment insurance payments and student loans.

"[It] requires that virtually everyone contribute in some way," a sour-faced President Bush said in announcing the deal in the Rose Garden surrounded by equally grim negotiators from both parties who reportedly thrashed out details through the night.

"It is balanced, it is fair and in my view it is what the United States of America needs at this point in its history," Mr. Bush said.

Shortly afterward, Congress acted to avert $105 billion in spending cuts — and furloughs of thousands of federal workers — which would have taken effect this morning under the Gramm-Rudman-Hollings deficit-reduction law.

On a 382-41 vote, the House approved a stopgap spending bill, known as a continuing resolution, that allows the government to fund all services until Oct. 5. The Senate then passed the measure on a voice vote. The resolution also includes $2 billion in new appropriations for Operation Desert Shield in the Persian Gulf.

The congressional leadership involved in the negotiations now must sell the agreement to rank-and-file lawmakers who were largely excluded from the budget talks, which began in May. November elections will make the task more complicated amid higher taxes and cuts in programs such as Medicare.

"It's going to be very painful for a lot of people," said Senate Minority leader Robert Dole of Kansas. "The naysayers, the nit-pickers may have a field day."

House Speaker Thomas Foley of Washington said "it's not going to be easy or simple" to win congressional passage.

"Now comes the hard part," said Senate Majority Leader George Mitchell of Maine. "This agreement is a compromise. Both sides can accurately say that it includes provisions they don't like. . . . We have already debated too long. Now we must act decisively."

Democrats responded coolly to the deal yesterday. Republicans voiced potentially lethal objections.

"What is it that we've gotten," said Rep. Mickey Edwards, Oklahoma Republican and chairman of the House Republican Policy Committee. "There are enough demerits to advocate defeat of the package. I must use a microscope to find enough merits."

Rep. Jerry Lewis, California Republican and chairman of the House Conference Committee, estimated that 55 percent of the House Republicans oppose the deal and 45 percent support it.

"A lot of work needs to be done at the highest levels of the administration [to sell the package]," he said. "At best, the people carrying this package are on eggshells."

Sen. Connie Mack, Florida Republican, said, "I cannot support this budget because it hurts taxpayers, hurts the economy and hurts senior citizens."

Rep. Dana Rohrabacher, California Republican, called it "a road map to recession."

Rep. Charles Rangel, New York Democrat, said it left "the richest of the rich alone." He doubted he would support the package.

One sweetener available to Congress is that more than half of the $500 billion in deficit reduction will not take effect until 1994-95.

"You threaten people with execution, and when you only cut off their thumb, they're supposed to be happy," said Rep. Larry Smith, a Florida Democrat whose South Florida district includes thousands of elderly residents.

"A majority of House Republicans need to support this," he said. "We're not carrying their water."

Although Mr. Bush already had abandoned his campaign pledge not to raise taxes, he said, "Sometimes you don't get it just the way you want, and this is such a time for me."

He even signed off on a page from Michael Dukakis' presidential campaign that Mr. Bush had ridiculed. Mr. Dukakis suggested easing the deficit without taxes by increasing IRS enforcement. That plan was in the bipartisan deal, with a $9.4 billion estimate of its value.

Technically, yesterday's agreement produced a postponement of drastic budget cuts only until Friday, giving Congress a week to pass a budget resolution adopting the broad outlines of the agreement.

Congress likely will pass a second continuing resolution to extend government spending until Oct. 19. That would allow the various committees to draft legislation and specific appropriations bills that meet the spending targets within the budget agreement.

The agreement would waive the current Gramm-Rudman deficit targets, which would have required the new fiscal year's budget gap to not exceed $74 billion.

Because the economy is so fragile, only $40.1 billion of savings would be felt in the budget for the fiscal year beginning today.

The $500 billion deficit reduction would be achieved over five years through $134 billion in tax increases, discretionary cuts of $182.4 billion, mandatory cuts of $119 billion and spending reductions of $64.8 billion in interest.

Mr. Bush won in another area, growth incentives for small businesses. The plans would cost $12.1 billion over the five years but eventually would produce income and jobs. There also would be $1 billion earmarked for enterprise zones and $4 billion in energy incentives.

Mr. Bush interrupted a round of private meetings with world leaders at the United Nations for a five-hour round trip to the White House for the announcement. When he returned to New York he told the world leaders he hoped the budget plan and deficit reductions would lower international interest rates.

A number of citizen groups reacted harshly to the budget plan.

The National Association of Counties complained bitterly about the proposed increase in gas taxes and provisions to limit the federal income tax deduction for state and local income and property taxes.

"We are strongly opposed to this budget package," said NACo President D. Michael Stewart. "It is unfortunate that we have to oppose the entire package because of these two proposals, but we have been given no other choice."

Alan L. Keyes, president of a 400,000-member taxpayer advocate group called Citizens Against Government Waste, called the package "a terrible deal for taxpayers."

"Just as with so many budget deals in the past decade, the taxpayers have absolutely no guarantees that spending cuts will materialize and every assurance that taxes will go up," Mr. Keyes said.

Ron Pollack of Families USA, a non-profit group that advocates on behalf of the elderly poor, said the negotiators "have declared war on our grandparents" and warned that those who back the plan "shouldn't expect older Americans to be pacifists on Election Day."

Edwin Rothschild, head of Citizen Action, a non-profit national consumer organization, complained that the gasoline tax is a regressive measure that will hit poor and middle-income people hardest.

The Washington Times
MONDAY, OCTOBER 1, 1990

'Democrats rolled us,' tax-cutters say of deal

By Donald Lambro
THE WASHINGTON TIMES

The Republicans who fought for the capital-gains tax cut, a centerpiece of the President Bush's 1988 campaign, reacted last night with bitter anger and sour frustration.

"We let the Democrats roll us on capital gains," said a budget aide to one Republican senator who has been in the forefront of the fight.

"We let them get away with murder. There were some very good arguments to be made for our position and we didn't make them.

"We let the enemy have the field."

In the end, some Republicans said, President Bush and his chief lieutenants wouldn't make the economic case for the president's own proposal, which the president argued in 1988 would stimulate business investment and jobs in the midst of a declining economy.

"Our people up here feel that the White House has not defended the capital-gains case in the face of the Democrats' attacks and has not defined the issue as a major economic growth measure," the budget aide said.

Many of the Republicans blamed Sen. Robert Dole of Kansas, the leader of the Republican minority, and Rep. Robert Michel of Illinois, his counterpart in the House, for abandoning the issue as budget-deadline pressure grew.

"It's really hard when you are battling not only [Senate Democratic leader] George Mitchell, but your own Republican leaders," complained a chief budget adviser to a Southern Republican senator.

"There's a great deal of frustration toward the Republican leadership in the Senate which they [GOP senators] are close to calling no leadership," said another party officer who works closely with conservative senators.

But it was the White House's handling of the capital-gains issue that was the chief focus of complaints made in recent weeks by Republican senators during closed meetings with White House Chief of Staff John Sununu and other administration officials, say sources who attended the meetings.

At one point in an exchange with Sen. Malcolm Wallop of Wyoming, who chairs the Senate Republican Steering Committee, which is a group of conservative senators, Mr. Sununu angrily told him: "If you don't like what we're doing, you come up with your own plan."

Mr. Sununu has over the past several weeks turned aside repeated requests from the conservative group to meet with Mr. Bush to discuss their concerns about how the capital gains and budget negotiations were being handled.

The president's chief adviser was quoted as telling Mr. Wallop: "If you don't have a solution of your own in hand, then there is no point in coming up here and telling him that you don't like his."

The growing acrimony between the White House and Republican senators appeared to worsen at last Tuesday's closed Senate Republican Policy Committee meeting.

"They ganged up on him [for] not being as effective as the Democrats in framing the debate and keeping the party on the offensive," said a Senate budget aide. "The message that the senators gave Sununu was for the president to get on the stick and start blaming the Democrats.

"But he ganged right back, reminding everybody that when Bush was criticized for attacking the Democrats last August for the impasse over the budget talks, there weren't many Republicans in Congress who backed him up."

White House political director David Carney dismissed reports of Republican dissatisfaction with the administration's handling of the capital gains issue as "inside-the-Beltway stuff" that carries little or no weight with the voters.

"The budget deal is 100 percent more important than any one campaign platform political point of view and from an economic point of view," Mr. Carney said. "The American people want to know, did they get the job done? And if not, why not?

"Capital gains is an important growth mechanism, but it's not the only growth mechanism. What's more important is a budget deal that works."

Last week, with the chances dimming for any capital gains tax cut, several conservative Republican senators, such as Bob Kasten of Wisconsin, shifted to a fallback position, pushing for indexing of capital gains for inflation.

In the end, even that modification could not win enough support among negotiators, when Democrats, unruffled by the deadline pressure, stuck to their position that any reduction in capital gains taxation must be accompanied by raising the rates on the wealthiest taxpayers.

Supporters of the capital-gains tax cut, such as Sen. Connie Mack, Florida Republican, insisted over the weekend that despite their defeat in the budget talks, they would press ahead in the weeks to come to offer their own capital-gains cut proposals on the Senate floor as an amendment to a piece of legislation.

"He's not throwing in the towel," said an adviser to Sen. Kasten who, with Mr. Mack, is sponsoring an amendment to cut the present 28 percent capital-gains tax rate to 15 percent. "We still want to go for a rate cut and a separate vote on this issue."

Nevertheless, the critical question on Capitol Hill last night was whether the White House and Democratic leaders could persuade their troops in the House and Senate to support the budget agreement.

Aides to several conservative Republican senators said they believed many on their side would "walk away from the agreement" because of its tax components. On the Democratic side, one House aide close to the budget talks said Speaker Thomas S. Foley "would have trouble selling the package" to Democrats "because of the entitlement cuts."

FOUNDED IN 1801 BY ALEXANDER HAMILTON
NEW YORK POST
METRO EDITION
MONDAY, OCTOBER 1, 1990 / Sunny, upper 60s today; partly cloudy, low 50s tonight / Details, Page 2

FED BUDGET DEAL: $134B IN TAX HIKES

By DEBORAH ORIN *Washington Bureau Chief*

President Bush and congressional leaders yesterday unveiled an 11th-hour budget deal that would mean $134 billion in tax hikes on everything from gasoline, booze and cigarettes to fancy cars.

The deal would also slash tax deductions for families earning over $100,000 — meaning some wealthy individuals could lose 80 percent of their deductions, including local and property taxes and charitable contributions.

Aides to both Gov. Cuomo and Mayor Dinkins said the deal would zap New York especially hard.

Cuomo is "adamantly opposed" to what he regards as a "very regressive" plan and intends to fight it, said his Washington lobbyist, Brad Johnson.

It wasn't immediately clear whether the package will pass Congress — President Bush acknowledged "there will be some tough fights ahead," and conservative Republicans were reportedly furious.

After the deal was announced, Congress passed stop-gap funding to avoid layoffs as the new fiscal year starts today. Congress will have until Oct. 19 to vote on the deal.

Most New York congressmen described the proposal as "iffy" — but several voiced relief that it doesn't hurt Social Security payments, although it raises Medicare costs to seniors.

The five-year plan doesn't include the capital-gains tax cut President Bush ardently sought.

That idea died when Democrats insisted it be accompanied by higher income-tax rates for the rich.

Conservative Republicans reportedly were furious over the absence of a capital-gains cut as well as over some of the tax hikes — in fact, House GOP whip Newt Gingrich (R-Ga.) boycotted Bush's Rose Garden press conference durinn which he announced the deal.

The plan calls for defense cuts of at least $67 billion — possibly more — and a freeze in domestic programs.

Cuomo's staff denounced the package as a "partial repeal" of deductibility of state and local taxes — a crucial issue in New York, which has some of the highest state taxes in the nation.

Although the deal hits only families earning over $100,000, in a state such as New York — which has both higher incomes and higher costs-of-living — that could affect a husband and wife who both are civil servants.

Critics also contend the deal would encourage wealthy corporate executives to move their companies out of New York to lower-tax states — hurting the city's economy and the real-estate market.

"It's also very regressive — to seek just $2 billion in luxury taxes doesn't balance the equation," added Johnson, Cuomo's man in Washington.

He contended the $2 billion to be raised in "luxury taxes" on items likes Xancy cars is nothing compared with the $45 billion in gas taxes and $10 billion in booze taxes that would hit Joe Sixpack.

Cuomo himself is expected to denounce the plan today.

Mayor Dinkins' press secretary, Albert Scardino, noted that New York City now gets back just 77 cents on every dollar.

"We already bear a disproportionate share of the cost of the federal government and get less than our share of the benefits — this would only exacerbate the situation," Scardino said.

The complicated proposal for slashing deductions would affect any individual or family with adjusted gross income over $100,000.

The amount of eligible deductions would be reduced by 3 percent of the amount of adjusted income over $100,000.

A family with $200,000 in adjusted gross income and $40,000 in deductions would have income $100,000 over the threshold, which means a $3,000 reduction — so only $37,000 could be deducted.

As family income rose, as much as 80 percent of deductions could be lost.

DAILY NEWS
NEW YORK'S PICTURE NEWSPAPER® Monday, October 1, 1990

Read it here: new taxes

By JEROME CAHILL
News Washington Bureau

WASHINGTON — President Bush and Congress agreed yesterday on a five-year, $500 billion package of spending cuts and tax hikes that will hit nearly every American but saves most of a tax break important to New Yorkers.

The plan, which heads off the shutdown of government services threatened for today, calls for a total of $134 billion in higher taxes over the period, with the biggest increase coming from a 12-cent-a-gallon hike in the gasoline tax — 5 cents effective this year and 7 cents next July.

Defense spending would face a three-year, $67.2 billion cutback. Government spending on benefit programs such as Medicare would be slashed, and other domestic programs would held down.

Bush, who flew back to Washington from the United Nations yesterday morning to bless the agreement, urged swift congressional approval.

'Balanced': Bush

Underscoring his administration's hopes that the plan will lead to lower interest rates and boost the sluggish economy, Bush told a Rose Garden ceremony attended by top congressional leaders that the plan was "balanced . . . fair . . . and in my view it is what the United States of America needs at this point in its history."

On key pocketbook items, the plan calls for higher taxes on cigarets, beer, wine, liquor, airplane tickets and luxury items such as jewelry and high-powered autos. Middle and upper-income taxpayers would pay more in Medicare taxes, the government's health insurance program for the elderly.

In a victory for Gov. Cuomo, the plan retains the full deductibility for state and local income tax payments for most middle-income taxpayers. The White House had sought to wipe out much of the deduction, but backed down in the face of opposition led by Cuomo and New York's congressional delegation.

But about 2.5 million upper-income taxpayers — couples and individuals with incomes higher than $100,000 — would lose a part of their itemized deductions. As a result, someone at the top 28% tax rate earning $150,000 a year would pay about $420 more in income taxes, officials said.

Although Bush campaigned for the White House in 1988 on a "no new taxes" platform and for months bitterly opposed the idea of using tax increases to reduce the budget deficit, he promised to fight hard to get the package approved by Congress.

"Sometimes you don't get it just the way you want, and this is is such a time for me," Bush said. But he said the time had come "to lay partisanship aside" and compromise to bring the deficit under control.

Democratic leaders agreed. "The alternative to this agreement is fiscal chaos," said House Majority Leader Richard Gephardt (D-Mo.)

In the marathon round of weekend talks that finally produced an agreement early yesterday, the budget negotiators shelved two of the most controversial issues facing them — proposals to cut capital gains taxes and Social Security benefits.

Bush dropped his demand for a capital gains tax reduction and Democrats gave up on their insistence on raising the 28% tax rate for the wealthiest taxpayers, who would benefit most from a lower rate on capital gains — those from sales of stocks, bonds and other assets.

Negotiators, fearful of a voter backlash by senior citizens in the November elections, rejected any delay in cost-of-living raises for Social Security retirees. The negotiators also had second thoughts about increasing the tax bite on retirement benefits received by the middle and upper-income elderly.

DAILY NEWS
NEW YORK'S PICTURE NEWSPAPER® Monday, October 1, 1990

Deficit plan is called painful

By STEVEN KOMAROW
The Associated Press

WASHINGTON – President Bush's budget deal with Congress would dig deep into American pocketbooks.

"It's going to be very painful for a lot of people," said Senate GOP Leader Bob Dole of Kansas, predicting a tough fight for enough votes to approve the agreement.

Taxes on gasoline and diesel fuel, now 9 cents a gallon, would more than double, to 21 cents by next July.

The 16-cent federal tax on a pack of cigarets would rise 4 cents Jan. 1 and 4 cents in 1993.

Middle-income and wealthy taxpayers, not just the elderly, would pay for Medicare. Currently, the payroll tax of 1.45% stops after a taxpayer's income hits $51,300. The budget deal would keep workers – and employers – paying until a $73,000 income cap.

Medicare, Soc Sec

State employes who currently don't pay the Medicare tax or Social Security would be brought into the system.

The annual Medicare deductible would double, from $75 to $150; coverage for clinical testing would drop from full to 80%, and monthly premiums would rise from $28.60 to about $34 next year.

Buyers of new cars, boats, jewelry and furs would pay a national sales tax on luxury goods. The fee would be 10% on the portion of car purchases above $30,000, boats and yachts above $100,000 and jewelry and furs above $5,000.

Most individuals or families with incomes in excess of $100,000 would pay higher taxes, with the government disallowing 3% of itemized deductions. Medical expenses or investment interest would not count.

Taxes on beer, wine and other alcoholic beverages would rise.

Richmond Times-Dispatch

Monday, October 1, 1990

Accord averts automatic cuts

WASHINGTON — President Bush and congressional negotiators agreed yesterday to a deficit-cutting plan that includes major increases in taxes.

Bush and a weary group of leaders from both parties gathered in the Rose Garden to announce their accord and to disclose that they now project the deficit for fiscal 1991 at $293.7 billion, up more than $60 billion from the estimate the government made in July.

They said the plan would bring the federal deficit down by $40 billion next year and by $500 billion over five years. But at the same time they agreed to extend the Gramm-Rudman deadline for a balanced budget to fiscal 1996 from 1993.

Bush said he expected that enactment of the plan would stimulate the economy and lead to lower interest rates. But White House officials later said the economic projections underlying the plan also assume that oil prices will fall.

Bush began selling the package to Congress, which took the first step yesterday of approving a stopgap spending bill that will keep the government in operation through Friday and also avoid steep automatic spending cuts that were to take effect today.

Even as Bush began his sales pitch, dozens of rank and file members of Congress attacked the agreement. Republicans were made angry by the tax increases and Democrats by the cuts in domestic spending.

The compromise, a product of four months of negotiations between the White House and congressional leaders, would impose steep spending cuts in popular programs, particularly Medicare, while raising taxes on petroleum products as well as gasoline, cigarettes, luxury items and alcoholic beverages. But the Social Security program was spared.

The agreement, however, forced tough political decisions upon Bush. He gave up his long-sought goal of a cut in the capital gains tax rate and accepted a Democratic proposal that would decrease the amount of deductions that Americans with incomes over $100,000 can take on their federal income tax returns.

The negotiators, who sealed the final deal at 3 o'clock yesterday morning, decided at the last minute that they were unwilling to take the political risk of including Social Security in the deficit-cutting package. Earlier plans had called for either delaying cost of living adjustments for Social Security recipients or increasing the portion of their benefits now subject to income tax.

The political strain that the negotiations have engendered was illustrated by the absence from the Rose Garden meeting of two top Republicans, Sen. Bob Packwood of Oregon and Rep. Newt Gingrich of Georgia, who were upset over the tax policies in the agreement.

But the Democratic leaders, who may face their own rebellion from the liberal wing of their party, agreed to sell the plan.

As he announced the accord, Bush pledged, "I will do everything I can to lay aside partisanship here and to take the case for this deal to the American people."

Both the president and the congressional leaders noted that while the negotiations had been difficult, the hardest task now lies ahead — getting members of the House and Senate to go along with the package.

Despite the swift approval by the two chambers of the stopgap spending bill and the delay in automatic spending cuts, the absence of Packwood and Gingrich could foreshadow some of the difficulties.

Under the complicated procedure the negotiators have worked out to try to assure that the House and Senate approve the final package intact, lawmakers will face a series of deadlines over the next three weeks to consider the specific spending cuts and tax increases their leaders have recomended.

If the deadlines are not met, lawmakers would be faced at each step along the way with the alternative of a government shutdown and the imposition of the automatic spending cuts.

Over five years, the budget package would cut $170 billion from military programs and $119 billion from benefit programs like Medicare, farm subsidies and civil service retirement. The package would raise $134 billion in new revenue from higher taxes and user fees for various government services during the same period.

The main spending cuts in the agreement include increased premiums and a higher deductible for Medicare, cuts in farm programs, military spending and retirement benefits for federal employees.

The main revenue-raising provisions include a 5-cent-a-gallon increase in the gasoline tax, effective Dec. 1, and an additional 5-cent increase effective July 1. There would also be a separate tax on petroleum that Richard Darman, the budget director, said would increase the per-gallon gasoline tax an additional 2 cents.

In addition, the package includes higher taxes on cigarettes and a 10 percent tax on automobiles with price tags over $30,000, boats with price tags over $100,000 and jewelry and furs over $5,000.

(Ray D. Pethtel, commissioner of the Virginia Department of Transportation, said "we'll have to take a careful look at the agreement" to determine, among other things, if the additional revenues will be used entirely for deficit reduction.

("I haven't seen the details," Pethtel said, but "we are concerned that any increase in the price of gasoline could affect consumption and that would affect our revenue base."

(The highway department, heavily dependent on gasoline taxes and other fees such as titling and sales taxes, has already been hit hard by revenue projections that will fall about $131 million less than anticipated this biennium.)

The package would also raise the limit on wages subject to a 1.45 percent tax that workers and their employers pay to finance the hospital portion of the Medicare program. The tax applies to the first $51,300 and would rise to $73,000.

The 3-cent-per-bottle wine tax will increase to 24 cents, the 16-cent tax on a six-pack of beer will go to 36 cents and the $12.50-per-gallon liquor tax will grow by $1.20.

While the president did not get the capital gains tax cut, he did win a package of more narrowly targeted tax breaks totaling about $25 billion over five years.

Richmond Times-Dispatch
Monday, October 1, 1990

Massive shortfall remains despite deal

Despite deal, big deficit remains

Analysis

By Tom Raum
Associated Press writer

WASHINGTON — Once again, an 11th-hour budget compromise has delayed fiscal chaos. But the agreement that President Bush insisted yesterday was not "smoke and mirrors" will still leave a gaping budget deficit.

For it to work, the agreement's major initial impact must be psychological. It must give financial markets enough confidence that interest rates will begin to drop.

Even though the plan announced at a hastily arranged Rose Garden ceremony holds out the promise of deeper savings down the road, it will not prevent the fiscal 1991 deficit from setting a record.

Ironically, even as congressional and White House budget negotiators were putting the finishing touches on the deal to pare the federal deficit by $40 billion in the new fiscal year, budget officials were raising the estimate of the deficit by a similar amount.

Just a week ago, budget negotiators were talking about a $250 billion shortage in the absence of spending cuts and tax increases.

Now, even with the budget agreement, a deficit of $254 billion is forecast.

That's because yesterday, Budget Director Richard Darman increased the estimate for the fiscal 1991 deficit to $293.7 billion.

That's up from the $100 billion he estimated in January and the $231 billion he estimated in July. He blamed economic performance and the spiraling costs of the savings and loan bailout for the latest revision.

And that new figure assumes that oil retreats from $40 a barrel to $21 to $24; that a shooting war doesn't break out in the Middle East; and that the economy doesn't totter into a recession.

So the final figures could be much worse.

Compare the $253 billion level with the target in the Gramm-Rudman budget-balancing law of $64 billion.

It would take spending cuts of some $130 billion to get spending in line with that target — not the $40 billion of the agreement or the $100 billion talked about over the past few weeks.

Thus, the balanced budget that President Reagan once promised by 1983, and which the current Gramm-Rudman law required by 1993, is once again receding from grasp.

Now, budget negotiators don't envision a budget in balance until near the end of the century.

"The markets are not looking at the Gramm-Rudman-Hollings targets as if that's reality, the ones in current law," Darman said.

No one really believes "we're on a path to meet those targets," he conceded. "That's been obvious for months if not more than a year."

Bush made two major concessions in the course of the talks: first agreeing, in July, to back away from his "no new taxes" pledge; and then, just within the past few days, abandoning his insistence on a lower capital gains tax rate.

Did Bush give up more than he gained? "I don't think we're going to get into the hot rhetoric of what gain or loss there is in terms of — political terms," White House chief of staff John Sununu said Sunday.

The Washington Times
WASHINGTON, D.C.
FRIDAY, SEPTEMBER 28, 1990

Budget bargainers seem inches closer

By Major Garrett
and Frank J. Murray
THE WASHINGTON TIMES

Budget negotiators reported noticeable progress yesterday, but Congress still was forced to call a rare Sunday session to consider a temporary law that would spare the nation drastic cutbacks in government services.

White House negotiators and the congressional leadership exchanged new proposals that narrowed differences in the area of domestic spending cuts.

"It looks pretty close right now," said White House Chief of Staff John Sununu. "The chances of us getting an agreement today are 3 in 8. It's like Jell-O, it's not ready until it's ready."

If a deal is not reached by Monday, the start of fiscal year 1991, more than $105 billion in spending cuts under the Gramm-Rudman-Hollings deficit-reduction law will commence. Congress called the Sunday meeting to pass a budget deal — should one emerge — or an alternate, temporary funding bill to keep the government afloat.

Negotiators talked long into last night. But it was clear that even if an agreement were reached early this morning, Congress would be unable to consider it fully today. Congress is set to adjourn by 2 p.m. in observance of Yom Kippur.

Officials said pesky differences remained on tax policy and methods to enforce the massive budget deal, which is designed to trim spending by $50 billion in 1991 and $450 billion more over the next four years.

Said Budget Director Richard Darman:

"Maybe tomorrow [we'll get an agreement]," he said. "I just can't tell you. Who would have thought that it would be going on this long."

Democratic officials close to the talks expressed optimism that agreement could be reached before the Sunday session. If that occurred, the budget package would be attached to a short-term omnibus spending bill Congress likely would pass to block Gramm-Rudman cuts.

"People are optimistic at this point," said House Speaker Thomas Foley. "The odds are we're going to succeed."

Both sides appeared somewhat closer on the thorny issue of capital gains tax cuts, pushed by President Bush.

Officials said Republicans dropped the demand to cut the rate from 33 percent to 15 percent in exchange for indexing capital gains to protect profits from the effects of inflation.

Democrats countered that the rate would be acceptable only if tax rates for wealthy Americans were raised enough to compensate for the loss in revenue indexing would bring.

Capital gains taxes are paid on the profits of stocks, bonds, land and other assets from the time of purchase to the time of sale. With indexing, taxes would apply only to pre-inflation profits.

House Democrats have prepared an omnibus spending bill that would delay Gramm-Rudman cuts for 20 days while Congress implements the 1991 budget. The president has vowed to veto that proposal unless it contains a budget agreement produced by the summit.

Regarding budget talks, Mr. Bush toned down his anti-Democratic rhetoric yesterday while campaigning in the Midwest.

At a Cleveland fund-raiser for gubernatorial candidate George Voinovich, Mr. Bush inexplicably omitted references to the Democratic Party.

Just a day before he had blamed the budget impasse on congressional Democrats and promised to take that message to "every state in the union." He even erroneously accused them of failing to offer a budget package, an assertion he later retracted.

"You can't do it every speech," said Press Secretary Marlin Fitzwater when asked to explain the new tone.

Meanwhile, House Democrats accused the president of ducking the talks, claiming his presence was necessary to seal a deal.

Rep. Robert Wise Jr., West Virginia Democrat, appeared on the House floor with a milk carton plastered with a likeness of Mr. Bush, similar to carton notices describing missing persons. Raising it, Mr. Wise asked:

"Have you seen this man? It's George Bush. Mr. President, get to the summit where you belong," he said.

Mr. Bush returned to Washington last night.

"You're witnessing the most expensive circus on the face of the earth," countered Rep. Jim Lightfoot, Iowa Republican. "The amount of horse manure spread around would put the fertilizer industry out of business."

Angry rank-and-file members of both parties decried the seemingly endless negotiating process. Some declared open warfare on the budget deal, which, when announced, likely will include cuts to Medicare and farm subsidies, and tax increases on fuel, alcohol and cigarettes.

FOUR BUDGET SCENARIOS

1. Near miss.

Budget summit produces a deal, which Congress passes. President Bush signs a temporary omnibus spending bill — called a continuing resolution. The bill waives the $105 billion in Gramm-Rudman cuts and funds services until the deal is enacted through normal legislation, a process that could last up to two weeks.

2. Bush's call.

Budget summit crumbles and government heads to Gramm-Rudman spending cuts. Congress fails to pass an alternative budget package now being drafted by House Democrats. Bush employs a 10-year-old legal opinion to fund "essential government services" and allows budget cuts to hit other programs harder. Airplanes fly and meat is inspected.

3. Furlough fallout.

Budget summit fails; Democrats push to delay Gramm-Rudman cuts but Republicans defeat the measure and allow only a bill that maintains key government services. Other cuts go into effect and thousands of government employees are sent home on unpaid furloughs.

4. Government goes bust.

Budget summit fails, no short-term spending bill is passed, and Gramm-Rudman is not waived. Under this, the most unlikely scenario of all, the sun rises Monday and the government has no money to operate and shuts down until a legislative remedy is found.

The Washington Times
WASHINGTON, D.C.
FRIDAY, SEPTEMBER 28, 1990

Workers' wallets feel fear of furlough

By Matt Neufeld
THE WASHINGTON TIMES

A 20-year government secretary went to buy two pairs of shoes she really needed. But she told the store to hold the second pair; she just couldn't afford to spend the extra $50 right now.

Another federal secretary, Paula Chandler, supplements her paycheck with a part-time job at a department store. But that's looking less reliable now, she said, because fewer people are shopping.

Federal workers, upset at the prospect of being furloughed, are already changing their habits. They are cutting out spending for anything other than essentials and trying to save whatever they can.

While budget negotiations continued yesterday on Capitol Hill and congressmen took to the floors of their respective houses to complain about the pace, talks were expected to continue through the weekend.

Tens of thousands of government workers could be automatically furloughed if no budget agreement is reached by Monday. In random interviews outside the Department of Transportation in Southwest yesterday, workers fretted about the financial hardship the furloughs could cause.

Budget shortfalls have led to furloughs of some workers for a day or two in the past, and furloughs have been threatened each year since the Gramm-Rudman-Hollings deficit-reduction law took effect. But federal workers now seem genuinely worried.

The secretary, who works for the Urban Mass Transportation Administration, said the shoes are no luxury for her. "I need them," she said.

But with the prospect of a 20 percent cut in her paycheck, "I'm not spending any money — just for what I need. It's hard when you're living within your income as it is. Being threatened with losing a few days' pay is hard — even one day."

Mrs. Chandler, who works part time at a Hecht's store, said: "People aren't buying like they used to. They have sale after sale after sale, and people aren't coming in to buy."

Employees said the impending cuts would cause the most harm to lower-level secretaries and clerks who annually make $18,000 to $22,000. Many of those workers are single, minorities and parents of young children, they said.

"These are the people who can't afford even one day every two weeks," said Richard O'Gara, 38, a transportation industry analyst with the Maritime Administration for 14 years. "I'm not sure the people making the decisions are aware of that. The people making the decisions are not in that bracket."

Mr. O'Gara, however, said talk of budget cuts even affects his spending habits. "For myself, I have to go into some savings," he said.

Mrs. Chandler, 27, has worked in the office of the secretary of transportation for six years and makes about $22,000 a year. She said dipping into savings is an option — if a person has any savings.

"As far as savings, I don't have anything to fall back on," she said.

A federal lawyer said that many fellow workers have already started telling their children to expect a leaner Christmas.

"Everybody I know has been saving for at least a month, deferring bill payments, getting as liquid as possible," said the trade commission lawyer, who asked not to be identified. "Frankly, it's been my experience that not that many people in the federal government have much in the way of savings."

Richard Toye, an employee for eight years in the transporation secretary's personnel office, said discretionary spending has to be cut or stopped totally.

"You cut out extra things: going to the movies, going out to get something to eat," said Mr. Toye, 27, who makes about $26,000 a year. "I've been trying to save up for a house. Maybe I'll have to delay those plans a little bit."

Mr. Toye had sharp words for legislators: "I'm kind of upset the Congress and the president are in this budget battle and they're not going to be affected. Maybe if they took a few days' cut in pay? I've only heard one or two congressmen say they'd take a cut in pay. They'll still be getting their $100,000 salaries."

He said that while he cuts out "extra activities," single-family households "cut out things like clothes for their children."

Such situations are ironic to the UMTA secretary, who joined the federal government because "this is supposed to be a secure job. It definitely wasn't because of pay, because the government gets paid less than private industry."

A co-worker, a DOT employee for 22 years, had a suggestion: "To me it would make better sense right now to put most of the restrictions on the programs we fund, rather than on the individual employees."

The Washington Times
WASHINGTON, D.C.
FRIDAY, SEPTEMBER 28, 1990

Even Sunday dinner wouldn't escape budget cuts

By Joyce Price
THE WASHINGTON TIMES

Expect meat and poultry shortages, a staggering disruption of air travel and even contaminated blood supplies if no budget deal is reached by Monday, government officials and industry analysts warn.

It could also mean 1.6 million children would not be vaccinated against contagious diseases, elderly patients would face long delays in processing Medicare claims and hundreds of thousands of students from low-income families would be denied a college education.

These are real possibilities if Congress and the president fail to reach a budget agreement by Monday, the first day of fiscal 1991. The cuts — averaging 32.4 percent for most agencies — would be automatic under the 1985 Gramm-Rudman-Hollings law. The deadline could be extended through a continuing resolution, but President Bush has said he would veto such a measure.

If the cuts are imposed and continue for a long time, they would have "disastrous consequences for consumers," said Michael Waldman, director of the Congress Watch division of Public Citizen, a consumer advocacy group.

Norman Ornstein, resident scholar and congressional analyst for the American Enterprise Institute, put it this way: "If taken to extreme, it could make the embargo of Iraq look like a vacation."

Mr. Ornstein and others doubt the situation would continue for more than a few days. Mr. Waldman said no member of Congress running for re-election could expect to retain his seat if the chaos was not eased by election time. "People already are mad at incumbents," he said.

Rep. Jerry Lewis, California Republican and chairman of the House Republican Conference, said members of Congress "are beginning to realize there will be screaming from the rooftops" over Gramm-Rudman cuts and that "the screams will be immediate."

Airports and supermarkets would feel the immediate effect, experts said.

Furloughs of air traffic controllers would force the Federal Aviation Administration to cancel a total of 6,000 daily flights at 39 of the nation's busiest airports.

"This would be done to get the traffic down to a level that could be safely handled by the air controllers on the job," said FAA spokesman Fred Farrar. The number in the tower on any given day, he said, would be about 80 percent of the norm.

At one point it appeared that a budget impasse would shut down 250 weather stations, eliminating all night flights. But Reed Boatwright, spokesman for the National Oceanic and Atmospheric Administration, said arrangements have been made to keep all weather stations open until Oct. 15.

The FAA's flight reduction plan would not start up until Oct. 4. "Meanwhile, you can expect extraordinary delays on those first three days," said William Jackman, a spokesman for the Air Transport Association of America.

Airlines will be canceling flights that do the least business, he said. But many tickets for those flights already have been sold.

It's certain the flight reduction plan will "result in real inconvenience for everyone," not just because of the cancellations, but "because the basic schedule has to be changed," Mr. Jackman said.

The automatic budget cuts also would mean furloughs of meat and poultry inspectors for the U.S. Department of Agriculture, who must inspect every meat carcass and bird to be sold in interstate commerce.

Dennis Kaplan, a USDA spokesman, said the nation's 7,800 meat and poultry slaughterhouses and processing plants would have to be closed four days in the first two weeks of the fiscal year because of an absence of inspection services. "And we estimate we'd have to close them an additional 133 days over the rest of the year," he said.

The net effect, Mr. Kaplan said, would be a meat and poultry shortage. "The meat and poultry industry could not operate for a third of the year, so a third of the meat and poultry on the market today wouldn't be there. Assuming demand is still there, there would be major price increases."

Sara Lilygren, spokeswoman for the American Meat Institute, said: "Fresh meat would probably be impacted first, but processed meat also would be heavily impacted later. Everything our industry makes is consumed. We don't have stockpiles of meat products."

Mr. Ornstein observed, "In just three weeks to a month, there would be no meat or poultry."

A 32 percent budget cut also would force the Food and Drug Administration to "severely curtail all its inspection and review operations," according to Kevin Moley, assistant secretary for management and budget for the Department of Health and Human Services. In a memo to HHS Secretary Louis Sullivan, Mr. Moley said this "opened the possibility of contaminated blood" and delays in reviewing new drug applications.

FDA inspections of blood banks have been "essential in keeping blood banks up to snuff," said Thomas Asher, chairman of Hema-Care, a commercial blood services organization in Sherman Oaks, Calif.

• *Major Garrett contributed to this report.*

The New York Times

NEW YORK, FRIDAY, SEPTEMBER 28, 1990

AGREEMENT NEAR, BUDGET TALKS TURN TO SOCIAL SECURITY

By SUSAN F. RASKY

Special to The New York Times

WASHINGTON, Sept 27 — White House and Congressional budget negotiators, in substantial agreement on most elements of a budget deal, today returned to the politically explosive subject of cuts in Social Security in a search for the final savings needed to meet their deficit reduction goals.

Both sides have agreed that savings in Social Security are needed, but differences remain on how to apportion the burden. The decision to even look for savings in the Social Security program is so perilous for both parties, particularly in an election year, that it could risk any chance for compromise.

Differences Are Narrowed

The negotiators, who planned to meet late into the night, have narrowed their differences to two basic issues: the Social Security savings and a way to pay for an Administration proposal that would exclude the portion of the profit on capital gains attributable to inflation.

White House negotiators formally advanced the proposal, known as indexing, today as an alternative to the outright cut in the capital gains tax rate that President Bush has long sought. The emergence of the indexing proposal yesterday injected a new mood of optimism into negotiations that had come to a virtual deadlock on the tax issue.

Foley Is Optimistic

The House Speaker, Thomas S. Foley of Washington, said he hoped a deal was imminent, telling reporters that the negotiators have "tentatively agreed" to much of the budget package. Democratic leaders have scheduled a rare Sunday session of Congress to hold votes on a stop-gap spending bill needed to keep the Government running after Sept. 30, the end of the fiscal year, with or without a budget agreement.

However, Social Security cuts were so unpopular with elderly voters in the 1982 and 1986 Congressional elections that no one on Capitol Hill was flatly predicting that a deal would take place or that Social Security would be in the final package.

But the Democrats, who have held themselves up as champions of Social Security, are under great pressure. Officials involved in their deliberations said the Senate majority leader, George J. Mitchell of Maine, told his House counterparts today that he was not certain that he could deliver enough votes from Democratic senators to assure passage of an alternative Democratic budget. Democrats had hoped that if negotiations with the White House failed, they could get a plan of their own through Congress.

The Republicans' Social Security proposal is a one-time delay of two months in the annual cost-of-living adjustment in Social Security benefits. But Democrats argue that such a delay is unfair because it would amount to lower benefits for even the poorest retirees.

The Democrats have proposed an increase in the tax that Social Security recipients now pay on a portion of their beneifts, arguing that this would require wealthier retirees to bear a bigger share of the burden. Under current law, Social Security beneficiaries who are single and have incomes above $25,000 a year are taxed on 50 percent of their benefits, while married recipients with incomes of more than $32,000 are taxed on 50 percent of their benefits. Democrats are discussing raising that level to 85 percent.

"Increasing the tax is one giant step towards making Social Security a means tested program," said Representative Bill Archer of Texas, the senior Republican on the House Ways and Means Committee. Such a tax increase may prove nearly as unpoular with rank-and- file Democrats, which is one of the reasons the Democratic leaders spent much of today huddled in meetings trying to decide if they were prepared to even contemplate it.

The discussion of increasing taxes on Social Security benefits represents a sharp turnaround from discussions only a few months ago about cuts in Social Security taxes. Senator Daniel Patrick Monynihan, a New York Democrat, caused a political firestorm in both parties earlier this year with a proposal to reduce the payroll taxes that finance the Social Security system.

Mr. Moynihan has long complained that surpluses in the Social Security trust fund that were intended to pay benefits to the generation of babies born after World War II in the early part of the 21st century were being improperly used to mask the size of the Federal deficit. He has argued that unless the Government removes the Social Security trust fund from its deficit calculations, the surplus should be returned to workers in the form of a cut in the Social Security payroll taxes.

Looking for $50 Million Cut

Officials close to the deliberations said Democrats cannot meet the budget neogtiators' goal of reducing domestic spending by $120 billion over five years unless they find savings in the Social Security program. Over all, the negotiators are seeking to cut the deficit by $50 billion in the fiscal year 1991 and $500 billion over five years.

Democrats must also decide whether a stop-gap spending bill would also include a delay in huge automatic spending cuts that take effect on Oct. 1 under provisions of the Gramm-Rudman-Hollings budget-balancing law. President Bush has said that in the absence of a budget accord, he will veto a bill that calls for such a delay.

Negotiators spent part of the day wrestling with the Administration's latest proposal, the indexing capital gains for inflation. The proposal would permit investors who sell assets to exclude from their income tax the portion of profits solely attributable to inflation. Officials close to the the deliberations said the indexing plan would cost the Treasury about $4.5 billion in lost revenue over five years, considerably less than the $21 billion revenue loss for the actual cut in the capital gains tax rate that Mr. Bush had sought.

The officals said that as currently structured, the proposal would begin the indexing arrangement on Jan. 1, 1991. That means that while it would apply to both current and newly acquired assets, investors would not realize any tax break on their asset sales until they file their returns in April 1992. Capitial gains, the profits on the sale of real estate, stock, timber and other assets, are currently taxed at the same rate as ordinary income, or 28 percent for most taxpayers.

While Democrats continue to insist that the indexing must be offset by some tax increase for the wealthier Americans, who would benefit most from it, they note that Republicans may have an easier time finding such an offset under indexing because the amount of revenue involved would be so much smaller.

Democrats have suggested an offsetting tax increase that would place a floor on deductions for wealthier taxpayers, a proposal so far rejected by Republicans who say it amounts to a tax rate increase. Conceptually, the proposal accomplishes the same thing as a ceiling on itemized deductions, essentially reducing the amount of deductions to which higher income taxpayers would otherwise be entitled.

The Democratic proposal is based on a suggestion by Representative Don Pease, a liberal Democrat from Ohio and a member of the Ways and Means Committee. Mr. Pease offered it to the negotiators in June as a way of raising revenue and increasing the tax burden for wealthier Americans without an outright increase in tax rates.

A deduction ceiling was, in fact, suggested at one point in the negotiations by the White House Budget Director, Richard Darman. But Mr. Pease and other Democrats see the notion of a floor on deductions as more politically palatable for both parties than a ceiling because it would not discourage contributions to charities or raise the anger of the housing industry.

Assuming the proposal applied to married taxpayers with taxable income of more than $100,000, $50,000 for single taxpayers, it would work like this: A married couple with taxable income of say $200,000 would subtract $100,000 from that amount. They would then take 5 percent of the remaining $100,000, or $5,000, which would become their deduction floor.

They would thus be able to deduct from their income anything in excess of the $5,000 deduction floor.

Budget negotiators have been discussing a number of variations on the formula to determine which income levels and deduction percentages produce the most revenue and the most desirable distribution of the additional tax burden.

The New York Times

NEW YORK, FRIDAY, SEPTEMBER 28, 1990

Capital Gains: Plus, Minus or Neither?

By PETER PASSELL

To President Bush, cutting taxes on capital gains is a matter of common sense: a lower rate, he says, would mean more investment without sacrificing tax revenue. To most Congressional Democrats, a break in the tax rate on capital gains would amount to a windfall for the rich and a giant step back from the goal of taxing all forms of income equally.

But economists are generally less eager to assign the capital gains initiative a permanent place in heaven or hell. A cut in the capital rate would indeed distort economic incentives and enrich wealthy Americans at the expense of the Treasury Department, many argue. But there is still a plausible case to be made for special treatment of capital gains as part of a broader change in the tax system.

Until 1986 only a portion of the income from profits on the sale of assets were taxed as income, effectively reducing the maximum rate on capital gains to 20 percent. But when the maximum income tax rate was reduced, the capital gains preference was dropped. The effective maximum bracket is now 33 percent.

The architects of the Tax Reform Act of 1986 considered this move toward tax neutrality as a shining achievement. No longer, they argued, would decisions about investment be distorted by considerations of how income would be realized or when.

Taxes As Incentives

But like many other Americans, George Bush never abandoned the idea of using taxes as incentives. From his first days on the campaign trail, he has been pressing for capital gains tax relief as an inducement to invest.

A tax cut would induce investors to take profits, the Treasury contends, increasing tax revenue in the short run. And in some instances it would induce investors to sell assets during their lifetime, generating revenue that would otherwise be lost entirely because heirs never pay taxes on capital gains. By the Administration's reckoning, a 30 percent exclusion — the equivalent of a maximum 23 percent bracket — would generate an additional $12 billion in revenue over the next five years.

The staff of Congress's nonpartisan Joint Tax Committee disagreed, saying that while revenue would increase in the first two years, over five years, losses would exceed $11 billion.

Other economists are skeptical that a general tax break on profits from sales of assets would stimulate investment in the sort of high-risk innovations that President Bush wants to encourage. James Poterba, an economist at the Massachusetts Institute of Technology, points out that the bulk of capital for risky new ventures now comes from sources that would not be affected by tax changes — notably pension funds. Thus to be effective, the tax break would have to draw in investors with little experience in the area of venture capital.

Hardly anyone, though, disputes the charge that most of the direct benefits from a capital gains break would go to an affluent minority. By the Administration's estimate, $27 billion of the $49 billion in capital gains this year will be realized by families whose incomes have averaged $200,000 or more over the last five years. Just $4.8 billion in capital gains income will go to families with incomes of less than $50,000.

That raises the prospect of stretching an income gap that widened sharply during the Ford, Carter and Reagan Administrations. For some experts, that is more than enough reason not to change.

"Any kind of differential for capital gains," said a senior adviser to Senator Bill Bradley of New Jersey, "would erode the carefully balanced reform of 1986 and lead to increased tax rates on ordinary income."

But others said the current treatment of capital gains income did not really meet a rigorous test of tax neutrality. Taxing capital gains income at regular rates penalizes those who hold assets in periods of inflation. For example, someone who bought an asset for $25,000 in 1978 and sold it today for $50,000 would pay taxes on the $25,000 gain. But since prices have doubled in 12 years, the entire gain is an effect of inflation. That is why budget negotiators are said to be considering a compromise of adjusting gains for inflation, or indexing.

One giant catch, says Henry Aaron, an economist at the Brookings Institution in Washington, is that indexing would offset only one bias, leaving intact another that effectively reduces the tax on long-held gains. Under current law taxes are deferred until property is sold, allowing gains to compound untouched. Equally important, the law gives investors leeway to realize capital gains in years when their incomes (and tax rates) are low.

Mr. Aaron offers a more general objection to indexing capital gains. Taxes are affected by inflation in myriad ways, he says. Changing one without changing all could produce major distortions in the system.

Tax brackets have been indexed since 1986, ending "bracket creep" that automatically increased revenues by billions a year. But taxes on interest income have not been indexed. This year an investor who earns 8 percent on a bank deposit will pay taxes on the entire 8 percent, even though three-quarters of the return will already have been wiped out by inflation.

But inflation works in both directions. Interest paid by homeowners has not been indexed, effectively doubling the tax break on the average mortgage deduction. By the same token, inflation artifically increases the value of business deductions for interest and depreciation.

If capital gains are indeed indexed, Mr. Aaron said, interest deductions had better be indexed, too. Otherwise investors would be able to buy property with borrowed money, get the benefit of inflated interest deductions for years and then pay little tax when they sell the property for a profit.

The New York Times
NEW YORK, FRIDAY, SEPTEMBER 28, 1990

Social Security: A Tinderbox Both Parties Handle Gingerly

By MICHAEL ORESKES
Special to The New York Times

WASHINGTON, Sept. 27 — There are few subjects more perilous for politicians, particularly in an election year, than the suggestion that they might be tampering with Social Security.

That is the reality that budget negotiators were dealing with as they gingerly searched for budget savings today in this most sacred of all American benefit programs.

"We've seen that in the past to be a very explosive subject," said Gov. Richard F. Celeste of Ohio, chairman of the Democratic Governors' Conference.

"We've been up and down that hill many times," said Representative Bill Archer of Texas, the ranking Republican on the Ways and Means Committee. "There's a concern about doing anything to the elderly."

In the course of the 1980's the issue was highly partisan as well. In both 1982 and 1986 the Democrats depicted the Republicans as a threat to Social Security and made big gains in the elections those years.

Indeed, Republicans often cite the 1982 campaigns Democrats ran against Republicans on Social Security as the start of the cycle of negative campaigning that came to dominate politics in the decade.

"The Republicans feel as burned on this issue as the Democrats feel burned on the tax issue," said Anita Dunn, communications director of the Democratic Senatorial Campaign Committee. In a political sense, for the Democrats to agree to changes in Social Security, and thus weaken one of their best issues, is the rough equivalent of President Bush's willingness to abandon his no-new-taxes pledge.

With 40 days until the midterm elections, there are few members of Congress who would voluntarily want to go to their districts to explain any curtailment of Social Security benefits.

America's older citizens are among the nation's most potent constituencies. They vote at higher rates than most other Americans. Indeed, their participation rate went up while for younger Americans it went down. In addition, their organizations, lead by the American Association of Retired Persons, swing great weight on Capitol Hill.

At least 39 million Americans receive regular benefit checks from Social Security, and million more have parents or grandparents who receive benefits and plan to receive benefits themselves some day.

The subject is so sensitive that many Democrats rebuffed the suggestion of cutting the payroll tax imposed to pay Social Security because pollsters told them that it made many Americans nervous that the tax cut might endanger their Social Security payments.

Tony Coelho, a former Representative from California, was a leading architect of the Democratic strategy to invoke Social Security as an issue.

"In 1982 we were looking for an issue to run the campaigns to try to offset Reagan," Mr. Coelho said, "and we decided to take on the issue of Social Security."

Democratic candidates tried to tie Republicans wherever they could to a budget plan, offered in 1981 by David A. Stockman, a budget director under President Ronald Reagan, that would have cut Social Security.

That issue, combined with a recession that developed in the final weeks of the campaign, led the Democrats to a gain of 26 seats in the House.

But there was a downside, Mr. Coelho said. "It became a motherhood issue much stronger than we ever expected," he said. "You couldn't even tinker with the system when you needed to."

On Capitol Hill there is a growing anger toward the elderly and their lobbyists. Last year, some older people staged an uprising against a program to provide insurance against the soaring costs of catastrophic illnesses. They were happy to receive benefits, but many objected to premiums. In Chicago, some threw themselves in front of the car carrying Representative Dan Rostenkowsi, chairman of the Ways and Means Committee. The program was repealed.

Representative Leon E. Panetta, chairman of the House Budget Committee, said the debacle of the catastrophic health care program was a warning of the storm that would greet any changes in Social Security. "Whatever happened on catastrophic," he said, "multiply that by two."

The Philadelphia Inquirer

Friday, September 28, 1990

Budget agreement reported near

By R.A. Zaldivar
Inquirer Washington Bureau

WASHINGTON — Congressional and administration negotiators closed in on a budget deal yesterday amid signs that the logjam over President Bush's proposal on a capital-gains tax cut was breaking up.

"We're in the last two minutes," said White House chief of staff John H. Sununu. "This is where it is. It's like basketball."

Rumors swept the Capitol and the credit markets last evening that a deal had been reached, prompting a denial from House Speaker Thomas S. Foley (D., Wash.).

"The odds are we are going to succeed," said Foley. "But there is no truth to the suggestion we have essentially succeeded."

Said one Democrat: "It's a teetering process now."

Republicans said there were still differences over the means for enforcing a five-year agreement, and over the Democrats' reluctance to cut benefit programs.

Bush's proposal to cut the capital-gains tax rate had recently snarled the talks, but a source familiar with GOP strategy said the President has told his negotiators that he wants a budget deal more than he wants capital gains.

Negotiators were considering a variety of "pro-growth" alternatives to the tax cut, including tax breaks for entrepreneurs, tax-advantaged "enterprise zones" in economically depressed areas, and some form of indexing capital gains to adjust for inflation.

The indexing approach has little support among Democrats. A Congressional Budget Office study concluded that, since much of the gain on assets like property and stocks is due to inflation, indexing may cost more than an outright tax cut.

The talks resumed shortly before 4:30 p.m. in a conference room in Foley's office suite at the Capitol.

For the last two weeks, negotiations have been conducted by a group made up of Foley, Sununu, House Majority Leader Richard A. Gephardt (D., Mo.), Senate Majority Leader George J. Mitchell (D., Maine), Senate Minority Leader Bob Dole (R., Kan.), House Minority Leader Robert H. Michel (R., Ill.), Treasury Secretary Nicholas F. Brady, and budget director Richard G. Darman.

The two sides are looking for a combination of spending cuts and tax increases that would bring the 1991 deficit down by $50 billion and save $500 billion over five years.

The five-year package would include about $130 billion in new taxes, $170 billion in reduced military spending and $100 billion to $120 billion in cuts from benefit programs such as Medicare and farm subsidies.

The two sides have agreed on about $60 billion in new revenues, including higher taxes on beer, wine, liquor, cigarettes and gasoline.

Democrats were initially insisting on a new top income tax rate, but they are now putting forward a plan to limit deductions for wealthy taxpayers.

At a closed Republican strategy session yesterday, discussion centered on how to make sure future Congresses honor any agreement.

"If it's clearly not enforceable, the Republicans are not going to support it," said Sen. Bob Packwood (R., Ore.), who attended the meeting.

"It's a bilateral contract between Congress and the administration, and each side has to have the means to enforce it," Packwood added.

Republicans want tougher automatic spending cuts than under the Gramm-Rudman-Hollings deficit-reduction law, and fixed annual spending caps on domestic programs, defense and foreign aid.

A failure to reach a deficit agreement by the start of the new fiscal year on Monday would mean that automatic spending cuts of more than $85 billion would take effect. But a deal reached in the budget talks is not assured of approval on the House and Senate floors. Members are wary of voting for spending cuts and tax increases on the eve of an election.

Said Sen. Trent Lott (R., Miss.): "Anything that's draconian will have difficulty passing."

Los Angeles Times

FRIDAY, SEPTEMBER 28, 1990

BUDGET: An Accord May Be Near

By WILLIAM J. EATON
TIMES STAFF WRITER

WASHINGTON—As optimistic rumors swept the capital, White House and congressional budget negotiators were reported Thursday to be moving closer to a deficit-cutting agreement that would avert a $100-billion cutback in federal outlays on Monday.

Even as the bargaining teams raced against the clock, however, Democratic and Republican sources cautioned that major issues still must be resolved before the two sides can achieve the bipartisan goal of a five-year, $500-billion deficit-reduction package.

Moreover, rank-and-file members of both parties who heard initial reports of tax increases and spending cuts already tentatively approved said that the proposals could run into a buzz saw of opposition once the package comes to the House and Senate floors.

Congressional sources said that the negotiating teams discussed a Democratic plan to raise income taxes on more affluent Social Security recipients and a Republican proposal to delay cost-of-living adjustments for those who get federal benefit checks.

President Bush's representatives, who earlier had insisted on a sharp cut in capital gains taxes, altered their position to back a concept called "indexation," which would exempt from taxation only that part of an investment profit attributable to inflation.

Democrats, however, insisted that indexation would still cost the government substantial revenue and advocated an increase in the top income tax rate from the existing 28% to about 33% to offset it, the sources said.

The talks were spurred by a bipartisan desire to avoid a crushing blow to government services that otherwise would take place if automatic spending cuts take effect Monday, reducing outlays on defense and many domestic programs by about one-third.

The House and Senate will meet in extraordinary Sunday sessions to consider a Democratic plan to delay cuts required by the Gramm-Rudman law to Oct. 20 and provide funds to keep the government operating when the new fiscal year begins Monday, even if there is no budget deal.

President Bush has threatened to veto any such legislation, however, to keep the heat on the negotiators to produce an accord that they have been working on for more than four months.

"We're a little bit in the precincts of reaching a conclusion, rather than in the wrap-up stage," said House Speaker Thomas S. Foley (D-Wash.). "A good deal has been agreed to tentatively. . . . We still hope to succeed—the odds favor it—but there's still the possibility of failure."

Rep. Jerry Lewis (R-Highland), chairman of the House Republican Conference, said that the negotiators appear to be "on the brink" of an agreement but still far from wrapping up the entire package.

Unresolved issues include the extent of cuts in federal benefit programs such as Medicare and the nature of the hotly debated tax provisions, he added. Rather than pushing its original capital gains proposal, Lewis said, White House officials were talking about "growth incentive elements," without defining them precisely.

Lewis, however, said that many Republicans would have problems with the prospective final package because it appears to "tax more and spend too much" from their viewpoint.

Similarly, Rep. Ronald V. Dellums (D-Berkeley) said that the 24-member Congressional Black Caucus opposes the prospective budget agreement on grounds that it "further savages already decimated programs in housing, health care, education and job training."

"I think both [Republican and Democratic] caucuses will have trouble swallowing this," said an aide to a key Democratic senator. "The only way it's going to work is if the President sells it to the American people and takes the politics out of it."

Meantime, Bush toned down his rhetoric, after having placed the blame on Democrats for blocking a budget summit agreement in campaign appearances Wednesday. But he continued to press for a settlement before the scheduled slash in federal spending Monday.

"It isn't too late to act," the President said. "Don't delay one day longer. Prove to the American taxpayer once and for all that we can deal with this impossible deficit."

Even so, Democrats had a field day in the House, demanding that Bush stop campaigning for Republicans in the Midwest and return to Washington to deal with the budget crisis.

"If the President spent as much time raising money for the country as he does for Republicans, there'd be no deficit at all," said Rep. Lawrence J. (Larry) Smith (D-Fla.).

GOP speakers replied in kind, with Rep. Jim Lightfoot (R-Iowa) declaring: "The amount of horse manure we're spreading here this morning could put the fertilizer industry out of business."

By afternoon, however, there was an atmosphere of expectation on Capitol Hill as rumors circulated that a deal had been struck, prompting Foley to deny that any agreement had been reached.

And when House Majority Leader Richard A. Gephardt (D-Mo.) announced the Sunday session, he said: "We're still working in this summit, trying to produce an agreement. I don't know whether there will be one or not."

But, Gephardt added that if there is a breakthrough, both Democrats and Republicans will want to outline the details to members of Congress firsthand rather than let them read secondhand accounts in the newspapers.

House Democrats scheduled a caucus this morning to get a progress report from their negotiators on the latest developments in the budget discussions, which began last May 15 but only began to show real movement this month.

The Detroit News
Thursday
SEPTEMBER 27, 1990

Impact: All will feel it if there's no budget deal

By Richard A. Ryan
NEWS WASHINGTON BUREAU

WASHINGTON — If the federal budget mess bores you, consider this:

By Monday, it could hit home with canceled flights at Detroit Metro Airport, a shutdown of Michigan meat plants, slower services at many federal offices, and shorter hours at national parks.

Those are just a few of the disruptions expected to begin if a budget deadlock between Congress and President Bush is not resolved by this weekend. Without a budget agreement, automatic spending cuts will go into effect across the federal bureaucracy when the government's new fiscal year starts next week.

Talks on Capitol Hill continued Wednesday amid reports that Bush may be willing to drop his insistence for a cut in the capital gains tax, a demand that has been the major obstacle to a budget deal.

Hundreds of federal workers rallied outside the Capitol at noon to demand a quick solution. They carried signs reading, "Congress, you do your jobs so we can do ours." Federal workers also protested in Detroit.

In the Senate, lawmakers voted overwhelmingly to apply the spending cuts to the salaries of members of Congress and top executive branch officials, including Vice-President Quayle and Cabinet members — items now exempt under the Gramm-Rudman budget-cutting law.

Federal officials cited these as examples of the impact on Michigan:

- Flights into and out of Detroit Metro Airport during daylight hours will be sharply curtailed. Flights after 6 p.m. will be canceled.
- All 277 Michigan meat and poultry processing plants will be forced to shut down for four days — Oct. 9 through 12 — because U.S. Department of Agriculture inspectors will be put on unpaid furlough.
- All 23 Internal Revenue Service offices in Michigan will be closed for one to five days in early October.
- There may be long lines at Michigan's unemployment compensation centers.
- Social Security offices will work shortened hours Monday through Thursday, and close Friday. But benefit checks should not be delayed, and won't be cut.
- Michigan's national parks will have shortened hours, while more famous sites, such as the Washington Monument and the Statue of Liberty, will be open only five days a week instead of the usual seven.

Without a budget agreement, the Gramm-Rudman law requires federal spending to be cut by at least $85 billion. Because nearly two-thirds of federal expenditures, including Social Security payments and other entitlement programs, are exempt from the automatic cuts, the remaining one-third of the budget must take hard hits.

"The American people don't need this," Bush said Wednesday. "A cutback of this scope is going to hit hard. It's going to hit home and its going to hit many, many people."

Morton Edelstein, a spokesman for the Federal Aviation Administration's regional office in Chicago, said airline arrivals and departures will be sharply curtailed at the nation's busiest airports because air traffic controllers and federal airline inspectors will be sent home.

At Detroit Metropolitan Airport, he said, the 104 scheduled airline arrivals between 2 p.m. and 6 p.m. weekdays will be slashed to 56. The scheduled departures for the same hours will be cut from 88 to 38.

Because U.S. Weather Service stations also are scheduled to shut down at night, commercial flights after 6 p.m. will be prohibited.

"People are calling and asking us if they can take a trip," Edelstein said. "We tell them go ahead, but there may be tremendous delays. We are not going to jeopardize safety."

Jim Green, a spokesman for the Food Safety and Inspection Service, said the Department of Agriculture is mailing a letter to its 7,300 meat and poultry inspectors today, telling them to take four days off beginning Oct. 9.

Without inspectors present, the nation's 6,700 meat and poultry slaughter and processing plants, including the 277 in Michigan, will have to stop production.

Sarah Wreford, a spokeswoman for the IRS in Detroit, said Michigan's 2,000 IRS employees will be forced to take one to five days off, forcing delays in tax collections, audits, and tax trials in which IRS agents are scheduled to testify.

Federal drug and custom agents will be similarly affected.

And the Social Security Administration has ordered all 63,000 employees across the country to go on unpaid furloughs 16 hours a week, starting Monday. Michigan's 794 employees in 34 Social Security offices would be affected.

Cutbacks in the Veteran Affairs' medical care funds would be limited to two percent, a reduction that VA director Donald Smith said would not affect medical care delivery at VA hospitals. Even so, cutbacks in administrators and maintenance workers might force the hospitals to limit admissions.

The VA operates a medical center in Ann Arbor, and hospitals in Allen Park, Battle Creek, Saginaw and Iron Mountain.

James Verdier, deputy director of the Michigan Department of Management and Budget, said Michigan is preparing for a $290 million dollar loss in federal aid next year if the budget impasse is not resolved.

The loss would affect Michigan's ability to provide child care, assistance to the elderly, low income home energy assistance, job training, alcohol and drug abuse treatment, and to administer unemployment compensation programs.

"This kind of reduction in federal spending is a further hit on the national economy," Verdier said, increasing the odds of a recession.

ST. LOUIS POST-DISPATCH

THURSDAY, SEPTEMBER 27, 1990 (3)

President Softens On Gains Tax

By Robert L. Koenig and Lawrence M. O'Rourke
Post-Dispatch Washington Bureau

WASHINGTON — With the deadline fast approaching for mandatory federal budget cuts, negotiations to produce a compromise budget intensified Wednesday as President George Bush seemed to soften his demand for a cut in the capital-gains tax and Democrats delayed a showdown vote.

The moves indicated that Bush and the Democrats, who control both houses of Congress, were finally making progress toward a package of tax increases and spending cuts that would avoid the reductions that otherwide would be required on Monday.

But nothing was guaranteed, as House Majority Leader Richard A. Gephardt, D-Mo., announced that negotiations were continuing into Wednesday night behind closed doors in Speaker Thomas S. Foley's office on Capitol Hill.

The core group of budget negotiators included the Senate and House Democratic and Republican leaders and White House Chief of Staff John H. Sununu, Treasury Secretary Nicholas F. Brady and Budget Director Richard G. Darman.

Meanwhile, Bush was in Chicago on a political trip. He told reporters aboard Air Force One that Democratic and Republican budget negotiators know "if my presence there would be helpful, I'm available."

The negotiations took on an air of frenzy, as both Democrats and Republicans maneuvered to put blame on the other if the negotiations were unsuccessful. They also laid the groundwork for blaming one another for whatever might come out of negotiations in the way of spending cuts and tax increases.

While speaking at a political rally in Akron, Ohio, Bush painted a bleak picture of what sequestration, as required by the Gramm-Rudman budget-balancing law, would do to the country.

Noting that sequestration would force a $100 billion cut in federal spending, Bush said: "A cutback of this scope is going to hit hard, and it's going to hit home and it's going to hit many, many people.

The president said he had done his part to produce a budget agreement, even scrapping his 1988 campaign pledge of "no new taxes." He added: "I took a lot of political heat."

The president said that "emotions on this budget debate ... are running high." And with that, he placed the blame for the budget impasse on the Democrats.

Before delivering this attack on the Democrats, Bush said aboard Air Force One: "We're still working hard in a good bipartisan spirit there."

The president said the Democrats had not offered their own budget plan — a statement immediately rejected in Washington by Foley.

While Bush was on the road attacking his opponents, he seemed to be following a different tactic back in Washington.

What appeared to be a major concession by the president came when Senate Minority Leader Bob Dole, R-Kan., said Bush might be willing to stop insisting upon a cut in the capital-gains tax rate.

Dole said Bush was signaling his willingness to compromise through a deal that would drop the capital-gains plan he championed for months in exchange for other methods that he believed would stimulate the economy.

Under current law, capital gains — profits realized on the sale of assets held for investment — are taxed at ordinary income rates. Bush wants preferential treatment in the range of a 17 to 20 percent top rate. The highest ordinary rate is now 33 percent.

House Minority Whip Newt Gingrich, R-Ga., said the president might accept corporate tax breaks designed to encourage businesses to expand in depressed urban and rural areas and to encourage research and reinvestment.

With the possibility of a compromise developing, House Democrats postponed until today a debate on a resolution that would delay the sequestration date beyond the Oct. 1 deadline.

The Dallas Morning News

Dallas, Texas, Thursday, September 27, 1990

Budget deadline nears as parties argue over blame

By Susan Feeney
Washington Bureau of The Dallas Morning News

WASHINGTON — The White House and congressional Democrats swapped accusations Wednesday over who was to blame for the federal budget impasse as pressure mounted to meet Monday's deadline.

Both sides in the budget talks offered separate proposals to circumvent or blunt the effects of the massive, $105.7 billion spending cuts that could take effect Monday under the Gramm-Rudman-Hollings deficit reduction law if no accord is reached.

"We are getting down to the end of the game," said Rep. Bill Frenzel of Minnesota, ranking Republican on the Budget Committee.

Wednesday began with a glimmer of hope when Republican lawmakers emerged from a meeting with President Bush saying he might accept substitute provisions geared to bring economic growth instead of his proposed reduction in the capital gains tax rate — a main stumbling block in the budget negotiations.

But Mr. Bush, speaking later at a political fund-raiser in Akron, Ohio, infuriated Democrats when he said, "The hang-up is not on capital gains. the hang-up is with the Democrats on Capitol Hill."

"If and when the ax falls," the president said, "the Democratic Congress knows it will be held accountable, and I will take that message to every state in the union. It is their fault."

Democrats called two successive Capitol Hill news conferences to blast the president.

House Speaker Tom Foley of Washington and Senate Majority Leader George Mitchell of Maine said Mr. Bush was "badly misinformed," when he made the accusations. "A series of proposals and counterproposals" have been made and continue to be made, Mr. Mitchell said. Democrats have opposed any change in the capital gains tax, arguing that it would benefit only the rich.

The complaints led Mr. Bush to apologize later during a speech in Chicago. "They say they have put a package, or at least a series of proposals, on the table in private negotiations. I accept the fact that in private negotiations there have been such proposals. I apologize for mispeaking on that point."

However, he said, "We have yet to see a comprehensive plan" covering spending cuts, incentives for economic growth and changes in the budget process.

During the eighth frenetic day of the latest round of intensive talks between the White House and the Democratic-controlled Congress, both sides held out hope that an agreement could be reached. But some suggested it might come after several days of the automatic spending cuts, in a process called sequestration.

Still, House Majority Leader Dick Gephardt of Missouri promised: "We're going to use every available hour" to reach a solution before Monday, the start of the new federal fiscal year. He said Congress may be called back Sunday, after the Friday-Saturday Yom Kippur Jewish holy day, to continue work.

Meanwhile, Democratic leaders vowed to bring to the House floor on Thursday a stopgap plan to delay the Gramm-Rudman cuts until Oct. 20 and allow the federal government to operate normally while talks continue.

Republicans, who believe the threat of the automatic cuts is necessary to bring about a budget agreement, vowed to fight any postponement. And Mr. Bush, en route to Akron, accused Democrats of wanting "to kick the can down the road."

If Mr. Bush vetoes the Democrats' plan — as he has threatened — and lets the severe cuts take effect, "everybody should know it's George Bush doing it, not the Congress," said Rep. Ronald Coleman, D-El Paso.

Democrats also began working Wednesday on a separate, independent budget plan and threatened to push to Mr. Bush's desk if no agreement is reached.

Others on Capitol Hill called for forging an agreement exclusively between Democratic and Republican lawmakers — without the White House — and then presenting it to Mr. Bush.

Also, Republicans offered legislation that would give the president greater leeway in spending to protect citizens' health and safety if the Gramm-Rudman cuts take effect.

With the November elections slightly more than one month away, lawmakers weighed the potential political fallout from a failure to reach an agreement. Would massive cuts or a deadline postponement increase voter anger? Would Democrats, Republicans or both be faulted?

"There is no way to say with any certainty who gets blamed," lamented a top aide involved in the budget issue.

The Dallas Morning News

Dallas, Texas, Thursday, September 27, 1990

Texans' layoff plans are few

By Scott Hunt
Washington Bureau of The Dallas Morning News

WASHINGTON — While as many as a million federal workers face furloughs if a budget stalemate persists, most members of the Texas congressional delegation say they haven't planned for salary cuts or layoffs in their offices.

Most of the 29-member delegation said it still was too early to plan for the automatic spending cuts that will come Monday, if Congress and the White House do not reach a budget accord.

Still, a few Texas congressmen have decided to suffer along with the federal employees who face furloughs under the cuts — officially called sequestration — required by the Gramm-Rudman law.

A *Dallas Morning News* survey of the delegation found that Reps. Joe Barton, R-Ennis; Steve Bartlett, R-Dallas; J.J. "Jake" Pickle, D-Austin; Dick Armey, R-Euless; and Charles Stenholm, D-Stamford, supported pending legislation to cut congressional salaries.

Rep. Jack Fields, R-Humble, said he was considering such a move.

"I feel an obligation to live under the law," Mr. Barton said. "I will not keep the money. Some of us think we ought to practice what we preach."

And, Mr. Fields noted: "We're constitutional federal employees. ... I support the concept that we should be no better or no worse than other federal employees."

Mr. Pickle said he was even considering "voluntarily" cutting his own salary if the Gramm-Rudman cuts occur.

"I think members of the executive branch and members of Congress ought to be affected by sequestration and furlough," he explained.

A spokesman for Rep. John Bryant, D-Dallas, however, said such legislation amounted to "political posturing" by Republicans, who are the main sponsors of the legislation.

"We are perfectly willing to plan (for cuts), and if it happens, we're willing to bear our fair share of the reductions," said Carlton Carl, the spokesman for the Dallas Democrat. "We'll make whatever adjustments are necessary consistent with every other branch of government."

In the Senate, a spokesman for Sen. Lloyd Bentsen, D-Texas, said the senator was "trying to reach an agreement on the budget so that (sequester) doesn't happen." And the spokesman, Jack DeVore, said Mr. Bentsen did not expect the negotiators "to fail."

Other members of the Texas delegation said they were waiting to assess the outcome of the budget talks and for guidelines from House and Senate leaders before making any contingency plans.

"I don't know of any offices that are doing anything except trying to avert these Gramm-Rudman cuts," said Jeff Patterson, spokesman for Rep. Mike Andrews, D-Houston.

And Paul Rogers, a spokesman for Rep. Ron Coleman, D-El Paso, agreed, saying: "It's premature to have contingency plans for Gramm-Rudman. ... We can come up with an agreement."

Rep. Albert Bustamante, however, said he had no plans to sequester his own salary if federal employees are furloughed as a result of across-the-board cuts.

"I just need to pay the rent," the San Antonio Democrat quipped. "The rent is half my paycheck. There are other guys who can afford it — the millionaires."

As for his staff, Mr. Bustamante said, "If worse comes to worse, we might have to eliminate a position."

The Dallas Morning News

Dallas, Texas, Thursday, September 27, 1990

U.S. budget cuts would put crimp in air travel

By Martin Zimmerman
Staff Writer of The Dallas Morning News

Imagine you're sitting in a DC-10 on the taxiway at Dallas/Fort Worth International Airport, 18th in line for takeoff while a thunderstorm snarls traffic into and out of the airport.

Now, imagine that same thunderstorm is sitting over every airport in the country, delaying thousands of flights and pushing the nation's air travel system to the brink of chaos.

It sounds like the script to *Airport 1990*. But it could happen Monday if federal budget cuts force the Federal Aviation Administration to begin furloughing air traffic controllers around the United States.

"Everybody is going to feel it," said Bill Jackman, spokesman for the Air Transport Association. "There's going to be disruptions for millions of Americans."

It was unclear Wednesday whether the FAA and other federal agencies will indeed be forced into major cutbacks Monday. There remains hope a budget compromise could be worked out between Congress and the administration before the automatic cutbacks stipulated by the Gramm-Rudman law.

But if the cutbacks occur, the impact will be severe. The FAA plans to reduce its air traffic controller workforce by 25 percent. That alone will force cancellation of 3,000 departing flights daily, the association estimates, out of a daily scheduled total of 18,000 nationwide.

Worse, anticipated cutbacks at the National Weather Service will sharply curtail the flow of weather information to controllers and pilots. That will further disrupt flights, particularly at night, and could result in an overall reduction of scheduled air service of 40 percent, analysts say.

"I would expect to see horrendous delays during the peak periods of the day, like five in the afternoon," said Paul Turk of the consulting firm Avmark Inc. "You'll also see a substantial curtailment in night operations."

Beginning Monday, assuming the cutbacks go into effect as scheduled, air traffic controllers will hold flights on the ground at airports around the country, attempting to even the flow of aircraft on the airborne highways that link U.S. cities.

It will be similar to the system the FAA uses when bad weather shuts down certain airports and flights are held until the weather clears. The difference, notes Southwest Airlines Co. counsel Jim Parker, is that "it will be like one big thunderstorm over the whole United States."

That stopgap measure of systemwide flight delays will last for three days. Then, at 3 a.m. Oct. 4, the FAA's program of forced flight cancellations will begin. At D/FW, that will mean 288 fewer arrivals and departures per day. At Love Field, it will cause 92 cancellations a day.

Exactly how the airlines intend to manage the disruption is a mystery at present.

FAA officials say the flight delays will be apportioned among the airlines according to their share of each airport's passenger boardings. It will be up to the carriers, the FAA says, to determine which flights will be canceled and which cities will see air service curtailed.

The FAA has asked the airlines to report by noon Friday how they intend to revise their schedules. Until then, the airlines are withholding most details.

American Airlines Inc., the nation's largest carrier, says only that it plans to accommodate all passengers, even if flights are canceled. Delta Air Lines Inc. said it intends to maintain some level of service in all of its markets.

As a consolation for the airlines, the disruption comes in the midst of their annual post-Labor Day travel slump with plenty of empty seats to accommodate passengers bumped from canceled flights.

But, asked Mr. Turk, "what are you going to do at Thanksgiving and Christmas? Look at it this way: No air traffic controllers, no Santa Claus."

If the air traffic control disruptions are short-lived, the impact on air fares should be minimal. Although canceling flights will make airline seats a scarce commodity, most discount tickets for travel next week were purchased weeks ago and will still be good for travel at reduced prices.

However, if the crisis drags on, the airlines could sharply curtail the number of discount fares offered.

"The law of supply and demand is certainly at work in the marketplace, and tickets will go for a premium," Mr. Turk said. "If a flight's running, you can bet it will be full, and there will be no reason to discount seats."

While a headache for travelers, the possible schedule cutbacks would severely affect airline finances, which are already reeling from sharply higher fuel costs following Iraq's invasion of Kuwait.

"It'll be nothing but a disaster," said Scott Hamilton, co-editor of the *Commercial Aviation Report* newsletter.

"The strong carriers like American and Delta will lose a lot of money depending how long this thing goes on. As for the weak carriers like Pan Am, TWA and Eastern — this conceivably could spell life or death for them."

Mr. Hamilton drew a parallel with the air traffic controllers strike in 1981, which drastically curtailed air traffic. The walkout was "another nail in the coffin" for struggling Braniff Airways, which the next year filed for bankruptcy, he said.

The Dallas Morning News

Dallas, Texas, Thursday, September 27, 1990

Workers worry jobs will suffer, bills will mount

By Tracy Everbach
Staff Writer of The Dallas Morning News

Three federal auditors huddled around a lunchroom table Wednesday, penciling in their work schedule for the next few weeks. They carefully marked X's through days they wouldn't get paid.

The auditors and most of the other 40,000 federal employees in the Dallas-Fort Worth area — like their colleagues across the nation — will face unpaid furloughs starting Monday if Congress fails to agree on tax increases and spending cuts.

The auditors in the Earle Cabell Federal Building cafeteria didn't concern themselves Wednesday with the specifics of the Gramm-Rudman-Hollings Act of 1985, which would force huge budget cuts in most federal agencies. They were worried about how they would pay their bills if their salaries are cut by as much as half.

And they were frustrated about how their work would suffer if furloughs are imposed.

"It seems like it would be such a waste," said one of the auditors, who declined to give his name because he was worried about repercussions from his supervisor. "It (furloughs) would put everyone so far behind. And we're going to have to make it up sooner or later by working overtime. They're (the government) going to give us the money back one way or another."

The auditors, among about 300 who work for the Defense Department in Dallas and Fort Worth, have been told that they may be furloughed without pay for 40 hours every two weeks through November.

"It makes it hard to make any kind of plans," the auditor said. "Are the congressmen getting cut? Is (President) Bush getting cut? It seems like we're all in this together."

This isn't the first time federal employees have been warned about possible furloughs. Several workers recalled having to take half-days off without pay in years past to meet budget requirements.

But this year, the projected cuts are massive — up to $100 billion of the $1.2 trillion federal budget for the fiscal year beginning Monday. The cuts would add up to about a third of the budget in many agencies. And the deadline — Oct. 1 — is inching closer without a resolution.

The budget cuts would affect more than just federal employees.

They pose the worst threat to the U.S. airline industry since the 1981 air traffic controllers strike.

The Federal Aviation Administration has said it will cut its workforce by 25 percent unless the budget crisis is resolved. Weather forecasters — vital to flight operations — also would be furloughed. The result, some experts fear, could be a 40 percent reduction in scheduled airline flights.

Initially, flights would be delayed. But at 3 a.m. on Oct. 4, the FAA would impose a massive flight cancellation program at big airports around the country.

The airlines are expected to tell the FAA on Friday how they would apportion those cancellations among their markets.

On Wednesday in the federal building cafeteria, three employees of the Internal Revenue Service collection division traded furlough worries.

"I'm down here as a single parent," said Debra Tate, who said she supports two of her three children.

She said that if she is furloughed, she will try to find jobs on her unpaid days off through a temporary agency.

"We're already cutting into our savings," Ms. Tate said.

Her lunch companion, Sandra Wolfe, said the uncertainty of the situation bothers her.

"We're in the Middle East and I can understand helping other countries, but we need help here," Ms. Wolfe said. "We're just hanging in the balance. Something has to give."

Members of Congress "don't understand what it's doing to people," said their co-worker, Marsha Spencer.

Ironically, if she and other IRS collection agents aren't able to collect and process checks because of the furloughs, the government won't receive money it is owed, she said.

"That money just will be sitting there," she said.

About 2,300 IRS employees in the Dallas area are represented by Chapter 46 of the National Treasury Employees Union. Vice president Thomas Fishell, a tax examiner, said the union is worried that if the furloughs are lengthy, workers will leave the agency for jobs in the private sector.

"These people are going to have to go out and find work," Mr. Fishell said. "They don't have the luxury of taking unpaid leave."

Judy Vandever, a secretary for the Treasury Department, said the threat of two- to four-day furloughs every week couldn't come at a worse time. She and her husband just bought a new house.

"Where will we get the money to fill in the void?" she asked. "It's just a day-to-day situation."

A government employee for 21 years, Ms. Vandever said she has been threatened with furloughs for as many years as she can remember. But this year, "I'm not spending any extra money on anything."

Other government employees said they have been preparing for years for a possible furlough.

"I hate for my salary to be cut, but I've been expecting this for four or five years," said Myrtle Walker, a secretary-typist for the Labor Department. "I have money saved, and I've talked to my landlord and others I owe. They said they understand."

"But I'm not worried," she said. "There are many times they (Congress) have made this decision overnight."

Federal agencies across Texas are preparing to slash their budgets if Congress doesn't resolve the situation by Monday.

In San Antonio, which is home to five major military installations, Air Force and Army officials have notified more than 17,000 civilian employees that they may be furloughed.

"If all civilian employees were furloughed, the government would realize a savings of $2 million in salaries each day," said Phoebe Brown, public affairs director at Kelly Air Force Base.

In Houston, Johnson Space Center officials said they do not expect furloughs to interfere with the Oct. 6 shuttle mission. The mission will carry a sun-orbiting solar science probe called Ulysses.

"We need to get Ulysses flying," said space center spokesman Jeff Carr.

The space center's plan, if the cuts go into effect, is to furlough every civil service employee for one day in the first two weeks of the fiscal year.

U.S. Customs Service officials said crossings on the Texas-Mexico border and international trade will be bogged down if the spending cuts take place.

"All 2,248 customs employees in the Southwestern region have received furlough letters," said spokeswoman Judy Thompson. "As a result, we are looking at a 40 percent reduction in services and a terrific impact on the ability to do our jobs efficiently."

The Border Patrol may have to cut operating hours and close some ports temporarily, she said. Also, customs may have to reduce fuel purchases for airplanes and agents' cars.

Officials at U.S. Border Patrol offices along the Texas-Mexico border said employee reductions would result in fewer patrols and fewer investigations to round up illegal aliens and participate in drug interdictions.

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President may compromise to win budget pact

WASHINGTON — President Bush may be willing to drop his demand for a cut in the capital gains tax, Republican congressmen said yesterday, a compromise that could spur a budget agreement and avert disruptive cuts in government services.

Bush said nothing about his reported change in position as he campaigned for GOP candidates in Ohio. Instead, he said "the hangup is with the Democrats," whom he accused of refusing to do their part to cut the deficit.

"If and when the ax falls, the Democratic Congress knows that it will be held accountable," he said. "And I will take that message to every state in the union."

Hundreds of unionized federal workers rallied outside the Capitol at noon to demand a quick solution to the crisis. They carried signs reading, "Your furlough begins Nov. 6, Election Day," and "Congress, you do your jobs so we can do ours."

The rally was organized by the American Federation of Government Employees, which represents 700,000 federal workers.

Inside the building, the Senate voted overwhelmingly to apply the spending cuts to the salaries of members of Congress and top Executive Branch officials, including Vice President Dan Quayle and members of the Cabinet — items now exempt under the Gramm-Rudman budget-cutting law.

After a morning meeting at the White House, GOP lawmakers said Bush might accept items he believes would spur the economy instead of a lowered capital gains tax.

"He might be willing to look at other alternatives in the growth area," said Senate Minority Leader Robert Dole (R-Kan.).

Rep. Newt Gingrich of Georgia, the No. 2 House Republican, said the alternatives could include corporate tax breaks designed to prod businesses to operate in ailing urban and rural areas.

The developments occurred as negotiators resumed their search for a package of tax increases and spending cuts that could reduce the deficit by $500 billion over five years.

Hanging over them was the prospect of $85 billion in potentially disruptive cuts set to take place automatically Monday — reductions that could result in furloughs for as many as 2.1 million federal workers and curtail government programs from air traffic control to food inspections.

If the cuts are put in place, affected domestic programs would be slashed by 32.4 percent and defense programs by 35.3 percent. —AP