

Originally Processed With FOIA(s):

1998-0004-F[1]; 1998-0251-F

FOIA Number:

S

# FOIA MARKER

**This is not a textual record. This is used as an administrative marker by the George Bush Presidential Library Staff.**

---

**Record Group/Collection:** George H.W. Bush Presidential Records  
**Collection/Office of Origin:** Chief of Staff, White House Office of  
**Series:** Sununu, John, Files  
**Subseries:** Issues Files

---

**OA/ID Number:** 29141  
**Folder ID Number:** 29141-006

---

**Folder Title:**  
Budget [1990] - Press Report #3 [2]

---

Stack:	Row:	Section:	Shelf:	Position:
<b>G</b>	<b>15</b>	<b>24</b>	<b>6</b>	<b>7</b>

---

# THE WALL STREET JOURNAL.

MONDAY, OCTOBER 22, 1990

## Budget Talks Stall on Taxes For the Wealthy

### Bush Agrees to Accept Rise In Top Rate, Enhancing Chance of Final Success

By JEFFREY H. BIRNBAUM  
And JACKIE CALMES

Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON — Budget negotiators suffered a setback last night in a dispute over how to raise taxes on millionaires.

But the disagreement was a ripple in the sea of change in President Bush's position. Over the weekend, the president agreed to raise the top rate on the wealthiest Americans to 31% from the current 28%—a move that boosts the ultimate chances of success for the protracted talks, which seek a package of tax increases and spending cuts to shrink the federal deficit.

Ever since he was a candidate for president, Mr. Bush has steadfastly vowed to resist any tax-rate rise. Now he has taken a step closer to the Democrats' line. Both sides now appear willing to set the top tax rate at 31% and also limit most deductions taken by the wealthiest Americans, effectively boosting their tax rate even higher. But early last evening, the negotiations broke off briefly because of a disagreement over the narrow question of how to hit millionaires. The Democrats prefer a special surcharge, while the Republicans want a more stringent limit on deductions.

Specifically, Democrats want to impose a 7.5% surcharge on the tax liability of individuals with taxable incomes over \$1 million. Republicans want to disallow \$800 in deductions for every \$10,000 in income above \$100,000 for the same millionaires.

Both proposals would raise roughly the same amount of money, more than \$5 billion over five years. And the percentage of taxpayers affected is minuscule—tens of thousands out of the 110 million taxpayers in the country.

The disagreement was so severe, however, that White House Chief of Staff John Sununu left the negotiations on Capitol Hill in a huff last evening. "They've got to go figure out what their position is," he said angrily, referring to the Democrats.

Speaking of the president, Sen. Bob Packwood (R., Ore.) said: "He is willing to tax the rich extensively. [But the Democrats] are not willing to tax the rich the way we want to go." Sen. Packwood went on to quote Mr. Bush: "I've gone three-quarters of the way. I've given up things I didn't want to give up. I just don't want to give up any more."

Despite the setback, Sen. Packwood and other negotiators resumed their talks later in the evening and still hope to complete deficit-reduction legislation this week. The lawmakers are aiming for a measure that achieves about half of the goal of trimming the budget deficit by \$500 billion over five years. The remaining savings would come from restraint in military spending, contained in a separate bill, and from projected savings from interest payments on the federal debt.

Negotiators appeared to be moving toward a package that raised the gasoline

tax by at least five cents a gallon and increase the limit on wages subject to the Medicare payroll tax. President Bush apparently failed to win any cut in the capital-gains tax. But the negotiators dropped a provision—which Mr. Bush derided as a tax increase on the middle class—that would have delayed the inflation adjustments of the tax brackets and the personal exemption.

Over the weekend, House and Senate negotiators exchanged several offers on tax-increase proposals, which would amount to about \$140 billion in new revenue over five years.

The president's sharp departure from past positions occurred when he said he would accept an increase in the top rate on the richest Americans—who number about 600,000—to 31%. Though Democrats said privately they wished they could get an even bigger increase, they gleefully responded with an offer that accepted the 31% rate.

Democratic aides reasoned that President Bush agreed to the 31% rate at considerable political cost, since he accepted a tax rate rise—something he long has vowed not to do—and yet failed to get in return even a face-saving version of the

tax change he has most sought this year, a cut in the capital-gains tax rate.

Republican strategists noted that, taken by itself, a 31% top rate would reduce marginal tax rates for about two million taxpayers. A family of four in this category makes between roughly \$80,000 and \$200,000 a year in adjusted gross income. Because of an oddity in the tax code called "the bubble," they pay a 33% rate on each additional dollar of income.

But the negotiators aren't thinking of stopping at tax rates in their drive to boost taxes of the wealthiest Americans. Republicans and Democrats are considering severe limitations on deductions, which are mostly taken by upper-income individuals. The proposals amount to little more than backdoor rate increases.

Both the Republican and Democratic offers would disallow \$400 in deductions for every \$10,000 in income above \$100,000 for both couples and individuals, effectively setting their marginal tax rate at 32.25%. The Republican offer also would raise the disallowed deductions to \$800 for every \$10,000 of income for millionaires, who numbered about 65,000 in the last count by the Internal Revenue Service, effectively increasing their marginal rate to 33.4%. The Democratic offer was a 7.5% surcharge applied to the taxes owed by the same individuals.

Republicans rejected the Democrats' offer as a blatant tax-rate rise above what the president already said was his bottom line 31%. The Democrats were resisting the Republicans' deduction-limit proposal, because they said they might lose crucial votes in the House from the big delegations from New York and California, where property values, and therefore deductions, are higher than in most other parts of the country.

The deductions subject to the limit would include tax payments to state and local government, mortgage-interest payments and charitable contributions. The limit on deductions in the Democratic proposal would effectively produce a 32.24% marginal tax rate for those taxpayers who currently are in a 28% bracket and would be put in the 31% bracket by the new law.

In another method to tax rich people, both Republicans and Democrats also are considering raising the amount of wages subject to the 1.45% Medicare payroll tax. The latest Democratic offer would have in-

creased the wage limit to \$140,000 from the current \$51,300. The Republicans would raise the limit to \$98,000. This would be the equivalent of increasing the tax rate of upper-income people by 1.45 percentage points for employees, and twice that amount for the self-employed.

The negotiators also were working to reduce the amount of savings contained in the Medicare programs, compared with the Senate-passed deficit-reduction bill. Specifically, Democrats proposed to set the annual Medicare deductible, now \$75, at \$125. This compared with \$150 in the Senate-passed bill and \$100 in the House version.

The two sides also disagree over how much to raise the federal gasoline tax, which is currently nine cents a gallon. The Democrats offered to raise it five cents a gallon; the Republicans proposed raising it about seven cents a gallon. The Senate-passed measure includes a 9.5-cent increase, while the House bill called for no increase.

The weekend negotiations began Friday after the Senate, early that morning, approved its five-inch-thick version of the deficit-reduction plan on a bipartisan 54-46 vote. Twenty-three Republicans supported the package and 22 opposed it, while 31 Democrats voted for the plan and 24 voted against it, including 12 of the 17 Democrats facing re-election. The bipartisan Senate action stood in contrast to the House's party-line passage of its budget plan last week.

The tax and Medicare portions from the House Ways and Means and Senate Finance Committees account for about three-quarters of the package's proposed deficit reduction. The remaining quarter consists of proposals from among 20 other committees, involving wide-ranging steps to cut projected spending on programs involving farmers, federal employees, veterans and student loans.

While some differences divide conferees from the various committees, the similarities between the House and Senate versions are great enough that negotiators are expected to fall in line with compromises once it's clear that the tax questions are resolved.

Even if a tax agreement could be reached soon, the efforts both to pass the deficit-reduction measure through both chambers and finish the fiscal 1991 appropriations bills are likely to keep lawmakers in session past Wednesday, when the current stopgap government-funding law expires. Mr. Bush signed the temporary measure Friday, avoiding a repeat of the brief and unpopular government shutdown after he vetoed a stopgap measure earlier this month.

With just 15 days left before voters go to the polls, Congress already has set a post-war record for remaining in session close to an election. The previous record was 17 days between adjournment and elections.

## Deficit-Cutting: Economic Experiment

WASHINGTON

George Bush and Congress are about to embark on an economic experiment. Just as the economy appears to be sliding into a recession, they are about to raise taxes and cut spending.

This is the opposite of the simple Keynesian recipe for prosperity: The government should stimulate the economy when it's weak and restrain it when it's strong.

"If you had your druthers, you should have done this sooner, when the economy was in better shape," says Keynesian economist James Tobin, a Nobel laureate. But that doesn't mean the government should delay, he adds. "The reputation of our government to accomplish anything is at stake," he says. If a budget agreement causes interest rates to fall sufficiently, he believes, the short-run damage to the economy can be largely offset and its long-run performance should be enhanced.

In general, economists say that a budget deal is probably going to hurt a little now but that the patient should feel better in a few years. "You don't cure cancer by waiting six months," says Robert Reischauer, director of the Congressional Budget Office. "You start chemotherapy even though it makes you feel terrible. You're doing it to improve your prospects three, four, five years out."

Regarding the economy's prospects, he says that "what you have to believe is two things: that the Fed will respond rather aggressively by pushing down short-term rates and that financial markets will look at the package, find it to be credible and a major change in fiscal policy, and that therefore long-term interest rates will fall."

President Bush believes. "We must reduce this deficit so that interest rates can come down," he said the other day. "Many of you have heard what Alan Greenspan said: If we get a good package, they will come down."

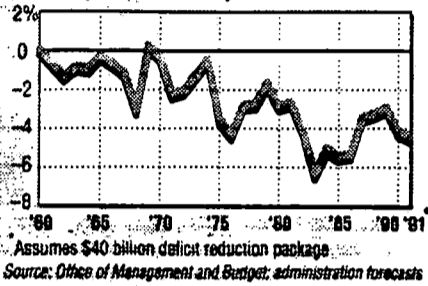
How much? Administration officials talk about a drop of one-half to one percentage point in the short-term rates that the Federal Reserve influences directly. Many private economists use the same range.

It isn't at all clear that Mr. Greenspan, the Fed's cautious chairman, will move that much, given the Fed's concern about inflation, the slumping dollar and rising interest rates in Japan and Germany. "If Alan Greenspan goes at one-quarter percentage point at every open-market committee meeting, that's probably not fast enough," Mr. Tobin warns.

Mr. Greenspan repeatedly has said the Fed will wait to see whether financial markets regard the final package as credible. If so, market rates will fall and the Fed will help them along. If not, there's not much the Fed can do. Mr. Greenspan believes that the bond market isn't as interested in the first-year deficit-reduction figure as it is in the believability of the five-year plan to reduce the deficit by \$500 billion. One factor in

### Still in a Deep Hole

Federal budget surplus (+) or deficit (-) as a percentage of GNP, fiscal year data



establishing that credibility will be how tightly Congress ties its own hands as it writes a new law enforcing the spending constraints in the agreement.

By delaying so long, Congress and the White House haven't made the Fed's job any easier. Tax increases will begin to pinch in barely two months. Even if the Fed moved immediately on interest rates, the beneficial effects wouldn't be felt for roughly six months.

No matter how the Fed handles the situation, some economists doubt the wisdom of raising taxes now. The supply-siders, who never think the time is right, are in full cry. John Makin of the American Enterprise Institute says the government ought to be cutting taxes to stimulate the economy and raising interest rates to control inflation.

Nobel-laureate economist Milton Friedman says all this worry about whether the package will help or hurt the economy is much ado about nothing. It doesn't matter how much the government relies on debt or taxes, he reasons. What matters is how much the government spends, and this package won't change that significantly.

In any event, the spending cuts and tax increases, as they are shaping up, won't do much more than nick the economy in the next year or so. On paper, they would reduce the fiscal 1991 deficit by \$40.1 billion, but that includes a few billion in gimmicks and excludes spending on troops in Saudi Arabia.

At most, the program will shave 0.6% off the gross national product over the next year, and economists say that's simply not very much. Another big change in oil prices would have a far greater effect. Of course, the impact in particular areas could be substantial: A new 10% luxury tax surely won't boost sales of Cadillacs.

The near-term benefits of implementing the deficit-reduction package are probably oversold. If a recession is beginning, as many forecasters say, it's too late to head it off by cutting interest rates. The sun will not break through the economic clouds the moment Mr. Bush signs the final document. But if this works as forecast, the economic weather will improve in years ahead.

—DAVID WESSEL

## Bursting the Bubble

The Remocrats and Depublicans negotiating the final details of your tax increase are not so foolish as to give an advance look at it to anyone (with the exception of the Guccied hordes lobbying for scraps from the tables of tax-the-rich). But we keep wondering what it will do to marginal tax rates. Marginal rates, the tax paid on an additional dollar of income, measure incentives to economic growth; cutting them was the key to the now-vanishing prosperity of the 1980s.

Both sides of the table professed to start with concerns about marginal rates. The notion that marginal income tax rates shouldn't be increased was the only fig leaf President Bush had left after throwing in the towel of his no-new-tax pledge. The Democrats, on the other hand, proclaimed the objective of "bursting the bubble." The bubble is that income range subject to a special surtax to "phase out" personal exemptions and the effects of a lower 15% rate on the lowest income bracket. When these "benefits" are extinguished, the surtax expires. So folks in the bubble pay a marginal rate of 33% though an average rate below 28%; above the bubble, the average rate and marginal rate converge at 28%.

We asked Steve Entin of the Institute for Research on the Economics of Taxation to calculate some marginal rates based on the following all-too-likely assumptions about the ultimate Depublican-Remocrat bill: The bubble will be burst with a 31% tax bracket on all income starting at the bottom of the bubble. The Medicare tax, which now applies only on payroll income up to \$51,300 will be applied to income up to \$100,000. In what is known as the Pease plan, itemized deductions will be phased out for taxpayers earning more than \$100,000 at a rate of 5%. How will this combination affect marginal rates?

Looking at the resulting schedule of marginal rates, the most notable losers would be folks with taxable incomes of between about \$40,000, the taxable income corresponding to the current Medicare cap, and \$78,400, the beginning of the bubble for a married couple filing jointly. These folks now pay a marginal rate of 28%, and would get hit with the higher cap on the Medicare tax. While this is officially part of payroll tax instead of the income tax, it does raise the marginal rate on wage and salary income. The employee's share of this tax is 1.45%, so for these taxpayers the marginal rate would go from 28% to 29.45%. Actually, this understates the effect, since economists agree that the employee also bears the employer's share. And it counts just the increment in the payroll tax, not the rest of it already in place. With the payroll tax and state taxes, marginal rates are already well above 28% or 33%.

The Medicare boost also affects taxpayers within the bubble but below the \$100,000 cap. Up to the cap, folks now paying a 33% marginal rate

would pay a new rate of 32.45%, or roundly 33%. Above \$100,000, the Pease plan kicks in. A 5% loss of itemized deductions for marginal earnings is, until all deductions are eliminated, simply a new marginal rate of 1.55%. So the \$100,000-plus folks now paying the bubble rate of 33% would pay a rate of 32.55%, or roundly 33%.

For some bubble folks it would be worse: As usually written, the Pease plan's deduction limitation applies to adjusted gross income—not taxable incomes after exemptions and deductions. This means some unlucky bubble folks (with payroll income below \$100,000 but interest, dividends or capital gains pushing their total income above \$100,000) would get hit with both the higher Medicare cap and the deduction phase-out, raising their marginal rate to 34%. Certain two-income families who pay the payroll tax twice would also be double-whammed. Thus would the Democrats "burst the bubble" and the Bush administration avoid any increase in marginal rates.

Naturally, folks above the bubble get a straightforward increase in marginal rates from 28% to at least 32.55%. Theoretically, there would be some income level at which the "benefit" of itemized deductions would be extinguished and the marginal rate would return to 31%. This level cannot be calculated precisely since itemized deductions can vary, but it would appear to be somewhere around the income reported by Michael Milken in his heyday. Such incomes are unlikely for anyone in the economic climate the new tax bill presages, but no doubt the Remocrats and Depublicans would revisit this issue in some future year. After all, it would be a new "bubble."

To repeat, to make Mr. Entin's analysis you need to start with some assumptions about the new bill. The assumptions excluded all the cats-and-dogs tax increases sure to be included. So even if you fall into the brackets that show a half-point reduction in your marginal rate, forget it. And the assumptions exclude any surtax on higher incomes; a 10% surtax would add more than an additional three-plus percentage points to marginal rates. It predictably would produce disappointing revenues, as high marginal rates invariably do. But Remocrats and Depublicans want to apply it to incomes of more than \$1 million, or maybe incomes of \$200,000, or maybe compromise on \$300,000.

Or, soon to be, \$100,000 or \$50,000 or \$25,000. For this analysis also ignores what will come after. Senator Bob Packwood, the ranking Republican on the Finance Committee, predicted Friday that if the new law raises the top 28% rate to 31%, Congress will be back in a year or two to raise it to 35% or 37%. He said he remains strongly opposed to increases in the rate, but may lose. Along with everyone but the Remocrats and Depublicans.

# The New York Times

MONDAY, OCTOBER 22, 1990

## PRESIDENT'S AIDES QUIT BUDGET TALKS IN TAX STALEMATE

ACCORD IS STILL POSSIBLE

Sununu, Brady and Darman  
Walk Out as Negotiations  
Continue in Congress

By DAVID E. ROSENBAUM

Special to The New York Times

WASHINGTON, Oct. 21 — Top White House officials stormed out of the Capitol late this afternoon, accusing Democrats of being unwilling to negotiate a fair tax compromise.

The talks cannot be concluded without the White House. But lawmakers from both parties said that they expected a resolution of the issues this week and that they saw today's development as merely a temporary setback.

This evening, Representative Richard A. Gephardt and George J. Mitchell of Maine, the Senate Democratic leader, resumed negotiations with Senator Bob Dole of Kansas, the Senate Republican leader. And Senator Dole said, "The talks have not broken down."

### 'We Made Them an Offer'

John H. Sununu, the White House chief of staff, said Democrats "could not agree among themselves."

Getting into his car to speed off the Capitol grounds, he continued: "We made them an offer that included all the criteria they could have wanted. They obviously would prefer not to accept a package."

Democrats responded that it was the Republicans who were divided and that Mr. Sununu was posturing for the benefit of the wing of his party that will not support any new taxes.

"The Republicans are asking us to adopt proposals they want," said Mr. Gephardt, the Democratic leader. "But they are asking us to pass this proposal in the House with a preponderance of Democratic votes."

### Continued Opposition to Taxes

The House Republican whip, Newt Gingrich of Georgia, repeated in an interview this morning on the ABC News program, 'This Week,' that most of his colleagues would vote against whatever tax plan the negotiators develop, even one President Bush supports.

The main division between the two sides is the Democrats' demand for a surtax on millionaires and the Republicans' insistence on a stiff limit on deductions millionaires could claim.

Mr. Sununu's statement followed a seemingly calm day in which White House officials and top Congressional leaders huddled in private offices, preparing and exchanging plans for

raising about \$145 billion in new taxes over the next five years. Until the negotiations broke down, it appeared that the differences between the two sides were narrowing.

As they left the Capitol, Richard G. Darman, the White House budget di-

Continued on Page A16, Column 1

Continued From Page A1

rector, said he, Mr. Sununu and Treasury Secretary Nicholas F. Brady were going to the White House to see the President. They had been meeting in Senator Dole's office.

### Disagreement on Top Tax Rate

A Democratic assistant said the Administration officials walked out after the Democrats gave Republicans a choice of a top tax rate of 32 percent, up from the current 28 percent, or a top rate of 31 percent, with an additional 7.5 percent surtax on millionaires.

Republicans refused to go above 31 percent for the top rate, and instead of a surtax on millionaires, they proposed that the deductions the super-rich could take be strictly limited.

That was unacceptable to the heavily Democratic delegations from New York, California and other high-tax states, whose residents would be hurt if they were unable to deduct all of their state tax payments. "It applies differently in different states," Mr. Gephardt said. "A surcharge applies evenly across all states."

Another Democratic staff member predicted that an agreement would be reached this week. "This is just the storm before the calm," he said.

Congress wants to adjourn this week to prepare for the elections two weeks away. The Government's authority to spend money expires again at midnight Wednesday, and if no budget deal is struck, Congress must pass, and President Bush must approve, another stop-gap spending measure to keep the Government in business.

Senator Bob Packwood of Oregon, the top Republican on the Finance Committee, said that he had spoken on the telephone with President Bush this afternoon and that Mr. Bush had said, "I've given up so much already, I don't want to give up any more."

Senator Packwood said, "We may have reached an impasse."

### Meeting Through Day

Mr. Darman, Mr. Sununu and Mr. Brady met throughout the day with Senators Dole and Packwood. Periodically, the two Republican Senators would leave the Administration officials behind and walk down the hall to trade plans with Democratic leaders who were meeting in Mr. Mitchell's office.

Mr. Mitchell and Mr. Gephardt, were joined in the negotiations by Representative Dan Rostenkowski of Illinois, chairman of the House Ways and Means Committee, and Senator Lloyd Bentsen of Texas, chairman of the Finance Committee.

In the early afternoon, the two sides appeared to have tentatively agreed on a 31 percent top tax rate. They also appeared to agree generally on a limit on deductions that could be claimed by upper-income taxpayers, a higher Federal gasoline tax, cuts in Medicare payments and an increase in the amount of wages subject to Medicare payroll taxes, staff assistants said.

The disagreements were over who would be affected by the deduction limit, how far the gasoline tax should be raised, how deep Medicare benefits should be cut and what amount should be subject to the Medicare payroll taxes.

Both sides are determined to raise about \$145 billion in new taxes over five years as part of an overall plan that would reduce the Federal deficit, now about \$300 billion, by \$40 billion this year and \$500 billion through 1995.

### Effect of Each Offer

Each time an offer was made, staff members scurried across the street to run the plan through the computer of the Joint Congressional Committee on Taxation and determine how the plan would affect taxpayers at different income levels.

The Democrats are determined that the wealthy bear most of the new tax bite. With that in mind, the plans put forth by the Democrats would place a surtax on incomes above \$1 million. Party leaders want to seize the opportunity to paint Democrats as the protectors of the poor and middle class and Republicans as the patrons of the wealthy.

"We feel very strongly there should be a surcharge," the House Speaker Thomas S. Foley of Washington State said at a news conference.

Republicans resisted the surtax and the idea that they favored the rich. "This is one of the all-time false issues, the rich-poor thing," Mr. Darman said. "This compromise in the end will tax the rich."

Mr. Darman, who also appeared on "This Week" confirmed publicly what Mr. Brady had told lawmakers privately — that Mr. Bush would accept a 31 percent top tax rate, up from 28 percent now, in "an otherwise totally satisfactory package."

The direct effect of raising the top rate to 31 percent would mean an income tax increase for families with taxable incomes of more than about \$200,000 a year and a small tax cut for those with incomes from about \$80,000 to \$200,000. Other taxpayers would not be affected.

One Democratic proposal was to reduce by 4 percent the itemized deductions of taxpayers with incomes above a certain high level. The income level could not be learned.

The taxpayers affected would then actually pay a top rate of 32.2 percent. And if a 7.5 percent surtax were imposed on millionaires, their tax rate would be nearly 40 percent.

# The New York Times

MONDAY, OCTOBER 22, 1990

## Behind the Dealing on Deficit Reduction, Deals That Could Swell the Deficit

### Congressional Budget Negotiators Take Care of Some Constituents

By SUSAN F. RASKY

Special to The New York Times

WASHINGTON, Oct. 21 — Buried in the House and Senate deficit reduction plans that would raise the taxes of nearly all Americans are special breaks to alleviate much of the burden for companies and industries fortunate enough to be represented by the handful of lawmakers negotiating the final compromises.

Thanks largely to the efforts of the Senate Majority Leader, George Mitchell of Maine, the UNUM Life Insurance Company of Portland, the largest private employer in the city, may pay a fraction of the new tax being imposed on the rest of the industry, and other insurers must take up the slack. Cost to other insurers? About \$1 billion over the next five years.

Taxes on wine would rise by 18 cents a bottle under the Senate bill and by 22 cents a bottle under the House version, but thanks to the efforts of Senator Bob Packwood, the senior Republican on the Senate Finance Committee, wineries that produce less than 200,000 gallons a year will not be affected. All of

#### Breaks for cigar makers, wineries and others.

the 80 wineries in Mr. Packwood's home state of Oregon happen to fall into that exempt category.

According to a senior Republican tax aide, all but 300 of the nation's 1,400 small- and medium-sized wineries also fall in that category. And since these wineries generally produce more expensive wines, this provision would exempt most of the high-priced wines in the country from the new levy.

Cost to the Treasury? Hundreds of millions of dollars over five years, the aide said.

#### Break on Big Cigars

And while higher tobacco taxes proposed in both the House and Senate bills will increase the price of cigarettes eight cents a pack by 1993, the cigar industry in Southern Florida won't feel as much of the bite if the House version prevails. Manufacturers of large cigars owe their break in the House bill, worth \$100 million over five years, to Representative Sam Gibbons, a Tampa Democrat who is a negotiator for the House Ways and Means Committee.

These carefully crafted tax provisions may change, of course, in the give and take of last-minute bargaining. And other deals will almost certainly emerge as negotiators look for ways to pick up the votes needed for approval of the deficit package.

But who wins and loses has a great deal to do with which players sit at the bargaining table.

In Congressional parlance, tax breaks narrowly targeted to a few companies or constituencies are known

as "rifle shots," and they are hardly a new phenomenon on Capitol Hill. Indeed, by past standards, there are relatively few of them in the House and Senate deficit measures.

But this year, when so much of the budget negotiating was handled by a small group of senior lawmakers, rank-and-file legislators and even senior members of the tax committees who have been left out of the horsetrading are furious.

"There are things all over the fine print that we keep finding out about at the eleventh hour," complained Senator Daniel Patrick Moynihan, a New York Democrat and a member of the Finance Committee negotiating team. Some House members think Mr. Moynihan has little to grouse about since the Finance Committee bill includes a provision he sponsored to aid very wealthy taxpayers who donate paintings or manuscripts to public museums and libraries.

Mr. Moynihan argues that the tax break has a broad public purpose and notes that it was adopted, with strong support, after discussion by the full Finance Committee. "We have always made accommodations to members behind closed doors, but it used to be that at least everybody was in the room," he said.

The insurance tax, and the break for UNUM is a good example. Both the House and Senate bills would raise \$8 billion in new taxes from the insurance industry by changing the way that companies now deduct their expenses for obtaining new policies.

Under a complicated formula, a company like UNUM, which specializes in health and accident insurance policies that cannot be cancelled, was to have been treated like companies that sell certain types of high-priced life insurance. But as a result of Mr. Mitchell's efforts, UNUM was placed in a category with companies that sell group life insurance where the writeoff formula was more generous.

#### Make Up the Difference

Since the committee still wanted to raise a total of \$8 billion from the insurance industry as a whole, other insurance companies were required to make up the difference by bearing a larger share of the tax burden.

Some lawmakers, like Senator John D. Rockefeller, a West Virginia Democrat who is also part of the Finance Committee negotiating team, but not in the inner negotiating circle, or Representative Augustus Hawkins, a California Democrat who heads the House Education and Labor Committee, may still have a chance to make their pet initiatives on Medicaid and child-care part of the final budget compromise.

That is because the provisions they favor are at least part of either the House or Senate tax bills. In addition to raising revenue, the tax committees have jurisdiction over most of the Medicare and Medicaid programs as well as tax provisions that will help pay for child care.

Mr. Rockefeller has put other negotiators on notice that he will demand inclusion of new health care services in the Medicaid program for elderly peo-

ple who are too poor and too disabled to seek medical care outside their homes or communities. This would cost the Government \$200 million over five years.

Mr. Hawkins, with strong backing from Democratic liberals in the House, is likely to win some expansion of the child care program to cover before- and after-school care for children whose parents work during the day. It would cost about \$1 billion over five years.

#### Mammography Screening

But other lawmakers, like Representative Mary Rose Oakar, a Democrat of Ohio, are fighting for provisions that were widely supported by both parties and both chambers, but never made it in to either package. Ms. Oakar's cause is expansion of Medicare coverage to include routine mammography screening for breast cancer; and she had been promised by House Democratic leaders that a \$2 billion "cushion" in the Ways and Means tax package would take care of it. "I'm livid," she said, as she circulated a

petition among House members demanding that the negotiators make room for the Medicare change. "I've collected a 100 signatures in just the past 15 minutes, and I'm going to hand deliver it to each of the conferees."

Mammography tests are covered by Medicare if a doctor detects a lump in a patient's breast and orders the procedure, but routine screening, now widely recommended as method of early cancer detection, is not. "It's symptomatic of the way we do things around here," Ms. Oakar said, arguing that the estimated \$1 billion the new coverage would cost over five years would save money in the long run.

"The cost to the Medicare program for treating a woman whose breast cancer is detected early is \$10,000 or less. The cost to the program for treating a woman with later stage breast cancer is between \$65,000 and \$125,000. But the budget figures never take that into account, and every time we think we have this coverage in the program, it gets taken out because somebody says it's too expensive."

# The New York Times

MONDAY, OCTOBER 22, 1990

## While Congress Trims the Budget, It Enlarges Programs (and Debt)

By ROBERT PEAR

Special to The New York Times

WASHINGTON, Oct. 21 — Even as Congress trims some programs to reduce the Federal budget deficit, it is expanding other programs, and lawmakers acknowledge that savings achieved with great difficulty this year may soon be offset by added spending.

The new spending comes about because of old-fashioned pork-barrel projects, policy choices in favor of new or expanded programs and the deterioration of the economy, which is increasing demand for benefits like unemployment insurance and food stamps.

Whether any particular increase is good or bad is a political question with a subjective answer; what seems essential to one lawmaker or interest group may appear wasteful to others. But it is indisputable that Congress has quietly enacted appropriation laws that increase spending, often in districts represented by influential lawmakers, while they publicly proclaim the need for deficit reduction.

"The Federal debt is going from a quart to a gallon," said Gerald H. Miller, executive director of the National Association of State Budget Officers, "but Congress and the President are taking out only a cup."

### Protests Over Medicaid

As part of the budget package being negotiated on Capitol Hill, Congress is expanding Medicaid, for example, over vehement protests from the nation's governors, who say they will be saddled with more costs. The expansion of Medicaid would cost the Federal Government at least \$400 million a year.

In appropriation bills for the current fiscal year, Congress has approved a \$2.3 billion increase in spending for Federal highway projects, to \$14.5 billion a year, and is providing \$20 billion in new money for specific park, land, energy and water projects.

"This session of Congress has decided to vote again and again for pork barrel, to fund projects that may or may not be better than other competitive projects, and to fund them only because of who one may know on the Appropriations Committee or the leadership," said Representative Steve Bartlett, a Texas Republican who is one of many members of Congress to make such criticisms.

Mr. Bartlett said the largess was bipartisan. "There are projects in here for members of both parties," he said of one bill, which increases housing appropriations by 22 percent, to \$9.5 billion in the current fiscal year.

Senator Dale Bumpers, Democrat of Arkansas, said one subcommittee of the Appropriations Committee recently received 2,800 written requests for park, land and water projects from various senators. "Those same senators then come in here with unctuous, pontificating statements about how, if we just freeze this or that, we could get the deficit under control," Mr. Bumpers said.

To cover the increases in spending, Congress plans to raise the debt limit. Under budget plans adopted by the House of Representatives and the Senate, the Federal debt, which represents

the accumulated total of all Federal borrowing, would soar to \$5 trillion in 1995, from the current \$3.2 trillion. When President Reagan took office in 1981, the debt was slightly less than \$1 trillion.

A little-noticed provision of the deficit-reduction bill passed by the House would raise the statutory limit on the public debt to \$5 trillion. If the higher limit is part of the final bill, Congress could avoid the annual ritual of increasing the debt ceiling. The ritual is politically embarrassing to lawmakers and occasionally brings the Government to the brink of default. When Congress fails to extend the debt limit, the Treasury must postpone new borrowing from the public, as it did last week.

There is virtually no way for the Government to reduce the debt unless it runs a budget surplus. A budget deficit in one year must be covered by further borrowing, which increases the debt and adds to interest costs in future years.

Net interest payments on the Federal debt were the fastest-growing major category of Federal spending in the 1980's. The increase in such payments, from \$52.5 billion in 1980 to \$169 billion in 1989, exceeded all the savings Mr. Reagan achieved in health, education, welfare and social service programs.

### Dollars for Home Districts

Representative Jamie L. Whitten, chairman of the House Appropriations Committee, boasted that Congress had earmarked millions of dollars for water projects, highway construction and airport improvements in his Mississippi district.

Congress also earmarked \$3.4 million for a highway demonstration project in Pittsfield, Mass., the home of Representative Silvio O. Conte, the ranking Republican on the Appropriations Committee. There was also money for a veterans' hospital in Northampton, Mass., and for a solar heating plant at the University of Massachusetts campus in Amherst, both in Mr. Conte's district.

The appropriation bills also set aside money for West Virginia University and for more than 20 public works projects in West Virginia, the home of Robert C. Byrd, chairman of the Senate Appropriations Committee.

Senator Ernest F. Hollings said that the new deficit-reduction package "guts the Gramm-Rudman-Hollings law" by making it easier for Congress to avoid meeting the annual deficit targets in the law. Mr. Hollings, a South Carolina Democrat, was a co-author of the 1985 law.

As originally passed, the law stipulated that the budget should be balanced in the fiscal year that began on Oct. 1. The deficit, \$221 billion in 1986, hovered in the range of \$150 billion to \$155 billion in the next three years, but shot up again in the fiscal year just ended. The Office of Management and Budget estimates that the deficit was a record \$231 billion in the fiscal year that ended three weeks ago.

### Cutting Here, Adding There

Senator Frank H. Murkowski of Alaska, ranking Republican on the Veterans Affairs Committee, said he saw a "great inconsistency" in Congress's schizophrenic instincts: cutting some veterans programs by \$620 million a year while expanding others by almost exactly the same amount.

Speaking of a new plan to make World War II veterans eligible for "readjustment counseling," Senator Alan K. Simpson said, "It boggles the mind that veterans of World War II, the hideous war that ended 45 years ago, are still having trouble readjusting to civilian life after military service."

Senator Pete Domenici, Republican of New Mexico, observed that "we all say, 'Spend less,' but we have more ideas and we want more things." Here are a few examples:

¶The deficit-reduction measures passed by both houses of Congress would expand Medicaid to cover children from poor families longer, through age 12 under the House bill and age 18 in the Senate bill. Under current law, states must cover poor children through age 5. Pediatricians and public health experts applaud the expansion. But states pay, on the average, 44 percent of Medicaid costs, and the National Governors' Association expressed alarm at the cost of an expansion.

¶Under the House bill, the Federal Government would pay Medicare premiums for low-income elderly people, and the Senate bill would allow states to offer such protection with a combination of Federal and state funds.

¶Congress has just approved an appropriation bill that permits \$14.5 billion in highway spending this year, up from \$12.2 billion last year. President Bush requested \$12 billion.

¶House and Senate negotiators agreed last week to provide more than \$1.6 billion to help poor people pay home heating costs, as against \$1.4 billion last year. Mr. Bush requested \$1.0 billion. Mr. Conte said the increase was needed because home heating oil has become "outrageously expensive" as a result of turmoil in the Middle East.

¶Senator Claiborne Pell, the chief patron of student aid programs in Congress, is pushing new legislation, the Middle-Income Student Assistance Act, to expand eligibility for Federal grants.

The purpose, he said, was to help middle-income families pay for college and to reverse cutbacks made under President Reagan, when "eligibility was tightened so that only the most needy qualified."

# The New York Times

MONDAY, OCTOBER 22, 1990

## Fine Print: Deals in the Budget Plans

Some members of Congress who are negotiating on the deficit reduction package have been able to win special breaks for companies and industries in the states they represent. Others outside the negotiations are hoping to have their own proposals included in the final plan.

**SPONSOR**      **PROPOSAL**

### INCLUDED IN THE BUDGET PLANS

**Senator George Mitchell**  
Democrat of Maine  
Senate Majority Leader  
Reduce burden of new insurance industry tax for a company in Maine.

**Senator Bob Packwood**  
Republican of Oregon  
Senior Republican  
on Finance Committee  
Exempt certain wineries from increase in wine excise tax.

**Rep. Sam Gibbons**  
Democrat of Florida  
Soften tobacco excise tax increase on large cigars.

### STILL BEING PROMOTED

**Senator John D. Rockefeller**  
Democrat of West Virginia  
Finance Committee  
conferee (not inner circle)  
Expand Medicaid benefits for frail elderly.

**Rep. Augustus Hawkins**  
Democrat of California  
Expand child care provisions to include program for "latch-key children."

**Rep. Brian Donnelly**  
Democrat of Massachusetts  
Member of House Ways and Means Committee  
Ease provision in current tax law that hurts New Bedford fishing industry. Provision would be paid for by tightening current deduction for moving expenses. Would raise \$1.1 billion in new revenue, which makes it a good candidate for inclusion in final package.

**Rep. Mary Rose Okar**  
Democrat of Ohio  
Expand Medicare coverage to include mammography screening. Provision is widely supported, but it would cost the treasury \$1 billion.

# Democrats split on budget details

By Major Garrett and Paul Bedard  
THE WASHINGTON TIMES

Budget talks faltered yesterday as Bush administration officials and congressional leaders squabbled bitterly over new taxing schemes aimed at the wealthiest taxpayers.

"The Democrats got caught with their hands in the pockets of working men and women," White House Chief of Staff John Sununu said after a meeting with GOP negotiators. "The Democrats are negotiating with themselves. There's no point in continuing to meet tonight."

The leading GOP negotiators — Senate Minority Leader Robert Dole and Sen. Bob Packwood of Oregon — said the talks had reached an "impasse." Both sides are trying to merge divergent House and Senate budget bills.

"I am disappointed that these important negotiations have reached an impasse," Mr. Dole said. "The president has gone more than half way. I regret House Democrats indicate they are unable to do the same."

Less than two hours later, top Democrats met with reporters to say the talks were continuing.

"We intend to continue," said Senate Majority Leader George Mitchell of Maine, accompanied by House Majority Leader Richard Gephardt of Missouri. "We hope very much to

bring these negotiations to a conclusion."

The two had met most of the day with Rep. Dan Rostenkowski of Illinois, chairman of the Ways and Means Committee, and Sen. Lloyd Bentsen of Texas, chairman of the Finance Committee.

Despite the breakup, which many viewed as temporary, it appeared both sides were close to agreement on raising top income tax rates from 28 percent to 31 percent, thereby flattening the so-called tax "bubble."

Currently, individuals earning between \$47,000 and \$109,000 are taxed at a rate of 33 percent but those earning more are taxed at 28 percent. The same is true of families. Those earning between \$78,000 and \$185,000 are taxed at 33 percent, but those earning more are taxed at 28 percent. This anomaly is called the "bubble."

The new proposal would lower the 33 percent rate to 31 percent for these upper-middle-class earners and raise it from 28 percent to 31 percent on the wealthier taxpayers.

It also appeared a capital gains tax cut, a centerpiece of President Bush's 1988 campaign, will not be part of the deal.

"That will have to wait for another day," said budget director Richard Darman on ABC-TV's "This Week."

At about 8 p.m. last night, Mr. Mitchell and Mr. Gephardt met in Mr. Dole's office to smooth out remaining differences. Administration officials and Mr. Packwood sat out the meeting, sources said.

Negotiators must get a budget compromise passed by both cham-

bers by midnight Wednesday to avoid a government shutdown.

A similar situation occurred the day before Mr. Bush and the congressional leadership announced the first budget compromise on Sept. 30, later defeated in the House on Oct. 5.

Lessons learned from that defeat color these negotiations. Both sides are seeking more revenue from the wealthy so they can lower planned gasoline tax increases and soften scheduled cuts in Medicare, which affects 33 million Americans.

According to Mr. Packwood, Republicans are pushing for a limit on all deductions for taxpayers with more than \$99,000 in annually adjusted gross income. Their plan would eliminate 4 percent of deductions for those earning between \$99,000 and \$1 million. Those earning more than \$1 million would see 8 percent of their normal deductions eliminated.

Democrats oppose that proposal because it would tend to hit high-tax states such as California, New York and Massachusetts. These heavily Democratic states have lobbied strenuously against limiting deductions on state and local taxes — which the GOP offer would affect.

"It applies differently in different states," Mr. Gephardt said. "It falls inordinately heavy in high-tax states ... and inordinately high on those who make charitable deductions."

Democrats have offered a 7.5 percent surcharge on adjusted incomes above \$1 million.

Over five years, the GOP proposal would raise between \$5.5 billion and \$6 billion from millionaires, and the Democratic proposal would raise an estimated \$5.3 billion.

The revenue figures are minuscule compared to the larger goal of achieving a five-year \$500 billion deficit-reduction package, the largest ever contemplated in U.S. history.

According to Mr. Packwood, Republicans lowered their five-year target of Medicare cuts from \$49 billion to \$47 billion. The savings were to come from lower increases in Medicare premiums, he said.

The Democrats, sources said, offered \$44 billion in Medicare cuts, \$1 billion more than approved in the House-passed budget plan. Both sides are closer to an agreement on raising the amount of income subject to Medicare payroll taxes from \$51,300 to between \$125,000 and \$140,000.

Both sides are looking to raise gasoline taxes 7 cents per gallon. The Senate bill sought a 9½ cent per gallon increase while the House bill did not touch gasoline taxes, currently 9 cents a gallon.

Mr. Bush's apparent willingness to accept a higher income tax rate marks yet another flip-flop on taxes.

While campaigning last week in Omaha, Neb., Mr. Bush said holding the line on income tax rates was "worth fighting for in my view."

Mr. Mitchell, appearing on NBC-TV's "Meet the Press," said, "I think you can see with the president's reversals of positions on an almost daily basis that the White House has been lacking any plan, any consistency, any clear direction on what they want to do in this budget process, which has both damaged the president and the process."

## PRUDEN ON POLITICS

By  
Wesley Pruden



# Inviting the mob to a lynching

No matter how seedy and tawdry our congressmen become, you can't say they're not consistent.

The more they soak the rest of us — not just the "rich," but all of us — the more they take care of themselves.

For once the conventional wisdom may be right, that we're in an authentic crisis, and after a government-spending binge of monumental proportions we all may have to make sacrifices.

That's what Tom Foley, his sad hound's face radiating sobriety, tells us. So does George Mitchell, the Senate majority leader, reeking of oily self-righteousness.

Even Newt Gingrich, the minority whip, says (on most days) that things can't go on the way we've become accustomed to things going on. Robert Michel, who has the title of minority leader, has been out of it for years but he, too, parrots the Democratic line about sacrifice, as if he had followed George Bush into the tank.

But these guys don't really believe it. They want the rest of us to sacrifice — not to save the country, but to save their congressional way of life. It's too much to expect them to have a sense of shame, since it's the lack of congressional shame that got us into this state of affairs in the first place, but you might expect them to pay for their own lunch.

When someone asked Willie Horton whether he would endorse the little Duke in 1988, Willie — even murderous Willie — had the decency to say, well, yes, but he didn't think anybody really wanted his endorsement.

But these guys steal and put out their hands for a tip. With the connivance of George Bush, the country-club president with the soul of the Texas congressman he used to be, the Congress gave itself a raise in the middle of the night.

Even then, they knew they were going to sock it to the rest of us and, like good Boy Scouts, they were determined to Be Prepared.

Never has a Congress taken the subject of pre-



Tom Foley

paredness so seriously, and so literally. Those wonderful folks who have arranged for the average two-earner family making \$35,200 a year to pay an additional \$402 in 1991 had the foresight to give themselves, on average, up to an additional \$27,824, *after taxes*, for 1991.

The senators are taking a slightly smaller pay raise, but retaining the right to make speeches

and charge for it. This may be the biggest scam of all, somewhat like a cop answering a burglar call in the middle of the night, only to ask the burglar and the householder to bid for his services. Just as the cop is paid to perform his duty, so is the senator — but the senator gets to exact a surcharge for performing the duty he was elected to do.

This is enabling some senators to get rich. David Pryor of Arkansas, for example, raised \$1 million this year to run for re-election in one of the poorest states, even though he had neither Democratic nor Republican opposition. He'll keep the money. You have to wonder what, in addition to a pretty little senator, all those hardscrabble contributors imagined they were buying.

You might think Speaker Foley and Sen. Mitchell would have enough Willie Horton-like humility to tell their colleagues: "Look, this is just not the right time to grab such a spectacular raise, not when we're asking everybody else to go without."

Pious platitudes about sacrifice are cheaper, of course.

Dr. Norman S. Ream, a Congregational pastor in Wauwatosa, Wis., diagnoses the congressional disease this way: "Their office gives them power, and they come to believe that because they have power they also have wisdom."

The American voter knows better, but he's always slow to wake up, and when he does he often throws out the first bum he sees. President Bush, with his repudiation of who he told us he was, makes guilt-by-association easy.

But as the recognition dawns on everyone that *his* congressman, too, is a cur, reckoning will come to all. The fire next arrives in '92. They'll all be lucky if the reckoning is not the lynch mob most of them deserve.

# Fiscal Talks Stall Again Over Taxes

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

Just four days before another threatened shutdown of the federal government, talks faltered again yesterday on a deficit-reduction package as top Bush administration officials and congressional leaders tangled over how to get more taxes from the wealthiest Americans.

Congressional leaders met late into last night in hopes of resolving the problem and will resume today in the Capitol.

Earlier, White House Chief of Staff John H. Sununu and Office of Management and Budget Director Richard G. Darman hurriedly left the Capitol with other administration officials, saying they would consult President Bush about the impasse.

"There is a feeling that the president has gone well over half way to meeting their position and they haven't reciprocated," an administration official said of the Democrats, charging "a lack of seriousness on their side."

But Senate Majority Leader George J. Mitchell (D-Maine) contended that "there's been give on both sides."

As the negotiations staggered, Congress marched on to a dubious record: Never since World War II have lawmakers adjourned less than 17 days before Election Day, now just 15 days away. The House was in session yesterday for only the eighth Sunday since World War II—and the third this month.

The dispute centers on how best to raise taxes on those with taxable incomes higher than \$1 million a year. "We hit millionaires, they hit millionaires," said an administration official. "They want to do it their way, we want to do it our way."

Yesterday, the Democrats offered two options: leveling off the top two marginal income tax rates at 31 percent and imposing a 7.5 percent surtax on millionaires, or a 32 percent top rate without a surtax, according to congressional officials.

The additional revenue generated by either change would have been used to ease two politically unpopular provisions: increases in Medicare premiums and a hike in the 9-cents-a-gallon federal gasoline tax, the officials said.

But Bush has said he would accept neither the surtax nor a top rate higher than 31 percent. "He's willing to tax the rich [but] the president will not accept their offer," Sen. Bob Packwood (R-Ore.) said after speaking with Bush by telephone.

Packwood, the Senate Finance Committee's ranking Republican, quoted Bush as saying: "Gosh, I've gone three-quarters of the way. I've given up things I didn't want to give up for the good of the country and I just don't want to give up any more."

Instead, administration officials would prefer to limit the benefit of federal income tax deductions claimed by millionaires, based on a plan proposed by Rep. Don J. Pease (D-Ohio). Yesterday, the administration proposed to disallow deductions equal to 4 percent of an individual's or couple's adjusted gross income in excess of \$99,000 and 8 percent of income in excess of \$1 million.

The latest Democratic version would reduce itemized deductions by 4 percent of the amount that a taxpayer's income exceeds \$100,000, whether an individual or married couple filing jointly, in addition to imposing the surtax or raising the top rate.

"We have a different idea of how the rich should be taxed," Packwood said. "We feel it's better tax policy to limit deductions. . . . The Democrats would rather raise the rates."

The GOP plan to increase the limitations on deductions for millionaires would generate as much as \$6 billion in new tax revenue over five years, while the Democratic surtax would generate \$5.3 billion, Packwood said.

But limiting federal deductions creates both substantive and political problems. It would have an uneven effect, hitting hardest at those living in states and municipalities with high taxes. "Our problem is that it applies differently in different states," said House Majority Leader Richard A. Gephardt (D-Mo.). "The surcharge applies across the country in a uniform way."

It could also imperil the deficit-cutting package in the House, where lawmakers from such states as New York and California, which have high state and local taxes, have vowed to oppose any plan that would limit deductions. Half of the

10 GOP votes for the House bill came from the New York delegation.

"The Republicans are asking us to pass this with a preponderance of Democratic votes," Gephardt said. "We are saying that we want . . . [a package] that we can sell so we can pass it on the House floor."

The standoff developed as administration and Democratic negotiators discussed how to level off the top two marginal income tax rates, cutting the rate for about 3.5 million upper-middle-income taxpayers and raising it for the approximately 600,000 richest Americans.

Currently, married couples filing jointly pay a 15 percent rate on taxable income up to \$32,450, a 28 percent rate on taxable income between that level and \$78,400, a 33 percent rate between that level and \$185,730 and a 28 percent rate on income above that.

Appearing on ABC's "This Week With David Brinkley," Darman praised the idea as "a tax cut for . . . about nine or 10 times as many people as get a tax increase. The wealthiest would get a tax increase."

But congressional leaders from both parties said any cut in income tax rates for upper-middle-income taxpayers should be offset with higher taxes in other areas.

"You're giving them a tax break and they're relatively high income," Gephardt said. That could be achieved by either increasing the amount of income subject to the 1.45 percent Medicare payroll tax or by beginning to limit the benefit of deductions at a lower income level. Democrats have proposed raising the ceiling for the Medicare payroll from \$53,100 to \$140,000.

Another piece of the tax puzzle under discussion yesterday was how much to raise the federal gasoline tax. Democrats proposed raising it to 14 cents a gallon, a 5-cent hike, and Republicans offered an increase of about 7 cents averaged over five years.

One controversial item that has bedeviled tax negotiations all year long is apparently no longer under consideration: a cut in capital gains taxes. "It does not appear to me that that will be negotiable," Darman said. "It will have to wait for another day."

# Budget talks hit impasse over surtax

By Richard Wolf  
USA TODAY

Talks aimed at cutting the deficit by \$500 billion hit a temporary impasse Sunday night.

The key dispute: how to raise about \$6 billion from the nation's millionaires.

President Bush's aides stormed out of the Capitol after Democrats insisted on a 7½% surtax on those with taxable incomes above \$1 million.

But both agreed to a new 31% tax rate — a decrease for about 2 million upper-middle income taxpayers now paying a 33% marginal rate, but a boost for 500,000 wealthy taxpayers now paying only 28%.

Republicans offered an 8% reduction in itemized deductions for incomes above \$1 million; Democrats continue to demand a surtax. Both would raise \$5 billion to \$6 billion.

**Conflicting assessments:**

► Sen. Bob Packwood, R-Ore., quoted Bush as saying: "I've given up things I didn't want to give up. I just don't want to give up any more."

► Senate Majority Leader George Mitchell, D-Maine, insisted the talks hadn't broken down and called the surtax "good public policy, and fair."

With three days left before another threatened shutdown:

► Democrats want to limit any gasoline tax increase to 5 cents per gallon; Republicans offered 7 cents, down from 9½ cents passed by the Senate.

► Democrats want to cut \$44 billion from planned increases in Medicare. Republicans want to cut \$47 billion.

► Democrats want to raise the \$52,300 income ceiling subject to the 1.45% Medicare payroll tax to \$140,000; Republicans have offered \$98,000.

White House chief of staff John Sununu said Democrats have "gotten caught with their hands in the pockets of working men and women."

But House Speaker Thomas Foley, D-Wash., defended the surtax and higher rates, saying, "We want to see fairness."

# Deficit deal: 'It's all politics now'

By Richard Wolf  
USA TODAY

The politics of cutting the deficit is threatening to overwhelm the policy.

Because House Democrats and a shaky bipartisan Senate coalition passed divergent plans last week, negotiators must walk a fine line toward a package that can win majorities in both houses.

Their dilemma was exposed Sunday night:

► Senate Republicans said they oppose and President Bush would veto, any plan including a millionaires' surtax.

► House Democrats said they wouldn't pass a plan eliminating 8% of millionaires' deductions because large delegations from high-tax states — including New York and California — wouldn't buy it.

It's "all politics now," said Rep. Steven Gunderson, R-Wis.

Even if negotiators agree today on a compromise five-year, \$500 billion deficit-cutting plan, they still need House and Senate majorities.

And judging from last week's votes, their task is tough:

► The House voted 227-203 Tuesday for a plan by Rep. Dan Rostenkowski, D-Ill., to boost the top income tax rate to 33% and add a 10% surcharge on millionaires.

That package won only 10 Republican votes, and Democrats can't count on many more this time around. But as they compromise on their "soak the rich" approach, they risk losing more Democrats than they can afford.

House Majority Leader Richard Gephardt, D-Mo., said a GOP demand that millionaires' deductions be cut would scare away New Yorkers and Californians. "It's enough to drive them off voting for the package," he said.

► The Senate voted 54-46 Friday for a bipartisan plan



AP  
ROSTENKOWSKI: His plan slapped tax on millionaires

## THE BUDGET CRISIS

► Cover story, 1A  
► Today's debate, 12A

that left income tax rates alone, limited the wealthy tax deductions and raised the gasoline tax by 9½ cents a gallon.

A slim majority of both parties voted for it. But Republicans may lose votes by agreeing to income tax rate hikes; Democrats in close elections may fear voter reactions.

"There's little negotiability," said Sen. Phil Gramm, R-Texas. "I think the president's pretty much running out of room."

Divisions also remain within each party:

► House Democrats want income tax rate hikes; many Senate Democrats are opposed.

► House Republicans are sticking to Bush's "no new taxes" campaign pledge of 1988; Senate Republicans are more willing to raise taxes.

"It's like a jigsaw puzzle," said Rep. Sam Gibbons, D-Fla., a House negotiator. "You find one key piece, and the rest of them fit around it."

# Bush welcome on trail despite decline in polls

By Richard Benedetto  
USA TODAY

President Bush hits the road Tuesday to start an almost-non-stop push for Republican candidates in the Nov. 6 election.

Even though some political watchers in Washington question Bush's value to campaigns as his approval ratings slide, Republicans across the USA say they are happy to see him.

The main reason: He raises money — \$80 million in 92 campaign appearances since taking office 21 months ago.

With Election Day closing in, he's cranking it up. Tuesday he'll make a one-day trip to New Hampshire, Vermont and Connecticut. On Thursday he's off on a five-day trip to New Mexico, Arizona, California, Hawaii and Oklahoma.

"George Bush is a party chairman's dream," says Republican National Committee Chairman Lee Atwater, on the sidelines since a brain tumor was diagnosed in March.

But Republican Congressional Committee Chairman Ed Rollins, has a different view: Bush's policies on taxes and the budget are hurting his party.

Rollins told *The Washington Post* that Bush threw away GOP gains among the voters letting Democrats turn the budget debate into a "rich vs.



**HOPEFUL:** Bush in Grand Rapids, Mich., last week with GOP gubernatorial candidate John Engler, running mate Connie Binsfeld. AP

poor" battle. "The White House is booting away the entire legacy of Ronald Reagan."

State party leaders, however, praise Bush's efforts.

"We're glad to have him come here," says Texas GOP Chairman Fred Meyer, who saw Bush raise \$1.5 million for gubernatorial candidate Clayton Williams.

"People here are just as willing to pay \$1,000 to have dinner with George Bush as they ever were," says Dan Schnur of the California Republican Party.

Another plus: Bush isn't holding grudges against Republicans who oppose him.

One stop Tuesday in Vermont is for Rep. Pete Smith,

who voted against Bush on the a budget. "I can't confine my support to somebody who agrees with me on a deficit deal today or some bill tomorrow," Bush says.

Democrats scoff at the Bush factor. "No positive help," says Democratic National Committee Chairman Ron Brown.

As the campaign ends, GOP strategists say, a Bush appearance can bring TV advertising money and energize workers, so critical in close elections.

In close races, says RNC's Leslie Goodman, "he can turn out" votes for Republicans.

# Republicans lament broken tax-hike vow

**COUNTDOWN**  
**15**  
days until  
Election Day, Nov. 6

Ever since President Bush abandoned his "no new taxes" pledge, many GOP candidates find themselves at odds with the president. The battle over the budget isn't over yet, but signs of GOP disarray abound:

► Republican Ally Milder, had been criticizing freshman Rep. Peter Hoagland, D-Neb., for supporting Bush's position in just 35% of in House votes

while representing a district where Bush won 58% of the votes. Then, she suddenly had to explain why she opposed the budget compromise, endorsed by Bush but rejected by the House.

► Bill Zeff, a New Hampshire Republican, campaigns for the House with a jar of pennies, saying: "Watch the pennies and the dollars will take care of themselves." He helped in Bush's key state primary win in 1988 and is a friend of White House chief of staff (and former New Hampshire Gov.) John Sununu. But when it came to Bush and Sununu's budget compromise, Zeff quickly parted company.

► Rep. Jim McCrery, R-La., went as far as to cancel TV endorsements by Bush for fear he'd be identified with the president's new-found willingness to raises taxes. In Louisiana, all candidates run together in the Oct. 6 primary and anyone winning more than 50% of the vote is elected. McCrery's 55%-to-45% victory over an aggressive Democratic challenger is being cited by GOP strategists urging other Republicans to run against the president's position on taxes.

A lot can still happen in the two weeks before Election Day, but conservative Robert Novak, on CNN's *Capital Gang*, predicts a GOP "catastrophe around the bend." He says Republicans could lose 12 to 18 House seats, and two Senate seats. The president's party usually loses seats in non-presidential elections, but Bush carried few other Republicans into office with him. If Novak is right, that would leave as few as 158 Republicans in the 435-member House and 43 Republicans in 100-member Senate — where the GOP stood before the Reagan era and dashing its hopes of taking control of Congress in 1992.

# Lots of Tax Talk, No Big Change

By TOM REDBURN  
TIMES STAFF WRITER

WASHINGTON—"Taxes," said Oliver Wendell Holmes Jr., the distinguished Supreme Court justice, "are the price we pay for a civilized society."

Ever since Abraham Lincoln imposed the first U.S. income tax to help pay for the Civil War, however, Americans often have been at each others' throats over just who should pay to keep us civilized.

Now we're at it again. This year's battle of the budget has turned into a highly visible fight over the issue of fairness, with Democrats promising to "tax the rich" while avoiding harsh tax increases on the middle class. Meanwhile, President Bush's flip-flops on whether to trade a lower tax on capital gains for higher income-tax rates on the rich have convinced many voters that the White House is interested more in protecting the interests of the wealthy than in ensuring that the burden of deficit reduction is equitably shared.

And just Sunday evening, the budget negotiations broke down again over taxing the rich. The White House insisted that the current top rate of 28% should go no higher than 31%, but Democrats held out for a package that would raise tax rates on those with incomes above roughly \$200,000 to 32% while imposing an additional surtax on the superrich with incomes above \$1 million.

But for all the current political firestorm over taxes, one unsettling fact remains: The tax system has proven largely ineffective in overcoming widespread disparities of wealth and income among Americans.

It's true there was an erosion of some of the mild progressivity built into the overall U.S. system—which exacts a slightly greater share of taxes from the most affluent than from the middle class—throughout the 1970s and into the early 1980s. That trend was only partly reversed in the sweeping tax revision of 1986.

But from the beginning of the 1950s through 1963, when the top rate was set at 91%, to the late 1980s, when tax rates on top incomes fell to 28% even as Social Security taxes bit harder into middle- and lower-income salaries, what people really end up paying in federal and state taxes has changed remarkably little.

For example, middle-income families paid 24% of their income in taxes in 1988, slightly more than the roughly 23% share they paid in the mid-1960s. Although the top 10% face a somewhat lower tax

burden of roughly 28%, compared with 30% in the mid-1960s, they are also now paying a greater share of overall tax collections.

Meanwhile, income inequality has risen significantly over the last two decades, but largely as a result of deep underlying currents in the economy rather than shifts in tax burdens.

"The tax system never did—and doesn't now—redistribute income very much," says Henry Aaron, a Brookings Institution economist who is one of the nation's leading tax scholars.

There are strong political and economic reasons why raising taxes usually fails to help narrow the income gap.

Politically, wealthy individuals and special interest groups have great influence over the shaping of tax legislation. In the past, the higher rates moved, the more loopholes were added on the grounds that they would help stimulate certain desirable activities, such as erecting new buildings, investing in new factories and developing alternative energy sources.

And economically, the affluent enjoy such a wide variety of ways to escape taxation that efforts to "soak the rich" through sharply higher rates usually end up losing more revenue than they gain.

No matter what happens in the current political debate over taxes, the tax system's effect on income distribution isn't likely to change. Both Democrats and Republicans have staked out positions that are triumphs of symbolism over substance.

For liberal Democrats, their crucial goal throughout the budget negotiations this year has been to burst the so-called "bubble" by pushing the tax rate on families with annual incomes of more than about \$200,000 from 28% to the hidden 33% rate paid by some who earn less.

But in hopes of luring Republicans to make a deal and to win essential support from Southern and Western lawmakers in their own party closely tied to timber interests, most Democrats have been willing to accept lower taxes on capital gains, profits on investments earned overwhelmingly by the wealthy.

"Raising the top rate to 33% and giving a big capital gains cut takes from the wealthy with one hand but gives with the other," complains Sen. Bill Bradley (D-N.J.). "And it gives a lot more than it takes."

Why would Democrats, trying to recapture their image as the party of average Americans, be prepared to make such an apparently unfavorable trade?

"I take the cynical view that most Democrats would like to have their cake and eat it too," confesses one longtime Democratic tax reformer.

"They want to be perceived as restoring progressivity through a higher rate on the rich," she says, "while winking at the same time at the party's wealthy contributors by saying, 'Look, I got this capital gains tax break for you.'"

On the other side of the aisle, Republicans have also talked one game while ending up playing another. Bush defends his effort to hold down the top income tax rate as necessary to prevent Congress from raising taxes on everyone else as well. But Bush was quite willing as part of the budget agreement negotiated by White House officials and congressional leaders and rejected by the House to impose a higher tax burden on middle- and lower-income Americans.

Moreover, under former President Ronald Reagan, the GOP promoted income-tax cuts as a benefit to all, arguing that the overall economy would gain as the wealthy took advantage of lower marginal tax rates that would allow them to keep more of their income to make productive investments in new enterprises.

"To help the poor and middle classes," argued George Gilder in "Wealth and Poverty," his early-

1980s encomium to supply-side economics, "one must cut the taxes of the rich."

But it didn't work out that way.

Average income, adjusted for inflation, grew by almost 16%, and the income of those in the top 1% soared by 87% to almost \$400,000 from about \$214,000. But despite the general prosperity of the decade, the lower-middle-class and working-class voters who provided the decisive edge for Reagan actually saw their real incomes stagnate or even shrink during the 1980s.

Changes in taxes, however, were only a small factor in the widening gap between the rich and the poor. While analysts still argue over the reasons why the post-World War II trend toward slightly more equal incomes reversed direction in the mid-1970s, the most common explanations revolve around the entry of the huge baby boom generation into the work force, the spread

of two-earner families and the growing disparity between skilled and unskilled labor as the U.S. economy became more exposed to global competition.

Whatever the reasons, voters who have not shared in the economic gains of the 1980s now want revenge, argues Kevin Phillips, the iconoclastic Republican whose recent book, "The Politics of Rich and Poor," helped galvanize Democrats to rally under the fairness banner in this year's budget wars.

"The 1980s were the triumph of upper America," Phillips wrote, "an ostentatious celebration of wealth, the political ascendancy of the richest third of the population and a glorification of capitalism, free markets and finance."

But the current debate reflects the widespread confusion over what role the tax system can realistically play in curbing such excesses. At the same time, it continues to mirror the power of well-connected individuals and special-interest groups to shape the tax code to their own benefit.

While most Americans, in theory, favor a progressive tax system that imposes higher taxes as income rises, in practice lawmakers repeatedly have undermined that goal by inserting a wide variety of tax incentives that were designed to encourage certain types of investments or economic behavior.

"Congress doesn't like to hand out explicit subsidies," says Alan Reynolds, chief economist at the conservative Hudson Institute in Indianapolis. "But handing out tax breaks provides a hidden subsidy without having to acknowledge the cost."

As a result, whenever rates have risen in the past in an effort to force the wealthy to pay more, rich taxpayers have invariably managed to escape such burdens through a host of perfectly legal loopholes.

In the 1950s and early 1960s, for example, when the top rate was 91%, the richest 1% of America's taxpayers ended up paying little more than 25% of their income in federal taxes. The wealthy learned to divert their income to tax shelters, invest in tax-free municipal bonds, buy luxuries for themselves by running up business expenses and take advantage of popular deductions such as those for home mortgages and charitable contributions to avoid facing an oppressive tax burden.

Finally, in the one significant effort in history to reverse the expansion of tax breaks, Congress agreed to eliminate many such loopholes in 1986, finding that the wider tax base actually forced the rich to pay more despite sharply lower rates.

"Most people think the only way to improve progressivity is to raise the rates on the rich," says Joseph Minarik, staff director of the Joint Economic Committee in Congress. "But tax reform in 1986, even though it was not intended as a

soak-the-rich plan, shows that you can improve fairness by closing loopholes even when you're lowering the top rate."

It all depends on how tax rates are cut.

In the early 1980s, the top tax rate was cut from 70% to 50%, corporate taxes were slashed, and capital gains rates reduced further to 20%, but Social Security taxes rose dramatically. As a result, the rich paid a smaller share of their income in taxes while the middle class and poor paid more.

But when the top rate was slashed even further in 1986 to 28%, the wealthy began to bear a bigger tax burden because tax shelters were closed and the poor were largely exempted from federal income taxes.

Although the level of progressivity in the U.S. tax system has diminished from the mid-1960s, it has returned to almost what it was in the mid-1970s.

In 1980, for example, the effective rate of federal, state and local taxes on the top 10% of all taxpayers was 28.5%, according to detailed estimates prepared by Brookings Institution tax experts.

By 1985, that burden had fallen to 26.4%, but it has now rebounded back to 27.7%.

The overall tax system, assuming that corporate taxes are paid by shareholders rather than consumers, is at best only mildly progressive today. And to the extent that corporate taxes are passed on to consumers in the form of higher prices, the real tax burden of different income groups is just about the same.

House Democrats, in moving to reshape their own budget proposal last week to ensure that the wealthy pay a greater share of the added tax burden, tried to craft a capital gains tax cut that would prevent many rich investors from taking advantage of it. It was targeted at small businesses, homeowners, and owners of assets such as timber that take years to earn a profit.

But even longtime tax reformers question whether the House Democratic approach, which excludes stocks and bonds and limits the tax advantage to \$100,000 over a lifetime, makes economic sense.

"Politically, it may be a clever move but it's a lousy Rube Gold-

berg tax policy," says Bruce Fisher of Citizens for Tax Justice, a labor-supported group that advocates higher taxes for corporations and the wealthy. "The whole idea is to get the Southern 'timbercrats' on board behind a Democratic plan. But all it really does is open up a Pandora's box to more abuses of the tax code."

History bears Fisher out. Take the oil and gas percentage depletion allowance, a generous tax break that was first proposed in 1918—largely as an emergency World War I measure to encourage the drilling of new oil wells to fuel the war effort. By the time Congress finally approved the bill in 1919, the war was over.

Nonetheless, the depletion allowance, although scaled back in size in recent years and limited to smaller oil producers, lives on today. Moreover, says Sen. Bradley, "the oil depletion allowance encouraged other special interests to seek comparable relief, which the legislators from the oil states supported for fear that otherwise the non-oil states [would] oppose oil depletion."

As a result, more than 100 different "minerals"—including such diverse products as oyster and clam shells, gravel, talc, sand and corundum—have been granted special tax breaks over the years. There is even a tax break applying to clay used to make flowerpots.

That's why proposals to create new tax breaks or revive some old ones, even under a new rubric and promoted as only having a limited impact, are likely to open the door to even greater loopholes in the future.

"People like low rates," says Brookings' Henry Aaron, "but they don't often recognize that the only way to keep them low is to prevent loopholes from creeping back into the tax code."

### THE U.S. TAX BURDEN: WHO PAYS

Effective rates of federal, state and local taxes by population percentiles, selected years

Income group	1966	1970	1975	1980	1985	1988
Lowest 10th	16.8%	18.8%	19.7%	17.1%	17.0%	16.4%
2nd 10th	18.9	19.5	17.6	17.1	15.9	15.8
3rd 10th	21.7	20.8	18.9	18.9	18.1	18.0
4th 10th	22.6	23.2	21.7	20.8	21.2	21.5
5th 10th	22.8	24.0	23.5	22.7	23.4	23.9
6th 10th	22.7	24.1	23.9	23.4	23.8	24.3
7th 10th	22.7	24.3	24.2	24.4	24.7	25.2
8th 10th	23.1	24.6	24.7	25.5	25.4	25.6
9th 10th	23.3	25.0	25.4	26.5	26.2	26.8
Upper 10th	30.1	30.7	27.8	28.5	26.4	27.4
<b>AVERAGE</b>	<b>25.2</b>	<b>26.1</b>	<b>25.0</b>	<b>25.3</b>	<b>24.5</b>	<b>25.4</b>

Source: Brookings Institution

# Partisan Fight Provokes New Budget Impasse

By WILLIAM J. EATON  
and TOM REDBURN  
TIMES STAFF WRITERS

WASHINGTON—Budget talks virtually deadlocked Sunday night in a sharp partisan dispute over how to tax the rich, dashing hopes for a quick accord on a new deficit reduction plan.

Key Republicans, declaring the negotiations at an impasse, accused Democrats of refusing to budge in their demands for a surtax on very wealthy Americans and of stiff-arming a GOP counterproposal that would hit the rich by reducing deductions.

Democrats insisted that they would continue their effort to reach agreement on a \$500-billion deficit-cutting package, despite the dramatic public blow-up and the angry departure from Capitol Hill of top White House officials involved in the bargaining.

Despite the harsh rhetoric from the Republican side, congressional negotiators from both parties assembled late Sunday night in the office of Senate Minority Leader Bob Dole (R-Kan.) for yet another try at a budget agreement.

While the gap was closing on Medicare cutbacks and the size of a gasoline tax increase, a few participants said that the politically charged issue of taxing upper-income individuals threatens to destroy chances for an agreement.

"These important negotiations have reached an impasse," Dole said in a press release, blaming House Democrats for an unyielding stance.

With Congress moving into the final days of its session just two weeks ahead of the November elections, negotiators conceded that they would have little time to get a budget bill adopted unless negotiators break the stalemate today or Tuesday.

It also raised concerns about a new crisis at midnight Wednesday, when federal spending authority is scheduled to expire and a new government shutdown could occur.

President Bush expressed disappointment at the failure to make a deal by Sunday's self-imposed deadline, according to Sen. Bob Packwood (R-Ore.), who talked to Bush by telephone.

"I've gone three-fourths of the way and I just don't want to give up any more," Bush was quoted by Packwood as saying.

Democrats said that the Republicans were seriously divided, with most House GOP lawmakers committed to opposing any tax increases and almost half the Senate Republicans voting against the plan endorsed by Bush.

At the heart of the dispute is how to make sure that wealthy persons

pay an equitable share of taxes. Republicans have embraced a plan that would raise taxes for this affluent group by disallowing 4% of most deductions on income above \$100,000, and by disallowing 8% of these deductions for persons with taxable income above \$1 million.

This approach, known as the Pease plan for its chief advocate, Rep. Don J. Pease (D-Ohio), is opposed by many Democrats on grounds that it is a roundabout way of raising tax rates and could adversely affect residents of states like New York and California that have high state income tax rates.

Republicans, however, counter that their plan would raise more revenue than the Democrats' plan. They add that it would be better tax policy because it would not affect rates set by the tax reform law of 1986 and thus would protect the tax code from being riddled with new loopholes.

Democrats in the budget talks have proposed a 10% surtax on taxable income above \$1 million, along with other provisions to put more of the tax burden on those with incomes of more than \$50,000.

House Majority Leader Richard A. Gephardt (D-Mo.) said that a surtax would have a uniform effect across the country, while any limits on deductions would have a disparate effect on citizens of various states.

Another Democratic aide said that any new plan must be closer to the House-approved measure, with its primary emphasis on taxing the rich, or it won't be able to pass Congress.

"The White House just wants to take the old [defeated] budget summit agreement, dress it up and send it back to the floor," the aide said. "We don't think that will work."

The clash overshadowed a possibly significant move toward a compromise when the Bush Administration indicated that it would accept an increase of up to 31% in the top-bracket rate if the budget package met all its other objections.

Democrats agreed to a 31% top rate but demanded that other provisions be included in the agreement. Their demands included the millionaires' surtax, although they were willing to accept 7.5% rather than the 10% in the bill passed by the House, and application of the health insurance payroll tax to the first \$140,000 of earnings a year instead of the current cap of \$51,300. Democrats also asked for an increase from 21% to 23% in the alternative minimum tax—the tax on wealthy persons who have so many deductions that otherwise they would pay no tax.

In the past, the White House has linked the 31% rate to a trade-off for a lower capital gains tax. Democrats insisted that the top rate would have to rise to 33% before they would go along.

Under a quirk in current law whereby couples with incomes between \$80,000 and \$200,000 pay a marginal tax rate of 33%, about 2 million taxpayers would get a tax cut if the 31% rate was included in a budget package. Another 600,000 people with income above \$200,000 who now pay a 28% marginal rate would pay higher taxes.

Overall, according to Packwood, adopting a 31% top rate would raise about \$5 billion over the next five years.

"This is one of the all-time false issues, the rich-poor thing," said Richard G. Darman, director of the White House Office of Management and Budget, on ABC-TV's "This Week with David Brinkley." He said that the compromise the White House supports would "tax the rich."

John H. Sununu, the White House chief of staff, left Capitol Hill after discussions with Republican negotiators and charged that the Democrats were "negotiating with themselves" over tax policy.

Mitchell said that Sununu is not taking a direct part in the negotiations and added: "The Democrats are unified."

COLUMN RIGHT/  
PAUL M. WEYRICH

## A Grand Old Party, in Two Parts

■ One side stands for reform, the other for reelection. The split may become permanent.

The ongoing fracas over the budget and tax policy has revealed to the public what insiders have long known: there are two different Republican parties. Until now, they have managed to get along, at least in public. But the tax question has sent them after each other's throats, creating an open split that may become permanent.

The two groups are the Reform Republicans and the Party Republicans. The Reform Republicans put their agenda above loyalty to the party institution. That agenda has two parts. In policy, it visualizes an America made prosperous through a revitalized free market, which requires big cuts in taxes and reduced government spending and absorption of capital through borrowing.

Reform Republicans see the deficit and Gramm-Rudman as opportunities, not dangers. They would use them as leverage to reduce federal spending and borrowing through a total freeze on spending (including entitlements) or by letting the Gramm-Rudman ceilings take effect. Reform Republicans see the rising tide of anger at Washington now manifesting itself across the country, and want to run as critics of the Establishment, not members of it.

Party Republicans have fundamentally different perceptions. They have no real policy agenda; their focus instead is on "making deals." They are process men, concerned much more with keeping things on an even keel than with pushing any particular set of policies. They seek harmony between the Congress and the President, looking to the White House for leadership and guidance; they are uncomfortable with partisanship, and they find any public bloodletting distasteful. "No new taxes" has little policy or political importance in their eyes, especially when compared with the need to make a deal, and they view Gramm-Rudman as a grave danger, not an opportunity to reduce the size of government dramatically.

Politically, the Party Republicans are establishmentarians. Their "real world" lies inside the beltway, and their political barometers are the White House, Wall Street and one another. They have little feel for what is happening back in Kansas, and not much interest in it either. They have no ambition to become a majority party in the House; reelection of incumbents (themselves), not party growth, is their goal.

When House Republican whip Newt Gingrich announced his opposition to the

---

**'Party Republicans are professional politicians without an agenda beyond staying in office. They represent the Establishment of wealth and privilege that average Americans resent deeply.'**

---

budget deal, the Reform Republicans crossed their Rubicon. Now, if they go back to the sort of "deal for a deal's sake" the Party Republicans want, they will find they have alienated their own base. Having put their agenda above their party loyalty once, they will find they must consistently do so or shatter and turn upon themselves.

Where does this leave the Republican Party? The Reform Republicans are right in sensing a growing wave of popular indignation against politicians. Their populist, "outsider" message could enable the party to ride this wave to power. Politicians who in effect come out against themselves with support for measures like term limitation can still be credible with the public.

But the Republicans most visible to the public through the budget fiasco have been the Party Republicans. They come across like what they are, professional politicians without an agenda beyond staying in office, and the public reaction has been strongly negative. They represent the Establishment of wealth and privilege that average Americans have come to resent deeply. Not only are they out of touch with their constituents, the constituents know they are out of touch with them.

Their image shaped by the Party Republicans, Republican incumbents may take a severe drubbing in November. In the long run, that could be good for the party, because it could open the door to ascendancy of the Reform Republicans, who have far greater potential public appeal. But there is also a danger that the public will not be able to distinguish clearly between Reform and Party Republicans, and will slaughter both indiscriminately.

The challenge facing Reform Republicans at this point is getting their difference from Party Republicans across to their constituents. The next proposed "deal" on the budget should give them another opportunity to do so. But the hour is late, and courage may be waning. Will the Reformers see that their only hope lies in separation? We will soon find out.

*Paul M. Weyrich is president of the Free Congress Research and Education Foundation, Washington.*



OCTOBER 22, 1990

# Budget talks hit new snag over taxes

## Details are debated of rates for wealthy

By Peter Osterlund  
Washington Bureau of The Sun

WASHINGTON — Long-running budget talks between key members of Congress and top Bush administration officials hit another roadblock last night as negotiations stumbled over a dispute between Republicans and Democrats about which taxes to raise on the wealthiest Americans.

The latest obstacle in the tortuous budget discussions arose after both parties had agreed in principle to increase the income taxes levied on top earners. That consensus led participants and observers yesterday to predict agreement on a comprehensive deficit-reduction agreement within hours, five months after the first budget talks got under way.

But as the day progressed, talks became entangled in a disagreement over the kind of tax increase to be imposed on individuals with taxable annual incomes above \$1 million. Lawmakers and administration officials planned to meet again today to try to find a way out of the impasse.

"I am disappointed that these important negotiations have reached an impasse," Senate Minority Leader Bob Dole, R-Kan., said in a statement. "The president has gone more than halfway. I regret the House Democrats indicate they are unable to do the same."

Lawmakers are attempting to craft a compromise between two very different versions of a \$250 billion deficit reduction bill passed last week by the House and Senate. The legislation, which would increase a variety of taxes and trim expenditures on Medicare, agriculture and other benefit programs, is to serve as the centerpiece of a planned 5-year, \$500 billion reduction in the deficit.

As a result, the legislation includes almost all

### BUDGET, from 1A

the most controversial provisions. Much of the rest of the deficit cuts would come from reductions in defense spending and lower interest payments on the national debt.

Mr. Dole's comments were echoed by White House Chief of Staff John H. Sununu, who, along with Treasury Secretary Nicholas F. Brady and Budget Director Richard G. Darman, conferred with senior Republicans yesterday.

Bursting out of Mr. Dole's office, a conspicuously agitated Mr. Sununu exclaimed, "There's no deal. . . . The Democrats are negotiating with themselves."

Despite these exclamations, Senate Majority Leader George J. Mitchell, D-Maine, and House Majority Leader Richard A. Gephardt, D-Mo., planned to meet late last night with Mr. Dole.

Some Democrats wondered whether the Republican outbursts were part of a coordinated effort to put public pressure on Democrats to accept the latest GOP budget offer, noting tartly that Mr. Sununu had stormed out of a meeting of Republicans.

"Talks have blown up? What does 'blown up' mean?" asked one Democratic staff aide. "I'm still here, and we're all going to be working past our bedtimes tonight. So what's changed?"

Indeed, it seemed improbable that the talks could break down at this stage, with the two sides so close to agreement.

On Saturday, Republicans offered to raise the top income tax rate from 28 percent to 31 percent, a significant reversal from the Bush administration's repeated opposition to any change in income tax rates.

Democrats, who had crafted the deficit-reduction bill passed last week by the House, had demanded a top rate of 33 percent. They, in turn, responded by accepting the 31 percent top rate, coupling it with a 7.5 percent surtax on taxable incomes in excess of \$1 million, as compared to the 10 percent surtax called for in the House bill.

In another significant concession, Democrats said they would limit deductions paid by individuals with taxable incomes exceeding \$1 million.

Such limits would especially affect individuals in high-tax states, such as California and New York, since state and local taxes can be deducted for federal income tax purposes and, therefore, any limit in federal deductions effectively increases the costs of the state and local levies. Those high-tax states have large congressional delegations, mostly Democrats, who might vote against the overall budget agreement if it includes proposals that individual lawmakers believe might adversely affect their states.

Democratic leaders, attempting to cobble together a tenuous coalition in support of the final agreement, are thus wary of provisions that might alienate substantial numbers of House members.

"We have to have a package that can pass on the House floor," said Mr. Gephardt. "Absent a majority of Republicans, it is going to have to be passed with a preponderance of Democratic votes."

Republicans, in turn, rejected the surtax, proposing instead to tighten deduction limits on millionaires.

According to a source present at yesterday afternoon's meeting of congressional negotiators, senior Democrats informed Republicans that an insufficient number of Democrats would support the budget agreement if it included the GOP limitation proposal. The choice before Republicans, they said, was to accept a 32 percent top rate or the 7.5 percent surtax.

After consulting with Mr. Bush by telephone, the source continued, Mr. Dole returned to the meeting to say that the president wouldn't agree to a surtax or a higher rate. It was then that the talks hit, in Mr. Dole's word, an "impasse."

It is estimated that the millionaires' surtax, affecting about 65,000 individuals, would raise \$5.3 billion over five years.

Republicans say they oppose income tax rate increases and surtaxes because, they fear, such hikes will open the door to further increases in the future.

In yesterday's talks, the two sides narrowed differences over Medicare, an area where partisan differences are defined largely by dollars.

The House deficit bill had proposed a \$43 billion trim in the Medicare program. Yesterday, Senate Republican negotiators offered to lower their proposed reduction from \$49 billion to \$47 billion.

# THE SUN

**SATURDAY**

OCTOBER 20, 1990

## Congress struggles to blend versions into single budget

By Peter Osterlund  
Washington Bureau of The Sun

WASHINGTON — After nearly six months of tortuous negotiation, members of Congress launched the final push yesterday for a compromise deficit reduction package.

President Bush signed a stopgap spending bill enabling the federal government to continue normal operations through midnight Wednesday, the third temporary extension of the federal government's spending authority since September. Key lawmakers, meanwhile, settled down to the difficult task of melding the very different versions of budget legislation adopted this week by the House and Senate.

Lawmakers and their staffs planned to work through the weekend in hopes of reaching a final agreement by tomorrow evening, each armed with a 13-pound, half-foot-high stack of papers that supposedly held the key to a deal.

"I think the pieces are all there," said House Budget Committee Chairman Leon E.

See **BUDGET**, 5A, Col. 1

### **BUDGET**, from 1A

Panetta, D-Calif. "It's just going to be a matter of putting them in place."

That is a goal more easily uttered than realized. The deficit reduction bills, adopted Tuesday by the House and early yesterday by the Senate, both increase a variety of taxes and cut Medicare, agriculture and other benefit programs. Both bills serve as the keystone of a promised \$500 billion reduction in the federal deficit during the next five years.

But the House bill, passed with little Republican support, calls on the well-off to contribute a larger proportion of their income to the cause of deficit reduction than legislation endorsed by a slender bipartisan majority in the Senate. Indeed, after the Senate passed its bill, some of its Democratic supporters called on the president to support a compromise reflecting the priorities of the House deficit package.

"I much prefer the House package with regard to revenues," said Senate Budget Committee Chairman Jim Sasser, D-Tenn. "It puts a heavier burden on the wealthiest Americans to pay their fair share."

President Bush has tacitly endorsed the Senate's version, promising to veto the document adopted by the House. But since neither bill will emerge intact from House-Senate negotiations for the president's signature, both parties became entangled yesterday in a game of rhetorical chicken, each warning the other of the perils of pressing their cases too insistently.

"I don't know why we have to go through a process of producing a bill that will not be signed," said Sen. Pete V. Domenici, the top-ranking Republican on the Senate Budget Committee. "Ultimately, we need a bill, one that the president can support."

Mr. Bush himself made a rare appearance on Capitol Hill, conferring with lawmakers to emphasize that point. Mr. Bush restated his preference, adding: "I, for the first time, feel optimistic that we can get this job done for the American people."

Democratic leaders who met with the president were just as ready to lay out their side of the case — that the administration ought to be ready to accept some of the elements of the House bill if it wanted to see any kind of deficit legislation emerge from Congress.

For the bill to pass the House, they told Mr. Bush, a clear majority of Democrats would have to support it, since most members of the minority Republicans have committed themselves to voting against any compromise legislation likely to come before the chamber.

"I told him he had to look at the math," said Mr. Panetta. "We got 10 Republicans to come along with us [on passage of the House deficit bill], and, given their posturing on this issue, it's going to be difficult to get more than 40 on board any compromise. So the rest of the support is going to have to come from Democrats, and we're not going to be able to hold on to enough of them [to pass a bill] if we offer them something they can't support."

Actually, the two packages advanced by the House and Senate have much in common. Both would increase taxes on tobacco, alcohol, airline tickets and luxury items such as private planes. Both would enlarge tax credits for low-income people. But several issues will require tricky balancing acts between the two bills and between the political agendas espoused by Republicans and Democrats.

The House bill includes perhaps the most controversial single element in the budget debate — a proposal to increase from 28 percent to 33 percent the tax rate levied on the highest wage-earners, coupled with a 10 percent surtax on after-tax incomes of over \$1 million.

The rate increase is linked to a variant of the capital gains tax-cut proposal long championed by the president. But that capital gains break is so limited and the accompanying income tax rate increase so steep that Mr. Bush has promised to veto any legislation containing it.

The administration reiterated yesterday its earlier offers to couple a 31 percent top tax rate with a sharper cut in the capital gains rate. But Democrats seemed as ready to reject that offer now as they were during a budget summit between congressional leaders and the White House last month.

After a closed-door caucus yesterday morning, several House Democrats said they might be willing to abandon the effort to change tax rates if they could win the assent of Republicans in the Senate and White House to the 10 percent millionaires' surtax.

# The Philadelphia Inquirer

Monday, October 22, 1990

## Bush team stalks out of budget talks

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

WASHINGTON — White House negotiators abruptly walked out of talks on a deficit-reduction bill last night after a sharp dispute with congressional Democrats over how to tax the rich.

White House chief of staff John H. Sununu, accompanied by budget director Richard G. Darman and Treasury Secretary Nicholas F. Brady, stormed out of the Capitol, blaming Democrats for the sudden hitch.

Negotiators said the dispute was over whether to raise taxes on the rich through a 7.5 percent surtax on taxable income over \$1 million — as Democrats want — or to reduce the wealthy's tax deductions by 8 percent of taxable income exceeding \$1 million, as Republicans prefer.

The two sides also differed on how much to increase the gasoline tax, with Democrats proposing 5 cents and Republicans holding out for 7 cents. Also, Democrats want to cut Medicare by \$44 billion over five years, while Republicans were seeking \$47 billion in reductions.

Democrats insisted that the talks would continue, and a senior Republican aide said it was unclear why Sununu and the other administration officials had left.

"Throughout this process there have been disagreements," said Senate Majority Leader George J. Mitchell (D., Maine). "At each step, despite our difficulties, we have come back and been able to narrow our differences significantly."

Mitchell and other congressional negotiators resumed their talks last night without the White House team.

Sen. Bob Packwood of Oregon, a top Republican negotiator, said President Bush would not accept the 7.5 percent surtax.

The dispute appeared to be driven partly by political symbolism. Democrats, who have rallied to the banner of tax fairness, see a surtax as a way of demonstrating that the wealthy will shoulder their fair share of the burden in reducing the deficit.

Republican negotiators prefer a less flashy way of taxing upper-income earners: Packwood said they want to reduce deductions by 4 percent for those with taxable incomes above \$98,000, and gradually reduce deductions further as income rises.

Republicans say that higher rates would bring pressure to reinstate the loopholes and tax shelters eliminated in the 1986 Tax Reform Act.

Packwood said both parties' proposals would raise about \$6 billion over five years from those making \$1 million or more in taxable income. That amount is small compared with the revenue that would be raised by other tax changes under consideration. For instance, the budget bill passed by the Senate last week would raise \$43 billion over five years through a 9½-cent increase in the gasoline tax.

The goal of the talks is to reconcile the differences between the Senate and House deficit-cutting plans, delivering a package of tax increases and spending cuts that would reduce the deficit by about \$40 billion this fiscal year and by \$500 billion over five years. The Pentagon would bear the brunt of the cuts, although the elderly, farmers and students would also see benefit programs reduced.

With stopgap spending authority due to expire at 12:01 a.m. Thursday, negotiators had hoped to produce an agreement yesterday or early today.

Yesterday began on an upbeat note as Darman confirmed that Bush would accept an increase in the income tax rate for the wealthiest taxpayers from 28 percent to 31 percent without insisting on a capital gains tax cut.

Bush's concession appeared to improve prospects for a budget deal, as negotiators said they were close to agreement yesterday afternoon.

Even Sununu was optimistic. "Ninety-five percent of the package is already decided on," he said.

But hours later, Sununu stalked out of the Capitol, saying that Democrats could not agree on whether to drop the surtax proposal.

The 7.5 percent surtax on millionaires would be on top of the 31 percent income tax rate for upper-in-

come earners. The 31 percent rate would apply to couples with taxable incomes of more than about \$200,000.

Democratic bargainers also proposed a 5 percent limit on deductions for taxpayers making more than \$100,000, a Senate aide said. Democrats would also impose the 1.45 percent Medicare payroll tax on the first \$140,000 in income, more than double the present cap of \$51,300.

By itself, a new top income tax rate of 31 percent would mean a tax cut for a few million upper-middle-income Americans and a tax increase for the 600,000 wealthiest taxpayers.

But other tax increases under consideration would wipe away any savings for most taxpayers, meaning that all but poor and lower-income people would see their taxes rise.

Currently, a single person with no dependents is taxed at the "bubble" rate of 33 percent on taxable income between \$44,900 and \$93,130. Income above that is taxed at 28 percent rate.

Under the proposed change, the single filer would pay a 31 percent rate on income above \$44,900. Income between \$18,550 and \$44,900 would continue to be taxed at 28 percent, and income below \$18,550 at 15 percent.

# Bush aides break off budget negotiations

WASHINGTON (AP) — Bush administration officials angrily stalked out of deficit-reduction negotiations yesterday, complaining that Democrats were divided over a Republican offer to raise taxes on the wealthy.

The setback in efforts to work out a compromise \$250-billion package of tax increases and spending cuts came late on a weekend in which the two sides seemed to be moving toward each other on ways to boost taxes on the richest Americans.

"We're not going to negotiate with Democrats who can't come to an agreement among them-

selves," said White House Chief of Staff John Sununu,

Bush administration officials pushed a plan, first floated late Saturday, to boost the income-tax rate on the richest taxpayers from 28 percent to 31 percent. Sununu said the package also limited deductions available to the highest-income people.

Democrats rejected the proposal and responded with a counteroffer of their own. Throughout the day, the two sides offered refinements on their plans at private meetings and in telephone conversations.

# Budget talks falter; Bush team walks

By **SUSAN MILLIGAN**  
News Washington Bureau

WASHINGTON — Efforts to reach an agreement on a deficit-cutting package stalled last night as angry Bush administration officials left Capitol Hill complaining the Democrats did not know what they wanted.

"We aren't going to negotiate with Democrats who can't work out an agreement with themselves," White House chief of staff John Sununu said as he walked out of the Capitol with Budget Director Richard Darman. "They obviously would prefer not to accept a package."

Senate Majority Leader George Mitchell (D-Maine) played down the remarks by Sununu, who is known for his combative style.

## Still talking

"We continue to meet at this very moment to develop such a package," Mitchell said, adding that congressional leaders would continue to meet throughout the evening.

The break in negotiations came as Congress and the White House fought to get a budget agreement by Wednesday night, when the third stopgap funding measure to keep the government running expires.

The House and Senate have passed widely divergent plans to cut the deficit by \$500 billion over five years. The two sides and the White House have been squabbling over the size of any gasoline tax in-

crease, the depth of Medicare cuts and the tax rates on wealthy Americans.

## Compromise?

Earlier in the day, it appeared some movement was being made on those sticking points between the House and the Senate. Staffers familiar with the talks said negotiators were discussing a 5-cent gas tax increase and a top income tax rate of 31%, each about halfway between the House and Senate proposals.

Sununu said he had offered a plan that would put the top tax rate at 31%. The Bush plan would also limit itemized deductions, so that taxpayers' deductions would be reduced by 4% of the amount of their earnings over \$99,000, and 8% for earnings higher than \$1 million.

The administration-offered package would also cut Medicare by \$47 billion, more than the House wants to cut.

"We want to see fairness in the package," House Speaker Thomas Foley (D-Wash.) said yesterday. "That requires some additional burdens to be shared by the highest-income people in this country."

House Majority Leader Richard Gephardt (D-Mo.), looking tired and unhappy, said negotiators could not agree on one part of the package without determining how the whole plan would affect different income groups.

"It's the totality of the package, how it comes out and who pays," he said.



# THE CHRISTIAN SCIENCE MONITOR

## US Budget Pact Likely to Need Overhaul by '93

By Robert P. Hey

Staff writer of The Christian Science Monitor

WASHINGTON

GET used to the phrase: budget-deficit problem. In another two or three years, Americans probably will be hearing once again about the need to make significant cuts in the deficit, although Congress and the president say what they are trying to agree on this week is a five-year program that will solve the problem by reducing the deficit \$500 billion.

Many economists and political scientists say the deficit problem will not go away in five years for several reasons:

- The recession that economists believe the United States is now entering is expected to reduce the taxes that government takes in and increase the money it pays out for federal programs. If the recession is sizable, the budget deficit will remain high and "in two years we'll have to come back and go at it again," says political scientist Norman Ornstein of the American Enterprise Institute.

- The budget-reduction proposals now being worked over by congressional conferees contain unrealistic elements that may make it impossible to meet the \$500 billion deficit reduction in five years, says political scientist James Thurber, director of the Center for Congressional and Presidential Studies at American University.

He considers unrealistic the exclusion of most of the \$500 billion or more cost of the savings and loan bailout from the budget, and the assumption that petroleum will cost a relatively inexpensive \$24 a barrel. "There's a lot of blue smoke and mirrors" in the five-year plans being discussed, he says.

- In a year or two Congress may find it impossible to resist spending more money than the budget plan calls for on government programs various interest groups consider essential. "Abso-

lutely nothing prevents the appropriations committees from raising spending," says economist Dan Mitchell of the Heritage Foundation. Americans would be able to adhere to the restrictions of a leaner budget, "but Congress won't," he adds.

Members of Congress think they will demonstrate more responsibility than that. "We will" adhere to the spending limits in any new five-year budget plan, insists Sen. Patrick Leahy (D) of Vermont.

- The theory may not work that is central to the current deficit-reduction plans: that a deficit can be ended by a combination of higher taxes and slower spending growth. "We may in the end discover that the deficit is chronic and keeps tending to occur unless we are able to increase economic growth," says economist Henry Aaron of the Brookings Institution. "And over the long haul we really don't know how to do that."

Dr. Aaron notes that the rate at which America's economy grows has slowed substantially in recent decades: "If we grew [now] the way we did in the past, in the '50s and '60s, nobody would be worrying about the deficit. It would be going away."

Despite this somber outlook, many experts insist that Americans will tolerate most of the new taxes now generally discussed for the five-year current budget package — taxes on cigarettes, alcohol, gasoline.

Even a higher gas tax, which many Americans hotly oppose, is unlikely to be rescinded once enacted, says economist Alice Rivlin of the Brookings Institution: "My expectation is that people will fuss about it at the beginning, and then not roll it back. It becomes part of life."

But higher taxes must be phased in during the first year of a deficit-reduction package in or-

der to be accepted over the long term by the public, Dr. Ornstein says. Otherwise Congress will be tempted to respond to building constituent pressure and scrap a tax that has not yet taken effect.

Although new taxes may remain in effect, within five years circumstances of one kind or another are likely to unbalance whatever plan is finally adopted this week, says economist Marvin Kusters of the American Enterprise Institute. "Based on the experience of the last few years," Dr. Kusters adds, Congress "will change the targets and goals when they're pinched. Gramm-Rudman is now undergoing change for the second time.

"In the 20 or so years I've been in Washington, it's been rare that I haven't seen predictions of the budget coming into balance in four or five years from now — whenever 'now' is," he says.

What if the deficit isn't substantially reduced in the next five years — will that be horrific for the US? Probably not, the experts say, but ultimately it will result in a lower standard of living for Americans.

"If you don't save, and if you don't reduce the deficit, our whole standard of living will go down within a decade," Dr. Thurber forecasts.

Kusters cites New Zealand as an example. For years it held a protectionist posture, he says, but changed that during the 1970s when it found itself with a 1950s-level income. "Cumulatively, over time, these things do matter, and we need to make a change," he adds.

If the budget deficit remains high over the next few years, the US will be "paying a larger and larger amount of money to foreign investors" to keep America's economic engine operating, Kusters says. This trend could continue "for a long time without becoming unbearable," he adds, but it would be a heavy burden on American taxpayers.

MONDAY, OCTOBER 22, 1990

## Tax the Rich, Fool the Poor

By MARC LEVINSON

OK, so we're gonna tax the rich. Or, to be more precise, we're gonna tax folks who earn a lot of money, whether or not they're rich.

And why not?

The high-income groups did marvelously well in the 1980s. The tax code helped them. Between 1984 and 1987, when the number of taxpayers reporting over half a million dollars of income increased 150% and their total income soared just as sharply, the average income tax paid by each of those high-flyers actually declined.

The corporate moguls and Wall Street wheeler-dealers have had their day. So now that the bill's come due, let'em pay for the party.

Fair enough. But there are ways to tax the rich, and there are ways to tax the poor. Some of them make sense. Others may end up hurting the rest of us.

The easiest way to tax the rich, of course, is to raise the income tax rate. It's also one of the dumbest.

Most high-income people pay only 28 cents of each extra dollar they earn as federal income tax. That's the same marginal rate most middle-class families face (although high-income folks end up paying that rate on a greater share of their income). The conclusion is obvious: let's make the tax system more progressive: By creating a few new tax brackets, say, 33% and 35%, we can make sure that the

upper class is taxed more than the middle class and raise some revenue, too.

What's wrong with being progressive? Two things, one political and one economic.

Politically, high tax rates inevitably lead to pressure for special favors. At the moment, there aren't many special favors in the personal income tax system; tax shelters, low tax rates for capital gains and a host of other provisions that aided the wealthy were swept away in the same 1986 tax reform that lowered rates.

Raise the rates for high-income groups and before you know it the tax code will be riddled with loopholes once again. Already, you can hear some of the same populist politicians who urge higher rates on the rich urging lower rates on capital gains. That combination actually would reduce, not increase, the amount of tax many high-income households pay.

Economically, too, high rates are a loser. Like it or not, the wealthy perform an important social function: their capital meets a large part of the country's investment needs. Without it, the economy would grow more slowly. Higher tax rates cut directly into that capital accumulation.

Far better to tax the rich by shrinking their deductions, as did the tax and budget package the House of Representatives rejected

two weeks ago. Curbing deductions for the wealthy punishes them if they use their high incomes for consumption, which benefits only themselves, but not if they save and invest their earnings, which benefits everyone.

Another good way to tax the rich is to curb their government-financed health benefits, by raising their premiums, increasing their deductibles or both.

Yes, I know, this violates some sacred principle or other. But it's time to face an unpleasant fact: programs for the elderly are the only substantial non-military budget issue. Add up Amtrak and the arts endowment and subsidies to beekeepers and the whole thing doesn't amount to a hill of beans next to spending on senior citizens.

If we're serious about reducing the budget deficit without a massive tax increase, we can do it by cutting benefits for the elderly across the board, or we can do it by cutting benefits for those people who don't need them. There are no other serious alternatives.

Even as we find a more sensible way to tax the rich, we should do some thinking about how we tax the less well-to-do.

You can see a lot of hand-wringing on Capitol Hill about the ostensibly "regressive" nature of certain types of taxes.

Congress is right to pay attention to income distribution, but I find it hard to get upset that increased taxes on cigarettes, beer and gasoline have a disproportionate effect on the poor.

No one requires any poor person to smoke cigarettes, and the damaging health effects of doing so are well understood by all. While beer is less damaging, at least in small quantities, the federal beer tax hasn't risen in decades; I wish the brewers who are so concerned about the effect of higher beer taxes on the poor would show the same concern when they price their products.

As for gasoline, the truly poor buy little of it. Anybody who can afford the \$1,000-a-year or so it costs to insure a car in New Jersey, Pennsylvania or California won't be too devastated by paying an extra dime a gallon for gas. They might even end up driving less — exactly the sort of behavior a higher gasoline tax is supposed to induce.

If Congress is really so concerned about income distribution, it could shelter families in lower income brackets from the regressive social security payroll tax, which swallows 7.65% of every single dollar they earn. That would do far more to help the working class — and to shift the tax burden to the more prosperous — than holding down the price of cigarettes.

Marc Levinson is editorial director of *The Journal of Commerce*.

# The New York Times

## BUSH TERMED OPEN TO TAX RATE RISE ON UPPER INCOME

### SUBJECT OF COMPROMISE

#### President May Accept Taxes of 31%, Up From 28%, on the Highest Earners

By DAVID E. ROSENBAUM

Special to The New York Times

WASHINGTON, Oct. 20 — In a break that could lead to a compromise in the budget negotiations, Treasury Secretary Nicholas F. Brady has told lawmakers that President Bush could accept an increase in the tax rate for the wealthy to 31 percent from 28 percent now, staff assistants from both parties said today.

No specific word seeped out of the private tax negotiations that went on all day. But a variety of political advisers to senior lawmakers and tax experts who are familiar with the issues and the views of the participants said that Mr. Bush's concession on a rate increase brought the shape of a possible compromise into sharper focus.

They said other aspects of the compromise would probably include a surtax on the very rich, a limit on the itemized deductions, the wealthy could claim and a modest rise in the Federal gasoline tax.

#### Is a Smaller Rise Acceptable?

Mr. Bush had previously said he would reject any budget deal that provided for a top tax rate of 33 percent, a level that would be imposed under a budget bill passed by the House last Tuesday. But he had been less explicit as to whether a smaller increase would be acceptable.

With President Bush's top policy advisers looking over their shoulders, Senators George J. Mitchell, Bob Dole and Lloyd Bentsen, Representative Dan Rostenkowski and a few other lawmakers huddled today trying to work out the final tax deals that are the most controversial aspects of a budget plan that is supposed to reduce the Federal deficit by \$40 billion in the 1991 fiscal year and \$500 billion over five years.

"It's suddenly starting to dawn on people that they're not too far apart, that this may not be so hard after all," said a staff assistant to one of the main negotiators.

#### Demands of Bush and Democrats

The main difficulty the negotiators face is to reconcile the political needs of the President, who insists that tax rates not be raised significantly, with the demands of Democrats that the wealthy bear the brunt of deficit reduction.

Last Tuesday, the House, voting along party lines, approved a Democratic bill that would raise taxes by \$149 billion over the next five years, 68 percent of it from taxpayers with annual incomes above \$100,000. The central part of this bill would increase the tax rate on the richest taxpayers to 33 percent from 28 percent.

SUNDAY, OCTOBER 21, 1990

On Friday, the Senate passed a bipartisan bill, supported by Mr. Bush, that would raise \$146 billion, 42 percent of it from households with incomes above \$100,000. Tax rates would not be increased under this measure, but the Federal gasoline tax would be raised to 18.5 cents from the current 9 cents.

The conference committee working on the differences in the two versions hopes to finish by Sunday night. The full House and Senate must pass the compromise and President Bush must sign it for it to become law.

Under a measure enacted Friday,

Continued on Page 28, Column 1

Continued From Page 1

the Government's authority to spend money will lapse at midnight Wednesday.

Mr. Brady said Mr. Bush would agree to a top tax rate of 31 percent, so long as the "bubble" was eliminated from the tax code. The bubble is jargon for the anomaly in the current tax law that forces families with taxable income from about \$80,000 to \$200,000 to pay 33 percent on each additional dollar they earn. No taxpayers pay more than 28 percent of their total income in taxes.

One effect of such a change would be to raise the taxes of those with incomes of more than \$200,000 a year and lower the taxes somewhat of those with incomes of \$80,000 to \$200,000.

Another effect would be to permit an increase in the alternate minimum tax rate to 23.25 percent from 21 percent. This is paid by rich people who have so many deductions that their rate falls below the minimum tax level. The rate of the alternative minimum tax is determined by taking 75 percent of the top rate.

Those changes would not raise much money, perhaps as little as \$3 billion over five years. But they would give Democrats the political benefit of having forced the President to eat crow on his pledge not to raise tax rates.

Moreover, other changes under consideration could actually push the top rate for the wealthy above 33 percent.

John H. Sununu, the White House chief of staff, and Richard G. Darman, the Administration's budget director, met this morning with Senator Dole of Kansas, the Republican leader, and Senator Bob Packwood of Oregon, the top Republican on the Finance Committee, in Mr. Dole's office in the Capitol.

Down the corridor, Senator Mitchell of Maine, the Democratic leader, and Senator Bentsen of Texas, the Democratic chairman of the Finance Committee, were also plotting strategy.

Several times, Mr. Dole and Mr. Packwood, with stacks of paper under their arms, left Mr. Darman and Mr. Sununu behind and walked down the hall to confer with Mr. Mitchell and Mr. Bentsen.

On one such trip, the two Republican Senators were hailed just outside the Senate chamber by Senator Bob Kerrey, Democrat of Nebraska. He wanted to introduce them to his weekend companion, the actress Debra Winger. That may have been the only meeting today in public.

This afternoon Representative Rostenkowski, the Illinois Democrat who heads the Ways and Means Committee and dominates the House negotiators, walked over from his office across the street to meet in Mr. Mitchell's office.

The strong support of Mr. Rostenkowski and his House Democratic colleagues is essential to any compromise, since most Republicans in the House will probably vote against what-

ever the negotiators produce. The House Republican whip, Newt Gingrich of Georgia, said as much in a speech on the House floor today, maintaining that any new taxes would further damage the economy.

Although they had no direct word from the talks, experts following the negotiations from the outside sketched out a possible compromise that would raise \$160 billion over five years, giving the lawmakers about \$15 billion extra that they could use to reduce cuts in Medicare benefits or to pay for tax breaks that might be needed to win votes for the final package.

These are the elements that such a compromise might include:

**Deduction Limit.** The Senate bill would reduce itemized deductions by 5 percent of all adjusted gross income above \$100,000. If the limit were raised to 10 percent, that would generate \$56.5 billion over five years and would have the effect of making the tax rate of those affected as high as 34.1 percent.

This provision, probably acceptable to the Bush Administration, is opposed by lawmakers from high-tax states like New York and California. Senator Daniel Patrick Moynihan, Democrat of New York, said he feared that it would be the first step toward further limitations on deductions. But Mr. Moynihan is the only lawmaker from New York and California among the tax negotiators.

**Surtax.** The House bill would place a 10 percent surtax on incomes over \$1 million. If the income level were lowered to \$500,000, it would raise \$11.7 billion over five years. The Administration opposes the surtax, but few in Congress have objected to it. It would mean, in effect, that the tax rate on the very rich would be as high as 44.1 percent.

**Gasoline Tax.** The Senate bill would more than double the gasoline tax, now 9 cents a gallon, to 18.5 cents. That steep a rise is unacceptable to House Democrats, who say it would put too much of a burden on the poor and middle class. But Mr. Rostenkowski has favored a higher gasoline tax in the past and might accept a 5-cent increase. That would raise \$21 billion over five years.

**Payroll Tax.** The Senate bill would require state and local employees, who are entitled to Medicare benefits, to pay the Medicare payroll tax. Mr. Rostenkowski is adamantly opposed, apparently because of the effect on public employees in Chicago and Illinois. But if his objection can be overcome, it would generate \$5.2 billion over five years.

**Corporate Interest Deduction.** The Senate bill would not allow companies to take a deduction for the interest they owe on back taxes. If the House accepts this provision, it would raise \$4.1 billion over five years.

**Gas Guzzlers.** The House bill would double the sales tax on cars with low gasoline mileage. This could raise \$500 million over five years.

Many provisions of the House and Senate bills are identical or so similar that compromises should be easy to work out.

These include higher taxes on alcoholic beverages and tobacco products; a 10 percent luxury tax on expensive cars, boats, planes, jewelry and furs; an increase in the amount of annual wages subject to the Medicare payroll tax, and an increase in the tax credit for poor workers.

Altogether, these provisions total \$69.7 billion in the House bill and \$59.3 billion in the Senate bill. Even if lower of the two versions is accepted on many provisions, the total should come to at least \$58 billion in new taxes over five years.

# The New York Times

SUNDAY, OCTOBER 21, 1990

## Lost For Words

### George Bush's Communication Breakdown On the Budget

By MAUREEN DOWD

WASHINGTON  
**G**EORGE BUSH liked Ronald Reagan. And he was so deferential, shrinking into the background in their meetings, that he created the illusion that, though an inch taller than Mr. Reagan, he was a much smaller man.

But Mr. Bush also had secret disdain for Mr. Reagan's White House. He was appalled by the manner in which the men around the Gipper treated the President like a prop and the White House like a set at M-G-M. He was repelled by the way the Reagan handlers, men like Michael Deaver and his own good friend James Baker, turned politics into an extension of public relations, exercising iron control over the theme of the day, the definition of the story, the coordination of sound bites and pictures, the concentration on a few simple goals in speeches.

As President, Mr. Bush rejected the public relations skills that Ronald Reagan had used so effectively, believing that it showed more integrity to run things in an ad hoc, defiantly unvarnished way.

But the chaos and confusion shrouding the White House during the budget debacle has raised questions in Republican circles about the efficacy of the Bush style: What good is integrity if your failure to offer a coherent strategy and message hurts your ability to push your agenda and rends your party? What good is it to strip governing of public relations if it allows your opponents to paint you as a protector of the rich and a politician of convenience?

In the era of the permanent campaign, is it wise to ignore the fact that politics and governing are two sides of the same coin? In the era of

mass communications, is it smart to resist the notion — as President Bush does — that perception can quickly harden into reality?

The public relations blackout at the White House during its first domestic policy crisis has thrown Mr. Bush's expediency into sharp relief. Unlike Mr. Reagan, Mr. Bush does not have a set of core political convictions that he can fall back on when he gets in trouble. As he wavered on taxes and capital gains cuts, as he clung to the Democratic leadership and kept House Republicans at a distance, it was all too apparent to furious conservatives, among others, that for this President nearly everything is negotiable.

"He has lost control of the agenda not only because he's inexperienced at imagery but because he has no program and no mandate," said Sidney Blumenthal, a writer for The New Republic and author of "The Permanent Campaign" and "Pledging Allegiance: The Last Campaign of the Cold War." "Bush may have contempt for the Reagan techniques he believes are illusory, but even if he tried to apply them, it would be hard to hide his hollow core."

President Bush's advisers explain his seeming confusion by saying that he has been striving to exercise a consensus style of leadership that would bring both parties together to solve intractable problems. But a few weeks before an election is probably not the best time for a bipartisan approach.

Because Mr. Bush and his budget strategists, Chief of Staff John Sununu and Budget Director Richard Darman, had no Plan B ready in case their budget summit agreement failed, the Administration looked anchorless. Mr. Bush's failure to explain his flip-flops on various budget plans culminated in one

Distaste for public relations and lack of a Plan B lead to his first domestic-policy crisis.

of the silliest moments of his Presidency: When he responded to reporters' questions about whether he was ready to give up on a capital gains tax cut by replying, as he jogged, "Read my hips!"

On the political trail on Monday and Tuesday, Mr. Bush talked tough about vetoing a new continuing resolution to keep the Government open this weekend. "Enough is enough," he said in Dallas, shaking a fist at Congress. "This Friday, time's up." But when the Senate sent the temporary spending bill to the White House

on Friday, the President signed it. Mitch Daniels, a political director in the Reagan White House who remains close to the Bush White House, conceded that the Democrats had outmaneuvered the White House in creating the impression that the President was trying to "help his rich buddies" in the budget deal.

"The reaction against the so-called government-by-entertainment of the Reagan years is a healthy one, but I do think you can pay a price if you so consciously disregard the formation of public opinion that you leave yourself naked to your enemies," Mr. Daniels said. "For good motives, the Bush White House may have been too studiously indifferent to aggressively getting their story out."

Once the bipartisan deal fell apart, the Democrats swiftly united to criticize the Administration for its unwillingness to raise the tax rate on the wealthiest Americans. It was only late in the week, after several days of being called country-club names, that the Administration

roused itself to argue that the indexing measure in the House Democrats' budget plan would have put more of a burden on the middle class than the Senate plan that Mr. Bush supported.

"Bush is too scattershot, bouncing around from subject to subject, losing his voice because there's no coherency to his positions," said Michael McCurry, a Democratic strategist. "The bully pulpit is not an open microphone. You have to target it very carefully."

The White House contempt for clever communications is compounded by Mr. Bush's belief that he does not need to bring the public along with him as he forms his critical policies. "He does not understand the need to educate the public on big policy shifts," said a longtime Bush associate. "He thinks you should just spring it on them full-blown."

Mr. Bush has been faulted by his own allies for not making an early and persuasive case to the public about why he now believes bringing down the budget deficit is more im-

---

**'Too scattershot,' says a Democratic strategist. 'There's no coherency to his positions.'**

---

portant than keeping his no-new-taxes pledge. That would be tricky since it would involve explaining why he was willing to ignore the mounting deficit as a Vice President and a Presidential candidate. Mr. Bush assumed that everyone would suddenly agree that the deficit was the more important thing and would go along with an agreement that an elite group negotiated in secret.

### **His Own Party**

When it became clear that in doing so Mr. Bush had fundamentally misread the mood of Congress and his own party, disgruntled Republicans began comparing him unfavorably with Ronald Reagan for the first time since he took office.

It is not that Republicans want to return to the kind of manipulation that existed in the Reagan White House, with Mr. Reagan offering scripted banter and standing wherever his aides laid the masking tape. They just think that Mr. Bush may have overcorrected.

"Using the art of persuasion to move people to your position is the noblest of political endeavors, not the cheapest," said John Buckley, a Republican consultant. "The Bush White House equates that with Michael Deaver. They should equate it with Benjamin Disraeli."

It was ironic, since Mr. Bush is far more obsessed with polls and press clippings than Mr. Reagan ever was, that he was so rigorous in rebuffing the very mechanisms that would have helped protect his image and promote his agenda when the inevitable first crisis hit.

But when the speechwriters had their privileges to eat at the White House mess taken away at the dawn of the Bush Administration, it was an omen that in this Administration, words were not going to count for as much. The passion of a Peggy Noonan was O.K. for a campaign, but not for governing.

For the first 20 months, with luck

*Continued from page 1*

going his way and with the focus on exciting events abroad, it did not matter that President Bush seemed determined to be the Mediocre Communicator. It did not matter that he had a vacuum where his middle layer of White House expertise should have been, or that the jobs involving lobbying, imagery, communication, speechwriting and political strategizing had all been downgraded to near oblivion.

After President Bush and Mr. Sununu, there is a sheer drop in the ability of anyone to talk for the White House or act on Mr. Bush's behalf. When the Republican party chief, Lee Atwater, became ill, Mr. Sununu assumed that he could take on political strategizing himself. But as it turned out, no one was looking at the big picture.

### **The Plunge**

None of this mattered until the budget deal collapsed and it became apparent that panicked Republicans that the White House had no fallback strategy. The crisis underscored the weaknesses in the Bush White House: the lack of any unified voice, the dearth of talented professionals making sure the White House point of view was represented in articles, the lack of any long-term or even short-term political strategy, the inability of Mr. Bush to articulate a persuasive case for his goals on television. All these problems combined to turn the President's stumble on the budget deal into a free-fall that set pundits talking about "the disintegration" of the Bush Presidency.

White House officials are trying to figure out how they can put their acts back together. Republicans hope Mr. Bush can be persuaded that paying attention to orchestrating strategy and showcasing the agenda is not the same as selling the Presidency like soap.

Roger Ailes, who was Mr. Bush's campaign media strategist, would certainly be available to help. Mr. Ailes is a firm believer that governing well requires a professional presentation to win the consent of the governed.

As he once put it: "The reality is that every successful politician in the history of the world had people around to make them look good. Who do you think told Caesar to wear the purple cape? Who do you think told him he needed six horses pulling a chariot instead of just four? Why do you think he rode through Rome denying he wanted to be king? Who do you think thought that up, him? C'mon!"

*Continued on page 5*

# The New York Times

SUNDAY, OCTOBER 21, 1990

- IN THE NATION | Tom Wicker

## Bush: No Mo Big Mo

**N**o matter what kind of Federal budget finally comes out of the unseemly scramble that has so demeaned Congress and the White House in recent weeks, a long-suffering public is more likely to remember the process than the product. Seldom, if ever, has Washington looked more self-serving and less effective.

There's plenty of blame and ridicule to go around, but on first analysis, the big loser — certainly of what he once called Big Mo — seems to be George Bush. But the President has lost a good deal more than the political "momentum" he had earned from his adept mobilization of the collective-security effort against Saddam Hussein in the Middle East.

Most obviously, Mr. Bush's overall approval rating dropped meteorically, from a nearly incredible 76 percent in August to 60 percent last week, in the continuing New York Times/CBS News Poll. That's still pretty good, but it was a new low for the Bush Presidency. Worse, on specific questions, the President got even lower marks — 52 percent disapproved of his handling of the economy, 58 percent opposed his conduct in the budget debacle and 46 percent criticized his savings-and-loan "rescue."

Less demonstrably but not less plausibly, the President's bob-and-weave performance in budget negotiations with the Democrats combined disastrously with his earlier abandonment of his "no new taxes" pledge. Together, they undermined the public belief that Republicans, and Mr. Bush personally, were more responsible and reliable than Democrats in fiscal matters.

The one point on which the President and his aides had seemed most nearly adamant, moreover, was their resistance to an income-tax increase on the rich — even as the President kept insisting on a capital-gains tax break for the same rich. Mr. Bush was willing, however, to accept a gasoline tax and "sin taxes" on whisky, beer and cigarettes — all of which bear down hardest on the poor and middle class.

Never mind that Democratic negotiators accepted these levies, too. It was the President who was threatening to veto anything else, and it was the Democrats who were also demanding higher taxes on the wealthy — even pushing a bill explicitly designed for that purpose through the House. The net result may be that blue-collar and ethnic groups that voted Republican in the 80's — Ronald Reagan's greatest gift to his party — will come to the predictable conclusion of Ron Brown, the Democratic national chairman: "The Republican Party favors the wealthy and the Democratic Party favors the

average American."

Beginning with his abandonment of the no-new-taxes pledge, and continuing through the ups and downs of the budget negotiations, Mr. Bush's performance also displeased the Republican right wing. The President failed either to take a hard-right ideological stand, or to provide tough leadership for whatever position he did take at any given moment — which was sometimes hard to tell without an interpreter of Bushspeak.

A modern Republican President can ill afford to offend his right wing, which dominates Republican national conventions and ideological debate within the party, and is seldom willing to lower its voice in the interests of party unity. At least in these precincts, Mr. Bush in the budget scramble might even have resurrected the wimp's reputation that he and Willie Horton, with the aid of bloodshed in Panama, had so nearly buried.

Even Mr. Bush's respect for the "vision thing," never much in evidence, must have seemed to many

---

### The President is the big loser in the budget fiasco.

---

onlookers less compelling than usual. A President presumably should have a sense of where he wants to take the country, in economic as well as other terms. Mr. Bush appeared, instead, to have no central conviction for which he was willing to fight (other than the capital-gains tax break), and to be more concerned about escaping blame than asserting leadership. As such caution often dictates, he managed neither.

The nation may be the winner in one respect. Polls also show declining approval of the U.S. military presence on the Saudi Arabian border. Either from second thoughts about Operation Desert Shield or declining confidence in Mr. Bush's general leadership, support for his handling of the Middle East crisis already has plunged from 76 to 57 percent.

This sharp drop suggests that there would be little support for an actual war in the desert, either to liberate Kuwait or to bring down Saddam Hussein. For that reason, Mr. Bush may think long and hard, and more than twice, about taking the nation into such a war — probably without allies in the region and with too little enthusiasm at home. □

# The New York Times

SUNDAY, OCTOBER 21, 1990

## The President: Read His Slips

By James Reston

WASHINGTON  
**M**ost Presidents run into unavoidable trouble by the time they reach mid-term, but George Bush is different. Many of his troubles were not only avoidable but predictable, and this has hurt him because they raise questions about his judgment.

In a way, the criticism of his budget difficulties has been extreme if not unfair. Fights between Republicans and Democrats over how to raise and spend money are unavoidable. Put a few hundred billion on the table and they usually pounce on it like pit bulls. But the main thing is not that they disagreed about how to cut it up, but that they agreed to reduce the deficit by half a trillion dollars in the next five years. This may be the single most important economic decision of the last two years.

George Bush is better at the big things than the little things. His objective on the budget was admirable but his handling of it was comical, and when he's mocked as weak or indecisive, he's unpredictable. We saw this in the campaign when he overcame his better qualities and followed John Sununu, Lee Atwater and James Baker down the low road.

After he won, he promised to nominate the best advisers available and told us we were living in an age of terror when life was fragile, and then picked Dan Quayle of Indiana for Vice President. This was clearly an avoidable blunder, and an injustice to both Mr. Quayle and the country, which fortunately can be corrected next time if his party thinks about it.

The odd thing about George Bush is that he plans his fumbles. He didn't have to promise not to raise taxes in a future he could not possibly foresee, or remind the country about his infamous wisecrack, by telling the reporters during the budget mess "read my hips." They read his flips instead.

He has done some very good things. No President since the last great war has made a greater effort than George Bush to reach out to the opposition leaders for compromise and understanding. He has been on television almost as much as Dan Rather, and has held more press conferences in more strange places than any President since the inception of that jumping-jack institution. He has many other good qualities, but foresight isn't one of them.

When he ordered 200,000 men into the Afabian desert, he went on vacation and delivered his war communiqués from the back of a golf cart, and was genuinely surprised that most people didn't think this showed "grace under pressure." In the mid-

dle of the budget crisis when he was trying to get the support of the leaders of the Democratic Party, he took time off to campaign in North Carolina for the re-election of Senator Jesse Helms, of all people. He was determined at the start to "hit the ground running," forgetting that this is what John Kennedy did when he ran into the Bay of Pigs, and Lyndon Johnson did when he ran into Vietnam.

These are the "little things" that trouble even many of his most loyal supporters, and some of them are not so little. One of his major foreign policy objectives was to persuade Mikhail Gorbachev not to use military force to achieve political objectives in the Baltic states and Eastern Europe, but he invaded Panama against his treaty commitments to the United Nations in order to capture a two-bit dictator, and didn't know what to do with him when he caught him. Having defied the U.N. in Panama, he then relied on it in Iraq.

It wasn't enough for him to blockade Iraq and punish Saddam Hussein

---

### Some skull practice won't hurt.

---

as "another Hitler," but he insisted on sending the biggest U.S. Army since the last war into the desert, not wanting to use it, not knowing how to get it out and facing once more the taunts of the armchair warriors, who say he must not only restore the independence of Kuwait but also get rid of Saddam Hussein and the threat of Iraq's Army as well. This is a dangerous situation for a President dropping in the popularity polls and facing both a deficit crisis and a mid-term election.

In such a pickle, a little half-time skull practice wouldn't hurt, but sometimes he's all bones and no skull, and can't sit still and think. He's all over the lot — fighting for the rich, campaigning not only in North Carolina but in California, driving in from Camp David to conserve gas and letting his helicopter return empty, jogging in the morning and flying to the world series in Cincinnati at night, always on the move, always pleasant and even cheerful.

He is the first President in memory who has not been able to get the votes of a majority of the members of his own party for a major bill in the Congress, but he has even tolerated Newt Gingrich, the Republican whip in the House, who has not only defied the President on the budget but hasn't even had the decency to resign.

He may come smiling through and even be re-elected, but it will take him a while to recover from the planned fumbles of the first half. □

---

*James Reston is former Washington correspondent and former executive editor of The New York Times.*

# The President Who Can't Lead Unless He Hears the Roar of the Crowd

■ **Style:** The common element running through the Bush strategies of caution and boldness is the avoidance of difficult choices.

By Erwin C. Hargrove

NASHVILLE, TENN.

**G**eorge Bush's style as President is puzzling. He is cautious, seeks consensus, reveals few strong beliefs and puts his faith in the customary policy-making procedures to produce good results. This style can unify. It can also divide—especially if the President is unclear about his goals or turns over leadership responsibility to the policy-making apparatus in the hope that it will produce a decision that all can accept. But the President is also capable of bold, decisive action that may surprise his advisers and confound his opponents.

How can we reconcile these seemingly opposite strands of leadership style? Or—more aptly—how does President Bush do it?

Both styles are rooted in Bush's need for approval—the central theme of his political career. Bush wants to be a consensus leader, whether he is presiding over negotiations or leading a charge. In seeking consensus, the President fulfills his campaign wish "to be on everybody's side."

But such caution—which approaches timidity at times—leads to charges that he is a "wimp." And in response, the President is combative. Thus he "kicked ass" during the vice-presidential debate with Geraldine Ferraro in 1984, shouted down Dan Rather on the evening news early in the 1988 presidential primary campaign, got even with Panama's Gen. Manuel Noriega in his first year in office and now vows to bring down Iraq's Saddam Hussein for invading Kuwait. While taking these bold actions, he seeks approval. Indeed, they are calculated to rally support for his leadership.

The common element running through the Bush strategies of caution and of boldness is the avoidance of difficult choices. In one case, he relies on process; in the other, he rallies the troops. Neither strategy is a fully developed form of political leadership, in which difficult choices are made and coalitions constructed.

Bush, then, can be—and is—very good at crisis management when he can rally support against an enemy like Iraq's Hussein. The President was not so good, however, at fashioning a coalition of his

lieutenants and congressional leaders on a deficit-reduction plan when the chief requirement for success was that he lead by making clear what he wanted. At that point, Bush backed off from leadership, because difficult choices were required.

Caution and boldness can be appropriate styles of leadership, depending on the circumstances. The problem with Bush's style is that caution may turn to muddle, boldness to rashness.

Perhaps this is because he is not completely sure of himself. He falters or—to avoid uncertainty—overreacts. It is not difficult to find this oscillating pattern in Bush's job history.

In all the executive posts he has held—U.S. ambassador to the United Nations, Republican National Committee chairman, ambassador to China, director of Central Intelligence, vice president—Bush largely stayed above disputes. He was more the "social leader" than the "task leader." When at the CIA, for example, Bush created a B-team of outside advisers in response to conservative criticisms that the CIA was minimizing Soviet threats. As for himself, he never took a stand. Instead, Bush was content to manage appearances.

As President, Bush has been equally sensitive to political pressure. He is a cautious poll watcher when it comes to domestic policy, trying to avoid giving offense. For example, when Congress was torturing itself about whether to rescind new charges that Medicare recipients were to receive as part of a long-term care policy, Bush simply withdrew from the fray, saying it was up to Congress to decide.

But when he joins the fray, the results can produce political turmoil. Earlier this month, he seemingly could not make up his mind on the issue of taxing the wealthy in exchange for a capital-gains-tax break. Back and forth he went, with Congress increasingly mystified at every twist and turn. Washington was filled with charges that Bush was "Carterizing" himself by failing to lead.

It is difficult for Congress to act coherently and boldly on money matters unless the President is also engaged. If he withdraws, all parties run for cover. Bush has been something less than an enthusiastic leader of the deficit-reduction effort, in part because he has been unwilling to alienate anyone. The President's boldness in the '88 campaign that he would not raise taxes, challenging people to "read my lips," helps to explain his timidity now. He has been forced by economic facts to backtrack on his pledge but does not wish to advertise it. The President would take cover behind a consensus—if one would only emerge.

Still, Bush is ideally suited—and positioned—to be an effective President of Consolidation. We have had such presidencies after periods of government activism—Dwight D. Eisenhower after the

New and Fair Deals and Richard M. Nixon after the Great Society. Today, Bush is essentially a centrist Republican who desires to manage government well after Ronald Reagan's anti-government and anti-communist activism of the '80s.

This kind of government relies heavily on career professionals who understand political and bureaucratic realities at home and abroad. Bush has surrounded himself with such people. His inner circle—James A. Baker III, Nicholas F. Brady, Brent Scowcroft and Dick Cheney—is composed of seasoned, experienced men who are strong on operations and weak on ideology. The only exception is White House Chief of Staff John H. Sununu.

But even a President of Consolidation must have some beliefs, provide some sense of direction. This was certainly true of Eisenhower and Nixon. Bush appears to govern in a more ad-hoc style, in which he and his lieutenants respond to events, often quite intelligently, but with little reference to overall visions or plans.

This kind of leadership is adequate if events do not overwhelm the President and his advisers. But precisely because he does not provide much substantive leadership and relies on process, Bush is more likely to be overtaken by events, like recession. As a result, the government will appear rudderless in a time of trouble.

Bush has neither the sense of purpose

that characterized prominent Republican public executives such as Elliot L. Richardson, James R. Schlesinger and George P. Shultz. Nor does he have the political skill and experience of Howard H. Baker Jr. or Bob Dole in creating coalitions. He has presided over agencies, not run them, and it shows in his presidency. But if the the born-again "wimp" charges stick, Bush may indulge himself in some bold action to redeem his reputation.

Most successful presidential politicians have harnessed their needs for attention and respect, and their desire to please, to policy objectives. This is what is missing in George Bush. It is not enough to win approval just for having gotten to the top of the greasy pole. The President will have to overcome his overriding need for approval if he is to be an effective leader. □

# The Washington Post

SUNDAY, OCTOBER 21, 1990

## Republicans Offer New Tax Proposal That Would Raise Rates on Wealthiest

By Steven Mufson  
Washington Post Staff Writer

Bush administration officials and congressional Republicans yesterday offered to raise the income tax rate on the wealthiest Americans as part of a tax package without demanding a cut in the capital gains rate in return, according to administration officials and a GOP congressional leader.

The move seemed designed to defuse Democratic charges, repeated throughout the months-long budget negotiations, that the Republicans are the party of the rich.

"There is some feeling that if we don't flatten the bubble, it will be right back again next year," said Senate Minority Leader Robert J. Dole (R-Kan.), referring to the anomaly that creates a top marginal tax rate of 33 percent for upper-middle-income earners and 28 percent for the richest Americans.

Talks adjourned until today after Democrats offered a counterproposal, details of which were not immediately clear.

The Republican proposal would have created a uniform top income tax rate of 31 percent, which would lower the 33 percent rate on upper-middle-income earners and raise the 28 percent rate for Americans with the highest incomes.

The GOP proposal also would have phased in limits on deductions, which would have begun to affect people with incomes of \$85,000 a year and would have reduced deductions most for people with incomes of more than \$1 million. In addition, the current 9-cents-a-gallon federal gasoline tax would have increased by less than the 9½ cents proposed in a plan passed last week by the Senate.

Much of what concerned congressional leaders involved in the talks was whether or not a new package could win both congressional and administration approval.

"I think the people in that room could have settled it in three or four hours," said House Ways and Means Committee Chairman Dan Rostenkowski (D-Ill.) after emerging last night from talks among congressional leaders. But he said that "there are things we can't pass in the House and there are things we can't pass in the Senate. . . . We can't deliver the way we used to."

Although they did not meet face to face with Democrats, White House budget director Richard G. Darman, Chief of Staff John H. Sununu and Treasury Secretary Nicholas F. Brady huddled at the Capitol with Republican leaders yesterday.

The tax talks took place as lawmakers tried to do in days what they ordinarily would do in weeks of hearings, debate and negotiation: fashion a compromise budget acceptable to Congress and the White House.

"You had five months of agony and tradeoffs," said House Budget Committee Chairman Leon E. Panetta (D-Calif.) of the prolonged negotiations that took place over the summer between the White House and Congress. Now, Congress is trying to duplicate the budget-summit talks in a few days.

Darman predicted that the final budget agreement would resemble the one worked out by the budget-summit bargainers at the end of September. "Many members said they didn't want to be dictated to by their leaders," Darman said last week. "They may come right back to something similar to what their leaders did."

In many areas, including agriculture, veterans' affairs and the budget process, Senate and House bargainers ironed out differences between the two chambers and adopted variations of measures agreed to by the summit.

Some Bush administration officials said they took this as evidence the summit served a purpose despite the Oct. 5 defeat of the agreement by the House. Brady said the summit "did something that Congress couldn't do for itself."

But congressional leaders interpreted the progress in the past days as a vindication of the legislative process. "In these final days of this grueling year, members of Congress from both parties have quietly repudiated the charge that we cannot do our work," said Senate Budget Committee Chairman Jim Sasser (D-Tenn.).

In the crucial area of taxes, congressional bargainers also discussed a variation of the House plan to place a 10 percent surtax on the income of Americans who earn \$1 million or more a year. The nego-

tiators were considering a threshold of \$300,000, which would generate enough revenue to cut the Senate's proposed reductions in projected Medicare spending and trim its proposed increase in the gasoline tax, negotiators said.

An administration aide said yesterday that erasing the anomaly in income tax rates, which now are 28 percent for the wealthiest earners but 33 percent for upper-middle-income earners, would cut taxes for 5 million people, raise taxes for 700,000 and generate about \$7 billion in revenue.

Some Democrats said that if the talks fail to get rid of the so-called income tax "bubble," it will serve as a useful political tool. "That will take us right into '92," said Rep. Barney Frank (D-Mass.). A House Democratic strategist said, "The bubble's our best friend right now."

Administration officials were not happy about the proposed surtax on wealthy taxpayers. "In effect, it's a fourth rate," said one administration aide. But Democrats like the measure because it places the administration in the awkward position of standing up for millionaires.

Administration officials entered the negotiations divided over how difficult it would be to forge an acceptable compromise. Darman predicted early in the week that the package would resemble the agreement reached in the budget summit talks held in September. "This thing lost by only 39 votes. All you've got to do is bring back some of those votes," he said.

Meanwhile, work continued on other provisions of the massive deficit-cutting bill. Bargainers reached agreement over a child-care package by making explicit how states could use federal grants under the program. House Education and Labor Committee Chairman Augustus F. Hawkins (D-Calif.) wanted to make sure money went for the care of children whose parents both work outside the home.

Staff writers John E. Yang and Don Phillips contributed to this report.

SUNDAY, OCTOBER 21, 1990

## Austerity Also Brings A Windfall

### Appropriators Guard 'Discretionary' Funds

By Dan Morgan  
Washington Post Staff Writer

At times during last week's House-Senate conference on the 1991 transportation appropriations bill it seemed as if someone had forgotten to tell members there was a budget crisis.

During a session chaired by Sen. Frank R. Lautenberg (D-N.J.), the bipartisan conferees approved a \$2.5 billion, 18.8 percent increase in federal aid to states for highway and bridge construction; channeled \$125 million to the electrification of the Northeast rail corridor between New Haven and Boston; and directed the Department of Transportation to spend more than \$30 million to study magnetic levitation trains and "intelligent" cars.

They threw in \$1 million to develop a "national transportation policy" on bicycling and walking, noting the potential in energy savings and reduced traffic congestion. "You have to leave room for the new, with some uncertainty of where it leads you," said Rep. Martin Olav Sabo (D-Minn.), a sponsor of the bike proposal.

Such scenes are part of a little-noticed story in this month's budget debacle. While defense spending and automatic benefits such as Medicare and farm programs were slashed by the deficit-reduction agreement between the White

See SPEND, A6, Col. 1

some of the old meat-and-potatoes programs: a \$554 million, 27 percent increase in the Headstart preschool program; \$1 billion more than last year for education programs for the disadvantaged; a commitment to build 10,000 public housing units; and funding for two new Department of Veterans Affairs nursing homes.

The relatively flush position of the Appropriations committees in the final days of the session results from the tenacity and power of a few influential members during last summer's budget negotiations, and the relentless spending pressures on both parties.

Senate Appropriations Committee Chairman Robert C. Byrd (D-W.Va.) recently described nonmilitary domestic spending as the "little runt pig" of the budget that has been "on the cutting table for 10 years."

The \$182.7 billion available in 1991 represents only about 13 percent of the budget, compared with nearly 25 percent in the late 1970s. Its share of gross national product has slipped, too, from around 6 percent to close to 4 percent.

This is the "discretionary" pool of money that Congress has to finance the nondefense operations of government and most federal support for science, health, space, environmental protection, waste cleanup, health, education, law enforcement and infrastructure.

In last summer's deficit-reduction negotiations, Byrd reportedly fought relentlessly to prevent a further raid on this domestic pot. In private and public, he gave the same speech: "It's time we started spending some money on this country."

That view is reflected in the deal that emerged from the summit and that is being revised on Capitol Hill. The deficit will be reduced by \$500 billion over the next five years, through tax increases and cuts in automatic benefit programs. But none of the cuts will come from the pool of "discretionary" domestic funds controlled by Byrd and his House counterpart, Appropriations Committee Chairman Jamie L. Whitten (D-Miss.).

This pool of money will grow at the inflation rate until fiscal 1994, when the appropriators will be free to increase it further by "raiding" defense accounts under their control.

The \$182.7 billion available for 1991 already reflects a small "peace dividend," because the summiteers allowed the appropriators to reallocate the defense cuts to the domestic side. The domestic pot for 1991 is about 10 percent bigger than the \$166 billion in 1990, though inflation eats away some of the increase, as does a special \$7.5 billion expenditure to renew expiring leases on subsidized federal housing.

The package before Congress also protects the Appropriations committees from having to absorb the costs of Operation Desert Shield in the Persian Gulf. It will be paid for in a special appropriation next year.

Neither the White House nor congressional Republicans had much heart for further cuts in domestic accounts, sources said. The White House wants to channel more resources to the National Aeronautics and Space Administration, whose facilities are concentrated in Sun Belt states that could be important to President Bush's 1992 reelection. Meanwhile, most House and Senate Republicans agree with Democrats that government needs to invest more in the nation's infrastructure, education and industrial competitiveness.

The resulting appropriations bills contain more money for space. But there is also more for social programs that slipped far down the priority ladder during the Reagan era.

Few have come away fully satisfied. Lobbyists say there is still far too little money for education, health, environmental cleanup, consumer protection and alternative energy. Money for the atom-smashing Superconducting Super Collider in Texas was cut at the last minute by \$75 million and the allocation for the space station was reduced sharply. The space station cuts drew a protest from Sen. Jake Garn (R-Utah), who has flown on a shuttle mission.

But the \$243 million for the super collider

See SPEND, A7, Col. 1

#### SPEND, From A6

is still more than was provided in 1990, and NASA's budget was increased by 13 percent. "It's not as if we're gouging them," said Sen. Barbara A. Mikulski (D-Md.).

Moreover, the appropriations system adjusts, if slowly. For example, the new batch of appropriations bills contains more than \$2 billion for research and treatment of AIDS, not even recognized as a disease in 1980. Late Friday, conferees added another \$67 million for screening, early intervention and grants to cities hardest hit by the AIDS epidemic.

Yet the appropriations process is messy and this year has once again raised questions about the way the U.S. government sets priorities. The battle over the funding of the AIDS care bill signed by Bush in August has pitted AIDS sufferers on the one side against cancer patients, the elderly and the education community on the other. All are financed by the same appropriations bill.

As old programs battle new ones, pork-barrel projects claim their share. Language in one bill, promoted by Sen. Ted Stevens (R-Alaska), could lay the groundwork for the University of Alaska to acquire a computer to study ways to capture energy from the aurora borealis, or northern lights.

Problems such as homelessness and drugs, funded to the hilt when they were visible, fashionable issues, continue to incur large obligations on appropriations accounts even though they have faded from headlines.

Last week, House-Senate conferees used the purse to address the latest Topic A. They approved \$159.5 million for investigating and prosecuting savings and loan fraud, more than triple the White House request.

In other areas, good causes seem to require political clout to move

along. Last week, for example, Senate conferees succeeded in boosting funding of the 1989 oil spill prevention and response act from the \$11.2 million sought by the White House to \$52.2 million.

#### SPEND, From A1

House and Congress, the Appropriations committees came away with a small windfall.

Predictably, a healthy chunk of it is going to home-state projects of influential committee members. But the fattened appropriations coffers have also allowed the committees to address new issues and start rebuilding old, proven programs that fell on lean times in the Reagan years.

There is money to study global warming and the health impact of high power transmission lines on humans. The budget of the Environmental Protection Agency is to grow by 19 percent, and the space program was restructured to provide more money for probes to monitor the Earth's ecology.

The 13 major national laboratories that are the core of American scientific prowess got increases of as much as 18 percent. Despite talk of austerity, the appropriators found money to continue funding the exotic and futuristic, from the Search for Extraterrestrial Intelligence to the CRAF-Cassini probes that will meet up with a comet and visit Saturn later in the decade.

There will be much more money for

# The Washington Post

SUNDAY, OCTOBER 21, 1990

The key was the New Jersey-New York team of Sens. Lautenberg and Alfonse M. D'Amato (R-N.Y.). Lautenberg is chairman and D'Amato is ranking Republican on the Appropriations transportation subcommittee. They assured that the extra money was approved. Among other things it will be used to establish a new Atlantic Coast "strike team" in the Coast Guard to deal with oil spills in New York/-New Jersey harbors and the Delaware River.

Also included in the transportation bill was \$3 million for a New York-New Jersey consortium that is developing electronic toll collection systems and signs that can vary their messages to drivers. To some, those are examples of a marriage of good politics and good policy, and

explain why appropriations bills have such broad constituencies.

Others suggest that the small windfall allowed appropriators to avoid tough choices while attempting to satisfy every constituency and loading up on pork. An aide noted that the new VA nursing homes and public housing construction will mean rising operating costs later.

"We're all wanting to add the new [projects and programs]," said Sen. Pete V. Domenici (N.M.), ranking Republican on the Senate Budget Committee. "We could decide there are some programs that are worth more than others."

But Domenici has been no more willing than other senators to allow cuts in programs affecting his state. As a member of several Appropriations subcommittees, he helped protect research funds for Los Alamos National Laboratory and supported a \$211.6 million allocation to improve U.S. facilities along the U.S.-Mexican border, including several in New Mexico.

# The Washington Post

SUNDAY, OCTOBER 21, 1990

## Shutdown Cost \$1.6 Million, GAO Study Finds

*Closing Government for Columbus Day Weekend Increased Expenses, Lowered Revenue*

By Dana Priest.  
Washington Post Staff Writer

The federal government is \$1.6 million deeper in the hole than it would have been had it not closed down for the three-day Columbus Day weekend because of the budget impasse, according to a General Accounting Office study released yesterday.

Most of the \$1.6 million loss was attributable to uncollected revenue and the costs of planning and carrying out the shutdown, according to the study.

The 14 executive departments and the Environmental Protection Agency, General Services Administration, NASA and the Office of Personnel Management also told GAO it would cost \$398 million to shut down the government for three days during the workweek.

"Playing chicken" by threatening to shut down the government costs "government employees and the community they live in," said Rep. Gerry Sikorski (D-Minn.), who requested the GAO study. "It cost the president over 10 points in the polls and it cost the American taxpayers money."

Experts across the political spectrum agree that the U.S. Treasury reaps no financial benefit when the government shuts down, as it must do if there is no spending authority—either in the form of a temporary continuing resolution, such as the one in effect until 12:01 a.m. Thursday, or standard appropriations bills.

Even so, shutdowns, including the one earlier this month, have not really closed down the government. At most, 500,000 of 2.4 million civilian federal employees have been sent home during previous shutdowns. The rest were deemed "essential" by their departments and agencies.

Since the fiscal year began Oct. 1, Congress has passed and President Bush has signed three "continuing resolutions," stopgap funding measures giving the government authority to spend and borrow money for a limited period to keep the government running until there is a budget agreement.

In theory, the threat of a shutdown is supposed to be enough to force Congress, now Democratic-controlled, and the administration, now Republican, to focus on the budget problem and reach an agreement. Experts disagree, however,

on whether the potential for disruption is sufficient to elicit that cooperation.

The extent a shutdown disrupts the federal government, federal workers and the public is not easy to assess. Part of the calculation is anecdotal: employees who spend time worrying about personal finances rather than doing their jobs or who say their morale has taken a bruising; Americans who have become incensed that the nation's parks, including the Washington Monument, were closed Columbus Day weekend because Congress and the president could not bridge their differences.

The GAO study offers a more concrete assessment of the damage.

Of the \$1.6 million the government lost over the three-day weekend, about \$926,000 was in administrative costs—planning for a shutdown and keeping employees notified of developments. These are expenses departments otherwise would not have incurred.

The Energy Department calculated it spent \$395,000 on administrative costs. The Labor Department reported its administrative costs were \$300,697.

The Interior Department, which runs the national parks, the Smithsonian Institution and the monuments on the Mall, including the Washington Monument, estimated its net loss at \$315,000.

Some departments and agencies offered incomplete explanations for the shutdown costs. The Defense Department did not provide any cost information, citing national security considerations.

Other departments, asked to explain any negative impact from the shutdown, gave the following examples:

- The Department of Education said there were delays in the preparation of year-end financial reports.

- The EPA noted that some work in an emissions-testing lab in Ann Arbor, Mich., was delayed.

- The inspector general's office at the Department of Housing and Urban Development was forced to reschedule a trial in Michigan because a special agent was unavailable to testify.

- The State Department told the GAO that the department's "senior level management is besieged by the endless number of scenarios possible" and that "losses of productivity are widespread."

- The Government Printing Office did not print the Federal Register.

- The Library of Congress prohibited the 1,000 to 1,500 researchers who normally use the library from doing so.

# Compromise considered on tax rise

## Republicans suggest top bracket of 31%

By Peter Osterlund  
Washington Bureau of The Sun

WASHINGTON — Key Republican budget negotiators, aiming yesterday to craft a final, compromise budget package to put before lawmakers this week, seriously considered higher taxes for the top income bracket.

The possibility of such a tax compromise suggested that the end of the year's tortuous budget stalemate might at last be at hand. Sources close to yesterday's closed-door negotiations said that the outlines of a deal had already begun to emerge.

"I hope they'll be able to reach a conclusion by the end of the weekend," House Speaker Thomas S. Foley, D-Wash., told reporters. "I've generally heard that they've been doing well."

Last week, the House and Senate each adopted sharply different versions of a deficit-reduction package that would raise taxes and trim Medicare, agriculture and other benefit programs. Both would serve as the linchpin of a five-year plan to cut the federal deficit by \$500 billion.

The House plan, written by the majority Democrats, would saddle the well-to-do with more of the costs of deficit reduction than the plan endorsed by a slim bipartisan majority in the Senate, which would spread the burden more evenly between the middle and upper classes.

The House bill would boost the top income tax rate from 28 percent to 33 percent, impose a 10 percent surtax on taxable incomes over \$1 million and provide a capital gains tax break targeted to benefit especially the middle class. It also would raise from 21 percent to 25 percent the alternative minimum tax, designed to ensure that higher-income people pay some tax regardless of how many legitimate deductions they claim.

President Bush has said that he would veto the House bill because of its proposed rate changes, which, in total, would increase federal revenues by nearly \$42 billion over five years. But yesterday, Senate Minority Leader Bob Dole, R-Kan., and Sen. Bob Packwood, R-Ore., suggested that Democrats agree to increase the top rate to 31

percent and drop the tax break on capital gains — the profits on investments such as stocks and real estate.

Reports from the negotiations conflicted over the issue of what Democrats had proposed in return. In lieu of the income tax rate increase, some Democratic sources said they were pushing for a 20 percent surtax, proposing to drop the income threshold at which it would apply to \$200,000. Their hope was to persuade Republicans ultimately to accept a 20 percent surtax at \$300,000.

The millionaires' tax would raise an estimated \$7.6 billion over five

years, affecting perhaps 65,000 people, according to the Internal Revenue Service. A 20 percent surtax at the \$200,000 level, on the other hand, would hit about 500,000 couples and individuals.

Other sources said that no such proposal had been put on the table and that the Democrats had not attempted to broaden the 10 percent millionaires' surtax to a larger group of wage-earners.

The back-and-forth over the issue, however, did suggest other areas where the two sides might be able to find a middle ground. The Senate bill, for example, proposed a 9.5-cent increase in the federal gasoline and diesel fuel tax, bringing nearly \$43 billion into federal coffers over five years, while the House bill rejected any such increase.

Sources close to the talks said that House negotiators had accepted a gas tax increase in theory and that the only question was the amount by which the levy would be raised.

Similarly, the Senate would limit the itemized deductions of people with incomes over \$100,000 a year, permitting individuals in that category to write off only 95 percent of their deductions against any part of income that exceeds \$100,000. The limit would not affect deductions for medical expenses, investment interest or casualty losses.

The House bill does not include such a provision, and Democratic leaders are reluctant to include it in the final, compromise bill because they fear alienating voters in high-tax states such as New York that, traditionally, have been Democratic strongholds.

The Senate's proposal, however, would raise \$29.5 billion over five years, and, once again, Democratic leaders in the House appear to have accepted the idea that some kind of limitation will have to be included in the final bill. The only question, sources say, is at what level the ultimate limit will be set.

Tax negotiators met yesterday with White House Budget Director Richard G. Darman and Chief of Staff John H. Sununu. A source close to the negotiations said that they were "proceeding smoothly towards what looks like a conclusion."

But, the source continued, "It will be easier to wrap these negotiations up than it will be to sell the final product to the floor."

Indeed, rank-and-file members of Congress will be asked to approve the deal by midnight Wednesday, at which point the government is scheduled to run out of money again. That will be just two weeks before Election Day.

The House already has rejected one compromise negotiated between the White House and congressional leaders, largely because of provisions that would have increased gasoline taxes and raised the out-of-pocket costs of the Medicare program.

It appears virtually certain that some variant of those same two provisions will be included in the new compromise.

# Come tax time, 'soaking the rich' is difficult: Just who are they?

By Dan Fesperman  
Washington Bureau of The Sun

WASHINGTON — If a tax-hungry Congress ever decides to soak the rich in Lizard Lick, N.C., lots of people everywhere will be in trouble come tax time.

"If you live in Lizard Lick, you're rich if you make \$25,000," surmises semiofficial mayor Charles "Woody" Wood, who is something of a town tycoon with his wrecker service, welding shop and "the world's smallest TV studio" in

his van, where he produces a one-hour weekly show for local access cable in the nearby metropolis of Smithfield.

Mr. Wood's definition of wealth, if perhaps a bit whimsical, points to the question at the center of debate right now among lawmakers and anyone who pays taxes: How rich is rich?

The answer may well determine whose taxes get raised.

To the Internal Revenue Service, the answer is a cut-and-dried matter of tax brackets, which say that, for the 1990 tax year, the rich are individuals making more than \$97,620, and married couples and families making more than \$162,770.

But not so fast. Those numbers can be deceiving when used in arguments because they represent income after deductions and personal exemptions.

A home-owning Baltimore family of four with an income of \$200,000, for instance, would get \$8,200 in personal exemptions this year, and might typically deduct \$12,500 for state income taxes, \$10,500 for home mortgage interest payments, \$6,000 for real estate taxes and \$800 for charitable contributions and other deductions.

Those totals bring the family's taxable income down to \$162,000, meaning that this \$200,000-a-year household would barely escape being labeled rich by the government's only statistical definition.

It is the over-\$200,000 families, then, that the House of Representatives proposes to "soak" by raising the tax rate for their income over that amount to 33 percent. The Senate would leave the tax rate on that income at 28 percent, although it would reduce by 5 percent the amount of deductions that a family can take on any of its income that exceeds \$100,000.

For most of the wealthiest taxpayers, the House plan would produce a bigger tax increase than the Senate plan.

So, then, are families making above \$200,000 per year rich?

Maryland Sen. Barbara A. Mikulski thinks so.

On Thursday she proposed an amendment to the Senate bill that would have raised their tax rates the same as the House bill.

"Let's go and get it from those who've got it," she said. "I think that if you have the opportunity in this country to make over \$200,000, then you ought to accept the responsibility to make sure that this government works."

Jean Adamski, a waitress at the cramped, low-priced Bridge Restaurant in downtown Baltimore, would agree with that definition, and then some.

"When you have \$50,000 in the bank, I assume that's being rich," she said. What about annual income? "In this economy," she said, "you'd have to make at least \$100,000."

Her opinion and a sampling of others from people with varying incomes illustrate a truism about the way people decide who is rich:

It is almost always whoever makes more money than they do.

Tell a family living in Manhattan that \$200,000 a year is rich, for example, and they might disagree. "Of course, in a way it is rich, because it's definitely at the upper end of the income scale," said a Manhattan real estate agent. "But in terms of living well, by the time you buy a home and send two children to private school, it probably doesn't feel that way."

She should know. She's handling the sale of a five-room, two-bedroom apartment with a terrace in a "full service building." Asking price: \$875,000. And that's in the midst of a horrendous price slump in the Manhattan real estate market.

The majority of the members of the Senate probably would agree

with her assessment. They voted down Ms. Mikulski's tax-the-\$200,000-and-over amendment, 55-45.

Perhaps next time around Ms. Mikulski can get them to look at housing prices in Lizard Lick, where Mr. Wood said one can get a comfortable three-bedroom home on a pleasant one-acre lot for about \$75,000. If you really want to show off, you can get a huge place for maybe \$100,000 to \$125,000.

The more Mr. Wood talks about the question of who's rich and who isn't, the more philosophical he gets. For him, he concludes, wealth means staying happy and healthy. But if you're just going to consider income, he said, then the rich are those people "rich enough to be able to hire enough lawyers to keep from paying any taxes."

But the most telling answer to the question "who is rich?" may have come from the Gucci store in Beverly Hills, Calif., on fashionable Rodeo Drive. (Attention, K mart shoppers: That's pronounced "Roe-DAY-oh.") This is a place that deals all day long with rich people.

A store employee named Stuart Lighton fielded our question. "Let me refer you to someone else," he sniffed. "Or you might try Louis Vuitton." (That's another highbrow shop down the drive). He then gave us the phone number for a Gucci public relations woman in New York, who decided she didn't want to answer the question.

Which only goes to show: People who know what rich really is don't want to talk about it.

# Democrats unlikely to prosper with the issue of fairness

By Karlyn H. Keene  
and Everett C. Ladd

**T**he two main political disputes of 1990 — over control of government and over the shape of the federal budget — have been brought together by their coinciding calendars in an explosive mixture.

The talk in Washington now has it that the coming blast, triggered by concerns over "fairness," will probably rock George Bush and the Republicans. The Democrats are, of course, doing their best to see that this happens — and have gotten an unexpected measure of help from the president.

Even so, the underlying frustration moving American voters today — as throughout the year — is something quite different from a sense that the rich have profited unduly during the Reagan years and that they may do so again when and if a budget package materializes.

The cause of voter anger is the sense that the government taxes too much and spends unwisely, fattening all manner of special interests at the expense of the public good.

Elements of this reaction, often referred to as a taxpayers' revolt, have been around for a long time, of course, and ushered in Reaganism a decade ago. But increased tax bites, especially at the state and local level, together with a slowing economy, have been fanning the protest through 1990.

"There's a perception that government isn't working," political analyst William Schneider concludes.

"People are mad at the system, and term limits are the perfect expression of their views."

The manifestations of the revolt are all around — in the widespread push for limits on terms that elected officials can serve, as cited by Mr. Schneider; in tax limitation initiatives; in the wholesale repudiation of the Democratic establishment in Massachusetts last month; in a general surge of "kick the rascals out" sentiment.

The prime target of the voter revolt of 1990 is indeed "the establishment," though not in earlier understandings of that term. It's the establishment of modern U.S. government.

Many Democratic officials and strategists have understood this, though only a few, such as Gov. L. Douglas Wilder of Virginia, have responded directly to its essen-

tial demand. The party's principal response has been to attempt to redirect the protest — away from the establishment of big government, to an older establishment, the rich and privileged.

The political rationale can be grasped by any bright 5-year-old. If the Democrats are the party of establishmentarian government, the Republicans remain associated in the public's eye with privilege. If the year's powerful anti-establishment impulses could be rechanneled against the rich — by arguing, in effect, that both parties want more taxes, but that the Republicans would let the rich escape from them — the Democrats might regain ground lost to the GOP in the 1980s.

Just such a strategy was outlined by Brookings Institution political analyst Tom Mann: "Now I think [the Democrats] can play their 'fairness card' [in the coming elections] and talk about how they couldn't get a deal because they are trying to get the president to tax the rich."

Republicans do suffer from the perception that they favor the rich. When CBS News asked potential voters in 1988 which party would do more for the poor, only 12 percent said the GOP (74 percent, the Democrats). The results for the middle class weren't much better; little more than a quarter (28 percent) said the GOP would do more; 56 percent, the Democrats. The results were reversed for the rich. By 73 percent to 10 percent, Americans thought the Republicans would be more solicitous.

This is hardly new. Franklin D. Roosevelt labeled the Republicans "economic royalists" and "princes of privilege," and a residual suspicion

of the party still exists.

Sensitivity to "fairness" was so acute in the early Reagan years that the White House Office of Policy Information issued two documents about the Reagan record, Fairness I and Fairness II, to address the accusations.

What are the consequences of the perceptions of a GOP tilt toward the rich? If we look at the results of the last six presidential elections, the answer would appear to be "not much." In every election but one, Americans have voted for the Republican candidate who — by poll findings — would appear to be more disposed toward the rich.

This obvious observation is confirmed by other evidence suggesting fairness is not a politically potent weapon. Identification with the GOP is now at record heights, a significant gain for the GOP since the early 1980s. The picture is even more striking among 18- to 29-year-olds, who in CBS data identify themselves as 58 percent Republican, 34 percent Democratic — hardly an indication of significant Republican vulnerability.

The public clearly has a number of different standards for assessing the parties. The GOP still leads the Democrats as the party best able to manage the economy and the nation's defense; the Democrats lead on fairness. Presidential voting and party identification trends suggest that the GOP's overall advantage is the greater one.

Another reason the issue may have little political punch is that while most Americans don't consider themselves rich (fewer than 1 percent, according to a May 1990 poll), many think they — or their children — could be someday. Nearly six in 10 Americans told Gallup in May



ASSOCIATED PRESS/1943

**FRANKLIN D. ROOSEVELT**  
Called GOP "economic royalists."

that if they had a chance, they would like to be rich. Nearly one-third of Americans felt they could be. While two-thirds believe that wealth should be distributed more evenly, 63 percent responded to another question that America benefits from "having a class of rich people."

The lack of resentment in our society makes efforts to polarize the political debate fall flat.

It's worth noting that Americans are very different in this respect from others. In a similar survey of eight countries by the National Opinion Research Center in 1987, a smaller percentage in the United States than in any other country surveyed felt that income differences in their societies were too large. 58

percent in the United States compared with 76 percent in both Britain and West Germany, 87 percent in Italy and 90 percent in Austria.

Another reason the administration might not take a hit from the fairness charge is that the difference between rich and poor Americans in their evaluations of the Bush presidency is modest — in other words, he is not polarizing. If we look at the votes in 1988, all income groups save the lowest — those under \$24,999 — voted for George Bush.

And, about those polls showing Mr. Bush dropping to his pre-Iraq approval ratings, Mr. Bush is still the most popular president in the history of the Gallup Poll at the end of his 21st month in office.

Still another reason why the GOP may not be vulnerable to charges of being unfair relates to changing conceptions of the idea of fairness itself. According to sociologist Daniel Yankelovich, Americans are pulled back and forth between two competing visions of fairness — the idea of helping the deserving and the idea of entitlement. The former is associated more with the Republicans, the latter with the Democrats.

In a time of economic unease, when Americans know they can't afford to pay higher taxes to help others, they are pulled more toward the Republican vision. That's where they are today. The Democrats are still associated with excessive entitlement spending, and that negative may blunt GOP problems.

Looking at the tax issue itself this year, it clearly cuts both ways. Just as the GOP has problems in terms of providing tax breaks for the rich, the Democrats have problems of being too willing to spend — and to tax all Americans to pay for it.

The public would rather tax the

rich than the middle class, and polls show widespread support for the proposition that the rich aren't paying their fair share of taxes. This fall the Republicans gotten themselves caught in a situation in which they are being successfully portrayed as the party willing to bend on tax increases — for everyone but the rich. Score one for the Democrats.

But the public is simply fed up with fiscal mismanagement in Congress and wants to hold the line on taxes. Blame is passed around. Radio talk show hosts report that Americans are spontaneously mentioning Congress' willingness to raise its salary while not addressing budget problems.

While 56 percent of Americans approve of the job George Bush is doing in the ABC News/Washington Post poll of Oct. 10-14, far fewer — 34 percent — approve of Congress' performance — a record low in the poll. In a CBS/New York Times poll taken Oct. 7, only 32 percent of Americans felt that Congress was likely to come up with a plan that would be "fair to people like you"; 53 percent said that was unlikely. Score one for the president.

The idea of a polarized electorate, split along class and income lines, seeing unfairness in the activity in Washington in the last few weeks, may be compelling and provide much provocative journalistic hype, but it simply isn't valid.

The GOP does have some problems with fairness — as the Democrats do with excess. The effort to rechannel anger from the modern big-government establishment to the older establishment of the rich is a political tactic, plain and simple. Nov. 6 will give us some clues on its success.

# Safe seats fail to make for courage on issues

By Dan Fesperman

Washington

**N**o guts, no budget. That was the story this past week from Capitol Hill, where the political courage of members of Congress seems to have become inversely proportional to their ability to get re-elected. The safer they become, the more timidly they cower in their corners, unable to reach any consensus

that carries the slightest twinge of pain to voters or contributors.

"They're guided by sheer, unshirted fear," said Ross Baker, a Rutgers University political scientist. "They're paranoid about elections that they have no reason to fear."

As the irrational fear grows, judgment wavers. Votes flop back and forth. Indecision and paralysis reign — all of which infuriates constituents and contributors, and in turn makes the fear stronger.

The result? The lawmakers bend to every breeze of public sentiment that drifts their way. "You don't have members really responding to a coherent set of principles as much as to a galaxy of special interests," Mr. Baker said. "And as e.e. cummings once said, 'if you stand for nothing, you can be toppled by a slogan.'"

That's the way it goes with fear. But is it that irrational? What about the "throw the bums out" movement supposedly sweeping the country?

Members of Congress have picked up the theme along with everybody else, said John A. Marini, a political scientist at the University of Nevada-Reno and co-author of the 1989 book, "The Imperial Congress." "You see a lot of them running 'against the system,'" he said, and so far voters haven't seemed "to make the connection that these [members of Congress] are the people doing what they say is being done by 'the system.'"

Even where voters regard the local Honorable as some kind of bum, opposition is often invisible. The reform-minded Common Cause organization took a look recently and found that 95 percent of the 405 incumbents running for re-election were either unopposed or faced "financially non-competitive" challengers.

Thus, victory margins in congressional races are at an all-time high. The only incumbent who lost in the latest primaries was a 59-year-old Ohio Republican convicted of having

sex with a 16-year-old girl.

So then why all the fear?

First, the comfortable party support systems of old have declined. At one time the party offered members help at election time, whether in money or in workers. That bolstered courage to go along with the sometimes politically unpopular plans of party congressional leadership.

"They were backstopped by the party, which now and then would say, 'Go ahead, take a chance, we'll

be there if you need help,'" Mr. Baker said. "Now they are their own last line of defense, so they hesitate to risk offending anybody."

"It is subjective vulnerability," said Thomas E. Mann, director of governmental studies for the Brookings Institution. "To the extent they do something that is out of synch with public sentiment, they believe they provide an opponent an opening at some future point."

Speeding this erosion have been the quick-buck contributions of special interests. This money is cheaply obtainable with a few big-ticket Washington fund-raisers, and it's the main reason incumbents so easily outspend challengers. But it also obligates the lawmakers to a second, more vengeful constituency.

Naturally, these contributors expect a willing ear and favorable votes for their money. "This works pretty well for these organized interests," Mr. Marini said, "but it doesn't work very well for the general public."

But even if a lawmaker's vote offends a contributor, monied interests these days often seem reluctant to back challengers of either party.

Campaign terror lurks nonetheless. "Intellectually they understand they have nothing to fear," Mr. Baker said. "But there's always that one hypothetical opponent out there, that strong charismatic state senator or that popular insurance commissioner."

And feeding this fear is the nightmare specter of a negative television advertising campaign. "The examples of the media blitzes that have turned around opinion in individual districts and states carry a lot of weight," Mr. Mann said. "It reinforces their belief that lightning can strike at any time."

Structural changes in Congress over the years haven't helped make members courageous, either. The once-centralized committee system has split and multiplied like a swarm of microorganisms, leaving the dominant party to divvy up chairmanships of 51 committees and 244 subcommittees.

That fragments the power of leadership, and with so many chieftains at work, the desire to wield influence seldom seems to go beyond parochial interests. "The norms of the institution have changed so much that just about everyone now is a pork barrel," Mr. Marini said, "and no one wants to be a leader. . . . They can do pretty well just functioning as independent entrepreneurs."

And when all the chairmen start getting grabby, each one's self-serving dose of mini-power can affect the body of Congress like a muscle relax-

ant, leaving the institution limp and unable to move forward.

Some argue that any change eroding the old power of the bosses is beneficial. Indeed, power is now shared more readily with representatives of previously ignored parts of the electorate. And what can be so bad, after all, if a congressman becomes more responsive to his constituents, even if it makes him a little squeamish now and then?

But with all the other factors thrown in, critics say, the extra sensitivity easily degenerates into paralyzing fear. The result is a mess such as the one over the budget.

Wait a minute, says Mr. Mann, flashing a beacon of hope through the haze. No matter how wishy-washy members of Congress have become, he says, don't judge the present Congress until it's finished work on this year's legislation.

"The logjam seems to have been broken on child care legislation. We may well get a Clean Air bill. And if we get a major deal on the budget and taxes right before an election and in the middle of an economic slowdown, it will be quite remarkable," he said. In the end, "This Congress may not look so bad."

Mr. Baker is not so optimistic. Don't look for decisiveness in Congress any time soon, he said. "In fact, things are going to get worse."

Sunday, October 21, 1990

# Soc Sec measure bad news

## More may lose city jobs

By **MARCIA KRAMER**

Daily News City Hall Bureau Chief

President Bush and Congress are poised to enact a change in Social Security legislation that would add another \$225 million to the city's budget gap next year.

The move could force the Dinkins administration, already considering at least 15,000 layoffs to close budget gaps, to give pink slips to another 8,000 workers, city budget officials said.

The change in legislation reflects a desire to force workers not in the Social Security system to join, swelling contributions to the Social Security Trust Fund — and helping to lower the federal deficit. This would happen because the Social Security system takes in more money than it has to pay out annually, and the surplus is used as a budget-balancing gimmick.

### Pay up or else

The effect would be to force nearly 50,000 city employees — provisional workers who have not had to join the Social Security or city pension systems — to begin making weekly payments to the federal government for old age and disability insurance. The provisional workers have jobs because of patronage and because the city hasn't offered Civil Service tests for

the slots.

Employee contributions must be matched by the employer — in this case the city — which would pay 6.2% of earned wages up to a maximum of \$51,300 a year per employee.

The increased costs would be \$225 million for the fiscal year starting July 1, said city Budget Director Philip Michael.

### 'On our backs'

"They're trying to balance their budget on our backs," Michael said.

The city is struggling with an economic downturn that has lowered tax revenues, higher prices caused by the Persian Gulf crisis, unsettled labor contracts and investor uncertainty because of a warning by Wall St. agencies that its bond rating is in jeopardy.

If the plan went through unchanged, it would increase the size of next year's budget gap to \$1.6 billion. The gap in the current budget is \$300 million and would increase by an undetermined amount.

Brad Johnson, New York State's chief lobbyist in Washington, said the state also would have to shell out an additional \$20 million to \$35 million because of the change.

### Almost a sure thing

Judy Chesser, the city's chief Washington lobbyist, said she is pessimistic that the provision will be defeated because it was in both budget bills under consideration.

The House version, she said, would start the program in January, while the Senate version would begin it a year later.

Chesser said her best hope is to try to convince Congress to phase in the program over three years.

"That would spread our pain out somewhat," she said, noting that it would then cost the city about \$30 million in 1991, \$60 million in 1992 and \$100 million in 1993.

# Chicago Tribune

Sunday, October 21, 1990

## Bush seeks way out of corner

By Timothy J. McNulty  
Chicago Tribune

WASHINGTON—The political drama of the White House pitted against Congress over taxes is being played out again this weekend as President Bush hopes to regain the initiative on domestic policy.

With Democrats and Republicans locked in the closing struggle to reach a budget agreement that would satisfy the White House, Bush acceded to the lawmakers' request late Friday to continue government operations five more days while they negotiate.

But as negotiators were predicting an agreement could be reached before Monday, the president clearly remained on the defensive on the budget and tax issue despite what his spokesman described as his efforts to "cajole, threaten, push and shove to get the legislation."

Bush intends to spend 12 of the next 16 days campaigning for Republican candidates, but the bickering and hesitation in the budget process has taken a toll on presidential prestige as well as on congressional incumbents who worry that their chances for re-election have been damaged in this drawn-out process.

So far Bush has been outmaneuvered by the Democrats and wounded by his own failure to articulate what he really wants in the budget. More than that, the president faces other domestic issues where his position is best described as backed into a corner.

On Friday afternoon, civil rights marchers joined three groups of federal employees picketing for a budget compromise outside the White House while administration officials tried mightily to find an agreement that would be acceptable to Bush, an effort that failed.

Congress completed work Friday on a civil rights minority-hiring bill, but Democrats planned to wait until Monday to send the measure to the White House in order to achieve maximum publicity and embarrassment for Bush, who has vowed to veto it.

Officials said Bush will immediately propose an alternative version. "We will staple our new bill to the veto message and send it right back up," said White House spokesman Marlin Fitzwater.

Although Bush presumably could overcome a veto override, it is politically damaging and Republican policymakers think that a veto would seriously hurt his efforts to court minority and women voters.

The administration's main objection to the civil rights legislation is that it would make it easier for women and minority workers to bring discrimination suits against their employers. That, the White House contends, essentially would

Continued from page 1

force employers to use quotas in hiring to avoid expensive lawsuits.

It's also possible Congress will send Bush a clean-air bill with what he considers an objectionable provision about jobs in it. That would force the "environmental president" to veto the nation's newest environmental legislation and embarrass him further.

Presidential objections to the civil rights and clean-air bills add to complaints by Bush's critics that he is defending rich business interests who believe the legislation will cost them money.

It also compounds the overarching problem Bush already has with presidential opposition to the budget and the perception that he wants to sustain tax breaks for the rich and increase the tax load on the middle class.

Fitzwater railed that "Democratic political ballyhooing" is trying to nurture the idea that the Republican Party is the party of the rich. And they seem to have been successful in promoting that perception.

Bush went on the offensive last week, claiming Democrats were using "Washington doublespeak" when they called for "soaking the rich" by raising tax rates for the wealthiest Americans.

But Democratic Party Chairman Ron Brown shot back: "This debate is about who pays for the folly of the 1980s. Democrats will not allow the budget to be balanced on the backs of working Americans."

Ed Rollins, co-chairman of the national Republican congressional committee, sent a letter to GOP leaders last weekend outlining a very pessimistic view.

"It suggested the apocalypse is about to happen," said one recipient. "The best-case scenario has us losing 15 seats. This whole budget deal is death for the party."

When Bush refused to sign a temporary spending bill and allowed the government to shut down over the Columbus Day weekend, a Republican strategist had eagerly anticipated a presiden-

tial veto on a similar measure this weekend.

"People love it when the government shuts down," said the party official.

Two weeks ago, the conventional idea was that such a veto and the eventual forced compromise would show decisive leadership on Bush's part as well as make his partisan point against the Democrats on Capitol Hill.

"But the whole dynamic has changed," said the party strategist, reflecting on events of the past two weeks. "With the Republicans splitting and Bush going back and forth and all this infantile behavior emanating from Washington, the question the country seems to be asking is whether anybody in Washington is competent."

Conservative Republicans, such as Daniel Mitchell, a senior fellow at the Heritage Foundation, are urging Bush to go even further and allow the budget sequester, which would mean a 40 percent across-the-board cutback in the federal government. That would define the issue in the starkest tax or no-tax terms, they believe, and help the president and Republicans regain their previous no-new-taxes stand.

"That's the cut-off-your-nose-to-spite-your-face crowd," said the party strategist, who nonetheless concedes that party regulars fear they have lost their main identifying issue in this election and the next one.

While the domestic fight boils, the president also is fighting rear-guard action in foreign fields, especially maintaining cooperation in the Persian Gulf against what Secretary of State James A. Baker III called the "siren song" of appeasement.

During two days of testimony on Capitol Hill last week, Baker was questioned repeatedly about whether the U.S. might be slipping toward a war in the Middle East that few want or are prepared to accept. And there was pressure from abroad to consider some peace feelers by Iraq.

Bush did not hesitate in foreign policy as he did on the tax issue, and he vowed anew that Iraq's aggression and takeover of Kuwait will "not be rewarded by some compromise."

Sunday, October 21, 1990

# Not new taxes, just more

## Federal jaws sure to take bigger chunk from many

By **ROBERT RANKIN**

Knight-Ridder Newspapers

WASHINGTON — Your federal taxes are going to go up next year unless you make less than \$20,000. And the more you make, the bigger the bite the taxman will take out of your earnings.

That's sure to be true — with one exception — no matter how House and Senate negotiators split their differences as they close in on the final version of the deficit-reduction bill.

Both versions have enough common features that one can tell how bad much of the tax bite will be for most Americans.

Steve Sixpack, for instance, makes \$25,000 a year. The House bill would raise his taxes on average by \$50, the Senate's by \$140, according to data from the nonpartisan Joint Taxation Committee of Congress.

### It depends. . . .

Depending on how much Steve smokes, drinks and drives, he could raise or reduce his tax bite some.

Marilyn Middleclass and her husband both work; together they pull in \$65,000. They would pay Uncle Sam an extra \$220 next year if the House prevails, or \$282 under the Senate bill.

The one exception to the rule that the more you earn, the more you pay is for Cary Comfortable, who earns \$150,000. Thanks to some complex provisions of the House bill, her taxes would go up by only \$280 — compared with the \$330 increase the House bill would impose on someone earning \$90,000.

However, the Senate bill would sock Cary for \$1,259.

And because Democratic negotiators from both sides intend to improve the progressivity of tax rates in whatever final compromise they strike, Cary's anomalous House break is probably doomed.

Cary will get off easy compared to Byron Bigbucks, however.

Byron's going to get slammed. But he can afford it; he makes \$250,000 a year. That puts him in a new tax category for everyone making \$200,000 or more.

### That'll be 10G

If the House prevails, taxpayers in Byron's category would have to fork over an extra \$10,031, on average. However, the biggest part of that comes from raising his tax rate to 33% from its present 28%, and President Bush won't stand for that.

By contrast, the Senate bill socks Byron and his classmates for only \$5,118 on average. In the spirit of compromise, Byron and his ilk probably will end up paying somewhere between \$5,000 and \$10,000 each in new taxes.

Byron may think that's outrageous, but even the House would raise his tax burden by only 7.4%, on average. Over the previous decade, his tax burden was cut by 14.4%.

Some taxes in both bills are certain to remain unchanged and would hit Steve, Marilyn, Cary and Byron regardless of their abilities to pay.

### Reason to quit?

For example, cigaret taxes will go up 4 cents a pack in 1991 and again in 1993, both for Steve's Marlboros and Byron's French Gauloises. Similarly, Steve will pay the same 16-cent tax increase for a six-

pack of Budweiser that Byron will for his Heineken. And whether it's Gallo or chateau-bottled Pouilly Fuisse, the tax on table wine is going up, probably by 20 cents a bottle, splitting the House-Senate difference.

In the end, Byron Bigbucks will be the big loser under either plan. The House would raise his tax rate to 33% and boost his alternative minimum tax rate — which he must pay if he takes big deductions — to 25% from the current 21%.

The Senate would clip his itemized deductions by \$500 for every \$10,000 he makes above \$100,000. And both bills would make him pay a 10% luxury tax for expensive furs, cars, boats, jewelry or airplanes.

So Byron's current average tax rate of 25.2% can only rise — to 26.1% under the Senate plan, or to 27.0% under the House's.

Yes, Byron, the '80s are over.

# President Signs Bill Averting Shutdown

*Conferees Have Until Wednesday to Reach Deal*

By John E. Yang  
Washington Post Staff Writer

House and Senate negotiators yesterday embarked on the mission of settling the details of a deficit-reduction plan as President Bush extended the deadline through Wednesday by signing a stopgap spending bill.

Conferees planned to work through the weekend to try to reconcile two widely divergent packages of tax increases and benefit-program cuts into one measure acceptable to majorities of the House and Senate, to Bush and, with Election Day barely two weeks away, to the American voters.

As bargainers met on Capitol Hill, the Senate gave final congressional approval to a stopgap, omnibus spending bill that would keep the federal government running at full force through Wednesday. The House had approved the measure Thursday night, 379 to 37.

Earlier this week, Bush vowed not to accept another short-term funding bill if Congress had not enacted a deficit-cutting plan by last night, when temporary spending authority was set to expire. But yesterday, Bush signed the measure, averting the second government shutdown in three weeks.

"What I'm trying to do in the last ... few hours of this Congress is say, 'Look, let's put the people's business first,'" Bush said yesterday at the White House. "Let's lay aside this political rhetoric and get a job done that should have been done long ago." Bush spent four days this week on the campaign trail lashing out at congressional Democrats.

Later, the president went to the Capitol to get a progress report from congressional leaders. "I'm here to discuss ... what we can do at the White House to help move the process forward," Bush told reporters. "I'm really just here to say ... we agree to finish the job."

During the meeting, Bush pressed lawmakers to see if they could finish work on the five-year, \$500 billion deficit-reduction plan by last night, participants said. Senate Finance Committee Chairman Lloyd Bentsen (D-Tex.) replied that Sunday was more likely. But even that target is optimistic, observers said.

The difficulty of the task facing the congressional bargainers is reflected by the differing natures of the House and Senate votes narrowly approving their significantly different deficit-cutting packages.

Early yesterday morning, the Senate passed its compromise measure on a 54 to 46 vote with a slim majority of both Republicans

and Democrats supporting the bill. Tuesday night in the House, on the other hand, only 10 Republicans joined 217 Democrats to narrowly pass, 227 to 203, the House version, which had been crafted by Democrats.

Three major issues face the lawmakers: how much savings to achieve from Medicare, how much to raise the federal gasoline tax and how to target the wealthy for higher taxes.

Bargainers yesterday made little progress on these matters. One administration aide said early yesterday that reaching a compromise acceptable to both chambers and the administration would be "nearly impossible."

Many Senate Democrats want to move toward the House package, which targets tax increases at the wealthy, contains a smaller savings in the Medicare program than the Senate measure and would not raise the 9-cents-a-gallon federal gasoline tax, as the Senate bill would. But doing that would threaten to lose Republican support in the Senate.

"We have very little wiggle room," said Senate Minority Leader Robert J. Dole (R-Kan.), one of the tax negotiators. "If you move too far in one direction, you lose 10 Republicans, and the bill is dead. If you move too far in the other direction, you lose 10 Democrats, and the bill is dead."

But moving too far toward the Senate package, which relies heavily on higher excise taxes, would imperil the measure in the House. Given the current state of partisan strife in that body, "We're going to have to come up with a package that commands a large number of Democratic votes," said House Majority Leader Richard A. Gephardt (D-Mo.).

"This is all a balancing act," said Rep. Lawrence J. Smith (D-Fla.). "Nobody knows where the lever is."

Finding the political and fiscal balance between the two measures is up to 53 senators and 51 members of the House who are members of the House-Senate conferees committee. It is a formidable task. The Senate bill alone is hundreds of pages long, stands six inches high and weighs 13 pounds.

The full 104-member conference

probably will not meet until the end of the process, if at all. Instead, nearly two dozen groups are meeting to work on various provisions of the massive legislation, ranging from taxes and Medicare to farm subsidies and fees for weather forecasts.

Lawmakers yesterday agreed on many of the less controversial issues, including \$1.7 billion in cuts in student loan programs over five years, half to come from putting a cap on schools with high default rates. House negotiators agreed to drop criminal penalties and floors on fines for occupational safety violations.

Other meetings lagged. At a session on the long-stalled issue of child care, House Education and Labor Committee Chairman Augustus F. Hawkins (D-Calif.) objected to a Senate package.

He asked if the Senate member had come to negotiate or "is this take it or leave it. If it is the latter, then we're just wasting time. I'm ready to leave." Sen. Orrin G. Hatch (R-Utah) urged Hawkins to accept the measure, calling it "a monumental achievement" to get the administration this far. The meeting adjourned until today.

Much of the real negotiating is done by a handful of key lawmakers. For instance, 14 lawmakers are formally assigned the task of settling the details of the tax component. But the real decisions are likely to be made by Bentsen and House Ways and Means Committee Chairman Dan Rostenkowski (D-Ill.).

Although administration officials have no formal role in the process, their views are being made known.

Yesterday, for instance, Treasury Secretary Nicholas F. Brady and Office of Management and Budget Director Richard G. Darman were on the Hill for what Darman said were "private meetings," which just happened to be in the anteroom of the House Ways and Means Committee hearing room as the tax negotiators held their first meeting there.

Staff writers Dan Balz and Steven Mufson contributed to this report.

# Bush Caught Between Conflicting Constituencies

By E.J. Dionne Jr. and Thomas B. Edsall  
Washington Post Staff Writers

Bitter disputes over new civil rights legislation and the federal budget are forcing a reluctant White House and the Republican Party to confront the tensions between President Bush's election tactics and his governing strategy.

Those tensions help explain why the last two weeks have been so miserable for Bush. He has discovered that constituencies that got along famously when Ronald Reagan was president and during his first 18 months in office have some irrepressible conflicts with each other.

The Republicans find themselves caught between socially conservative working-class whites who are showing growing resentment of blacks and a more affluent constituency that looks kindly on civil rights and other forms of social liberalism.

For more than two decades, Republicans have held this unlikely alliance together by

**NEWS  
ANALYSIS**

mixing anti-government themes with opposition to taxes and enough social conservatism to keep the working-class wing of the party happy. Bush's 1988 campaign neatly embodied this mix of messages in the slogan "no new taxes" and in the person of Willie Horton.

The Republicans' problems began last June when Bush abandoned the no-new-taxes pledge. Once the president accepted the need for new taxes, the debate shifted to ground congenial to the Democrats—not whether taxes should rise, but who should pay them.

Now, faced with the prospect of losing control of the national budget debate to Democrats using a "tax-the-rich" theme, some Republicans believe it is more important than ever to revive the old social conservatism in a new form. They are trying to highlight Democratic vulnerabilities ranging from the decay of crime-ridden New York City to the prospect of court-imposed racial quotas and what House Minority Whip Newt Gingrich (R-Ga.) refers to as "the corrupt liberal welfare state."

These Republicans would welcome a Bush veto of the civil rights bill, since a veto would highlight a key social issue—quotas—and help to undermine the Democrats' efforts to develop a biracial, class-based appeal to the lower and middle-income groups.

The president's political problem is that his electoral coalition de-

pends far more than Reagan's on suburban upper middle-class voters who are offended by attacks on civil rights. Bush's political persona, moreover, has been that of a "kinder, gentler" healer who wanted to take the rough edges off the Reagan years.

The kinder, gentler approach runs headlong into the much less gentle reality of Republican strategy for the past generation. Central to GOP presidential triumphs, including Bush's, has been the Republicans' ability to polarize the electorate along lines guaranteeing them a majority: Taxpayers against public employees and the recipients of government help; crime victims and those worried about crime against civil libertarians; and, ultimately, whites against blacks and other minorities seeking state protection.

Opposition to taxes was the linchpin of this approach. It maintained the Republicans' fragile alliance between white working-class voters on the one side and business and the affluent on the other.

The wealthy, whether socially liberal or not, have almost always welcomed low tax rates. But in the 1970s, lower middle-class and working-class whites joined the anti-tax coalition as inflation drove up their tax bills and as they came to see government as primarily helping those at the bottom of the economic ladder.

When he dropped his tax pledge, Bush fractured that alliance, and struck it another blow when he endorsed taxes that would fall heavily on people of modest income. This provided an opening for Democrats to portray Bush and the Republicans as friends of the wealthy and enemies of the middle class.

Republicans as diverse as Reps. Gerald B. H. Solomon, a conservative from New York, and Jim Leach, a liberal from Iowa, expressed alarm that their party was once again being tagged as a haven for millionaires. Even Gingrich is worried. "If you go anywhere in America and say to people, 'If we have to raise taxes, would you rather raise taxes on the rich?' they always say yes," Gingrich said.

For Republicans, one way out of the political morass could involve vetoing the civil-rights bill to shift

the national political agenda to issues more favorable to the GOP—issues such as racial quotas.

Republican strategists were well aware even before David Duke's strong showing in the Louisiana Senate contest that racial tensions in the United States are high. Linda DiVall, a Republican pollster, said that in focus groups, white voters have been "pretty visceral" in their reactions to blacks.

"There are a lot of middle-class whites who think that blacks are getting too many preferences and 'handouts,'" she said. "They feel that they're not getting any help in terms of tuition assistance or other government programs."

DiVall, who is quick to note that her clients have not been using racial issues in their campaigns, added that such views are being expressed

---

*"There are a lot of middle-class whites who think that blacks are getting too many preferences and 'handouts.'"*

—GOP pollster Linda DiVall

quite openly. "There are no code words," she said. "They're talking about 'too much aid going to them, too much aid going to people who don't work hard.'"

A veto of the civil rights bill could play right into these feelings and might thus benefit Republicans, at least in the short term. But that worries Republicans like Leach, an early Bush supporter who epitomizes the moderate-liberal wing of the president's electoral alliance. Leach and like-minded Republicans think that the last thing a beleaguered president needs now is a

fight with black Americans and the civil rights leadership.

For his part, Gingrich has tried to shift the discussion by emphasizing the failures of "welfare-state liberalism," especially in big cities like New York that have long been bastions of Democratic control.

Appearing earlier this week on the CNN program "Crossfire," Gingrich argued that the Democrats' position made sense only "if you believe in the welfare state, if you believe in the bureaucracy of New York City and if you're clever enough to convince the Democratic Party nationally to raise taxes on everybody in America to prop up Mayor Dinkins and his bureaucracy."

New York's Mayor David Dinkins is black and Gingrich's comment drew a sharp retort from Rep. Charles E. Schumer (D-N.Y.). "They often run to the race card when they don't have anything else," Schumer said of the Republicans. "Newt was losing on the tax issue, so he brought up David Dinkins."

Gingrich, who has called on the Republicans to recruit black candidates and appeal more aggressively to black voters, replied that the issue was not Dinkins' race but the "collapse of the welfare-state system" in New York City.

In the meantime, Republican strategists believe they have workable approaches well short of "playing the race card." Gingrich predicted that once Congress had passed a budget and left town, Bush would renew his attacks on the Democrats' free-spending ways and argue that he had agreed to new taxes only because the Democrats had insisted on them as the price of reaching a budget agreement.

But even this argument carries dangers for Bush. It implies that Congress, not the president, is in control of national policy. And as Jimmy Carter learned, presidents who do not appear in control of the government are rarely appealing to the American electorate.

# Bush OKs funding to keep U.S. going

By Robert Dodge

Washington Bureau of The Dallas Morning News

WASHINGTON — President Bush, pleased with progress by Congress in writing a budget, signed a short-term funding measure Friday to keep the government running for five more days.

The president also visited Capitol Hill and thanked congressional leaders and 23 Senate Republicans for passing two deficit-reduction plans, which they must now merge to get a budget. Earlier this week, Mr. Bush had said he would not renew the government's spending power without a completed budget.

"I sense the determination to get the nation's business completed, and that's good," the president told reporters after meeting with leaders of both parties.

The stopgap spending measure gives congressional negotiators some breathing room as they try to compromise on two widely different approaches to cutting the deficit that were adopted by the House and Senate. But leaders acknowledged that they have little room to maneuver as they confront partisan differences on taxes and spending.

"I think that people recognize that more important than any individual getting it exactly his way, including the president, is to get the nation's business going forward," Mr. Bush told

lawmakers, apparently showing some flexibility to get the five-year plan completed.

He signed the stopgap spending measure after the Senate voted 54-46 to approve its version of the \$500 billion deficit-reduction package about 1:30 a.m. Friday. The House approved its version Tuesday.

Without the interim funding, the government would have run out of money at midnight Friday, prompting a government shutdown like the one two weeks ago.

Even with the shutdown averted, lawmakers said they planned to work through the weekend. Some said they hoped to finish work by late Sunday so the full House and Senate could ratify changes and send the budget to the president by Wednesday, when the new emergency funding measure expires.

Approval by the Senate of the tax-and-spending package came after party leaders flexed political muscle during 29 hours of debate Wednesday and Thursday. They managed to fight off a plethora of amendments that they said would destroy fragile bipartisan support for the package.

After close votes in both the House and Senate, leaders acknowledged Friday that they face a difficult weekend task in ironing out

differences between the versions.

"We do not have much flexibility on the Senate side," said Minority Leader Bob Dole of Kansas, noting the narrow, eight-vote spread in that chamber. "I felt like I had taken a cold shower when I took a look at that final vote tally and saw there was only an eight-vote difference."

The most difficult tax issues will be resolved by a joint House and Senate conference committee led by Rep. Dan Rostenkowski, D-Ill., chairman of the House Ways and Means Committee. Its co-chairman is Texas Sen. Lloyd Bentsen, chairman of the Senate Finance Committee.

Another Texan serving on the panel is Rep. Bill Archer of Houston, the ranking Republican on the Ways and Means Committee. Rep. Jake Pickle, D-Austin, has been asked by Mr. Rostenkowski to consult with the committee on Social Security issues.

The conference committee, which also will consult with senior administration officials, held its first meeting Friday. But negotiators met only long enough to hear a list of issues to be considered — and to pose for television cameras.

Indeed, Friday was more a day for photo opportunities than decisions. It was a time for lawmakers, who are worried about the Nov. 6 election, to take some credit for their work after weathering public outrage over their inability to tend to fiscal matters.

Conferees were unwilling to tip their hands by outlining negotiating positions.

Even so, Mr. Bentsen said he wanted to see the final package move closer to the one approved by the House. That means shifting more of the new tax burden to the wealthy than is called for in the current Senate version.

"The Senate bill is a compromise," said Mr. Bentsen, a key author of the package. It "is not what any one of would have drafted." He noted that his first proposal would have raised income taxes on the wealthy.

Aides said Mr. Bentsen and Mr. Rostenkowski have been meeting regularly as the House and Senate considered the budget and have a good idea what each would like to see in the final package. But before they can hammer out the particulars, other negotiators must be consulted so that they can begin building the bipartisan support needed for approval in both chambers.

Democrats would like to cut the Senate version's 9½-cent-a-gallon gasoline tax, which would reduce some of the burden on the middle

## THE BUDGET CONFEREES

Eleven members of the Senate Finance Committee and five members of the House Ways and Means Committee are meeting as a joint conference committee to reconcile conflicting House and Senate budget plans.

**Senators:** Democrats Lloyd Bentsen of Texas, David Boren of Oklahoma, David Pryor of Arkansas, George Mitchell of Maine, Daniel Patrick Moynihan of New York and John D. Rockefeller IV of West Virginia; and Republicans John Danforth of Missouri, Bob Dole of Kansas, John Chafee of Rhode Island, Bob Packwood of Oregon and William Roth of Delaware.

**Representatives:** Democrats Dan Rostenkowski of Illinois, Thomas Downey of New York, Sam Gibbons of Florida, Fortney "Pete" Stark of California; and Republican Bill Archer of Houston. Mr. Rostenkowski also asked Democrats Andrew Jacobs of Indiana, J.J. "Jake" Pickle of Austin and Henry Wax-

man of California to join the negotiations.

Mr. Rostenkowski, chairman of the House Ways and Means Committee, and Mr. Bentsen, chairman of the Senate Finance Committee, are central figures in the conference.

As chairman of the Ways and Means panel, Mr. Rostenkowski, 62, largely shaped the budget plan the House adopted this week, calling for higher taxes on the wealthy. Mr. Rostenkowski, bred in the Chicago ward politics of Mayor Richard Daley, is a powerful, hard-nosed politician.

Mr. Bentsen, 69, shares Mr. Rostenkowski's desire for an income tax increase on the wealthy. However, he had to compromise on that point to win Republican support in the more closely divided Senate, and will most likely have to compromise with the White House. Mr. Bentsen was raised among the gentry of the Rio Grande Valley of Texas and became an insurance millionaire.

*The Dallas Morning News*

**"I think that people recognize that more important than any individual getting it exactly his way, including the president, is to get the nation's business going forward."**

**— President Bush**

class.

They also would like to eliminate the House version's one-year delay in raising income tax brackets, which also hits middle-income earners.

That lost tax revenue would be replaced by raising the 28 percent tax rate on the wealthy closer to the 33 percent paid by the middle class. Or conferees could increase revenue through a surtax on earnings above \$1 million, adopted by the House, or a limit on itemized deductions on income above \$100,000,

adopted by the Senate.

In crafting a compromise, negotiators will be walking a delicate line between strongly held Democratic and Republican beliefs about taxes and spending. They are doing so in a crisis atmosphere and with less than three weeks remaining before the election.

If the package moves too far from the current House version, the Democratic majority that approved the budget is likely to defect. And if negotiators push too much to raise income taxes, they will lose the Republican support that is critical in the Senate and for Mr. Bush's approval.

"The fight is about how much we can move the package our way," said Rep. David Obey, D-Wis.

Rep. Charles Rangel, D-N.Y., added: "If a package is going to pass in this House, it's going to involve the rich. What we're saying is, 'We're not going to have a package unless the free ride for the rich is over.'"

Staff writer Susan Feeney contributed to this report.

# The bottom line is about to shift

## Higher taxes to be common complaint

By Robert A. Rankin

*Knight-Ridder Newspapers*

WASHINGTON — Your federal taxes are going to go up next year unless you make less than \$20,000. And the more you make, the bigger the bite the tax man will take out of your earnings.

That's sure to be true — with one exception — no matter how House and Senate negotiators split their differences as they close in on the final version of the deficit-reduction bill.

Both versions have enough common features that one can tell already how bad much of the tax bite will be for most Americans.

Steve Sixpack, for instance, makes \$25,000 a year. The House bill would raise his taxes on average by \$50, the Senate by \$140, according to data from the non-partisan Joint Taxation Committee of Congress.

Depending on how much Steve smokes, drinks and drives, he could raise or reduce his tax hike somewhat. But unless he's a teetotaling pedestrian, he'll pay more.

Marilyn Middleclass and her husband both work; together they pull in \$65,000. They would pay Uncle

Sam an extra \$220 next year if the House prevails, or \$282 under the Senate bill.

Cary Comfortable, who earns \$150,000, is the one exception to the rule that the more you earn, the more you pay. Thanks to a complex anomaly in the House bill, her taxes would go up by only \$280 — compared with the \$330 increase the House bill would impose on someone earning \$90,000.

The Senate bill would sock Cary for \$1,259, however. And because Democratic negotiators from both sides intend to improve the progressivity of tax rates in whatever final compromise they strike, Cary's anomalous House break is probably doomed.

Cary will get off easy compared to Byron Bigbucks, however.

Byron's going to get slammed. But he can afford it; he makes \$250,000 a year. That puts him in a new tax category for everyone making \$200,000 or more.

If the House prevails, taxpayers in Byron's category would have to fork over an extra \$10,031, on average. But the biggest part of that comes from raising his tax rate to 33 percent from its present 28 percent, and President Bush won't stand for that.

By contrast, the Senate bill socks Byron and his classmates for only \$5,118 on average. But in the spirit of compromise, Byron and his well-heeled brethren probably will end up paying somewhere between \$5,000 and \$10,000 each in new taxes.

Byron may think that's outrageous, but even the House would raise his tax burden by only 7.4 percent, on average. Over the previous decade, his tax burden was cut by 14.4 percent.

Some taxes in both bills are certain to remain unchanged and would hit Steve, Marilyn, Cary and Byron regardless of their varying abilities to pay.

For example, cigarette taxes will go up 4 cents a pack in 1991 and again in 1993, both for Steve's Marl-

boros and Byron's French Gauloises. Similarly, Steve will pay the same 16-cent tax increase for a sixpack of Budweiser that Byron will for his Heineken. And whether it's Gallo or chateau-bottled Pouilly Fuisse, the tax on table wine is going up, probably by 20 cents a bottle, splitting the House-Senate difference.

Marilyn Middleclass' payroll tax will rise by 1.45 percent for Medicare; so, for that matter, would Cary's and Byron's, up to a new income ceiling. Currently, that tax rate applies only to their first \$51,300 of income. The Senate would apply it up to \$89,000; the House, up to \$100,000.

If Marilyn or Steve has the kids flown to Disney World after Dec. 1, each of them will have to pay the same 10 percent airline ticket tax — up from 8 percent — that Byron Bigbucks pays for his winter jaunt to Acapulco.

How the House and Senate split the difference on one key trade-off could make a big difference to them all, however.

Everyone who drives would pay more under the Senate's gasoline tax increase of 9.5 cents per gallon by 1992, though the amount would vary by car and distance.

But the House didn't include a gasoline tax increase; it preferred instead to delay for one year a scheduled adjustment of tax brackets and personal exemptions to compensate for inflation.

In the end, Byron Bigbucks will be the big loser under either plan. The House would raise his tax rate to 33 percent and boost his alternative minimum tax rate — which he must pay if he takes massive deductions — to 25 percent from the current 21 percent.

The Senate would clip his itemized deductions by \$500 for every \$10,000 he makes in excess of \$100,000.

So Byron's current average tax rate of 25.2 percent can only rise to 26.1 percent under the Senate plan, or to 27 under the House's.

Yes, Byron, the '80s are over.

# Stopgap bill signed; officials say any deal faces a fight

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

WASHINGTON — With a possible government shutdown averted, congressional negotiators said yesterday that they expected to strike a budget deal this weekend, but admitted that they would have a far harder time getting the votes to pass it in the House and Senate in the two weeks before the election.

"The closer we get to completion, the more difficult it is to get a majority in either house for anything," said Rep. Bill Frenzel (R., Minn.).

Senate Republican Leader Bob Dole of Kansas said, "We have very little wiggle room."

"If you move too far in one direction," Dole said, "you lose 10 Republicans and the bill is dead. If you move too far in the other direction, you lose 10 Democrats and the bill is dead."

Rank-and-file members echoed Dole's observation. "An agreement that can pass the Senate can't pass the House, or vice versa," said Rep. Pat Williams (D., Mont.). "That's our dilemma."

The House, on a largely party-line vote, passed a bill with higher taxes for the wealthy and no gasoline tax increase; the Senate version doubles the gasoline tax and spreads the tax load over a wider range of income groups. Negotiators from both cham-

bers began work yesterday behind closed doors to forge a compromise that can win congressional approval and President Bush's signature.

The two sides are seeking a combination of spending cuts and tax increases that will reduce the deficit by \$40 billion in the 1991 fiscal year, which began Oct. 1, and total \$500 billion over five years.

With the five-month-old budget negotiations at a crucial passage, Bush abandoned his partisan attacks on congressional Democrats yesterday. Paying a visit to congressional leaders at the Capitol, he urged all involved to "regroup and try to build."

To take some of the pressure off negotiators, the White House announced that Bush had signed a stopgap spending bill to keep the government operating until 12:01 a.m. Thursday. Without it, the government's authority to spend money would have expired at 12:01 a.m. today.

Earlier this week Bush threatened that he would veto any stopgap bill and shut down the government for the second time in a month if a

single budget bill had not been passed by today. But later in the week the White House said the President would sign the stopgap measure if "satisfactory progress" was being made.

Congressional negotiators face a double-edged problem as they try to reach a compromise.

To begin with, the House and Senate bills take different paths to reduce the deficit. The House bill, for example, raises income tax rates on the wealthy. The Senate bill avoids changing rates and raises taxes on the rich by reducing their deductions.

But the policy differences, like that one and the gasoline tax, might be lesser obstacles than the political divide between the two bills.

The House bill is a partisan Democratic statement described by its principal author, Rep. Dan Rostenkowski (D., Ill.), chairman of the Ways and Means Committee, as "our platform." It passed by a vote of 238-192, with only 10 Republicans voting in favor.

The Senate bill does not please activists in either party, but it passed, 54-46, with a slim majority of Democrats and a one-vote majority of Republicans.

With Republicans in the House embracing a no-new-taxes strategy, House Democratic leaders believe their members will ultimately have to provide the 218-vote majority needed to pass the budget compromise.

"I think if we're going to get 218 votes, we're going to have to come up with a package that can command a large number of Democratic votes," said House Majority Leader Richard A. Gephardt (D., Mo.).

That would mean cutting the 9.5 cent gasoline tax increase in the Senate bill and raising taxes on upper-middle-class and wealthy Americans.

"We want the burden to be softened on the middle-class folks, and we want upper-income people to pay more," said Rep. Byron L. Dorgan (D., N.D.), who helped defeat the original budget-summit agreement on the House floor.

But Republicans warn that the bipartisan Senate coalition will not stand any sudden turns to the left. And Bush has vowed to veto anything that resembles the House Democratic plan.

# Comparing the costs of 2 budget bills

By Robert A. Rankin  
*Inquirer Washington Bureau*

WASHINGTON — Federal taxes are going to go up next year for all taxpayers, except those who earn less than \$20,000. And the greater the income, the bigger the bite the taxman will take.

That's sure to be true no matter how House and Senate negotiators split their differences. They began work yesterday on a final version of the budget bill at the same time President Bush signed a stopgap measure that averted a government shutdown early today.

Both versions have enough common features that one can tell already how bad much of the tax bite will be for most Americans.

For the taxpayer who brings home \$25,000 a year, the House bill would raise taxes on average by \$50, the Senate by \$140, according to data from the nonpartisan Joint Taxation Committee of Congress.

Depending on how much such a taxpayer smokes, drinks and drives, he or she could raise or reduce the impact some.

A couple who earn together \$65,000 will see their tax bill jump \$220 next year if the House prevails, or \$282 under the Senate bill.

A taxpayer who earns \$150,000, would see a tax increase of only \$280 if the House version prevails — compared with the \$330 increase the House bill would impose on someone earning \$90,000.

However, the Senate bill would sock the \$150,000-bracket taxpayer for \$1,259. And because Democratic negotiators from both sides intend to improve the progressivity of tax rates in whatever final compromise they strike, the House break is probably doomed.

If the House prevails, a taxpayer who earns \$250,000 a year, would have to fork over an extra \$10,031, on average. However, the biggest part of that comes from raising the tax rate to 33 percent from its present 28 percent, and President Bush will not stand for that.

By contrast, the Senate bill socks the \$250,000 wage-earner for only \$5,118 on average. But in the spirit of compromise, big-bucks taxpayers will end up paying somewhere between \$5,000 and \$10,000 in new taxes.

They may think that's outrageous,

but even the House would raise their tax burden by only 7.4 percent, on average. Over the previous decade, their tax burden was cut by 14.4 percent.

Some taxes in both bills are certain to remain unchanged and would hit all taxpayers regardless of their varying abilities to pay.

For example, cigarette taxes will go up 4 cents a pack in 1991 and again in 1993, both for Marlboros and French Gauloises. Similarly, the same 16-cent tax increase will go on a six-pack of Budweiser and a six-pack of Heineken. And whether it's Gallo or chateau-bottled Pouilly Fuisse, the tax on table wine is going up, probably by 20 cents a bottle, splitting the House-Senate difference.

The payroll tax for Medicare will rise by 1.45 percent for Medicare for everyone, up to a new income ceiling. Currently, that tax rate applies only to the first \$51,300 of income. The Senate would apply it up to \$89,000; the House, up to \$100,000.

Both the House and Senate versions of the budget bill call for a 10 percent airline ticket tax — up from 8 percent.

Everyone who drives would pay more under the Senate's gasoline tax increase of 9.5 cents per gallon by 1992.

The House did not include a gasoline tax increase; it preferred instead to delay for one year a scheduled adjustment of tax brackets and personal exemptions to compensate for inflation.

That would raise everyone's taxes. But it would cost a \$25,000-year taxpayer much less than a higher gas tax — and cost a high-income taxpayer much more, according to House documents.

In the end, someone who earns \$250,000 or more will be the big loser under either plan. The House would raise his or her tax rate to 33 percent and boost the alternative minimum tax rate — which must be paid if massive deductions are taken — to 25 percent from 21 percent currently.

The Senate would clip itemized deductions by \$500 for every \$10,000 a taxpayer makes above \$100,000. And both bills would levy a 10 percent luxury tax for expensive furs, cars, boats, jewelry or airplanes.

So that taxpayer's current average tax rate of 25.2 percent can only rise — to 26.1 percent under the Senate plan, or to 27.0 under the House's.

## More taxes for most

*Average annual change in total tax liability per taxpayer, under the House and Senate plans.*

Income	House	Senate
Under \$10,000	—\$ 48	\$ 0
\$10,000-19,999	—56	—84
\$20,000-29,999	+50	+140
\$30,000-39,999	+69	+200
\$40,000-49,999	+78	+278
\$50,000-74,999	+220	+282
\$75,000-99,999	+330	+562
\$100,000-199,999	+280	+1,259
\$200,000-plus	+10,031	+5,118

SOURCES: House Democratic Study Group, Joint Tax Committee, Knight-Ridder Tribune News

# President backtracks on threats

## Bush signs measure to keep U.S. spending

BY MARIA RECIO  
Fort Worth Star-Telegram Washington Bureau

WASHINGTON — President Bush yesterday backed off earlier threats to shut down the government if Congress did not approve a deficit-reduction plan to his liking, and he signed a short-term spending bill that will keep Uncle Sam in business until Wednesday.

The action smoothed the way for House and Senate members who began meeting in a conference committee to work out differences between the budget bills passed by each chamber. Although both bills would reduce the budget deficit by \$500 billion over five years, they would do it in very different ways.

In an unscheduled stop at the Capitol to meet with congressional leaders, Bush was conciliatory.

"I think people recognize that more important than any individual getting it exactly his way, including the president, is to get the nation's business completed; and that means we've got to get a deal through," he said.

A compromise was not expected until Sunday, said Sen. Lloyd Bentsen, D-Texas, the chief Senate negotiator on taxes. Lawmakers yesterday were speculating over the shape it might take.

The House bill, rammed through by the majority Democrats, raises revenue by targeting the wealthy through a higher marginal income tax rate and a surtax on millionaires.

The Senate bill, held together by Democrats and Republicans, limits deductions for Americans earning more than \$100,000 but does not tamper with rates. It raises the gasoline tax by 9.5 cents a gallon while the House bill does not increase the tax.

House Speaker Thomas Foley, D-Wash., acknowledged that the gasoline tax probably would be increased in the final package, although the House would insist that it be less than the 9.5 cents a gallon in the Senate bill. Sources said conference committee members began discussing a variable tax that would increase only if the price of oil fell below \$35 a barrel.

Senate Democrats yesterday sounded the theme of "fairness" and said they

(More on BUDGET on Page 2)

will insist that the wealthy pay more. Senate Majority Leader George Mitchell, D-Maine, said Democrats believe that "taxes should be related to the ability to pay."

Ironically, because of the threat of a veto by Bush, Mitchell fought back efforts by senators to increase tax rates.

But Mitchell's comments were considered a way of serving notice on the Republicans that the Democrats will press for a package that includes tax increases that do not touch rates but still hit the wealthy, such as the surtax on those earning over \$1 million and a limitation on deductions for those making more than \$100,000.

Democrats also want to reduce the cuts in Medicare, which the Senate and House bills already have scaled back from the \$60 billion over five years in the budget agreement that failed two weeks ago.

During his visit to the Capitol, Bush met with 23 Republican senators who voted for the package in a close 54-46 vote early yesterday morning.

"Those who really walked the plank deserve thanks," quipped Senate Minority Leader Robert Dole, R-Kan., who worked closely with Democrats to eke out the victory margin.

He noted that the Senate vote made it difficult to work out a more liberal or more conservative package.

"If you go too far in either direction, you lose 10 Democrats or 10 Republicans and you kill the bill. We don't have much wiggle room," Dole said.

For example, despite his support for the failed bipartisan agreement that he helped fashion, Sen. Phil Gramm, R-Texas, voted against the Senate bill.

Bentsen, who is heading up the Senate negotiating team on the controversial tax portion of the package, said yesterday that he would "try to get the best" of the Senate bill in the final deal.

"You'll see a more progressive tax system and the burden on the average family in America lessened," he said.

Rep. Dan Rostenkowski, D-Ill., chairman of the House Ways and Means Committee, said: "I am optimistic that we can reduce spending in a rational and fair fashion. The American people are not rejecting government, but they are sick and tired of irresponsible bickering."

The House negotiators on taxes are Rostenkowski; Rep. Bill Archer, R-Houston; and Rep. Sam Gibbons, D-Fla.

The Senate tax team consists of Bentsen; Mitchell; Dole; Patrick Moynihan, D-N.Y.; David Boren, D-Okla.; David Pryor, D-Ark.; Jay Rockefeller, D-W.Va.; Bob Packwood, R-Ore.; William Roth, R-Del.; John Danforth, R-Mo.; and John Chafee, R-R.I.

The Senate bill raises taxes on the wealthy by limiting deductions; increases the gasoline tax by 9.5 cents a gallon; and reduces Medicare cuts from the failed budget agreement to \$48.9 billion over five years.

Both bills increases "sin" taxes on beer, wine, liquor and cigarettes and impose a new 10-percent tax on such luxury goods as furs, jewelry, expensive cars, boats and planes.

The House-passed bill does not include a tax increase on gasoline but raises taxes on the wealthy in a variety of ways that the White House adamantly opposes, notably an increase in the top marginal tax rate to 33 percent, an increase in the alternative minimum tax and a 10-percent surtax on income over \$1 million. It also provides a capital gains tax break for middle-income taxpayers.

Summing up the frustration with the lengthy budget process, Rep. Charles Stenholm, D-Stamford, likened it to the Clint Eastwood film *The Good, the Bad and the Ugly*.

"The [budget] summit was the bad. The House budget reconciliation bill was the good. Now the ugly is going to be the compromise."

SATURDAY, OCTOBER 20, 1990

# Bush grants more time for budget

## House, Senate try for a deal

By R.A. ZALDIVAR  
And CHARLES GREEN  
Herald Washington Bureau

WASHINGTON — President Bush signed a stopgap spending bill on Friday to keep the government going through midnight Wednesday while House and Senate negotiators began the daunting task of forging a new budget compromise.

The White House announced the stopgap measure to take some of the pressure off budget negotiators, who said they expect to strike a budget deal this weekend.

But negotiators acknowledged they may not have the votes to pass that deal in the House and Senate two weeks before an election. Leaders of both parties said Friday that it will be exceedingly difficult to get a deal that can satisfy both the fragile bipartisan coalition in the Senate and a badly divided House.

"We have very little wiggle room," said Senate Republican Leader Bob Dole of Kansas.

"If you move too far in one direction, you lose 10 Republicans and the bill is dead," Dole said. "If you move too far in the other direction, you lose 10 Democrats and the bill is dead."

Rank-and-file members echoed Dole's observation. "An agreement that can pass the Senate can't pass the House or vice versa," said Rep. Pat Williams, D-Mont. "That's our dilemma."

With the long march out of the budget swamp at a crucial passage, Bush abandoned his partisan attacks on congressional Democrats on Friday. Paying a visit to congressional leaders at the Capitol, he urged all

---

### BUDGET, FROM 1A

involved to "regroup and try to build."

The two sides are seeking a combination of spending cuts and tax increases that will reduce the deficit by \$40 billion in 1991 and \$500 billion over five years.

Without the stopgap bill that Bush signed at 6 p.m., the government's authority to spend money would have expired at midnight Friday.

Earlier this week, Bush had threatened that he would veto any stopgap bill and shut down the government for the second time in a month. But the Senate's passage of a bipartisan deficit-reduction bill at 1:26 a.m. Friday opened the way for a change in presidential thinking.

Bush had worked behind the scenes to win approval of the Senate bill. Senate aides said the president had an understanding with two Republican senators, Orrin Hatch and Jake Garn of Utah, that they would not let the bill fail if they could help it. The two switched their votes from "no" to "aye" when it appeared that the measure was in trouble.

More clutch plays like that one will surely be needed to get the eventual compromise bill through both houses of Congress, for negotiators face a double-edged problem.

The House and Senate bills take genuinely different paths to cut the budget. The House bill, for example, raises income tax rates on the wealthy. The Senate bill avoids changing rates and raises taxes on the rich by limiting their deductions.

But the policy differences may be lesser obstacles than the political divide between the two bills.

The House bill is a partisan Democratic statement described by its principal author, Ways and Means chairman Dan Rostenkowski, D-Ill., as "our platform." It passed by a vote of 238-192, with only 10

Republicans voting in favor.

The Senate bill does not please activists in either party, but it passed, 54-46, with a slim majority of Democrats and a one-vote majority of Republicans.

With Republicans in the House embracing a no-new-taxes strategy, House Democratic leaders believe their troops will ultimately have to provide the 218-vote majority needed to pass the budget compromise.

*Herald Washington Bureau correspondent Owen Ullmann contributed to this report.*

---

PLEASE SEE BUDGET, 15A

# The Miami Herald

SATURDAY, OCTOBER 20, 1990

## Comparing plans: How big a tax bite?

By **ROBERT A. RANKIN**  
Herald Washington Bureau

WASHINGTON — Your federal taxes are going to go up next year unless you make under \$20,000. And the more you make, the bigger the bite the tax man will take out of your earnings.

That's sure to be true — with one exception — no matter how House and Senate negotiators split their differences as they close in on the final version of the deficit reduction bill.

Both versions have enough common features that one can tell already how bad much of the tax bite will be for most Americans.

Steve Sixpack, for instance, makes \$25,000 a year. The current House bill would raise his taxes on average by \$50, the Senate by \$140, according to data from the nonpartisan Joint Taxation Committee of Congress.

Depending on how much Steve smokes, drinks and drives, he could raise or reduce his tax hike some. But unless he's a teetotaling pedestrian, he'll

PLEASE SEE TAXES, 15A

### TAXES, FROM 1A

pay more.

Marilyn Middleclass and her husband both work; together they pull in \$65,000. They would pay Uncle Sam an extra \$220 next year if the present House plan prevails, or \$282 under the Senate bill.

The one exception to the rule that the more you earn, the more you pay is for Cary Comfortable, who earns \$150,000. Thanks to a complex anomaly in the House bill, her taxes would go up by only \$280 — compared to the \$330 increase the House bill would impose on someone earning \$90,000.

However, the Senate bill would sock Cary for \$1,259. And because Democratic negotiators from both sides intend to improve the progressivity of tax rates in whatever final compromise they strike, Cary's anomalous House break is probably doomed.

Cary will get off easy compared to Byron Bigbucks, however.

Byron's going to get slammed. But he can afford it; he makes \$250,000 a year. That puts him in a new tax category for everyone making \$200,000 or over.

If the House prevails, taxpayers in Byron's category would have to fork over an extra \$10,031, on average. However, the biggest part of that comes from raising his tax rate to 33 percent from its present 28 percent, and President Bush won't stand for that.

By contrast, the Senate bill socks Byron and his classmates for only \$5,118 on average. But in the spirit of compromise, Byron and his ilk probably will end up paying somewhere between \$5,000 and \$10,000 each in new taxes.

Byron may think that's outrageous, but even the House would raise his tax burden by only 7.4 percent, on average. Over the previous decade, his tax burden was cut by 14.4 percent.

Some taxes in both bills are certain to remain unchanged and would hit Steve, Marilyn, Cary and Byron regardless of their varying abilities to pay.

For example, cigarette taxes will go up 4 cents a pack in 1991 and again in 1993, both for Steve's Marlboros and Byron's French Gauloises. Similarly, Steve will pay the same 16-cent tax hike for a six-pack of Budweiser that Byron will for his Heineken. And whether it's Gallo or

chateau-bottled Pouilly Fuisse, the tax on table wine is going up, probably by 20 cents a bottle, splitting the House-Senate difference.

Marilyn Middleclass's payroll tax will rise by 1.45 percent for Medicare; so, for that matter, would Cary's and Byron's, up to a new income ceiling. Currently, that tax rate applies only to their first \$51,300 of income. The Senate would apply it up to \$89,000; the House, up to \$100,000.

If Marilyn or Steve fly the kids to Disney World after Dec. 1, each of them will have to pay the same 10 percent airline ticket tax — up from 8 percent — that Byron Bigbucks will for his winter jaunt to Acapulco.

How the House and Senate split the difference on one key trade-off could make a big difference to them all, however.

Everyone who drives would pay more under the Senate's gasoline tax hike of 9.5 cents per gallon by 1992, though the amount would vary by car and distance.

If Steve Sixpack's Honda gets 25 miles per gallon, for example, and he drives 100 miles a week, he'd be nicked for \$19.76 a year. Byron's Lincoln Town Car gets only 15 mpg; if he cruises around in it 150 miles a week, he'd pay an extra \$49.40 a year.

But the House didn't include a gasoline tax hike; it preferred instead to delay for one year a scheduled adjustment of tax brackets and personal exemptions to compensate for inflation.

That would raise everyone's taxes. But it would cost Steve much less than a higher gas tax — and cost Byron much more, according to House documents.

In the end, Byron Bigbucks will be the big loser under either plan. The House would raise his tax rate to 33 percent and boost his alternative minimum tax rate — which he must pay if he takes massive deductions — to 25 percent from 21 percent currently.

The Senate would clip his itemized deductions by \$500 for every \$10,000 he makes above \$100,000. And both bills would make him pay a 10 percent luxury tax for expensive furs, cars, boats, jewelry or airplanes.

So Byron's current average tax rate of 25.2 percent can only rise — to 26.1 percent under the Senate plan, or to 27 under the House's.

Yes, Byron, the '80s are over.

### SOME SAMPLE TAX INCREASES

Income	House	Senate
\$25,000	\$50 a year	\$140 a year
\$65,000	\$220 a year	\$282 a year
\$150,000	\$280 a year	\$1,259 a year
\$250,000	\$10,031 a year	\$5,118 a year

Data from Joint Taxation Committee of Congress

# The Miami Herald

SATURDAY, OCTOBER 20, 1990

## House members send home some bacon

By DAVID HESS  
Herald Washington Bureau

WASHINGTON — It was a happy day in the House on Friday.

After weeks of bitter contention over how to slash \$500 billion from the federal budget over the next five years, members lined up to do what they most savor — hand out federal money for hometown projects, including some in Florida.

Three major money bills — for highways and airports, for energy and water, and for military construction — were all on the floor in the same day, containing billions in hometown spending.

Party distinctions were blurred as Republicans and Democrats rose in support of each other's projects in the time-hallowed practice of log-rolling.

For instance, Rep. John Myers of Indiana, a senior Republican on the Appropriations Committee, stood shoulder-to-shoulder with Rep. Lindy Boggs, D-La., in defending several university medical research projects they and others had inserted in the energy and water bill.

Rep. Bob Walker, R-Pa., an irrepressible critic of pork-barrel spending, questioned the propriety of Appropriations Committee members slipping hometown goodies into spending bills without weighing them against possibly more worthy projects.

Rep. Don Ritter, R-Pa., quipped that the House was "engaged not so much in the advancement of pure

science as in an exercise in political science."

Walker got minimal support from his colleagues, most of whom had a piece of the action in one or another of the bills. His effort to strip the research projects from the bill was buried 308 to 108.

The bill was adopted 362 to 51.

The facility Myers slipped into the bill was an "advanced technology center" for Indiana State University in Terre Haute. When Myers' subcommittee initially accepted his project, Indiana State officials could not readily describe what the money was for.

In many cases, the projects wound up in the money bills as a result of their sponsors' membership on the appropriations committees or access to influential committee members.

In the highway and airways bill, for instance, there was \$1.5 million for aviation research at Wichita State University in Kansas, home state of Senate Minority Leader Bob Dole.

There was also money for Florida projects: \$5.95 million for a "highway demonstration" project on U.S. 27 in Palm Beach County, \$12 million for a Miami mass transit project and \$3.7 million for a causeway tunnel in Fort Lauderdale, thanks in part to Rep. William Lehman, D-North Miami Beach, chairman of the transportation appropriations subcommittee.

The transportation measure passed by a 394-17 vote.

Among the most popular ways of bringing home the bacon is in the form of new construction or expansion of national guard and military reserve facilities. Indeed, they are so popular that House and Senate conferees on the military construction bill actually approved more money for armories than either house alone had authorized.

For example, the conferees directed that \$690 million be devoted to construction of armories nationwide — even though the House had OK'd only \$506 million and the Senate, \$573 million. Seven of the approximately 100 armories and other training facilities went to West Virginia, home state of Senate Appropriations Committee Chairman Robert C. Byrd.

# Richmond Times-Dispatch

Friday, October 19, 1990

William Safire

## A Referendum on Taxing vs. Spending

WASHINGTON — These are glory days for American democracy. Congress is in an uproar, the wavering White House is acquiring a new sense of direction, and the American voter may soon be treated to a real campaign.

The Democrats are acting like old-fashioned Democrats. "Soak the rich" — a phrase born in 1934 to blast FDR's embrace of Huey Long populism — is the new battle cry of suddenly unabashed liberals.

Having suckered President Bush into abandoning his no-tax firewall, Democrats have shifted the focus of the budget debate away from spending and onto the source of more taxes.

They call this "the fairness issue." A central tenet of liberalism is government's guarantee that everyone, working or not, needy or not, is entitled to what politicians decide is a fair share of what the nation produces.

Republicans traditionally grumble that this classic, straightforward demagoguery encourages "class warfare," turning rich against poor. They get defensive when charged with standing for vested property interests by opponents who claim to belong to "the party of the people."

But these self-conscious conservatives miss the point of politics in an age of affluence. The fairness issue has been turned on its head. Most people think of themselves as

closer to being rich than to being poor, and consider it unfair to carry all those unproductive others on their backs.

When these more-rich-than-poor Americans utter such sentiments, old-fashioned liberals deride them not only for being selfish but racist to boot. This swells the ranks of conservatives, because most voters are not so motivated and resent politicians who make them feel guilty.

Therefore, Republicans should not fear class warfare; the almost-rich far outnumber the almost-poor, and most of the people in the middle tend to identify with the almost-rich, whom they want to become.

Moreover, most people now know that the target of taxers has to be the middle-class pocket; squeezing the richies may be egalitarian fun but is not where the big money is.

What happens if you surtax millionaire incomes by 10 percent and add a 10 percent tax on furs, boats and jewelry, as the House liberals suggested? The budget deficit might be reduced by 2 percent, not counting the losses to the Treasury of taxes from people prevented from selling luxury items.

The hidden tax increase in that liberal budget proposal is to reinstate "tax bracket

*'The game's name is political purpose. Compromise should be struck after the will of the people has been expressed.'*

creep" — using inflation to automatically increase tax rates.

That's \$36 billion out of middle-class pockets for one year's creep; prevent indexing for five years, as would surely follow, and you achieve the liberal dream of "fairness" — redistributing income on a grand scale.

The Republican president, chastened by a whopping drop in support after waffling on the central promise of his campaign, says he would veto that bill. That fat and easy target will never reach his desk; Senate Democrats are taking a slightly more sober route of taxing booze and gas.

But whatever budget the Democratic Congress passes, its philosophical approach to the deficit will be new taxes in this "in" year and pious promises of reduced rates of spending in the "out" years. Tax now, cut spending later.

This liberal approach will pass over the objections of most of the Republican minority in Congress. Such dissent is healthy; if it means that the government shuts non-essential services for a while, that will dramatize the depth of disagreement and bring the voters to the polls.

The only way the minority will become a majority is to draw an issue of principle. Within the administration, Bush's Stolypin, Jack Kemp, soldiers on in loyal silence, but in Congress, the Republican minority must hold the Bob Packwood line on tax rates and align itself with the majority opinion in the nation.

Where will it all end? Isn't compromise the name of the game?

The game's name is political purpose. Compromise should be struck after the will of the people has been expressed. Let Bush veto the taxation budget, let the Republicans uphold the veto, and let us use this election as a referendum on taxing vs. spending.

The current impasse is no cause for national embarrassment; on the contrary, it is the overdue surfacing of basic political difference.

A closed-down government on Election Day would bring out anti-incumbent voters in force. Candidates, take your positions: tax and service reductions vs. tax and service increases. Duck that in your spots and feel the voter heat.

© 1990, N.Y. Times News Service

# Dem vow: Soak rich or at least damp 'em

By **SUSAN MILLIGAN**

News Washington Bureau

**WASHINGTON** — Congressional Democrats vowed yesterday to fight for a tax hike on the rich as negotiators entered the final stretch of marathon talks on a deficit-cutting package.

The possibility the end was finally in sight after weeks of budget chaos prompted a visit to Capitol Hill by President Bush, who urged lawmakers to quickly resolve the sharp differences between House and Senate budget packages.

The White House also said Bush would sign a stopgap bill to fund the government

through Wednesday, averting a shutdown like the one that followed the defeat of a deficit package earlier this month.

Though Bush has vowed to veto the House plan that would hike the tax rate from 28% to 33% on wealthy Americans, he did not rule out the

possibility of accepting a lesser increase.

The Senate version, passed early yesterday, includes no rate increases.

Increasing the tax rate on the wealthy is expected to be the biggest sticking point in final negotiations on the package, which would cut \$500 billion from the deficit over five years.

House Speaker Thomas Foley (D-Wash.) called the tax rate increase "one of the key elements of fairness," and said the House would fight for it during negotiations.

Senate Majority Leader Robert Dole (R-Kan.) indicated that some tax hike on rich Americans — although perhaps not 33% — would probably be adopted. But he warned that if the plan went too far in the direction of the House proposal, it would not be approved when it went back to the Senate.

"It's like taking a cold shower when you take a look

at the eight-vote margin," Dole said, remembering that the Senate plan had only passed by a 54-to-46 vote.

Negotiators also said they expected the final budget plan would include some gasoline tax increase. The House plan has no increase, while the Senate package would hike the tax by 9.5 cents.

Congressional sources indicated the negotiators would probably kill a House provision which delays for one year inflation adjustments to the income tax brackets and personal exemptions.

Bush has attacked that House Democratic idea as a shot at middle-class Americans, since the adjustment — called "indexing" — prevents all taxpayers from being pushed into a higher bracket when inflation swells their income.

The two sides must also agree how much to cut Medicare.

# The Boston Globe

SATURDAY, OCTOBER 20, 1990

## House, Senate seek budget compromise

By Peter G. Gosselin  
GLOBE STAFF

WASHINGTON — Congressional leaders yesterday began picking among House and Senate versions of the largest deficit reduction plan in US history, searching for a compromise that can win approval from a politically shellshocked Congress and president.

The final version of the five-year, \$500 billion plan will almost certainly raise taxes on wealthy Americans. But which taxes and by how much remained uncertain yesterday. No final plan is expected before tomorrow at the earliest.

President Bush sought to boost chances for a deal by agreeing to legislation that keeps the government running through midnight Wednesday. Earlier this week, he had said he would refuse to sign a stopgap spending measure, which would have caused the second shutdown of the government in three weeks and almost certain congressional outrage.

Bush also tried to mend some of the political damage of the budget battle by making an unusual trip to Capitol Hill to chat with congress-

BUDGET, Page 4

### ■ BUDGET

Continued from Page 1

sional leaders and lawmakers who have supported him. With only two weeks to go before Election Day, polls show that both he and Congress have suffered tremendously with voters because of the budget mess.

At issue in this final round of bargaining among congressional leaders and the White House is how to fit together a House-backed budget plan that sharply raises taxes on the wealthy with a Senate plan that, while also raising the taxes of the rich, depends more heavily on gasoline tax increases and Medicare cuts, which hurt middle-income taxpayers and the elderly the most.

The two plans would take care of about half of the \$500 billion deficit reduction goal agreed to by the White House and Congress. The remainder would come from defense cuts and reduced interest payments on a smaller federal debt.

While some elements of the final budget deal were apparent yesterday, the fates of others — especially those involving taxes — remained as murky as they been since the start of the budget season.

For example, the final deal will almost certainly omit a provision in the Democratic-designed House plan that would delay for one year inflation adjustments of income tax brackets and personal exemptions. Bush and congressional Republicans have hammered away at the provision — which would raise \$36 billion over five years largely from lower- and middle-income taxpayers — as evidence that Democrats are not living up to their claims of protecting the middle class.

The deal is widely expected to include some increase in the 9-cent federal gasoline tax, but not anything like the 9.5-cent boost now in the Senate plan. Key players in the budget talks say they can accept a gas tax increase, despite its unpopularity in the auto-dependent West and the fact that it would come on top of gasoline price increases caused by the Persian Gulf crisis.

The Senate plan would raise \$42.6 billion with a gas tax increase. The House plan does not include one.

Almost everyone in the talks would also like to reduce proposed Medicare cuts, which have sparked outrage among the elderly. But bargainers have yet to come up with other savings to replace those that had been expected from the program. The Senate plan calls for \$52 billion in cuts in the medical insurance programs for the elderly and disabled; the House plan calls for \$43 billion.

Bargainers have still less maneuvering room when it comes to taxes on the wealthy. The issue has suddenly emerged as the principal battleground between Republicans seeking to retain a grip on the national political agenda and resurgent Democrats, who believe their opponents are open to blame for the excesses of the 1980s.

House Democrats asserted yesterday that any budget compromise must include a higher top income tax rate for the rich. "We've got to get

something on rates," said Rep. Brian Donnelly, the Massachusetts Democrat, and a member of the tax-writing House Ways and Means Committee.

But Bush and congressional Republicans have repeatedly said that they cannot accept any substantial rate change. "If you move too far in one direction, you're going to kill the bill. We don't have much wiggle room," said Sen. Bob Dole of Kansas, the Senate Republican leader.

The issue is not as easily settled as it might at first appear. The House plan calls for boosting the top rate on the wealthy from 28 percent to 33 percent. White House officials have said that they might accept a 31-percent rate.

But because of the current tax system — which for families with joint returns now taxes income between about \$75,000 and \$200,000 at a 33-percent rate and that over \$200,000 at a lower 28 percent rate — the White House proposal would result in a tax cut for many well-off Americans even as it raised the taxes of the wealthiest. As a result, many Democrats reject it.

