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The New York Times

THURSDAY, OCTOBER 18, 1990

# LEADERS IN SENATE BATTLE REVISIONS IN BUDGET PACKAGE

By DAVID E. ROSENBAUM

Special to The New York Times

WASHINGTON, Oct. 17 — With the entire deficit-reduction package in jeopardy, Senate leaders from both parties struggled today to fight off politically attractive changes in the measure.

By 9 P.M., with the Senate leaders huddled in back-room conferences trying to put together coalitions, no votes had been taken. The leaders wanted to make sure that they knew where each senator stood on the package, which was approved by the Finance Committee, before any vote was cast.

The Senate is racing to beat a deadline that is barely 48 hours away. The Government's authority to spend money lapses at midnight Friday, and President Bush has pledged to close down the Government again if no budget that satisfies him has been enacted by then.

Whatever the Senate passes, it will need to be reconciled in a conference committee with the package the House of Representatives adopted Tuesday night. In conference, top lawmakers from both parties will try to reach compromises on taxes and spending policies under the watchful eye of Administration officials.

The House bill has broad support among Democrats because it would place more of the tax burden on the wealthy. The Democrats are using it to portray themselves as the defenders of ordinary Americans and the Republicans as patrons of the rich.

Many Senate Democratic leaders actually prefer the House version to the one they brought before the Senate. But because Democrats have a narrow 55-to-45 majority in the Senate and because some Democrats are conservative, the leaders needed Republican support to get any measure passed and thus had to modify their ambitions. But in the conference committee, they may be more willing to adopt some of the popular House provisions.

One Senate proposal for change, similar to one in the measure passed by the House on Tuesday, would raise taxes on the wealthy and limit the effects of deficit reduction on the middle class. This has broad support from liberal Democrats, but it would face a certain veto by President Bush, who is backing the measure put forth by the Senate leaders.

### Gasoline Tax at Issue

"Once they start playing with taxes at one end, they can't stop," John H. Sununu, the White House chief of staff, said in a television interview.

Another proposal, favored by many Southern and Western senators from both parties, would scrap increases in the gasoline tax, leaving the package short of the goal of $40 billion in deficit reduction this year and $500 billion over five years.

Urging his colleagues not to change the bill that had been assembled compromise by compromise over many weeks, Senator George J. Mitchell of Maine, the Democratic leader, told the Senate: "This is a test. This is a test for every senator. And ultimately, this is a test of our nation's future.

"Do we have the courage to do something that's difficult, that's unpleasant, that's unpopular? Can we not keep in mind the national interest?"

Senator Mitchell's Republican counterpart, Bob Dole of Kansas, agreed that if the politically popular amendments was adopted, "we might as well fold up our tent."

### Opposition From Left and Right

But the leaders faced opposition from the left and the right.

Senators Kent Conrad of North Dakota and Max Baucus of Montana received strong support from fellow liberal Democrats with a proposal to raise the top tax rate, place a surtax on millionaires and increase the minimum tax paid by the wealthy.

"If we are going to raise taxes to address the deficit, the rich should pay their share," Senator Baucus declared.

Senator Brock Adams, a Washington Democrat, agreed. "We can no longer let the wealthy off scot-free," he said.

Senator Steve Symms, a conservative Republican from Idaho, led the fight to strip from the leaders' bill the part that would more than double the Federal gasoline tax.

"This is a good issue to draw the line on as to whether we want to raise taxes on the American people," Senator Symms said. Later, he added: "Stop taxes. Freeze spending."

### A Vote for 'the Common Good'

But the leaders insisted that the yearlong effort to cut the deficit by the largest amount in history was doomed if the changes were made.

Senator Jim Sasser, the Tennessee Democrat who heads the Budget Committee, swallowed his personal enthusiasm for the Conrad-Baucus proposal, saying, "I'm going to do it in the name of the common good, and the common good is reducing the deficit that is eating away at the vitals of the economy of the United States."

And Senator Lloyd Bentsen, the Democrat who is chairman of the Finance Committee, said his Texas constituents were adamantly opposed to a higher gasoline tax but added that he had to support one because "the job we have to do is to make a critical cut in the deficits we are facing."

Senator Dale Bumpers, an Arkansas Democrat who can occasionally swing votes with his eloquence, was enlisted by the leaders.

"I hate this," he began, saying that if a bill came out of a Senate-House conference with a large increase in the gasoline tax, he would vote against it. But approving a bill tonight, he said, would "at least get us to conference."

### Shape of a Compromise

Already today, even before the Senate cast a vote, lawmakers were beginning to discuss the shape of a compromise.

A senior Republican Senator suggested that the White House and the Senate could probably accept an increase in the top tax rate to 31 percent. That is above the current 28 percent but below the 33 percent in the House bill. But the Senator said the 10 percent surtax in the House bill and the one-year delays in adjustments of tax brackets and personal exemptions for inflation would probably be dropped. Suspension of the inflation adjustment would cost middle-income families a few hundred dollars a year in extra income taxes.

A leading Democratic Representative suggested that House members could probably be persuaded to accept a higher gasoline tax, though not one so large as the one in the Senate measure.

He also said the House might back a provision in the Senate bill that would limit the deductions that could be claimed by affluent taxpayers.

Few taxes are so unpopular as gasoline taxes. According to the Highway User Federation, the average household pays about $3 a week in gasoline taxes. But the figure tends to be higher in the South and West, where public transportation is not available and where long distances must often be traveled to work and for routine chores.

### 'A Dagger in the Heart'

"This is like a dagger in the heart of the poorest state in America, Mississippi," said Senator Trent Lott, a Mississippi Republican.

For a commuter with a 30-mile round trip, doubling the gasoline tax would cost about $1 a week.

These are among the main elements of the Senate bill:

¶An increase in the Federal gasoline tax to 18.5 cents in 1992 from 9 cents now.

¶A doubling of the annual Medicare deductible to $150 from $75. The monthly Medicare premiums the elderly pay for insurance against doctors' bills, now $28.60, would rise each year as medical costs increased.

¶An increase to $89,000 from $51,300 in the amount of wages subject to the 1.45 percent payroll tax for Medicare.

¶A 10 percent luxury tax on automobiles costing more than $30,000, boats costing more than $100,000, private planes costing more than $250,000 and furs and jewelry costing more than $5,000.

¶Tax breaks totaling $3.5 billion over five years to encourage oil and gas production. They would not become effective unless the price of oil, now more than $40 a barrel, fell below $34.

¶A limit on itemized deductions for affluent taxpayers. Taxpayers would have their deductions reduced by 5 percent of the amount their annual income exceeded $100,000.

¶Requirements that all state and local employees pay Medicare taxes and that those not in a public employee retirement system pay Social Security taxes.

¶Higher taxes on alcoholic beverages and tobacco.

¶A $15 billion cut in agriculture programs, primarily price supports paid to farmers.

¶An expansion of tax credits for poor workers.

The measure also would impose a variety of user fees for Government services, including a charge for commercial use of data from the National Weather Service.

# *An Old Tax on the Upper Income Takes Centerstage*

By NATHANIEL C. NASH
Special to The New York Times

WASHINGTON, Oct. 17 — As Congress works over the tax code in its rush to complete a budget agreement, a provision of current law called the alternative minimum tax is a favored target of opportunity among lawmakers who would give the very wealthy a big tax break and lawmakers who would slap them with a big new tax.

Many Americans are unfamiliar with the alternative minimum tax, and for good reason. Of the 109 million who filed income tax returns for 1988, fewer than 88,000 were subject to it.

Yet it has played a critical role since it was made part of the nation's tax system 11 years ago. In an effort to prevent very wealthy taxpayers from claiming enormous deductions and other income exclusions and thus pay no taxes at all, the alternative minimum tax sets a floor of 21 percent below which tax rates cannot drop for those in the highest tax bracket. Last year the alternative minimum tax accounted for a net gain to the Treasury of $711 million, money that the Government would not have had if all high-income people had been allowed to calculate their tax in the standard way.

"The minimum tax was really designed out of frustration, because the tax code had so many ways to zero out one's tax liability," said Robert J. Shapiro, vice president of the Progressive Policy Institute, a middle-of-the-road research organization based in Washington. "There should be a way to make someone pay at least a minimum tax."

### Congressional Proposals

Now two provisions in the Senate budget package would create loopholes in the minimum tax, while one provision in the House-passed bill is meant to increase it. The difference in the approaches reflects the differing aims of the bills.

In the House, Representative Dan Rostenkowski, the Illinois Democrat who heads the Ways and Means Committee, wants to increase the minimum tax from 21 percent to 25 percent, part of his overall effort to make the rich pay a larger share of the tax burden.

In the Senate, Daniel Patrick Moynihan, Democrat of New York, has pushed a provision that would exempt from calculation of the alternative minimum tax the appreciated value of works of art and manuscripts contributed to museums and galleries. Meanwhile, Senator David L. Boren, Democrat of Oklahoma and Senator Bob Dole, Republican of Kansas, have brought forth a provision that would reduce the alternative minimum tax for small oil companies as a way of stimulating domestic oil production.

The bite that the Rostenkowski measure would take from the rich is a formidable $6 billion over five years. The Moynihan measure would offer the well to do savings of $100 million over five years; that is in addition to an undetermined amount that the Government would lose in capital gains taxes from wealthy people who, in the absence of Moynihan provision, might be inclined to sell their art rather than donate it. For the Boren-Dole provision, the five-year tax break is estimated at $400 million.

### How the Minimum Tax Works

Just how does the alternative minimum tax work to keep well-to-do people from substantially wiping out their tax liability?

Suppose there is a taxpayer with income of $450,000. Suppose this taxpayer wants to itemize deductions of $20,000 in state and local income taxes, $10,000 in property taxes and $220,000 for a charitable contribution, the current market value of a painting that he acquired 10 years earlier for $25,000.

The total deductions are $250,000, reducing taxable income to $200,000. At a flat rate of 28 percent — the rate that applies to people in the top tax bracket —, the Internal Revenue Service would be owed $56,000. That is only 12.4 percent of the total income of $450,000.

But because of the size of our hypothetical taxpayer's deductions, the I.R.S. requires that the tax also be calculated in an alternative way. This methopd disallows many deductions and other exclusions from income, including all state and local taxes, medical and dental expenses, all personal interest payments and the appreciated value of all charitable contributions, such as paintings or stock. (Direct cash contributions to nonprofit organizations are allowed.)

These deductions and exclusions must be added back to the tax base, and the tax is calculated at a 21 percent rate.

If the minimum tax — that owed at the 21 percent rate — is greater than the tax owed at 28 percent, the taxpayer pays the minimum tax. In our hypothetical case,l taxable income for the purpose of the minimum tax would be $425,000, allowing as a deduction only the price that our taxpayer spent for the painting a decade ago. And a 21 percent tax would cause him to pay $89,250, or $33,250 more than under the 28 percent flat rate.

For many taxpayers, then, the cost of giving away a highly valuable painting is so steep that many have been prompted either to hold on to their artworks or to sell and take advantage of soaring prices.

Indeed, museum, libraries and universities have been bitterly complaining that because of the tax code, valuable works of art are being sold to foreign investors and are leaving the American domain.

"Moynihan is the Renaissance type of man, a representative of New York City, and so he would come to the support of its great museums," said Byrle M. Abbin, managing director of tax competence for Arthur Andersen & Company, the accounting firm. "Many significant pieces of art have been sold rather than given to institutions."

While museums would benefit from the Moynihan proposals, the losers in the current debate have been the universities, who pushed hard for an expanded exemption from the minimum tax to include securities. Before the Tax Reform Act of 1986 was adopted, colleges and universities traditionally benefited handsomely when contributors donated high-value securities and took a huge tax write-off, even if the securities' acquisition cost had been a fraction of current value.

A reinstatement of that provision, advanced by Senator Boren, was rejected by the Senate Finance Committee right before it accepted the Moynihan plan.

"There is a real penalty to giving," said Walter N. Lambert, associate vice president for state and Federal relations at the University of Tennessee in Knoxville.

Mr. Lambert said that since 1986, when the Tax Reform Act added appreciated assets to the tax base for calculating the alternative minimum tax, the volume of these gifts to museums had fallen by 35 percent, and to universities by between 7 and 40 percent.

Lawmakers who opposed allowing donated securities to once again be excluded from the minimum tax argued that it would violate the spirit of the Tax Reform Act by allowing one more loophole to be reintroduced into the tax code. In any case, they note, total giving to charitable contributions reached the highest level in history last year: 2.9 percent of gross national product, up from 1.99 percent in 1985, the year the Tax Reform Act was adopted.

Central to the debate over the Moynihan provision is the fact that in order to provide an indirect subsidiary to the arts, an enormous tax break would be doled out to the very rich, at a time when large new taxes are being imposed on the middle- and lower-income wage earners. Many Democrats ask whether the cost is too high and whether it is not too unseemly to give such very wealthy people such a large tax break for the sake of preventing French impressionist paintings, which American investors in the early part of this century bought in Europe, from going to Japan?

Mr. Rostenkowski's plan seeks to play to those very sentiments.

The increase from 21 percent to 25 percent for the minimum tax, as approved by the House of Representatives on Tuesday, is a companion measure to a provision in the bill that imposes a 33 percent tax on most of the income of the wealthy, up from the 28 percent currently.

Tax experts note that to be effective in catching the majority of high-income taxpayers that have large deductions, the minimum tax has to be roughly equivalent to 75 percent of the top tax bracket.

And while the provision is likely to raise tax revenues by more than a $1 billion a year, it is also likely to make contributing valuable works of art even less attractive for the wealthy.

The second Senate proposal that will cost taxpayers does not apply to individuals, but to corporations, small energy companies in particular. Aimed at stimulating energy production, the Boren-Dole provision lets small oil companies write off much more rapidly their "intangible" drillings costs such as legal and surveying fees and cut by up to 40 percent the amount of those deductions that have to be applied to the corporation alternative minimum tax.

**ESSAY**
William Safire

# Tax Or Spend?

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 F.D.R.'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.

**Piper-payer gets to call the tune.**

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 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 nonessential 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, Mr. 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 Mr. 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. □

THE WALL STREET JOURNAL.



THURSDAY, OCTOBER 18, 1990

# Senate Quashes Bid to Increase Taxes on Rich

## Leaders Block Democrats' Amendment in Attempt To Keep Bush's Support

By JACKIE CALMES
*Staff Reporter of* THE WALL STREET JOURNAL

WASHINGTON – Senate leaders derailed a rank-and-file Democratic effort to raise taxes on the wealthiest Americans, as they scrambled to block any changes that would unravel a fragile deficit-reduction compromise and lose President Bush's support.

The leadership last night knocked down an amendment from Sens. Kent Conrad (D., N.D.) and Max Baucus (D., Mont.) that would have increased income taxes on the rich in order to limit proposed increases in the federal gasoline tax and Medicare costs and to halve proposed cuts in farm programs. The sponsors fell far short of the 60 votes needed to overcome the leaders' parliamentary objection.

The outcome on last night's vote was critical because several other Democrats had amendments pending that likewise would raise income taxes, thus threatening to strike at the heart of the compromise their leaders had reached with Republicans.

Senate debate on the record deficit-reduction package began one day after the House voted roughly along party lines to approve a Democratic package that the president has threatened to veto because it would raise income taxes. Both chambers' plans are aimed at achieving about half of a five-year goal of $500 billion in deficit reductions. Most of the remaining savings would come from the Pentagon budget.

Democratic and GOP leaders maneuvered all day behind closed doors to fend off the proposed changes from Democrats seeking to make the Senate measure look more like the House version. The House-passed bill included not only a higher 33% top marginal income tax rate for the wealthy and no gasoline taxes, but also a 10% surtax on millionaires and lower increases for Medicare recipients.

But throughout the day, the biggest threat to the Senate bill was an amendment from Sen. Steve Symms (R., Idaho) to kill the proposed 9.5-cent-a-gallon increase in the federal gasoline tax, a particularly unpopular levy among auto-dependent Westerners. "It hits hardest on those least able to afford it," said Sen. Symms. The House bill wouldn't boost the existing nine-cent-a-gallon gasoline tax.

The proposed increase would raise $42.6 billion over five years, making it by far the largest single deficit-cutting provision in the Senate package. Lacking the votes to defeat Sen. Symms' assault, Senate leaders labored behind closed doors for some stratagem to block the amendment.

Late last night, Senate leaders made a procedural motion designed to effectively block a vote on the Symms amendment.

"It is an amendment to destroy the first serious effort of the decade to reduce the federal deficit," Senate Majority Leader George Mitchell (D., Maine) said of the Symms provision. "The question is, who has meant what he or she has said about the budget deficit over the past decade."

The Republican leader, Sen. Robert Dole of Kansas, argued that the higher gasoline levy would not only raise revenue but discourage consumption and thus reduce dependence on foreign oil. "We're in the Middle East for three letters: O-I-L," Sen. Dole said.

White House Chief of Staff John Sununu said yesterday that President Bush would sign a deficit-reduction package similar to the plan approved by the Senate Finance Committee. But the White House budget office said it will recommend a veto unless the Senate stripped some provisions. Among them are new federal rules on aviation noise and a proposal to make criminal offenses out of certain business violations of worker health-and-safety laws that result in deaths.

Mr. Sununu also suggested that Mr. Bush would sign new stopgap spending legislation to keep the government financed when the current stopgap measure expires after midnight tomorrow, if an acceptable budget plan is imminent. "If there was a deadline extension that carried with it a really significant reduction of the deficit . . . to show Congress meant business about it, I'm sure the president would consider that as a good-faith extension," Mr. Sununu said on NBC's "Today" show.

In recent days, the president had expressed satisfaction with the pending Senate bill, given the absence of any income-tax increases. Raising income taxes on the wealthiest Americans has been a priority for many Democrats, especially in the House. But the Senate Democratic leadership needs GOP votes to pass a deficit-reduction plan and, therefore, such a proposal has been omitted.

One possible amendment, from Sens. David Boren (D., Okla.) and Sam Nunn (D., Ga.), was developed with the help of entrepreneur H. Ross Perot. It would raise the top marginal rate on the wealthy to 33%, cut capital-gains taxes, scale back the gasoline-tax increase to 7.5 cents a gallon, and expand the deduction for individual retirement accounts. Sen. Donald Riegle (D., Mich.) had an amendment to impose a surtax on millionaires to hold down Medicare beneficiaries' costs.

Senate leaders sought to defend their bipartisan plan against complaints that it didn't target the most privileged Americans enough. "The wealthy in the United States will pay more under this proposal than they do under the so-called Democrat package in the House," argued New Mexico Sen. Pete Domenici, senior Republican on the Budget Committee.

Democrats, however, strongly dispute Mr. Domenici's claims.

While the Senate measure wouldn't raise income taxes, it would limit deductions for the wealthy, in effect increasing their taxes. Republican proponents also noted that the House-passed bill would in effect raise income taxes on the same middle class that Democrats are claiming to protect, through a provision that would delay for a year the scheduled inflation adjustments in tax brackets and the personal exemption.

The Senate package would extend various expiring tax breaks through next year, at a cost of about $5.5 billion. But by making the unlikely assumption that Congress will allow the breaks to die on schedule, the bill understates the cost by about $15 billion.

"That was the same presumption last time," said Sen. Bill Bradley (D., N.J.), who voted against the bill in the Finance Committee. "Nobody believes they are going to expire."

Although nearly all provisions extend for five years, the bill extends the research-and-development tax credit, the credit offered to investors in low-income housing, and 10 other expiring tax breaks only through December 1991. As a result, the committee had to come up with $5.5 billion in offsetting tax increases and spending cuts. Had the provisions been extended five years, the price tag would have been about $20 billion–and the committee would have been forced to propose $15 billion more in tax increases or spending cuts.

Any of the pending Senate amendments was likely to provoke administration opposition, prolonging Congress's effort to finish the budget for fiscal 1991, which is already more than two weeks old. Differences between the Senate and House versions still must be worked out in what promises to be a contentious conference, and Congress is eager to adjourn by next week.

Sen. Domenici implored senators to approve the compromise and help "end this agony–not only for us but for our people. Let's get this done."

*–David Wessel contributed to this article.*

# *Increase Tax Rate For the Rich, Says Billionaire Perot*

* * *

## Sen. Boren Consults by Phone With Texas Entrepreneur Over Pending Legislation

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

WASHINGTON – Texas billionaire H. Ross Perot believes the tax rate on rich people like himself should be raised, and Sen. David Boren took that advice to heart.

Over the past week, the billionaire and the lawmaker have consulted by telephone at least four times about the contents of Mr. Boren's amendment to the big deficit-reduction bill pending before the Senate. It includes an increase to 33% in the tax rate on the wealthiest Americans as well as a capital-gains tax cut for assets held for a long time—another Perot suggestion.

The Oklahoma Democrat said he and Sen. Sam Nunn (D., Ga.) already had crafted the outlines of their amendment prior to his initial conversation with Mr. Perot Friday. But he said he was encouraged by Mr. Perot and sought his advice at several stages over the past few days. "I just want to pick your mind," Sen. Boren recalled telling the entrepreneur.

Mr. Perot thinks that one of his opinions that might have inspired Sen. Boren was his insistence that any deficit-reduction plan whack people who were as wealthy as himself. "I think he was somewhat intrigued that I was saying I should be taxed more," Mr. Perot said. "I don't think he was being run over in the halls up there by people saying the same thing."

Any budget package "has to be fair," he said, "or you couldn't ask the American people to accept it."

No one has calculated whether the amendment would benefit any income group over another. Previous packages that have combined an increase in the top marginal rate on the richest Americans to 33% with a cut in the capital-gains tax rate to as low as 15% were, on balance, of special benefit for the wealthy. But Sen. Boren said his capital-gains proposal is specially designed and that the proposed gasoline-tax increase in the underlying bill would be reduced by his amendment. In all likelihood, he said, his package would be on average a proportionate benefit for middle-income taxpayers.

An official opinion on whether the Boren amendment would on average help middle- and lower-income taxpayers will come when congressional economists figure out the effects.

In conversations with Sen. Boren, Mr. Perot also emphasized that any capital-gains tax reduction should be targeted to help small businesses, which he said create the most new jobs, and should be steered away from stock speculators, whom he compared to casino gamblers.

The Boren plan attempts to do both with long holding periods and limits on the amount of gains that would be given a tax preference.

The exchange of telephone calls began Friday night when Mr. Perot was in Tulsa, Okla., at Sen. Boren's request to address a group dedicated to improving education. Sen. Boren couldn't attend, so he telephoned Mr. Perot to thank him for his help. During that conversation, they began to talk seriously about the contents of the amendment.

Their friendship goes back many years. Their daughters attended the Hockaday School in Dallas together. They each say they have gained mutual respect for the other and consult periodically on issues ranging from tax policy to foreign affairs.

Mr. Perot founded Electronic Data Systems Corp., a Dallas-based computer services company, which he sold to General Motors Corp. in 1984. Mr. Perot subsequently left EDS and the GM board in 1986 as part of a $700 million buy-out.

Last night, the outlook for Mr. Boren's amendment wasn't promising. But many of his ideas—and those of his friend from Texas—were being widely discussed. Sen. Boren said he hoped that some combination of a higher tax rate for the wealthy and a targeted capital-gains reduction might be contained in the final, massive deficit-cutting bill.

# Soak the Poor

Who speaks for the poor in the current budget drama? The Democrats? George Mitchell? Dan Rostenkowski? Bob Dole? Dick Darman? We suspect the short answer is that no one much thinks about the poor in Washington these days. The battle is over the middle class, because that's where the votes are and that's where the tax money is. The poor and the working poor are along for the ride. Some ride.

The Democrats in Congress, abetted by at least three or four members of the Bush administration, purport to stave off a recession by raising taxes $149 billion across five years. Yes, we know, they have attached a theory to this: Short-term interest rates will drop maybe 100 basis points and the American economy will climb to the stars. A few folks, however, hold to the view that this game plan is more likely to drive any recession deeper and that the people hit hardest aren't the soaked rich or even the middle class. It's the poor. Both the U.S. Commission on Civil Rights and Jack Kemp are now trying to raise this argument in Washington.

On Tuesday, the Civil Rights Commission voted 6-0 in support of a resolution warning that the current thrust of the budget could cause economic difficulties for minorities, women and the disabled (Commissioner Mary Frances Berry abstained from the vote). "We request on behalf of America's disadvantaged," the commission said, "no general spending increase and no general tax increase." Instead, the commission would freeze spending at the fiscal 1990 level.

It called on the President and Congress to be aware of "the importance of continued economic growth to the advancement of civil rights in this country. In bad economic times, black and Hispanic unemployment rates rise the fastest."

Of course, none of the current budget incarnations has specifically growth-oriented provisions in the budget. So the Civil Rights Commission proposed one of its own: a capital gains rate of *zero* for those who "live, work and invest" in the depressed inner cities. This proposal, of course, has zero chance at the moment; the Democrats' soak-the-rich philosophy is colorblind.

No one has attacked the hopelessness of the status quo more than HUD Secretary Jack Kemp, and he did so again in a speech earlier this week, calling on Congress to get growth back into its deliberations. Secretary Kemp would raise the top marginal rate on incomes to 31%, while cutting capital gains to 15%. He also usefully pointed out that the grand plan to cut $500 billion over five years "began when the economy was stronger and there was no foreign policy challenge as we face in the Middle East today. In my view, its not logical to adopt sharp tax increases in the face of such an uncertain future." He too favors a one-year spending freeze.

As to economic opportunities for the poor, Mr. Kemp pointed out that the number of black-owned businesses grew almost 50% from 1977 to 1982, a period that began with the Steiger Amendment cutting the capital gains rate to 28% from 49%.

We can already hear the solons of Washington pooh-poohing the Kemp and Civil Rights Commission interventions. It looks to us, though, as if the Beltway is giving the poor little more than more of the same. With a recession looming, Mr. Kemp and the commission are at least trying to do better than that.

# Strangling the Economy

By John Rutledge

In their most recent regional report, several of the Federal Reserve banks reported that banks in their regions were seeing a decline in credit demand. That's like the Boston Strangler reporting that he noticed a decrease in the demand for oxygen in his victims just after he had choked them to death. Like the Strangler, the Fed has been too restrictive. Every small business manager in America has thumbprints on his neck. The credit markets today are not open for business, and as a result eight consecutive years of economic growth are now over.

This will certainly be recorded as a recession, since both third- and fourth-quarter GNP growth are likely to be negative. But it looks and smells more like a financial panic than the traditional inventory recession of the textbooks. Consumer durable demand is soft, reflecting a rising saving rate, but capital goods and exports are strong. Steel orders, the traditional indicator of recession, are strong as well. The focus of this downturn is finance, where falling real estate prices have eroded collateral values and brought lending to a virtual standstill.

### Not Just the Fed

It's not fair to blame the Fed for the entire problem. Not only is the Federal Reserve Board deflating the economy's balance sheet, but the Treasury Department has dispatched hordes of bank examiners across the country, who have effectively dried up working capital for small business. Meanwhile Congress, after refusing for a decade to restrain its spending, is determined to raise every tax in the book now that it has a president who is soft on taxes. And the president, after campaigning brilliantly two years ago on a Son-of-Gipper (Giplet?) platform, has decided he wants to be leader of the tax-raising pack. With the most anti-growth set of policies since the late 1970s in place, the Middle East crisis is almost redundant.

There's a song now making the rounds of the country music stations called "Saddam Hussein, you're the one to blame." Although he certainly qualifies as greatest villain of 1990 in every other way, Saddam did not create the U.S. recession. The recession had already been built into the economy by July. Forty dollar per barrel oil prices have pushed growth down still further, of course, (by about a half percentage point this quarter and next) and the risk of a shooting war has temporarily raised the real cost of capital in the security markets. But when it is all over, oil will turn out to have been a side show in this recession.

There is no oil price that is too high or low for an economy. What matters is whether the price is what people thought it was going to be when they built their businesses and organized their lives. When the price of oil jumped in the 1970s, energy inefficient assets suddenly sold at a discount in resale markets, and capital goods producers were encouraged to design energy efficient assets in their place. So, gradually, the finned Cadillacs and single-paned windows of the early 1970s gave way to Hondas, smart thermostats and heat reflective glass, raising the shadow oil price, the oil price embodied in the physical structure of America's capital stock, from $3 per barrel in 1973, to about $24 per barrel today.

It is only to the extent that the economy believes that oil prices will remain above the current shadow price of $24, that oil prices pose a serious threat to the long-term growth rate of the U.S. economy. Today, of course, prices are temporarily much higher. This has contributed to our current slowdown by causing both consumers and corporate managers to delay planned expenditures and by depressing stock and bond prices. But the economy was already slowing sharply in July for entirely home grown reasons.

In chemistry class you learn that combining otherwise benign ingredients can sometimes blow up the lab. Ironically, it is the combination of three otherwise positive events, the Fed's newfound zeal for zero inflation, the strong productivity performance of U.S. manufacturing companies and the Treasury's desire to shore up the capital structure of our commercial banking system, that have cut the heart out of economic growth.

Zero inflation is a terrific idea. But inflation of what? Analytically, inflation is bad for an economy for the same reasons tax shelters are bad: It distorts investment choices. Inflation artificially subsidizes the real after-tax return on the ownership of tangible consumption assets like cars, boats and houses, relative to the returns on bonds, stocks and other financial assets. Over time, this causes people to rebalance their portfolios toward the subsidized assets, diverting saving flows away from new tools and factories and toward hotels, office buildings and shopping centers.

But these analytical arguments only apply to physical, storable goods, not to services like haircuts and guitar lessons. It is for real goods prices that zero inflation is the right target. Unfortunately, the Consumer Price Index, the deflator and most other price indexes used by the Fed to measure inflation are heavily weighted toward services. More than half of the CPI, for example, is accounted for by service prices. When goods and service prices diverge, as they are doing now, the Fed is misled into crippling the industrial economy.

The problem is the productivity wedge between manufacturing and services. For most of the past decade, U.S. manufacturing has turned out an impressive productivity performance, with increases of more than 4% per year. The service sector, in contrast, has had a difficult time raising productivity at all. This discrepancy created the glut of manufactured goods that caused the much-maligned employment shift out of manufacturing and into service sector jobs during the 1980s. (A shift that, as William Baumol has pointed out on this page, has taken place in every major industrial country in the world.) The productivity wedge, in turn, has created an inflation wedge: Real goods prices are consistently falling by 4% to 5% per year relative to service prices.

For the first seven months of this year, for example, the goods component of the CPI only grew at a 1.8% annual rate. But service prices grew at 5.8%, so the CPI came in at 4.1%. The Fed, focusing on the CPI, thinks inflation is too high and is reluctant to provide sufficient credit for growth. It is possible, of course, for the Fed to tighten policy hard enough, for long enough, to bring the CPI inflation rate down to zero. Because of the productivity wedge, that can only be accomplished by a deflation of goods prices of 2% to 3% per year. But the stock of goods makes up the collateral of the nation's banking system. And deflating the banking system's collateral does not make for a healthy economy.

For manufacturing companies this situation implies a chokingly high real interest rate. A steel company I visited last week, for example, had done a great job running their business during the past year. Real volume had risen by 5%. The price of the company's product, however, had fallen by 7% over that same year. But the company's interest obligations are not falling. The managers must therefore make their payments out of declining dollar revenues and falling inventory valuations. For them, the real interest rate—the difference between the interest rate they pay (10%) and the change in the price of their product (-7%)—is a staggering 17%. For many managers today, the effective real interest rate is much higher than that, because they can't get capital at all.

What the Fed should be doing is targeting the long-term behavior of goods, not services, prices—not just those of newly-produced goods, but those of goods in the resale markets as well, including real estate and commodities. And right now those prices are either flat or falling. It is easy to see that the Resolution Trust Corp. workout, which will force the sale of hundreds of billions of dollars in real estate, is going to put downward pressure on the prices of those assets. That will, in turn, undermine the capital adequacy of the banking industry, of life insurance companies and of corporate owners of fixed assets. These balance sheet problems, and the regulators' response to them, have effectively paralyzed the financial system's ability to provide working capital to our businesses, and led to a steady slowing of the economy all year.

### Tax Folly

It is fashionable in Washington these days to despair of the budget crisis, and to talk about the need to raise taxes in order to balance the budget and rescue the economy. But a world that is starving for new capital is not going to allow lower interest rates in the U.S. whatever its budget policy. In an environment like this, where companies are gasping for the capital they need to run their businesses, it is the height of folly to raise taxes.

Higher tax rates will only worsen the cash crunch that has brought the economy to the brink of recession, slow growth further and shrink tax collections. The budget imbalance does need to be solved, but not through a Saturday night massacre of sin taxes. Rather, the U.S. must take steps now to restore the smooth flow of credit to businesses, in order to keep the financial panic from worsening.

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# Gas Tax Snarls Budget Debate

■ **Deficit:** An amendment to delete the 9.5-cent-a-gallon increase threatens the entire bipartisan Senate package. Leaders of both parties scramble for votes.

By WILLIAM J. EATON, TIMES STAFF WRITER

WASHINGTON—The Senate hit a major snag Wednesday over whether to increase the federal gasoline tax, raising doubts about whether the $500-billion deficit reduction package hammered out by leaders of both parties could be passed intact.

Balloting on a 9.5-cent-a-gallon boost in the gasoline tax was billed in advance as a test vote on the broader budget package: If senators voted to keep the gasoline tax provision, the budget measure would pass intact. If it failed, the entire package would be doomed.

But by Wednesday evening, Senate leaders found themselves facing a sea of potential amendments to the package that effectively would have tied up the chamber all night, pushing the legislation dangerously close to the midnight Friday deadline for completing the budget.

As the Senate moved toward a late vote on an amendment to eliminate the gasoline tax increase from the package, Democratic and Republican leaders spent most of the afternoon scrambling for votes. The amendment was sponsored by Sen. Steve Symms (R-Ida.).

By early evening, the outlook for the amendment was uncertain at best. Debate continued late into the night.

Failure to act on the budget package quickly could throw the government into another weekend of fiscal chaos, prompting President Bush to shut down government services when the current funding authority runs out at midnight Friday, as he did on Columbus Day weekend.

Bush has said he favors the Senate's plan over that voted Tuesday by the House. The House measure, approved 227 to 203, would raise taxes for all Americans, particularly for those in higher-income brackets.

"It's a toughie," said Sen. Lloyd Bentsen (D-Tex.), chairman of the Senate Finance Committee, who led the battle to preserve the gasoline tax provision. "I think we'll get it [a majority], but it'll be a hell of a fight."

Majority Leader George J. Mitchell (D-Me.) and Minority Leader Bob Dole (R-Kan.) warned that eliminating the gasoline tax, resulting in the loss of $42.6 billion in revenue over the next five years, would scuttle their efforts to pass a budget plan endorsed by Bush.

The budget package, which had been passed, 15 to 5, by the Senate Finance Committee, faces strong election year opposition, despite increasing pressure to meet the deadline for final congressional action on deficit-cutting legislation.

In a party-line vote, the House on Tuesday night defied Bush's veto threat and approved the Democrat-sponsored plan that would raise taxes, primarily on the rich but hitting all taxpayers to some degree, and reduce spending to reach the $500-billion deficit reduction target.

The House-passed measure would keep federal gasoline taxes at the current 9 cents a gallon.

Assuming that the Senate can pass its version of the legislation, negotiators for both chambers would hammer out a final compromise bill for ratification by Congress before it is sent to the President for his consideration.

The White House backed off somewhat Wednesday from its threat to shut down the government if Congress had not finished its work before the government's spending authority expires.

John H. Sununu, White House chief of staff, said he expects the President to sign another stopgap spending resolution if the lawmakers show that they mean business about passing a deficit reduction plan along the lines of the Senate committee's bill. Senate progress slowed to a crawl Wednesday, however, as supporters worked behind the scenes to try to round up the 51 votes needed to defeat the Symms amendment.

Symms, who said he opposes all tax increases in the package, argued that the gasoline levy would weaken the economy and place an unfair burden on commuting workers, rural residents and older people.

"This is a good test of whether we want to raise taxes or freeze spending," Symms told the Senate.

But Dole, one of the architects of the budget summit agreement that was defeated by the House, said Senate rejection of the gas tax would doom this second-time-around package too.

In an impassioned speech, Dole said the defici reduction effort that was started in May would be lost. "If we can't win this one, we might as well wrap it up," Dole said. "If this amendment passes, count me out."

Mitchell, who also staked his prestige on the outcome of the vote, agreed with Dole on the importance of retaining the gas tax. "This is a test of the Senate as an institution," Mitchell warned.

"Do we have the minimum level of courage necessary to do something that is unpleasant, difficult and unpopular? Once we start down that road [of deleting proposed tax increases], this deficit reduction effort will be over."

Some senators who supported the leaders' efforts to preserve the gasoline tax in the package served notice in advance that they expected it to be removed or scaled back sharply in a Senate-House conference.

"We can't pick this apart one item at a time," said Sen. Dale Bumpers (D-Ark.), who said he traditionally opposes raising the gas tax but would vote to preserve it to get a budget bill into a Senate-House conference, where it might be dropped.

Several senators who face reelection contests Nov. 6, however, indicated that they would vote to knock the gas tax provision out of the package, despite the leaders' warnings. Sen. Kent Conrad (D-N.D.) proposed to trim the increase to 5 cents a gallon, with increases on upper-income taxpayers to make up for the loss of revenue.

Others indicated that they expect the Senate-House conference to produce a plan that would place greater burdens on wealthy Americans and less on middle-income and lower-income families.

"I want the [Senate] conferees . . . to be fighting for more progressivity," said Sen. Bob Kerrey (D-Neb.). But his home state colleague, Democratic Sen. J. James Exon, who is in a tough race for reelection, said he would oppose any tax increases at this time.

"The price of gas is so high now," said Sen. William S. Cohen (R-Me.). "This is not the time to raise the gas tax."

THURSDAY, OCTOBER 18, 1990 The Washington Times

# Bush's strategy is to 'play tough'

By Paul Bedard
THE WASHINGTON TIMES

President Bush's campaign against "tax and spend" congressional Democrats this week was mapped out by staff strategists scrambling to sideline the House budget plan and bolster the chances of a moderate Senate package, according to senior officials.

The strategy — crafted last Friday at the White House after the House Ways and Means Committee's plan emerged — also was devised to blunt Democratic charges that the White House was trying to protect the rich from tax increases, Bush administration officials said.

Mr. Bush's focused attack on Democrats this week followed a week in which the White House sent confusing signals on its tax positions, and the president's public-approval rating dropped substantially.

"We didn't have a strategy last week," a senior official conceded yesterday. "But now we have one and the strategy now is to play tough."

The White House was surprised when the House rejected the bipartisan budget deal forged at the so-called Andrews Air Force Base summit and fumbled for more than a week before drawing up its own offensive, administration officials said.

After the summit defeat, House Democrats attacked the administration's refusal to approve higher income tax rates for the rich, as the president awaited a better Democratic proposal.

The White House went to battle stations Tuesday when Ways and Means Committee Chairman Dan Rostenkowski, Illinois Democrat, pushed through a budget package opposed by the president. The plan would increase the income tax rates for most Americans, but would hit hardest the top and middle-income earners. It also includes a cut in the capital gains tax, a centerpiece of Mr. Bush's 1988 campaign.

The White House had not offered a plan and House Republicans were unsuccessful in getting an alternative plan on the floor.

"The decision to attack the Democrats was made on Friday once it was clear what [the] Rostenkowski [plan] was," said an administration official who helped mold the attack strategy.

"We felt it would be bad if it picked up steam," because it would force the Senate Finance Committee to include a tax-rate change in its more moderate package, the official said.

Mr. Bush said he backs the Senate plan because it resembles the summit deal, which did not raise income tax rates but still met White House calls for a $500 billion cut in the deficit over five years. The Senate plan was written by Finance Committee Chairman Lloyd Bentsen, Texas Democrat.

Republican National Committee spokesman Charles Black said Mr. Bush spent last week trying to revive the bipartisan summit deal but found himself being bruised by Democrats and critical Republicans.

After that effort failed, Mr. Black said, the administration reasoned that it was time "to beat up on the Democrats" and "make them pay a price at the polls" by cloaking them in the "tax and spend" garb.

To fight the House budget plan and rebuff Democratic attacks, the White House decided late last Friday to dispatch chief of staff John Sununu, Budget Director Richard Darman and Vice President Dan Quayle to network television studios around town to berate the Democrats.

Mr. Bush, meanwhile, hit the campaign trail with a vengeance, traveling this week to five states and blasting House "liberal Democrats" for designing a budget package that "is a big Democratic tax plan."

Last week, Mr. Bush had been soft on the Democrats because the president was unsure what type of tax package House Democrats would propose, aides said yesterday.

"But now that ghost has been replaced by a real thing that we can fight now. We have an enemy," said a senior administration official.

At three separate campaign stops on Tuesday, Mr. Bush lashed out at House Democrats and even criticized Speaker Thomas Foley.

"When you hear this liberal crowd that runs the Congress in Washington talking about taxing the rich, they're going to be after you the next thing you know because that's the way it works — tax and spend, tax and spend," Mr. Bush told a wildly cheering crowd of 2,500 in Glen Ellyn, Ill.

The House budget package, approved Tuesday on a party-line 227-203 vote, cuts Medicare and defense spending, taxes luxury items, increases the top income tax rate to 33 percent for wealthy Americans and delays the 1991 income-tax indexing that helps middle-income earners adjust tax brackets for inflation.

Mr. Black said yesterday that the House plan copies former President Carter's tax plans. "Those policies led us to double-digit inflation, more than 20 percent interest rates and poverty rose. By deferring income tax-rate indexing, the Democrats are trying to tax every American taxpayer in all brackets."

Thomas Mann of the Brookings Institution said "it's been moderately effective."

He said the White House hope of getting a budget deal that resembles the Senate version by Friday — when the government's emergency funding ends — "is salvageable."

"They also want to blunt the Democratic gains of the past two weeks," he said.

The White House hopes to join the anti-incumbency revolt sweeping the United States, officials said. "There's a general anti-incumbency feeling out there that we are trying to mine," said one top administration official.

On that front, Mr. Bush has campaigned as a Washington outsider, a theme that helped former President Reagan take the White House from the incumbent Mr. Carter.

# Jittery Senate moves slowly on budget bill

By Major Garrett and Paul Bedard
THE WASHINGTON TIMES

The Senate yesterday lumbered toward approval of a massive deficit-reduction bill as its leaders strained to shepherd the painful combination of new taxes and spending cuts past senators suffering election-year anxiety.

A protracted dispute over proposed gasoline taxes illustrated the political difficulty of corralling enough votes for deficit reduction less than three weeks before Election Day.

Western senators led by Steve Symms, Idaho Republican, offered a motion to strike the proposed 9½-cents-per-gallon gasoline tax increase. That threatened to pare $40 billion in new revenue from the five-year deal that promises $500 billion in deficit reduction.

"Grab your wallets and run for cover because Congress is getting up a head of steam to raise your taxes," said Mr. Symms.

Another measure, offered by Sen. Kent Conrad, North Dakota Democrat, proposed scaling back the gasoline tax in exchange for a raft of new taxes on the wealthy. However, that approach was rejected 67-32, with Republican Sen. Mark Hatfield of Oregon absent.

The House-passed budget plan, threatened with a presidential veto, does not include an increase in gasoline taxes. The original budget summit plan did include 12 cents in additional gasoline taxes over the next year.

Senate Majority Leader George Mitchell of Maine and Minority Leader Robert Dole of Kansas lobbied senators for hours to defeat both measures. The White House joined the effort late yesterday when it appeared Mr. Symms was close to the 50 votes needed.

"The only assault they're interested in against the federal budget deficit is the verbal assault," said Mr. Mitchell, referring to the anti-gasoline tax coalition. "You can't pick this thing apart one item at a

**SENATE PLAN**

Would raise $17.5 billion in fiscal 1991 and $142.1 billion over five years:

- **Gas tax per gallon:** +9.5 cents
- **Cigarette tax per pack:** +8 cents
- **Surtax on luxury goods:** 10 percent
- **Limits deductions on incomes above $100,000.** Worth $29.3 billion.
- **Increases beer, wine and distilled spirits taxes.** Worth $9.1 billion.
- **Increases airport aviation taxes.** Worth $11.8 billion.
- **Increases income subject to Medicare payroll taxes from $51,300 to $89,000.** Worth $19 billion.

The Washington Times

time."

Persuasion came slowly, however. Both leaders found senators uneasy about voting for higher fuel taxes with the price of gasoline already at an all-time high.

Congress is already behind schedule in its attempt to reach a budget compromise by midnight Friday, making the delays particularly irksome. At 12:01 a.m. Saturday the government would run out of money for the third time since the fiscal year began Oct. 1.

President Bush said yesterday he would sign a third stopgap spending bill if the final budget compromise conformed to the Senate package — meaning it did not raise income tax rates. The Senate package also resembles the original "budget summit" agreement rejected by the House Oct. 5.

"If there was a deadline extension that carried with it a really significant reduction of the deficit ... to show Congress meant business about it, I'm sure the president would consider that as a good-faith extension," said White House Chief of Staff John Sununu on NBC-TV's Today Show.

The House passed Tuesday a five-year, $500 billion budget package authored by Rep. Dan Rostenkowski, chairman of the House Ways and Means Committee. The plan called for $149 billion in taxes — including income tax increases — but promised $250 billion in spending cuts.

Several White House officials said Mr. Bush has been working behind the scenes with several senators to bolster the chances of the Senate plan, written by Democratic Sen. Lloyd Bentsen of Texas, chairman of the Finance Committee.

Mr. Bush's aides are waiting for the Senate to approve its plan so that they can join the House-Senate conference committee and influence the final product, said Mr. Fitzwater.

"We want to have a role there to try to shape a bill that the president can sign that gets real deficit reduction and does not raise people's taxes," said Mr. Fitzwater.

## COMPETING PACKAGES

**Congress is considering two tax packages. The House plan passed Tuesday on a 238-192 vote. The Senate was expected to pass its version last night or early today. The two plans are based on figures through 1995.**

| | SENATE | HOUSE |
|---|---|---|
| Revenue in 1991 | $17.5 billion | $22.4 billion |
| Revenue through '95 | $142.1 billion | $148.6 billion |
| Gas tax per gallon | +9.5 cents | 0 |
| Cigarette tax per pack | +8 cents | +8 cents |
| Tax on luxury goods | +10 percent | +10 percent |

**Senate version also would:**
- Limit deductions on incomes above $100,000, worth $29.3 billion.
- Increase taxes on beer, wine and distilled spirits, worth $9.1 billion.
- Increase airport aviation taxes, worth $11.8 billion.
- Increase income subject to Medicare payroll taxes from $51,300 to $89,000, worth $19 billion.

**House version also would:**
- Create a new 33 percent tax bracket for wealthiest taxpayers and raise average minimum tax for high-income earners. Worth $50 billion.
- Add a 10 percent surtax on income over $1 million. Worth $7.6 billion.
- Delay indexing for income tax brackets in 1991. Worth $36 billion.
- Increase taxes on beer, wine and distilled spirits. Worth $9.3 billion.
- Increase aviation taxes. Worth $11.9 billion.
- Increase income subject to Medicare payroll taxes from $51,300 to $100,000. Worth $22 billion.

Source: Congressional Joint Committee on Tax

The Washington Times

Despite earlier pessimism, the White House is now confident that a budget deal can be struck before Friday's deadline and thus a government shutdown can be averted. Without a compromise or emergency spending bill, thousands of federal workers will be furloughed and government services will be disrupted.

The House-passed package raises income tax rates on the wealthy from 28 percent to 33 percent while the Senate bill leaves the top rate at 28 percent. Also the House bill would delay income-tax indexing — a mechanism that adjusts tax brackets for inflation — which would raise taxes for most Americans.

Other sticky differences remain on other tax increases and distribution of spending cuts, but it appears the White House has reduced its lobbying efforts to hold down income tax rates.

On the floor of the Senate and behind closed doors, key senators warned colleagues that striking the gasoline tax — or any other unpopular provision — would destroy the bill and scuttle six months of intense negotiations between Congress and the White House.

"I can tell you that striking this tax will put the entire deficit reduction effort in very great peril," said Mr. Bentsen.

The White House, meanwhile, continued to pummel the House budget plan. Vice President Dan Quayle, a key player in the budget debate, said Mr. Bush objects to the higher income tax rates and the delay of indexing for one year.

To fight the House plan, the administration sent Mr. Quayle and Mr. Sununu before television cameras to characterize the Rostenkowski package as a burden on middle-income Americans.

Continuing the drumbeat on Mr. Rostenkowski's package, Mr. Fitzwater yesterday accused House Democrats of approving a "politically inspired" tax deal "that makes it clear to the American people what the Democrats stand for, which is higher taxes on the working men and women of this country."

# Texas Rep. Smith rallies both parties to cut waste

By George Archibald
THE WASHINGTON TIMES

Rep. Lamar Smith of Texas is convincing a lot of fellow House Republicans and some Democrats that he has a sensible and easy way to solve the budget deficit crisis without raising taxes by $134 billion.

He's signing them onto his plan to cut wasteful federal spending the same amount by requiring federal agencies to reduce out-of-town official travel, long-distance telephoning, printing and other overhead costs by just 10 percent.

"What federal manager cannot take nine trips instead of 10 trips this year?" Mr. Smith asks. "What federal manager cannot cut printing costs or equipment costs by 10 percent? Businesses routinely cut their overhead in rough economic times, and the federal government has never once made an effort to specifically focus on or cut its overhead or indirect costs."

House GOP leader Robert Michel of Illinois and many members of both parties have signed on to Mr. Smith's plan.

Meanwhile, as budget deliberations between Congress and the White House have dragged on, taxpayer groups have marshaled their forces to change the focus from tax increases to cuts in wasteful spending.

Citizens Against Government Waste, founded by J. Peter Grace and other members of the Reagan administration's cost-cutting Grace Commission, has reissued 107 unimplemented suggestions made by the commission to reduce the deficit by $305 billion over the next five years.

The savings include:

- $25 billion by requiring federal agencies to employ private sector-type debt collection methods to collect delinquent government loans to college students, veterans, small-business men, farmers and other individuals. There are now $125 billion in unpaid delinquent loans owed to the government.
- $26.5 billion by making the Federal Aviation Administration a private corporation and replacing federal airport grants with a $3 user fee on airline tickets.
- $14.5 billion by requiring employers to deposit accumulated payroll taxes of $3,000 or more within a day of issuing paychecks.
- $7.5 billion by auctioning electric power generated from 127 federal dams, rather than giving it to selected customers at 1930s prices.
- $3.5 billion by closing military commissaries except in remote or militarily sensitive areas.

The Heritage Foundation, which supports many of the same proposals, estimates that Congress could save at least $131 billion each year if its own menu of cuts in wasteful spending was enacted immediately.

Heritage notes that new federal revenues from past tax increases will increase $373 billion over the next five years.

"Rather than using these funds to reduce the budget deficit . . . every dollar in new revenues has been accompanied by more than a dollar of new spending," wrote Heritage fellow Daniel J. Mitchell in a recent budget analysis.

In action on the first six of 13 required appropriations bills, "the 'controllable' portion of the federal budget will balloon by at least $75 billion over fiscal 1990 levels, Heritage fellow Scott A. Hodge said in a separate analysis.

The foundation cites the following examples to show that "Congress is addicted to pork-barrel spending":

- $700,000 to build a 10-story replica of the Great Pyramid of Cheops and an 800-foot replica of the Great Wall of China in Bedford, Ind.
- $221,000 to send 21 members of Congress and their aides to the Paris Air Show.
- A $107,000 grant from the National Science Foundation and the National Institute of Mental Health for a study of "sexual looking, classical conditioning of sexual arousal, and improvement of copulatory performance with practice" of the Japanese quail. The study concluded that male quails prefer female quails over male quails and female ducks for mating purposes. Congress renewed the study with another $100,000 grant.
- $84,000 to study why people fall in love.
- $68,000 to send officials of the Urban Mass Transit Administration to Disney World to study the secrets of the Disney transportation system.
- $46,000 to study how long it takes to cook breakfast eggs.
- $2,500 to study the causes of rudeness, lying and cheating on tennis courts.

## CUTTING BUDGET WASTE

Suggestions for cutting government spending by $427 billion over five years as proposed by federal auditors, the Grace Commission and private taxpayer groups.

- **Travel, telephone, printing** — Require government officials to cut 1 in 10 out-of-town trips and 10 percent of each federal agency's telephone, printing and other overhead costs. **Savings:** $134 billion in five years.
- **Unpaid debts** — Require federal agencies to collect one-fifth of delinquent loans owed by students, small businessmen, farmers, veterans and others. **Savings:** $25 billion.
- **Cash management** — Pay interest to state governments for late disbursement of federal funds, and require states to pay interest to U.S. Treasury for early drawdowns on federal grant funds. **Savings:** $200 billion in five years.
- **Cut subsidies** — End subsidies to keep farmland out of production for corn, wheat and 12 other farm commodities. **Savings:** $58 billion in five years.
- **Obsolete bases** — Remove regulatory barriers to closing obsolete and strategically unnecessary military bases in the United States and overseas. **Savings:** $10 billion in five years.

CHRISTOPHER MATTHEWS

# Ballad of capital gains

Like Gen. Douglas MacArthur at Inchon, Democrat Dan Rostenkowski of Illinois has outflanked President Bush and amputated his supply lines.

The issue is capital-gains taxation. For the first time on record, Mr. Rostenkowski has seized this political prize from the country's financial elite and presented it, gift-wrapped, to the great American middle class.

Consider the deal that the 61-year-old Ways and Means chairman is offering us as the budget standoff reaches its final days!

Under Rosty's plan, included in the House-approved budget bill, every U.S. citizen can sell any item of property — a plot of land, a summer home, a boat, an antique, a vintage car, anything that's increased in value — and get a 50 percent tax cut on the profits.

As you might expect in these times of budget crunch, there's a limit to this bonanza. To ensure that everyone gets a piece of the action and the U.S. Treasury doesn't suffer another leak, Rosty's national garage sale would be limited to $200,000 a taxpayer.

While this $200,000, once-in-a-lifetime opportunity may not arouse much interest in some mahogany-rich boardroom, it's a jackpot to folks who figure their financial future on the kitchen table.

What effect will the Democratic plan have on next month's congressional elections?

A stampede is one possibility, and not in the direction of Mr. Bush's Republicans.

Consider the two parties' relative field positions as the budget story reaches its suspenseful climax. Just two weeks ago, Mr. Bush was the guy pitching a cut in capital gains. He was the fellow on the side of economic growth, the leader pushing tax incentives to stimulate the economy and avert full-scale recession.

Now, hardly two weeks before elections, the debate is totally different. Due to the Ways and Means chairman's maneuver, the question is no longer whether Congress should support Mr. Bush's plan to help the elite but whether Mr. Bush himself should obstruct Mr. Rostenkowski's plan to share the capital-gains windfall among the country's struggling class, those tens of millions in the economic middle.

This puts all the political cards in the opposition's hand. The Democrats, not Mr. Bush, are the folks pushing a cap-gains tax break on the evening of the election. They, not Mr. Bush, are the party of "fairness" — a buzzword which gains new, emergency voltage as more and more sectors of the American economy switch from "on" to "off."

Mr. Rostenkowski's plan isn't perfect. It denies taxpayers credit for inflation, for example, while failing to slap an energy-conserving tax on gasoline. It is the best vehicle the Democrats have rushed to market since New Frontier days.

Rosty's tax plan is also a personal milestone. It is a prime-time argument against moves such as California's Proposition 140 to limit the terms of legislators. Mr. Rostenkowski came to Congress in 1958 as a captain in Chicago's Daley machine. Today, he's a legislative MacArthur.

Anyone who doubts Rosty's tactical success on the capital gains issue should watch the lips and hips of the man he beat.

After spending two years serenading Chamber of Commerce and Rotary luncheons with his high-C call for capital gains, the ex-booster in the Oval Office no longer wants to hear about it.

While Mr. Rostenkowski shows the value of having a grown-up around the house, Mr. Bush is like the little rich kid who, seeing the other side about to score, wants to stop the game and close the government.

"It's my ball," he says, "and I want to go home!"

*Christopher Matthews, Washington bureau chief for the San Francisco Examiner, is a nationally syndicated columnist.*

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THURSDAY, OCTOBER 18, 1990

# Federal belts don't tighten without pain

'There are spending cuts planned that will very much affect people's lives'

By Sharen Shaw Johnson
USA TODAY

Washington will get you coming and going this year.

Congressional votes to boost taxes on everything from sailboats to six-packs may have snared the lion's share of attention this budget season.

But both House and Senate budget plans indicate the bulk of 1991 deficit-cutting actually will come from spending cuts and fee hikes, not tax hikes.

The Senate five-year plan, which President Bush favors, calls for just 28% of deficit cuts to come from tax hikes; the House plan, 30%, says the Congressional Budget Office.

"There are spending cuts planned that will very much affect people's lives," says Paul Leonard of the private Center on Budget and Policy Priorities. "Cuts in the farm price support programs that will reduce the income and change farming decisions individual farmers make. . . . Medicare provider cuts that will threaten the operation of some hospitals. . . . Restrictions on student loans programs that will limit the access of teen-agers to colleges."

It isn't all the politics of scarcity. Congress plans "modest expansions of the Medicaid program to provide health insurance for poor families and children," Leonard says.

But taxpayers will have to pay more even if they want to gripe to Congress about paying more: Plans now call for extending a phone excise tax to pay for a national child care program, and the Postal Service says its budget burden likely will mean an extra increase in the cost of stamps.

Final details and figures will be worked out in House-Senate conferences and, presumably, with the White House. But all three factions already agree on most non-tax provisions for paring the deficit. Accordingly, here's what to expect:

▶ Education: The only students hurt by House education cuts would be those attending 330 colleges where the loan default rate is above 35%. They'd be ineligible for federally subsidized Stafford loans, the most popular student aid program.

Almost all affected colleges are for-profit schools that train students for specific jobs such as secretary. "A school with a default rate that high deserves to lose its eligibility," says Marvin Carmichael, student aid director at Clemson University.

An inconvenience, say financial aid experts: The bill would delay the loans 30 days to first-time borrowers, to weed out students who take the cash then drop out. Result, says Ron Shunk of Gettysburg (Pa.) College: Most schools will have to "carry a lot of students on credit for a month."

▶ Health care: House and Senate panels, unwilling to make deeper incursions into the pockets of well-organized and vocal senior citizens, called for Medicare recipients to pay $17.2 billion more over five years — but for doctors and hospitals to get $33.08 billion less for caring for those patients.

"We are concerned patients will suffer, either through having access to care or quality of care impaired," says Paul Reddick of the American Hospital Association. Medicare reimbursements have been cut for several years running, he says. "It's the cumulative effect that will affect care; in some cases, this already has contributed to closure of hospitals, closure of trauma units. . . . Something like 70% of the time, hospitals lose money caring for Medicare patients now."

From doctors' standpoint, says Dr. James Todd of the American Medical Association, "It means patients . . . are going to get less care." But he also sees the political advantage behind the budget policy: "This is an area where (lawmakers) can cut and realize they don't have a huge constituency out there that is going to cause them a great deal of political trouble."

▶ Insurance: Plans call for decreasing the tax write-offs life insurance companies can claim for commissions paid to agents, and for changing the tax rules for reserves insurers of property set aside to pay claims. Result, say industry spokesmen: $9.1 billion more in the federal treasury.

"If you own stock in a life insurance company, or if you own a policy, you'll be affected," says Gene Grabowski of the American Council of Life Insurance. Insurers' options: Raise premiums, cut dividends or dip into net worth, which "has the potential to drive scores of companies to the edge of bankruptcy."

He points out that life insurers alone will contribute $8 billion to the anti-deficit campaign — but appears resigned: "The banks and S&Ls no longer have any disposable income. We haven't really been rocked by this coming recession. It's like what Willie Sutton said when they asked him why he robbed banks: 'Because that's where the money is.'"

▶ Veterans: House and Senate veterans panels have recommended higher fees for veterans' home mortgages, delaying for a month cost-of-living increases for disabled veterans and charging $2 for prescriptions filled for some veterans' hospital outpatients. Also recommended: making private insurers pay for health care unrelated to a veteran's military service. Estimated savings: $3.6 billion over five years.

"The intent is not to cut anything drastically but make essentially surgical cuts in a whole variety of benefits," says Phil Riggin of the American Legion. The problem, he predicts: "Restrictions to medical care through some of these program savings" will force veterans to "get it elsewhere" — and enough of them will qualify for public assistance that "in the end, it's going to be more expensive to the taxpayer."

▶ Agriculture: Senate and House conferees have agreed on a new farm bill axing federal programs 25%. Agriculture's share of the five-year deficit-cutting plan: $13.6 billion. Most of the savings — $8 billion — would come from reducing by 15% the cropland eligible for yearly subsidies.

"It's a start" toward free market farm policies, says Deputy Undersecretary of Agriculture John Campbell.

Dave Lane of the American Farm Bureau Federation isn't so sure. "We've been preaching the free market approach to agriculture but this just doesn't get us there," he says. The farm bill is "so complicated and has so many parts" that "it's going to end up in more government regulation."

▶ Defense: House and Senate negotiators recommended a $289 billion defense spending bill Wednesday that calls for cutting the 2.1 million active duty forces by 100,000 and raising military pay 3.5%, not the 4.1% President Bush sought.

But, says Leonard, a deal reached in the White House-Congress budget summit — and still alive — would bar Congress from diverting any money saved from defense cuts to domestic programs — effectively postponing the "peace dividend."

▶ The grab-bag: Other proposals: raising premiums paid by most future home buyers; increasing federal flood insurance premiums about $25 per policy; charging each plane and ship $1 per arriving international passenger; and starting to charge people to use some campgrounds, swimming beaches and boat launching ramps run by the Army Corps of Engineers.

For most Americans, says Rep. Bob Dornan, R-Calif., the budget's combination of tax increases and spending cuts "will be a double hit . . . People loathe taxes but they love tax cuts and programs that benefit them. Americans are still living this life, passionately, on both sides."

# Senate races clock for a budget deal

By Richard Wolf
USA TODAY

Senate leaders from both parties steered a deficit-cutting package around a roadblock late Wednesday by blocking a vote on its 9½-cent-a-gallon gas tax hike.

Racing to avoid another government shutdown at midnight Friday, the Senate used a procedural maneuver to block an amendment leaders said threatened the entire package.

"You can't pick this thing apart one item at a time," said Senate Majority Leader George Mitchell, D-Maine. "Once we start down that road, we'll end up at zero."

Added Minority Leader Robert Dole, R-Kan.: "This senator would like to finish this bill and leave Washington."

Before that can happen:

▶ The Senate today must complete action on its package of tax hikes and spending cuts.

▶ It then must be reconciled with a House version raising income taxes on the wealthy and leaving gas taxes unchanged.

▶ President Bush — who vows to veto the House bill but backs the Senate plan — then must sign the compromise.

The Senate bill spreads the deficit reduction burden more broadly than the House; the House hits the wealthy more.

Earlier, the Senate defeated 67-32 an amendment to boost income taxes on the wealthy. That weakens the House's hand in upcoming negotiations.

Sen. Steve Symms, R-Idaho, attacked plans to double the gas tax, which raises $43 billion over five years. "It's socking it to middle-income working Americans," he said. He lost 59-40 on a procedural vote.

With the 1991 budget now 18 days overdue, White House budget director Richard Darman said Bush may sign a third stopgap spending bill Friday if progress is being made on the overall $500 billion package.

White House Chief of Staff John Sununu urged: "Get (the Senate plan) on the president's desk and he'll sign it."

The Philadelphia Inquirer
Thursday, October 18, 1990

# Senate stops a bid to raise tax on rich

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

WASHINGTON — The Senate last night easily blocked a bid to change a budget bill to include increased income taxes on the rich, but opposition to a proposed higher gasoline tax still posed a challenge to the bipartisan measure, which has backing from President Bush.

An amendment by Sen. Kent Conrad (D., N.D.) called for a new 33 percent top income tax rate, a 10 percent surtax on incomes of more than $1 million and scaling back proposed cuts in Medicare and farm subsidies.

Consideration of the Conrad amendment was blocked, 67-32, on a procedural vote. It was the first test of a tenuous coalition supporting the compromise budget being considered in the Senate.

"Adoption of this amendment will make a very strong statement," said Senate Majority Leader George J. Mitchell (D., Maine), "[but] it will result in no law."

Approval of the Conrad proposal would invite a presidential veto of the deficit-cutting bill.

Another amendment the Senate was to consider also threatens to derail the budget bill. That amendment would eliminate the proposed 9½-cent increase in the gasoline tax in the Senate bill. If that tax were cut, the bill would fall short in new revenue to reduce the deficit.

With a final vote expected today on a deficit-reduction package that raises taxes and cuts benefit programs, the Senate worked late into the night.

Whatever plan finally clears the Senate, it must be reconciled with a House-passed bill that would raise income taxes on the rich while giving the middle class a tax break, and further easing the Medicare cuts.

Mitchell and Minority Leader Bob Dole of Kansas faced a daunting challenge in the form of an amendment by Sen. Steven D. Symms (R., Idaho) that would eliminate the proposed gas tax increase.

"I think the gas tax is a good issue to draw the line on," said Symms. "This tax clearly strikes at the very heart of the ... working families of America."

Opposition to the gasoline tax from conservatives and senators from Western states forced the leaders to scramble for votes.

"If we can't win this one, we might as well wrap it up," said Dole.

Symms' amendment would eliminate $42 billion of the $142 billion in new revenues called for in the compromise plan.

Symms, who opposes raising any taxes, did not suggest a way to make up the shortfall. Passage of his amendment would seem to dismantle the package.

"I guess if I had one message for the American people it would be grab your wallets and run for cover, Congress is getting up a head of steam to raise your taxes," said Symms.

But Dole said the higher gas tax would help conservation efforts at a time of uncertainty over future oil supplies. "We are in the Middle East for three letters: O-I-L," he said.

The test for Mitchell and Dole was whether they could guide their colleagues on a middle course through the most divisive and paralyzing domestic policy issues, and sell a budget that includes painful tax increases and cuts in popular benefit programs.

The House was unable to find such a path and ended up with a Democratic plan that Bush has threatened to veto, even if it means shutting down the government at 12:01 a.m. Saturday.

Faced with that threatened shutdown, the Senate launched into its debate on how to reduce the deficit.

"What we're doing is setting the due date on a decade of indulgence in this country of ours, a decade of kiting $150 billion checks," said Sen. Lloyd Bentsen (D., Texas), who helped shape the bipartisan plan.

"The question is," Bentsen said, "will we continue posturing or arguing for partisan advantage, or will we bring this thing to a conclusion?"

The plan backed by Senate leaders was a final effort to salvage a budget summit agreement that took the administration and Congress four-and-a-half months to negotiate, but which was rejected by the House five days after Bush announced it.

Few senators quarreled with the goal of cutting the deficit by $40 billion next year and $500 billion over five years — the announced target of the administration and Congress.

But the tax increases and spending cuts needed to achieve that goal have fun afoul of Republican conservatives and Democratic liberals. That made getting the package approved a difficult and delicate task.

The deficit-reduction bill being considered in the Senate would raise taxes on gasoline, tobacco, alcoholic beverages and luxury goods. Upper-income taxpayers would face higher Medicare taxes and limits on itemized deductions.

Under the plan, the elderly would pay more for Medicare coverage of doctor visits.

The Senate plan would double the Medicare Part B annual deductible to $150, beginning next year. The House on Tuesday voted an increase to $100. Beneficiaries would have to pay 20 percent of laboratory costs. The monthly Part B premium would be increased beginning in 1993, rising to $45.20 by 1995.

Overall, the Senate bill would put a heavier burden on upper-income taxpayers than the failed budget summit agreement would have.

A long line of senators waited to offer amendments, and members were advised to prepare for a long night.

In addition to the anti-gas tax measure, amendments were expected that would raise taxes on the rich and reduce capital gains taxes.

If approved, these had the potential to cause the deal to unravel. Bush and the Republicans were sworn to oppose income tax increases; Democrats would not accept capital gains cuts without new taxes on the rich.

Stung by the rejection of his budget plan in the House, Bush has withdrawn behind a wall of veto threats. The budget is a congressional problem, the President now says.

Indeed, as Senate leaders appealed for bipartisanship yesterday, the White House issued a veto threat against the Senate bill over two relatively minor labor provisions.

BOSTON HERALD
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# Senate debates $250B deficit slash

By ANDREW MIGA

WASHINGTON — The Senate moved toward a vote last night on a $250 billion deficit reduction plan that would double the gasoline tax and set a modest increase for wealthy taxpayers.

The Senate plan, which enjoys White House support and comes one day after the House approved a package targeting the rich, sets the stage for a bruising House-Senate conference to reach agreement on a compromise plan.

The original Senate version, supported by party leaders on both sides, would limit itemized deduction for incomes over $100,000, but it leaves income tax rates alone.

The Bush White House has expressed hope that the five-year package hammered out by joint conferees will more closely resemble the Senate plan he has backed.

"The White House is ready to receive the bipartisan package similar to the Senate package," said White House Chief of Staff John H. Sununu. "Get it to the president's desk and he'll sign it."

Another federal government shutdown looms for midnight tomorrow when emergency funding ends.

Though President Bush has vowed not to sign another stopgap spending plan to avert a shutdown and push back the budget deadline, Sununu hedged.

He said that an emergency spending bill to keep government operating might be considered if it included a deficit reduction component.

"I'm sure the president would, you know, consider that as a good faith extension," said Sununu. "But that continuing resolution can't continue spending levels at current levels without any effort to reduce the deficit."

The Senate plan, taking final shape as amendments were offered late yesterday, calls for a broader-based tax burden than the House-passed plan which soaked rich taxpayers.

There were signs that some lawmakers wanted to amend the original Senate plan last night. Several senators wanted to vote on the House Democratic plan or one proposed by Sens. Sam Nunn (D-Ga.) and David L. Boren (D-Okla.).

The Nunn-Boren proposal, opposed by Senate leaders, would raise tax rates for the rich, cut the capital gains tax and trim the gas tax increase.

Bush has said he would veto the House plan, claiming it boosts the upper bracket income tax rate.

The Senate deficit package would raise the gasoline tax by 9.5 cents.

Senate Finance Committee Chairman Lloyd M. Bentsen (D-Texas), while admitting the Senate plan contained flaws, warned against tampering with the gasoline tax.

"Striking this tax will put the entire deficit reduction package in peril," said Bentsen.

Western senators complained it would harm residents of their states who must often drive long distances. Other lawmakers said the doubled gasoline tax would be an unfair added burden to the poor and working class.

"This is taxing to people who are trying to get to work, get to the grocery store," said Sen. Trent Lott (R-Miss.).

The Senate, in a bid to ease the House plan that zeroed in on wealthy taxpayers, was considering a bill to raise taxes on those earning $200,000 by 3.7 percent, about half of what the House approved.

Those earning between $20,000 and $50,000 would be taxed an additional 3 percent in the Senate plan. The House plan calls for a 1 percent boost for the same wage earners.

Democratic Budget Committee Chairman James Sasser of Tennessee hailed the Senate package as "one that asks moderate sacrifice from all Americans."

Both the House and Senate packages would boost taxes on alcohol, tobacco and luxury items such as furs, jewelry, boats and planes.

# President wavers as clock ticks

WASHINGTON — The White House is sending out more fuzzy signals on the budget, this time over President Bush's resolve to shut down the government in the absence of a deal on the deficit.

White House press secretary Marlin Fitzwater was peppered with questions about what the president said and what the president meant after the emergence of more mixed signals on White House budget strategy.

In a round of Congress-bashing Monday and Tuesday, Bush told GOP campaign audiences in five states that tomorrow night, the current deadline for action on the deficit, would be a final make-or-break point in the budget showdown.

After reluctantly signing a two-week spending bill Oct. 5 to give the budget process more time, Bush indicated a 38th continuing resolution to keep the government in business past midnight tomorrow was out of the question.

"Twice now this year, I've signed emergency legislation to add more time to the clock," he told one such audience in Dallas. "Well, this Friday, time's up."

But yesterday, White House Chief of Staff John Sununu hinted Bush might indeed be willing to give Congress more time to complete a budget agreement.

If Congress passed a continuing resolution with "a really significant reduction in the deficit" built into it, he said, "I'm sure the president would, you know, consider that as a good faith extension."

Did Sununu's comments, made on the NBC "Today" program, signal a certain, limited degree of flexibility?

At the White House, where moves in the budget game have been cloaked in ambiguity and at times confusion, Fitzwater would not say.

But he indicated Bush might agree to sign another continuing resolution if Congress had a budget agreement in hand tomorrow night or was "very close to one."

—UPI

# Debate: A time for answers

Echoes of debates recently past still ring in our ears.

Only their shrillness, their heat, their "so where's your tax return," "who are you calling a jackass," "and so's your old man" nature stand out. Did they contribute to rational discourse and a greater understanding of the issues? Not likely.

Did they feed into the public anger and cynicism that already abound? Sure did.

Isn't it time — tonight, as the two contenders for governor meet in a potentially explosive head-to-head confrontation — to turn down the volume?

Democrat John Silber and Republican William Weld wanted what they called a Lincoln/Douglas-style debate. Enough of these cheeky media questions, they agreed. They trusted in each other at least enough to believe that *they* could show the voters best what each had to offer.

We hope they can. And while they're at it let us put one terribly crucial item on their agenda — Question 3, the CLT-sponsored tax and fee rollback petition.

Silber, who opposes it, has outlined to a few small groups his strategy for dealing with it should it pass. That strategy deserves the wider audience it could get tonight. We'd like to hear him talk some more numbers, too. Even assuming the measure gets defeated, budget cuts are a critical part of his political platform and he needs to outline them clearly.

Weld has a much tougher job tonight, but for that reason also a much more critical one. He says he favors the CLT petition, although he would like to see its implementation delayed by at least six months. Now by all calculations that still means a fiscal 1992 budget with $2.4 billion lopped right off the top.

Fiscal analyst Claire Cohen of Fitch Investors Service told a group of business leaders yesterday that by her calculations if the state meets all its *contractual* obligations (debt service and pensions, etc.) that would mean a 20 percent cut in the rest of the state budget. If the state meets all its contractual and *entitlement* obligations (adding in Medicaid and welfare) that would mean 30 percent cuts in the rest of the budget.

With or without a delay in implementation, CLT will mean cuts that Weld has an obligation to the public to spell out.

Tonight is the best time for both men to do the voting public a real service by treating us all like intelligent human beings who just need some sensible answers to sensible questions.

THE PLAIN DEALER

THURSDAY, OCTOBER 18, 1990

# A turnaround on tax fairness

Surrendering the initiative in the deficit-reduction battle, President Bush recently lamented, "Let Congress figure it out." While the White House sulks on the sidelines, the House and Senate — with all their customary election-year confusion — must patch together a compromise to replace the defeated "budget summit" proposal. The bargaining is as complex as it is crass, as Washington races to avert another cash crunch at midnight Friday.

Chances are, any eventual package will be a variation on the budget summit's themes, and thus will be an unpleasant measure for everyone. Republican leaders admit it must include modest tax increases; the Democrats concede it must include some cuts in domestic programs.

The House of Representatives this week approved an unabashed soak-the-rich measure. It is designed more as a Democratic campaign document than a realistic budget outline, although it contains several worthy provisions. It makes sense to raise the top tax bracket for upper-income taxpayers to 33%. Adding a surtax on millionaires would help make sure that no one can avoid sacrifices in an era of austerity. In an alarming step backward, however, the House would raise extra revenue by delaying federal tax-bracket indexing; that would hit all taxpayers with a disguised income-tax hike.

Since Bush has vowed to veto the House's tax-heavy package, the Senate's tax tradeoff offers a more realistic framework. To satisfy Bush, it includes regressive excise-tax hikes instead of progressive income-tax changes. Unwisely, it may leave the door open to a break for the taxation of capital gains; such an idea should be left until next year, when its flaws can be analyzed in a more rational atmosphere. Once the Senate's pragmatic plan is blended with the House's tub-thumping populism, their centrist compromise may win Bush's approval.

Beyond this week's budget details, a broader trend is at work. Bush's weakened position has emboldened the House Democrats to promote soak-the-rich tax policies again; only a few years ago, they would have feared to suggest *any* tax increases, dreading a "No new taxes" scolding from a powerful White House. That in itself relects a dramatic shift in the tax-policy debate. After a decade of dwelling on tax cuts — even if those cuts were skewed toward the wealthy — the nation's theme is shifting toward tax fairness for the middle class.

The Republicans' recent confusion on budget policy — capped by the president's astonishing series of flip-flops on the issue of cutting the capital-gains tax rate — has sent Bush's approval rating plummeting. The Democrats, ready to exploit the GOP's weakness, have seized the crucial position as the defenders of the middle class. Republicans now realize that Bush's harping on the capital-gains issue — a tax break that would funnel rewards to upper-income investors — has opened the way for a Democratic appeal to the average wage earner.

As Republican theorist Kevin Phillips wrote in his recent book, "The Politics Of Rich And Poor," the middle class is recognizing that the Reagan era's policies hardly helped typical wage earners. The overall tax burden became more regressive in the 1980s; wages and benefits were stagnant; enormous federal payments for debt service now put a drag on the economy. Supply-side economics has misfired.

It may take more than this year's budget fiasco to persuade voters that the Republicans have bungled their responsibilities. But the political pendulum is now beginning to swing toward the politics of fairness, changing the terms of the debate in the Democrats' favor.

THE ATLANTA CONSTITUTION

*For 122 Years the South's Standard Newspaper*

THURSDAY, OCTOBER 18, 1990

# Hot debate over taxes continues

## *White House favors bipartisan proposal*

**By Mike Christensen**
Journal-Constitution Washington Bureau

WASHINGTON — The Senate, after wrestling long, hard and unsuccessfully into the night in an attempt to reach agreement on a compromise deficit-reduction package, heads to a showdown today as Congress races against the clock to adopt a budget.

With time running out for a budget agreement, the Senate met through the night Wednesday and early today on a package that would double gasoline taxes, cut Medicare and agriculture spending and raise taxes somewhat on the wealthy.

Senate Majority Leader George J. Mitchell (D-Maine) warned his weary colleagues shortly before 10 p.m. that with eight hours of debate time remaining and dozens of amendments pending, final action might not come until sometime today.

Then the Senate would go into a conference with the House, which passed its own, different approach to deficit reduction Tuesday night.

Democratic and Republican leaders in the Senate used their gothic rules of procedure to defeat the first of several proposed budget amendments, which they feared might be politically popular but practically devasting to the fragile bi-partisan deficit-cutting package fashioned by the Finance Committee.

By a vote of 32-67, the Senate refused to adjust the limits of a budget resolution passed last week to accomodate an amendment by Sen. Kent Conrad (D-N.D.).

Mr. Conrad's proposal would have cut the Finance Committee's proposed gasoline tax from 9 1/2 cents to 5 cents, eliminated a 5 percent ceiling on tax deductions by those making more than $100,000 a year and added provisions from the House plan — a 33 percent top income tax rate, a 25 percent alternate minimum tax and a 10 percent surtax on millionaires.

Mr. Conrad also proposed limiting the proposed $15 billion five-year cut in agriculture programs to about $9 billion and easing a proposed increase in Medicare deductibles for doctor's care.

Senate leaders appeared ready to use procedural maneuvers to keep colleagues from having to vote directly on proposals to eliminate the gasoline or other taxes.

Emergency spending legislation, which has kept the government operating for the past week, will expire at midnight Friday.

President Bush has threatened to veto any extension unless Congress finishes an acceptable deficit-reduction measure and all 13 regular appropriations bills. However, administration officials indicated Wednesday that Mr. Bush might agree to a new "continuing resolution" if final agreement is near and includes spending cuts.

White House Chief of Staff John H. Sununu said Mr. Bush still favors the Senate package over a House bill that includes a 5 percent income tax increase on the wealthy and which would delay tax indexing for a year.

"The White House is ready to receive the bipartisan package similar to the Senate package," Mr. Sununu said. "Get it to the president's desk and he'll sign it."

Senate leaders from both parties were trying to do just that Wednesday, arguing that their plan was balanced and fair. But with elections approaching and many voters, industries and interest groups disgruntled over the tax hikes and spending cuts in both the Senate and House plans, there was little enthusiasm among Senate followers.

"This package, imperfect as it is, is the best that could be done," Mr. Mitchell said. "I ask my colleagues, for once can we not keep in mind the national interest?

"You can't pick this thing apart one item at a time," Mr. Mitchell said. "We're either going to come out of this with a $500 billion deficit reduction plan or with nothing."

Mr. Mitchell at the time was trying to stave off an attempt by Sen. Steve Symms (R-Idaho) to strip from the package a 9 1/2-cent increase in the gasoline tax over the next year and a half. The gas tax was at the heart of the tax side of the plan drafted by the Senate Finance Committee and is expected to raise $4.6 billion this year and $42.6 billion over five years.

As debate began, Budget Committee Chairman James Sasser (D-Tenn.) said, "We tell the American people that there will be some sacrifice in this package. But we tell them at the same time that it will be fair."

In an impassioned defense of the gas tax, Sen. Wyche Fowler Jr. (D-Ga.) said Americans should be willing to sacrifice and reduce their dependence on foreign oil, so the nation would not have to send thousands of troops to the Middle East.

"Isn't there some patriotism tax?" Mr. Fowler asked. "Isn't there something we can ask the American people to do that will make them participate ... in backing up Americans abroad?"

An alternative prepared by Democrats Sam Nunn of Georgia and David Boren of Oklahoma called for raising the income tax rate for the wealthiest Americans to 33 percent, using the $44 billion in revenue over five years to finance a capital gains tax cut, a "super" IRA plan that could be used for first homes and college tuition, and a reduction in the proposed gas tax increase.

# Party rhetoric on budget rises

## GOP hitting hard at Democratic plan

By Julia Malone
Journal-Constitution Washington Bureau

**Chief of Staff John H. Sununu** said the Democratic budget "rips off" ordinary Americans.

WASHINGTON — With the deadline only hours away for a deficit-cutting agreement, officials in the capital Wednesday were hurling partisan slogans in a bitter slugfest over taxes.

White House Chief of Staff John H. Sununu set the tone with an early-morning assault on Democrats in the House for passing a tax increase that "rips off the men and women of America who are out there working and earning a living."

Mr. Sununu's response to the House plan came as Democrats continued to beat out their own refrain: that their party wanted to cut the deficit by making the rich pay their "fair share."

"Taxocrats" countered Republicans, as both sides honed phrases more suited for campaign bumper stickers than for resolving the divisions in time to pass a deficit-cutting plan by midnight Friday, when spending authorization for the federal government expires.

The Bush administration hit on its "working Americans" theme soon after the House passed its version of the deficit-reduction plan Tuesday night.

The Democratic tax plan had some politically appealing points, since it would not raise the gasoline tax, but instead would raise rates for the most wealthy. Also, Republicans have been fighting a public perception that their party is friendlier to the rich.

However, the Bush aides focused on another part of the House plan: the provision that would suspend for one year the adjustments for inflation that are now built into tax brackets. That would cost taxpayers an estimated $36 billion over five years, according to some estimates.

The familiar buzzwords were repeated many times afterward. Mr. Sununu referred to working Americans a half-dozen times during his combative appearance on NBC's "Today" show.

White House press secretary Marlin Fitzwater drove home the point during a briefing with reporters, charging, "What the Democrats stand for . . . is higher taxes on the working men and women of this country."

The organized assault came after days of hearing Democrats claim that they are the real champions of the middle-income working Americans.

Chief author of the House plan, House Ways and Means Committee Chairman Dan Rostenkowski (D-Ill.), said the debate was "about who will pay."

House Minority Leader Robert Michel (R-Ill.), responded that the Democrats were practicing "economic McCarthyism" and the politics of class warfare.

Even in the Senate, where the parties have worked together to produce a tax plan, the two parties sought to draw political lines.

Sen. James Sasser (D-Tenn.), the Budget Committee chairman, said the Senate package "seeks to make up for the fiscal excesses" by raising taxes for 700,000 wealthy Americans whose rates were reduced under the policies of the Reagan administration.

At the White House, a senior official denied that Mr. Bush is concerned that Republicans have a fairness problem. He said Mr. Bush planned to continue attacks on the Democrats over the taxes. "The president is dying to get out on the campaign trail on these issues," said the official, who declined to be named.

# House Democrats blew the budget chance

Given a chance to strut their stuff on the tax and budget issues, Democrats in the House of Representatives instead misused their moment in the spotlight to make damn fools of themselves.

Yes, the deficit-reduction package they passed does do justice in one important way: Unlike Republican plans — and the various bipartisan compromises that defer to the GOP — the House package properly asks the nation's well-off to pony up. Their excessive deductions would be reduced, and the highest earnings would be bumped up from a 28 to a 33 percent income tax rate.

That would be just redress to the soak-the-vulnerable policies of the last decade.

The rest of the program is a mess, however. Income tax indexing would be put off a year, so that inflation could bootleg an unenacted tax increase to the middle class. The Democrats copped out on a gasoline-tax increase, not only forgoing its revenue but the conservation it would enforce. (Better to spend lives in the Arabian desert than a lousy dime at the gas pump?) And its capital-gains tax cut, supposedly a sop to President Bush's yearning for capital-gains reduction, is modified into a pointless giveaway to timber and other already favored interests.

Democrats have blown an opportunity to present Mr. Bush with a solution so reasonable that his threatened veto, should it come, clearly would have been an act of partisan desperation and stubbornness rather than a blocking motion in the national interest.

Any hope of now avoiding political paralysis that will force a loony shutdown of major federal programs lies with the competing package in the Senate. That bill sticks closely to the outline of the compromise that failed in its first outing but is looking politically more tenable with the patent unacceptability of one after another over-gimmicked alternative.

The sensible course for Democrats now, even in the House, is to rally around the Senate plan and then leave it up to Mr. Bush to sell it to his own run-amok right in the House.

# Budget Battle Toughest Test For Bush Yet

*Many say president faces more trouble if his failure to settle domestic issues becomes pattern*

By Marshall Ingwerson
Staff writer of The Christian Science Monitor

WASHINGTON

THE standoff between Congress and President Bush over a budget deal has brought on his most difficult political crisis yet.

Its stamp on his presidency, however, has yet to become indelible.

On the cover of Newsweek, his budget dealing is dubbed "Bush League." His approval rating has dropped an average of 16 or 17 percentage points in polls since August.

Yet his popularity is only slightly lower than it was in July, before it soared over his handling of the Persian Gulf crisis. Even now, polls rate his approval between 55 and 60 percent, well above the historic average for presidents at this stage of their first terms.

White House aides had several days last week of head-shaking, eye-rolling, and general edginess over when the political free fall would end, says one official. But a sense prevails now, he says, "that there's less to this than meets the eye in terms of political disaster."

Most expert observers are inclined to agree – unless alleged Bush bumbling on the domestic front becomes a theme in his media coverage for weeks to come.

"If this catches on, if it becomes a pattern, then he's in trouble," says George Edwards III, a political scientist at Texas A&M University.

"He looks indecisive at the moment," says Stephen Wayne of Georgetown University. In a political system that values strength foremost in presidents, indecision ranks only above incompetence among the least presidential qualities. "He's been Carterized," Dr. Wayne says.

If the budget battle this fall has been the toughest test of Mr. Bush's domestic leadership, by many accounts he has failed so far. Congress has seized the initiative. Bush plays the heavy, threatening to shut the federal government down again this weekend if Congress has not produced a budget he would sign.

Bush's leadership problem over the federal budget has two sides. One side has little to do with Bush himself. Congress is controlled by Democrats, and the House holds fewer members of the president's own party than during any other administration this century. This gives Bush very little political leverage.

But many analysts also see weaknesses in how Bush has handled the budget that are characteristic of his leadership style.

After his top aides reached a budget deal with congressional leaders, he went public with a televised Oval Office appeal for people to press Congress to pass it. The appeal failed. Congress heard mostly from voters outraged over proposed gasoline taxes or hikes in Medicare costs.

Some charge him with too little, too late in his public sales effort. "He has not educated the country about the need for taxes," says Erwin Hargrove, a presidential scholar at Vanderbilt University.

Within days, conservative Republicans had rallied a rebellion against the package. Since the budget was built around sharing political damage from unpopular cuts and taxes, many Democrats bailed out when they saw the Republicans ditching the plan.

The resounding House defeat of the package left the White House flatfooted. It avoided further proposals, and Bush publicly wavered on what kind of taxes he would accept.

Some saw this as a lack of clear direction in domestic affairs – another case of the missing "vision thing."

"He's pragmatic in the extreme, and therefore lacks direction," says Fred Greenstein, a Princeton University presidential scholar.

"He doesn't have a strategic vision of his own," says Dr. Hargrove. "The president does not have a vision of where this budget should come out," Wayne says.

"I just think this big boat is out there drifting," says presidential scholar Thomas Cronin of the Hoover Institution. "Bush is part of the problem. He is not the whole problem."

Most Americans seem to share that view.

If Bush's ratings have fallen recently, those of Congress are abysmal. A recent New York Times poll shows Congress with 60 percent disapproval rating.

"The whole government is falling off" in approval, notes public opinion expert Everett Carll Ladd of the University of Connecticut. Congress is receiving the lowest ratings since the Watergate years, he notes.

Part of what is hurting Bush is simply that an area of policy people are intensely skeptical about – the budget – is getting more attention from the public. In fact, Bush's handling of the budget has always drawn low marks from the public.

But during the early weeks of the Iraq crisis, public attention was concentrated almost exclusively on Bush's strong Middle East performance.

"People have never thought that he was doing a very good job on the budget, so there has hardly been any shift," Dr. Edwards says.

One of Mr. Bush's greatest good fortunes during the first half of his first term was the high profile held by world events. The opening of Eastern Europe and the Soviet Union as well as the invasion of Kuwait all played to Bush's political strengths as they dominated the political stage.

In the White House, rank-and-file officials are pointedly going about their business as usual.

"This is a time when dangers lurk because of the risk that everything can be held hostage to the budget," an official says.

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THE SUN

LIGHT FOR ALL

# Senators near accord on budget

## Proposal to tax rich at higher rate fails

By Peter Osterlund
Washington Bureau of The Sun

WASHINGTON — The Senate handily rejected last night an attempt to increase taxes on high-income earners, as Democratic and Republican leaders struggled yesterday to win support for a deficit-reduction package that would cut Medicare benefits and raise taxes paid by almost all Americans.

On a 67-32 vote, lawmakers rejected a rank-and-file Democratic proposal to restructure a sweeping deficit-reduction package so that its costs would fall more heavily on the well-off than on the middle class.

The panel's proposal — the centerpiece of a plan to cut the deficit by $500 billion during the next five years — thus survived an early and critical test of support on the Senate floor. The vote left intact a compromise plan that would double gasoline taxes, cut Medicare benefits and increase taxes on the rich at a lower rate.

If, as expected, it is endorsed by the Senate sometime today, lawmakers will begin negotiations with the House in an effort to come up with a compromise bill ready for President Bush's signature.

Mr. Bush has said he would veto the House bill, which differs sharply in many respects from the package before the Senate.

Last night's rejected Senate amendment, which would have imposed higher income tax boosts on the highest income earners while cutting the contemplated gasoline tax increase in half and easing proposed cuts in Medicare and agriculture, met with similar White House opposition.

"If it goes down," warned White House Budget Director Richard G. Darman, speaking of the finance panel package, "you have to go back to square one."

With a threatened shutdown of the federal government looming at midnight Friday, few lawmakers wanted to consider that possibility. Even as they raced against the clock, however, their efforts became ensnared in a fight over a proposal to strip the finance panel's package of a provision to double the federal gasoline tax — a move that would rob the package of $43 billion in revenues.

The Senate's package would increase the federal government's income largely by raising a variety of taxes paid by almost everyone. The House bill, meanwhile, would place the heaviest burden for its tax increases on the upper class — raising income taxes levied on those with the highest paychecks, while hitting virtually all wage-earners with a one-time tax increase.

"The White House is ready to receive [a] bipartisan package similar to the Senate package," said Mr. Bush's chief of staff, John H. Sununu.

"Get it to the president's desk, and he'll sign it."

Armed with the administration's endorsement, Democratic and Republican leaders in the Senate spent much of the day in a frantic effort to corral sufficient support to adopt the bill as written last week by the Senate Finance Committee. They soon became bogged down, however, in the crosscurrents of party and regional politics, underscoring the difficulty of winning congressional endorsement of such a sweeping deficit reduction at any time, let along three weeks before an election.

Lawmakers from large Western states object to the gas tax, for example, contending that it would unfairly penalize those forced to drive long distances in sparsely populated regions of the country. Sen. Steve Symms, R-Idaho, thus introduced the amendment to strip the bill of its gas tax.

"Grab your wallets and run for cover because Congress is getting up a head of steam to raise your taxes," Mr. Symms warned.

Sen. Kent Conrad, D-N.D., followed suit with the later-rejected provision designed to make the Senate's bill read more like the Democratic-drafted budget legislation adopted by the House.

The insurgency from these backbenchers exasperated Senate leaders, who spent much of the early evening attempting to pry wavering lawmakers from support of either the Symms or the Conrad measures.

"You can't pick this thing apart one item at a time," said Senate Majority Leader George J. Mitchell, D-Maine, warning that "we're going to be rightly objects of ridicule in this country" if Congress is unable to agree on a budget plan.

The bill before the Senate yesterday would pare about $250 billion from the federal deficit over the next five years, raising $142 billion in new taxes while trimming Medicare, farm support and other benefit programs. The remaining $250 billion of promised deficit reduction would come from other legislation — mostly cuts in the defense budget — as well as lowered interest payments on the national debt. Altogether, these measures are supposed to trim the deficit by $40 billion in the budget year that started Oct. 1, and by an additional $460 billion through the following four years.

While the Senate plan would impose limits on deductions for people with incomes exceeding $100,000, the plan approved by the House would boost tax rates on high-income earners. The Senate would increase the 9-cent-a-gallon gasoline tax to 18.5 cents, something the House would not do. Yet the Senate would increase the earned-income tax credit for those of modest means.

"We tell the American people that there will be some sacrifice in this package," said Senate Budget Committee Chairman Jim Sasser, D-Tenn. "But we tell them at the same time that it will be fair."

House Democrats contend, however, that the Senate plan is not fair enough, setting the stage for what could be a bitter struggle to find a compromise between the two bills.

The Senate measure would increase taxes on people earning more than $200,000 by 3.7 percent, while the House would increase their taxes by twice that rate. The tax bills of those with incomes between $20,000 and $50,000 would jump by about 1 percent if the House had its way, while the Senate's plan would increase their federal payments by nearly 3 percent.

DAILY NEWS
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# Senators balk at plan

By SUSAN MILLIGAN
News Washington Bureau

WASHINGTON – Unhappy senators yesterday began debate on an unpopular deficit-cutting plan that brought criticism even from its supporters.

The plan, which would cut $500 billion from the deficit over five years, is disliked by many senators who found themselves choking on the idea of approving a 9.5-cent-a-gallon increase in the gasoline tax so close to Election Day.

"I hate this. God knows, I hate what we're doing here," said Sen. Dale Bumpers (D-Ark.).

Supporters of the plan drafted by the Senate Finance Committee said the Senate had to swallow the tax if there was going to be any hope of reaching a budget agreement by tomorrow, when a stopgap bill funding the government expires.

President Bush has threatened to shut down the government for the second time unless Congress comes up with a compromise in time.

"This package, imperfect as it is, is the best that could be done," said Senate Majority Leader George Mitchell (D-Maine). An exasperated Mitchell said that if the Senate refused to pass the package, "We are going to be rightly objects of ridicule in this country."

Sen. Alfonse D'Amato (R-N.Y.) said he would vote against the plan, which he called "a turkey" because it includes "taxes on anything that moves."

"Everybody says cut, cut, cut, but not my favorite program," complained D'Amato, who has boasted of the pork-barrel projects he has secured for New York.

D'Amato said he would be willing to see his pet programs cut if other senators did the same.

The House passed a dramatically different deficit package on Tuesday that drops the idea of a gasoline tax in favor of raising tax rates that Democrats say will hit the rich the hardest. Bush has said he prefers the Senate plan and would veto the House version.

## Medicare cut

Aside from the gasoline tax, the Senate package would cut Medicare by $49 billion, limit deductions for people earning more than $100,000 and give tax breaks to encourage oil and gas production.

The White House tried to fight back against Democratic claims that Bush was protecting the rich against higher taxes at the expense of the middle class.

White House chief of staff John Sununu and Vice President Quayle were dispatched to TV talk shows to insist that the House Democratic budget bill would cost Middle America more because it would delay indexing tax rates to inflation.

"The Democrats once again just want to tax everyone – not the rich, everyone," said Quayle. He said nonpartisan economists say the Senate bill, which the administration favors, is more progressive than the House bill.