

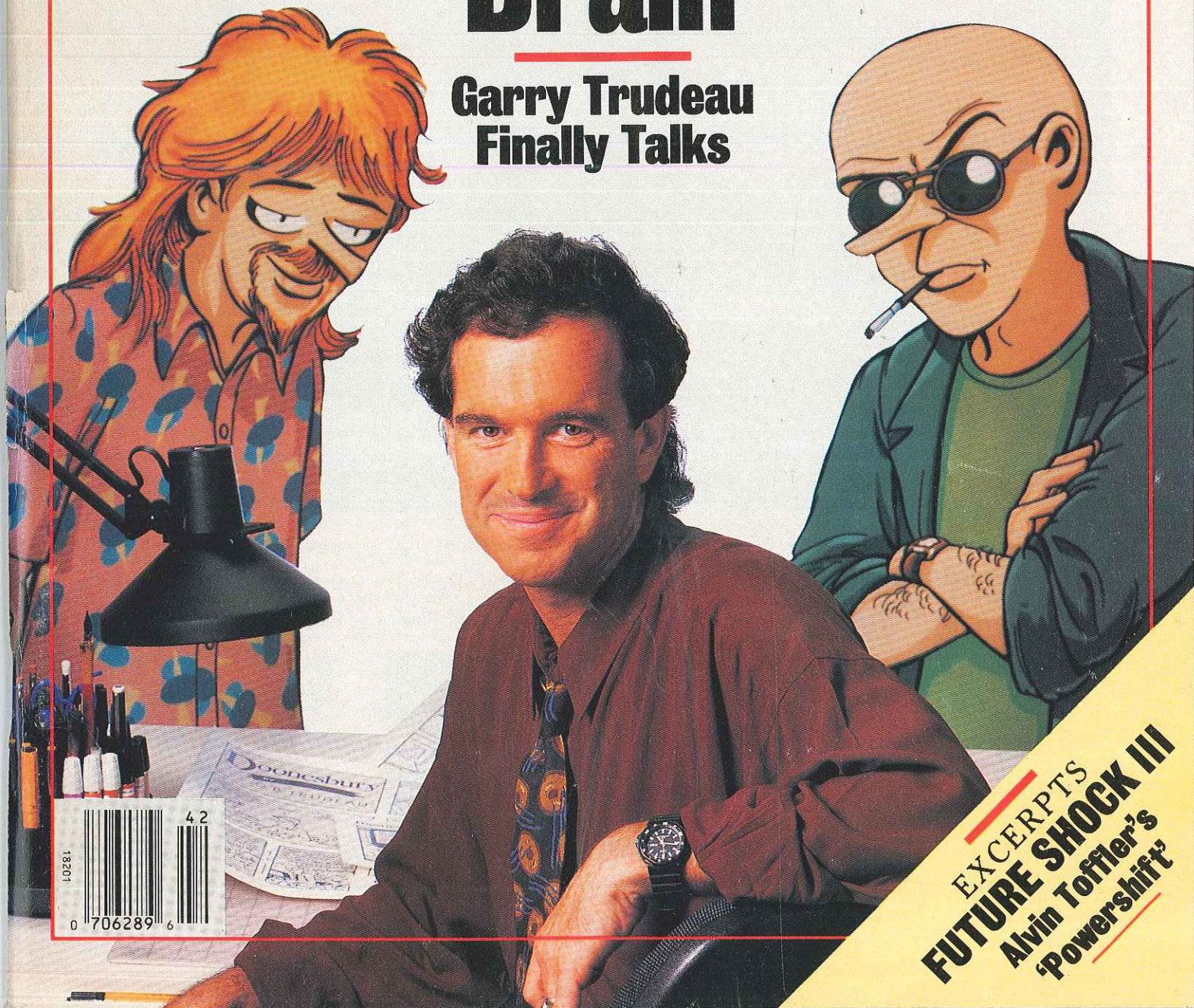
THE BUDGET STRUGGLE
Lots of Pain, Little Gain

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Inside Doonesbury's Brain

Garry Trudeau
Finally Talks



EXCERPTS
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Fixing the Big Flop

Everybody looked bad when the ballyhooed budget deal collapsed

A funny thing happened on the way to fiscal sanity. After the Bush administration and the combined leadership of the House and Senate spent four and a half months negotiating a much-ballyhooed package to reduce the federal deficit, and after George Bush himself went on national television to persuade Americans of the increasingly urgent need to balance the nation's check-book, and after House Speaker Thomas Foley and House Minority Leader Robert Michel pleaded with their colleagues to put the national interest first—after all that, and with the continued operation of the federal government and the credibility of both parties hanging in the balance, the U.S. House of Representatives last week rudely and overwhelmingly rejected The Deal. "We pulled a rabbit out of the hat," said a disbelieving Senate staffer, "and it mooned us."

It was nothing more than plain old politics—an episode, perhaps, from that long-forgotten Marx Brothers classic, "A Night on Capitol Hill." But coming when it did, with the financial markets in retreat, real estate in a nationwide slump and the U.S. economy stumbling toward recession, the House vote made a dismal statement about the state of America's elected leadership. In the aftermath, Beltway astrologers cooked up theories about the influence of the full moon and solemnly consulted election-year portents for deeper meanings. Bush, in the view of one would-be wizard, was already a lame duck—a sitting president who, after one of the longest political honeymoons on record, had been abruptly cut down to size. The White House blamed Congress and Congress blamed the White House—particularly John Sununu, Bush's abrasive chief of staff (page 30), and budget director Richard Darman, the chief architect of what, until

last week, had been regarded as a sure-fire strategy for forcing Congress to bite the bullet. Washington, a town that is interminably preoccupied by the question of who's on first, was filled with the quiet hiss of hot air leaking from ruptured egos and inflated reputations. "There are a lot of down faces around here," a senior White House staffer reported, "including the president's."

'Quit fooling around': True to his word, Bush vetoed the stop-gap funding bill needed to keep the government running, and federal bureaucrats everywhere prepared to shut down all but the most essential operations, such as Operation Desert Shield. "The hour of reckoning is at hand," the president said in an apocalyptic-sounding statement. In fact, the federal stand-down was a self-induced crisis that, because of the Columbus Day holiday, was unlikely to affect anyone very much until Tuesday at the earliest. By that time Congress, after a weekend spent repenting its feckless ways, might summon up the political nerve to tackle the deficit all over again. "The president simply feels we ought to quit fooling around," said White House Press Secretary Marlin Fitzwater. "Surely the reality of a government shutdown will convince everyone a solution should be found."

Some in Congress seemed cowed by the threat, but many weren't—and as the



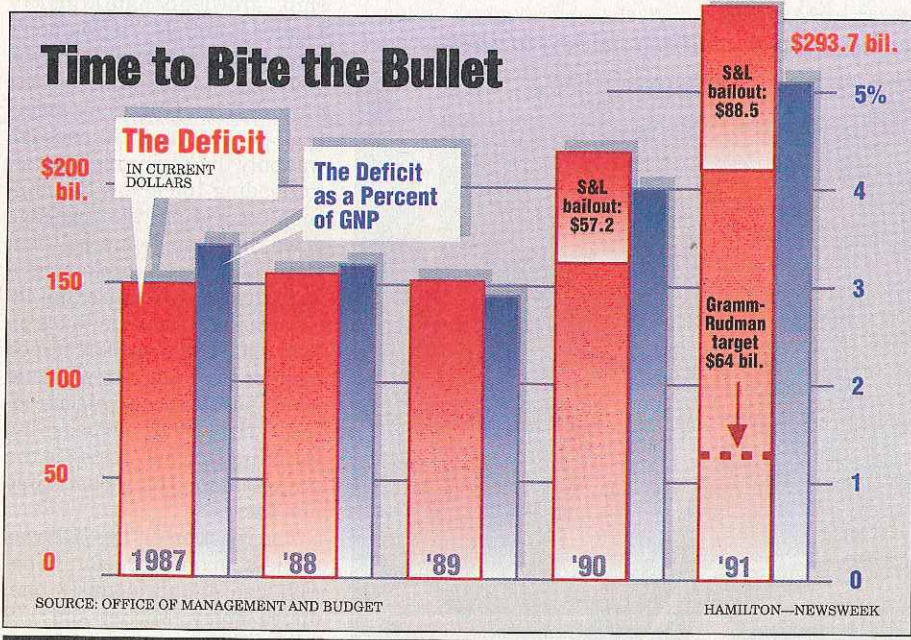
BOB McNEELY—SIPA

'The hour of reckoning is at hand': Bush, Foley and Michel announce the deficit deal that died

weekend dragged by with the entire federal government in the early stages of fiscal collapse, the House and Senate reluctantly fiddled with new formulas to revive the budget deal. The White House was no longer playing hardball, and chastened House and Senate leaders were going back to Rule One of legislative politics—the rule that

says Thou shalt at least *consult* with the members and committee chairmen who actually cast the votes. A prime beneficiary of the new politics of inclusion was Rep. Dan Rostenkowski, chairman of the House Ways and Means Committee—a bona fide heavyweight who had been excluded from the months of fruitless summitry. Although no one could be certain that a new deficit-reduction package would emerge, the mere fact that Congress was attempting to retrieve the summit's lost labors—that it was trying to bring down the federal deficit without the usual dumb budget tricks—was at least a modest victory for Bush. "Inside the Beltway, the emperor has been cut," one GOP mandarin surmised. "Everywhere else—if interest rates go down a point—he'll be fine. It's no triumph, but he avoids a major negative" if some kind of deal can be made.

The bubble: Out of the ashes of a humiliating parliamentary defeat, in short, came the smudged outline of a deficit-reduction package that might be very similar to the one the House rejected—minus the sharp edges, and minus the take-it-or-leave-it hauteur that doomed Deal No. 1. The new deal, if there was one, had the same broad goal, reducing the deficit by \$500 billion over the next five years. Defense spending was likely to take a larger hit than the summiters intended, and there was talk of



letting George Bush have a reduction in capital-gains taxation in return for raising the income-tax rate on the well-to-do from 28 percent to 33 percent. That would eliminate the "bubble" created by the Tax Reform Act of 1986, forcing the wealthy to pay the same marginal rate as the middle class.

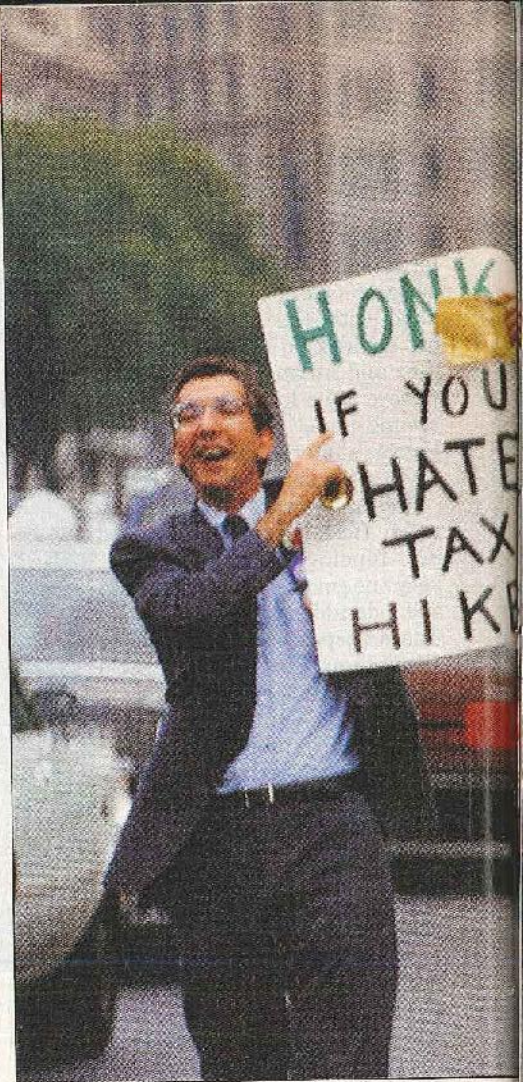
The real goal of the congressional rebels was twofold: to rework the summiters' proposals for a \$60 billion hit on Medicare, and to modify the much-hated 12-cent-per-gallon increase in the federal gasoline tax. "I wouldn't vote for it if it cured cancer," bellowed Democratic Rep. James Traficant of Ohio, expressing the majority's angst at the thought of millions of wrathful senior citizens and inflation-weary commuters. "Political courage reads well in editorials, but it doesn't translate into political reality," Rep. Henry Hyde explained. "The anti-incumbent mood makes everybody jittery . . . We're elected to represent these people. True, we're also supposed to be leaders. But if you get a hundred of them in a room, and if they're senior citizens, they'll throw a chair at you."

Which voters? There was an element of hyperbole in this. Despite all the talk about angry voters, there was no clear sign in the available opinion polls that a majority of the voters had decided one way or the other on the wisdom of the original deficit package. Although House members traded stories about fiery protests from their constituents, a new Gallup poll showed 33 percent of those interviewed actually favored the plan and an additional 20 percent had not yet made up their minds. True, 41 percent opposed the plan, and the proposed fee increases for Medicare recipients and the 12-cent gas-tax hike were rejected by overwhelming majorities. But the summiters' plans to raise federal

taxes on alcohol, cigarettes and luxury consumer goods were widely supported, and 49 percent of those polled said they were ready to pay higher payroll taxes to support the Medicare program. Given a choice of passing the package or shutting down the government, fully 52 percent said Congress should adopt the plan.

That left all those trying to rationalize the House rebellion groping for a convincing explanation of the week's events. In fact, there were three: the simmering resentment of the high-handed tactics employed by Darman and Sununu, a belated insistence on the constitutional prerogatives of the House in the budget-making process, and Newt Gingrich, Republican of Georgia. The first and second motives were intertwined: resentment of the arrogance of the White House staff, which was very widespread, could just as easily be expressed as the desire to see Congress get the final word on legislation of fundamental importance. At the weekend, with the legislative wheels grinding away on a revised version of the deficit deal, Rep. Don Edwards of California said: "We are finally getting back on track and preparing a budget bill the way Congress has done for 200 years." It is time, Edwards added, to stop listening to fiscal prescriptions handed down by "unelected hired help who are locked in a room deciding what we should do." Rep. Robert Mrazek of New York was more direct. "There was a lot of anger at Sununu, and I think some members saw defeating the package as a way to screw the administration."

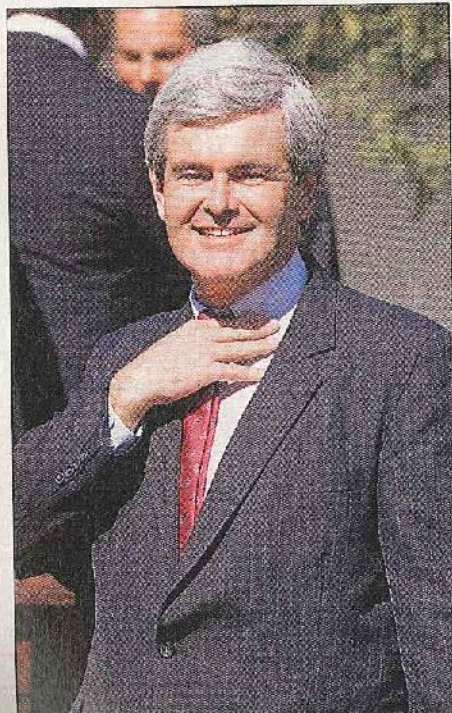
At the White House, there was gloom aplenty at the catastrophic failure of the president's congressional lobbying effort—and there was unmitigated fury at Gingrich. Gingrich, who is regarded by many on

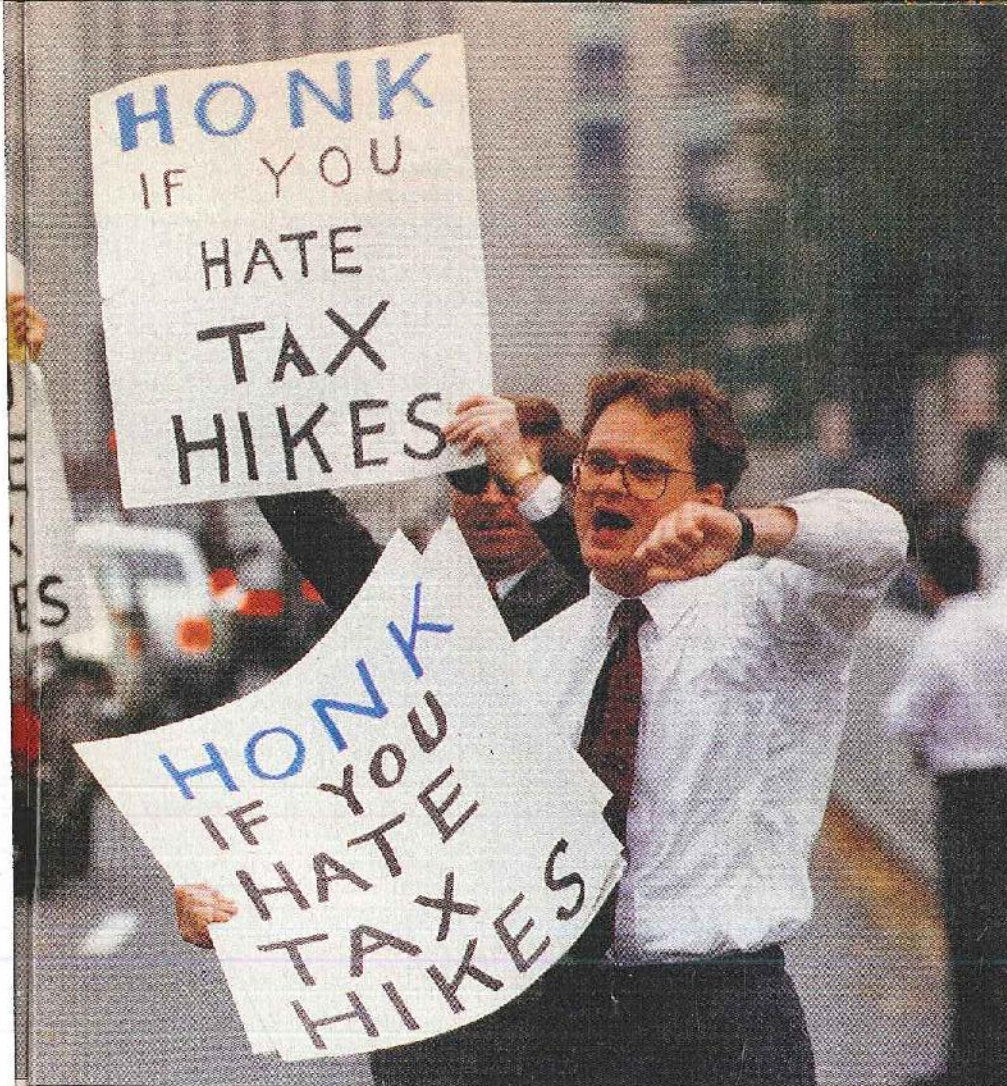


Capitol Hill as a boat rocker and conservative bomb thrower, publicly opposed the deficit package despite his earlier participation in the summit negotiations and despite his leadership status as Republican minority whip. "You pay a price for leadership," growled Senate Minority Leader Bob Dole. "If you don't want to pay the penalty, maybe you ought to find another line of work." But Gingrich's defection on the summit package was only the beginning—for after leading 105 fellow Republicans in voting the package down, he turned on a political dime and began brokering a "populist" compromise that included higher income taxes on the rich. "Outrageous," fumed a senior Bush adviser, who said he all but fell out of his executive swivel chair on learning that Gingrich had upstaged the president for the second time in a week.

The reaction on the Hill was no less apoplectic—for Gingrich had simultaneously one-upped Foley, Michel and 179 fellow House members of both

The new dealmakers: Gingrich, left, and Rostenkowski were suddenly the keys to a deficit pact
LARRY DOWNING - NEWSWEEK IRA SCHWAB





GARY A. CAYRON—REUTERS

Courage 'doesn't translate into political reality': Tax protesters outside the White House

parties who had voted to support the deal. "If hypocrisy was money," an irate Democratic staffer said, "this man could pay off the national debt all by himself." Though Gingrich explicitly denied it, many in the House suspected him of trying to unhorse Minority Leader Michel. A Democrat, Rep. Jim Cooper of Tennessee, said Gingrich's tactical control of the situation was now so complete that he had become de facto speaker of the House. That was surely an exaggeration, though no one doubted that Gingrich would have a primary influence on whatever deficit-reduction package the House might ultimately approve. "When Newt Gingrich beats the White House and the entire congressional leadership," said a veteran Republican strategist, "you've got problems."

Doubled deficit: Gingrich described the motive for his defection as a "legitimate disagreement" with Bush and the summitters over the economic impact of their deficit-reduction plan. He argued that the package could be made more favorable to economic growth by dropping elements like the increase in the gasoline tax, and he maintained that economists agreed the recession would be "slightly deeper" if the original plan had been passed. In truth, all such fine-grained economic forecasts are highly debatable, and the predictable impact of government spending pales beside the costs of doing nothing about the deficit. The Bush administration now expects the annual deficit to rise to \$293.7 billion during 1991—nearly double what it was each year from 1987 to 1989, when many in

Going Out of Order, Right on Schedule

In the 15 years of the modern budget process, the government has never enacted a complete budget by Oct. 1. This year, even when deadlines were met, the process was out of order.

Jan. 29: On time, Bush offers a \$1.2 trillion budget: spending cuts, "no new taxes." Democrats call it DOA.

March 15: Legislative committees of both houses meet deadline to send spending estimates to budget committees—but talk of negotiations has already begun.

April 15: Congressional budget committees miss this deadline for offering alter-

native budget proposals by one (House) to two (Senate) weeks. Darman dismisses both efforts as phony.

May 6: Bush says he sets "no preconditions" on the talks—implying he's willing to discuss tax hikes.

May 10: Sununu ignites Democratic firestorm by saying "no preconditions" means the Democrats can propose tax increases but Bush will veto them.

May 15-17: First White House summit meetings held. Democrats demand that Bush go on TV to emphasize the need for new taxes as well as spending cuts.

May 24-June 25:

Budget summit talks sputter; no agreement even on size of deficit reductions needed.

June 26: Foley threatens a Democratic walkout unless Bush stops opposing new taxes. White House issues statement saying "tax-revenue increases" are needed—infuriating GOPers.

July 11: Democrats reject Bush proposal of capital-gains tax cut, unless income-tax rate for the rich is raised.

July 26: Darman offers a new plan calling for \$54 billion in budget cuts and tax increases for fiscal 1991. Democrats attack it.

Aug. 4: Three weeks of almost daily budget talks adjourn for August recess.

Sept. 7: Budget summit resumes at air base. Details leak, backlash begins.

Sept. 10, 15, 25: Deadlines for Congress to legislate new taxes and appropriations, to pass second budget ceiling, and for final legislative reconciliation, go by.

Sept. 30: Bush and summitters announce a five-year, \$500 billion budget-deficit reduction measure. Bush signs a continuing resolution postponing Oct. 1 sequestration deadline.

Oct. 5: The Big Fix is a Big Flop; Congress overwhelmingly rejects the deal.

Congress still clung to the belief that deficits do not matter. A recession, which inevitably increases federal payments for unemployment benefits and other entitlement claims, will surely deepen the tide of red ink. That in turn forces the government to borrow more, and more borrowing may force interest rates up. Higher rates would be lethal to economic growth—and that is why most economists, even liberals, are urging Congress to act promptly on some form of deficit-reduction plan.

The deficit showdown now underway on Capitol Hill is likely to continue for

years—and as Representative Hyde put it last week, the wall-to-wall rancor has made even the abortion debate “look like a game of miniature golf.” The burden is now squarely on Congress to do the right thing—to minimize the pain wherever possible, but to succeed where Bush and the House and Senate leadership failed. “They better goddam well pass it or something like it,” said economist Charles Schultze, who was budget director during the Johnson administration. “I’m not a gloom-and-doom type at all. But the consequences of not passing a responsible pack-

age are horrible. Facing a \$300 billion deficit, and despite the unanimous support of the nation’s top political leaders, the Congress doesn’t act? That means we simply can’t manage our own affairs any longer. This is a terrible message to financial markets . . . and it is a terrible message to the world that America is really falling apart.” And even the most tremulous member of Congress knows the voters will understand that.

TOM MORGANTHAU with THOMAS M. DEFRANK, ANN MCDANIEL, FLEANCOR CLIFT, RICH THOMAS and CLARA BINGHAM in Washington

A Payback for the President's Enforcer

Washington claims to be a hardball kind of town, but John Sununu may be the first to use a ball with spikes. His tactics in last week’s budget battle astonished even Beltway denizens who have had nearly two years to get used to him. In his attempt to win votes, the White House chief of staff was out for blood. When he learned that Ohio Rep. Ralph Regula was leaning against the deal, he canceled the congressman’s presidential box seats for a Kennedy Center show. “What are you smoking?” he snapped to one GOP congressman who dared to differ. Lott is “insignificant,” he retorted to questions about Republican Sen. Trent Lott’s concerns. He asked wavering congressmen how they would like it if George Bush visited their districts and publicly questioned their loyalty to their president and their country. When one of them said Bush would never humiliate them that way, Sununu replied, “Yeah, but he’s a nicer guy than I am.”

Few would argue with that. But Sununu’s take-no-prisoners approach backfired last week when Congress hit the trenches and wouldn’t give an inch. While Sununu doesn’t bear sole responsibility for the debacle, his insults and threats helped undercut his boss’s program. During the budget summit, Democratic Sen. Robert Byrd of West Virginia dressed down Sununu

and his fellow know-it-all, budget chief Richard Darman. “You’re staff,” he told them. “I wouldn’t allow my staff to speak to me that way.” At one GOP conference, fellow Republicans applauded Rep. Carl Pursell after he told Sununu: “We don’t appreciate your coming up here to threaten us.” Ultimately, 105 Republicans voted against the bipartisan deal—many of them with obvious relish. “Sununu and Darman ran over these guys and treated them badly for months,” said a senior Bush adviser. “Now they’re being paid back.” Added one GOP strategist: “He’s fundamental to the unwinding of the president’s forces on the Hill. He

has alienated Republicans and Democrats, liberals and conservatives.”

The president’s reliance on Sununu to play enforcer has often worked for Bush’s good. “He takes a lot of arrows intended for the president,” says a top Bush adviser. “He doesn’t wear very well, but then this isn’t a job where you make friends.” No one has better mastered the art of making enemies. Last spring, after Richard Leshner, president of the U.S. Chamber of Commerce, endorsed a proposed cut in the social-security tax, he received a call from a furious Sununu. According to an administration source, Sununu screamed at Leshner: “If you don’t back off on this

thing, I’ll chain-saw your b—s off.” Sununu slammed down the phone, then calmly told an aide, “You might want to take a slightly softer line when you follow up.”

Go west: When it suits his purposes, Sununu can turn on the charm. Leshner and other victims have received what those close to the chief of staff call “the pussycat treatment”: cajolery, favors, support in the White House. After California Sen. Pete Wilson opposed Bush in three separate votes, Sununu canceled a planned presidential appearance at a 1989 fund-raiser; after he was convinced other Republicans got the message, Sununu encouraged Bush to go to California on Wilson’s behalf and then headed west himself to calm angry GOP leaders. His supporters say that unlike most government officials, who bicker only behind one another’s backs, Sununu enjoys a good fight. He “expects when you have a disagreement, you get in the ring, put up your dukes, go toe to toe and see who carries the deal.”

Sununu has won many bouts, and this one isn’t over. “George Bush knows when there is a tough fight to be waged, a street fighter like John Sununu is a good man to have on your side,” says one Bush aide. Should the president decide that a bit of diplomacy is called for, however, he might want to leave his chief of staff at home.

FLOISSE SALHOLZ with ANN MCDANIEL and THOMAS M. DEFRANK in Washington



IRA SCHWARTZ

Mastering the fine art of making enemies: The chief of staff