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**HEADLINE:** GOP To Push Capital-Gains Tax Cut As Democrats Assail Bush's Fiscal Policies.

**BODY:**

CNN (9/3, Inside Politics, Karl) reported congressional Democrats are "coming in full steam ahead on" budget issues "immediately when they get back here this week to Capitol Hill. Essentially, the Democratic question is: Who lost the surplus? And they're pointing the finger at the Republicans. Republicans, very interestingly, are not going to get defensive about their tax cut. Obviously, the Democratic subtext here is that it's the Republicans' fault that the surplus is diminishing, largely because of that tax cut that the president pushed through up here on Capitol Hill, largely on party-line votes. But Republicans are saying that they are not going to get defensive about the tax cut. As a matter of fact, they are going to say that the question needs not to be, 'Who lost the surplus?' but 'Who has a plan to stimulate the economy?' And they're going to say, far from revisiting that tax cut, what needs to happen is, we need additional tax cuts. So part of the Republican strategy, you'll hear from leaders in both the House and the Senate on the Republican side, is: Let's get additional tax cuts to boost this economy, because that is what is important right now." Republicans are "saying what they want to go forward with is a capital-gains tax cut. They say that's the direct -- most direct way that Congress can stimulate economic growth. They also believe it's something that can be revenue-neutral in the short term because people sell assets, bringing in more revenue, even if it's at a lower rate." They "believe they have a perfect vehicle for that in the minimum wage increase." Still, Democrats are "very much on the offense here. They are pointing out that President Bush inherited record economic budget surpluses here, that he needs to account for the fact that the surplus has diminished." But it is "interesting. If you noticed on Sunday, John Kerry, one of the more liberal members of the Democratic Party from the Senate, came out and said that he is actually willing to consider the possibility of that very capital-gains tax cut the Republicans are talking about, because of the need to stimulate the economy."

The Wall Street Journal (9/4, Murray, VendeHei) reports, "Republican congressional leaders, anxious about the sluggish economy, will seek to slash taxes on capital gains to stimulate investment. The proposal, to reduce the capital-gains rate to 15% from its current 20%, is part of a stimulus package that House Speaker Dennis Hastert and Senate Minority Leader Trent Lott will pitch in meetings with President Bush this week as Congress returns from its August recess." But "while Mr. Bush is open to additional tax cuts this year, he will likely give a cool reception to the idea of a capital-gains rate cut, aides said. 'He will push for those tax initiatives he proposed' in his budget, including tax incentives for charitable contributions and energy production, said Bush spokeswoman Claire Buchan." The "stimulus package" also "would include an extension of a research-and-development tax credit, energy-related tax breaks and fast-track trade negotiating authority."

The Washington Post (9/4, A1, Dewar) headline sits story "Deficits Looming Again on Hill," noting, "Congress will confront its old demon -- the politics of deficits -- as lawmakers return this week to tackle a heavy workload that has grown even more daunting by the shrinking of the federal budget surplus during its summer break." The Post adds, "It will now be difficult if not impossible, lawmakers and aides say, to fund government programs without breaking pledges by both parties -- and the president -- to refrain from tapping Social Security revenue."

The Chicago Tribune (9/4, Zuckman) reports, "Congress returns to work this week arguing about who is responsible for running down the surplus and needing to pass 13 annual appropriations bills by month's end just to keep the federal government operating." The Tribune notes, "The last time Democrats and Republicans so vehemently disagreed over how to spend taxpayers' dollars was 1995, when the government shut down during the Christmas holidays while President Clinton and House Speaker Newt Gingrich, R-Ga., feuded. But this year, Republicans hold the White House, and Democrats have only a narrow majority in the Senate, potentially constraining such a showdown."

The Washington Times (9/4, Godfrey) reports that "the biggest hurdle Congress faces, or at least the most pressing one, is passing the 13 annual appropriations bills for fiscal 2002. Compared with the pace set for the past 20 years, Congress is about on schedule. The House has passed nine appropriations bills and the Senate has passed five." The Times adds, "What makes this year different from those in recent past is the state of the economy. Rather than surplus revenues greasing the skids of tough-to-pass bills, a tightening budget means tough fights over vanishing resources." Bush "and House Republican leaders also have heralded a showdown over the Defense, Labor, and Health and Human Services

bills. Mr. Bush has insisted Congress send him those bills first and House Republicans leaders have so far refused to begin negotiations on any other bills. A House Appropriations Committee aide said there is no such strategy and that the House and Senate will begin conferencing bills almost as soon as Congress returns."

#### Sweeney Says Tax Cut Should Be Revisited.

CNN (9/3, Inside Politics, Woodruff) interviewed AFL-CIO President John Sweeney. Asked how estimates of a decreased surplus would affect the legislative agenda of organized labor, Sweeney said, "It definitely is going to impact on programs that workers consider very important. And we're also very aware of the threat that it may be to Social Security. And so it is a big concern, and we think that giving a tax break to the wealthy and sacrificing the surplus is the wrong way to go." Asked if the tax cut should be "reversed" or "undone," Sweeney said, "We're certainly going to have to look at the revenue situation. And if it requires a change in tax policy, I think we've got to have the political will to do that."

#### Bush May Meet With Daschle Today.

Reuters (9/4, Ferraro) reports, "Congress begins to return from its August recess on Tuesday with Senate Majority Leader Tom Daschle set for a possible showdown meeting at the White House with President Bush over the shrinking budget surplus." Bush "is expected to meet separately with Senate Republican Leader Trent Lott of Mississippi on Tuesday."

#### Kennedy Says Bush Has A "Tax Cut Policy" Not An Economic Policy.

The Boston Herald (9/4, Miga) reports, "The fast friendship Sen. Edward M. Kennedy forged earlier this year with President Bush is fraying as tensions escalate over the nation's vanishing budget surpluses. Striking a sharp partisan line as Congress returns from its summer recess, Kennedy (D-Mass.) vowed that resurgent Democrats, who recaptured the Senate last spring, would target Bush's botched handling of the slumping economy. 'With this administration now, we have a tax cut policy, not an economic policy,' said Kennedy in a Herald interview. . In some of his sharpest criticism yet of the president, Kennedy faulted Bush's sweeping \$1.35 trillion tax cut plan for fouling the economy and siphoning scarce federal funds from vital social programs. The Senate's leading liberal voice warned that a skeptical American public will step up demands that the president show bold leadership and turn around the sluggish economy. 'He's got some real worries,' said Kennedy. 'The ball is in his court to reverse this. He is the one who has to come forward. People are waiting to see that from him.' . Kennedy's combative tone is a far cry from the early days of Bush's presidency when the pair -- sons of the two most powerful political families in America -- courted each other and vowed to work together on major legislation, including key education and health care bills. 'The goodwill that was established is important - no doubt about it - but it is no substitute for policy,' Kennedy said. . Kennedy said he met privately with Bush the day before the Senate adjourned early in August to express both his frustration and his willingness to find new ways to work together. The chat was frank, but friendly."

#### Kennedy And Kerry To Play Prominent Roles In Democratic Battles With Bush This Fall.

The Boston Globe (9/4, Johnson) reports, "After a monthlong recess spiced by sailing and windsurfing on Nantucket Sound, Senators Edward M. Kennedy and John F. Kerry will play prominent roles this fall as the Democratic Senate and President Bush square off over the nation's political agenda. Congress reconvenes today, and Kennedy, chairman of the Senate Health, Education, Labor and Pensions Committee, is poised to push for new education funding, prescription drug coverage for the elderly, and a bill outlining the rights of patients of health maintenance organizations. Tomorrow, Kennedy is scheduled to gavel to order the first congressional hearings on Bush's recent decision to restrict federal funding for medical research on stem cells. In two weeks, Kennedy will hold a review of the nomination of Eugene Scalia, the son of Supreme Court Justice Antonin Scalia, to be the top lawyer at the Labor Department. Later in the fall, Kennedy plans to seek a \$1.50 hike in the minimum wage, from \$5.15 per hour to \$6.65. . Kerry, meanwhile, has threatened to filibuster Bush's proposal to drill for oil in the Arctic National Wildlife Refuge, part of the administration's energy plan. He also expects debate over Internet privacy, global warming, and increasing fuel standards for sport utility vehicles."

#### Arkansas Republican And Democratic Candidates Split On Tax Cut.

The Arkansas Democrat-Gazette (9/2, Thompson) reported, "All three 3rd Congressional District Democratic candidates say the tax cut that President Bush pushed through Congress was clearly a mistake. All four Republicans candidates disagree." Former state Rep. Jim Hendren said the issue is "the clearest contrast yet between the parties in the race and could be decisive." Hendren said, "It's an issue where you can definitely tell the Democrats from the Republicans in this race. This is the first tax cut for everybody that I know of. Everybody got \$300, and the child tax credit was raised." The Democrat-Gazette added the Democratic candidates, state Reps. Jo Carson and Mike Hathorn, and businessman Bill Williams, say the "\$300 multiplied by millions of taxpayers equaled more money than the government's budget could

afford, and now money reserved for Social Security could be diverted to cover government expenses elsewhere." Williams said that in the "quest to balance the federal budget, Williams said Bush has 'snatched defeat from the jaws of victory.'" When "told that Democrats believe the rebate gave money the federal budget could not afford," Republican state Sen. Gunner DeLay said it is "still too early to make that kind of argument." DeLay said, "Yes, things are slowing down in the economy, but we shouldn't be that concerned about it or panic at this point. . This gloom and doom is probably not more than wishful thinking on the part of Democrats."

More Commentary.

Mitch Daniels, director, Office of Management and Budget said on NBC's "Meet The Press" (9/2), "We're dealing with historic, gigantic surpluses under any of these numbers. The surplus we started with this year did not vanish. About two cents on the dollar, about two cents out of 14-cent of the surplus that we originally started with, shrank because of the economy. . The government's finances are in remarkably strong shape. It's the economy that's not, and that's the president's first concern."

Sen. John Kerry said on NBC's "Meet The Press" (9/2), "I was astonished by Mr. Daniels's presentation." Daniel's presentation was "so divorced from reality, and it is so wrong on the fundamental facts that he puts forward that it really underscores the nature of the confrontation that's about to take place. . I think it's absolutely common sense that a trigger be one of those items that is put on the table for discussion, because you can't start throwing away money or giving back money that you don't have. You can't do that." Kerry also said, "I mean, for instance, why are we going to spend the additional funds on national missile defense this year when that's not the most compelling issue before the country?" Kerry added, "We will have a major confrontation over the appropriations process, and America will see that, to achieve what he is achieving, he will be adding this \$500 billion over the next few years coming out of Social Security, putting at risk the retiring generation in 11 years, taking away from us the ability to be able to do a Social Security fix, a Medicare fix and prescription drugs."

White House Chief of Staff Andy Card appeared on ABC's Good Morning America (9/4). In the course of a contentious interview with host Charlie Gibson over whether a federal budget surplus exists, Gibson asserted, "Everyone agrees the budget surplus is gone," and Card responded, "That's not true." Card added, "The money is there in the budget the President put forward" for priorities such as defense, education, and entitlement reform. Asserting that congressional overspending is what jeopardizes the economy, Card said, "We will not let overspending happen again."

Tim Russert said on NBC's "Meet The Press" (9/2), "If in fact Social Security is an issue that's looming, when the program began, there were 35 workers for every retiree. The program now has 40 million people, soon to have 80 million people. We all know it's out there, and yet there is no constructive Democratic alternative other than, 'Mr. President, come forward and step into the political mud.'"

Tim Russert said on the Today Show (9/4) this morning, "The surplus has vanished," adding congressional Democrats are saying, "Play your hand Mr. President" as they try to goad Bush into showing how he would deal with his budget priorities and the Social Security and Medicare trust funds. However, Russert added, the Democrats' move is "a political trap and the White House knows it."

Steve Roberts said on CNN's "Late Edition" (9/2) "the Democratic policy seems to consist largely saying, 'I told you so,' which they have a right to say, but that's not a policy. And the fact is, they're left with two other things. One is rooting for the economy to slow down in order to justify their arguments, which is not a good position to be in. And the other is to demagogue Social Security."

Fred Barnes said on Fox's "The Beltway Boys" (9/1), "The problem is, the economy, and we have economic stagnation, we have a falling stock market, we have tumbling consumer confidence, we have rising unemployment. That's what's -- what needs to be dealt with, and there you need not a surplus. You're better off with a deficit. So here's the Barnes plan. First advance all the income tax rate cuts to -- so they'll all go into effect early next year. Spend more money on some of the things that Democrats -- that Bush may not like, but Democrats want. I'd like to see more on highways and airline airport runways, but on things like that, and another interest rate cut from the Fed. And then you might be able to do something about the economy, which is the problem."

Rep. Jim Nussle, said on "Fox News Sunday" (9/2), "In a sagging economy, the most important thing to do is to build up the family budget, not the federal budget, and that's exactly what this budget does." Nussle added, "The fact of the matter is that the focus now needs to be on spending. We do need to hold the line on spending. This budget will allow not only for a farm bill but allows for a reasonable growth in defense spending and other spending."

Sen. Don Nickles, asked on ABC's "This Week" (9/2) what congress should do in light of the current budget problems, said, "I'd like for Congress to do some things that would spur investment. Let's reduce capital gains from 20 to 15 percent. I think that would generate revenue. When we reduced capital gains rate from 28 percent to 20 percent, we saw an influx of new money. Let's do the same thing."

Sen. Mitch McConnell said on CNN's "Late Edition" (9/2), "I'm optimistic that Senator Byrd, the chairman of the Appropriations Committee, who's been very statesmanlike during this whole process, will help us stick to the budget agreement. And if we do that, Wolf, there's plenty of money to do everything the president would like us to do and that we would like to do, and still have the second-largest surplus in history." McConnell added, "I think we ought to stick to the budget agreement. And if we do that, we will not be encroaching on the Social Security surplus."

Sen. Byron Dorgan said on CNN's "Late Edition" (9/2) "in my judgment, what we ought to do is get the leaders of both sides together -- we have a divided and split government, almost right down the middle -- come together and decide how we're going to accomplish all this, and how we put together a fiscal plan that really does add up finally."

Rep. Charles Stenholm said on "Fox News Sunday" (9/2), "There'll be no farm bill, because there's no more money. There'll be no more prescription drug bill. There's not going to be an increase in defense spending under the president's own budget. So many promises have been made on this lockbox by those in the majority."

Wayne Angell, Bear Stearns chief economist, asked on ABC's "This Week" (9/2) whether the economy would get worse, or better, said "the problem is that in the immediate future, it's not going to get much better. Thank goodness we do have those tax rebate checks, and the reduction in withholding rates. But by and large, it depends upon the Federal Reserve to provide us with relief from a declining capital goods market."

Newsweek (9/10, Fineman) notes that "President George W. Bush and Democrats in Congress start what is likely to be a nasty, months-long debate over how to fashion a budget without using Social Security tax money. . From the days of Lyndon Johnson until midway through the Clinton years, presidents and Congress spent **Social Security 'trust fund'** money at will, replacing it with I.O.U.s on the federal books. But in 1996 Bill Clinton took a Republican idea -- stashing mounting piles of Social Security tax receipts in a 'lockbox' account -- and ran on it." Newsweek adds, "Now everyone in Washington is locked in a 'lockbox' lockbox -- at a time when, many economists think, a sputtering global economy could use a jolt of extra federal spending." Newsweek continues, "The Democratic Party, NEWSWEEK learned, conducted polls and focus groups in August to prepare for a new ad campaign this week. The finding: voters would rather leave the surpluses untouched than dip into them for anything else -- missile defense, education and prescription drugs included." Newsweek further adds, "if forced -- as he almost certainly will be -- the president will argue it's worth dipping into the funds to avoid a recession and to bolster national security. . Bush will have to try -- and his generation will have to decide whether to accept."

Michael Barone writes in US News and World Report (9/10) "Much more than this year's budget is at stake. At issue is the size of government. The purpose of Bush's tax cut is to hold down government's share of the gross domestic product at around 18 percent. Democrats would like it up around 20 to 23 percent, where it was from 1975 to 1997." Barone notes, "Bill Clinton increased domestic discretionary spending by an average of 8 percent. Bush wants to hold that down to 4 percent." Barone advises, "Bush can use the veto to change the politics of spending once again. The way is simple: keep his word and veto any spending increase over 4 percent except for education and defense. ... Bush can do what Clinton did with great success -- threaten to veto bills if they don't meet his specifications."

#### Editorial Reaction.

The Wall Street Journal (9/4) editorializes, "Enough is enough. With Labor Day passed and the summer sillies over, we hope we won't hear any more wails about how George W. Bush is 'raiding the budget surplus' or 'dipping into Social Security and Medicare.' We suppose a normal person would just shrug and roll her eyes over what passes for economic discourse in Washington, but if we were normal we wouldn't be writing editorials for a living. In the following attempt to clarify, it helps to keep in mind the refrain: 'Yes, we have no bananas.' Yes, the unified budget surplus is shrinking. Yet the budget still has, right now this minute, an enormous surplus: \$153 billion, or 1.5% of GDP, according to the Congressional Budget Office estimate. And that enormous surplus obtains despite the slow economy and despite \$38 billion in tax rebate checks now in the mail." But "the budget shouldn't have a surplus. Indeed, that the surplus is shrinking is good, because there is no surer sign that taxes are too high than a big surplus. This is what President Bush meant when he said that by cutting taxes he was returning money to those who earned it. And it is what he meant when he said that the shrinking surplus was 'incredibly positive news.' For a surplus acts as an incitement for Congressional spending."

The Winston Salem Journal (9/4) editorializes, "If news that politicians are about to raid the Social Security lock box has

you losing sleep, it might be comforting to know that there is no such lock box. Washington has been spending Social Security surplus funds for years." But "that reassurance doesn't mean that tapping into the surplus is a harmless activity. There could be trouble if politicians get into the habit of dipping into the Social Security surplus for such things as a major tax cut or unnecessary government spending."

The Portsmouth Herald (9/4) from Portsmouth, NH, writes in an editorial, "The severe economic downturn the economy has taken is tied directly to the presidency of George W. Bush. There has been much tortuous logic coming from the political right as it tries to lay the current economic woes at the feet of former President Clinton, and in fact there were signs the huge American boom of the 1990s was indeed slowing while he was still in office." The Herald adds that "the strength of the economy is directly tied into - and we mean directly - how much faith people have in their president. As of yet, the American people are voicing their doubts about President Bush by keeping their wallets shut."

The Kansas City Star (9/4) editorializes, "While the federal budget cycle usually makes this a politically difficult time of year, President Bush has laid the groundwork for a particularly ugly period as he and Congress return to Washington from their summer break. The administration is clearly on the defensive, and with good reason. The latest surplus projections have seriously jeopardized its credibility in fiscal matters." The Star adds that "to regain public credibility in this area, the administration needs to acknowledge that the government is now in the red and announce whether the economic situation is bad enough to justify staying there for a while. Then the president needs to identify his spending priorities and explain how he wants to pay for them. By doing this, the administration could ensure that the coming budget debates in Washington would focus more on serious decisions and less on phony excuses and finger pointing."

The Chicago Tribune (9/4) editorializes, "Even before the federal budget surplus suddenly evaporated, Democrats and Republicans were tripping all over themselves with vows to 'protect' the **Social Security trust fund** from the rapacious grasp of evil spenders in the other party. If all that rhetoric puts them on the spot to enforce some spending discipline, great." But "the real debate over the future of Social Security is likely to come, finally, this fall, when the commission President Bush named to fix the system reports its recommendations."

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