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HEADLINE: In a separate story, Reuters (9/10) reports, "During negotiations over Bush's \$1.35 10-year trillion tax cut, which the president signed into law

BODY:

payroll tax, especially for low income Americans." But "those proposals were not in the final bill, which included reductions in income taxes and inheritance taxes as well as one-time rebates that are now being mailed to households."

The New York Times (9/9, A1, Berke, Sanger) reported, "As White House officials move to refocus President Bush's energies on the precarious economy, they are working to present him as a more commanding leader in what may be the most treacherous stretch of his first year in the White House. The economic and political challenges facing Mr. Bush were underscored earlier this week when his senior adviser, Karl Rove, joined more than a dozen prominent Republicans for a private dinner and heard an unvarnished critique of Mr. Bush's style and strategy." The Times added, "The message, delivered on Tuesday in a dark-paneled room at the Metropolitan Club, two blocks from the White House, was urgent and unambiguous: If Mr. Bush did not take more forceful steps to resuscitate the economy, he would risk repeating the mistake that brought an early end to his father's presidency. He needed to talk about economic issues differently, they said, and to spur the economy with new measures that went well beyond the recent tax cut." The Times continued, "Even before the dinner -- and before the ominous news on Friday that the unemployment rate had risen to 4.9 percent -- Mr. Bush's aides were already recalibrating his fall agenda. There will be more and more economic prescriptions, they said, diluting what was initially planned as a season devoted largely to his education agenda and talk about values under the banner of what Mr. Bush calls 'communities of character.'"

Bush Worried Capital Gains Tax Cut Could Create Deficit By 2004.

Time (9/17, Waller) reports, Speaker Dennis "Hastert and his House Republicans want the President to do more to help the economy, like pass a capital-gains tax cut. . Privately the President is worried that a Hastert plan, if passed, could dunk the budget in red ink by 2004, when he is up for reelection, if not sooner. . After almost three years as House Speaker, Denny Hastert has become someone even Presidents would prefer not to cross. He runs the only chamber of Congress that Bush can count on and Hastert knows it. . Democrats complain that behind Hastert's aw-shucks mien is a take-no-prisoners pol."

Republicans Mulling Across-The-Board Spending Cuts To Avoid Tapping Social Security Funds.

The Philadelphia Inquirer/Knight Ridder (9/9, Zuckman) reports, "Fearful of the political repercussions that could come with tapping into the Social Security surplus, Republican leaders are mulling a new plan that would cut domestic spending across the board if the federal retirement program were threatened, aides said Friday." Mitchell Daniels, the president's budget director, "told House Speaker J. Dennis Hastert (R., Ill.) and his leadership team Friday that the federal government was on track to take as much as \$9 billion out of the Social Security surplus this year to meet its obligations. The news undercut Republican insistence that the President's budget is solid enough to support a major tax cut and spending initiatives without breaching the fence around Social Security dollars. And it provided Democrats with even more ammunition than they had previously received from the Congressional Budget Office's report at the end of August." Democrats "have vociferously warned Bush and the Republicans against dipping into the excess Social Security dollars, as was common when the nation ran annual deficits."

The Boston Globe (9/9, A16, Washington) reports, "Chris Ullman, associate director of communications for the White House Office of Management and Budget, would not comment yesterday on reports that OMB Director Mitch Daniels told congressional leaders that the weak economy may force the government to use Social Security funds for other programs." Ullman "acknowledged that because of an unexpectedly sharp economic downturn, estimates of the budget surplus for the fiscal year ending Sept. 30 have shrunk to \$158 billion from more than \$280 billion in an April estimate. But the surplus, even a smaller one, ensures that Social Security funds won't be needed, White House officials have said."

The Arkansas Democrat-Gazette (9/9, Barton) reports, "Arkansas' US lawmakers said the message they heard from their

constituents was to keep hands off Americans' retirement-related surplus, except maybe to create a prescription-drug program for senior citizens. While next year's budget may be their most immediate concern, Arkansas' members also know that sometime around the middle of the next decade -- 2016 is the latest projection from those who run the program -- revenues from Social Security payroll taxes will fail to match benefit payments promised. Deciding what to do about that eventful moment will come to dominate political and budget debates until then, say many experts."

Bush's Budget, Economic Dilemma Seen As Mirroring His Father's Experience.

Time (9/17, Carney, Dickerson) reports, "George W. Bush usually likes to have a little fun at Larry Lindsey's expense. . . But last week the news was so bad that Bush was hardly in a mood to kid around. . . At a noon meeting in chief of staff Andy Card's office, top Bush aides decided to clear the President's afternoon schedule and dispatched him, grim faced, to the South Lawn of the White House to reassure Americans -- and the markets -- that he was 'deeply concerned.'" Time adds, "Although Bush was flanked by Vice President Dick Cheney and G.O.P. congressional leaders, the far bigger presence on the South Lawn Friday was the memory of his father, whose perceived lack of concern for average people during the last recession cost him a second term." Time continues, "Bush needs to speak out enough about the slowdown so voters don't think he's detached, his advisers say, but he shouldn't talk about it so much that he keeps the woe on the front page--or worse, adds to darkening consumer sentiment." Time further adds, "The debate over the economy and the budget threatens to drown out everything else Bush wants to do. . . Behind the scenes, White House aides are girding for a long downturn."

The New York Times (9/9, Rosenbaum) noted, "Eleven years ago during a fierce budget battle with Congress, President George Bush reneged on one of his main campaign promises -- his read-my-lips pledge not to raise taxes. This proved disastrous politically and contributed to his failure to win re-election. Now, with another bitter fight over the budget in the offing, President Bush is faced with many of the same circumstances that confronted his father, including an economy turned sour and a recalcitrant Congress. The big political questions this fall are whether the president will break his promise not to use surplus Social Security money to pay other bills and what the consequences of his decision, one way or the other, will be." Bush "insisted this week that he intended to keep his promise. 'We can work together to avoid dipping into Social Security,' he told reporters at the White House," but "he refused to say whether he would veto spending bills that would force the government to dip into the Social Security surplus. Many economists and other budget specialists say they believe the president and Congress will find it impossible to keep spending low enough to avoid tapping into the **Social Security trust** fund." The Times added, "The predicament is uncannily similar to the one the president's father had to deal with in 1990. As is happening today, the economy was flagging in 1990 after years of prosperity. Because of the economic slowdown, because the administration's optimistic forecasts about revenues and spending were not borne out -- another circumstance eerily similar to the one today -- and because of the deficit-reduction law in effect at the time, the first President Bush had to accept one of three unpleasant options: across-the-board spending reductions in government programs of more than 30 percent; much deeper spending cuts in specific, popular government programs like Social Security and Medicare, or a tax increase. "

Novak Says Many In GOP Unhappy With Bush's Response To Push For Capital Gains Tax Cut.

Robert Novak writes in the Chicago Sun-Times (9/10), "Bush returned to Washington last week ready for the orchestrated Democratic chorus demanding that he submit a new budget. What he did not seem prepared for was congressional Republican fervor for cutting the capital gains tax rate. Experienced GOP politicians on Capitol Hill, who unlike President Bush must run for office in 2002, peer into the economic abyss and see a Democratic tidal wave. Their answer: invigorate the nation's investment climate with lower capital gains taxes. The president has been unresponsive, saying he is 'open-minded' in so negative a tone that he was misinterpreted as saying no. That's Bush at his worst." He "has appeared inflexible and irresolute at the same time, restrained by cautious aides and unable to adjust to new economic conditions. For the first time, Republican leaders in Congress are truly unhappy with their new president. 'He does not want to admit that he did not go far enough on his tax cut,' said one GOP leader who did not want his name used. Worse yet, the president may have been sensitized by seven months of abuse for being a friend of business."

Gephardt Tells Caucus Budget Battle Presents Political Opportunity For 2002 Elections.

Roll Call (9/10, Wallison) reports, "Laying out the party's strategy for the fall, Minority Leader Richard Gephardt (Mo.) pleaded with Democrats last week to oppose Republican spending measures, telling Members that the party's prospects in the 2002 elections ride on the outcome." Gephardt "has pinned the party's hopes on the argument that the budget crafted by the Bush administration and Congressional Republicans -- and particularly the tax cut at its heart -- has already forced the government to dip into Social Security revenues." Roll Call adds, "In what was described by sources as a 'fiery' and 'impassioned' speech, Gephardt warned Members at a closed-door Caucus meeting last Thursday that Democrats could not afford to have their 'fingerprints' on the spending bills at the same time they are calling the GOP budget

framework irresponsible."

Roll Call (9/10, Pershing) also reports, "For now," Rep. John Spratt "has no plans to go anywhere, and he's hoping that Democrats will be able to parlay their current strategy of criticizing the GOP budget strategy into a big win in next year's elections and a Budget gavel for himself. 'We would like to play defense well enough that we'll soon be playing offense,' he said."

The Los Angeles Times (9/9, Hook) reported, "Democrats in Congress have been having a field day with the recent bad news about the economy and the federal budget, eagerly blaming President Bush for blowing the once-burgeoning surplus and steering the economy into a ditch." Democrats "relished a double-barreled chance to attack Bush on Friday, when the government reported a surge in unemployment and administration officials conceded the budget was in worse shape than they had previously acknowledged." However, "the roiling fiscal situation also poses risks for Democrats. They may seem to have the upper hand politically, but soon Democrats will confront tough decisions about their own competing commitments on issues ranging from education to Social Security." The Times adds, "The result could be a slam dunk for Bush, some Democrats fear: He winds up retaining his tax cut and gaining a substantial increase in defense spending. As Congress this week starts to grapple with a host of spending decisions for the fiscal year that starts Oct. 1, the Democrats find themselves divided over their budget strategy. Some think the ultimate response to the budget problems needs to be rolling back part of the Bush tax cut, which will reduce federal revenue by \$1.35 trillion over 10 years. But the party's leadership recoils from that idea as a form of political suicide."

Projections Behind Bush Tax Cut Seen As "Dubious."

The Washington Post (9/10, Babington) reports, "So you got your \$300 tax refund check this year. Here's something else you can take to the bank: Sooner or later the government will have to cancel or revamp some of the remaining components of the tax-cut package enacted by Congress and signed by President Bush in June. Analysts from across the political spectrum say the tax cut relies on highly dubious projections and postpones several politically difficult decisions. Even groups that favor tax cuts in principle say the new 11-year, \$1.35 trillion reduction is deeply flawed because its financial integrity depends on: The demise of several popular tax breaks that Congress is almost certain to extend. Future spending restraints on popular programs that neither party seems truly interested in embracing. The scheduled rapid increase in an obscure levy (the Alternative Minimum Tax) that will lose its obscurity if, as the tax law now anticipates, it begins to deprive millions of Americans of much of the tax relief they've been promised. The scheduled abrupt return, in 10 years or less, of some of the very features this tax package professes to eliminate, including the estate (or 'death') tax, the 'marriage penalty,' the maximum tax rate of 39.6 percent (instead of the eventual 35 percent now planned), the \$500 credit for each dependent child (instead of the new \$1,000 credit), and tighter limits on retirement account contributions." The Post adds, "Congress and the White House will come under intense political pressure to prevent or at least mitigate each of these assumptions, and therefore 'it stretches credulity to believe that all of them will come to pass,' Robert L. Bixby of the bipartisan Concord Coalition recently told Congress. The legislation is 'riddled with gimmicks,' he said."

Conflict Between Democratic Senate's And Bush's Agenda To Mark Fall's Debates.

US News and World Report (9/17, Samuel) reports, "The face of the Senate is destined for change, and so is Bush's budget. . The pressure points are obvious. Bush has requested an additional \$18.3 billion for defense. There has been little progress on how to fund the president's educational reform package. His energy plan is unresolved. On the other side, Democrats want to increase the minimum wage, which most in the GOP oppose if there aren't tax breaks for small businesses. And the Democrats want a prescription drug benefit for Medicare recipients, which could cost \$300 billion over the next decade."

O'Neill Predicts Fast Economic Recovery

. The AP (9/10) reports, "Treasury Secretary Paul O'Neill joined finance ministers from Asia and the Pacific rim on Sunday in an upbeat assessment of the global economy, predicting a quick US recovery and applauding Japan's painful reforms." O'Neill and other finance chiefs of the 21-member Asia-Pacific Economic Cooperation forum "wrapped up a two-day meeting in the Chinese city of Suzhou. In a closing statement, they expressed optimism that the US economy will pick up by year's end, giving a needed boost to sagging world growth rates."

Jobless Data Sparks Fears Consumer Spending Could Come To A Halt.

The Wall Street Journal (9/10, Ip, VandeHei, Kulish) reports, "The latest surge in unemployment is raising fears that this most unusual of business cycles may be entering a new and harrowing phase. Most postwar slowdowns were driven by a sharp consumer pullback. This time -- so far at least -- consumers have stayed surprisingly upbeat. They've spent money

on houses, cars and other big-ticket items even as businesses have slashed investment and stock prices have tumbled." But "the August jump in the jobless rate to 4.9% from 4.5% the month before -- combined with a loss of 113,000 jobs -- risks undermining the consumer prop, even as there are some tentative signs that business investment is near a bottom. The number of Americans earning wages and salaries has fallen by 700,000 since a year ago. Countless more are feeling nervous about their own futures."

More Commentary.

Bill Safire writes in the New York Times (9/10), "My plan: Increase federal spending on education and missile defense; as the slump deepens, fold in a prescription drug benefit for seniors. At the same time, double the summertime tax cut, reducing taxes on average families again in time for Christmas purchasing, to which no liberal could object; add in a capital gains cut to move the markets and bestir optimism." Safire adds, "This mild fiscal stimulus may not turn us around, but it surely wouldn't hurt. Accompanied by a further reduction in interest rates by the Federal Reserve, which are justified by increases in productivity that hold down inflation, such a fiscal-monetary combination is sensible and timely. It beats watching Democrats drag their feet, pretending the surplus goes into some vault or mattress, and silently hoping for hard times so they can win the House next year."

The Washington Post (9/10) editorializes, "The Democrats helped to create the surplus in the Clinton years -- to move the budget from deficit into surplus. But, partly for fear of being accused anew of tax-and-spend, they could never bring themselves to say quite what should be done with it. To fend off Republican tax cuts, Mr. Clinton said he wanted to 'save Social Security first,' and shore up Medicare as well. But he never spelled out how, temporizing by urging instead that the money be used to pay down debt. And, led by Mr. Clinton, the Democrats themselves for defensive reasons endorsed a tax cut, just a smaller one than their opponents." The Post concludes, "Now the Republicans have eaten the Democrats' lunch -- taken most or much of the extra money off the table with their large tax cut. The Democrats, ignoring their own partial complicity, are making all kinds of worthy arguments about how irresponsible that was, and maybe they're scoring points. We tend to hope so, because it was irresponsible. But the bucks are gone."

LOAD-DATE: September 10, 2001

[◀ prev](#) Document 2 of 7 [next ▶](#)