

Budget Compromise Doesn't Appear Easy

House More Eager Than Senate for Tax Cut

By Eric Pianin
Washington Post Staff Writer

As they begin high-level talks this week on a budget compromise, House and Senate Republican leaders are finding it more of a challenge to cut taxes than to cut spending.

Although the House and Senate used different approaches and economic assumptions to prepare their plans, they are largely in agreement on a wide range of proposals to dramatically change government and redefine federal relationships with the states.

Both plans would revamp Medicare and Medicaid, the federal health insurance plans for the elderly and the poor, to extract massive savings. Both mandate major reforms and savings in the welfare system. Both would impose deep, long-term cuts in discretionary spending in practically every major area except defense.

And both would close one or more Cabinet departments—most likely Commerce—while shrinking or eliminating hundreds of other well-known programs, including the president's national service program, Amtrak operating subsidies, the Interstate Commerce Commission, high-speed rail, highway demonstration projects and the National Endowment for the Arts.

"There's far more agreement between the two plans than disagreements," said Richard E. May, Republican staff director of the House Budget Committee.

But as the congressional budget leaders prepare for their first formal meeting Thursday—the only one likely to be held in public—many agree that their toughest task will be crafting a compromise tax-cut plan that will unify rank-and-file Republicans who are being asked to shoulder the political burden of deep spending cuts.

Tax-cut fever runs high in the House, where nearly 80 Republicans,

many of them conservative freshmen, have warned in a letter they will oppose any conference report that "significantly diminishes" the tax relief approved by the House. Freshman Rep. David M. McIntosh (R-Ind.), a leader of the group, described the \$350 billion "Contract With America" tax cut as the benchmark in evaluating any compromise.

"It's important that we show people we're serious about letting them keep some of the resources as we begin cutting spending," McIntosh said last week.

But if negotiators go too far in cutting taxes, they risk alienating moderate Senate Republicans, who favor putting off a tax cut.

Twenty-three Republicans voted against the heart of the House tax-cut package when it was offered by Sen. Phil Gramm (R-Tex.) as an amendment to the Senate budget resolution last month. The Senate ultimately agreed to dedicate \$170 billion of anticipated future savings to tax cuts, provided Congress first achieved a balanced budget, but many of those tax cuts would not materialize until late in the decade. Even that relatively toothless measure was opposed by 12 Republicans.

Senate Budget Committee Chairman Pete V. Domenici (R-N.M.) and Finance Committee Chairman Bob Packwood (R-Ore.) have sided with those who want to put tax cuts on the back burner and concentrate on deficit reduction. But Senate Majority Leader Robert J. Dole (R-Kan.), House Speaker Newt Gingrich (R-Ga.), House Budget Committee Chairman John R. Kasich (R-Ohio) and House Ways and Means Committee Chairman Bill Archer (R-Tex.) want a large tax cut that takes effect next year, when the congressional and presidential campaigns are heating up.

Gingrich said last week in an interview with Business Week magazine that he "cannot imagine" a bill emerging from conference without a tax credit for children, a reduced capital gains tax, an expanded individual retirement account and other benefits totaling \$250 billion or more.

MAJOR DIFFERENCES BETWEEN HOUSE AND SENATE 7-YEAR BUDGETS

	HOUSE	SENATE
Tax cuts	Includes \$350 billion of cuts including \$500-per-child credit and reduced capital gains tax.	No specific cut but dedicates \$170 billion of projected savings to future tax cuts.
Defense	Would spend \$46 billion more than Clinton freeze over 5 years and total of \$1.9 trillion over 7 years.	Would spend the same as Clinton freeze over 5 years and total of \$1.83 trillion over 7 years.
Medicare	Saves \$288.4 billion and imposes reforms to avert projected bankruptcy of the program.	Saves \$255.6 billion and creates a commission to recommend reforms to avert bankruptcy of the program.
Medicaid	Converts Medicaid to state block grants and gradually reduces growth of spending from 10 percent to 4 percent a year, saving \$186.6 billion.	Converts Medicaid to state block grants and gradually reduces growth of spending from 10 percent to 4 percent a year to save \$174.8 billion.
Welfare reform	Assumes \$101 billion of savings by incorporating passage of H.R. 4, a major welfare reform plan.	Assumes \$80 billion of savings through changes in Aid to Families with Dependent Children, Supplemental Security Income, Earned Income Tax Credit, food stamps and child nutrition programs.
Federal retirement	Eliminates more generous treatment for members of Congress and changes annuity calculations. Also increases federal employee contributions to retirement fund.	Eliminates more generous treatment for members of Congress and changes annuity calculations. Does not increase federal employee contributions to retirement fund.
Crime Trust Fund	Reduces Violent Crime Trust Fund by \$7.8 billion.	Fully funds programs under Violent Crime Trust Fund.
Agency terminations	Eliminates the departments of Education, Energy and Commerce.	Eliminates the Commerce Department.
Veterans	Cuts \$1 billion for hospital construction and \$6 billion of mandatory spending for health care, prescriptions and disabilities.	Would freeze major construction, end State Grant Nursing Home Program, freeze medical care budget for \$4.3 billion of discretionary savings, as well as \$9.7 billion of savings in medical and disability programs.
Agriculture	Saves \$17 billion of spending for production programs.	Saves \$12 billion of spending for production programs.

SOURCE: House Budget Committee Republican staff

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"We're not adjourning this year without a tax cut," Gingrich declared.

Dole, meanwhile, has vowed to push for passage of a tax plan along the lines of Gingrich's approach. Sheila Burke, Dole's chief of staff, said that while he hasn't settled on a bottom-line price tag, "At the end of the day we will have balanced the budget and provided sufficient resources for a tax cut—whether we do it now or later."

Domenici, a veteran of many budget wars, would like to accommodate Dole, his longtime ally and a leading candidate for the 1996 Republican presidential nomination. However,

Domenici is unwilling to be party to the repetition of the 1981 GOP fiasco, when Congress passed President Ronald Reagan's massive three-year tax cut without approving sufficient spending cuts to offset it. The combination of the tax cuts and a recession helped to trigger a major deficit crisis.

"I get the sense he's getting even firmer in his position on tax cuts—that we should wait on tax cuts until we get to balance," said an aide close to Domenici.

While both plans provide for increased overall spending over the next seven years, each would achieve

more than \$1 trillion of savings to help wipe out the deficit. Nearly 60 percent of those savings would come from Medicare, Medicaid and other popular mandatory spending programs. The rest would come from nondefense discretionary programs, including foreign aid, and from savings on interest on the debt.

Following preliminary meetings last week, aides to the House and Senate budget committees reported progress in narrowing differences over Medicare and Medicaid, defense and a raft of other sensitive issues. In most instances, they said, House and Senate negotiators would likely split

the difference between the two versions.

In the case of Medicare and Medicaid, the House has proposed \$475 billion of savings over seven years, compared to \$431 billion in the Senate budget. The compromise likely will be in the neighborhood of \$450 billion, according to sources.

The House favors spending about \$1.9 trillion over seven years for defense, \$68 billion more than recommended by the Senate and the Clinton administration. House and Senate sources indicated negotiators would split the difference, but "lean slightly to the Senate side."

Conferees also must work out differences over the proposed closing of major federal departments, welfare reform, federal retirement benefits, the Violent Crime Trust Fund and interest subsidies for college loans.

The more draconian House plan would eliminate three Cabinet departments, Education, Energy and Commerce, while the Senate would close only Commerce. Domenici is strongly opposed to closing the Energy Department, which operates major programs in his home state. House sources also concede it may not be politically feasible to go after the Education Department.

The proposed budget resolutions provide a broad outline for Congress of how to eliminate the deficit by 2002. However, the budget resolution is not binding on other committees, which can cut spending and change or kill programs as they see fit, provided they achieve specific targets for the savings contained in the resolution.

This reconciliation process could take months and may go down to the wire Oct. 1, the start of the new fiscal year. Gingrich declared last week that Clinton will be faced with the choice this fall of either signing on to deep spending cuts that are anathema to his Democratic constituencies or veto them and precipitate a shutdown of most government operations.

"He can run the parts of government that are left, or he can run no government," Gingrich told Time magazine. "Which of the two of us do you think worries more about the government not showing up?"