



CONGRESS

PLAYING THE ENDGAME

Beyond last week's bipartisan gestures looms the biggest showdown Washington has seen in years. The rising fight over Medicare is just part of it.

By RICHARD LACAYO

WHEN BILL CLINTON met with Newt Gingrich, Bob Dole and the rest of the congressional leadership last week, the mood was cordial, the atmosphere so thick with promises to work together you could almost forget that not long ago the G.O.P. revolutionaries were ready to set up guillotines on the Capitol Mall. The impulse to cooperate was not entirely contrived, as Senate Republicans and Democrats proved last week when they made real progress toward a final version of welfare reform. Clinton even praised the Senate in his Saturday radio address for "wisdom and courage" in crafting the bill that he said puts the country "within striking distance" of a package he would be willing to sign. After months of partisan fang-baring, the Great Standoff of 1995 is heading toward its endgame. It's time now to make as many deals as politics and principle will allow.

ALL SMILES FOR NOW as Dole and Gingrich leave the Oval Office, but a clash is coming

But politics and principle are also converging to guarantee that the era of good feeling will be short lived. Before the year is out, the public may well be treated to a display of the most confrontational tactics ever to be wielded in Washington. The latest shot fired was from House Republicans, who last week sketched out their plan to slow the growth of Medicare spending by \$270 billion over seven years. For all the flamboyant rhetoric it generated, the move was only part of a much larger showdown over budget balancing that could ultimately unhinge Wall Street and rock the whole American economy. And what is this mortal-combat phase really about? The G.O.P. freshmen and their allies insist that the deficit must be balanced according to their timetable and not a minute more; the White House wants to take it slower.

In this war, the G.O.P.'s first weapon is the much-talked-about "train wreck"—the shutdown of government operations that could occur if Congress and the President fail to agree on 13 new spending bills by Oct. 1, the first year's installment toward balancing the budget. But even if both sides

Is Clinton doing enough to cooperate with the Republicans in Congress?

YES	51%
NO	38%

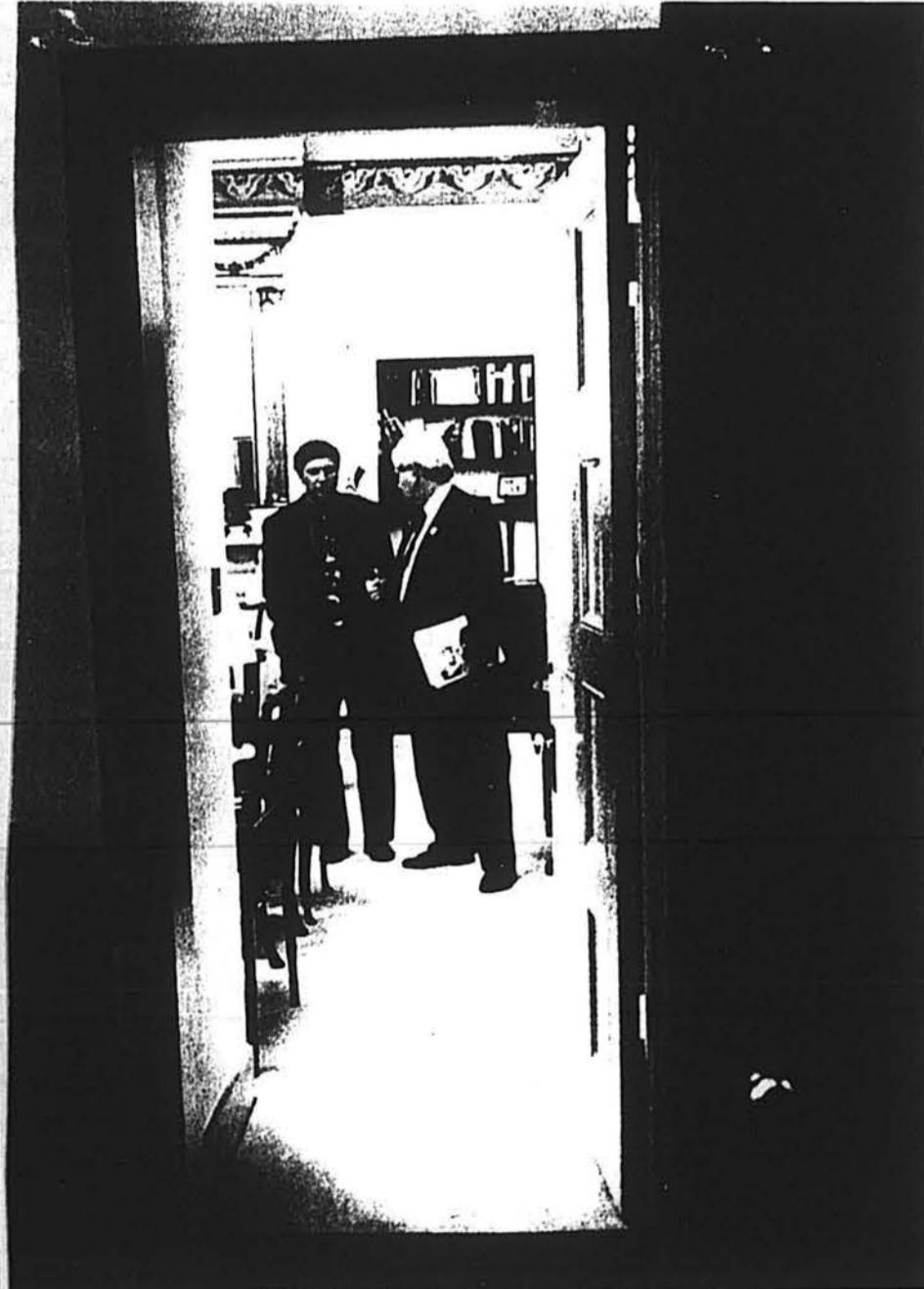
Are the Republicans in Congress doing enough to cooperate with Clinton?

YES	31%
NO	57%

From a telephone poll of 1,000 adult Americans taken for TIME on Sept. 13-14 by Yankelovich Partners Inc. Sampling error is 3.5%. "Not sure" omitted.

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can avoid that crack-up, which they probably will, the Republicans have started threatening a far bigger disaster unless the President signs on to the G.O.P. schedule for balancing the budget. The Republicans are threatening to allow the U.S. to default on its debts, with all the ensuing market chaos it would create.

If it comes to that, the people who can take the credit, or blame, are the fire-breathing G.O.P. House freshmen. The 73 first-termers are united by their singular conviction that the budget must be balanced in seven years—not the 10 that Clinton proposes. At least three times in the past two weeks they met with Gingrich to tell him this is a nonnegotiable demand. And Gingrich is promising to hold their line pretty much where they want it. "Seven years and a month, maybe," he says. "But eight years, no."

THE MASSIVE SPENDING CUTS IN entitlements like Medicare that this would require are precisely what the Democrats have pledged they will fight to the end. Even if Republicans succeed in passing their versions of the entitlements, they lack the votes to override a Clinton veto. In that case, the government seriously goes on sending out checks under the old budget arrangements. The idea that the status quo could be ritually maintained infuriates the Republicans, so they have planned a counterattack. But the only real weapon at their disposal is the massive retaliation involved in blocking an increase in the federal debt ceiling. In order to allow the government to keep on borrowing, the cap must be raised by mid-November. If it is not, the U.S. could fail to meet its payments to bondholders. That in turn could undermine investor confidence in America's creditworthiness, sending up long-term interest rates, rattling the stock market and sharply increasing what the government must pay to borrow. By comparison to that kind of wreck, merely shutting down Washington would be a fender bender.

This isn't the first time that the bristling freshmen have been useful to Gingrich. Even when he doesn't expect to give them their way, he has used them as his bad cops to threaten the White House. But this time they are also part of a larger group of 160 House Republicans, about 70% of the G.O.P. total, who have signed a letter pledging not to raise the debt ceiling unless Clinton agrees to the seven-year deadline.

So on this one Gingrich is not only talking the hard line. He may mean it. And he professes not to believe that the world will end if the U.S. defaults on its obligations for

WELFARE

DO YOU FAVOR OR OPPOSE THESE WELFARE CHANGES?

Requiring all able-bodied people on welfare, including women with small children, to work or learn a job skill?

FAVOR	88%
OPPOSE	9%

Ending increases in welfare payments to women who give birth while on welfare?

FAVOR	45%
OPPOSE	50%

Cutting the amount of money given to all people on welfare?

FAVOR	32%
OPPOSE	62%

Should the Medicare program require people to join managed-care programs, provide incentives to encourage them to join or continue current policies where patients choose their own doctor?

Require to join	14%
Provide incentives	32%
Keep current policies	44%

Do you favor or oppose a voucher system that would allow Medicare recipients to purchase insurance of their choice? (If the choice costs more you pay the difference; if it costs less you keep the difference.)

FAVOR	46%
OPPOSE	43%

the first time in history. "If you have to go through two or three weeks of turmoil to break the back of deficit spending in this country and to begin to finally shrink the government, you've got to do it," he says. At the same time, Gingrich is moving preemptively to shift blame for any post-default uproar. If Clinton fails to embrace the G.O.P. budget goals, he warns, "the President is going to force the United States to default."

Gingrich's willingness to think the unthinkable has the financial community nervously working out worst-case scenarios. At a breakfast last month with some Wall Street investors, the Speaker promised to work with Clinton to forestall a crisis but offered nothing more. "I was amazed at his determination," says David Jones, an investment-house economist who was there. "He wasn't oblivious to the argument that this could be destabilizing to financial markets. But I sensed his revolution is more important to him than some nervous bond traders."

Even without the looming deadline on the debt ceiling, the mood in Washington over the next few weeks would be poisoned by the battle over Medicare. "Morally bankrupt" was the way Gingrich described the scare-the-elderly tactics the Democrats have been using to oppose his party's plans for Medicare reform. The House G.O.P.'s vague proposal would require much higher premium payments from more affluent patients—singles making more than \$75,000 and couples making more than \$150,000. It would raise the Part B premiums that cover doctors' fees, not requiring seniors to join health-maintenance organizations, but encouraging them to do so. Republican budget projections count on many seniors' being lured into HMOs, which is expected to reduce costs per patient.

Notably absent from the G.O.P. plan are full details on just how it would carve out its \$270 billion in expected savings, the amount the party must find to meet its goals of both balancing the budget and providing a \$245 billion tax cut. Clinton, who promises to veto

the plan, says he could stabilize Medicare's finances with cuts of less than half that size. Clinton's strategy is to convince voters the Republicans are robbing Medicare to nurture the well-off with a tax cut.

But the Republicans could be ready for him. They know from conversations with constituents during the summer recess that they have an image problem of being Robin Hoods in reverse. Having whacked school lunch programs and the working poor, they have to be careful about stroking the FORTUNE 500 too enthusiastically. Freshman Representative Mark Souder returned to Washington bearing the news that in his Indiana district voters were "starting to wonder, Did we swap Big Labor and Big Government for Big Business? New suits, maybe."

John Kasich, chairman of the House Budget Committee and a chief architect of G.O.P. spending cuts, met in early September with a group of first-term House Republicans and presented them with a fistful of newspaper clips about breaks that the new Congress had given to business. "We

have to do something," he entreated them. "This is killing us." With prodding from Kasich, Bill Archer, the business-friendly chairman of the House Ways and Means Committee, is offering a response that has stunned colleagues from both parties. For months he had fended off efforts to eliminate corporate tax breaks. To do that, he said, would amount to a "back-door tax increase." Last week he suddenly flung open the back door, proposing to eliminate \$30 billion of them, including tax breaks for insurance companies and movie studios.

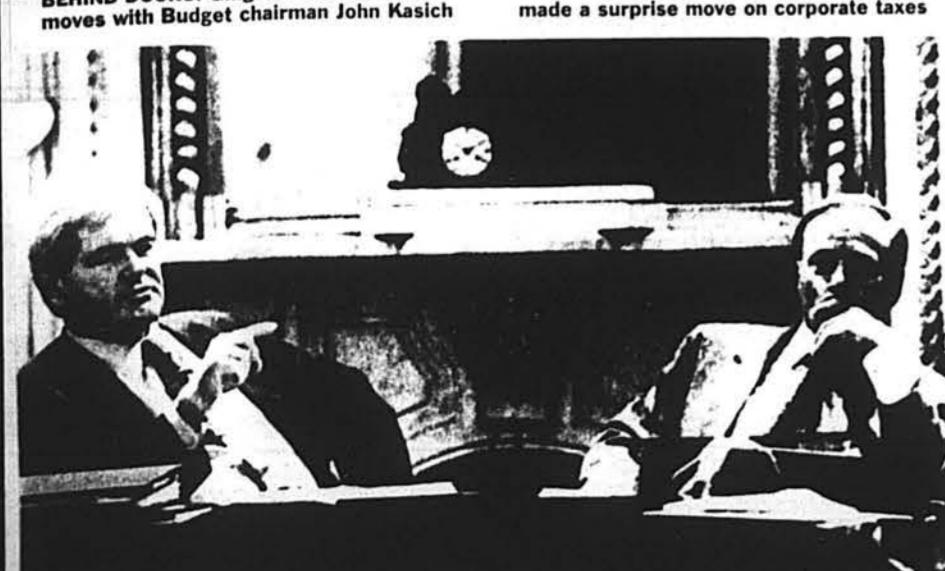
Meanwhile, as longtime protectors of Medicare, Democrats have image problems of their own. With just a month to go before Congress is expected to vote on the Medicare reform proposal, they are scrambling to oppose it with a proposal that last week seemed a little more than oppositionism. In a last-ditch effort to mobilize health-care providers against the House G.O.P. plan, Clinton's chief of staff Leon Panetta convened a White House meeting with industry lobbyists and a representative of the American Association of Retired Persons. One health-care lobbyist told him he was too late. "We've been meeting with Gingrich every two days," he said. "They were the only game in town." So the Democrats have launched their own campaign. Taking their inspiration from the Harry and Louise ads that helped sink Clinton's health-care plan last year, the Democrats have rushed out their own commercials, in which a young couple worry aloud about the plan while the woman's frightened mother listens in.

If there is a key to the impasse, the difference of almost \$150 billion between the Clinton and House G.O.P. proposals for cutting Medicare, it may lie partly in a retreat by Republicans from their tax-cut pledge. By saving billions of dollars, a smaller tax cut would allow the Medicare cuts to be somewhat smaller. But that is a fallback position, many weeks away. Until then, many threats will be made and bluffs will be called. And Americans will come to realize that the breaking up of gridlock is not a quiet process.

—Reported by
Nina Burleigh, J.F.O. McAllister, Sunzel Ratan and Karen Tumulty/Washington

PHOTOGRAPH BY JEFFREY DUNCAN

GIVING GROUND: Gingrich ally Bill Archer made a surprise move on corporate taxes



BEHIND DOORS: Gingrich calibrates his moves with Budget chairman John Kasich

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TIME ON CAPITOL HILL

Sparing the Child—and Mom

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In a 66-to-34 vote in the Senate, Democrats and moderate Republicans eliminated a Dole-sponsored, conservative-backed "family cap" in the welfare bill intended to halt additional payments to single mothers who have more children while on welfare.

DOLE (R)

KASSEBAUM (R)

NO

YES

Conservatives lost again in a related vote when the Senate rejected, by 76 to 24, a ban on cash benefits to unwed mothers under the age of 18.

NO

NO

DVN—did not vote; RU—Representative unknown

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