Congressional Closeup by William Jones

Senate approves $9.4 billion for war on drugs

The Senate on Sept. 27 approved, 97-2, a $9.4 billion budget for the nation's war on drugs, $1.1 billion more than requested by President Bush for drug and crime-control efforts for FY1990 which begins Oct. 1.

The largest single allocation will provide $1 billion for prison construction. Funds are also provided for more law enforcement agents, anti-drug programs in schools, local treatment and rehabilitation programs, assistance to state and local law enforcement efforts, anti-delinquency programs, Indian and veterans health services, and programs for the homeless. The plan would be financed by an across-the-board 4.3% cut in government spending with the exception of entitlement programs. The cuts will include $1.3 billion in Pentagon spending.

The voting followed weeks of posturing over who would take political credit for spearheading the drug war. Sen. Robert Dole (R-Kan.) described the Democrats' overbidding Bush as "nibbling around the edges." Sen. Robert Byrd (D-W.V.) insisted that the Democratic proposal is a major expansion and refocusing of the program toward prevention and treatment as well as enforcement of drug laws.

Capital gains tax passed by House

The House passed the capital gains tax proposed by President Bush by a vote of 239-190 on Sept. 28; 64 Democrats voted for the proposal.

Democratic opposition to the tax had thrown a monkey wrench in the bipartisanship which the administration had attempted to foster during the first months of its existence. President Bush, without knowing that his comments were being overheard, commented that he was "displeased with Gephardt. He made it so personal." Although more Democrats than expected sided with the administration on the capital gains issue, thus assuring its ultimate passage, the Democratic congressional leadership had used the issue to pick a fight with the administration—and lost. Budget Director Richard Darman called the Democrats' efforts "a kamikaze approach to national politics." The House vote is considered a major defeat for the new House leadership of House Speaker Thomas Foley (D-Wa.) and House Majority leader Richard Gephardt (D-Mo.).

The administration's proposal would exclude from taxation 30% of the profit from the sale of stock, real estate, and other assets on transactions made in the next two years. At the end of the two-year period, the top rate would rise to 28% and all gains would be indexed for inflation so investors would pay no tax on the portion of their profits attributable to general price rises.

Democrats, calling Bush's proposal a tax break for the rich, offered an alternative that would restore the deductibility of Individual Retirement Accounts. Darman had threatened that a failure to enact a capital gains tax cut would lead to across-the-board spending cuts, which would be mandatory under the Gramm-Rudman deficit-reduction law. The Gramm-Rudman sequestration is scheduled to take effect on Oct. 15 if the government hasn't succeeded in reducing the fiscal 1990 budget deficit to $110 billion or less. The administration hopes that a cut in the capital gains tax will raise government revenue in the short run by stimulating a rapid turnover of taxable assets as investors sell in order to reap the benefits of the tax cut.

But as one opponent of the capital gains tax, Sen. Bill Bradley (D-N.J.), pointed out in a *Washington Post* commentary on Sept. 27, if a lot of investors try to unload their assets immediately to pay less taxes before the rate goes back up, it could lead to a deflation of the real estate markets, sending housing values tumbling.

Comptroller says FHA will be $5 billion short

Charles Bowsher, Comptroller General of the United States, said that $4-5 billion will be needed over the next several years to save home mortgage insurance programs that are jeopardized by losses, in testimony before a Senate Committee on Banking, Housing and Urban Affairs subcommittee Sept. 27.

The Federal Housing Administration, which is administered by the Department of Housing and Urban Development, runs four mortgage insurance funds. The single-family loan program had adequate reserves to cover its losses, but losses stemming from HUD's co-insurance and other high-risk insurance programs cut deeply into already-exhausted reserve funds. Defaults from the co-insurance program, in which the government assumes 80% of the risk of some housing programs and private developers the remaining 20%, are estimated to reach $960 million in 1988, said Bowsher.

HUD had previously claimed the agency sustained a fiscal 1988 loss of $858 million, but an independent audit by the General Accounting Office and Price Waterhouse—was the first audit of the FHA in 15 years—

found otherwise. According to the testimony, the FHA's Mutual Mortgage Insurance Fund, which provides single-family home mortgage insurance, saw defaults increase dramatically over the past two years, from 166,000 in 1987 to 203,000 in 1988. The loan program, which had $229 billion worth of residential mortgage insurance in force on Sept. 30, 1988, suffered a $1.4 billion loss that year, reducing government equity in the program from more than $3 billion at the start of 1988 to $1.8 billion at the end of the year.

The FHA General Insurance Fund, which Congress subsidizes annually, provided $62 billion of insurance for various projects as of September 1988. It was in deficit at the start of 1988 and suffered an additional loss of $2.6 billion, bringing its deficit to $3.1 billion on Sept. 30, 1988. The FHA Special Risk fund contributed another $1.6 billion to the deficit. "I don't think we're in a free fall," said Bowsher. "I think what we have here is a program that's in some trouble."

Senate rejects SDI funding increase

An effort to restore nearly $300 million to the $4 billion no-growth level of spending for the Strategic Defense Initiative was defeated in the Senate on a 66 to 34 vote on Sept. 26. The increase had been recommended by the Appropriations Committee for inclusion in the $288 billion defense spending bill for fiscal year 1990.

Two months ago the Senate authorized up to $4.6 billion for the SDI, while the House has approved $3.1 billion for FY1990. The Senate vote indicates that a House-Senate conference on the Defense Authorization bill is likely to approve the first cutback in spending for the SDI program since it was launched by President Reagan in 1983.

Troops to stay in Korea, for now

A proposal which would have reduced the 43,800 U.S. soldiers stationed in South Korea by 3,000 troops, was defeated in the Senate on Sept. 26 by a vote of 65 to 34. The Senate instead called on the administration to "reassess" U.S. deployments without abandoning the military presence necessary to deter aggression by North Korea.

In related action, the Senate refused to delay the closing of 86 military bases, recommended by a special commission and approved by Congress earlier this year, by a vote of 86 to 14. Sen. Sam Nunn (D-Ga.) warned that a delay could unravel the base-closing agreement.

Democrats propose cuts in catastrophic insurance

Democrats have been reeling over their touted Catastrophic Coverage Act as House members are being bombarded with calls and letters from outraged Medicare recipients who, under the bill, would have to pay a surtax from their Social Security in order to finance the fund.

A new formulation, worked out by the House leadership on Sept. 27, leaves intact only reimbursement payments for prescription drugs, and some health benefits for the poor. This remaining coverage would be financed by the existing flat fee of $4 a month paid by all Medicare beneficiaries.

The revised proposal eliminates two primary benefits for elderly people who suffer long-term illness. It would restore Medicare-style coverage, payment of hospital bills for up to 90 days for each time they were admitted with an illness after paying $560, plus a one-time reserve of 60 days. The proposal also retains the prescription drug benefit, which calls for payment of half the cost of the drugs above $600 starting in January 1991.

Though the White House has not made any efforts to keep the program, it does oppose its repeal, since any revenue surplus from the program is applied to lower the Federal budget deficit.

House committee speaks on China, reserves

The House Banking Committee approved a resolution on Sept. 27 urging the Bush administration to oppose loans to China by international banks. The resolution said loans and other financial aid from international banks to China should be opposed until the repressions and reprisals against persons connected with the pro-democracy demonstrations have been ended.

On Sept. 26 the Banking Committee approved a bill that directs federal regulators to require commercial banks to maintain "significantly higher" reserves against their loans to many lesser developed countries. The committee suggested that regulators be given flexibility to assign favorable risk ratings to credits extended as part of a rescheduling package under the Brady Plan. Presumably, banks not participating in the Brady Plan would have to maintain higher loan-loss reserves than those that do not.