Economists Fear Middle-Class Tax Cuts Will Increase Deficit

By Clay Chandler

The Washington Post

WASHINGTON

Both congressional Republicans and President Clinton are pledging a middle-class tax cut, but many economists said Monday they feared that such a move would result in an overheated economy and a growing federal deficit.

Clinton and his advisors meet Monday to review options for a tax cut proposal of about $50 billion to $500 billion over five years as part of preparations for the fiscal 1996 budget submission. House Republicans have proposed a $500-per-child tax credit to cut the tax bill for 50 million families by $100 billion over five years.

While there may be political benefits in cutting taxes for middle-class families, many economists said they could see little economic rationale for the move at a time when the economy is operating close to full capacity and the Federal Reserve is aggressively raising interest rates to slow economic growth.

"Consumer spending is already running at a boom-like pace," said Stephen Roach, chief economist at Morgan Stanley. "The last thing we need to do now is pour more fuel on the fire."

"The timing for this kind of policy change is poor," echoed Charles L. Nelson, managing director at Chemical Securities Inc. "We think Pentium-based computers are playing out a lot of the demand, and the market is concerned that fiscal policy will become overly expansionary."

Bond prices fell sharply Monday, pushing the yield on the benchmark 30-year Treasury bond, which goes up as prices fall, to 7.92 percent from 7.85 percent late Friday.

In recent weeks, administration officials — including White House Chief of Staff Leon E. Panetta and National Economic Adviser Robert E. Rubin — have stressed that Clinton's budget proposals would not add to the deficit, and therefore will not pump new stimulus into the economy.

White House officials have described the tax cut for the middle class as a matter of fairness. The objective, they said, is to provide some financial relief to beleaguered middle-class households which, they say, have not shared equally in the gains of the recovery.

But many economists said they worry that, in giving ground on tax cuts, Clinton will weaken his ability to hold the line on deficits.

IBM Halts Sales of Computers Using Flawed Pentium Processor

By Elizabeth Corcoran

The Washington Post

Concerns about Intel Corp.'s flawed Pentium microprocessor cranked into an industry brawl Monday when International Business Machines Corp. announced that it would suspend sales of personal computers that use the chip.

IBM contends that people who use Pentium-based computers are more likely to encounter errors than Intel has suggested. Someone running a typical "off-the-shelf" spreadsheet program might get an inaccurate result as frequently as once every 24 days, according to IBM estimates. Intel maintains that the Pentium error would only have a problem once in 27,000 years.

IBM's announcement had a dramatic impact on Intel's stock. It dropped $4.25, or about 6 percent, in the space of an hour, leading to a suspension of trading for more than two hours. It gained back some of the loss when trading resumed, closing at $60.37 1/2, down 2.37 1/2.

Monday afternoon, Intel's president, Andrew Grove, issued a statement dismissing the IBM reports. "You can always contrive situations that force this error," Grove said. "In other words, if you know where a failure will hit, you can get there and get hit."

"If IBM's contention was right, the problem would have shown up thousands of times," Grove said later in a conference call with analysts. "It hasn't."

Some analysts said that IBM has special reasons to criticize the Pentium processor. The company co-developed a competing processor, the PowerPC chip, and has vigorously promoted it as an alternative to Pentium. In addition, IBM does a relatively small business in Pentium-based PCs, accounting for only about 100,000 of 4 million Pentium computers sold.

IBM remains alone among the big companies in suspending sales (it said it would resume them when the chips were corrected). Gateway 2000 Inc., Dell Computer Corp. and Compaq Computer Corp. said they will continue to ship Pentium machines.

"Before all of this hit the press, we had not had one single call about this anomaly occurring, and we sell more Pentium computers than anyone else in the United States," said Wendell Watson, spokesman for Gateway 2000 of North Sioux City, South Dakota.

Asteroid Comes Within 65,000 Miles of Earth

Washington Post

The White House, seeking major budget cuts to help pay for a middle-income tax cut, has directed the Energy Department to prepare option plans for at least a 20 percent reduction in funding and possibly for complete elimination of the agency.

Although a civilian agency, the Energy Department is responsible for development of the nation's nuclear weapons and for cleaning up the massive radioactive waste problems that are part of the legacy of the Cold War. But, government officials, said they could see little economic rationale for the move at a time when the department is about $18 billion a year, and by no means all of that could be saved even if the department were eliminated. Officials said many of its functions — including the environmental and safety oversight — would have to be transferred to other government agencies if the department were eliminated.

Still, with resurgent Republicans vowing to slash taxes for middle-income taxpayers, Clinton is under political pressure to come up with a tax cut plan of his own, especially because he made middle-class tax cuts a theme of his 1992 election campaign but shied away from the issue as president when faced with the realities of the federal deficit.

Clinton said over the weekend he would cut taxes on the middle class if ways can be found to avoid increasing the deficit. That means identifying spending cuts for existing government programs to offset the revenues lost in a tax cut. Administration officials have talked in terms of a $40 billion to $50 billion reduction in the next five years; the GOP has vowed to enact far larger cuts but has not yet offered details of how it would pay for them.

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