

1 EXECUTIVE COMMITTEE MEETING ON THE MARK UP OF THE DEFICIT  
2 REDUCTION PACKAGE

3 THURSDAY, FEBRUARY 23, 1984

4 Committee on Finance

5 Washington, D.C.

6 The committee met, pursuant to notice, at 10:17 a.m. in  
7 room SD-215, Dirksen Senate Office Building, the Honorable  
8 Robert J. Dole (chairman) presiding.

9 Present: Senators Dole, Packwood, Roth, Danforth,  
10 Chafee, Wallop, Durenberger, Armstrong, Symms, Grassley, Long,  
11 Bentsen, Matsunaga, Moynihan, Baucus, Boren, Bradley,  
12 Mitchell and Pryor.

13 Also Present: John Chapoton, Assistant Secretary for  
14 Tax Policy, Department of the Treasury; Roderick A. DeArment,  
15 Chief Counsel and Staff Director; Michael Stern, Minority  
16 Staff Director; David Brockway, Joint Committee on Taxation  
17 Chief of Staff; Richard Belas, Deputy Chief Counsel; Sheila  
18 Burke, Deputy Staff Director; Carol Kelly and George  
19 Scheiber, Department of Health and Human Services.

20 (The prepared written statement of Senator Grassley  
21 follows:)

1           Senator Dole. Let's see now. As I understand it, there  
2 are a number of people who could not gain access to the room.  
3 I assume we are piping out to the hallways. Right.  
4 So, at least there will be some communication. There is no  
5 secret about what we are trying to do here today, and I hope  
6 that we can indicate to everyone that this committee in a  
7 bipartisan way is willing to act, and we have all given  
8 speeches on the deficit. I try to give at least one a day,  
9 but I think it is time we start voting on whether or not  
10 we are going to reduce the deficit.

11           Last November 16, by a vote of 16 to 1 in this  
12 committee, the staff was asked to come back with some options  
13 no later than February 15. As everyone knows, February 15  
14 fell during the recess, so we weren't able to do that. This  
15 then is meeting that obligation that the committee suggested  
16 last November. We have available, and everyone has, a list  
17 of the suggestions that the staff has recommended. Many  
18 members have been involved in the process. I understand that  
19 Treasury is able to report this morning that they have no  
20 objection to any of the revenue items in that list, but I  
21 will get to that later. I would hope that we could -- I  
22 think Senator Long is correct -- we have got a pretty good  
23 bipartisan group in this committee. We may be able to do  
24 more than all the Deficit Reduction Task Force can do in the  
25 next 30 to 40 days. I am told by Senator -- where is the

1 letter from Senator Childs and Senator Diminichi and Senator  
2 Baker? We are told by the Budget Committee that we need to  
3 act -- that Congress needs to act -- by April 1 if we are  
4 going to get about \$7 billion in savings that the Government  
5 Affairs Committee voted last year with reference to COLAs.  
6 Do you have the letters?

7 (Pause)

8 I would ask to include in the record at this point a  
9 letter from the majority leader in which he urges us to  
10 proceed and also a letter signed by Lawton Childs and Pete  
11 Diminichi, the ranking Republican and Democrat on the Budget  
12 Committee -- we are required to report to the Budget  
13 Committee by March 15. I understand they may advance that  
14 date. It would seem to me we should take some action just  
15 to report we have taken action. It would make their job  
16 much easier, and I agree with an observation just made by  
17 Senator Bentsen -- obviously this committee can't do it all,  
18 and what we do may be contingent on what is done in other  
19 committees, including Armed Services.

20 So, I am prepared -- after people make opening statements  
21 -- for us to start voting.

22 Senator Long. Mr. Chairman, may I say a word or two?

23 Senator Dole. Senator Long.

24 Senator Long. Mr. Chairman, I am satisfied that to go  
25 through the kind of thing the President is talking about

1 really means no reduction in the deficit at all. It means  
 2 a constant increase in the deficit. Now, Martin Childs, who  
 3 is the ranking Democrat on the Budget Committee, presented  
 4 the Congressional Budget Office estimate, which indicates  
 5 that by those estimates, this tax saving would merely close  
 6 the difference between the estimate of the Administration  
 7 and the Congressional Budget Office. And history shows us  
 8 that both of the estimates -- even that of the Congressional  
 9 Budget Office -- on any long-term basis is overly  
 10 optimistic. But just the difference between the  
 11 Administration's estimate and the CBO estimate is \$99 billion,  
 12 which is roughly the same figure the President is talking  
 13 about in terms of reducing his own deficit over a three-year  
 14 period.

15 Now, recognizing the fact that the Congressional budget  
 16 estimate after the first few months simply continues  
 17 whatever the trend may be -- which at this time is a recovery  
 18 trend -- interest rates falling and unemployment going down  
 19 and employment going up -- and recognizing what the  
 20 experience is -- if we do what the President is urging us  
 21 to do in terms of \$100 billion reduction over a three-year  
 22 period, we will actually wind up with an increase in the  
 23 deficit of more than \$100 billion because of the difference  
 24 between the CBO estimate and what the reality is going to be.  
 25 I tell you that unless we cut these deficit totals by at

1 least \$200 billion, we won't be reducing the deficit a  
2 nickel as far as the public is concerned out there. Now,  
3 this committee was ready to recommend last year a \$70 billion  
4 dollar a year -- not \$70 billion in three years -- more than  
5 \$200 billion over a three-year period, more than twice what  
6 the President was recommending in narrowing the deficit, and  
7 we would have done that if the Secretary of Treasury hadn't  
8 come down, speaking for the President, and said that the  
9 President would oppose it and veto the bill if it got to his  
10 desk. Now, I would urge this committee -- under your  
11 leadership, Mr. Chairman -- to go even beyond what you are  
12 recommending and to recommend something that would be a real  
13 reduction in the deficits. In order to do that, you are  
14 going to have to go for something that would appear to be a  
15 \$200 billion deficit, and I believe that you will find  
16 substantial support on this side of the aisle, if you can  
17 get substantial support on your side of the aisle.

18 Senator Dole. Now, you are talking about a total  
19 Congressional effort -- not just this committee?

20 Senator Long. No. It would be totally unfair to ask  
21 the Finance Committee to save the Government all by itself.  
22 We can't do it. We don't have that much power, and we are  
23 not that big a committee. But if this committee would provide  
24 the leadership, I would think that we could find enough  
25 cooperation elsewhere in the Government, provided the

**Moffitt Reporting Associates**

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 President will support us, if that could be done.

2 Senator Dole. Anybody on this side? Senator Bentsen?

3 Senator Bentsen. Yes. Mr. Chairman, first let me  
4 compliment you on what you are trying to do in getting this  
5 deficit down, and I well remember what you tried to do last  
6 year because I was one of those in the bipartisan effort  
7 that committed to try to bring about those kinds of  
8 reductions. But I can't help but remember that when you  
9 tried to do that, that you had the ground shot right out  
10 from under you by the President. I also remember Don Regan,  
11 the Secretary of the Treasury, sitting right out there  
12 testifying before us. And when I asked him why the President  
13 would not propose the cuts in the budget that were necessary,  
14 the Secretary of the Treasury responded by saying, "1984 is  
15 an election year. Need I say more?"

16 Certainly, he should have said more. And I do not  
17 consider that a responsible answer. Now, if they said it  
18 last year about the 1984 budget, we are now facing the same  
19 problem -- now we have that election year -- and it is  
20 happening to the 1985 budget. The President has to be a part  
21 of this process, and he has to lead. This Government doesn't  
22 work very well without a President leading, and he can't lead  
23 from a ranch in California or Camp David. He has to be a part  
24 of that process. I think it is a cop-out on his part when he  
25 presents a budget that he knows is higher than it should be,

1 and then disavows it the day before, and then turns to the  
 2 Congress, and says you tell us where to cut. The President  
 3 has to do that, and I think that the President ought to submit  
 4 a new budget, and that budget ought to call for \$200 billion  
 5 worth of cuts over the next three years. This is the most  
 6 serious economic crisis that this country has faced that I  
 7 know of.

8 Senator Long. Senator, you are talking about revenues  
 9 as well, aren't you?

10 Senator Bentsen. Yes, of course, I am. I am talking  
 11 about across the board that that be done. And when the  
 12 President says it is the Congress that has been the big  
 13 spender, that just isn't the fact. Pete Diminichi, Chairman  
 14 of the Budget Committee, had David Stockman in front of him  
 15 the other day, and David Stockman admitted that the Congress  
 16 had spent less money over the last three years than the  
 17 President had requested in his budgets. We had Peter Grace  
 18 before us on the Grace Commission. The President refers to  
 19 the savings of the Grace Commission, and I am totally  
 20 supportive of our trying to carry out every one of those  
 21 things that has any feasibility to it, but the testimony  
 22 also says that there is \$100 billion of those savings that  
 23 could be done by the President by the stroke of a pen. And  
 24 he ought to do that in trying to accomplish those savings.  
 25 Mr. Chairman, once again, I am ready to work to try to save

1 the amount of money we are talking about. It ought to be  
2 \$200 billion, but we can't do it without a President  
3 exercising leadership. That is what he hired out for. I  
4 can't help but remember Harry Truman with his sign on that  
5 desk that said "The buck stops here." And that is the Oval  
6 Office we are talking about, and that sign ought to be put  
7 back on the President's desk.

8 Mr. Chairman, I just feel so strongly about the issue  
9 that leadership has to be exercised. I congratulate you.  
10 You are chairman of this committee, and this is a powerful  
11 committee, but Mr. Chairman, you are not President of the  
12 United States -- you may be someday -- but --

13 Senator Dole. I don't see any vacancies.

14 Senator Bentsen. I understand.

15 (Laughter)

16 Senator Bentsen. But that leadership is there, and it  
17 ought to be exercised by the President.

18 Senator Dole. I think, as Senator Long pointed out  
19 earlier, we have got the right kind of people on this  
20 committee on both sides to do most of the work. I would  
21 hope that we can get a bipartisan consensus, and I have  
22 refrained -- as I think most members have -- from trying to  
23 get into the politics of it although, obviously, there are  
24 going to be some legitimate statements made on each side.  
25 But if we could leave here by noon today and the American

**Moffitt Reporting Associates**

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198



1 people knew that this committee took action on \$100 billion  
2 of deficit reduction and instructed us to go out and find  
3 \$40 billion more, I don't think we can do the whole \$200,  
4 but maybe we can do \$140. You know you are going to have  
5 \$30 or \$40 in defense reduction. You know there are going  
6 to be some more maybe in a few other areas, so I think we  
7 can probably meet any challenge that we have. So, I am very  
8 anxious and very pleased with what I am hearing on both  
9 sides. We had a meeting this morning of Republicans, as  
10 you met with Democrats, and I think it is the consensus on  
11 our side -- we ought to be doing more. But we will find out  
12 pretty quickly on how much more when we start voting on  
13 specifics. I mean, it is easy to say we ought to do more,  
14 but then we have to agree on specifics, and I am ready to  
15 start unless somebody else wants to speak.

16 Senator Boren. Mr. Chairman, have these various  
17 proposals been run past the President? When we take these  
18 up, one by one, can we be told which ones he endorses  
19 personally, and which ones he does not endorse personally?  
20 I think that would be important to know because we don't  
21 want to be attacked down the line for voting for some things  
22 that he might be against, so it might be helpful to know  
23 whether the President personally endorses the items on the  
24 list -- which ones he endorses and which ones he opposes.

25 Mr. Chapton. Senator Boren, I can speak for the

**Moffitt Reporting Associates**

2849 Lafora Court

Vienna, Virginia 22180

(703) 573-9198

1 Administration on the tax side. I cannot speak on the  
2 spending side.

3 Senator Dole. We will have somebody speak on the  
4 spending side because, as I understand it, on the first  
5 category of revenues, there is no objection.

6 Mr. Chapton. That is correct.

7 Senator Dole. We are not going to try to lead anybody  
8 down the path here, but -- Senator Baucus?

9 Senator Baucus. Mr. Chairman, I want to commend you for  
10 your efforts here, not only today but in prior weeks and  
11 months. I want to echo what Senator Long and Senator Bentsen  
12 said. Obviously, \$99 billion is not going to make much  
13 difference over several years. Chairman Bolker has said  
14 many times that we have to do much more than that. All  
15 analysts have said that we have to reduce the deficit by  
16 at least \$200 billion. It seems clear to me that this effort  
17 here today is a start in the right direction, but it is not  
18 going to make a lot of difference over the rest of this  
19 decade in terms of getting interest rates down and to get  
20 the economy going where it should go.

21 Frankly, I am surprised that the President doesn't want  
22 to take advantage of the opportunity to take a greater lead  
23 here. As you know, several of us have suggested that the  
24 President take another cut at the budget. That is, he tries  
25 to reduce the deficit by \$200 billion, and he gives his

**Moffitt Reporting Associates**

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 proposals to the Congress as to how that cut should be made.  
2 And frankly, I am surprised that the President doesn't take  
3 advantage of that opportunity. After all, it is allowing  
4 him -- it is letting him -- as President of the United States  
5 to take the first crack at how you can reduce the deficit by  
6 \$200 billion. Now, I am frankly a little disheartened by  
7 his reluctance to move in that direction. Last night, at  
8 his press conference, he said that no he doesn't want to  
9 raise any revenues -- no, he doesn't want to reduce the  
10 increases in defense spending. You have done a good job in  
11 trying to be bipartisan, and I am frankly concerned that the  
12 President is not taking up the clues that we are offering to  
13 him -- the opportunities that we are offering to him -- so  
14 I think today, yes, it makes some sense to try and keep  
15 -- or light a fire under him -- under others in the Congress  
16 who are probably not moving as quickly as they should -- but  
17 on the other hand, Mr. Chairman, I don't think that we are  
18 going to be getting very far with our exercise today unless  
19 we have clear signals from the President that he is willing  
20 to also agree. And last night's statement, frankly, is not  
21 terribly encouraging. I hope, though, that we just keep the  
22 pressure going, and maybe he will be encouraging, but thus  
23 far I think we have to be realistic in recognizing that he  
24 is not doing very much here to help us together -- as a  
25 country -- to get these deficits down.

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1           Senator Dole. I think there is a certain amount of  
2 posturing around everywhere, but that is why I think we have  
3 a chance to sort of break out of all the rhetoric and do  
4 something up here. It might set a trend around this town.  
5 I don't think anybody expects us to do anything. They expect  
6 us all to make speeches. I read in The New York Times  
7 yesterday what they were predicting for 1984, and they were  
8 predicting nothing was going to happen on the deficit. In  
9 my view, they are wrong. I think there are enough of us  
10 around here who trust each other in both parties to do  
11 something. And I think the President is onboard in what we  
12 are trying to do here today. There is supposed to be some  
13 meeting this afternoon at 2:00 p.m. You know, there has been  
14 a lot of politics on both sides. I was at a Homebuilders  
15 Conference in Texas with Jim Wright about six weeks ago, and  
16 he was demanding that we get together and do something.

17           And now, the President says let's get together, and he  
18 says we don't trust the President, or we want to set the  
19 agenda. So, everybody understands there is bound to be a  
20 little politics involved, but I think our committee is in  
21 a pretty good position to move out. Senator Bradley?

22           Senator Bradley. Mr. Chairman, referring to the  
23 committee, and I do think you are serious about this matter,  
24 the document that we have been presented with has a total  
25 of \$99.3 billion in deficit reduction. The committee met

**Moffitt Reporting Associates**

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 last November, and we were considering a deficit reduction  
2 package of \$150 billion, and at that time the committee voted  
3 informally -- but nonetheless voted -- that the staff should  
4 return on February 15, with some specifics as to how we would  
5 get to that, and we divided that 50-50. So, we need some  
6 more specifics other than the document that we have gotten  
7 before we can really act because there is not \$75 billion in  
8 revenue increases here, and I think that -- consistent with  
9 what the committee had said last November -- we need to see  
10 whether the \$75 billion in revenue increases that has been  
11 recommended for our consideration. So, I would suggest that  
12 we really do need an additional paper in order to see.

13 I know that in our discussions we got to a discussion  
14 about \$30 billion of the \$75 coming from an energy tax, and  
15 that didn't elicit, when we got to specifics, unanimity on  
16 the committee, and I think that if we are serious about this,  
17 we have to act pursuant to the committee decisions of an  
18 earlier period. My second point. Do we have any kind of  
19 commitment -- and I am not asking the President to give the  
20 commitment -- I understand that he has his own agenda -- but  
21 do we have any commitment from other committee chairmen,  
22 particularly Senator Tower, on the defense side before we  
23 go to social security, or medicare, or freezing employer-paid  
24 health care, or fringe benefits, or the other things that  
25 we have been asked to do in this package? Two questions.

**Moffitt Reporting Associates**

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1           Senator Dole. The commitment -- I am not certain of  
2 that, but I think what we could do -- and what Senator  
3 Bentsen suggests -- anything we could do would be contingent  
4 on getting specific reductions in other areas. It is pretty  
5 hard for us to set the level of defense spending in this  
6 committee, and I know there are certain efforts being made  
7 to trim the Agriculture budget a bit, which we have no  
8 jurisdiction of, and I am certain that there are a lot of  
9 other areas. But we had a meeting yesterday morning. Senator  
10 Baker called a meeting of myself, Diminichi, Hatfield, Senator  
11 Garn, and Senator Laxalt, and obviously, we understand that  
12 is going to be part of the total package. We can't walk  
13 the plank ourselves and everybody else spend more money, and  
14 we come in and tax people more so you can spend more for  
15 other purposes.

16           In regard to the first question, I was hoping we could  
17 approve \$100 billion, and then we will go back and see if  
18 we can find the other \$50. At least, let's make some progress  
19 because I would hate to --

20           Senator Bradley. But the committee asked the staff to  
21 provide a document that split it 50-50, and the document  
22 that we have doesn't generate the revenue that the committee  
23 asked the staff to generate, so I don't see --

24           Senator Dole. The problem is, as you know, that when  
25 the President changed his mind on a contingency tax, and on

**Moffitt Reporting Associates**

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 an energy tax. That suddenly made it very difficult to find  
2 even \$100 billion. But we are willing -- if the Committee is  
3 willing to do it -- on a 50-50 basis -- we will find it  
4 somewhere. Senator Boren?

5 Senator Boren. I wonder if we might --

6 Mr. Chapton. Mr. Chairman, could I make just a couple  
7 of comments? First of all, I don't want to get into -- I  
8 think you are correct, Mr. Chairman, in saying there are a  
9 whole lot of politics in this, and I don't want to become  
10 involved in that, but I just would say that I think the  
11 President has made it clear that his plan is to try to deal  
12 with the less contentious items -- to do the \$100 billion  
13 down payment. You asked me if we support these -- or go  
14 along with or some such thing -- with these items on the  
15 revenue side, and I said yes. I do want to point out that  
16 we would hope that the bipartisan group would come up with  
17 a solution. We think it would be a good way to handle the  
18 less contentious items and really get it through quickly.  
19 So, I want to make it clear that when I give support to these  
20 items, that we don't want to undercut that effort.  
21 Hopefully, that effort will succeed.

22 Senator Dole. I think so, but I think if we went down  
23 today at 2:00 p.m. -- and I am not certain whether it is  
24 going to be a full meeting -- I think Republicans were  
25 invited to come this time -- but I don't think we can ever

**Moffitt Reporting Associates**

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 work it out until Senator Long is there and I am there and  
2 the appropriations people and others. But if we were able  
3 to tell this bipartisan group at 2:00 p.m. that we have  
4 agreed on \$100 billion dollars in specifics and we get some  
5 defense number, and somebody says that we are still \$60 short,  
6 then if there is some agreement there, I think we could  
7 probably furnish most of that, and the President would have  
8 to agree to it, of course. I don't think the President is  
9 going to object if we do more than the \$100 billion. It  
10 depends on how we do it.

11 Mr. Chapton. I agree.

12 Senator Dole. Senator Wallop?

13 Senator Wallop. Mr. Chairman, I am always amazed that  
14 the conversation that goes around this table under the guise  
15 of nonpolitical. I think I heard a couple of campaign  
16 speeches -- probably I am wrong -- but in Wyoming we probably  
17 would have thought that that is what they were. I would  
18 hope that if we are going to do something in here, that we  
19 might lower our rhetoric. I would hope even more that before  
20 we ask for \$150 billion, we might find \$100 billion. I  
21 have been around here long enough to see us talk very  
22 bravely until we get to specifics. So, rather than my  
23 continuing what is obviously a political response to  
24 political remarks that are around here, I will stop, and just  
25 hope that all of us get down to work and see if we can do



1 \$100 billion, and when we have done that, see if we have an  
2 appetite for \$50 billion more, but it seems preposterous to  
3 me that we talk so bravely before we have taken a dime off  
4 of any of this.

5 Senator Long. Senator, just to make it clear. I  
6 personally don't want to assume the burden of voting to pass  
7 a package where the Finance Committee assumes the burden of  
8 raising \$120 billion or whatever -- in terms of spending  
9 cuts and revenues, which means taxes in some respects -- only  
10 to find that the President is not going to get out front.  
11 He is going to tag along and maybe reluctantly he will put  
12 his name on something -- and at the time we assume the burden  
13 of trying to pass it. And then we would have to do it all  
14 by ourselves without the other committees doing their part.  
15 It seems to me that this committee should -- and I believe  
16 we will, if the others will cooperate -- play our role, but  
17 the President should be willing to recommend that we at least  
18 raise a given amount of revenue and that we have a given  
19 amount of spending cuts. And if he will do his part in  
20 providing some leadership, I believe that this committee  
21 will measure up admirably.

22 Senator Wallop. Senator, you and I have been around  
23 here a long time, and I am not going to carry this argument  
24 any further, but I believe that -- having done that once  
25 -- he found out what happens, and I think -- and I share with

1 you the same thing -- but you may recall that in the social  
2 security, he was asked to come up with a package, which he  
3 did come up with, which didn't vary a jot and a piddle from  
4 what Congressman Pickle came up with only Congressman  
5 Pickle and his committee hadn't announced anything. And all  
6 of us who tried to do something on there spent the rest of  
7 our time fighting for our political lives. So, there is  
8 plenty of blame to go around. I am not asking for blame to  
9 be started anywhere in this committee, but we can't guarantee  
10 what other committees are going to do. We can do what we do,  
11 and if we are going to be responsible, let's take a dime off  
12 of it, and then a billion, and then maybe we can get to  
13 \$100 billion, and let the other committees worry about  
14 responsibility.

15 Senator Long. While we are doing all that, it would be  
16 good if at least each one of us would honorably and honestly  
17 and truthfully deal with one another. Now, the Administration  
18 ought to stop this farce and this fraud -- absolutely  
19 intellectually dishonest -- of saying that Congress agreed  
20 that they were going to cut spending \$3.00 for every \$1.00  
21 that Bob Dole had in his tax bill. Nobody made any commitment  
22 of that sort. I didn't make any commitment of that sort,  
23 and I was on that gang of seventeen. I never heard anybody  
24 make any commitment of that sort. And if anybody made any  
25 commitment of that sort, Democrat or Republican -- if anybody

**Moffitt Reporting Associates**

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 promised the President that we were going to do that -- let  
2 him raise his hand. I would like to recognize him.

3 Senator Wallop. I heard talk of it around this table.

4 Senator Dole. The budget resolution that was passed  
5 called for three to one.

6 Senator Long. I heard somebody talk about something  
7 like that, but I have never promised to do anything like that,  
8 and when I hear somebody say that the President would promise  
9 this, I just want to know who made that promise, because I  
10 know I didn't make it and I didn't hear anybody else make it.

11 Senator Danforth. Mr. Chairman, do you have a procedure  
12 that we are going to follow now?

13 (Laughter)

14 Senator Dole. I want to get everybody on record against  
15 deficits before we do anything else.

16 (Laughter)

17 Senator Danforth. Good. Count me in on that.

18 Senator Dole. Good. Is anybody here for deficits?

19 (Laughter)

20 Senator Dole. All right. I do think now we ought to  
21 start -- whoever is going to conduct the orchestra here.  
22 We recognize that S. 2042 is on the Senate floor, and it  
23 contains \$42 billion right now. We are not even talking  
24 about \$100 billion today. We are talking about \$50 billion  
25 and some, and the \$42 billion is equally divided between

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 revenues and spending -- in that \$100 billion -- is that  
2 correct?

3 Mr. DeArment. That is correct. It happens to be that  
4 the spending item is 21.2 and the revenue increase items are  
5 21.4. So, it works out.

6 Senator Dole. So, we have got \$40 million -- more or  
7 less -- in the bank, and what we want to do today is to  
8 take a look at the next \$58 billion, and if we get \$100  
9 and somebody says lets get \$50 more, I think we ought to  
10 try that.

11 Senator Bradley. Mr. Chairman, if I could?

12 Senator Dole. Sure.

13 Senator Bradley. Are we not going to do what the  
14 committee asked the staff to do in November? I mean, if  
15 that is the committee decision, fine. If we have said that  
16 we do not want a menu of \$75 billion in tax increases, then  
17 that is a change from what the committee agreed on in  
18 November, and if the committee says no, we want to go back  
19 on what we said in November, and we were meeting in a  
20 bipartisan way about a reduction package, then fine. We  
21 will deal with \$50.

22 Senator Dole. I thought what we might do, Bill, is that  
23 if we want to do the \$150, and I am willing to do it, if we  
24 want to reaffirm that right now with a vote, and then go  
25 ahead and adopt the \$100, we have only got \$50 left.

**Moffitt Reporting Associates**

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1           Senator Bradley. We would like to see what the  
2 additional recommendations are for taxes before you vote on  
3 employer-paid health insurance or fringe benefits. You know,  
4 I personally might want to do something else on taxes. Why  
5 we had a staff was to suggest that they would put the menu  
6 out for us. If we are told that we will develop our own  
7 menu, then fine. Give us until this afternoon or tomorrow.

8           Senator Dole. We had a menu, and they changed the cook.  
9 They didn't put in the 1985 budget what they had in the 1984  
10 budget, but I am willing to try to go back to \$150. We may  
11 have some options that get to \$150. Do you have some \$150  
12 billion options?

13           Mr. DeArment. Yes, we could back on things that we  
14 had in last year's package and reopen them. We have got  
15 about \$58 billion in taxes recommended here. We have a  
16 package laid out that is \$49.6 on the tax side, but there  
17 are other suggested revenue options there that carry it to  
18 \$58.

19           Senator Dole. And what I think we ought to do is -- if  
20 we raise something that is a hot butt, then we will just set  
21 it aside. We will just try to put what we can today in the  
22 deficit reduction basket and see how much we come up with.  
23 And then we will certainly try to find some more. I wonder  
24 if we might start with the revenues.

25           Senator Boren. Mr. Chairman, do we have to start with

**Moffitt Reporting Associates**

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 the revenues? I think that the people I talk to -- and when  
2 I go home -- I say that I want to cut spending, and I  
3 guarantee that I am not going to vote for any revenue  
4 increases unless there are offsetting spending reductions.  
5 I am willing to vote for revenue changes, but I think that  
6 the responsible thing is for us to come up with some real  
7 live spending cuts before we ask the people to pay any more  
8 taxes.

9 Senator Dole. Okay. In fact, what we have agreed on  
10 -- a one-to-one principle -- but I assume that that would  
11 be-- We can start either way. Let's start with spending  
12 then. Sheila, are you ready on the spending?

13 Senator Wallop. I agree with Senator Boren on that  
14 entirely.

15 Senator Dole. Sheila, are you going to have the  
16 spending?

17 Ms. Burke. Mr. Chairman, there have been two items  
18 distributed.

19 Senator Dole. I think we ought to point out for the  
20 record that there is on the Senate floor on the spending  
21 side -- what -- \$21. what?

22 Ms. Burke. \$21.2 billion.

23 Senator Dole. That is over a four-year period?

24 Ms. Burke. That is correct, Mr. Chairman.

25 Mr. DeArment. \$2.8 of that is in fiscal year 1984. Of

**Moffitt Reporting Associates**

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 that \$21.2, \$5.3 of that was reported out of the Finance  
2 Committee. The remainder was reported out of Government  
3 Affairs, Small Business, Veterans. I think that is --

4 Senator Bradley. Do we have a copy of that now? Could  
5 we see what the specifics are of what is on the Finance  
6 Committee?

7 Mr. DeArment. Yes, we can reproduce the table from  
8 S. 2162, which has been on the floor.

9 Senator Bradley. All right.

10 Senator Dole. Okay. Sheila, let's go on the spending  
11 side, and if there is no objection, we will adopt it. If  
12 there is objection -- strong objection -- we will temporarily  
13 set it aside.

14 Ms. Burke. Mr. Chairman, there are two documents before  
15 you which describe the provisions on the spending side. The  
16 first is a document entitled "Description of Spending.  
17 Restrain Options," entitled "Health Programs." The second  
18 is a document which is the description of the Grace Commission  
19 options. The members should have those before them. These  
20 will follow the spending restraint option chart that will  
21 show you what the cumulative savings are of each of the  
22 items.

23 Senator Dole. Wait a minute. Which one do you have  
24 now?

25 Ms. Burke. Spending restraint options -- health

1 programs. And the Grace Commission description should also  
2 be before you.

3 Senator Dole. Right. First, we are going to do the  
4 one we have recommended, right?

5 Ms. Burke. Yes, sir.

6 Senator Dole. All right.

7 Ms. Burke. The items are items that were presented to  
8 the committee last fall. They are, very briefly, items  
9 primarily in the medicare area with respect to beneficiary  
10 changes. The first is a modification of the Part B premium.  
11 If the committee will recall, TEFRA contained a provision  
12 which held the premium at 25 percent of program costs for  
13 two years -- that was 1984, 1985, S. 2062 -- the  
14 reconciliation bill currently on the floor extended that  
15 for a third year. This proposal would hold the rate and  
16 increase it so that by 1990 the beneficiary would pay 35  
17 percent of program costs. The three-year savings, additional  
18 savings, as a result of this proposal are \$3.1 billion.

19 Senator Packwood. That, Sheila, is over the figure you  
20 have got. That is \$3.1 billion over what we would save in  
21 1920.

22 Ms. Burke. Yes, sir. All of the saving estimates that  
23 I will give to you will be additive to those contained in  
24 S. 2062.

25 Senator Boren. What would that be on the average premium



1 paid per month by beneficiary -- what would that translate to  
2 in a monthly payment to the beneficiary?

3 Ms. Burke. Senator Boren, the document has the current  
4 estimates. The current law proposal, for example, under  
5 current law an individual would pay on a monthly basis  
6 \$14.60 in 1984. That would remain so under the proposed  
7 bill. In 1985, under current law, the beneficiary would  
8 pay \$16.90 per month. Under the proposal that would increase  
9 to \$18.00 per month, and those numbers increase as I  
10 indicated up through 1988 as shown on the document. It  
11 would increase from \$17.60 in 1986 under current law to  
12 \$21.60 in 1987. The current law would have the estimate at  
13 \$18.40. That would increase to \$25.70. If the percentages  
14 would be of assistance to you, the increase in 1985 would  
15 be approximately 4.1 percent. The increase in 1986 would  
16 be approximately 4.6 percent. In 1987, approximately 4.4  
17 percent.

18 Senator Boren. Thank you.

19 Senator Mitchell. I have a question. On an annual  
20 basis, how much would the premiums go up by 1988 per  
21 beneficiary? Is that about \$135.00 a year?

22 Ms. Burke. Yes, sir. That is approximately correct.

23 Senator Mitchell. So, the persons now eligible for  
24 medicare, Part B, would have their premiums increased by  
25 \$135.00 a year by 1988 under this proposal?

1 Ms. Burke. That is approximately correct, Senator. I  
2 could go through and calculate that out.

3 Senator Dole. Why don't you go ahead and go through  
4 the items, and then we will come back and see if they want  
5 to vote if we can agree to them.

6 Ms. Burke. The second item was a 1983 and a 1984  
7 Administration proposal, and that would delay the initial  
8 eligibility date for medicare entitlement to the month after  
9 the month in which the individual turns the age 65.  
10 The four-year savings as a result of this proposal are \$800  
11 million approximately. Item number three.

12 Senator Mitchell. Could I ask a question about item  
13 number two? This came up last year, and the question arose.  
14 Under the law now, when would eligibility occur?

15 Ms. Burke. Eligibility occurs the month in which the  
16 individual turns age 65, so it could be at the very beginning  
17 of the month. This would be the month following the month  
18 in which the individual turns age 65.

19 Senator Mitchell. Does that mean, then, for all  
20 individuals there would be a period of ineligibility, or  
21 lack of coverage, under health insurance for the time between  
22 the date of that person's birth and the first day of the  
23 following month?

24 Ms. Burke. There would be a delay, Senator. Again,  
25 the length of time would depend upon where the individual

1 falls in the month. That would be true for all individuals.  
2 There are statistics provided to us by the Department that  
3 indicate approximately 8 percent of the population would not  
4 have coverage. The remainder, they believe, are covered  
5 either by private insurance, either employment-related or  
6 spousal coverage, or through one of the other public sector  
7 programs, for example, Medicaid. But there are a population  
8 that they indicate would not have coverage for a period of  
9 time.

10 Senator Mitchell. So, that is 8 percent, and since you  
11 now have approximately 29 million people who are covered  
12 under Medicare, 26 million of which are elderly, you are  
13 talking about somewhere in the range of 2 million Americans.  
14 Is that correct?

15 Ms. Burke. It would be 8 percent of the individuals  
16 eligible within a year.

17 Senator Mitchell. Within a given year.

18 Ms. Burke. Within a given year.

19 Senator Mitchell. That is a smaller number. All right.

20 Ms. Burke. The Department provides us with numbers that  
21 approximately 1.9 million individuals would become newly  
22 entitled to Medicare in fiscal year 1985, so that is the  
23 approximate number on an annual basis.

24 Senator Mitchell. So, it would be 8 percent of that?

25 Ms. Burke. That is correct.

1 Senator Mitchell. So, it would be a substantially  
2 smaller number.

3 Senator Chafee. Mr. Chairman. Sheila, is there any  
4 way of having a program that could catch these people? After  
5 all, all 8 percent aren't going to be going into the hospital  
6 in that year. These are just eight percent that might fall  
7 through the crack, as it were. Now, of that 8 percent, I  
8 suppose a tiny percentage of the eight percent is actually  
9 going to require the services of Medicare. Some could  
10 postpone it and so forth. Is there any way of preventing  
11 what seems to be a real inequity that could occur?

12 Ms. Burke. Senator Chafee, that was a question that  
13 you had asked and we pursued with the Administration. Our  
14 understanding is that the difficulty is in identifying those  
15 particular individuals. Apparently, the information available  
16 to Medicare is not specific with respect to an individual's  
17 birth date. So, pulling those individuals out and making  
18 them individually eligible -- unlike the rest of the  
19 population -- would be administratively difficult, and in  
20 fact, impossible at this point because of the lack of  
21 information available with respect to individuals.

22 Senator Durenberger. Mr. Chairman, there is another  
23 way to look at this. Those same eight percent were  
24 ineligible the day before their birthday also, and what in  
25 effect this does is say your birthday plus one day, your

1 birthday plus two days, your birthday plus three days. And  
2 you are not changing the circumstances other than moving the  
3 day of eligibility by one day or two days or up to 30 days.

4 Senator Mitchell. Except that if they were employed  
5 and covered under some sort of private plan and they reached  
6 retirement age, and then had a gap.

7 Senator Durenberger. But I think those private plans  
8 are all adjusted to Medicare, and they use the age 65 birth  
9 date for their plans. And I am sure those plans would change  
10 to conform with the changes in Medicare as well.

11 Senator Mitchell. They are obviously now based upon  
12 the assumption that Medicare eligibility takes hold on the  
13 month of the person's birthday. Now, you are saying to the  
14 private plans that they are going to have to cover an  
15 additional period of one to 30 days. I don't think we can  
16 just sit here and assume that is going to occur.

17 Senator Bentsen. Mr. Chairman, if I could ask Sheila  
18 a question about costs, and how much we are saving in each  
19 of these. Have you stated that? If so, I missed it.  
20 In each of these categories, as we go along, if we could  
21 evaluate them as to how much we are going to save.

22 Ms. Burke. Yes, sir. This proposal over a four-year  
23 period of time would save approximately \$800 million. The  
24 effective date is January 1 of 1985, so there are no savings  
25 in 1984. There are approximately \$200 million in savings in

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 fiscal year 1985 -- \$300 million in 1986 -- and \$300 million  
2 in 1987 -- for a total of \$800 million.

3 Senator Dole. I know they are listed in the other  
4 document, aren't they?

5 Ms. Burke. Yes, sir.

6 Senator Bentsen. Thank you. Also, as you go along, if  
7 you would state the President's position on these. Does the  
8 President endorse, for example, number one and number two?  
9 Has the President given his personal endorsement to these  
10 two proposals?

11 Ms. Burke. Yes, sir. Both of these, in fact, are  
12 provisions that were in the Administration's budget in 1984  
13 and 1985 -- 1983 and 1984 for 1984 and 1985.

14 Senator Bentsen. Okay.

15 Ms. Burke. Item number three is a provision --

16 Senator Bentsen. I wonder if I could interrupt just  
17 a moment, because I am concerned about what Senator Mitchell  
18 has stated and, in turn, I see what Senator Durenberger says  
19 as a possible solution. We might be giving some consideration  
20 to 90 days or 6 months to allow these plans -- the private  
21 plans -- to adjust to such a change in the program. I know  
22 that would delay the savings for that period of time.

23 Senator Dole. I think you are right. There ought to  
24 be some way to protect the people that Senator Mitchell is  
25 worried about. I can't believe that HHS can't figure out

**Moffitt Reporting Associates**

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 some way to save \$800 million.

2 Senator Mitchell. And I think it is not as big a  
3 problem -- I think Senator Chafee has made a good point.  
4 Eight percent are uncovered. Under Medicare now,  
5 approximately 25 percent of eligible beneficiaries actually  
6 receive benefits during a calendar year. That is, however,  
7 heavily skewed to age, so that the percentage of newly  
8 enrolled beneficiaries who require benefits or who use  
9 benefits is substantially smaller than 25 percent, so you  
10 would get a fraction which is much smaller than one-fourth  
11 of eight percent. I think it is a relatively small number  
12 of people, and I just think some way should be considered  
13 -- some method should be considered -- dealing with them  
14 because you would have just a catastrophic situation for  
15 a person who was eligible under private coverage but who had  
16 the misfortune of being born, say, on the first day of the  
17 month, then having a 30-day gap as opposed to having been  
18 born on the last day of the month and having no gap and  
19 suffer some kind of substantial -- incur some substantial  
20 medical costs initiated during that period.

21 Senator Dole. Certainly, there has got to be some way  
22 to resolve that. I can't think of anything, but we will try  
23 to work it out with Senator Durenberger, Senator Bentsen,  
24 Mitchell, and others. Can we go on through these? We have  
25 a little problem. Buck Chapton has to leave here at 11:55

**Moffitt Reporting Associates**

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 a.m., so we want to get through the spending as much as we  
2 can and maybe go on to revenues, if we can honor that request.  
3 He needs to go to the White House. Maybe he can talk to them  
4 down there.

5 Ms. Burke. Item number three is a provision which  
6 modifies current law. If the committee will recall, during  
7 TEFRA, there was a provision included which would provide  
8 for Medicare to become secondary in the case of an individual  
9 having employer-based coverage, and it was voluntary for the  
10 individual, but if they had employer-based coverage, Medicare  
11 would become a secondary payer. This provision would continue  
12 that in the case where an individual was retired over the  
13 age of 65 but was covered under a spouse's insurance who  
14 remained in the work force. Again, Medicare would be made  
15 secondary in the case that that individual chose to remain  
16 under that employer-based coverage. In three years, savings  
17 -- four-year savings, excuse me -- as a result of this  
18 proposal of \$1.1 billion. This would also begin savings in  
19 fiscal year 1985. There would be no savings in fiscal year  
20 1984.

21 Senator Dole. What is the Administration's position?

22 Ms. Burke. The Administration is in support of that  
23 provision. Item number four is a modification of a provision  
24 contained in S. 2062, and is also a modification of an  
25 Administration proposal. This would, in fact, provide for

**Moffitt Reporting Associates**

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198



1 a continuation of the freeze on physician fees for a longer  
2 period of time until the end of 1987. for those individuals  
3 who chose not to take assignment. All physicians would have  
4 their fees frozen from April of 1984 until July of 1984, and  
5 then only those physicians refusing to take assignment would  
6 be continued to be frozen in terms of their prevailing rates  
7 for a two-year period of time.

8 Senator Bentsen. Mr. Chairman, it also seems to me  
9 that on the preceding one, again, where we get into the  
10 situation of the spouse having coverage, that there probably  
11 should be some kind of a phase-in period that would allow  
12 that kind of coverage to be added to the current coverage  
13 if necessary. Otherwise, you are going to run into the same  
14 sort of things that Senator Mitchell was talking about  
15 earlier -- gaps of coverage.

16 Ms. Burke. This, of course, is voluntary. The  
17 individual could choose not to be covered under spousal  
18 coverage and would remain eligible for Medicare. This is  
19 only in the existence of secondary coverage, and there is,  
20 of course, a full year -- it is not effective until January  
21 of 1985.

22 Senator Bradley. Sheila, have you looked at what this  
23 might do to the number of doctors who are willing to accept  
24 assignment?

25 Ms. Burke. The asked the Congressional Budget Office for

1 their estimate of some implications with respect to the  
2 assignment rates. They thought there would be some change  
3 in the willingness of certain physicians to take assignment.  
4 They were not able to quantify that change, so we are not  
5 able to give you specifics in terms of the number of  
6 physicians or percentages.

7 Senator Bradley. But they did say that, as a result of  
8 this freeze, some physicians that senior citizens had been  
9 going to would no longer take the senior citizens.

10 Ms. Burke. Unwilling to take assignment.

11 Senator Dole. But on the other hand, I know in  
12 California, for example, the physicians there are starting  
13 a voluntary freeze. On their own, they are taking it up, and  
14 -- I don't say the AMA supports this -- but they are spending  
15 about \$3.5 million on a study to help us reduce the costs,  
16 plus there are a number of other provisions, aren't there,  
17 Sheila, in this particular segment which we think will help  
18 as far as participation is concerned. You have got your  
19 toll-free numbers and --

20 Ms. Burke. Yes, and in fact, a directory has been  
21 published which gives beneficiaries information on those  
22 physicians willing to take assignment, so the individual  
23 will know, in fact, who in their community is willing to  
24 take assignment. That is, in fact, part of this proposal,  
25 to make more information available so the individual

1 beneficiary can make a choice.

2 Senator Bradley. Has CBO said anything about the  
3 physicians that are likely to pass on the charge increases?

4 Ms. Burke. Again, they are not able to quantify the  
5 number of physicians who would be unwilling to take assignment  
6 and would, in fact, pass on any increase. They don't know  
7 what physicians' behavior is likely to be. Again, because  
8 of the other kinds of incentives to take assignment, whether  
9 or not that would, in fact, result in an increase in  
10 assignment, rather than decrease.

11 Senator Bradley. Do we have any information from  
12 any kind of independent source that could give us a clear  
13 picture of whether this particular proposal would result in  
14 significant refusal of assignment and increase in charges  
15 for senior citizens?

16 Ms. Burke. No, Senator, we do not.

17 Senator Bradley. We do not?

18 Ms. Burke. We do not. We have asked both the  
19 Administration, the Congressional Budget Office and the  
20 medical community if they have some sense of what the  
21 behavioral changes would likely be, and we do not have data  
22 from any of those sources.

23 Senator Mitchell. It is true, is it not, Sheila, that  
24 the percentage of physicians that are going to accept  
25 assignment is declining, and that there are factors other

**Moffitt Reporting Associates**

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 than this, or is it increasing?

2 Ms. Burke. No, in fact, Senator, the assignment rate  
3 has increased slightly. It is approximately 53 percent of  
4 claims.

5 Senator Mitchell. It is 53 now.

6 Mr. Scheiber. The latest information for calendar year  
7 1983, in fact, shows an increase from 53 percent in calendar  
8 year 1982 to 53.9 percent in calendar year 1983. That trend  
9 has been up slightly and consistently since about 1976, by  
10 increments of a half or so.

11 Senator Bentsen. Mr. Chairman, I am also told that  
12 Texas has already moved on this, and physicians have taken  
13 a voluntary freeze, and they were the first ones, but not  
14 just limited to Medicare and for a year.

15 Senator Dole. I don't know. There may be some, and  
16 some physicians who are not going to approve of anything we  
17 do.

18 Senator Matsunaga. What is the Administration's proposal  
19 on this, Mr. Chairman?

20 Senator Dole. This is a modification of the  
21 Administration's proposal.

22 Ms. Burke. They are in support of the proposal, Senator.

23 Senator Matsunaga. According to news reports this  
24 morning, the AMA has recommended to all of its physicians to  
25 adopt a freeze.

**Moffitt Reporting Associates**

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1           Senator Dole. I didn't know about Texas. I just  
2 happened to be in California, and I read something in the  
3 L. A. Times where they were doing it for, I think, one or  
4 two years.

5           Ms. Burke. The additional savings as a result of this  
6 proposal are \$1.7 billion over a four-year period of time.  
7 Item number five, noted on page 4 of the descriptions, would  
8 provide for a limit in the increase in hospital costs per  
9 case. Under current law, the hospital rates are increased by  
10 the market basket plus 1 percent. This provision for a  
11 two-year period of time would remove that 1 percent and would  
12 simply provide for increases that were related to the market  
13 basket. The savings as a result of this proposal are \$2.3  
14 billion over the period of 1984 through 1987. I just might  
15 note that the market basket, for example, in 1984 is estimated  
16 to be about 7 percent -- in 1985 approximately 6 percent  
17 -- in 1986 6 percent, and in 1987 6 percent. So, that would  
18 be the increase that would be permitted under law without  
19 the 1 percent.

20           Senator Bradley. Could we go back to the previous  
21 question? In the explanation, you have number four on page  
22 3 -- dealing with the Medigap coverage. Could you explain  
23 the piggyback billing and the payment to the organization?

24           Ms. Burke. Yes, sir. Under the arrangement which is  
25 provided, it is out intention to simplify the billing

**Moffitt Reporting Associates**

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 arrangements. These were, again, suggestions of the  
2 Administration. In the case of piggyback billing, the  
3 physician would submit one bill to the carrier -- that is, the  
4 insurance company. The carrier would then pay the physician  
5 and then sends the Medigap insurance information on the  
6 amount paid. The Medigap insurer would then pay the remainder  
7 of that. The secretary would basically set a fee on an  
8 annualized basis to be charged to the Medigap insurance for  
9 the costs of that data exchange. It saves the beneficiary  
10 having to get involved in that process. With respect to the  
11 payment to the organization, under that agreement the  
12 physician would submit one bill to the Medigap insurer, who  
13 would in turn pay the physician an amount which the physician  
14 accepts as payment in full, which would include the cost  
15 sharing liabilities and then they would collect the remainder  
16 of the amount necessary from Medicare, that is a reasonable  
17 charge. Only one bill would be submitted by the physician  
18 and one check would be paid to the physician, and again, the  
19 beneficiary would not be responsible for paying the physician  
20 or collecting from Medicare or from the Medigap plan. Again,  
21 the hope is to simplify for both the beneficiary and for  
22 the physician in terms of the paper processing necessary to  
23 collect fees.

24 Senator Bradely. Thank you.

25 Senator Durenberger. Mr. Chairman, I would like to

**Moffitt Reporting Associates**

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 indicate to my colleagues on number five, I do not plan to  
2 support this recommendation of dropping the 1 percent on top  
3 basket. However, in the alternative, I will support applying  
4 the 1 percent to the hospital -- the reduction by 1 percent  
5 -- to the hospital specific portion of the formula. As you  
6 recall, we are phasing in 75 percent hospital specific costs,  
7 25 percent DRG, then 50-50 in the next year, then 25-75 in  
8 the third year. And I would support market basket only for  
9 the hospital costs specific portion but not for the DRG  
10 portion because we have got too much at stake right now, and  
11 you all know some of the problems we are having in your own  
12 states. There is too much at stake right now to pull the  
13 plug on the DRG portion.

14 Senator Pryor. Mr. Chairman, if I might ask a question  
15 on this point that Senator Durenberger has raised on the  
16 market basket plus one. Would not the elimination of the  
17 plus one have a serious impact -- or let's say a more  
18 adverse impact -- on the smaller hospitals than, let's say,  
19 some of the larger hospitals, or is there -- do we have facts  
20 and figures on this?

21 Ms. Burke. Senator Pryor, it would really depend on  
22 where the individual hospital was with respect to its rates  
23 of increase. If it was not a high-cost institution and did  
24 not project a rate of increase, it might not be as affected  
25 perhaps as a more sophisticated institution, one which has a

**Moffitt Reporting Associates**

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 tremendous amount of technology, for example, a teaching  
2 institution. So, it would really just depend on the  
3 institution's own behavior.

4 Senator Pryor. The plus one figure is basically, as  
5 I understand it, utilized for purchasing equipment of higher  
6 technology than normal.

7 Ms. Burke. It is to represent the increase in costs of  
8 technology but we are really not able to quantify more,  
9 specifically.

10 Senator Pryor. The Administration supports this proposal  
11 also?

12 Ms. Burke. The Administration is not in support of  
13 this proposal. It was in their 1983 budget recommendations.  
14 It was not put back into this year's budget recommendations.

15 Senator Pryor. So, are they opposed to this  
16 recommendation?

17 Senator Dole. They don't support it.

18 Ms. Burke. Yes, Senator. We are concerned in that, with  
19 the new perspective payment system, and -- having taken \$6  
20 billion dollars out of the hospitals over a three-year period  
21 that we are decreasing their reimbursement under this  
22 proposal.

23 Senator Pryor. So, the President basically utilized his  
24 line item veto --

25 Senator Dole. No. We haven't voted yet.



1 Senator Pryor. Before it came back to us this time.

2 Is that correct?

3 Senator Boren. I think we ought to knock anything out  
4 that he is not going to be for at this point, to start with.  
5 I think we ought to consider it not controversial in the  
6 committee at this point.

7 Senator Dole. Maybe Dave has got an idea.

8 Senator Durenberger. I don't have the figures on it,  
9 but we would reduce the savings from \$2.3 to maybe \$1 billion  
10 or something like that, if we just did it on the hospital  
11 specific costs.

12 Senator Boren. Would the Administration support it if  
13 it were done on that basis?

14 Ms. Burke. I don't know right now, Senator.

15 Senator Dole. I doubt that the President has had a  
16 chance to go over this document this morning. He was up  
17 late last night.

18 (Laughter)

19 Ms. Burke. Item number six is a modification of a  
20 provision contained in S. 2062, which establishes --

21 Senator Mitchell. If you would just excuse me, Sheila,  
22 then that puts him in the same boat as the rest of us.

23 Senator Dole. Right.

24 (Laughter)

25 Ms. Burke. A modification of the provision in S. 2062

**Moffitt Reporting Associates**

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 which created a fee schedule for laboratory services. This  
2 modification would decrease those rates from 65 percent of  
3 prevailing to 62 percent, and would include hospital-based  
4 laboratories and their services to out-patients. The savings  
5 as a result of this proposal would be additional savings of  
6 approximately \$800 million dollars. Item number seven is  
7 a proposal -- and I will note the Administration is in  
8 support of that proposal. Item number seven is, in fact, a  
9 provision submitted by the Administration in 1983 and 1984,  
10 slightly modified. This would extend the reduction in Federal  
11 payments to the States for Medicaid. The committee may recall  
12 OBRA of 1981 contained a provision which provided for  
13 reduction in State Medicaid funds of 3 percent in 1982,  
14 4 percent in 1983, and 4.5 percent in 1984. This provision  
15 would continue for three years, that reduction at a 3 percent  
16 level, so that the States would have reduced the otherwise  
17 funds they would receive by 3 percent. They have the  
18 opportunity to earn back those reductions through a number  
19 of means in current law, having to do with a hospital rate  
20 setting system, fraud and abuse recoveries, and coming in  
21 below target rates which are established. The savings as  
22 a result of this proposal over a four-year period of time  
23 are \$1.2 billion.

24 Senator Bradley. Sheila, number six. What is the  
25 rationale for reducing it -- the reimbursement -- from 65

1 to 62? Not the reimbursement -- just the payment? What has  
2 changed? .

3 Ms. Burke. Senator Bradley, if you will recall, there  
4 was a discussion with respect to this provision in the fall  
5 -- the feeling on the part of some that, because of the  
6 indication on the part of particularly the free-standing or  
7 independent laboratories -- that they could indeed do well  
8 still under 62 percent of prevailing -- that that was still  
9 a fair rate. Senator Heinz proposed that 65 percent was still  
10 higher than necessary -- that 62 percent still provided a  
11 fair price for a service, and that dropping it would not cause  
12 any great danger.

13 Senator Bradley. Thank you.

14 Senator Dole. What is the number of the last one  
15 -- the assignment of rights?

16 Ms. Burke. The last item is an Administration proposal,  
17 and this would simply require the States which are now given  
18 the ability to require Medicaid applicants to assign to the  
19 States their rights to third-party liability. This, in effect,  
20 says that the individual has to assure that the State -- if  
21 they have private insurance -- that Medicaid would recover  
22 against that private insurance -- any costs they expended.

23 Senator Dole. How many States have that now?

24 Ms. Burke. 25 States currently provide for this. And  
25 this would simply require that States provide for this

1 assignment. And the savings are \$22 million over a three-year  
2 period of time.

3 Senator Dole. All right. Then, there is one other  
4 item in this list, and that is the so-called rebate proposal.  
5 Could you explain that?

6 Senator Chafee. Mr. Chairman, before we get into that,  
7 could I make one point on Medicare, if I might?

8 Senator Dole. Sure.

9 Senator Chafee. It seems to me that what we are doing  
10 here in Medicare is making a few changes for revenue purposes  
11 in trying to do something about this deficit, but as you  
12 recall, Mr. Chairman, at the end of last year, we said that  
13 there are fundamental problems with Medicare -- Part A and  
14 Part B -- that require a really good view plus a survey as  
15 to a host of factors. As you remember, we were here and we  
16 were debating what to do about the 60 days, at what point to  
17 have catastrophic coverage as it were, and Sheila and her  
18 folks and others have been working on trying to acquire a  
19 data base as to where we go. And it is my hope that they  
20 would continue doing that.

21 Senator Dole. In fact, we were trying -- also at your  
22 suggestion, Senator Chafee -- to bring together a group of  
23 outside experts to help this committee, and not have a  
24 Presidential task force but pick out some on each side here  
25 -- people who really understand the problem -- and get down

**Moffitt Reporting Associates**

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 to advise and consult with the committee. I think Senator  
2 Durenberger is working on that, too.

3 Senator Chafee. So, the point of my remarks now is to  
4 continue this vigorous effort so that by the start of  
5 calendar year 1985 we would have the material that we needed  
6 so we could really seriously go into what is a program that  
7 is now costing us, in Part B, the U.S. Government, \$24 billion  
8 a year, and by 1990 will cost us \$46 billion a year, plus  
9 the Part A -- the program is going to go broke. Under  
10 various predictions, whether it is 1990 or whatever it is,  
11 very soon. That is the first point. The second point, Mr.  
12 Chairman, is that we had some material on the restructuring  
13 of the recertification of the intermediate care facilities.  
14 Isn't that in there now, Sheila?

15 Ms. Burke. Yes, sir. It is contained in S. 2062.

16 Senator Chafee. So, that is all set?

17 Ms. Burke. Yes, sir.

18 Senator Dole. That is already on the floor.

19 Senator Chafee. That is set. And plus the cognitive  
20 services?

21 Ms. Burke. That is also there.

22 Senator Chafee. That is in there, too?

23 Ms. Burke. Yes, sir. And the pregnant women that was  
24 added, and some of the Puerto Rican changes on Medicaid.

25 Senator Dole. That is Senator Bentsen's amendment.

**Moffitt Reporting Associates**

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 Ms. Burke. Yes sir.

2 Senator Chafee. Thank you very much.

3 Senator Dole. That has already been passed.

4 Ms. Burke. Yes, sir. That is in S. 2062.

5 Senator Armstrong. Mr. Chairman, before you go ahead,  
6 if I could just ask a question. I have another meeting I  
7 have to attend, but does the Chairman intend to take some  
8 kind of a vote in here this morning?

9 Senator Dole. Yes. I hope several. Yes.

10 Please don't leave right away. We have one more item to  
11 explain here. Then, we thought we would follow Senator  
12 Boren's suggestion and take out the one item where there is  
13 some controversy on it. Senator Durenberger may have a  
14 compromise on it later on. And then vote on the package.  
15 Then, move on to the revenue side and vote on that.

16 Senator Armstrong. So, the first vote will be on the  
17 spending rejections.

18 Senator Dole. Yes.

19 Senator Armstrong. So, in other words, we are going  
20 to be able to divide the question. In other words, we are  
21 going to vote on spending cuts first.

22 Senator Dole. Yes, but I hope we will also-- Everything  
23 is going to be contingent hopefully on getting a one-to-one  
24 ratio and also someone suggested we ought to make the package  
25 bigger. I am not certain we can do that.

**Moffitt Reporting Associates**

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1           Senator Armstrong. I may be the only member of the  
2 committee, Mr. Chairman, who feels this way, but I think the  
3 tax increase thing is not going to be helpful to the budget  
4 because you are going to have to take the money out of the  
5 private sector to pay the taxes, so it is going to be a wash.  
6 What we need to do is cut spending. I want to vote for all  
7 these spending cuts.

8           Senator Dole. I don't disagree with that, but what we  
9 have tried to do on the revenue side is, I think, Mr. Chaptin  
10 will recommend that the items we are looking at are supported  
11 by the Administration, and it seems to me that that is what  
12 everybody is suggesting. We need the President to indicate  
13 support. Most of them are loophole closers. I assume that  
14 that takes it out of the economy, but we will have a vote on  
15 that. But don't leave. If you have to leave on the spending  
16 side, leave your proxy, and we will notify you on the other  
17 side.

18           (Laughter)

19           Senator Dole. Do you want to take that last item?

20           Mr. DeArment. Yes. The last item is one involving the  
21 payment of a rebate for the equivalent of Federal excise  
22 taxes on distilled spirits coming from Puerto Rico and the  
23 Virgin Islands. Basically, we collect the equivalent of  
24 a \$10.50 per proof gallon excise tax on distilled spirits  
25 coming in from Puerto Rico and the Virgin Islands. Puerto

1 Rico established a program whereby they bring in distilled  
2 spirits that are distilled originally outside of Puerto Rico.  
3 They redistill them, and then enter them in as Puerto Rican  
4 distilled spirits and get the rebate on that. This proposal  
5 would say that they would not get the rebate on distilled  
6 spirits if either one of the following conditions were  
7 satisfied. First, if the original distillation of the spirits  
8 occurred other than in Puerto Rico or the Virgin Islands, so  
9 that it was outside those, or in the case of an article  
10 subject to Federal excise tax, if less than 35 percent of  
11 the value was attributable to Puerto Rican and Virgin Islands  
12 input. The idea is to end this --

13 Senator Dole. What are we talking about dollar-wise?

14 Mr. DeArment. It is about a billion dollars over this  
15 time we are looking at.

16 Senator Dole. We are trying to close a gaping loophole  
17 here, aren't we, or at least a little sweetheart deal that  
18 somebody worked out with Puerto Rico?

19 Senator Moynihan. Mr. Chairman, I don't wish to take  
20 a position on this one way or the other, but as you know, I  
21 have tried to speak about the Puerto Rican issues with this  
22 committee. It is a fact that the regional offices of the  
23 United States Government which deal with Puerto Rico are  
24 located in New York City, and besides we all have an interest  
25 in that commonwealth. It is the case that these are American

**Moffitt Reporting Associates**

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198



1 citizens who have no representation in the Senate, and we  
2 all try to speak for them. I would be very happy to look at  
3 this and learn about it. I have just this moment found out  
4 about it, and I have been here all week.

5 Senator Dole. I read about it in the New York Times.  
6 That is where I learned about it, and I asked the staff to  
7 look at it.

8 Senator Moynihan. You read about it in the New York  
9 Times? I should have done that. The Governor of Puerto Rico  
10 is going to be here, so there finally turned out to be  
11 -- in the New York Times.

12 Senator Long. Gentlemen, if I might just address myself  
13 briefly to it. I think I understand what this is. As I  
14 recall, it was back in the days when our committee was working  
15 on the taxes on spirits. It costs about -- back in those  
16 days -- it cost about 90 cents to manufacture a gallon of  
17 whiskey. Now, the tax on that was \$9.00, so the tax exceeded  
18 the cost as 10 is to 1. Now, the mathematics haven't changed  
19 a whole lot, I don't think. Basically, the tax is about 10  
20 times the cost of manufacturing the whiskey. Now, if they  
21 just haul that whiskey down there to Puerto Rico and  
22 redistill it and send it on back in here, if you assume it  
23 cost, let's say, 20 cents to do that, they have made a profit  
24 of \$8.80 on a gallon of whiskey, where it cost them, let's  
25 say, 20 cents to do it, but an \$8.00 profit. Anybody that

1 doesn't take advantage of that is a fool, but just look at  
2 the profit involved in all that. Now, someone was talking  
3 about a compromise. What is to compromise here? I mean --

4 Senator Dole. We don't want to compromise that.

5 Senator Long. As far as I am concerned, if they want  
6 to drink that stuff down there in Puerto Rico, they can have  
7 all that money, but if we are going to drink it up here,  
8 our people are entitled to get the benefit of the money.

9 Senator Moynihan. May I just make a comment, Mr.  
10 Chairman. These are all our people, and I wondered if I  
11 could just say that I just learned that the Governor of  
12 Puerto Rico is going to be in the city and would like to see  
13 some of us about this. Couldn't we hear him? I am sure  
14 the distinguished Senator from Louisiana has got his facts  
15 right -- he always has his facts right.

16 Senator Long. I would be glad to hear the man, but  
17 all I am saying is that if you will Louisiana in on that  
18 deal, I will sign up.

19 (Laughter)

20 Senator Moynihan. That would not be the first time an  
21 arrangement of that kind has been made.

22 (Laughter)

23 Senator Long. Never in history has Louisiana gotten  
24 away with something that goes this far.

25 (Laughter)

1           Senator Dole. Let's do that. Let's give the Governor  
2 a chance to land. I think this is in a House package, too,  
3 isn't it, Dave?

4           Mr. Brockway. It is an item that I think they are  
5 considering over there. It is basically as Senator Long  
6 has suggested. There is a \$10.50 per proof gallon tax, and  
7 what happens is that Puerto Rico -- the alcohol is basically  
8 distilled here, shipped down for minor additional costs.  
9 Puerto Rico pays the \$10.50 but they give a rebate to the  
10 manufacturer -- an amount that is basically covered for  
11 all their costs of moving the alcohol down there and  
12 redistilling it, plus a little bit more to make the  
13 transaction worthwhile.

14           Senator Long. Worth your while, sure. Anybody who  
15 cooperates on that scheme ought to get something out of it.

16           (Laughter)

17           Mr. Belas. Mr. Chairman, the Government of Puerto Rico  
18 has told us that what the combined cost of transportation  
19 plus a 50 cents per gallon additional incentive provided to  
20 the distillers comes to between \$1.50 and \$2.00, and you  
21 subtract that from the \$10.50 per gallon, and so obviously,  
22 Puerto Rico itself has a substantial benefit from this.

23           Senator Dole. Does Treasury have anything on this?

24           Mr. Chapton. Mr. Chairman, yes. I think all parties  
25 who have looked at this agree that it has to be terminated,

**Moffitt Reporting Associates**

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 but I would point out that probably due in no small part to  
2 the Treasury's action in approving the Bureau of Alcohol,  
3 Tobacco, and Firearms approving this as a legitimate  
4 redistillation process that it would operate this way on  
5 application by Puerto Rico to that bureau before these  
6 activities were undertaken. So, I think the question is  
7 the effective date of termination. I think Puerto Rico would  
8 agree that it ought to be terminated and they are going to  
9 ask for some phase-out of it. They do have a balanced  
10 budget amendment. Their fiscal year ends June 30. I think  
11 the committee might want to consider not affecting this year,  
12 and possibly something into next year.

13 Senator Moynihan. Mr. Chairman, we can do something  
14 like that, I am sure, and we will work out something.

15 Senator Dole. All right. Now, I wonder if we might  
16 defer item number five, and then vote on the balance of  
17 the recommendations.

18 Senator Boren. Mr. Chairman, could we -- as we go  
19 through, so that we know what the impact is -- I discussed  
20 with Senator Childs yesterday the CBO estimate on the  
21 President's budget deficits which I gather are somewhere  
22 between \$850 and \$900 billion over the next four years.  
23 Sheila went through these. Some of these, she said, were  
24 in the Administration's support, but I gather are also in  
25 the Administration budget proposals. I wonder -- so that we

**Moffitt Reporting Associates**

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 would know since we are talking about trying to trim the  
2 budget deficits \$100 billion, and I think when we are looking  
3 at \$850 to \$900 billion -- I personally think that is  
4 absolutely inadequate. I think that is cosmetic. I am  
5 willing to do anything. One dollar -- if it is one dollar,  
6 that is one dollar that helps, so I am going to support most  
7 of this. I wonder what would be the net we are looking at,  
8 and I believe the CBO estimate-- Do you have what the CBO  
9 estimate was or the President's deficits between now and 1988?  
10 As I look at it, it is somewhere between \$850 and \$900  
11 billion. Do you know what that figure was? The CBO estimate  
12 -- I think it was given yesterday or the day before to the  
13 Budget Committee? Using the CBO assumptions. I know that  
14 it went up to \$240 billion and some -- \$245 billion in  
15 1988. It was \$190 billion and some for this coming year,  
16 and then it jumped over \$200 billion. It is over \$200  
17 billion in the next three years. I am just anxious that,  
18 while this committee take every action it can to cut every  
19 dollar of spending, that the press not report tomorrow that  
20 we have saved the day by reducing this \$870 billion or  
21 whatever figure it is by \$50 billion if, indeed, a lot of  
22 these things are already in the President's budget. Maybe  
23 we have only made an \$8 or \$10 or \$15 billion dent in it.  
24 I think if it is an \$8 or \$10 or \$12 billion dent that is  
25 worth making. I think a dollar dent is worth making, but I

**Moffitt Reporting Associates**

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 would like to just make sure that we know where we are so  
2 that we do not, in any way, overestimate to the people what  
3 we have done because I think that we ought to keep before  
4 the people the magnitude of the job that remains to be done,  
5 so that we keep on pushing on it and feel pressure in this  
6 committee and every place else to push on it.

7 Senator Dole. I think that is a good point. We had  
8 that information.

9 Senator Boren. I want to know the net deficit reduction  
10 -- the net of the President's budget request -- so that we  
11 would know what of the reconciliation package is in the  
12 President's budget, what of these items are in the President's  
13 budget. It already assumes that we would know the net deficit  
14 reduction below the President's budget that we make because  
15 even \$100 billion net reduction below that \$800 billion and  
16 some is very, very small, and I want us to keep track  
17 accurately of what we are really doing.

18 Ms. Burke. During the break, we will try and sort that  
19 out. We have the current estimates on the deficit, which  
20 are \$850 billion.

21 Senator Boren. \$850 in the next four years?

22 Ms. Burke. Over four years.

23 Senator Boren. Over four years. That is the CBO  
24 estimate?

25 Ms. Burke. Yes, sir.

1           Senator Boren. And we went through-- You mentioned  
2 several of these items were already in the President's  
3 budget?

4           Ms. Burke. Yes, sir. What we will do is go back. Many  
5 of them -- well, most of the ones that are in this package  
6 are, in fact, provisions that were in both the 1984 budget  
7 submittal and the 1983 budget submittal. So, we will have  
8 to go back and --

9           Senator Boren. So, most of what we are doing is already  
10 included. Under most of these, we won't be making a net  
11 reduction in the deficit below the President's budget.

12           Senator Dole. I think that maybe out of the \$100, maybe  
13 \$30 billion.

14           Senator Boren. -- and I assume that is for services?

15           Ms. Burke. Yes, sir. No reductions to baseline.

16           Senator Grassley. In the President's budget, that ends  
17 up with \$120 billion deficit in 1989, and is based upon  
18 tremendous policy changes from that current services budget.  
19 So, if we are talking about the benchline of current services  
20 budget, then we don't have to be concerned about what the  
21 President has suggested.

22           Senator Boren. If we are talking about taking \$100  
23 billion or \$200 billion off the President's deficits, then  
24 what I am interested in knowing is how much progress we have  
25 made net against what the President has already proposed.

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 Senator Dole. Let us furnish that. You are right. It  
2 is not going to be \$100 billion.

3 Senator Boren. And I think also when it comes to  
4 revenue, you see, I have sort of taken a position personally  
5 that I am going to be willing to vote for some revenue  
6 changes, and that is the reason that I wanted to take up  
7 the spending reductions first. We have all had the  
8 experience around here that we seem to be more able somehow  
9 to agree on the revenue increases than we do the spending.  
10 I want to know what the net spending reduction from the  
11 President's budget is before I look at what I am willing to  
12 do on the net revenue changes from the President's budget  
13 request.

14 Senator Wallop. In the President's projections, too,  
15 there are some tax expenditures that are included in there  
16 which are not likely to happen -- tuition tax credit being  
17 one. So, that is something that we clearly have.

18 Senator Boren. We could add that to our list of cuts  
19 today.

20 Senator Dole. I think we want to reserve on that one.  
21 Senator Long?

22 Senator Long. I want somebody to explain to us what the  
23 meaning of this note down here is. It says the savings  
24 achieved as a result of the provisions relating to Part B  
25 of Medicare will be credited to the HI trust fund. Could we

**Moffitt Reporting Associates**

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198



1 have that explained please? What does that mean?

2 Ms. Burke. Yes, sir. The items -- many of the items  
3 -- that are proposed with respect to Medicare are savings  
4 in Part B of the program. It was suggested last fall when  
5 we were discussing the budget package that the savings  
6 achieved as a result of that go into the HI trust fund to  
7 assist in shoring up that trust fund. So, the savings are  
8 transferred into the trust fund.

9 Senator Long. So, the idea is that the savings in the  
10 Medicare will not be used to balance the budget, but will be  
11 used to help keep the health insurance trust fund from going  
12 broke?

13 Ms. Burke. Yes, sir.

14 Senator Packwood. But they will be counted as a budget  
15 savings.

16 Ms. Burke. That is correct.

17 Senator Packwood. You are not going to spend it. You  
18 are going to keep it in the health insurance trust fund, but  
19 it is still a reduction of the spending.

20 Senator Bradley. So, you could end up with a surplus  
21 in health insurance funds, and much more being spent for  
22 defense, but when the budget number comes out, the credit  
23 on the HI surplus will go against the expenditure for defense  
24 in the unified budget in what is overall reported. Is that  
25 not correct?

1 Senator Packwood. No, that isn't quite right, Bill.  
2 When you say it goes against the spending for defense --  
3 Senator Bradley. Or whatever --  
4 Senator Packwood. Or whatever. On that basis, you can  
5 say that any saving you make goes against the spending for  
6 defense. Whatever we save is a saving. As a matter of fact,  
7 I think a lot of people were unaware when we were talking  
8 about CPI minus three in social security that we were not  
9 talking about cutting social security taxes. We were  
10 talking about reducing or at least the benefits not  
11 increasing so rapidly, and I presume putting the money into  
12 the social security trust fund. So, indeed, it is a  
13 reduction in spending, and it is a reduction on the deficit,  
14 but a lot of people, I think, thought it was going to be a  
15 reduction in taxes also, and it wasn't going to be that.

16 Senator Bradley. Yes.

17 Senator Dole. Senator Heinz?

18 Senator Heinz. Mr. Chairman, I had to go up to the  
19 Environment and Public Works Committee for about a half  
20 hour or so. There were one or two points that I wanted to  
21 make on the spending portion. Would that be in order?

22 Senator Dole. Sure.

23 Senator Heinz. I have real reservations about what we  
24 are doing with the Part B premium. We are going to triple  
25 it by 1990, and that is a pretty steep increase. Now, let

**Moffitt Reporting Associates**

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 me give you an idea how steep it is. By 1990, it would  
2 total \$30.50 a month

3 (continued on next page)  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

1 the 3-percent error rate on Medicaid.

2 Now, in principle we should have penalties against  
3 States that have high error rates on Medicaid; however, large  
4 States such as Pennsylvania, New York, California, and  
5 others, because of the sheer volume of people we have  
6 coming through our States, will find it just totally  
7 impractical to get down to the 3 percent and the time. And  
8 I hope we can work out some accommodation on that,  
9 Mr. Chairman. I just wanted to get those on the record.  
10 The latter is kind of a narrow, special-interest one; the  
11 former is I think a very major problem.

12 The Chairman. Senator Packwood?

13 Senator Packwood. Well, all I was going to say, in  
14 response on the telephone access charges. There is one slight  
15 difference. On the access charges, we were taking the  
16 charges off of business, and especially very large business,  
17 and shifting it on to the homeowner. That is not quite the  
18 same as what we are talking about doing to Part B.

19 Senator Heinz. I'm glad you brought that up, because  
20 it is my view that we are not doing enough to reduce  
21 unnecessary and over-reimbursement of what you might call  
22 the "business side" here. I think we are over-reimbursing  
23 in many cases, notwithstanding our new DRG system, which is  
24 only 25 percent implemented -- physicians, medical equipment  
25 suppliers, and a number of people, and providers. To give

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1

1 By 1990 it would total \$30.50 a month.

2 We have telephone access charges. And the fear was that  
3 the telephone access charges would go up maybe \$8 or \$10 or  
4 \$12 a month if we didn't do something. And if we did do  
5 something it was going to be the end of the world. People  
6 were not going to be able to afford their telephones.

7 Here we are talking about something that is going to  
8 increase a monthly access charge to health care -- that is,  
9 if you want to have your doctor bill paid for -- and we seem  
10 to be gliding right by it, as if it is not anything  
11 significant.

12 Senator Packwood. Slightly different, though. A  
13 slightly different analogy.

14 Senator Heinz. Wait a minute; I'll yield in a second.

15 Senator Packwood. All right.

16 Senator Heinz. It seems to this Senator more important  
17 that we give people -- even more important that we ensure  
18 there is access to health care rather than access to  
19 telephones, even though we all want people to have access to  
20 telephones.

21 So I hope we can find some modifications to this,  
22 Mr. Chairman.

23 The second point, just briefly -- other point -- and then  
24 I will be happy to yield to my friend from Oregon, who did  
25 a great job on telephone access charges, is with respect to

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 you one example, in the \$2 billion out of \$55 billion of the  
2 Medicare Pacemaker Program, we think we may be wasting up  
3 to a billion dollars a year in the form of (a) unnecessary  
4 overutilization -- putting in too many of them, paying too  
5 much for monitoring, never collecting on the warranties  
6 when pacemakers are replaced, spending seven or eight or  
7 up to \$12,000 for a device that is manufactured and sold  
8 at the outlet for \$1000 or \$1200, and, finally, paying a  
9 doctor for a 45-minute operation as if it were 3-hour  
10 open-heart surgery.

11 So it is my view that we ought to squeeze the providers  
12 down to reasonable costs before we start putting unreasonable  
13 costs and access charges to health care at \$16 a month.

14 Thank you. It was a good point.

15 The Chairman. Senator Matsunaga?

16 Senator Matsunaga. Mr. Chairman, I am inclined to agree  
17 with Senator Heinz, particularly in light of the projections  
18 on reduced inflation rate, and then we're going to freeze  
19 doctors' fees and freeze hospital fees.

20 The proposal here would even more than double what the  
21 premium is now in the course of five years. And heavens, I  
22 think that would be too much of a strain on senior citizens.

23 The Chairman. What I would like to now is to see if  
24 we really want to reduce the deficit. Take out the Puerto  
25 Rican provision, take out number 5 on the marketbasket to see

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 if we can't compromise that, and see if we can agree on the  
2 balance.

3 Do you want to vote on them one at a time?

4 Senator Matsunaga. I would ask for a separate vote  
5 on No. 1.

6 The Chairman. Okay, let's vote on No. 1.

7 Senator Matsunaga. And No. 7.

8 The Chairman. Number 7?

9 Senator Moynihan. Mr. Chairman, there are members  
10 absent who, it seems to me, ought to be here.

11 The Chairman. I have Symms' proxy. He's voting Aye.

12 Senator Moynihan. And the Senator from Colorado?

13 The Chairman. He's right back here. He hasn't left.

14 Senator Moynihan. It would be very helpful if we were  
15 all in the room, Mr. Chairman.

16 The Chairman. I'm not trying to play games; I'm just  
17 trying to reduce the deficit, you know.

18 Senator Mitchell. Mr. Chairman, while we're waiting,  
19 could I just say one thing on the point that is being made  
20 here?

21 The Chairman. Sure.

22 Senator Mitchell. When you started this effort last  
23 year, and I believe you deserve to be commended for starting  
24 it and, more importantly, for the tenacity with which you have  
25 persevered, the original proposal you made to this committee

1 included figures anticipating reductions made in other  
2 areas by other committees, recognizing that was not in our  
3 jurisdiction. I think Senator Wallop has rightly said, "We  
4 have jurisdiction; let's act now."

5 But I can only speak for myself. This increase in the  
6 Medicaid premium is very troubling. I think we have to do  
7 something about the deficit, and I'm prepared to vote for it  
8 in the expectation and the understanding that there is going  
9 to be comparable restraint exercised in other areas of the  
10 budget -- notably the Defense increase proposed by the  
11 Administration.

12 But we are in an awkward situation, those of us on this  
13 committee. We feel that we ought to be doing something, but  
14 we ought to be doing something across-the-board. If we act  
15 in an area only we can act on, increasing premiums for  
16 millions of elderly across the country, and then nothing  
17 happens on the Defense budget, I think we will have taken a  
18 step for the wrong priorities, from my own standpoint.

19 The Chairman. Well, I can assure you that anything  
20 we do -- in fact, Senator Bentsen suggested earlier -- what  
21 we will do will be contingent on appropriate action in other  
22 committees.

23 My view is, if we all play the waiting game and wait for  
24 the other committee to do what we want them to do, we're not  
25 going to do anything.



1 But I'm not going to take this to the floor until I have  
2 the same assurance you have, that this committee shouldn't  
3 have to do it all.

4 Senator Bradley. Mr. Chairman?

5 The Chairman. Senator Bradley?

6 Senator Bradley. One of the things that I do think we  
7 ought to know, though, before we vote that we don't know  
8 now is, what is the net deficit reduction that we are voting  
9 for?

10 Senator Boren asked on each one of these if the  
11 President was supportive, meaning is it in his budget? And  
12 as I understand it, you said Yes on virtually every one,  
13 with the exception of "limit increase on hospital costs per  
14 case."

15 If that is so, then what we're voting for is no net  
16 budget deficit reduction. Maybe that's wrong, but I think  
17 we ought to know that number.

18 Mr. DeArment. But, from the President's budget, if the  
19 President includes it, what we're trying to do is make sure  
20 that we get the deficit down to at least that level.

21 Now, there are other things that we have in here.

22 Senator Bradley. But that is before he submitted his  
23 budget, before he called for \$100 billion additional budget  
24 reduction. And that's what everybody has focused on.

25 So, what I want to know is how much of this package of

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 spending reductions is in addition to what the President  
2 already had in his budget? What is the net spending  
3 reduction?

4 Ms. Burke. Mr. Bradley, there are a number of items  
5 that are contained in the health program specifically, which  
6 are indeed supported by the Administration but were not  
7 included in their budget, which are additional.

8 If one were to look at the total savings on the summary  
9 chart, the Administration's project savings, I believe, is  
10 \$12.4 billion over the same period of time. The total  
11 package that was before you is \$19 billion. So at the outset  
12 there is an additional savings in total. But, again, that  
13 is of the total package, which included the Grace  
14 recommendations. With respect specifically to the spending  
15 options before you, there are items which are not on the  
16 Administrations suggestions, or items which are modifications  
17 which increase the savings.

18 For example, the physician fee provision -- the  
19 Administration proposed a fee for only one year. This of  
20 course is for two and a half years, in effect. So there are  
21 incremental savings as a result of these proposals.

22 Senator Boren. Seven billion dollars net spending  
23 savings below -- over three years -- below the President's  
24 recommendation.

25 The Chairman. No. More, isn't it?

1           Senator Boren. Seven billion below the President's  
2 budget? Net?

3           Ms. Burke. Yes, sir.

4           Senator Boren. So what we are getting ready to vote  
5 on is the \$7 billion -- if we are focusing on \$100 billion  
6 or 200, whatever we decided the down payment on the deficit  
7 should be, we are focusing on, we are talking about  
8 \$7 billion net from what the President's budget contained?

9           Ms. Burke. That would include the Grace Commission  
10 recommendations, which we are not voting on at this point.

11          Senator Boren. But of what we are voting on now, how  
12 much is net below the President, of what we are voting on  
13 now?

14          The Chairman. Zero.

15          Senator Boren. Zero?

16          Ms. Burke. We are about right on.

17          Senator Boren. So, what we are doing in essence is  
18 endorsing what is already in the President's budget, but  
19 we're not really taking an additional bite out of the  
20 deficit at this point?

21          Ms. Burke. You are going, in effect, \$9 billion below  
22 base line -- CBO base line. If you withhold the hospital  
23 provision, it drops the savings to about \$9.7 billion of  
24 this portion of the package. So that's \$9.7 billion below  
25 CBO base line.

1           Senator Boren. But from the President's budget we are  
2 how much? We are not in any net -- there is no net  
3 reduction below?

4           The Chairman. We would be about achieving.

5           Mr. DeArment. We would be about achieving the same  
6 savings in that specific element.

7           The best way to look at this, Senator Boren, is,  
8 the President's budget overall had about \$75 billion of  
9 deficit reduction, some taxes: about \$33 billion in taxes,  
10 and the rest in spending cuts. If we do a \$100 billion  
11 package, then, compared with his budget deficits, we will  
12 be about \$25 billion below over that period of time.

13           Senator Boren. Well, what I am trying to get at, CBO  
14 says the President's budget over four years is going to have  
15 \$850 billion under the President's budget request, using  
16 their economic assumption.

17           So, I want to know how much we're dropping. We're not  
18 dropping any from the President's?

19           Mr. DeArment. If you are using the CBO base line, we  
20 would be dropping \$100 billion. If you use the President's  
21 base line, with respect to these, we would be at the same  
22 level.

23           Senator Boren. We're at the same level as the  
24 President's recommendation?

25           Mr. DeArment. That's correct, with respect to these

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 specific recommendations.

2 Senator Boren. I see.

3 Senator Wallop. If you are going to use those  
4 arguments, though, Mr. Chairman, you've got to do the same  
5 thing on the revenue side. And I hope the other side is  
6 ready for that, because I did mention you've got enterprise  
7 zones in there, tax treatment, health insurance premiums,  
8 you've got tuition tax credit, education savings account, and  
9 things that you know are not there. And if we're going to do  
10 that, then let's use those as revenue savings, too.

11 The Chairman. Could I just remind you, if we don't  
12 do anything, we don't save any money. That's my point. We  
13 could argue about what the net is, but if we're not even  
14 willing to do what's in the budget, I think we ought to  
15 make a decision.

16 Senator Long. Let me see if I could put it the way I  
17 think this is. The context in which we are voting, as I  
18 understand it, is on the assumption that we could put  
19 together a major deficit-reduction package, that if we were  
20 satisfied with the overall package we'd be willing to vote  
21 for this to be a part of it. Now, that's what we're voting  
22 on, as I understand it, because my thought is that I don't  
23 feel like voting for this unless these other things are  
24 going to materialize. If the President is going to tell  
25 you he's going to veto it, I don't feel like voting for it

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 to send it down there, and that type of thing.

2 The Chairman. What, they're not going to cut any in  
3 Defense?

4 Senator Long. That's right. Assuming everybody does  
5 their part and that we have a major reduction package,  
6 which I think should be a lot more than \$100 billion, because  
7 it's not going to mean anything by the time you find out  
8 that the assumptions were in error.

9 So, assuming that we can have a major reduction package,  
10 then would you be willing to vote for this to be a part of  
11 it? That's what we'd be voting on.

12 The Chairman. Right.

13 Senator Bentsen. Mr. Chairman, let me just buttress  
14 that. I just want to be certain that the sacrifices are  
15 equally shared in this situation, and my vote is contingent  
16 on the rest of this package being put together.

17 The Chairman. No, I think you made that suggestion.  
18 That's certainly my view in the first place. We're willing  
19 to fall on the spear, but we want some other people out  
20 there. We'd like to have a little company.

21 Senator Boren. Have we included all the President's --  
22 I don't want to harp on this overly, but, again, I think it's  
23 very important we not fool the people by saying, you know,  
24 "Here's the President's budget; it has an \$850 billion  
25 deficit over four years," and I think it's very important

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1  
2 that we not come out of here today and say, "Well, let's  
3 not let the balloons all loose yet," if indeed all we have  
4 done is really -- and I'm not saying it's not important to  
5 do it. I think it is important to do it. You know, we  
6 start with the President's budget, and we try to get at  
7 least a lot of the savings he has asked for in the budget.  
8 But I think we don't want to give a false impression that  
9 we've chipped away at the budget deficit below. We haven't  
10 made a dollars worth of down payment of the \$100 billion if  
11 we have simply passed out things that are already included  
12 in the President's budget.

13 And I wonder also, does this include everything the  
14 President's budget has asked for on the savings side to  
15 the medical side? Because, you see, indeed if we pass out  
16 part -- if what we are acting on today is part of what the  
17 President is asking for in savings on the medical side, and  
18 only part, we have not even yet come up on the medical  
19 programs to what he's asked for. So indeed we wouldn't have  
20 made any further reduction below the President's budget; we  
21 wouldn't have even quite made that yet.

22 I'm going to vote for this under the conditions that  
23 Senator Long and Senator Bentsen spelled out. I'm still  
24 ready to go with Senator Danforth and Senator Wallop's and  
25 my proposal and take about a \$200 billion bite across the

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 board.

2 But have we included all of the President's savings,  
3 specifically in the medical area, in what we're getting  
4 ready to vote on now?

5 Ms. Burke. The one item which is missing from this  
6 package and was missing from S. 2062, proposed by the  
7 Administration, was mandating the States to apply copayments  
8 to Medicaid recipients. That's approximately \$800 million  
9 over a 3-year period of time.

10 Senator Boren. So, if we passed all of these today,  
11 we're still about \$800 million on the medical savings side.  
12 We haven't yet quite lived up to what the President asked  
13 for on the medical savings side.

14 Ms. Burke. No, that is not entirely correct. As I  
15 indicated, Senator, we have, while including almost all of  
16 their proposals, in some cases made those proposals more  
17 restrictive, so in fact they achieve greater savings.

18 Senator Boren. Like on the two years instead of one  
19 year?

20 Ms. Burke. That is correct.

21 Senator Boren. So we picked up how much there?

22 Ms. Burke. We picked up in excess of a billion dollars,  
23 as I recall, on that one item.

24 Senator Boren. And we lost \$800 million. So we are  
25 about \$200 million --

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198



1 Ms. Burke. And we also have the hospital provision  
2 which was recommended, which it has been suggested the  
3 committee set aside. That is approximately a billion  
4 dollars, in excess of a billion dollars, over a period of  
5 time.

6 Senator Boren. What we are doing is about a \$200  
7 million down payment on the deficit, in essence? On the  
8 spending-cut side, from the President's budget?

9 The Chairman. Yes.

10 Senator Boren. I just didn't want to come out of here  
11 with we made a \$40 billion down payment on the deficit today  
12 if it's really \$200 million.

13 The Chairman. You haven't made any yet.

14 Ms. Burke. No, there are items in this package which  
15 are in addition to the Administration's package.

16 Senator Boren. How much are we making of a down  
17 payment on the deficit in the terms that the public  
18 understands, so that we know how much of our job has yet  
19 to be done?

20 The Chairman. I think, if I could answer that, I don't  
21 think they expect us to do anything, and we're about to prove  
22 they're right.

23 (Laughter)

24 Senator Boren. I think they expect us to do a lot. The  
25 people I talk to at home say, "What are you messing around

1 with?" and "Why don't you get something done?" and "Why  
2 do you wait til after the election?" And I'm ready to do it,  
3 but I want to know how much we're doing. I am going to  
4 vote for it, but I want to know how much it is, so that  
5 I can tell them did we make one-half of 1 percent of a down  
6 payment on the deficit today? Or did we make 50 percent?

7 Senator Baucus. Mr. Chairman?

8 The Chairman. Senator Baucus?

9 Senator Baucus. Mr. Chairman, it sounds like what we  
10 are doing here is on the assumption that we have these  
11 other savings and jurisdictions of other committees. Let  
12 me turn that assumption around.

13 Assuming we pass something out here today, then what  
14 can we expect from other committees? That is, what do you  
15 intend to do? When will we know whether Senator Tower and  
16 other relevant senators are going to be part of this or not,  
17 and whether the Administration is going to be part or not?  
18 What are your plans, assuming we pass out something, given  
19 the contingencies that have been expressed?

20 The Chairman. Well, I would like to think that this  
21 committee, and I'm very confident we will have a bipartisan  
22 package here, that at 2:00 when we've had this little meeting  
23 I can say, "Well, we've done our work, if the rest of the  
24 people want to participate," talking about Defense, talking  
25 about other areas that haven't been touched. I think it

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 would certainly expedite the process. But somebody has  
2 to make the first move, and I think it ought to be us.  
3 We've been working on this since last September-October.  
4 I would just like to vote on this package and exclude those  
5 two items. It's a tentative decision. We want to modify  
6 the one item, the No. 2, for example. We may be able to  
7 modify even No. 1. But let's try to agree on the package,  
8 with the exception of this thing that Durenberger wants to  
9 work on, and then the Puerto Rican rum, we want to hear from  
10 the Governor first.

11 Would that be all right?

12 Senator Bradley. What was that, Mr. Chairman?

13 The Chairman. Just vote on the package instead of  
14 going down it one at a time. We could have a voice vote, or  
15 a record vote.

16 Senator Bradley. I would like to vote on the first one,  
17 Mr. Chairman.

18 Senator Moynihan. Let's have an idea. We can vote  
19 quickly.

20 The Chairman. One at a time? Okay. Let's go,  
21 number one.

22 Mr. DeArment. Mr. Packwood?

23 Senator Packwood. Aye.

24 Mr. DeArment. Mr. Roth?

25 The Chairman. Aye.

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 Mr. DeArment. Mr. Danforth?  
2 Senator Danforth. Aye.  
3 Mr. DeArment. Mr. Chafee?  
4 Senator Chafee. Aye.  
5 Mr. DeArment. Mr. Heinz?  
6 Senator Heinz. Is this the Part B premium? No.  
7 Mr. DeArment. Mr. Wallop?  
8 Senator Wallop. Aye.  
9 Mr. DeArment. Mr. Durenberger?  
10 Senator Durenberger. Aye.  
11 Mr. DeArment. Mr. Armstrong?  
12 The Chairman. Aye.  
13 Mr. DeArment. Mr. Symms?  
14 The Chairman. Aye.  
15 Mr. DeArment. Mr. Grassley?  
16 Senator Grassley. Aye.  
17 Mr. DeArment. Mr. Long?  
18 Senator Long. Aye.  
19 Mr. DeArment. Mr. Bentsen?  
20 Senator Bentsen. Aye.  
21 Mr. DeArment. Mr. Matsunaga?  
22 Senator Matsunaga. No.  
23 Mr. DeArment. Mr. Moynihan?  
24 Senator Moynihan. Aye.  
25 Mr. DeArment. Mr. Baucus?

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 Senator Baucus. Aye.

2 Mr. DeArment. Mr. Boren?

3 Senator Boren. Aye.

4 Mr. DeArment. Mr. Bradley?

5 Senator Bradley. No.

6 Mr. DeArment. Mr. Mitchell?

7 Senator Mitchell. Aye.

8 Mr. DeArment. Mr. Pryor?

9 Senator Pryor. Aye.

10 Mr. DeArment. Mr. Chairman?

11 The Chairman. Aye.

12 Senator Moynihan. Mr. Chairman, I believe there were  
13 some members who wanted to have a voice vote, I mean a  
14 roll-call vote, on item number one.

15 The Chairman. I thought I'd go down and see. On this  
16 vote the Ayes are 17, the Nays are 3. And I think we've  
17 just demonstrated we're going to do our job.

18 Number two, now. We'll try to work out the problem  
19 raised by Senators Chafee, Durenberger, and Mitchell.

20 Senator Long. Might we just vote on the others in  
21 block, also, Mr. Chairman. You have voted on the toughest  
22 one.

23 The Chairman. All right. With the exception of  
24 number 5 and then the Puerto Rican rum, does anybody want a  
25 record vote on the balance?

1           Senator Long. Let's have a roll-call.  
2           The Chairman. Okay, let's have a roll-call on the  
3 balance.  
4           Mr. DeArment. Mr. Packwood?  
5           Senator Packwood. Aye.  
6           Mr. DeArment. Mr. Roth?  
7           Senator Roth. Aye.  
8           Mr. DeArment. Mr. Danforth?  
9           Senator Danforth. Aye.  
10          Mr. DeArment. Mr. Chafee?  
11          Senator Chafee. Aye.  
12          Mr. DeArment. Mr. Heinz?  
13          Senator Heinz. Aye.  
14          Mr. DeArment. Mr. Wallop?  
15          Senator Wallop. Aye.  
16          Mr. DeArment. Mr. Durenberger?  
17          Senator Durenberger. Aye.  
18          Mr. DeArment. Mr. Armstrong?  
19          The Chairman. Aye.  
20          Mr. DeArment. Mr. Symms?  
21          The Chairman. Aye.  
22          Mr. DeArment. Mr. Grassley?  
23          Senator Grassley. Aye.  
24          Mr. DeArment. Mr. Long?  
25          Senator Long. Aye.

1 Mr. DeArment. Mr. Bentsen?  
2 Senator Bentsen. Aye.  
3 Mr. DeArment. Mr. Matsunaga?  
4 Senator Matsunaga. Aye.  
5 Mr. DeArment. Mr. Moynihan?  
6 Senator Moynihan. Aye.  
7 Mr. DeArment. Mr. Baucus?  
8 Senator Baucus. Aye.  
9 Mr. DeArment. Mr. Boren?  
10 Senator Boren. Aye.  
11 Mr. DeArment. Mr. Bradley?  
12 Senator Bradley. Aye.  
13 Mr. DeArment. Mr. Mitchell?  
14 Senator Mitchell. Aye.  
15 Mr. DeArment. Mr. Pryor?  
16 Senator Pryor. Aye.  
17 Mr. DeArment. Mr. Chairman?  
18 The Chairman. Aye.  
19 Senator Long. Unanimous.  
20 The Chairman. On this vote, the Nays are zero and the  
21 Ayes are 20. It's a good vote.  
22 (Laughter)  
23 Senator Long. Almost hard to beat.  
24 (Laughter)  
25 Senator Grassley. Mr. Chairman, those reductions now

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 that we've approved are what percentage of the one-for-one  
2 ratio that we have established?

3 Mr. DeArment. It's about 9.7, isn't it? Yes, that's  
4 close to \$40 billion, when you include in the reconciliation  
5 spending reductions in S. 2062, that's --

6 The Chairman. So we've got about \$40 billion in  
7 spending cuts?

8 Mr. DeArment. Yes, it's about 39.9, I think.

9 Senator Grassley. And we have to get how much to have  
10 a one-to-one ratio?

11 The Chairman. Well, we haven't approved any revenues  
12 yet, except for those on the Senate floor, about \$21 billion.  
13 We are going to modify one provision, I think, and pick up  
14 another billion, and then, depending on what we work out  
15 on the Puerto Rican thing, I think maybe Treasury has a  
16 good suggestion. That will be a pick-up on the spending  
17 side.

18 And there may be other ideas. I mean, if anybody has  
19 any other ideas on spending reduction, obviously we want to  
20 consider those.

21 So, we are making progress; there is no doubt about it.

22 I know Mr. Chapoton had to leave, but you are prepared.

23 Senator Boren. Mr. Chairman, could we still have the  
24 net from the President's before we go on to revenue changes?  
25 Is the net \$200 million?

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198



1 Ms. Burke. No. In fact, the President's budget,  
2 specifically in the health area, in 1985 has a savings of  
3 approximately \$6 billion.

4 Senator Boren. Six.

5 Ms. Burke. Savings as a result of the proposals in  
6 2062, in those items that were before you today, was  
7 approximately \$13.8 billion. So there is a difference of  
8 about \$7 billion.

9 Senator Boren. So we have saved, net, from the  
10 President's budget base line \$7 billion?

11 Ms. Burke. Pull out one and a half for the hospital  
12 provision which you have set aside. So you are at about  
13 \$5 billion in excess in the health area alone.

14 Senator Boren. Okay. So, so far on spending we have  
15 cut \$5 billion below the President's total recommendations  
16 on spending in the areas that we have looked at?

17 Ms. Burke. We have raised an additional \$5 billion,  
18 that is correct.

19 The Chairman. We've cut an additional \$5 billion.

20 Ms. Burke. We've saved an additional \$5 billion.

21 Senator Boren. We've made a \$5 billion down payment  
22 on the deficit.

23 The Chairman. Right. We've only got 95 to go.

24 Senator Boren. Only have 95 to go for the 100, if we  
25 are going to just stop there. Well, we've got \$846 billion

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 still to go.

2 The Chairman. To balance the budget.

3 Senator Boren. To balance the budget. Okay.

4 The Chairman. Now, rather than to go to the Grace  
5 Commission, what I would like to suggest in the Grace  
6 Commission area, because there are numerous, multi  
7 recommendations, if the committee would direct us to come  
8 up with the \$7 billion we need in savings from the Grace  
9 Commission.

10 Would anybody object if we would give that the old  
11 college try between now and Tuesday, to come up with the  
12 \$7 billion?

13 Senator Moynihan. Mr. Chairman, we are told that,  
14 among the many contributions to economy in government, the  
15 Grace Commission cost \$1600. Could we get one and xerox  
16 it?

17 The Chairman. Oh. Do you mean for the 47 volumes?

18 Senator Moynihan. Yes. Could we buy one for the  
19 library?

20 Mr. DeArment. I think we have a complete set. And we  
21 could pull out those provisions that we are specifically  
22 talking about in our committee's jurisdiction.

23 Senator Moynihan. We have seen it, but actually we  
24 have never --

25 Ms. Burke. We have almost a complete set.

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 Mr. DeArment. Yes. They are voluminous.

2 The Chairman. Well, let's move to the revenues, and  
3 we will come back to the Grace Commission.

4 Mr. Brockway. Mr. Chairman, the revenue package starts  
5 out with the reconciliation items that were approved by  
6 the committee in the reconciliation last Fall. That's  
7 21.4 billion.

8 The next set of items are the Treasury-supported  
9 proposals on tax shelters, accounting abuses, and corporate  
10 reforms, that were the subject of discussion last Fall in  
11 the Committee. That would be a \$13 billion item over the  
12 1984 to 1987 period.

13 The next item that is also contained in the budget is  
14 the cap on employer-provided health care at \$250 a month.  
15 The Administration has \$175 a month. This would be a pick-up  
16 of about \$7.9 billion over the four years.

17 Senator Mitchell. Excuse me, Mr. Chairman. Can you  
18 identify what you are reading from?

19 The Chairman. Hold it up, so we can see it.

20 Senator Long. What page are you looking at here?

21 Mr. DeArment. If you have a package which is a package  
22 of numbers that is dated February 23rd and says, "Down payment  
23 budget plan," if you look at the last few pages of that,  
24 that's what he is reading from. These are the last two  
25 pages.

1 The Chairman. Well, let's see the front of it.

2 Mr. DeArment. Right.

3 Senator Mitchell. The first five pages, where the  
4 spending is that you have just done.

5 Senator Wallop. It's called "Down Payment Budget  
6 Plans."

7 Senator Mitchell. That's right. It says "Down Payment  
8 Budget Plan."

9 Senator Wallop. Mr. Chairman, when do you want us to  
10 comment on these things -- after Rod goes through it?

11 The Chairman. I think as they go along.

12 Senator Wallop. I thought because he was going so  
13 quickly, that he was just going to read them off.

14 I have a comment on the Part B.

15 Senator Bradley? Part B?

16 Senator Wallop. The Administration Budget Proposals?  
17 The first one, "Treasury-supported proposals on tax shelters,  
18 accounting abuses and reform." And just frankly, the staff  
19 and the Administration both are proceeding from a wrong  
20 assumption on the mine reclamation provisions in there. They  
21 are stating that they are taking a tax deduction at a time  
22 for inflated costs of reclaiming it, time to do it, and  
23 clearly it's just not the case.

24 What they are doing is, they are taking a tax deduction  
25 as required on the present value deduction for the cost that

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 is there. And that's right, and that's the way it should be.  
2 And they are just operating on the wrong assumption. The  
3 assumption is that there is some kind of windfall in here,  
4 and it's simply not the way it's done, either by law or by  
5 practice.

6 The Chairman. Well, if there is a dispute on a certain  
7 portion of that, I wonder if we could just sort of set it  
8 aside.

9 Senator Wallop. That's fine with me, because we have  
10 been working on it.

11 Mr. Chapoton. I could respond just very quickly,  
12 Senator Wallop. We think that the deduction now, the full  
13 deduction now, of the expense to be incurred 10-20-30 years  
14 later is too much. A discounted deduction now is correct.  
15 I think that's what you just said.

16 Senator Wallop. Yes.

17 Mr. Chapoton. Our question is, how you do the  
18 discounted -- conceptually correct -- how you handle the  
19 discounting of that.

20 If actual payments are made into a fund, that probably  
21 handles it itself. And we stated this before Ways and Means  
22 yesterday, and we could certainly say here we would like to  
23 work on that basis as well. The administrative problem is  
24 doing that.

25 Senator Wallop. As you know, we have struggled on this

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 thing, and I'm quite willing to continue to work; but the  
2 assumptions in the working papers are simply wrong.

3 Senator Heinz. Mr. Chairman, would the Senator yield?

4 Buck, none of the paper I have specifically identified  
5 the same as Senator Wallops identified the mining  
6 reclamation problem. Which of your proposals affects  
7 the mining reclamation?

8 Mr. Chapoton. Well, it is our proposal that we labeled  
9 "Premature Accrual."

10 Senator Heinz. Under "Premature Accrual"?

11 Mr. Chapoton. Yes, sir.

12 Senator Heinz. All right. Thank you.

13 Senator Long. Mr. Chairman, I want to comment on this  
14 cap on health care deductions. As I recall, that's an item  
15 that we looked at all last year, and the report went out  
16 across the country that we weren't going to agree to it.  
17 It has generally been assumed that we would not agree to  
18 that.

19 It seems to me that it ought to be left out at least  
20 for now. You can come back and offer it later on, if you  
21 want to, but I think most people feel that way.

22 Senator Packwood. Is this health care?

23 Senator Long. The cap on health care.

24 Senator Packwood. I think, rather than vote on it,  
25 we should leave it out, Mr. Chairman.

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1           The Chairman. Right. Well, I think we'll leave it  
2 out for now. We may have to come back to it, unless somebody  
3 has some better ideas.

4           But could we agree on --

5           Senator Roth. I am not clear; for example, some of the  
6 broiler people back home are on a cash basis.

7           The Chairman. Is that right?

8           Senator Roth. A totally cash basis. Would these  
9 changes affect that at all?

10          Mr. Chapoton. The only change that would affect that is,  
11 there is a prepaid-expense disallowance, and if the activity  
12 is going to occur next year and you pay the expense this  
13 year, it's disallowed. But it's only for tax shelter  
14 arrangements.

15          The Chairman. Syndicated.

16          Mr. Chapoton. The syndications, that is correct, where  
17 more than 35 percent of the interests are held by passive  
18 investors.

19          The Chairman. That's Grassleys.

20          Senator Roth. For example, I think you have seen  
21 Mr. Perdue on TV. Would it affect his operation?

22          Mr. Chapoton. I don't know his operation. Unless he  
23 syndicates a tax shelter arrangement, it would not.

24          Senator Roth. But as long as he doesn't syndicate, it  
25 has no impact?

1 Mr. Chapoton. But the definition in current law of  
2 syndication, more than 35 percent passive investors, limited  
3 partners.

4 Mr. Brockway. As originally proposed they might have  
5 been affected, but it was changed after the markup last  
6 Fall, so it only applies to limited partnerships or other  
7 syndications.

8 Senator Packwood. Mr. Chairman?

9 The Chairman. Senator Packwood?

10 Senator Packwood. Can we also agree to leave out  
11 item C? Or, otherwise, I would like to have a vote on it --  
12 the cap on charitable contributions, charitable deductions.

13 Senator Chafee. Well, Mr. Chairman, it seems to me if  
14 we are going to go through this list and each person is  
15 going to ask for things to be left out, we are not going to  
16 get anywhere here.

17 Senator Packwood. Well, I'm willing to vote on it. I  
18 am not asking him as a matter of grace.

19 The Chairman. Well, why don't we vote on number C.

20 Senator Chafee. Let's vote on each of them.

21 Senator Packwood. All right.

22 Senator Chafee. If people have objections, they can  
23 raise them. Something that is not explained, like the  
24 Puerto Rican rum thing, and has come at us suddenly, I think  
25 that's a justifiable set-aside. But in the others, we are



1 familiar with them, we know them, people have had  
2 longstanding objections to some of them. Let's vote.

3 Senator Packwood. Well, then I would move to set aside  
4 the health cap.

5 Senator Chafee. Well, there is an option there,  
6 Mr. Chairman. Either you can take the health cap, if we  
7 vote, if the health cap is voted down, does that affect the  
8 next one, which is the statutory fringe benefit cap?

9 Senator Packwood. Well, the next one, for all practical  
10 purposes, is a health cap, because health is such a large  
11 portion of the fringe benefits. But I would vote to lay  
12 aside either one of them.

13 The Chairman. If I might suggest, here, I think on  
14 the health care cap, I would just hope that we would hold  
15 that in abeyance. We may work out something on that later  
16 on if we need to.

17 But I think maybe Senator Chafee is right on the  
18 balance, we might as well get them up and vote on them and  
19 see where we are. I don't think there are any surprises in  
20 this group. Bob is willing to have a vote on charitable  
21 contributions, and see where we go.

22 Senator Boren. Again, Mr. Chairman, I feel very strongly  
23 that in terms of the balance we are striking I want to hold  
24 this thing in balance. We have made \$5 billion in spending  
25 cuts on balance, changed from the President's budget, and it

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 would be helpful to know again how many of these revenue  
2 increases, how many of the tax increases, are included in  
3 the President's budget.

4 Mr. DeArment. Senator Boren, if we were to approve  
5 all of these on the sheet before you, we would have  
6 approximately \$50 billion. The net revenue proposals  
7 recommended by the President is about 33. So we are about  
8 17. If we approve this, we are about 17 ahead.

9 Senator Boren. So, we would have talked about \$17  
10 billion of tax increases and only \$5 billion of spending  
11 cuts, net of the President's budget?

12 Mr. DeArment. No. W:

13 The Chairman. It's closer to 41 on the revenue side,  
14 isn't it, in net? Forty-one billion?

15 Mr. Chapoton. In the President's budget it is a net  
16 of 33.5.

17 The Chairman. Oh, the net. But we're not going to  
18 take all those add-ons.

19 Senator Boren. So, the tax increase we are being asked  
20 to vote on is how much net of the President's budget? If  
21 we clear this whole package?

22 Mr. Chapoton. This package is almost \$50 billion, and  
23 the President's budget is a net 33.5, or about 41 gross.

24 The Chairman. But that's counting tuition tax credits.

25 Mr. Chapoton. In other words, there are about \$8 billion

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 over this three-year period of changes in the tax law that  
2 would lose revenue.

3 The Chairman. We are going to try to work it out,  
4 David, so it's one-for-one.

5 Senator Matsunaga. How much over the President's  
6 budget?

7 Mr. Chapoton. The President's budget would have a net  
8 revenue increase over existing law of \$33.5 billion.

9 Senator Boren. And this package would be close to  
10 50, is that correct?

11 Mr. Chapoton. This package would be 50, correct.

12 Senator Boren. So it is about 17 net.

13 Senator Matsunaga. Thirty-three point -- ?

14 Mr. Chapoton. Thirty-three point five.

15 Senator Boren. Well, Mr. Chairman, is your thought to  
16 go back over these? And the President does endorse all of  
17 these in the package?

18 Mr. Chapoton. Yes. We can go with these or with item  
19 one. Yes, we can go with all of those.

20 Mr. DeArment. That's all the items under Roman One,  
21 "Possible Revenue Package."

22 Mr. Chapoton. And that totals 49.6.

23 Senator Boren. That's 49.6 over '84 through '87. And  
24 that's about a \$17 billion net increase of taxes above the  
25 present.

1 Mr. Brockway. Senator Boren, that's over a 3-year  
2 period, 1985 to 1987, so it is consistent with the  
3 Administration numbers. It's 48.1 over three years, where  
4 they were at 33.5. So you are around \$15 billion net  
5 increase over the Administration.

6 Senator Boren. Okay.

7 Senator Bradley. I'm sorry, I don't see these numbers  
8 on this sheet.

9 Mr. Brockway. It's in the hand that you just put down;  
10 the last two pages should be the revenue options on that.

11 Senator Bradley. All right.

12 Mr. Brockway. And that table, just to go over that,  
13 the first page of the revenue options goes A, B, C, and D,  
14 and then you have E, "Other Reforms," and that totals  
15 49.6 of that amount for the '84 through '87 period.

16 And then below that there are other revenue options,  
17 just to indicate that there are some other variables, if you  
18 wish to look at them.

19 Senator Long. Mr. Chairman, I just want to make this  
20 point clear. I am going to support Senator Packwood's  
21 motion on both these two items, but I want to make it clear:  
22 I am willing to vote for whatever revenue it takes to do  
23 this job. Now, I would just rather do it by voting for some  
24 other measure than for this. Frankly, I am prepared to vote  
25 for a big-ticket item at some point that would cover as much

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 as all of this put together.

2 Senator Packwood. Well, we, at one time, Russell, had  
3 an energy conservation incentive in here of \$35 to \$40  
4 billion, which by and large the committee agreed to. It  
5 wasn't acceptable, apparently.

6 Senator Long. I just want to make it clear that I'm  
7 willing to vote for enough revenue to do whatever it takes  
8 to do all of this, but I just think that if you are talking  
9 about items, I don't think we ought to do this particular  
10 item.

11 Senator Heinz. Mr. Chairman, could I just understand  
12 one groundrule as we chug down the track here?

13 What is the Chairman's intention regarding the tax  
14 shelter, accounting abuses, corporate reforms? I don't want  
15 to make long speeches on the three or four where I see some  
16 problems. Are we passing them over? What is the Chairman's  
17 intention to proceed here?

18 Some of these I thought we had said No to before, and  
19 they are back. And some we said Maybe to, and they are  
20 back.

21 The Chairman. Right. Well, I think the deficit has  
22 gotten higher too, in the meantime.

23 Senator Heinz. Well, that's fine; but we don't have  
24 to do any old thing the staff has proposed, either.

25 The Chairman. No. But if there is some specific

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 exemption there in the Treasury-supported proposal on tax  
2 shelters, we ought to hear about them now.

3 Senator Heinz. Do you want to hear my concerns now?  
4 I hate to take that much time, but all right.

5 On related-party transactions. When you were here last  
6 time, Buck, I indicated I was concerned about their effect  
7 on the resyndication of low-income housing. Senator Packwood,  
8 I believe, also expressed some concern.

9 What I proposed is, rather than writing it the way  
10 you wrote it, that we could accomplish the same thing by  
11 stating that such related-party transactions that were  
12 entered into for the principal purpose of tax-avoidance  
13 would be disqualified, thereby preserving the low-income  
14 housing resyndications that I am inclined to believe are  
15 necessary. Now, where did we get on that in the last six  
16 months?

17 Mr. Chapoton. Well, Senator, we recognize that this has  
18 an impact on some low-income housing projects. It has an  
19 impact on any syndication arrangement where you have a  
20 significant mismatching of income, and that is indeed what  
21 happens with low-income housing projects.

22 So our thought is, no, this is a tax abuse, it is  
23 tax-avoidance, and I think under any definition it may have  
24 a purpose that people are more willing to accept, because the  
25 product of the syndication is low-income housing. But the

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 mismatching of income where you have large deductions reported  
2 for 15, 20, or 30 years, and no income reported until the  
3 end of 30 years, occurs.

4 So we see that as a problem, and we have dealt with it  
5 without an exception for low-income housing.

6 I think if you wanted to deal with low-income housing,  
7 you just ought to have an exception for it, and it ought to  
8 be housing that is really low income. I would have a very  
9 tight definition.

10 Senator Heinz. That would satisfy me.

11 Mr. Chapoton. Well, from my position, we would not like  
12 to have that, but I think you couldn't have a tax avoidance.

13 Senator Heinz. Mr. Chairman, maybe the quickest thing  
14 would be to just put that to a vote, whether we want to make  
15 an exception or not for low-income housing.

16 The Chairman. Buck, is that a clear statement, an  
17 exception for low-income housing?

18 Mr. Chapoton. No, sir. I think we would have to say  
19 we would not accept it, because we see a real problem there.

20 Senator Packwood. Well, is the statement correct as  
21 to what John is trying to do?

22 Mr. Chapoton. Well, I think the way he described, where  
23 he said it would apply only where tax avoidance is involved,  
24 that would not exempt low-income housing. Indeed, tax  
25 avoidance is involved in these low-income housing projects.

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 That is what carries a lot of them.

2 Senator Packwood. Well, let me speak to that point,  
3 Buck, if I can.

4 We only have two ways that we can achieve things in  
5 this country, if we are going to do it beyond the marketplace.  
6 And one is to use the Tax Code as an incentive, and the  
7 other, if we don't do that, is to tax everybody, bring the  
8 money here, send it out to whatever various agencies  
9 administer the program, and have the government manage it.  
10 And as between the two, the former is a much better approach.  
11 And when you use the former, and when you use the Tax Code,  
12 and when you say people may legitimately buy in to low  
13 income housing as a tax shelter, people are going to do it.

14 Mr. Chapoton. Senator, no disagreement with that. And  
15 indeed, in the depreciation rules we give benefits to  
16 low-income housing. The problems that we are dealing with  
17 here are not just statutory-approved benefits for low-income  
18 housing; these are problems using other rules of the Code  
19 to play games, to mismatch income and deductions.

20 So we are talking about two different things. We are  
21 not saying that the rules enacted to give a benefit, to give  
22 incentive to invest in low-income housing directly are  
23 affected.

24 Senator Bradley. Mr. Chairman, if I could just  
25 respond to Senator Packwood.



1           You said there were two ways, through the Code or  
2 direct appropriation. Actually, we have very little  
3 oversight over what we do, once it's in the Code. And the  
4 result is everybody pays higher tax rates.

5           Senator Packwood. That depends, Bill.

6           Senator Bradley. It is a fundamental issue. Maybe  
7 what we should do instead of nickle and diming this is to  
8 tell the Treasury Department to get their reports sooner  
9 than December.

10          Senator Packwood. Even in your Flat Tax proposal you  
11 exempt mortgage interest deduction on housing. And if you  
12 are going to say there are some shenanigans that go on,  
13 some violations, some abuses, you may be right. But overall,  
14 what's your preference? To use the mortgage interest  
15 deduction, or say everybody in this country that is going to  
16 build or buy a house should go down to the local HUD office,  
17 fill out a housing grant of some kind, and the government  
18 will decide whether you are entitled to some money?

19          Senator Bradley. No. My preference is that the bill  
20 be taken seriously. And if you didn't have the mortgage  
21 interest in, I odn't think it would be.

22          Senator Long. Mr. Chairman, might I just suggest --  
23 I have to leave here; I've got an appointment -- might I just  
24 suggest that we take a vote on the items that remain in the  
25 package, with this understanding? As far as I am concerned,

1 I'm going to vote for the package, whether I prevail on each  
2 individual item or not. And if I vote to take something out,  
3 I'm going to vote to put something in to take its place.

4 I'm ready to vote on the package, but if we have to get  
5 into each individual item, I'm sorry, I can't stay. And  
6 others are going to have to leave.

7 Senator Boren. Mr. Chairman, as I have listened, I  
8 understand that under Roman Numeral One item 2(b), which is  
9 one that I seconded, and I want to make an alternate  
10 proposal on 2(b), the expensing and I understand the  
11 insurance cap -- that's item 4 -- and then there is one  
12 other item on the housing.

13 The Chairman. Which one is 2(b)?

14 Senator Boren. The 2(b) is on the prepayment of  
15 expenses. There was a question raised on that. I have an  
16 alternate proposal I want to make on that.

17 Mr. Brockway. Senator Boren, this is not on the  
18 prepayment of expenses, if you mean on the last page.

19 Senator Boren. Yes, it is; 2(b).

20 Mr. Brockway. Oh, I'm on a different document. I'm  
21 sorry.

22 Senator Boren. If we just take out the three or four  
23 items like that and go in and vote on the rest of the  
24 package, I'm ready to vote on the rest; for example, except  
25 for 2(b) and 4, I'm ready to vote on everything under Roman

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 Numeral One.

2 The Chairman. We have different members ready to vote  
3 on --

4 Senator Boren. Well, I think we have but three or four  
5 on the short list.

6 Senator Heinz. Mr. Chairman, would you do us a favor  
7 and set some groundrules? I asked you if you wanted to  
8 proceed on the matters that I had described in terms of the  
9 Treasury things, and you said you were. Now, we are skipping  
10 to 2(b) without having disposed --

11 The Chairman. No, we haven't skipped to anything.

12 Senator Boren. No, Mr. Chairman, what I am proposing  
13 is that we vote. In other words, you take a short list.  
14 If someone wants to put 4 on it, someone wants to put 2(b),  
15 and Senator Heinz wants to put a couple of items on it, we  
16 vote for the rest of the items in the package and pass it.  
17 The things that are not on anybody's list that they want to  
18 contest, we go ahead and pass those. I don't think there  
19 are more than three or four items, are there, on the list?

20 The Chairman. Let me make this suggestion. How  
21 much money are we talking about raising?

22 Mr. DeArment. This total package is 49.6.

23 The Chairman. All right. Let's vote on whether we  
24 want to raise \$49.6 billion.

25 Senator Boren. We're not, not until we raise more on

1 the spending side.

2 Senator Long. You don't know if you want to -- let's  
3 just vote.

4 The Chairman. It's got to meet the dollar-for-dollar.

5 Senator Boren. It is 17 versus 5.

6 Mr. DeArment. Assuming dollar-for-dollar.

7 The Chairman. Assuming the dollar-for-dollar, and  
8 assuming that there are items that we have got agreement on,  
9 or we're going to lose the vote.

10 Senator Heinz may prevail on his, Packwood may prevail,  
11 but we have to find if we are willing to do the \$49 billion  
12 in tax reform, assuming a dollar-for dollar, which satisfies  
13 my concern and Senator Boren's.

14 Senator Moynihan. Well, what do you say we make it  
15 50?

16 The Chairman. We started out with 200, and now we  
17 can't agree on 50.

18 Senator Packwood. No, no. We can agree on more than  
19 50. I would wish you would follow the Russell Long Rule  
20 of not using the "reform" in any of these taxation things.

21 (Laughter)

22 The Chairman. It sounds better.

23 Is there any objection to that? And then we can work  
24 out Senator Heinz's problem. If he has three problems, it  
25 will give us some time to work on them.

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1           Senator Bradley. Mr. Chairman, do you mean the  
2 committee generally agrees that the staff should report back  
3 with a menu of \$50 billion now?

4           The Chairman. We have already got a menu, but we have  
5 problems. Senator Heinz has a problem with one, Senator  
6 Roth raised a question about one, Senator Boren has a couple  
7 of problems, Sparky's got one problem, and others may.

8           Senator Moynihan. Bob and I have a problem.

9           The Chairman. Yes, on the low-income housing?

10          Senator Moynihan. No, the charitable contributions.

11          The Chairman. The charitable.

12          Senator Boren. Why don't we pass the ones that are not  
13 contested, and then we work out the other problems.

14          The Chairman. Name one.

15          (Laughter)

16          Senator Boren. Well, it looks like 1(a), 1, 2, and 3.

17          Senator Heinz. Well, I've got the sheet that says  
18 "Possible Revenue Package."

19          Mr. Chairman, could I ask about ask about your proposal,  
20 as I understand it? You are saying, let's agree to a revenue  
21 number, and then let's raise it.

22          The Chairman. No. It may be lowered, because if you win  
23 your three things, it's going to reduce it. We are going to  
24 have to substitute something else.

25          Senator Heinz. Well, I'm willing to proceed any way

1 the Chair wants to proceed, as long as I understand how we  
2 are going to proceed. Now, what does the Chair want to do?

3 The Chairman. I would like to have a record vote on a  
4 dollar-for-dollar revenue target, assuming we get the dollar  
5 on the spending side, of \$50 billion. And if something  
6 falls out, if you win your argument, and Bob Packwood,  
7 Moynihan, we are going to substitute, we are going to find  
8 something else.

9 Senator Heinz. Something else, some other source of  
10 revenue?

11 The Chairman. Right.

12 Senator Heinz. Mr. Chairman, I would be willing to  
13 agree with that.

14 Senator Grassley. Do you know what you are doing here?  
15 You are locking yourself in to no reduction in defense  
16 expenditures. And the reason you are doing that -- if you  
17 are going to have a \$100 billion package, and if you are  
18 going to have a one-to-one ratio of tax increases to  
19 expenditure reductions, and you already have \$40 billion of  
20 savings here, you don't have to get anything out of defense.  
21 Or, if you get something out of defense, then you are talking  
22 about a heck of a lot more than a \$50 billion tax increase,  
23 if you are going to have to have the one-to-one ratio.

24 Senator Bradley. I think Senator Grassley makes a very  
25 going point, that when you say 50-50, that doesn't just mean

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 50-50 in this committee; but it means if Agriculture and  
2 Defense come up with another 40, that we are talking about  
3 90 in this committee.

4 The Chairman. Well, we don't have it yet.

5 Senator Grassley. I want to make sure we don't lock  
6 ourselves out of reducing Defense expenditures.

7 The Chairman. No.

8 Senator Mitchell. Well, there is certainly nothing  
9 about the vote that has been proposed by the Chairman that  
10 prevents us from later increasing revenues correspondingly  
11 on a one-to-one ratio to match the effort made by other  
12 committees. Nothing in the vote precludes that. But we  
13 would match one-to-one for the reductions made in this  
14 committee and retain the option to act later with respect to  
15 reductions made in other committees.

16 Senator Grassley. Well, then, are you going to accept  
17 the possibility of a \$2 reduction in expenditures and only  
18 a \$1 increase in taxes as a total overall package of all  
19 committees and all programs?

20 Senator Mitchell. Nobody has suggested that.

21 Senator Grassley. Well, that is where you may end up.

22 Senator Mitchell. No, you wouldn't end up that way,  
23 not at all.

24 Senator Boren. We only have a net of \$5 billion in  
25 spending reductions so far for the President's budget. So

1

2 we are talking about a net of \$5 billion. I am ready to vote  
3 for \$5 billion of tax increases to offset the \$5 billion  
4 in spending cuts, but I am not willing to vote for a net  
5 of \$17 billion of tax increases to offset the net of  
6 \$5 billion of spending reductions.

7

8

Senator Mitchell. Let's vote on the Chairman's  
proposal.

9

10

11

Senator Boren. But is it net? Is your proposal net,  
net from the President's budget? Do we state it one-to-one  
net from the President's budget?

12

13

The Chairman. We are going to work it out so you will  
be satisfied.

14

(Laughter)

15

The Chairman. Senator Bradley?

16

17

18

Senator Bradley. Mr. Chairman, I know you want to go  
to a vote. That's fine. There is one issue here I would like  
to discuss. What is this "luxury autos, \$15,000 base"

19

The Chairman. That's a Moynihan/Baucus --

20

21

22

Senator Bradley. Well, you know, we ought to do Lear  
Jets, sailboats, vacation home interest. Maybe that is a  
real place where we can get a lot of money. I mean, once we  
break through on that area, we've got a lot of room.

23

24

Mr. Brockway. That's not in the \$50 billion.

25

The Chairman. That's not in my \$50 billion.

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198



1 Senator Boren. That's an additional option that we  
2 might want to consider.

3 The Chairman. But I think it will be offered.

4 Senator Matsunaga. Mr. Chairman, as I understand, what  
5 we are voting on is that this committee will raise \$50  
6 billion.

7 The Chairman. Right.

8 Senator Matsunaga. And if, for example, we reduce item  
9 1(a), 1(c), then we seek other sources so that the total  
10 raised by this committee's proposal will be \$50 billion.  
11 That's all we're voting on.

12 The Chairman. Right.

13 The Clerk will call the role.

14 Mr. DeArment. Mr. Packwood?

15 Senator Packwood. Aye.

16 Mr. DeArment. Mr. Roth?

17 Senator Roth. Aye.

18 Mr. DeArment. Mr. Danforth?

19 Senator Danforth. Aye.

20 Mr. DeArment. Mr. Chafee?

21 Senator Chafee. Aye.

22 Mr. DeArment. Mr. Heinz?

23 Senator Heinz. Aye.

24 Mr. DeArment. Mr. Wallop?

25 The Chairman. Wallop -- Aye.

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 Mr. DeArment. Mr. Durenberger?

2 Senator Durenberger. Aye.

3 Mr. DeArment. Mr. Armstrong?

4 (No response)

5 Mr. DeArment. Mr. Symms?

6 (No response)

7 Mr. DeArment. Mr. Grassley?

8 Senator Grassley. No.

9 The Chairman. Symms votes No.

10 Mr. DeArment. Mr. Long?

11 Senator Long. Aye.

12 Mr. DeArment. Mr. Bentsen?

13 Senator Bentsen. Aye.

14 Mr. DeArment. Mr. Matsunaga?

15 Senator Matsunaga. Aye.

16 Mr. DeArment. Mr. Moynihan?

17 Senator Moynihan. Aye.

18 Mr. DeArment. Mr. Baucus?

19 Senator Baucus. Mr. Chairman, may I ask what we're  
20 voting on?

21 Mr. DeArment. The proposal before the committee is to  
22 approve \$50 billion in revenues, assuming we find an equal  
23 spending restraint.

24 Senator Boren. Net from the President's budget?

25 Mr. DeArment. No, this is to approve \$50 billion in

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 revenue total from current law, assuming we find equal  
2 spending restraint.

3 Senator Boren. Not net from the President's budget,  
4 on the taxes?

5 Mr. DeArment. No, it is not.

6 The Chairman. Well, wait a minute. Let's get that  
7 straight.

8 Senator Boren. We want net on both sides, both revenue  
9 and spending cuts.

10 The Chairman. I don't know how we're going to get  
11 that.

12 Senator Boren. That's what we are talking about. Is  
13 it dollar-for-dollar net from the President's budget? I  
14 don't care if it is what it is, but I want it to be net.

15 Mr. DeArment. It is dollar-for-dollar from current  
16 law, from where we stand.

17 Senator Boren. No, not from current law -- net of the  
18 President's budget. We are talking about \$100 billion  
19 down payment on the budget. We have made \$5 billion. Are  
20 we talking about raising more than a dollar of taxes for every  
21 dollar? I want to know how much the down payment is. I mean  
22 I think this is a sham if we don't know.

23 I just don't want to go out here and tell the people we  
24 have done anything when we haven't. And I'm not going home  
25 and tell the people I voted a net increase of their taxes,

1 \$4 or \$3 for every net spending cut. I'm not going to do  
2 that.

3 Mr. DeArment. Senator Boren, the President's budget  
4 doesn't lower the deficit at all; it requires congressional  
5 action. We are proposing \$50 billion in congressional action  
6 to increase revenues; we are proposing \$50 billion in  
7 congressional action to reduce spending.

8 Senator Boren. Net of the President's budget we have  
9 cut spending \$5 billion. Now, what does this motion mean in  
10 terms of net of the President's budget on taxes? If it  
11 means 17, I'm not going to vote for it, if we have only  
12 cut 5.

13 The Chairman. It could mean 8.

14 Senator Boren. It could mean anything.

15 Mr. Chapoton. On the tax side, Senator Boren, I will  
16 state again, the President's budget raises a little over  
17 \$40 billion in taxes and loses about \$8 billion in taxes  
18 through the combination of the tax proposals, for a net  
19 revenue increase of 33.5.

20 Senator Boren. So, if we are voting on 48, we are voting  
21 for a net of 15 billion of tax increases, and we have only  
22 made a net of 7 billion in spending saving from the  
23 President's budget. So that's all I want to make clear. We  
24 are talking about \$3 of tax increase for \$1 of spending cut.  
25 Is that what the motion means?

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 The Chairman. Not the way I understand it. I am just  
2 trying to take the real world and get \$100 billion --

3 Senator Boren. But, Mr. Chairman, the real world is:  
4 Are we reducing the debt? Of the \$850 billion of deficit,  
5 we have reduced that \$5 billion this morning.

6 Mr. DeArment. No. If you are going to use the  
7 850 billion number, we have reduced it --

8 Senator Boren. All right. What's the President's  
9 base line? And with his economic assumptions it is  
10 \$700 billion?

11 Mr. DeArment. Seven hundred and fifty.

12 Senator Boren. Seven hundred and fifty. So we have  
13 reduced 5 off his 750.

14 The Chairman. Well, let's go ahead and vote and see  
15 what --

16 Senator Boren. Mr. Chairman, it's kind of hard to vote  
17 if we don't know what we are talking about.

18 Senator Moynihan. May I ask what we're voting on?

19 Mr. DeArment. We are voting on approving a \$50 billion  
20 increase in revenues from current law, from the United States  
21 Tax Code as it now stands before us, and assuming that we  
22 find an equal amount of spending restraint -- from current  
23 law.

24 Senator Baucus. Mr. Chairman, I am going to vote Yes,  
25 but it is contingent on my changing my mind later, because

1 I don't think we know what we are talking about here.

2 But I want to get the ball rolling here.

3 (Laughter)

4 The Chairman. Well, that's not a requirement.

5 Mr. DeArment. Mr. Baucus?

6 Senator Baucus. Aye.

7 The Chairman. I think we satisfied Senator Boren,  
8 at least I am thinking the same way he is. I don't know.

9 Mr. DeArment. Mr. Boren?

10 Senator Boren. No.

11 Mr. DeArment. Mr. Bradley?

12 Senator Bradley. Aye.

13 Mr. DeArment. Mr. Mitchell?

14 Senator Mitchell. Aye.

15 Mr. DeArment. Mr. Pryor?

16 Senator Roth. Mr. Chairman, I change my vote to No.

17 Mr. DeArment. Mr. Pryor?

18 Senator Pryor. No.

19 Senator Moynihan. I am not sure I have voted.

20 Mr. DeArment. Mr. Moynihan, I have you recorded as  
21 Aye.

22 Senator Moynihan. Aye.

23 Mr. DeArment. Mr. Chairman?

24 The Chairman. Aye.

25 Senator Moynihan. Mr. Chairman, are there unrecorded

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 votes?

2 The Chairman. They will be permitted to record there  
3 votes. I think there may be one. I have two proxies, but  
4 not the third. Wallop is Aye, and Symms was No, and I  
5 don't have Senator Armstrong's.

6 Let me just make one statement after this vote. On  
7 this vote the Ayes are 15 and the Nays are 4, and so the  
8 proposition is agreed to.

9 What I would like to do now, in addition to indicating  
10 at the 2:00 meeting what we have been able to do and that  
11 we are serious about it and we have strong bipartisan  
12 support, is to permit those who have specific questions --  
13 Senator Heinz, Senator Boren, -- in some of these areas, if  
14 we can get the staff together and start working out some  
15 of those problems, to see what we are going to net out,  
16 what else we have to find between now and Tuesday morning.

17 But in my view, we have made some progress. It seems  
18 to me that I agree with Senator Mitchell: We are not buying  
19 a pig in a poke. We expect other committees to pursue with  
20 the same diligence we have the spending restraint -- whether  
21 it is Agriculture or Defense or whatever -- and we are not  
22 going to just raise taxes, I agree with Senator Boren, so  
23 that everybody else can do nothing.

24 But I would hope that we have at least started. And I  
25 will be working with the staff this afternoon, if anybody has

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 any specific questions, and if you have any other ideas on  
2 revenue-savers. I know you have your car amendment, right?  
3 The tax shelter.

4 Have you looked at Senator Moynihan's tax shelter  
5 amendment?

6 Mr. Brockway. Yes, Senator, we have. He has got  
7 several provisions dealing with tax shelters. One is the  
8 minimum tax provision. We don't have a final number on it,  
9 but it may be a substantial sum of money.

10 The Chairman. What we may have to do is to come back  
11 and vote on the health care cap, on charitable contributions.  
12 I think we need to assume that we may not prevail in every  
13 case when we start looking for additional revenues.

14 Senator Chafee. Mr. Chairman, we have had a good deal  
15 of confusion, it seems to me, here this morning of whether  
16 we are working from the President's budget or from existing  
17 law. It seems to me that it would be helpful if we could take  
18 some of those items that the President has included in his  
19 budget for additional spending and finish them off now, kill  
20 them off, so that if people want to look at budgetary items,  
21 and look at the President's budget, and they would say, "Well,  
22 we've come down 5.4 or whatever it is on that budget";  
23 otherwise, that thing is hanging over our head constantly.

24 Now, everybody is going to be suspicious that I brought  
25 this up solely to kill off tuition tax credits once again, but

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198



1 the President has a series of items in there that I don't  
2 think we are going to pass, and amongst them are the spousal  
3 IRAs; using an IRA education account, for example; the  
4 enterprise zones, and the tuition tax credits.

5 Now, I'm for the enterprise zones; I've always supported  
6 it. But, Mr. Chairman, do you see some merit in taking  
7 individual votes on those to kill them off or pass them,  
8 so at least it will give us a better idea of where we stand  
9 on those particular items?

10 The Chairman. I think a better phrase would be "a final  
11 determination."

12 (Laughter)

13 Senator Chafee. That's as subtle as the B in subtlety.

14 The Chairman. I don't object to that, but I would  
15 rather not do that right now.

16 Senator Matsunaga. Mr. Chairman?

17 Senator Grassley. Mr. Chairman?

18 The Chairman. Senator Matsunaga, then Senator Grassley.

19 Senator Grassley. I wanted to get in where Senator Roth  
20 left off on this prepayment. And I don't want to take any  
21 time, except to say that before we vote on it, is there  
22 any reason why we can't have the language that we are going  
23 to enact, to study? So we know? Because a year ago, you  
24 know, when we started out on this, they were going to include  
25 every little family farm. It was going to be affected and

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 hurt by this proposition. And now I think we've got it  
2 narrowed down, at least based on what we did in November,  
3 got it narrowed down considerably.

4 But I don't want to be voting on blue sky, I want to  
5 know what we are voting.

6 The Chairman. No, I would hope we would have some  
7 intensive work now, with the Joint Committee, our staff,  
8 your staff, and Treasury, between now and Tuesday morning  
9 at 10:00, so that when that comes up we will say, "Okay,  
10 that has been resolved," or it hasn't been resolved. Then  
11 we will have to vote on it. If it is not resolved, we'll  
12 vote on it.

13 Obviously, there are a lot of parts to the Treasury's  
14 package, and some are going to not prevail. But, yes, we  
15 will do that.

16 Senator Matsunaga?

17 Senator Matsunaga. Mr. Chairman, in the possible  
18 revenue package that we voted upon, I have questions on  
19 individual items, particularly the like-kind exchange. I  
20 would like to have an answer to that. We have a real  
21 problem in Hawaii, as you probably know, with the 90-days  
22 limitation. That is, we have already started the exchange  
23 process in the case of Bishop Estate, for example, but the  
24 exchange process will continue over a 3-year period. It  
25 could never possibly be completed within 90 days. So my

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 question is, would this proposal cover that? Or will that  
2 be only to prospective exchanges?

3 Mr. Chapoton. It would be prospective.

4 Senator Matsunaga. Fine.

5 And, Mr. Chairman, just so that Senator Baucus, perhaps,  
6 if this might clarify the confusion on what we voted on,  
7 and Dave Boren, as I understand it -- will the staff  
8 correct me if I am wrong? -- now, we voted to decrease  
9 spending by \$5 billion over and above the President's  
10 budget, all right? And then, by voting for a \$50 billion  
11 tax increase, revenues, and the President's budget proposed  
12 33.5; therefore, we voted 16.5 greater revenues than  
13 proposed under the President's budget, which means that we  
14 have a total deficit reduction of 20.5 over and above the  
15 President's budget. Am I correct?

16 Mr. Brockway. The taxes is about 15 billion above and  
17 beyond the President's budget.

18 Senator Matsunaga. Sixteen point --

19 Mr. Brockway. Well, that 33.5 billion is a 3-year  
20 number, and the \$50 billion is a 4-year number. But  
21 basically it is the same thing, 15 billion of taxes and then  
22 the spending.

23 Senator Matsunaga. Plus the 5. So it is about  
24 20 billion? Right. Okay.

25 Senator Mitchell. Mr. Chairman?

1 The Chairman. Senator Mitchell?

2 Senator Mitchell. I would just like to say that one  
3 of the major spending reduction proposals that was before  
4 us was eliminated merely on the grounds that the President  
5 didn't favor it.

6 Now, if there are substantive reasons for not considering  
7 a spending reduction, certainly we should address them; but  
8 I think it's an insufficient reason to say just because the  
9 President doesn't favor a spending cut that we shouldn't  
10 favor it.

11 The Chairman. I agree.

12 Senator Mitchell. I hope that when we go back into  
13 this area, as we are obviously going to have to do, that  
14 the staff and others and committee members will suggest  
15 spending reductions that may be made whether or not the  
16 President is for them, and let us debate them on the merits  
17 of those issues.

18 The Chairman. Well, I think in that particular case  
19 there are votes to pass that provision, but in deference to  
20 Senator Boren we took it out.

21 Senator Mitchell. I think he would agree that we ought  
22 to consider other spending reductions.

23 Senator Boren. Mr. Chairman, I certainly do agree. I  
24 just meant that this morning Senator Durenberger had an  
25 alternative, and as we were trying to get noncontroversial

1 measures -- but I think we should go back and look at the  
2 Durenberger alternative and other areas.

3 I would say, Mr. Chairman, I have given you a difficult  
4 time this morning in some ways, but let me say that I think  
5 that what we have gone through is a worthwhile process.  
6 As you say, the only way we can ever cut spending is to enact  
7 it into law. Talks at the White House and talks among  
8 ourselves, none of these substitute for actually passing  
9 something, and I want to commend you.

10 I think what we ought to continue to do is, through  
11 expedited legislative process, try to get the deficits down.  
12 My only purpose is certainly not disagreeing with you in  
13 proceeding; I strongly agree with that. I commend you for  
14 trying to launch forward on this.

15 I just want to keep our figures honest, so that if we  
16 have made a \$20 billion down payment on the deficit it is  
17 not 100, it's really just 20, and three-fourths of it has  
18 been in tax. So I think we still have a long way to go.  
19 But you can only start with the first step. I think this  
20 has been a very valuable first step, and let me say I think  
21 you are the first one, and as far as I know this committee  
22 this year is the first committee, to actually launch into  
23 some actual deficit reduction the only way it can be done,  
24 by enacting it into law.

25 So I certainly don't want you or anyone else to

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198

1 misunderstand, that I commend you in taking the step. I  
2 just want us to keep an accurate measurement of how far  
3 we have to go so that the public -- I think they should give  
4 us credit for making a first step, but I think we still need  
5 to hold out before us how far we still have to go.

6 The Chairman. I appreciate that. We don't have any  
7 difference on the committee. Maybe we could just have sort  
8 of a scoreboard. If somebody could work up a scoreboard we  
9 could put it up there on the wall, because I think Senator  
10 Boren raised a good point.

11 I raised the same point when they talked about the  
12 \$100 billion down payment. It's not \$100 billion; when you  
13 net it all out, it's probably about \$30 billion. But still,  
14 if we don't do anything it's zero.

15 Mr. DeArment. Mr. Chairman, we haven't approved a single  
16 tax item yet; we've just approved a target. We've approved  
17 some specific spending reductions, so we can still pride  
18 ourselves on that.

19 The Chairman. I think within that target we've got a  
20 lot of agreement, and I think if we can work with Treasury  
21 on some of the items that are troubling with members -- we  
22 also have some add-ons of our own. You know, if we are  
23 going to shoot down all of the Administration's add-ons,  
24 maybe we have to adopt the same policy on our own. There is  
25 the insurance package and other things that we need to

1 address in this which are revenue losers, but we promised  
2 the industry we would take care of it very quickly. So  
3 how long will that take, to go through all the add-ons?

4 Mr. DeArment. As least as long as we've spent today.

5 The Chairman. And what's the cost of the add-ons?

6 Mr. DeArment. Well, the basic package that we were  
7 looking at last year was greater than \$2 billion. That's  
8 without insurance and without --

9 The Chairman. Two billion over three years?

10 MR. DeArment. That's correct. There are about 45  
11 separate items in there.

12 Senator Boren. Truck tax, and all of that, the diesel  
13 one.

14 The Chairman. I don't think there is any quarrel over  
15 most of those.

16 Senator Bradley. Are those all new loopholes?

17 Mr. Brockway. The gross revenue loss is larger than  
18 \$2 billion, but there are some items in there that raise  
19 revenue.

20 The Chairman. We are going to close five loopholes and  
21 open up 20. I think that's the general pattern.

22 But no, I think some changes need to be made. We would  
23 also like to include the truck tax changes, if we can, if  
24 we can reach an agreement on that, and put it in this  
25 package.

1           Senator Grassley. Mr. Chairman, it's so short-term and  
2 short-sighted to look at whether or not we're just beating  
3 the President a little bit or doing a little bit better than  
4 what he's doing, or even doing as well, because we've got  
5 such horrendous deficits out there. And the President's  
6 figure has just kind of clouded it -- it's all blue sky --  
7 and we've got to be looking at what we're doing to get the  
8 deficits down. We may be doing very little, even though  
9 we are doing better than what the President's doing and even  
10 though we may be doing more than we have ever done before.  
11 It's so little compared to what the problem is, that we have  
12 got to be looking beyond this narrow view of whether or not  
13 we are outdoing the President.

14           The Chairman. Well, I agree with that.

15           Senator Bradley started off saying we're not doing  
16 enough. I am still willing to look for that other 50 billion  
17 that we had in our original agreement last November, and I  
18 will so instruct the staff and Treasury. We need to find,  
19 in addition to what we are doing, another 50 out there,  
20 equally divided.

21           So if you can find a few more gaps in the Tax Code, and  
22 then we can find some at HHS, and the Grace Commission -- we  
23 haven't considered the \$7 billion in savings there.

24           Let's start working at the staff level this afternoon.

25           How many members are in town tomorrow? Is tomorrow a

*Moffitt Reporting Associates*

2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198



1 bad day?

2 Mr. DeArment. Mr. Chairman, we have a hearing that was  
3 set. This is a hearing that we postponed last Fall.

4 The Chairman. All right. We will meet on Tuesday, and  
5 hopefully by then we will have a lot of these things ironed  
6 out and be prepared to vote on charitable and the health  
7 care cap.

8 (Whereupon, at 12:48 p.m., the meeting was concluded.)  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

C E R T I F I C A T E

1  
2 This is to certify that the foregoing proceedings of  
3 a meeting of the Committee on Finance, Executive Session,  
4 held on February 28, 1984, were held as herein appears and  
5 that this is the original transcript thereof.  
6  
7  
8

9  
10 

---

WILLIAM J. MOFFITT  
Official Reporter

11 My Commission expires April 14, 1984  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

*Moffitt Reporting Associates*  
2849 Lafora Court  
Vienna, Virginia 22180  
(703) 573-9198