

1 CONSIDERATION OF FINANCE COMMITTEE
2 MARCH 15 REPORT TO THE BUDGET COMMITTEE

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4 TUESDAY, MARCH 1, 1977

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6 United States Senate,

7 Committee on Finance,

8 Washington, D.C.

9 The Committee met, pursuant to notice, at 10:10 a.m.
10 in room 2221, Dirksen Senate Office Building, Hon. Russell
11 T. Long (Chairman of the Committee) presiding.

12 Present: Senators Long, Byrd, Nelson, Gravel, Bentsen,
13 Hathaway, Haskell, Matsunaga, Moynihan, Curtis, Packwood,
14 Roth, Laxalt and Danforth.

15 The Chairman. May I suggest that we start discussing
16 what we have before us?

17 I want to welcome Senator Laxalt to our Committee. We
18 did not have the privilege of having him at our previous
19 meeting. We know that he will make a major contribution.
20 We look forward to benefitting from his suggestions and
21 advice as to what some of these things are, in his good
22 judgment, might improve upon the suggestions for the
23 Committee.

24 With this understanding that those of us here, although
25 not at this moment constituting a quorum, represent all
 points of view, conservative, moderate, liberal, Democrats,

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1 Republican, I think we can go ahead and talk about what we
2 have here. Then we can finalize any decisions that we want
3 to make after we have a quorum.

4 So why do you not go ahead, Mr. Stern, and start
5 explaining to us.

6 Mr. Stern. I might review very quickly what the purpose
7 of this is.

8 Under the Congressional Budget Act, each Committee
9 reports to the Budget Committee by March 15th its views and
10 estimates on the areas within its jurisdiction for the coming
11 fiscal year that will end on October 1st. In the case of the
12 Finance Committee that means all revenues, expenditures
13 which cover, I guess, about half of the Budget, tax expendi-
14 tures and the public debt.

15 In particular, the estimates relate both to existing law
16 and proposed legislation, so that the philosophy of this is
17 that if you intend to legislate in an area in a way that will
18 have impact on the upcoming fiscal year, you should provide
19 for its budgetary impact at this point. If you do not make
20 any allowance for it, it means that basically you are not
21 going to legislate in such a way as to have budgetary impact
22 in that area in the fiscal year.

23 The blue book that you have before you reproduces the
24 charts that are over there (Indicating). The second chart
25 here shows the economic assumptions --

1 The Chairman. What page?

2 Mr. Stern. Page 12 of the blue book, Chart number two.
3 The charts are all reproduced in the blue book. This shows
4 the difference in the economic assumptions between the Ford
5 Budget and the Carter Budget.

6 We simply set them forth here because you will be
7 setting them forth in your letter to the Budget Committee.
8 The estimates, such as Social Security, Unemployment Compensa-
9 tion and so on do reflect the economic assumptions. I guess,
10 that we would recommend as you go through that you accept
11 the Carter Budget assumption simply because they do assume
12 enactment of The Economic Stimulus Program.

13 The Chairman. That seems fair. We do not need to decide
14 it now.

15 Why do we not think in those terms, and then we will
16 move on to the next thing.

17 Senator Packwood. May I ask a quick question?

18 The Chairman. Yes.

19 Senator Packwood. On the inflation rate, you are figuring
20 5.1 for '77 and 5.7 for '78, is that right?

21 Mr. Stern. The percentage might be slightly different.
22 They are both based on 1976.

23 Senator Packwood. Accumulated total?

24 Mr. Stern. Yes, sir.

25 The next chart simply outlines all the different areas in

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1 which the Finance Committee does have jurisdiction over
2 expenditures. There will be separate charts on each of
3 these: Social Security cash benefits; Supplemental Security
4 Income for the aged, blind and disabled; welfare programs for
5 families; social services; Unemployment Compensation; health
6 programs; Revenue Sharing; the Sugar Act, should you decide
7 to extend it; interest on the public debt.

8 Going now to chart four on page 16, this shows Social
9 Security cash benefits under existing law and the difference
10 between the Ford Budget and the Carter Budget. There is no
11 difference in the estimate of outgo. The difference in
12 estimated income is a slight difference; it is based on a
13 difference of economic assumptions.

14 You can see that the assets in the Trust Fund at the
15 end of fiscal year 1978 will be about \$35 billion, which is
16 \$4.5 billion less than the assets of the beginning of the
17 year, an excess of outgo over income of \$4.5 billion during
18 fiscal year 1978, and fiscal year 1977 it will be in excess
19 of about \$4 billion. In 1976, it was in excess of about
20 \$3 billion.

21 Over those three years, that is something like an \$11 or
22 \$12 billion decline in the Social Security cash benefit
23 Trust Fund assets.

24 Senator Hathaway. The \$88.9 billion, does that antici-
25 pate any increase in the tax?

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1 Mr. Stern. This is an existing law entirely. No
2 assumption under new legislation.

3 Senator Hathaway. The increase in income is due to more
4 people working?

5 Mr. Stern. The increase in income is due to the fact
6 that the wage base goes up, increase in number of people
7 working.

8 Chart 5 projects out through fiscal year 1982 what will
9 happen to the Old Age Survivor's Insurance and disability
10 insurance trust funds combined. You can see that while the
11 income goes up each year, the outgo goes up by even more,
12 so that the excess of outgo over income each year gets larger
13 and larger.

14 One measure that was used to judge the actuarial sound-
15 ness in the short range of the Social Security system in
16 1972, when the automatic cost-of-living provisions were enacted,
17 at that point it seemed reasonable that the trust funds ought
18 to have about nine month's worth of benefits in them, just as
19 a kind of contingency fund.

20 In fact, at the start of fiscal year 1978, this coming
21 October, the assets in the fund, as we saw in the chart, was
22 \$40 billion, will only represent 42 percent of the year's
23 benefits, perhaps about five months worth of benefits. By
24 1982 they will only represent 15 percent, or perhaps a month
25 and a half of benefits.

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1 Senator Laxalt. What was the rationale behind the nine
2 month period?

3 Mr. Stern. It was an arbitrary decision. Actually, the
4 Advisory Council that reported at that time recommended that
5 the Trust Fund ought to have somewhere between 75 and 125
6 percent of the year's assets.

7 I think that most people would regard this as unreasonably
8 low, particularly the fact that it continues to decline. What
9 is dismissed by this chart is when you lump the retirement
10 and survivor's benefits together with the disability benefits,
11 it comes out as shown on the chart.

12 The Disability Insurance Fund is projected to become
13 exhausted during calendar year '79. You would need some kind
14 of legislation to prevent that fund from totally running out
15 of money.

16 We have also indicated on this chart, on the bottom
17 line, the impact of the tax changes that President Ford
18 recommended. He recommended increasing the Social Security
19 tax rate by .2 percent in 1978, by an additional .6 of a
20 percent in 1979, an additional .3 percent in 1980, and from
21 there on out.

22 That would have brought in an additional \$1.3 billion
23 in fiscal '78 going on out, By fiscal '82, it would have
24 brought in an additional \$17 billion.

25 This proposal has been eliminated from President Carter's

1 Budget.

2 Senator Laxalt. No reference at all to a tax increase
3 in Carter's Budget?

4 Mr. Stern. No.

5 They are planning to come up with a proposal for a
6 Social Security financing, I understand, in about a month.
7 The main thing, it will not include any tax increase within
8 the period of the budget.

9 The Chairman. Let me ask this, and see if I am under-
10 standing this.

11 If we do not put the Ford tax increase in our assumptions,
12 then we subsequently want to do something to provide greater
13 benefits, is there anything that precludes us, or would we
14 be precluded from putting the tax on, even though it might be
15 seen as President Ford's recommendation for paying for the
16 increase?

17 Mr. Stern. First of all, the First Budget Resolution is
18 only a target. In terms of procedure, it is not a procedural
19 barrier, although presumably you want to stick with your target
20 in the First Budget Resolution, so parliamentarily it is not
21 a problem.

22 However, it is never a problem under the Budget Act to
23 increase revenues higher than the revenue figure in the
24 Budget. The problem is when you cut revenues.

25 The Chairman. If we go along, as in this case, if we take

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1 the Carter assumption rather than the Ford assumption and
2 we do not put through a tax increase, we would be on the safe
3 side.

4 If you buy the Ford assumption of the tax increase and
5 then we fail to pass the tax increase, we would be in trouble
6 once the Second Budget Resolution is passed. Is that
7 correct?

8 Mr. Stern. That is right.

9 I guess I spoke too quickly. What I said was true in
10 general revenues. In the case of Social Security, there is
11 a peculiarity.

12 The amount that you raise in taxes shows up as budget
13 authority which is limited under the budget. However, the
14 point really is, if you are going to enact an economic stimulus
15 that includes tax benefits for business, presumably you would
16 not want to, at the same time, be raising the Social Security
17 payroll tax for business.

18 You certainly can raise the Social Security tax any time
19 beginning in fiscal '79 without running into any problem.
20 Of course, it only relates to what you do before October 19,
21 1978.

22 Yes, sir. Our assumption is that you probably would not
23 want to raise the Social Security tax in fiscal year '78.
24 There are other things that you can do.

25 Senator Hathaway. Increased revenue distorts it?

1 Mr. Stern. In the peculiar case of Social Security, the
2 way it works is that the taxes that are raised by the payroll
3 tax do not themselves go into the Trust Fund. The technical
4 language of the law is that an amount equal to the tax collec-
5 tions is appropriated to the Trust Fund. Therefore, technically
6 it is budget authority and budget authority is subject.

7 Senator Hathaway. It is offset by the taxes raised?

8 Mr. Stern. I would not think, in fact, that the
9 Budget Committee would have a problem if you raised taxes and
10 benefits at the same time. Your problem is that you really
11 do not have too much latitude to raise benefits at this point.

12 The outgo is pretty substantially higher than the income
13 as it is.

14 As you will see in a minute, both the Ford Budget and the
15 Carter Budget proposed certain kinds of cutbacks in the
16 benefits, and you may want to be looking at some of the lower
17 priority elements of Social Security as a way of helping you
18 with your short-term financing so that you do not have to
19 raise taxes.

20 The Chairman. I do not understand what you have told
21 us. You have said it twice; I still do not understand it.
22 You had better say it again to see if you can get it through
23 to us, at least to me.

24 Do I understand you to be saying that it really does not
25 make any difference as far as what we might want to do in the

1 way of Social Security, whether we propose to raise the
2 Social Security tax or not? Is that right?

3 In other words, assuming that we are going to recommend
4 spending more money for Social Security cash benefits to
5 handle our budget problem with the Budget Committee and under
6 budget law, do I understand you to say that it does not make
7 any difference whether we raise the Social Security tax or
8 not?

9 Mr. Stern. The question of outlays is looked at separ-
10 ately from the question of revenues, so that if you were
11 subject to a ceiling on outlays, the way the Budget Act works
12 now, if you are subject to a ceiling on outlays it does not
13 matter whether you have raised the revenues to pay for them
14 or not.

15 I would have to say that that applies only after the
16 Second Budget Resolution, which is the one that makes things
17 subject to a point of order.

18 Senator Curtis. I am not sure that I understand that.

19 Do you mean at any time that this Committee decides to
20 raise the Social Security benefit, it might be a percentage
21 raise, it might have to do with the retirement test.

22 If they abolish the retirement test to age 65, that
23 would cost \$2.9 billion. If we found the taxes to raise
24 that, would we be in violation?

25 I want to know would we be in violation of the Budget?

1 Mr. Stern. There is a distinction made before the
2 First Budget Resolution, the one you do in the spring, and
3 the one that you do in the fall. The one that you do in the
4 spring sets targets which are not backed up by parliamentary
5 procedure. No matter what is in the Budget Resolution you
6 can still come out with any legislation that you want to and
7 not be subject to a point of order.

8 I guess the Budget Committee might oppose you, but not
9 subject to a point of order, no matter what you do.

10 After the Second Budget Resolution, the answer is that
11 outlays are looked at separately from revenues. If you go
12 out with a bill that raises outlays \$2.9 billion, even though
13 you have raised revenues by the same amount, it would be
14 subject to a point of order.

15 Senator Curtis. Would it?

16 I thought that the power of the Budget Committee was over
17 all matters, and we could adjust within that.

18 The Chairman. There is a blank side on the other side
19 of that blackboard. Let us write it down so that we can
20 look at it.

21 It seems to me if you -- print "Income" in big letters
22 up in the top lefthand corner.

23 Now, drop down about four spaces and put "Expenditures."

24 Here is what Mike is saying, as I understand it. Just
25 assume any level of income, Mike, for Social Security purposes.

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1 Just put a figure down there.

2 Let us assume any level you want to on expenditures.
3 Here is what Mike is saying, as I understand it. In the
4 Social Security area if we cut that income figure, if we
5 estimate an income figure once the Second Budget Resolution
6 is passed, we are bound by it. If we estimate an income
7 figure and then we recommend a cut in that \$90 billion by a
8 cut in income, that would be subject to a point of order.

9 Mr. Stern. Yes.

10 The Chairman. Now, furthermore, if we assume \$94 billion
11 in expenditures and then we recommend an increase in that,
12 that would be subject to a point of order, right?

13 Mr. Stern. Yes, sir.

14 The Chairman. Here is what Mike is saying. Once that
15 Second Budget Resolution is in effect, we are bound by those
16 figures, so that if you proceeded to increase the income --
17 put \$8 billion, plus \$8 billion -- even though you raise the
18 income by \$8 billion you are still bound by the \$94 billion
19 under Expenditures.

20 Is that right?

21 Mr. Stern. Yes, sir.

22 The Chairman. So that different from these tax bills
23 in the Social Security area where we raise money and then
24 propose spending it, if we do not have it in those estimates
25 even though we raise the tax, we still cannot spend the money.

1 Is that right, Mike?

2 Mr. Stern. Yes, sir.

3 Senator Laxalt. How do we meet the Retirement Test,
4 then?

5 Mr. Stern. The idea is that you can do these
6 things. You just have to plan for them in advance. If you
7 have not made accomdation, in the case the Chairman is talking
8 about --

9 Senator Laxalt. Say there is \$3 billion in Retirement
10 Test. How would we apply these figures?

11 Mr. Stern. What the Budget Act is trying to encourage
12 you to do is say at this point you are going to raise taxes
13 by \$3 billion and raise outlays by \$3 billion. Once you
14 provide for it in the Budget Resolution, then you can go
15 ahead and do it.

16 If you have not provided for it at some later time and
17 you go ahead and say we will pay for it and do it, then you
18 would be subject to a point of order.

19 Senator Bentsen. Any substantial variance of income
20 or expenditure after the Second Budget Resolution, are you
21 not subject to a point of order?

22 Mr. Stern. Yes, sir.

23 Senator Bentsen. Up or down, either way?

24 Mr. Stern. Not even a substantial one.

25 Senator Bentsen. Up or down, either one of them?

1 Mr. Stern. Yes, sir.

2 Senator Bentsen. Why Social Security is so different,
3 when Social Security or the tax does not specifically go
4 into the fund, that money comes by the appropriations route
5 even though it is collected for that purpose. It still does
6 not go directly across.

7 Why does that not also fall into the same category as
8 taxes? Does it not?

9 Is it not treated the same way?

10 Mr. Stern. The Social Security tax increase as such is
11 treated as a tax increase. The automatic appropriation into
12 the Trust Fund is treated as another category called
13 "Budget Authority."

14 Senator Bentsen. Is it not treated as an expenditure?

15 Mr. Stern. In most programs, Budget Authority is rather
16 similar to expenditures. It just occurs before the expendi-
17 ture does. It authorizes an agency to spend money.

18 In the peculiar case of the Social Security Trust Fund,
19 Budget Authority means the authority to appropriate money
20 into the fund, so in this case, what you would be doing is
21 you would be increasing Budget Authority by \$3 billion
22 income, that is to say revenue by \$3 billion and expenditures
23 by \$3 billion.

24 When you are working on a revenue bill alone -- by which
25 I mean income tax -- you do not have this additional peculiarity.

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1 Senator Bentsen. Do they not look beyond the veil and
2 are you not violating the Resolution if you raise it, say,
3 \$3 billion on Social Security on the Second Resolution?

4 Mr. Stern. We are suggesting, if you have not made
5 revision in that resolution for legislative action, you would
6 be subject to a point of order if you did do it.

7 All of the features of the Budget Act really are basically
8 designed to do the planning in advance.

9 The Chairman. The point that we are making here, the
10 point that Mike is making -- we should all try to understand
11 this -- that the money that we plan to spend in additional
12 benefits under Social Security must be in there by the time
13 we pass that Budget Resolution.

14 It is easier to put in if you start right out with the
15 First Budget Resolution saying that we put it in, easier to
16 get it right from the beginning than to wait until the last
17 minute and put it in the Second. All right?

18 You are making this point. You cannot do with Social
19 Security what you can do with the ordinary tax bill.

20 The ordinary tax bill, if I understand it, we can
21 recommend that you have a tax increase here and a tax cut
22 over there, and one balances the other, can we not?

23 Mr. Stern. That is correct.

24 The Chairman. At least that is what we contend. I take
25 it that the Budget Committee goes along with that?

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1 Mr. Stern. Yes, sir.

2 The Chairman. We did have this big fight last year over
3 whether they could specify within our bill what we are
4 going to do. By the time we got through with all of that,
5 the answer is that they cannot. It is the Senate's rule
6 to sustain us, we can do it whichever way we want to do it.

7 It is a little bit different over here. It seems to be
8 that we have to recognize that we cannot wait if we are going
9 to increase the Social Security benefits and put a tax on to
10 pay for it at the time, the whole thing would be subject to
11 a point of order -- not that we could not increase the
12 revenue; that would be no problem.

13 That would not violate the Budget Resolution, would
14 it?

15 Mr. Stern. No, sir.

16 The Chairman. The hell of it is, they have us caught
17 when we go to increase expenditure or increase the budget
18 authority, so if we are going to recommend an increase in
19 Social Security benefits, we ought to be thinking about it
20 now.

21 The sooner you think about it, the easier it is going
22 to be to get it done, providing that you have the votes for
23 it.

24 As you indicate with the retirement test, if we are
25 going to do something along that line, we had better be thinking

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1 about it now before we send this thing in there.

2 Senator Laxalt. I have not understood since I have been
3 here what the effect of the March 15th Resolution is.

4 Apparently it is a recommendation only and we are not locked
5 in at all, as a Congress or as a Senate or as a Committee,
6 until September 15th.

7 Are you saying, Mr. Chairman, for the matter of our
8 internal processes here that we should settle as much as we
9 can at this point on where we are going to be?

10 The Chairman. Let us talk about the one that you
11 brought up.

12 Senator Laxalt. The retirement test is a good example.

13 The Chairman. You have brought up a good example.

14 Let us take the retirement test.

15 If you want to eliminate the retirement test, that is a
16 substantial cost. What is the estimated cost on that?

17 Mr. Stern. \$3 billion.

18 The Chairman. Let us say -- all right. That would be
19 up there on that chart.

20 You want to recommend something that is going to be
21 a \$3 billion increase in expenditures. If you do not do
22 anything about it, then you come along in September and
23 suggest that we do that, now when you do that, that means
24 if we have nothing in the First Budget Resolution, then
25 you come along with the Second Budget Resolution, it is

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1 going to look like a big increase in the deficit. Of course,
2 we could recommend increasing the tax to pay for it.

3 The tax increase was to put over the expenditure
4 increase. If you are going to recommend an increase in
5 spending and you do not get around to putting that into the
6 Budget until September, that is a little tougher to do at that
7 point because they have not been thinking in those terms.

8 If you put it in now, then it is in there. Then you
9 come along to September it is already in, and all you are
10 talking about then is continuing something agreed to in
11 March and that is easy to sell on the budget side -- we put
12 this in and you people agreed with us. Now we are just
13 carrying it out.

14 At least we want it in the Second Budget Resolution
15 because this is something we want to do. It is easier to do
16 it if you do it that way.

17 Mr. Stern. Also, Senator Laxalt, we do not want to
18 exaggerate the tentative or target nature of the First
19 Budget Resolution. The Budget Committee tends to take it
20 very seriously, to the point that the Chairman of Budget is
21 going over and fighting amendments based on targets
22 in the First Budget Resolution.

23 Even though it is true that it is not parliamentarily
24 binding, he regards it as a moral commitment, you might say.

25 The Chairman. When you go between now and September when

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1 you are not bound by the Budget Resolution, you go to the
2 Floor and seek to do this thing, it is true that you are not
3 bound by it. The Senate has not agreed to bind itself by it,
4 but the Chairman of the Senate Budget Committee will be out
5 there with the support of that Committee saying, this is a
6 budget buster, not in the Budget Resolution, not at this
7 point binding in the Senate, not subject to a point of
8 order.

9 They will be saying this is irresponsible. It is not
10 in the Budget Resolution. It means an increase in expenditures
11 and the funds are not there to pay for it, or the authority
12 is not in the budget.

13 Of course, you can say well, we want to -- our proposal
14 is to increase the tax as well as increase the expenditures.
15 We are being fiscally responsible. At the same time, it
16 sets a stage for an argument about whether you should increase
17 that expenditure figure.

18 Senator Laxalt. As a practical matter, March 15th is
19 it, and we are fine tuning in September?

20 Mr. Stern. In terms of what legislative action you are
21 taking, I would say that the experience last year was that
22 you pretty much had to predict those areas that you were
23 going to act on legislatively in the spring.

24 Senator Curtis. Here is our practical problem. There is
25 virtue, of course, in looking ahead and seeing what added

1 expenditures we are going to be incorporating into Social
2 Security. By putting them in March, we approved them
3 before we investigated and hold hearings.

4 The Chairman. You see? If we are going to act in this
5 area, the sooner you put it in your budget assumptions, the
6 better off you are going to be.

7 In other words, if you want to repeal the retirement
8 test and it is not in this budget, the sooner that you come
9 up with it and say we ought to put some money in here to
10 repeal that retirement test, the better off we are going to
11 be.

12 Mr. Stern. The letter that actually goes to the Budget
13 Committee tends to lump together everything in the income
14 security area.

15 For example, if you were going to make provision for
16 something in Social Security, something in welfare, something
17 in unemployment compensation, that would be in one figure.
18 It is not defined as X amount for this particular legislative
19 proposal.

20 You do have that kind of flexibility. The decision you
21 are reaching is not a legislative decision, a budgetary
22 decision on how much you want to allow to accomodate the
23 legislation you are going to have later.

24 The last two years, which have been the first two years
25 of the budget process, this Committee has been very picky

1 about saying these are budgetary and not legislative at this
2 point.

3 The Chairman. At the moment, if nobody has any sugges-
4 tions about changing these figures, I suggest we simply move
5 on to the next item. We can come back and change it if you
6 want to.

7 Mr. Stern. We are now on Chart 6, which is on page
8 20.

9 Senator Curtis. May I ask one thing about Chart 5?
10 What increase in Social Security benefits is included?

11 Mr. Stern. In the checks that people will be getting
12 in July of this year, it assumes a 4.9 percent increase.
13 This is an unrealistically low number. The cost of living
14 has already gone up more than that.

15 Senator Curtis. Chart 5 is limited. The only increase
16 included there is the automatic?

17 Mr. Stern. The automatic each year.

18 The Chairman. If that is unrealistically low, why do
19 we not recommend changing that right now?

20 Senator Curtis. Who made it? Did we do that?

21 Mr. Stern. It was in the Ford Budget; it was not
22 changed in the Carter budget.

23 The Chairman. You say it is unrealistically low. What
24 is a more realistic figure?

25 Mr. Stern. The cost of living is measured over a

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1 twelve month period. Already by the tenth month it had
2 exceeded 4.9. I think it would be 5.5 percent, something
3 like that.

4 If you like, we can increase the outgo figures accordingly.

5 The Chairman. Why do we not do that? I suggest that
6 we do it another billion or so.

7 Mr. Stern. About a half a billion dollars.

8 The Chairman. I suggest that we do that.

9 Senator Bentsen. What you are doing is reflecting what
10 is actually happening, not something over which we have an
11 option?

12 Mr. Stern. This is existing law.

13 The Chairman. If you just project the rate at which it
14 is going up, you project to where it is and the rate at
15 which inflation is moving.

16 In other words, how much have we had -- about how much
17 a month have we had going last year?

18 Mr. Stern. It is just slightly less than a half a
19 percent. On the average it would be 6 percent over a year.

20 Our thought is that it is probably about 5.5 percent
21 for the twelve-month period between the first quarter of
22 1976 and the first quarter of 1977, the period that you
23 measure in calculating what the benefit increase is going to
24 be in the checks that go out in July.

25 Since it already had reached 4.9 percent by January, it

1 will probably be slightly higher than that. We would just
2 make it about 5.5 percent instead of 4.9 percent.

3 The Chairman. I suggest that we put that in there. It
4 is just a more realistic estimate, that is all.

5 Mr. Stern. Yes, sir. -

6 Senator Hathaway. Half a billion?

7 Mr. Stern. Yes, about a half a billion.

8 Senator Hathaway. I think we should put -- should we
9 not put it at more, since energy costs will go up this
10 year and it will raise the Consumer Price Index?

11 Mr. Stern. Under the law, you can compare the first
12 quarter of 1976 with the first quarter of 1977, so some of
13 those increases just may not be reflected in this period.

14 The Chairman. Senator Laxalt?

15 Senator Laxalt. At which point should I introduce
16 reference to phasing out the retirement test, at this point?
17 Are we going to do that after consideration of general
18 matters?

19 The Chairman. You can suggest it now, if you want to.
20 First, let us discuss this.

21 Shall we just tentatively decide that we will estimate
22 5.5 rather than 4.5?

23 Senator Hathaway. Yes.

24 The Chairman. Without objection, we will do that. It
25 is about a \$500 million difference.

1 Mr. Stern. Yes.

2 Senator Bentsen. Did you not move it to a billion?
3 What did you move it from?

4 Mr. Stern. About a half of a percent, maybe .6 percent
5 times about an \$80 billion base load. That comes to about
6 \$500 million.

7 The Chairman. We are only talking about one fiscal
8 year, a half a fiscal year.

9 Mr. Stern. Fiscal year 1978.

10 The Chairman. Without objection, we will do that.

11 Senator Laxalt?

12 Senator Laxalt. I would like to have included, members
13 of the Committee and Mr. Chairman, within our letter to
14 Budget, a reference to a proposed phase-out of the retirement
15 test.

16 I recognize that the pricetag, which is some \$2.9 billion
17 currently, probably has too heavy an immediate fiscal impact.
18 There are some thirty co-sponsors to do away with the test
19 entirely, strong support within the Senate generally.

20 I do not personally think that it is possible, however,
21 without making a judgment at this time. We have a phase
22 program over five years which in the first year would
23 reflect some \$200 million.

24 Without any firm decisions at this point, recognizing it
25 is complex and requires some hearings, I understand I am going

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to be ranking on Social Security, I would like to have included in our Budget letter enough flexibility by way of language so that we can proceed and not be locked out.

I would like to move that.

The Chairman. Phase out the earnings test?

Senator Laxalt. Earnings test on Social Security.

Mr. Stern. How much money would you want to include?

Senator Laxalt. \$200 million for the first year.

Senator Hathaway. You are not proposing an increase in tax?

The Chairman. We can talk about the tax increase later on. The thing is going to be in a deficit anyway. If we want to put a tax to reduce the deficit, we can. This \$200 million is not going to make too much difference.

Senator Curtis. Is that a fractional phase-in?

Senator Laxalt. I can give you the rate here.

Senator Curtis. You can reach it otherwise. You can go from 72 to 71 rather than give peanuts to the guy who is 66. The average retirement, age of retirement, is somewhere between 67 and 68 anyway.

Senator Laxalt. Senator Curtis, actually our formula is based upon lowering the age over a five-year period from the present 72 to 65, resulting eventually in the \$2.9 billion loss under the current basis.

The Chairman. What would you do?

1 Senator Laxalt. The first phase of reduction would be
2 71 from 72, would be a cost of \$200 million from fiscal '77
3 to '78; then it goes on down from there.

4 The Chairman. He is estimating what you are talking
5 about.

6 Senator Curtis. What I want to know, are we voting, when
7 we vote in favor of something like this, are we voting in
8 favor of keeping enough leeway so that we can make a decision
9 later on, or voting for it on its merits?

10 I am not going to vote for any increased expansion of
11 benefits when we have from \$5 to \$8 billion more paid out
12 than we are collecting now, but on the other hand, I am not
13 adverse to preserving the issue so that it can be investiga-
14 ted later on.

15 Senator Bentsen. I do not want to get committed to what
16 the formula is at this stage.

17 Senator Laxalt. As I tried to indicate, Senator Curtis,
18 all we want is lead time to examine the problem at this
19 point. This has been kicking around here for a long while.
20 It has never gotten beyond this point, and we want to be
21 protected so far as the budget process is concerned so that
22 we can examine it in detail and come back to the Committee
23 as a whole.

24 The Chairman. Let me make you a suggestion. If you want
25 to, we can just vote on the two at the same time.

1 You see, one does not tie us to the other, so why
2 do we not just say, well, all right, we will recommend this
3 \$200 million increase, and you have down here in the Ford
4 Budget a \$1.3 billion, which really would not be bad at
5 all.

6 To help reduce the deficit in that fund, we could just
7 as well add the \$1.3 on the basis that if we can, we would
8 like to start moving to reduce that deficit. That does not
9 tie us to any particular -- it would just put more income
10 in there.

11 Lloyd Bentsen has been giving an awful lot of thought
12 to this. I believe his thought is you ought to reduce some
13 of the liberality in the program.

14 At the same time, I believe even by your studies, do you
15 not conclude that you should raise some more revenue in any
16 event?

17 Senator Bentsen. You can change the formula; the
18 formula that was put in really is not appropriate and does
19 not work and results in some windfalls for some people along
20 the line aways. It does impair the fund, and you can pick
21 up about a half of that deficit by changing the formula.

22 People are coming around to that opinion that the
23 formula is wrong, but that is not going to be enough. You
24 are going to have to go to other sources and take care of
25 the additional benefit. That is what you are referring to.

1 Should that formula, in any way, be reflected in what
2 we are discussing now?

3 Senator Curtis. I think it should.

4 Mr. Stern. That is pretty longrange. It does not
5 affect fiscal '78 in any significant way.

6 Senator Curtis. I think that any increase in the
7 Social Security revenue that we think that we might dig up
8 ought to be here.

9 When we get on the Floor, they are going to argue that
10 any tentative increase in benefits be put in here as
11 budget blessing and they will raise the question of why do
12 you not² have your taxes in here?

13 Mr. Stern. I was only referring to what Senator Bentsen
14 was talking about, the longer range modification of the
15 benefit structure. Any immediate revenues, of course, that
16 you put in would have an effect in fiscal year '78.

17 The Chairman. The Ford Budget recommended 1.3. We can
18 always go above that if the Committee and the Congress wants
19 to do so.

20 It seems to me that there are going to be other
21 recommendations that come in here, suggestions of things
22 that we could do to provide more Social Security benefits.
23 Some of them will have a lot of merit to them. We might want
24 to go beyond what is being suggested by Senator Laxalt --
25 of course, we are not bound by it.

1 Why do we not recommend, let us say, about a \$500
2 million increase and then recommend an increase of, by let
3 us say \$1 billion? We would be increasing the tax by at
4 least twice of what we increase the benefits by, and then
5 try to find a way to raise some money for it.

6 For example, if you want to go above that, nobody is
7 going to get mad at us. If we want to recommend -- that is,
8 the Budget Committee will not get mad, the Administration
9 will not get mad, if we recommend reducing the deficit in the
10 fund, and even the taxpayers will not get mad unless we
11 succeed in passing it.

12 Mr. Stern. That amounts to the \$500 million you already
13 agreed to increase under present law.

14 The Chairman. It is nice to talk about fiscal
15 responsibility until somebody starts paying it.

16 So that would leave us with these options: a) to
17 increase the spending on one end and b) to increase the taxing
18 on the other.

19 Mr. Stern. What you would wind up with would be an
20 increase of \$1.0 billion, \$1 billion in revenue and \$1 billion
21 in benefits: \$500 million due to a re-estimate under
22 existing law, and \$500 million under new legislation.

23 The Chairman. You might take a look at some of these
24 other suggestions that have been made and let them pass the
25 Committee that we do not buy. Here are a whole lot of things

1 that we might want to do.

2 You might want to do something about the retirement
3 test. You might want to do something about these other
4 things.

5 My impression is that the Senate -- I know if the
6 Committee cannot do it, the Senate can think of ways to
7 spend Social Security money as fast as you can think of ways
8 of raising it.

9 Why do you not get a list of all these different things,
10 Mike, that the Senate has suggested in years gone by, some of
11 which I have stood there like Horatio at the bridge and got
12 overrun by a vote of 90 to 3 trying to resist. Put some of
13 those in there.

14 Here are some of the things that the Senate would like
15 to do, and that we think there ought to be some money in to
16 do some of these. That is just tentative. We can come back
17 and change it later on.

18 Let us go to the next page.

19 Mr. Stern. Chart number 6 on page 20 shows Social
20 Security cash benefit programs in terms of the Federal fund
21 contribution. There are two main items here. The major
22 item is Supplemental Security Income for the aged, blind
23 and disabled.

24 There are also \$3/4 of a billion in Federal fund payments
25 to the Trust Fund. The largest single amount here goes for

1 military service credits, that is people who served basically
2 in World War II who get their service credited toward the
3 Social Security retirement purposes.

4 That particular cost is re-imbursed by the general fund.

5 Another amount are the benefits for certain people over 72.

6 Senator Curtis. That has been phased out.

7 Mr. Stern. That was phased out fairly gradually. As
8 the number of people eligible goes down, the amount of benefit
9 keeps going down.

10 The Chairman. How long would it take us to phase out
11 those benefits?

12 Mr. Stern. By the turn of the century.

13 The Chairman. It seems to me that we ought to phase
14 down, we ought to accelerate that phase down.

15 Senator Hathaway. What are these benefits?

16 The Chairman. How much do they cost?

17 Mr. Stern. \$228 million in fiscal year 1978, which is
18 a reduction of \$8 million from fiscal year 1977. That is
19 a pretty slow phase-out rate.

20 These are people who were aged 72 at the time that the
21 amendment was passed and did not get any public assistance
22 benefit and also were not eligible for Social Security.

23 It was not a need test, so there were some wealthy
24 individuals.

25 Senator Curtis. Have we granted them the increases?

1 Mr. Stern. Yes.

2 Senator Curtis. You could save quite a little by
3 preserving their basic benefit under the amendment.

4 The Chairman. We ought to take another look at this and
5 we ought to have the guts to cut down on some of these
6 benefits that are not justified.

7 I recall when we first started this, Senator Prowdee
8 had this amendment that said that everybody who was not
9 getting a check ought to get one. At the time when that first
10 started, I made a speech against the Prowdee amendment. I
11 said this thing could cost a trillion dollars a year.

12 Of course, Senator Prowdee had failed to require that
13 these people be American citizens. Mao Tse-Tung would have
14 gotten a pension; Charles de Gaulle would have gotten a
15 pension; Nikita Khrushchev would have gotten a pension.

16 People we never knew who existed in the darkest of
17 Africa or that tribe they discovered of the Stone Age people
18 in the Philippines, they would have all gotten a pension.
19 People who only God knew existed on this planet would have
20 been given one.

21 So we finally got it down where it only applied to
22 American citizens. Even so, we had some of the most ridicu-
23 lous situations. We had some wealthy people that had a lot
24 of income and thought we were fools, absolute idiots.

25 They said Congress could not have conceived anything

1 with the intent of this. We lost more respect than we
2 gained appreciation by voting the money to them.

3 If it does not come to them on the basis of need, if they
4 do not meet a needs test on the other hand and they do not
5 paid anything in the fund and no one has paid anything into
6 the fund on their behalf, really that is sort of fiscal
7 idiocy that was popular at that time and ought to be recon-
8 sidered, and we ought to start phasing out on this.

9 Someone offered it -- the idea at the time was that a
10 Republican ought to demonstrate that he could be more liberal
11 than Democrats and had to think of a benefit that Democrats
12 had not even thought of, and did.

13 But looking back on it, if we are going to try to start
14 balancing this fund, we ought to start paying it to people
15 who have no claim whatsoever on any basis other than just
16 the fact that they have been drawing payment.

17 You ought to propose to start phasing down on the program.
18 Why wait until the turn of the century to discontinue
19 something that was not justifiable to begin with?

20 What is the next thing?

21 Mr. Stern. The next item is the chart on the Supplemental
22 Social Security Income program. This is a program for aged
23 and disabled individuals.

24 At the present time, it is about a 50-50 program, slightly
25 more aged than disabled recipients in the program. Since the

1 program has begun, the overwhelming majority of applicants
2 are disabled people, so it is moving in the direction of being
3 a program for the disabled.

4 The Chairman. Moving more towards being a disabled
5 program?

6 Mr. Stern. Yes, sir.

7 Senator Curtis. It replaced the grant-in-aid?

8 Mr. Stern. Yes, sir. There were programs of aid to the
9 totally disabled and aid to the aged which were Federal-state
10 programs that were run by state governments. This is run by
11 the Social Security Administration.

12 The benefits now are \$168 for an individual and \$252 for
13 a couple.

14 Senator Curtis. What is the minimum benefit under
15 Title II?

16 Mr. Stern. About \$110 for an individual.

17 Senator Curtis. How much?

18 Mr. Stern. About \$108.

19 Senator Curtis. And the Prowdee benefits, they do not
20 share in that?

21 Mr. Stern. No, the Prowdee is a flat benefit of \$74
22 per individual.

23 Senator Curtis. The \$110 is for everyone who qualifies
24 in the regular manner and gets a minimum of that much?

25 Mr. Stern. It is subject to actuarial reduction, but

1 basically that is correct.

2 Senator Curtis. That is a primary benefit?

3 Mr. Stern. Yes, sir.

4 Senator Curtis. Does it apply to survivors?

5 Mr. Stern. That is correct.

6 Senator Curtis. No survivor benefit of less than \$110?

7 Mr. Stern. If you have a family and have children, they
8 do not each get \$110. The minimum primary insurance benefit
9 is \$110.

10 Senator Curtis. For one child?

11 Mr. Stern. One child alone would be 70 percent of that,
12 which is \$81. The minimum benefit is \$108, not \$110.

13 The Chairman. It occurs to me in the SSI we ought to be
14 riding herd more closely on this disability, both in this --
15 I would say, does this SSI include all those widows the
16 Welfare Department has forced on us?

17 Mr. Stern. Are you referring, Mr. Chairman, to the
18 fact that there is a fairly large increase in the number of
19 AFDC recipients who were found to be disabled during the
20 period just before the Federal government took over the
21 disability program?

22 The Chairman. Yes.

23 Mr. Stern. Yes, sir.

24 The Chairman. It was not a bad idea. I just criticized
25 our people in Louisiana for not being as sharp as those welfare

1 people in New York. They call all these ladies, anybody
2 who had a little nerves, a little thing, they made them
3 disabled, took them off the rolls and put them on SSI.

4 If it was going to be done, it was foolish. Our people
5 did not think about it in Louisiana, while the people in New
6 York out-snook us.

7 We have all kinds of people, not in just this respect.
8 I just signed a letter yesterday that indicates that some
9 of the inequities in the disability program, and we ought
10 to start looking more closely at these disability cases.

11 Senator Curtis. The disability programs, both under
12 the Title II Social Security program and under the SSI program
13 really do deserve some more looking into, both in how you
14 define disability and what kinds of incentives which you
15 offer people to work again, because both of those programs
16 have gone far beyond what had been anticipated in terms of
17 caseload growth.

18 That has proven true of the disability insurance programs
19 for some time. It is also true of the SSI program which
20 was conceived as a program for the aged with enacted but
21 has turned out to be a program for the disabled plus those
22 aged who were carried over from the old Aged Program.

23 The figures are something like 80 percent of the new
24 applicants are disabled.

25 Senator Matsunaga. How is need defined in the SSI

1 program?

2 Mr. Stern. Basically it is a guaranteed minimum income
3 for an individual of \$168 a month, a little more than \$2,000
4 a year.

5 If your income is below that, you are eliglble.

6 Senator Matsunaga. 72 would be an age where most would
7 be disabled anyhow, in one way or the other.

8 The Chairman. He just got through saying that 80
9 percent of your applicants are not aged.

10 Senator Moynihan. Does the Social Security Administra-
11 tion have any sort of scale of disability?

12 As I recall, Mr. Chairman, we put Aid to the Blind in
13 this program. That is a certain kind of absolute disability.
14 Then there is a disability of having a sore back.

15 Do we have any idea, is there any scale of disability?

16 Mr. Stern. There is a statutory definition which
17 basiceally says, if a person is unable to engage in substan-
18 tial, gainful activity.

19 Senator Moynihan. I feel that way most every other
20 morning.

21 Mr. Stern. As an administrative matter, the way they
22 look at it, they look to see if a person will be unable to
23 engage in substantial, gainful activity for at least a year,
24 so in your case, it looks as though the next morning you
25 could do it, you would not be eligible.

1 The Chairman. Here is where we stand. We have a lot of
2 people on those rolls who can engage in gainful activity, and
3 just for starters when some of these enterprising Welfare
4 Directors saw the potential before the program went into
5 effect; to say, look, if we have someone here on the AFDC
6 rolls and we have to put up 50 percent of the money to pay
7 that person, if we could bring that person here and declare
8 that person to be disabled, that would put that person over
9 on the Federal rolls with the Federal government paying 100
10 percent of the cost.

11 Being pressed for revenues, a lot of them seem to do
12 that. New York was the big gainer on that. Everybody that
13 they could classify as being disabled, they did, the month
14 before the program went into effect, and it was of some help
15 to their state budget.

16 We are not proposing to take that back away from them.
17 Goodness knows, they needed the relief at the time. But we
18 have a lot of people on those rolls, both in that capacity
19 and others, that we would like to take jobs.

20 Furthermore, the record shows that the healing process
21 of the body is such that most people are going to improve,
22 they are going to get better, and we ought to have an
23 objective of trying to get these people who are disabled for
24 the time being back on the employment rolls somewhat.

25 Eventually, if we get around to it, we are doing a real

1 good job in this society. We will start setting aside for
2 disabled people or partially disabled people the jobs that
3 they can do.

4 For example, here is a person who might have lost a leg,
5 but he can sit right there as a gate-keeper all day long and
6 check people in and out of the plant gate. If they set aside
7 that job for that person rather than somebody who won a
8 wrestling match or a prize fight for an amateur championship
9 doing the same job, checking people in and out of the plant
10 gate.

11 There is an insurance company executive who makes this
12 point, that stresses rehabilitation -- and he was stressing
13 it when Franklin Roosevelt was President -- you do not have to
14 go any further than the White House there to get your best
15 example of a man who is practically a paraplegic who is able,
16 nevertheless, to hold the biggest job in the country.

17 If that man can do it, why cannot other people find
18 jobs and be shifted into work that they can do of a gainful
19 nature?

20 If we do not watch out, we are going to make it so
21 attractive for people to draw these checks, and also attract
22 the chiselers into the program, that it is going to cost a
23 fortune that was never anticipated. We ought to be working
24 to try to save money in this area, because I could tell you
25 a case of my own experience of people drawing the money who are

1 not entitled to it right now, the disability part.

2 For now, we might as well just put this in, and then if
3 we can find some way to save some money on it before the year
4 is out, then we could use that to pay some other benefits.

5 I do not have in mind overall economy in the program,
6 but I think we should cut it down where it is not justified
7 and use that to pay for the kinds of things that are justi-
8 fied.

9 For now, why do we not leave it the way it is.

10 Mr. Stern. I think the next chart, chart 7, you really
11 pretty much made your decision. I do not know what you
12 want to do, for the proposed legislation under the Social
13 Security cash benefit programs. Any savings that you can
14 achieve in the short run by modifying the benefits structure,
15 it would just give you more latitude in some of the areas
16 that you want to get into.

17 The Chairman. These are suggestions.

18 Mr. Stern. The stop part includes suggestions that were
19 made by Presidents Ford and Carter. Both of them endorsed
20 these proposals.

21 At the bottom of the page, we simply put some additional
22 areas to show that there are other matters, at least the
23 staff would suggest to you might cut out some of the lower
24 priority expenditures under Social Security.

25 You are going to want, one way or the other, to put more

1 money in the Social Security Trust Fund in the short run.
2 One way you can help is by reducing some of the expenditures
3 rather than making it all up through an increase in taxes.

4 If you want to go into these, we can. It is all up to
5 you.

6 The Chairman. I would propose now that we just pass
7 over it. I recommend to everybody that they look at it.

8 Do you assume that this is going to happen, or not?

9 Mr. Stern. I assume that you have made your decision on
10 what you want to do. In this pamphlet they are simply
11 listed. It is up to you to decide.

12 If you decide, for example, that you are going to
13 increase taxes by \$1 billion and you are going to increase
14 benefits by \$1 billion, you will be above the Carter Budget
15 by \$1 billion, just by the fact that he assumes enactment
16 of about \$1 billion worth of legislation, \$1 billion worth
17 of savings, \$900 million.

18 The question is, how do you want to react to that,
19 between the retroactive payments, the earnings test on an
20 annual basis and the other two items here; \$900 million
21 worth of cuts in the Carter Budget compared to what is
22 present law.

23 The Chairman. Let us go down this and talk about it.

24 "Avoid certain retroactive payments." What is that about?

25 Mr. Stern. Right now, you allow Social Security

1 applicants to elect to get benefits for a year prior to the
2 date of application. If a person comes in at age 64, let us
3 say, he can elect to have his benefits started as though he
4 were age 63. They will be actuarially reduced, but he will get
5 a year's worth of retroactive payments, and by eliminating
6 that practice, you will not have any effect on the longrange
7 Trust Fund, because it will be actuarially reduced anyway.
8 You will have an immediate, shortrange impact. You will
9 reduce outlays by \$400 million.

10 The Chairman. Are you supposed to save \$400 million?

11 It has a minus.

12 Mr. Stern. That is correct. Practically everything on
13 this page is savings.

14 The Chairman. Then, if you apply the earnings limit --

15 Mr. Stern. Right now, the earnings test is applied two
16 different ways: one way by looking at annual earnings. If
17 they are less than \$3,000, there is no reduction in your
18 Social Security benefits for that year.

19 There is also a monthly test, and if you have less than
20 \$300 a month in it, you get your full benefit for that month.

21 The purpose of that was to meet the situation where a
22 person retires in July -- most people do not particularly
23 retire at the end of December -- so you might have full
24 earnings for the full half of the year and be totally retired
25 for the second half of the year.

1 However, it has been used by people who have control
2 over where they work, working full time, not working one
3 month in the summer. You are eligible for these benefits
4 during that particular month where you do not do any work.

5 This is what this proposal is aimed at getting at.

6 The Chairman. You pick up \$200 million if you do that.

7 There would be some opposition to doing that, would
8 there not?

9 Senator Hathaway. That is the trouble with all of
10 these. We are doing this without the benefit of any hearings
11 or anything else. It is difficult to make a decision.

12 Mr. Stern. This is not legislative, but a budgetary
13 decision.

14 Senator Hathaway. If we cut it down, we cannot raise
15 it up again.

16 Mr. Stern. If you cut it down, you are obligated to
17 find some way of finding the money, some way or other.

18 Senator Hathaway. We may not find some other way if we
19 want to keep these in.

20 The Chairman. I think that what Bill Hathaway says has
21 some merit to it, that I am inclined to doubt the wisdom
22 of including these.

23 Are these in the Budget?

24 Mr. Stern. That is right, yes, sir.

25 The Chairman. We would be recommending leaving them out,

1 saying that you might be able to do it, but we are not
2 sure that you can do it.

3 If we leave it out and then do something with it, we are
4 that much better off, I take it.

5 Mr. Stern. That is right.

6 The Chairman. In other words, here are some things
7 where you can pick up some money. In the mothers' benefits
8 when all children are over 15, for example, I can just see us
9 going up there on the Floor with that, someone proposing it.
10 I doubt if you could sell it right here in the Committee.

11 One of the children is 16 and they want to cut off the
12 mother's benefit. I would not want to do that the same year
13 I run for office, I would not think and I do not think anyone
14 else would.

15 The question is, can you do that? Who wants to lead the
16 charge for it?

17 Bill, you are a conservative. Would you like to lead
18 the charge to do that?

19 Senator Roth. I will leave it to the Ranking Member.

20 The Chairman. The more I think about it, we might as
21 well just say, if we can do some of this, fine. Why count
22 on it.

23 Is there anything down here that we could sell real
24 easy?

25 Mr. Stern. I think it has been generally traditional for

1 Presidents of both parties to include a number of legislative
2 proposals that would be ineffective in the Budget because the
3 Budget here is looked at in total. That is why there is no
4 real difference between the Ford and Carter Budget.

5 The Chairman. It makes the Budget look good.

6 Who was it -- we had some President recently who recom-
7 mended that the Congress show the great courage of calling
8 off, just calling off, the cost-of-living increase that the
9 old people were supposed to automatically get. It went over
10 like a lead balloon down here.

11 Everybody wanted to make a speech for home consumption
12 and got up and made a speech for that, remember that?

13 In fact, it was response to the bill. The President was
14 recommending that we pass a law to say that these old people
15 will not get the cost of living increase in their Social
16 Security. In other words, if no law were passed, they would
17 be unable to get it.

18 He could not get it by to introduce the bill to do that.
19 Sixty-nine of us joined together and co-sponsored a resolu-
20 tion to say that the President should be told not no, but
21 hell no, to any suggestion of that kind.

22 At the same time, it made the Budget look better that
23 the President had the courage to recommend that the old
24 people not get the cost-of-living increase. I assume he was
25 just gambling that the old people would never hear about the

1 fool thing because it would never pass anyhow, but the people
2 who worry about the fiscal solvency of the government would
3 applaud him for making the recommendation.

4 On all of this, I would just as soon not get into it.

5 Let me ask you, here is one item that would cost some
6 money. I think there is -- what is this about the employer
7 tax on tips, \$100 million?

8 Mr. Stern. That actually is a revenue increase. Right
9 now, only employees pay taxes on tips, and this was the
10 recommendation that the employer, to pay the employer tax
11 on the tips, too.

12 The Chairman. A revenue increase?

13 Mr. Stern. Yes, sir.

14 The Chairman. A revenue reduction in spending.

15 Mr. Stern. That is right.

16 The Chairman. I suggest that go with the others. I do
17 not feel like carrying the ball for it. If anybody wants to
18 lead the charge for it, they can speak up.

19 Mr. Stern. The next chart is on page 26, welfare programs
20 for families. The main one there is aid to families with
21 dependent children.

22 This year it was \$5.7 billion in fiscal year '77; it is
23 projected to go up to \$6 billion in fiscal year 1978.

24 That assumes a slight decline in the caseload. Perhaps
25 one of the reasons for that is the new child support program.

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1 This Committee has also recommended that kind of proposal
2 in the past. It might be something that you might want to
3 do.

4 The other things that were proposed in the Ford Budget
5 that have really been cut out in the Carter Budget we would
6 not really recommend, that is cutting back on the Work
7 Incentive Program and the Child Support Program.

8 The Chairman. Here is one thing that has been missed
9 so far. We can look at it later on, but if you assume for
10 the sake of argument that we go along with what the House is
11 suggesting is job incentive, that would be about a 25
12 percent savings on the first \$4200.

13 Mr. Stern. 40 percent credit.

14 The Chairman. 40 percent credit on the first \$4200,
15 right?

16 Mr. Stern. Yes, sir.

17 The Chairman. That is \$1600.

18 If, in addition to that, those people continue to get
19 that 20 percent tax credit provided by the Talmadge amend-
20 ment -- and I would hope that they do. Because where you
21 move some person off the welfare rolls, we are making a big
22 savings for the government, state and local government, and
23 if we can eliminate some of the redttape in that area, that
24 might make it sufficiently attractive to help move a lot more
25 people.

1 You say we are moving 250,000 a year off these welfare
2 rolls into employment. Coupling those, you may make it
3 sufficiently attractive that you might treble that number that
4 you are moving off the welfare rolls, and if you could, I
5 think that that would be a tremendous forward progress.

6 But now, if we do that, we are going to save in one
7 area, but we will lose money in another, and that would mean
8 in the Work Incentive Program, the cost would go up, would
9 it now?

10 Mr. Stern. The amounts shown here are the actual
11 training and that kind of thing under the Work Incentive
12 Program. This is not the Work Incentive tax credit amount
13 shown here.

14 The Chairman. Senator Roth?

15 Senator Roth. Is this an area where we are going to
16 have hearings? As I recall, there was some discussion last
17 year.

18 The Chairman. I would hope, when we are looking at the
19 tax bill that they send over to us, that we will look at what
20 the House apparently did not pay too much attention to, and
21 that is that while you are trying to provide jobs for a lot
22 of people who are not working now, that you also ought to take
23 a look at these people who are drawing welfare checks and
24 try to include those in the people that you are trying to put
25 to work, too.

1 For a hardcore, poverty case living on welfare, you are
2 going to need more incentive to get those people off those
3 rolls and into the work force than those people who have
4 had long work experience, but for the time being are out of
5 work.

6 I would hope if we are going to go along with anything
7 such as the House is suggesting for a jobs credit that we
8 take a look at how this might be geared to the welfare
9 program and make it more attractive for folks to take a job,
10 also more attractive for someone to hire them.

11 One reason they do not hire them right now, and one
12 reason they do not take the job, the amount they make over
13 and above the welfare, if you look at what happens when their
14 check is reduced, they get so little gain that there is not
15 much point in taking the job.

16 So I would hope that we would take a closer look at that
17 when we have it before us and try to move some people over.

18 In addition to that, we might want to give the states
19 more latitude with respect to their own welfare programs to
20 make it more attractive, to experiment with some things that
21 might be the direction that we might later want to move in.

22 We look at the welfare reform bill. We would be in a
23 lot better position to consider it if we gave the states some
24 latitude to do the very kinds of things that we regard as
25 welfare reform. See how it is working in those states.

1 Those are two things we might want to look at.

2 When the welfare reform comes along, then, of course,
3 we will want to take a look at all of this, every bit of it,
4 the whole thing.

5 Obviously, you have no business considering a welfare
6 bill in a vacuum as though there is not a tax law over here
7 that is relevant. You have to look at all of it.

8 The question is that we should add more at the Work
9 Incentive Program here. At the moment, I guess the answer
10 for the moment would be, if you think it is all right, all
11 you are putting up here is an amount of money that would be
12 continued.

13 Is that right, Mike?

14 Mr. Stern. That is right.

15 If you are more successful with your tax credit, you
16 may have less people involved in the Work Incentive Program
17 so that this money will go further.

18 The Chairman. All right.

19 What is the next point?

20 Mr. Stern. Chart 9, Social Services on page 30.

21 Right now, you have exactly four different Social
22 Security programs: the basic grant program under Title XX
23 of the Social Security Act. It authorizes \$2.5 billion in
24 entitlements. Almost all of that is being used. In fiscal
25 year '77, you provided, in addition, another \$200 million

1 for child care funds. The other two programs are the
2 Child Welfare Services program under which about a quarter of
3 billion dollars have been authorized, and about a fifth of
4 that amount has actually been appropriated.

5 Finally, the new program that was created last year under
6 Senator Hathaway's amendment for three years provides rehabil-
7 itative services for children who are recipients of Supple-
8 mental Security Income. In addition, there is an additional
9 amount for the adults who have been getting rehabilitative
10 services.

11 So those altogether amount to about \$2.8 billion.
12 The Carter Budget does recommend extending the additional
13 child care funding and we would simply like to suggest to
14 you that you might want to consolidate the different Social
15 Services program if you are going to get into it. If you are
16 going to get into child care, you might want to consolidate
17 the different programs and combine it to one authority,
18 instead of having four separate authorities, since most of
19 the money is in the basic grant program.

20 The Chairman. This is one area where it seems to me
21 that we neglected people in the previous Congress. We put
22 a tight lid on the amount of money for social services.
23 If you will recall at the time, it was just running up through
24 the ceiling and Bill Roth was one of those who pointed out
25 that we have to do something about it, and we all agreed. It

1 was completely getting out of hand.

2 But, having put that tight lid on, we did not let this
3 thing adjust with the cost of living the way the other things
4 adjusted. I read an article -- and maybe I can find it; I am
5 sure that it was syndicated, and went nationwide; I suspect
6 that it did -- which indicated that because of the tight lid,
7 and there was no adjustment for increasing the cost of
8 living, that about a billion dollars of additional money was
9 needed in the Social Services area to provide better services
10 to the poor.

11 Has that been taken into account here?

12 Mr. Stern. What we contemplated when we wrote down these
13 other proposals is to consolidate Social Services funding
14 for fiscal year '78, you may combine all of these into a
15 \$3 billion authorization. That would be \$200 million more
16 than is going out now.

17 In future years you could increase that amount -- say
18 \$3.5 billion in fiscal '79, \$4 billion in fiscal year '80 and
19 so on, depending on the numbers that you wanted to use.
20 The \$200 million figure that appears at the bottom of the
21 page assumes a consolidated \$3 billion program rather than
22 just adding that \$200 million for child care.

23 The Chairman. You are suggesting here -- is this your
24 suggestion?

25 Mr. Stern. That is the staff's suggestion, yes, sir.

1 The Chairman. Which would be \$3 billion for the program.

2 Mr. Stern. Yes, sir. It assumes that what you do is
3 combine the different social services programs under the
4 basic authority in Title XX and that you increase the level,
5 at least for fiscal year '78, to a total of a \$3 billion
6 entitlement level with the different parts added together
7 adding up to \$2.8 billion.

8 The Chairman. That sounds all right to me, but I wish
9 that maybe we could seek to get the research that we can find
10 on the subject.

11 What I read indicated that there are a lot of poor
12 people who would like to take jobs and would if we could
13 find some way, for example, of providing some day care for
14 their children while they are working, or some additional
15 social service that makes it possible.

16 We started out being very restrictive in this area
17 because we thought the costs had pyramided and gone completely
18 out of line. Senator Moynihan was not here at the time when
19 we talked about this, but the Social Services Program was
20 so completely open-ended that people were undertaking to
21 call everything a social service. They were calling public
22 education a social service.

23 Mississippi was a little slow getting in on the
24 program, but they had a little request in for us to increase
25 the matching for social services in Mississippi from about, I

1 think, \$4 million up to \$400 million so that they could
2 participate in the program. I think even highways they are
3 going to call a Social Service.

4 To get the genie back inside of the bottle is going to
5 be tough. We said we are only going to allow a certain
6 amount of money and everybody gets their share.

7 Looking at it now, I think that we have a \$2.4 billion
8 for them to work with, and we made no adjustments in it.
9 Now I think that you would find -- let's take the simple
10 situation. Here is a mother. She wants to go to work but
11 she has little children and nobody to look after those
12 children.

13 If you can provide some day care for the child, Mama
14 will go out and take a job and put in a hard day's work
15 everyday so as to improve the condition of the family.
16 If she takes a job, she comes off the welfare roll.

17 We provide a social service to the child, the Mama goes
18 off and works to help the family and they both do better.
19 That is what we ought to be trying to bring about.

20 If we look here as a budgetary matter, we cannot spend
21 money under social services that we are spending on welfare,
22 is that not right?

23 Mr. Stern. That is correct.

24 The Chairman. We ought to try to relate one to the
25 other and put enough money in here, especially anywhere where

1 you have a mother with just one child. If we could provide
2 day care service to the mother and she would take a job and
3 move that family out of poverty, the least we could do is
4 say at least in that situation we would do it. We ought to
5 have enough money for it.

6 To fail to do that is an oversight.

7 Mr. Stern. Do you want to add more than this amount?

8 The Chairman. Well, I think we ought to do it in a
9 somewhat more informed way.

10 Why do not you and I try to do some research and get
11 the Library of Congress to help us see what has been written
12 on this subject. Maybe they can provide it for Louisiana
13 consumption alone.

14 For failure to keep up with the cost of living on
15 Social Security, they were having to put mothers back on the
16 welfare rolls who ought to be working. If they are doing
17 it in Louisiana, it has to be happening elsewhere.

18 We have not increased the funds. We ought to provide
19 what is necessary. That is all I am thinking of.

20 Mr. Stern. A limitation was set in the law in 1972,
21 except for the additional child care money that you provided
22 for fiscal '77, I believe it has been the same amount for
23 five years.

24 The Chairman. It seems to me that that program ought
25 to be at least a \$3 billion program right now, as of January and

1 for the coming year, it probably could be \$1 billion in
2 that program, \$1 billion more than that \$2.4 billion.

3 I would like to have some research to back it up, if you
4 could help us find some.

5 Mr. Stern. Yes, sir. We will see what we can come up
6 with by tomorrow morning.

7 The Chairman. All right.

8 Mr. Stern. Chart number 10 is unemployment compensation.
9 The differences in the estimates between the Ford and Carter
10 budgets on the outgo side are because of the more optimistic
11 Carter Budget assumptions.

12 On the income side, they question the Ford Budget figures.
13 They thought that they were unrealistically high as to
14 estimates of income.

15 In any case, the benefits are assumed to go down in 1978
16 compared to 1977. Similarly, if you look down to Federal
17 funds, the advances to the Trust Fund are estimated to go
18 down sharply in the Carter Budget.

19 The Chairman. I am going to suggest, gentlemen, that
20 we work from the figure in the Carter Budget and let everybody
21 study this thing overnight, and if you want to discuss a
22 change in any of those figures or in the total, just make
23 your suggestion tomorrow or the next day.

24 Mr. Stern. One thing we should call your attention to
25 on that chart, at the bottom of the chart, the President has

1 proposed that the emergency benefits program be expanded.
2 This is a program that today provides benefits up to 65
3 weeks.

4 Because not much was known of the nature of the benefici-
5 aries, Congress required that a study be undertaken of who
6 they are, and they found out on the average, the recipient's
7 1975 income as a family was over \$10,000, so that we would
8 like to suggest that you might think in terms of placing some
9 kind of a needs test when you extend these benefits so^oso
10 much of the money does not go to people whose income is that
11 high.

12 The Chairman. In other words, if the average family --

13 Mr. Stern. The typical case is a woman whose family
14 is working full-time. They are earning \$8,000 and then she
15 gets \$2,000 in emergency benefits. I think that you can
16 question how seriously she is in the labor market in a
17 situation like that:

18 The general assumption is that the person who is unem-
19 ployed gets low benefits and has to live on a small amount
20 of money and is looking for work. That assumption just may
21 not be warranted in this case.

22 In that case, you would have a rather lower amount of
23 allowance for new legislation in the unemployment area. If
24 you assume that you are going to apply some kind of a needs
25 test.

1 The Chairman. How much would you reduce it by?

2 Mr. Stern. This estimate reduces the cost from \$400
3 million to \$100 million. It does it by assuming that you
4 would have a needs test on a family basis based on 40 percent
5 of the median income in the state. Also, the benefits would
6 be going out in September instead of December, since cyclically
7 that is a period of lower unemployment.

8 Senator Hathaway. Does that include the restrictions
9 I think we put on last year to eliminate some of the state
10 restrictions, like not taking a job longer than 24 miles?

11 Mr. Stern. The estimates are fuzzy here. No separate
12 account was taken on this question of the suitability require-
13 ment.

14 Senator Hathaway. We did put that in last year.

15 Mr. Stern. It did not make it into law. It was agreed
16 on by the Senate; it was taken out in conference.

17 Senator Matsunaga. The proposal is that after 26 weeks
18 have expired?

19 Mr. Stern. Thirty-nine weeks.

20 Senator Matsunaga. Is there a proposal to go beyond that
21 amount?

22 Mr. Stern. Under present law, you can get benefits for
23 ~~65 weeks.~~ The President has recommended extending that to
24 52 weeks. The House Unemployment Subcommittee met and
25 recommended going up to 65 weeks.

1 It is sort of a long time to be transitional --
2 particularly if your family income is \$10,000.

3 The Chairman. Why do we not recommend the lower figure?

4 Mr. Stern. It would be \$300 million in fiscal year '77;
5 \$100 million in fiscal year '78.

6 Senator Byrd. Is that 52 weeks?

7 Mr. Stern. This assumes 52 weeks. It assumes as the
8 39th week approaches, the unemployment offices would have some
9 kind of a needs test that would be based on family income.

10 So, for example, the average family -- the family with
11 the \$10,000 worth of income -- would not be eligible.

12 Sneator Byrd. Would not be eligible for the additional
13 thirteen weeks?

14 Mr. Stern. The thirteen weeks at all.

15 The people who do meet the needs test will be eligible
16 for thirteen weeks.

17 The Chairman. Senator Moynihan?

18 Senator Moynihan. Mr. Chairman, you said that we could
19 make our decision on this tomorrow?

20 The Chairman. Any suggestions that you would like to
21 make. We could decide this one right now, if you want to.
22 If you want to.

23 Senator Moynihan. I would prefer a chance -- this is
24 our subcommittee. I would like to learn a little bit more
25 about it, since you made the suggestion.

1 The Chairman. We will pass this.

2 Mr. Stern. This is unemployment, actually. It would be
3 Senator Hathaway's committee, this particular issue.

4 Senator Hathaway. After conferring with Gaylord -- he
5 is Chairman of a comparable committee on the Labor Committee --
6 we ought to wait until tomorrow to make a decision.

7 The Chairman. We will bring this back up later on.

2b

8 Mr. Stern. The next item on page 38, Chart 11, "Health
9 Programs," this shows the two Medicare trust funds under
10 existing law. I do not know if there are any particular
11 decisions to be made on this page. We have simply shown what
12 the amounts are under present law.

13 We should point out to you that the Federal fund payment
14 for the Medicare trust funds is a very large increase. In
15 fiscal year '76, the Federal fund payment, this is mostly
16 partly the supplementary medical insurance premium, the
17 Federal share of that was \$4 billion in 1976. In two years
18 it has gone up to \$7.2 billion. That is a very large
19 increase.

20 Similarly Medicaid, the increase in the total program
21 size, including the Federal, state and local share, goes
22 from \$14.6 billion in 1976 to \$20.7 billion in 1978, a
23 41 percent increase. But the increase in the number of
24 people that are receiving it is only 5 percent.

25 Basically you are paying a lot more money for serving the

1 same amount.

2 The Chairman. Mr. Califano wants to find some way to
3 control these costs. I do not think Mr. Constantine believes
4 that Mr. Califano has the best answer yet.

5 Mr. Constantine. We are almost there, Mr. Chairman. We
6 are going to discuss that on Chart 13.

7 The Chairman. Why do we not assume that, and go to the
8 next one?

9 Mr. Stern. Chart 12, very quickly, is the five year
10 projections of the hospital insurance and supplemental
11 insurance programs under existing law.

12 The Chairman. Is that projecting inflation as well,
13 or just increasing cost?

14 Mr. Constantine. It is inflation, increased cost,
15 increased beneficiaries, and we think that we ought to point
16 out, Mr. Chairman, that when you do take up the disability
17 program that that is kind of a time bomb for Medicare also.
18 We cover the disabled under Medicare after they have been on
19 the disability rolls for two years, so that to the extent that
20 people are pouring onto the disability rolls, two years
21 after they get on the rolls, they also switch over to
22 Medicare and increase that cost.

23 We have asked the Actuary of Social Security for
24 adjustments to the estimates as to the impact on Medicare of
25 these greater than anticipated increases in the disabled.

1 The Chairman. Would you mind repeating that? I am not
2 sure that I fully understand.

3 Mr. Constantine. Yes, sir.

4 Under the 1972 Social Security amendments, you extended
5 Medicare coverage to the disabled on Social Security after
6 two years. No one anticipated the large numbers of people
7 being determined disabled, so consequently two years after
8 they are determined to be disabled, they are also eligible
9 for Medicare, regardless of age.

10 The effect of that is a greater-than-anticipated increase
11 in the cost of the Medicare fund and we have asked the
12 actuaries to see what impact that sharp increase in the
13 numbers of disabled will have on these cost estimates for
14 Medicare. They have not gotten back to us yet. We hope to
15 have that at the end of the week.

16 When you look at what you are going to do, as you
17 mentioned earlier, to review the whole question of disability
18 determinations under Social Security, the impact on Medicare
19 costs is another factor that has to be taken into consider-
20 ation.

21 The Chairman. We are looking here at something that is
22 projecting ahead now, let me see, between -- if you will
23 look at the expenditure cost, if you take the two of them
24 they look like about -- let us say \$26 billion for '78 and
25 \$36 billion, or ten more, for '82. Is that right?

1 Mr. Constantine. No, sir. \$46 billion in 1982.

2 The Chairman. \$46 billion.

3 So you are talking about \$26 billion now and \$46 billion
4 in 1982?

5 Mr. Constantine. Yes, sir.

6 The Chairman. Now, to those figures, is that assuming
7 a cost-of-living increase of about 6 percent a year?

8 Mr. Constantine. Higher than that, Mr. Chairman, because
9 hospital costs, of course, are increasing at greater rates
10 than that, a considerably greater rate than the cost of
11 living generally.

12 For example, last year the hospital per diem cost, per
13 day cost, rose 18 percent. The cost of living, I believe,
14 went up 6 percent.

15 Senator Matsunaga. Does this take into consideration
16 the President's proposal?

17 Mr. Constantine. No. This is under existing law.
18 We believe this is probably understated somewhat.

19 The Chairman. This will almost double in cost, based on
20 the way it is going now.

21 Mr. Constantine. Yes, sir.

22 The Chairman. You think that that is understated, that
23 it is going to be a lot more?

24 Mr. Constantine. Yes, sir. We have never found an
25 estimate that was on target yet. We never found an over-estimate

1 or an accurate estimate of these costs.

2 The Chairman. All right.

3 What is next?

4 Mr. Constantine. Chart 13 includes the proposed changes.

5 I guess the biggest change Mr. Chairman, is the
 6 President's proposal to limit hospital revenue increases
 7 per hospital admission in the fiscal year beginning October
 8 1 to not more than essentially 10 percent. That would be
 9 across-the-board.

10 The proposal is for all hospital care, not just Medicare
 11 and Medicaid. The effect of that on Medicare and Medicaid
 12 is estimated at \$700 million savings in Medicare and \$100
 13 million in Medicaid.

14 Based upon the specifics of the proposal that was
 15 released which the Administration says is not a final proposal
 16 by any means, and that they are shifting, we believe that
 17 the proposal, at least as initially reported, was unworkable,
 18 unadministerable, inequitable and inflationary.

19 Apart from that, it was a good proposal.

20 The objectives of the Administration are certainly not
 21 unreasonable -- that is, to get a handle and moderate these
 22 costs. They have appointed some people and they are working
 23 on an approach. Everyone is hopeful that they will come up
 24 with something that is workable.

25 Until they do, we think it is unrealistic to assume that

1 this \$700 million savings in the Carter Budget can be
2 achieved by new legislation, focusing in on hospitals
3 only.

4 Obviously they may come up with something that is workable.
5 We think at this point in time it would be unrealistic to
6 assume that savings. On the other hand, under existing
7 law, the Secretary does have authority to make some changes
8 and tighten up on the Medicare and Medicaid programs, and we
9 believe that he could achieve, with some rather strong
10 implementation of existing law, savings of the \$800 million
11 that they indicate here. That is \$700 million in Medicare,
12 and \$100 million in Medicaid.

13 We think, therefore, that you might want to delete the
14 \$800 million savings in new law and show a comparable savings
15 under existing law as possible, under existing law.

16 There are a number of ways in which the statutes can be
17 used, and the Secretary has asked for some suggestions. We
18 have submitted some.

19 The Chairman. How much could you save, based on the
20 Carter Budget?

21 Mr. Constantine. We would say you should delete the
22 \$700 million and the \$100 million until such time as they
23 come up with a proposal which is feasible.

24 At this time, they have not come up with one. It is a
25 very difficult area. It is easily manipulated by hospitals.

1 It is inflationary.

2 As a matter of fact, one of the things that concerned
3 us, there already has been anticipatory inflations in
4 hospitals, hospitals anticipating this kind of lid have
5 already been increasing their charges substantially.

6 They are trying to get their base up so when the
7 limits do apply ultimately they will have a higher bargaining
8 point. We suspect for that reason the cost estimates for
9 fiscal '78, excluding any legislation, may be low. We would
10 simply suggest that you delete the \$800 million, the \$700
11 million and the \$100 million, from the new legislation and
12 show it as under existing law, because they can achieve it
13 if they want to, with forceful implementation of what is on
14 the books now.

15 The Chairman. Here is the point. As I understand it,
16 the President made the commitment on the \$700 million on
17 limitations to Part B, is that right?

18 Mr. Constantine. No, sir. The \$700 million is on
19 hospitals, the \$100 million is the same hospitals under
20 Medicaid.

21 The \$200 million is the Part B premium, and we would
22 like to discuss that in a minute.

23 The Chairman. That looks like a pick-up of revenue --
24 or is that a loss?

25 Mr. Constantine. That is a loss of revenue. That is an

1 increased cost of \$200 million.

2 The Chairman. I see.

3 How about the \$700 million up here?

4 Mr. Constantine. That, we believe, Mr. Chairman, is a
5 delusion.

6 The Chairman. Is that a reduction of expenditures?

7 Mr. Constantine. Yes, sir. We think that is an illusion
8 at this point, until such time that they come up with a
9 proposal that is defensible and capable of being implemented.

10 The Chairman. You think that will be left out?

11 Mr. Constantine. Yes, sir, at this point in time.

12 Senator Hathaway. Cancelling it out?

13 Mr. Constantine. You can cancel it out, that the
14 Administration can achieve comparable savings by administra-
15 tive action under existing law, and if you do not mind, if
16 the Committee would recommend it, we would be glad to draft
17 a letter including staff suggestions into how they might
18 achieve those savings.

19 The Chairman. You think that the same \$700 million could
20 be saved, you just think it could be saved under a different
21 way.

22 Mr. Constantine. Under existing law rather than under
23 new law.

24 The Chairman. We can just leave the figure, if you
25 think that is the better way to do it.

1 Mr. Constantine. Yes, sir.

2 The Chairman. This \$200 million, tell me about that.

3 Mr. Constantine. Yes, sir.

4 What the Administration proposes is freeze the Part B
5 premium which pays for doctor's bills, the supplemental
6 medical insurance premium, at the \$7.20 a month which older
7 people pay. This is scheduled to go up to \$7.70, 50 cents a
8 month, in July.

9 We found it very difficult to understand the reasoning
10 for it. The Part B premium increases are presently limited
11 to not increase more than the same percentage by which
12 Social Security benefits, cash benefits, were increased in
13 the prior year.

14 The effect of that is to limit any increases in Part B.
15 At the present time, for example, effective July 1, the
16 actuarial value of Part B, the cost of providing the Part B
17 benefits to an aged beneficiary, is \$24.60 a month, of which
18 they would only pay \$7.70.

19 The disabled, for example, the cost of providing the
20 Part B benefits to them is \$50 a month of which they pay only
21 \$7.70. So that the Federal government is far and away picking
22 up the lion's share.

23 We already match for the poor. The Federal government is
24 paying for that under Medicaid.

25 For example, for the old age assistance recipients under

1 \$1,370,000,000.

2 These things pyramid, and again, it is on an undiffer-
3 entiated basis. In the case of Part A, the hospital.
4 deductible, the states are required by law to pay for
5 Medicaid beneficiaries. Half of the elderly have private
6 health insurance that pays those deductibles and Medicare,
7 if the older person cannot pay it, already picks it up as
8 a bad debt to the hospital. We pick up the full cost.

9 Those are the kinds of pressures that this kind of thing
10 does generate. But the main thing is, it is probably some-
11 thing that should be considered more in the context of
12 National Health Insurance, and also that you have already
13 limited the amount by which the premium can go up to not
14 a greater percentage than the Social Security cash benefits
15 increase.

16 The Chairman. Here is the point that is plaguing me
17 about this problem.

18 There are some very well-intentioned people I am sure --
19 I guess that at one time I was one of them -- who feel that
20 we can provide all of these benefits by taxing the rich,
21 you know, let the rich so-and-so's pay for all of this. Why
22 tax the poor man?

23 Having looked at these tax bills for the last two or
24 three years, it looks more and more to me as though maybe
25 we have a potential of picking up \$3. or \$4 billion by taxing

1 upper income taxpayers and from that point on we will have
2 reached a point of diminishing returns. We could put more
3 taxes on, but we could not bring in more revenues.

4 After you get beyond a certain point, the higher the
5 tax rate brings in less revenue than more revenue. Everybody
6 has heard the argument, at what point do you reach the point
7 of diminishing returns.

8 We are going to be talking about health benefits and
9 also about some of these other benefits that -- health bene-
10 fits alone. What we are projecting here is not a new
11 program, not the President's health program, we are talking
12 about a \$20 billion increase on just what is there now,
13 are we not?

14 Mr. Constantine. Yes, sir.

15 The Chairman. Looking down the road five years, we need
16 \$20 billion more just to keep doing what we are doing.

17 All right, now, I do not have any doubt that we are
18 going to go beyond that, and about the lowest entrant in the
19 health insurance derby is something Senator Ribicoff and I
20 put in that only cost \$10 billion the first year. We can not
21 give you the assurance that it is going to stay down to
22 \$10 billion.

23 The high cost would be about \$80 billion. I guess,
24 political guesswork, you would fall somewhere between, with
25 about \$40 or \$50 more, so you have \$20 billion you have to

1 raise just to keep doing what you are doing.

2 So you are going to be needing somewhere between the
3 \$20 billion that you can project now and whatever figure
4 that you want to put on there, at least \$10 billion, maybe
5 as high as \$80 billion added just in that one area.

6 That is not counting what we want to do in other social
7 welfare programs.

8 There is no way that you can finance that by just taxing
9 the so-called rich. You are going to have to put some heavy
10 taxes on if you are going to pay for it, and that is going
11 to have to come out of middle income people, because you are
12 not going to tax it out of the poor.

13 The trend is to try to take the burden off these very
14 low income people -- and I heartily approve of that. Whether
15 you like it or not, you are going to have to tax on a basis
16 where it is going to hit consumers, it is going to hit
17 middle-income people. There is no way that you can raise
18 that much money without hitting middle income people, and it
19 is going to hit them hard.

20 Senator Matsunaga. Earlier, Mr. Constantine spoke
21 about saving \$800 million under existing law without proposed
22 changes administratively. Has the staff made any study about
23 the difference in actual Medicare and Medicaid costs per
24 capita-wise in Hawaii as compared to the national average,
25 where in Hawaii the cost was less than one-half the national

1 average, where the Administration of Medicare and Medicaid
2 programs was handled by the Hawaiian Medical Services Associ-
3 ation, a nonprofit organization.

4 I think perhaps a lot of savings can be done right there
5 by proper administration.

6 Per capita-wise, as I said, if you will check the
7 record, in the case of Hawaii, 50 percent of the national
8 average administratively -- perhaps we could make a lot of
9 savings.

10 Mr. Constantine. There is no question about it that
11 the administration of Medicaid, generally speaking, is not
12 a paragon of efficiency. It is not an example for the world
13 of how we do it, and this Committee has worked, as you know
14 on at least having statutes that will enable effective
15 administration. That is putting it in one ear.

16 The Congress cannot administer the laws. There are
17 legislative proposals -- I know Senator Talmadge is working
18 closely with the President and the Administration and
19 President Carter has endorsed his general administrative
20 reform efforts.

21 Senator Matasunga. Perhaps we could use the HMSA in
22 Hawaii as a model.

23 Senator Byrd (presiding). What decision does the staff
24 need at this point?

25 Mr. Constantine. We would recommend that you delete the

1 plus \$200 million at this time to freeze the supplementary
2 medical insurance premium.

3 Senator Byrd. What is the wish of the Committee?

4 Without objection --

5 Senator Hathaway. I do not know, Mr. Chairman. As the
6 Chairman pointed out, before he left the room, there is
7 considerable opposition to that, I think.

8 Senator Byrd. The Chairman raised a good point.

9 Senator Hathaway. If we have no other place to get the
10 money, we are going to be stuck. It is like some of these
11 others that we were talking about earlier that appear at first
12 blush here in the Committee to be pretty good ideas.

13 When we start to bounce them off of other Senators not
14 on the Committee we find they are put back in. Then we do
15 not have the money.

16 Mr. Stern. In this particular case, if you do put the
17 money, you would be creating an expectation.

18 Senator Hathaway. Why?

19 Mr. Stern. It is a proposal by the President. It costs
20 \$200 million. If you put \$200 million in at the point where
21 you evaluate it, if you then decide it is not a good idea
22 substantively, the argument would be made, well, it has been
23 provided for, the money is in the budget, why not do it?

24 Mr. Constantine. There are a lot of ways that you can
25 improve benefits in Medicare. This is one of the most

1 undifferentiated ways, 50 cents a month. It creates a
2 precedent that may well come back to haunt you. And, as
3 Mike says, it does create an expectation that you are
4 going to do it. There are a lot of ways that you can improve
5 benefits a lot more equitably than in this area.

6 There is already a limit as to how much you can increase.
7 The General Revenue is picking up a lion's share of this, by
8 far.

9 Senator Hathaway. I realize that.

10 Why did the Administration recommend it?

11 Mr. Constantine. We asked them why. It was kind of
12 interesting. They said that this was a campaign commitment.
13 Of course, it was a balanced budget, and so on.

14 We also asked them what this 50 cents a month was
15 designed to do. The best they could come up with was that
16 this was some kind of rebate.

17 We just did not know what a 50 cent rebate a month does
18 for people.

19 Senator Hathaway. It will not overheat the economy.

20 Senator Byrd. What does the Committee prefer to do in
21 this regard? What do you want to do?

22 Senator Hathaway. I would probably vote against it,
23 if we take a vote.

24 We have some other items to think on overnight. Why do
25 we not postpone this?

1 Senator Byrd. Why do we not postpone this and go
2 to the next item?

3 Mr. Constantine. There is one left.

4 Senator Hathaway. One other question.

5 You talked about administrative savings that could be
6 made under present law. Are you including the tremendous
7 paperwork burden?

8 I understand from Gaylord that some studies have been
9 made, that paperwork under Medicare alone amounts to 10
10 percent of the room cost in a hospital.

11 Senator Nelson. Have you checked those figures?

12 Mr. Constantine. It varies.

13 We asked Social Security's research people. A lot of
14 hospitals complained about the paperwork and so on from the
15 beginning of time, and we have asked Social Security to look
16 into the validity of it in terms of how much paperwork do
17 we require in relation to what they have to do for their
18 Blue Cross subscribers and their paying patients and self-
19 paid.

20 Nothing has come back as yet. Nothing has come back on
21 that, Senator.

22 I do not doubt in a given hospital that it might be that
23 high.

24 Senator Nelson. I have not gotten ahold of it. I have
25 been told that there is a West Virginia study. There is one

1 being done now in one of the clinics in Wisconsin.

2 They were talking 10 percent. That would be 10 percent
3 of \$150, that is \$15 a day. If that is so, I think it is a
4 good task to find out what the Medicare costs are versus
5 Blue Cross.

6 The important question is what either one of them looks
7 at in paperwork. I have looked at Blue Cross, and that is a
8 lot of paperwork.

9 It is worthwhile finding out what the paperwork costs.
10 If it is anywhere near 10 percent, if that is so, it is an
11 astonishing burden to have per patient day in a hospital.
12 It is unbelievable to me. I have not looked at the West
13 Virginia report, so I am going on secondhand information.

14 Mr. Constantine. Medicare and Medicaid hospital costs
15 benefit often from creative accounting in hospitals. They
16 tend to shift costs over to us, obviously, because we are
17 there.

18 Some of the claims are slightly exaggerated. We do have
19 an awful lot of paperwork; there is a fair amount of it that
20 can be avoided.

21 Senator Nelson. What kind of controls are there on
22 patient days per operation?

23 Does the law require a certain review system set up?

24 Mr. Constantine. Yes, sir. It is operative now in
25 Wisconsin -- the PSO program. We have a hundred of them.

1 I would say about thirty or forty of them are really
2 operative.

3 In New York City, they are achieving results in the
4 Manhattan PSO. In other areas, they have had a significant
5 benefit. They are scattered.

6 Wisconsin is going on it now. They did put a limit on
7 the maximum stay by diagnosis, then the doctor just requests
8 an extension, but there is an automatic checkpoint with the
9 other physicians.

10 Senator Nelson. A peer review; whatever the surgery is
11 for an ordinary case, there is a standard time that anybody
12 in a certain health condition ought to stay for an appendec-
13 tomy, gall bladder or what have you. Then anybody who is
14 keeping a patient longer must justify it to the peer review
15 group.

16 Mr. Constantine. Yes, sir.

17 What it amounts to, the data show, for example, in the
18 Northeast that patients stay 50 percent longer than they do
19 in the West. When they are 65 and older, they average 9
20 days in the West and 13 days in the East.

21 Senator Nelson. That is the effete East; probably not
22 a fair comparison.

23 The Chairman (presiding). Let me ask you this about these
24 estimates. In scheduling this meeting, how much material
25 do you have to cover? Is it all in this pamphlet here?

1 Mr. Stern. Actually, you would be able to finish
2 tomorrow if you come back and pick up on the decisions that
3 you have put over, if you stop, say at the end of this chart.
4 Just one more item on this chart.

5 You really have -- you have the revenue area, what you
6 want to do in terms of the tax stimulus plus a couple of
7 other programs, the Revenue Sharing and Sugar Act, and then
8 coming back to the decisions that you did not make today.

9 You ought to be able to finish tomorrow.

10 The Chairman. We could put off Chart 13, then, and
11 hopefully finish tomorrow?

12 Mr. Stern. I hope so.

13 The Chairman. Did you allow us two days for this, or
14 three days?

15 Mr. Stern. Three days.

16 The Chairman. I would suggest we finish this chart,
17 then, and then come back tomorrow.

18 What do you suggest we do? Are you suggesting a change
19 on that item?

20 Senator Hathaway. We deferred it until tomorrow,
21 whether or not we would take Mr. Constantine's recommendation
22 of knocking out the plus 2.

23 The Chairman. Defer that until tomorrow.

24 Senator Nelson. It is my understanding that -- is staff
25 saying you can make the same economies elsewhere but the

1 impact would not be the same?

2 Mr. Stern. There are two separate issues. One is the
3 savings issue; the other one you have just been discussing,
4 the freeze, is not a discussion of whether you save money or
5 not.

6 Senator Roth. Is not the staff really suggesting that
7 by taking it out, you are keeping your flexibility?

8 Mr. Constantine. I would like to be able to say yes,
9 Senator. What we are really saying is that there does not
10 seem to be any rational justification for the item relative
11 to a lot of other needs and the fact that it sets a precedent.

12 Senator Roth. I understand.

13 The basic thrust of what you want done, it seems to me
14 a number of us have taken the position to keep us as flexible
15 as we can.

16 Mr. Stern. You keep yourself flexible by not assuming
17 a savings. The President's budget does, in this case. It is
18 a question of the President's budget including an additional
19 cost.

20 Mr. Constantine. You lose your flexibility to that
21 extent if you leave it in. That is the issue that you want
22 to defer.

23 Senator Roth. If we follow your suggestion and take
24 it out, we keep our flexibility and still reserve the right
25 to move on the President's proposal, if we so choose?

1 The Chairman. He would limit reimbursement rates,
2 right?

3 Mr. Constantine. There were two parts.

4 The Chairman. The \$700 million you are talking about?

5 Mr. Constantine. On hospital revenues, yes, sir.

6 The Chairman, You would limit what you are going to
7 pay hospitals?

8 Mr. Constantine. Limit the increase in hospitals per
9 admission to not more than 10 percent next year, in effect.

10 The Chairman. You do not think that is feasible?

11 Mr. Constantine. We do not think it feasible. We think
12 it is inflationary. We think you can manipulate it, at this
13 point in time.

14 The Chairman. You think that this would come out at
15 this point in time?

16 Mr. Constantine. Yes, sir, at this point in time,
17 hopefully you can reconsider, when they come back with
18 something. It would be a savings if they could work up
19 something that is workable. You can always put in a savings
20 later.

21 The Chairman. Here is the way that it looks to me.
22 If we do what you are suggesting -- they are recommending a
23 \$700 million savings that you do not think is going to work,
24 right?

25 Mr. Constantine. At this point in time, yes, sir.

1 The Chairman. You think that that should come out,
2 but you think that they could save that much money administra-
3 tively out there in the Department?

4 Mr. Constantine. Yes, sir.

5 The Chairman. If that is the case, should we put in
6 this saving that you think could be achieved administratively?
7 Should we put that in to replace this?

8 Senator Hathaway. I think that is a good idea.

9 The Chairman. If so, we wind up back where we started
10 off from.

11 Mr. Stern. That is right. The difference in terms of
12 your report to the Budget Committee is that you show a separate
13 line for existing and new legislation instead of showing the
14 amount that the President has for existing legislation and a
15 minus \$700 million, you show a line \$700 million less for
16 existing legislation.

17 Senator Matsunaga. We would move that to the previous
18 chart?

19 Mrs. Stern. That is correct. That also applies to
20 the Medicaid costs control line. Another \$100 million overall
21 it is \$800 million.

22 The Chairman. We put that on a different line, is that
23 not it?

24 Mr. Stern. Yes, sir. Existing legislation.

25 Senator Matsunaga. Mr. Chairman, may I ask this?

1 It was earlier suggested by Mr. Constantine that
2 hospitals in anticipation of the freeze have already gone
3 ahead and increased. Will this mean that if we eliminate
4 this, perhaps they may lower or remain? Those hospitals who
5 have not increased may not increase.

6 Mr. Constantine. Generally, they are increasing. We
7 think that the existing law estimate without this \$800 million
8 is going to be low as a result of the anticipation of that,
9 but the trouble is, we cannot put a pricetag on it now. It
10 is too soon to get those data. By the time we get around, I
11 would say maybe around the 1st of July, we will probably
12 have some fairly substantial increases.

13 Senator Matsunaga. The inclusion of this "Freeze"
14 would tend towards inflation?

15 Mr. Constantine. Yes, sir.

16 The Chairman. I want to say, for the benefit of the
17 new members of the Committee who are here, let me strongly
18 urge you to take this pamphlet home with you, study it before
19 we come back tomorrow, and if need be, consult with members
20 of the staff and ask whatever questions you want to, whichever
21 staff personnel you have the greatest confidence in, that
22 you think might best be able to help you, because in some
23 respects you are getting locked in.

24 When we send this thing over there -- you are not locked
25 in to where you cannot get backed out, but it is a lot easier

1 not to get in the trap to begin with than it is to try to
2 get yourself out once you find yourself in it.

3 So to the extent that that might be the case, I just
4 cannot urge too strongly that you study this and be sure
5 that you think you understand what we are doing here, which I
6 am not sure that any of us can safely say that we do.

7 In some respect, we should speak up now, or hold our
8 peace thereafter. You are not fully locked in, but to some
9 degree, you are, after we send this thing over there.

10 Then we will meet at 10:00 o'clock tomorrow.

11 (Thereupon, at 12:20 p.m., the Committee recessed,
12 to reconvene on Wednesday, March 2, 1977.)

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