

EXECUTIVE SESSION

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WEDNESDAY, FEBRUARY 22, 1978

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United States Senate,
Committee on Finance,
Washington, D. C.

The Committee met, pursuant to notice, at 10:15 a.m. in room 2221; Dirksen Senate Office Building, Hon. Russell B. Long (Chairman of the Committee) presiding.

Present: Senators Long, Talmadge, Byrd, Bentsen, Moynihan, Curtis, Hansen, Packwood and Danforth.

The Chairman. Why do we not meet here and start talking. Let me get this proceeding underway. May I ask all Senators to come and have a seat, and we will start moving through this and let Mr. Stern explain to us what is in this pamphlet. By the time we get around to making some decisions, I would think that we would have a quorum here.

Meanwhile, I would think that we could go ahead and explain what we have to consider.

Mr. Stern. The Congressional Budget Process requires that the Finance Committee and other committees submit recommendations to the Budget Committee by March 15th of each year on the areas within their jurisdiction. For most committees, this is simply an expenditure recommendation.

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1 In the case of the Finance Committee, it includes
2 revenues, tax expenditures and recommendations on the level
3 of the public debt in addition.

4 This recommendation takes the form of a number for
5 existing legislation and a net number for new legislation
6 for revenues and for each of the separate categories of
7 expenditures or outlays.

8 For example, in the area of revenues, you would wind up
9 with a net number which would represent what you think you
10 are going to do in revenue legislation during the course of
11 the year, and similarly, in areas such as income security
12 or health, you would have a net number for which you would
13 recommend new legislation for the coming year.

14 The Finance Committee, both in its proceedings and its
15 letter to the Budget Committee, has been very meticulous
16 in putting out that these are budgetary decisions, not
17 legislative decisions, that are made. Since you are not
18 holding hearings, you do not have the benefit of actual
19 legislative consideration.

20 These decisions are not legislative but budgetary, for
21 the purpose of picking targets.

22 The chart presentation simply outlines the areas for
23 consideration. The first chart appears on page 10 of the blue
24 book and all the charts are reproduced, and simply says what
25 I just reflected.

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1 Turning to the second chart, on page 12, many of the
2 areas under Finance Committee jurisdiction under existing
3 law are determined by what economic assumptions you make on
4 Gross National Product, personal income, corporate profits,
5 Consumer Price Index, unemployment rate, and so forth.

6 The second chart on page 12 shows what those economic
7 assumptions are that underlie the estimates in the President's
8 budget. The Joint Committee does not dispute these economic
9 assumptions and feels that they are within a reasonable
10 range, and therefore, all of the estimates that you will see
11 in the pages for Social Security, Unemployment Compensation
12 and so forth that are related to these economic assumptions,
13 we do not have alternatives for.

14 Going to page 14, the third chart shows the major
15 expenditure programs under Finance Committee jurisdiction,
16 Social Security cash benefits, SSI for the aged, blind and
17 disabled, the welfare program for families, social services,
18 unemployment compensation, health programs, revenue sharing
19 and, should you re-enact it, a Sugar Act-type program, and
20 interest on the public debt.

21 These expenditure programs added together come to about
22 a quarter of a trillion dollars and represent about half
23 of the Federal budget. The largest items are Social Security
24 cash benefits and interest on the public debt.

25 Getting into the first of these areas on the fourth

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1 chart, the Social Security cash benefit trust funds in the
2 upcoming fiscal year, are running at an income/outgo level
3 of a little over \$100 billion. This is a program of retire-
4 ment benefits, survivor benefits and disability benefits.

5 We have shown separately an income under prior law and
6 the income under the 1977 amendments so you can get an idea
7 of the magnitude of the tax increases that were approved
8 in last year's Social Security bill.

9 Basically in the upcoming fiscal year, they raise taxes
10 by \$4.3 billion, going up to an increase of \$30 billion by
11 fiscal year 1983. The purpose of that was to improve the
12 reserve position of the trust funds. You can see that on the
13 bottom line of the chart where the reserves, even with the
14 tax increases in the next year, are expected to dip down to
15 only one-quarter of a year's worth of benefits, three months'
16 worth of benefits. Then they pick up again, so that by the
17 end of the period the reserves would be 38 percent.

18 The guideline at the time that the automatic cost of
19 living provisions were enacted in 1972 actually were 75
20 percent reserve.

21 I might point out that the outgo figures also are lower
22 than what they would have been under prior law, because you
23 did enact some benefit decreases in particular areas that
24 you felt were unintended benefits, so the savings over that
25 period amounts to a little less than \$10 billion. So you

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1 have enacted benefit decreases, too.

2 We want to point out one thing, that these numbers do
3 assume -- the President's budget assumes a speed-up in col-
4 lection of state and local contributions. They are now
5 quarterly. Basically they will go to monthly contributions.

6 This is something that the states and localities have
7 resisted in the past, so I simply mention that. The numbers
8 here do assume a somewhat quicker rate of state and local
9 collections than is presently the case.

10 The Chairman. Let me just get one thing straight in my
11 mind. You have to look at it year by year. We are assuming
12 that we will have a combined deficit in Social Security of
13 \$8.7 billion in fiscal years '78 and '79, and that even so,
14 we will have about 33 percent of one year's pay-out. That
15 is what you are looking at, the bottom line. Is that not
16 right?

17 Mr. Stern. That is correct, sir. That is the reason
18 why it dropped. In fact, it dropped some 42 percent at the
19 beginning of fiscal '78 to 27 percent at the beginning of
20 fiscal year 1980. That 8.7 decrease is really a substantial
21 decrease in the reserves.

22 Senator Packwood. How much of the 1983, \$151 billion,
23 is Medicare and other non-old age payments?

24 Mr. Stern. None of that is Medicare. This is only
25 cash benefits.

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1 Senator Packwood. Strictly cash benefits.

2 Mr. Stern. Old age benefits, retirement benefits,
3 survival benefits, disability.

4 Senator Packwood. How much is disability?

5 Mr. Stern. \$22.6 billion.

6 Senator Packwood. Roughly about \$30 billion for old
7 age?

8 Mr. Stern. Yes, sir.

9 Senator Packwood. How much are you projecting, how
10 much of that -- what percentage of that is the national
11 Federal budget?

12 Mr. Stern. The President's budget assumes total
13 outlays of about \$650 billion in 1983, so you said \$130?

14 Senator Packwood. That is what you said.

15 Mr. Stern. Just about one-fifth.

16 Senator Packwood. Twenty percent.

17 Let me ask you, if you include the disability and the
18 medical care, what does that disability come to; what
19 percentage of total?

20 Mr. Stern. The Medicare figure and another -- let us
21 see. Other outgo would be 37 and 16.

22 Senator Packwood. What is 16?

23 Mr. Stern. Supplemental medical insurance, Part A and
24 Part B together. That is \$53 billion.

25 It is \$205 billion, about 32 percent.

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Senator Packwood. By 1983, 32 percent of all of the outlay is out of the present Social Security fund?

Mr. Stern. That is correct.

Senator Packwood. Thank you.

The Chairman. Move on.

Mr. Stern. Turning to Chart number 5 on page 20, the Social Security Administration also has general fund

payment programs. First of all, there is a Federal fund payment to the trust fund which is amounting to about \$180 billion in fiscal '79. The largest single item is military service credits. This is the allowance of credits to persons for their military service during World War II and when they do retire, the portion of their benefits that they get because of that service is reimbursed from the general fund.

That amounts to about a half a billion dollars. Although there are individuals who obtained age 72 before 1968 who get a general fund payment, these are so-called Proudie

benefits. And then there is a small amount of general revenue funds for the cost of the Social Security Administration's providing information on vested pension rates to individuals.

That, together, adds up to a little less than \$800

million. The largest single item is the Supplemental Social Security Income Program which pays \$6 billion in fiscal '78 and \$5.6 billion in fiscal '79.

That particular fluke is due to Senator Hathaway's

1 amendment, which says when a benefit is payable on the
2 first of the month and the first of the month is on a Sunday,
3 you pay it before.

4 It so happens that October 1st, 1978 is a Sunday, so
5 as a result, fiscal year 1978 has thirteen months of payments
6 and fiscal year 1979 has eleven months.

7 Senator Curtis. If we change the calendar, can we
8 save some money?

9 The Chairman. That is an expenditure, is it not?

10 Mr. Stern. That is right.

11 The Chairman. If we want to make the budget look a
12 little bit better, can we not find some way to make an
13 exception for just one month, and say that you will pay it
14 out the next day, except on October 1, on October 1 you will
15 go ahead and pay it out.

16 Senator Hathaway. Election day is November 7th.

17 Mr. Stern. It does help your position in fiscal year
18 1979, since fiscal '79 is the actual year that you are making
19 your recommendations for.

20 The Chairman. If we want to reduce our deficit, it looks
21 to me as though that little item, we could pick up a nice
22 chunk of cash. Not that much, but pick up a couple of
23 hundred million dollars.

24 Mr. Stern. A difference of \$400 million.

25 The Chairman. All you have to do is make a small technical

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1 change. Let's say that we might want to do something later
 2 on -- make a note of that, Mike.

3 Mr. Stern. The SSI program currently provides benefits
 4 to about 4 million recipients. Somewhat more than half of
 5 those are disabled.

6 When the program originally started in January, 1974,
 7 the number of disabled was 42 percent of the caseload, but
 8 in fiscal year 1979, it is projected to be 56 percent of
 9 the caseload.

10 The reason for that is that about 80 percent of all of
 11 the new people who come in and apply are disabled. It is
 12 gradually becoming more and more a program for the disabled.

13 Senator Curtis. This is not directly connected to the
 14 disability benefits under Social Security.

15 Mr. Stern. The criteria are supposed to be the same.

16 Senator Curtis. The same problem there as to the
 17 increase, is that showing up here?

18 Mr. Stern. I think it is the same problem.

19 Senator Curtis. A matter of certifying who is disabled?

20 Mr. Stern. Right.

21 Senator Curtis. Or is it a problem of more general
 22 disabled people learning about the benefits?

23 Mr. Stern. I would not say that it is the latter. I
 24 think it is more a matter -- the definition of disabled
 25 itself has not changed in the law, but the practical application

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1 of determining who is disabled has, over a period of time,
2 more and more taken into account factors such as education
3 and experienced, and so it has gradually moved more and more
4 into what you may call an occupational definition of disability
5 than a very tight definition of disability.

6 Senator Curtis. Has that been brought about by the
7 courts, regulation or both?

8 Mr. Stern. Mostly the courts, although administratively,
9 the Social Security Administration has loosened up on the
10 degree to which they oversee the determinations of disability
11 compared to where the program first started.

12 The Chairman. Basically, is it not true that, in regards
13 to disability, both the part that is under Social Security
14 and the part that is under SSI, that it is a runaway spending
15 program? It is eating us up alive.

16 We started out assuming that we were going to have 1
17 percent of the work force on it, is that not right? 1 percent
18 of the work force, or 1 percent of the population?

19 Mr. Stern. I do not know.

20 The Chairman. We started assuming 1 percent. I read
21 articles on it.

22 Some writers in the various media has done a good job on
23 it. We assumed it was going to be a 1 percent factor. Now
24 they have got it up to 3 percent.

25 We have a program somewhat similar to that over there in

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1 Belgium where they got up to 10 percent.

2 Gaylord Nelson can tell us about it, when he is here.
3 He said over there in one of these provinces of Italy where
4 they have a lot of people down and out and in need, they
5 have more people on disability than they have on welfare,
6 as a whole. They have more disabled than they have welfare
7 classes generally.

8 It is a runaway program. Nobody had any proposal about
9 how to bring it under control, but somebody is going to have
10 to face up to it, and the Administration ought to do it
11 first. They have the responsibility for suggesting how it
12 should be done.

13 As I understand it, 50 percent of all those who were
14 examined were not recommended for disability were put on the
15 rolls on appeal and 50 percent not on appeal were put on by
16 the courts. It works out that the people who show up have
17 convinced themselves that they are disabled. If the person
18 they talk to at HEW does not put them on, the chances are
19 3 to 1 that they will be put on by either appealing within
20 the Department or appealing to the court.

21 So we started out assuming that we were going to have
22 1 percent on. We have 3, and the thing is on its way up.
23 After the courts and the examiners have reversed these people,
24 the courts and the appellate groups, after awhile the exam-
25 iners move around so people they would have turned down for

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1 not being disabled they, in the future, will abide by the
2 decisions of the courts, and they will put them on.

3 The way that it is going right now, it will not be long
4 before anyone, once having convinced himself that he is
5 disabled will be able to convince the courts or somebody that
6 he is disabled. It is a runaway program.

7 This thing, over a period of time, could be the whole
8 cost of Social Security. Nobody likes to face up to it.
9 Nobody likes to be the guy who bears the bad news -- I am
10 sorry, old friend, you are not disabled. But we have some-
11 thing here that I do not know how we are going to bring under
12 control.

13 The first thing we ought to do is call for the Adminis-
14 tration to make a recommendation.

15 Senator Curtis. Mr. Chairman, our staff is very busy,
16 but it seems to me that there might be a little preliminary
17 material that they can bring before us to make a decision.

18 I think that we ought to know something about the
19 average age of these people. In other words, sort of define
20 the problem, so that we can make an intelligent decision on
21 what sort of in-depth approach we want to make.

22 In other words, I suggest that the staff bring us a
23 preliminary report on what the problem is so that we can
24 define it, the ages of the people involved and so on, and
25 where they are.

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1 Mr. Stern. I might mention, in the upcoming year, 20
2 even in this year, the disability tax is 1.55 percent of
3 payroll, a little more than 1.5 percent of payroll, which is
4 quite a significant tax, really, for just that part of the
5 program.

6 The Chairman. I saw an article awhile back that
7 reviewed some of the legislative history. As far as I know,
8 he was completely correct in what he was saying. He referred
9 to the arguments that Senator Roth gave us on the floor when
10 this amendment was offered for the disability insurance
11 program.

12 I was one of the cosponsors of that amendment. I think
13 it failed in the committee by a small margin, by one vote.
14 It was offered on the Floor and Senator George was the
15 principal sponsor, myself and others joining, and most of
16 us Democrats.

17 If Senator George could be back here now, he would be
18 very dismayed to see how bad this thing is beyond the esti-
19 mates he gave at that time. As one of the co-sponsors of
20 the amendment, I am dismayed about it.

21 I would suggest that we call upon Mr. Califano; the
22 first man who alerted me to this thing, that this thing was
23 out of control, was Mr. Califano. I suggested to him that
24 one of the ways to solve the welfare problem, we take some
25 of these people who had hypertension or, for one reason or

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1 another were not available in the work force and declare
2 them disabled. He told me that this program is out of
3 control the way it is now. We ought to do both, Senator.

4 Senator Curtis. Yes. What I suggested, you would not
5 have to delay hearing the Secretary, but in light of his
6 statement, what other information we could have, we could
7 sort of wrap it up.

8 The Chairman. Why do we not notify the Secretary when
9 he comes up here, the next time he appears before us, we want
10 to discuss this disability thing with him. It looks to us --
11 it is our impression that this is a runaway program, runaway
12 spending program. How does he propose to bring it under
13 control? And, meanwhile, the staff could bring whatever
14 suggestions they have to us.

15 Mr. Stern. All right.

16 The SSI program now pays benefits of \$2,100 a year for
17 an individual and \$3,200 to a couple. We do not have any
18 quarrel with the estimate that they made. We should point
19 out that there is a relatively small amount of money in H.R.
20 7200, the bill that is now on the Senate calendar, that
21 applies to SSI.

22 Actually, there are items of saving as well as items of
23 cost, so that the bill as far as it affects SSI only costs
24 a net amount of \$7 million, but we might want to indicate
25 that there is proposed legislation.

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Turning, then, to the next chart, chart 6 on page 24, the Social Security amendments that were enacted last year did include, as I mentioned before, a sizable reduction in the outlays over the next five years because of cutbacks in benefits which Congress felt were unintended, taking such examples as allowing a man to get the benefits on his wife's record even though he may be receiving a substantial government pension. At any rate, those represent the reduction of about \$9.5 billion over the five-year period. Many of them were actually recommended by the President.

This year's budget includes the items shown on this chart as a way to save money in the Social Security program. For example, they would reduce student benefits so that they would not allow those benefits to be any higher than the educational grants under the Federal education program. That is now \$1600 a year. They would eliminate cost-of-living increases for persons receiving minimum benefits. Those minimum benefits are now \$121.



Last year, what you said was the minimum benefit itself would not rise in the future, so that if somebody retired at the minimum benefit in ten years would also get \$121. Once you do retire, if you get that \$121, it would be increased as the cost of living rises.

The Administration has two changes they are recommending. First of all, they are saying the \$121 the people are getting

1 now should never go up. If you get the minimum benefit,
2 when the cost of living increases, the benefit should not
3 increase.

4 Second of all, they are saying in the futuer that there
5 be no minimum benefit, so if the formula would work out to
6 give you a benefit of \$32, that is what you get -- not the
7 minimum of \$121.

8 Furthermore --

9 The Chairman. Let me just summarize the recommendations
10 in this fashion. These are all suggestions that the Adminis-
11 tration and the Department are recommending, ways that we
12 can tighten the program and save money. It works out in
13 fiscal year '79, they would have a savings of \$600 million
14 and, over a period of time, it would grow because it would
15 be a savings of about \$1.5 billion, something like that,
16 \$1.7 billion in 1983.

17 But, as a practical matter, we are not going to be able
18 to put these things through unless we have some bill that
19 increases the benefits, a big bill. The only way that you
20 can tighten up on these little things here and there, if
21 you want to tighten up on the loose ends, you have to have a
22 bill that loosens up on the tight ends to go along with it,
23 otherwise, it looks like you are hardhearted and cruel and
24 unsympathetic to the poor and so that you have to have some-
25 thing where you are doing something for somebody to go along

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1 with something when you are doing something to somebody.

2 If you do not balance it out, it looks like you are
3 totally unsympathetic to the needs of the poor, the retired
4 and the aged, the handicapped and whatever.

5 The only thing I see to do, as of now, we ought to tell
6 them that we do not think that we can do this, because we
7 do not see any bill in the offing, in the Budget being
8 proposed to spread some good among people to offset what
9 people would not like here.

10 If you can mix this into a package where you have some
11 benefits to go with it, the benefits outweigh the burdens,
12 you can pass it. If you try to come out with this bitter
13 dose of medicine, meritorious though it may be, for the
14 Social Security and disability pensioners, the Senate would
15 vote it down, and so would the House.

16 I would suggest we just tell them here, we do not see
17 how this can happen. If the people on the Budget Committee
18 think they can pass it, let them try to pass these measures.
19 I do not see how we can do it.

20 Senator Curtis. Mr. Chairman, in connection with the
21 minimum benefit, it would be my hope that when we get ready
22 to deal in that field that some new definitions or something
23 would come in so that you could distinguish between different
24 kinds of minimum benefit. Some people may get a minimum
25 benefit just for a small amount of extra work. It may be a

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1 retired civil service person who was retired under that
2 program but they have worked enough to get a minimum benefit
3 in Social Security. That is one which a supplemental is, in
4 some instances, even a windfall.

5 Suppose that you have a case of someone who is retarded
6 or nearly so. They have a limited capacity to work and
7 their earnings are very low. Maybe they have never been on
8 any program. I would hate to see them deprived of a cost-
9 of-living benefit, because that may be their only retirement
10 benefit, and they have worked and earned it. It is not a
11 supplemental or accidental benefit or a windfall.

12 I do not know how you can define it, but I think you
13 should give some attention to it.

14 The Chairman. We will be back as soon as we vote.

15 (A brief recess was taken.)

16 The Chairman. All right, Mr. Stern.

17 Mr. Stern. At the time you recessed, Mr. Chairman, you
18 were just discussing -- I will summarize what you said --
19 the individual items of savings that the President proposed
20 on his budget in the Social Security cash program. It would
21 be unrealistic to expect that you could achieve those savings
22 in a vacuum all by themselves, therefore, you were suggesting
23 that the Committee recommend to the Budget Committee -- not
24 recommend the savings to the Budget Committee.

25 The Chairman. Let us not make a formal decision at this



1 point until we have more members here. What is the next
2 item?

3 Mr. Stern. I will go over to the next chart, which is
4 chart number 7, welfare programs for families, on page 28.

5 The largest single item is the program, Aid to Families
6 with Dependent Children, which is running at about \$6 billion.
7 The number of recipients of Aid to Families with Dependent
8 Children is \$11 million, and a little more than 3.5 million
9 families.

10 Actually, the number of recipients is expected to go down
11 very slightly from \$11.2 million to \$11 million. This
12 decline -- rather, I should say, the failure of the AFDC
13 program to increase at a time of economic downturn may well
14 be due to the next item on the chart, the child support
15 program, which is now serving three-quarters of a million of
16 AFDC families and 5,000 persons not on AFDC.

17 The chart shows that the collections themselves are
18 expected to be \$600 million in fiscal year 1979, as against
19 the Federal share of the administrative cost, which is \$200
20 million and equivalent -- well, somewhat less -- state and
21 local administrative costs.

22 The chart does not show a number which we do not have
23 which is the amount of savings, there are, on welfare, due
24 to the fact that the family does not go on welfare in the
25 first place.

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1 The Chairman. The fact that the cost of the AFDC
 2 program is not going up, the fact that it is not going up in
 3 cost, is due largely to this item. I know that is true. If
 4 you can just check it out, you can find out only about half
 5 of the states are implementing it the way they ought to.

6 I regret to say I am going to try to find out why we
 7 cannot get better results in Louisiana, and I think I have
 8 some hints as to what the problem is down there. But in the
 9 states that are implementing this program properly, it is
 10 saving a tremendous amount of money.

11 There is one caseworker who just explained to my wife,
 12 somebody came into her home town to apply under this new
 13 law. Before we can put you on, we have to find who the
 14 father is, or try to find out who the father is, to make
 15 every effort to make him contribute something to the support
 16 of the child. At which point, the applicant said, well, if
 17 we have to fool along with all of that, just forget about it.

18 So the point was, she knew all the time where the man
 19 was and he was making a contribution to support the child
 20 and if the government is going to make her cooperate and
 21 find the man and make him contribute something, just forget
 22 about it. That is what is keeping this thing down, large
 23 numbers of people who are not applying because they know all
 24 the time that a resource is available to support them.
 25 Senator Talmadge. If the Chairman would yield at that

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1 point, there was an article in Reader's Digest on what an
2 outstanding job the state of Michigan had done in that regard.
3 I put it into the Congressional Record. They saved millions
4 and millions of dollars.

5 The Chairman. Michigan is doing a great job. If we
6 can get more states to do the job instead of the cost of
7 this program going up, it will go down.

8 Senator Curtis. How many states are using it?

9 Mr. Stern. I am sorry?

10 Senator Curtis. How many states have a program to use
11 this child support assistance?

12 Mr. Stern. All states have the program, the question is
13 the effectiveness.

14 The Chairman. Do you have the report over there, Mr.
15 Galvin, on this thing, the states that are really doing the
16 job? Mr. Galvin, let us just pick off the states that are
17 really doing a good job and the states that are not doing so
18 hot.

19 California is doing a real good job with it, Connecticut
20 apparently, Georgia, Idaho, Illinois, Indiana. Michigan
21 is doing the most outstanding job of all of them in this
22 area. Massachusetts. Minnesota is doing pretty well with it.

23 The point is, I would think that if you would analyze it,
24 you would find less than half the states are doing a good
25 job. Those that are are doing such an effective job, that is

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1 what is holding down the cost of the program.

2 Go to the next thing, now.

3 Mr. Stern. The next item is the Work Incentive Program
4 to train welfare recipients in search of a job. The President's
5 budget only recommends the same amount in fiscal year '79 as
6 for fiscal 1978. This Committee has approved, in legislation
7 last year, an authorization that, in effect, would double the
8 program. Nothing was appropriated in 1978 under that extra
9 authorization and we simply offer it for the Committee's
10 consideration.

11 You might recommend the same level in fiscal '79 as you
12 recommended in last year's legislation. This would be under
13 existing law, not new legislation.

14 The Chairman. Here is the problem about that. That goes
15 down as a \$400 million increase in spending. There is no item
16 anywhere to show what the savings is in that program. That
17 program is saving a lot of money. Senator Talmadge has
18 explained this many times, for every dollar you spend here,
19 you save more than a dollar elsewhere.

20 We really ought to find a way to recommend and itemize
21 that where we cut the budget with a saving which appears
22 elsewhere, so you could put an asterisk. If you have a cost,
23 you put an asterisk along side it, and the asterisk would be
24 this results in a savings.

25 Senator Talmadge. Georgia saved \$2 million on that

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1 program last year. Do you have the fact sheet on what we
2 are saving, Mr. Galvin?

3 Mr. Galvin. Last year there were 271,000 placed in
4 employment. The total savings, Federal and state, in grant
5 reductions were \$430 million.

6 The Chairman. You see, that exceeds what the cost of
7 the program was. The program cost \$400 million; those
8 savings were \$430 million. We ought to have a savings up
9 here. I guess you would put it under Aid to Families with
10 Dependent Children.

11 Mr. Stern. Right. We will try to come up with a number
12 by tomorrow morning.

13 Mr. Galvin. This is a one-time saving. This is not
14 annualized.

15 Senator Talmadge. I saw some slides in the recording
16 studio by the Labor Department, I believe, who is sending all
17 these little things to the television stations to run as a
18 public service about how effective the WIN program is. There
19 are two or three of them that they have down there, one in
20 Virginia, one or two other places. And some of the local
21 television stations run these as public service.

22 I know that my own state last year, according to the
23 reports I got, saved \$2 million.

24 The Chairman. I think that we ought to have something
25 in here that we expect to save at least half the cost of this.

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1 Senator Talmadge. That is on an annualized basis.
2 These jobs become permanent, so that it repeats itself every
3 year thereafter.

4 The Chairman. It is a money-maker and not a money-
5 loser.

6 What is the next one?

7 Mr. Stern. The President's budget contains legislative
8 recommendations which basically wash out -- one is to
9 increase, to liberalize, emergency assistance applied also
10 to families, to couples who do not have children. They
11 also have their proposals to limit the work expense deduction.

12 They recommended to this Committee last year, and this
13 Committee instead decided to recommend a higher work expense
14 deduction provision -- I mean, a provision with higher savings.
15 And that is the provision that is pending in H.R. 7200 which
16 is on the Senate calendar right now.

17 Their proposal would save about half of the amount of
18 the proposal.

19 Also, last year, the Congress enacted a downpayment,
20 you might say, on the Committee's fiscal relief provision for
21 states and localities. Originally the provision was a \$1
22 billion provision with \$500 million in fiscal year 1978 and
23 \$500 million in fiscal '79.

24 The Administration agreed to a figure a little less than
25 \$400 million in fiscal '78, which was halved in Conference.

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1 So we are assuming that the other half would go back in in
 2 H.R. 7200 as well as \$400 million in fiscal year '79. The
 3 reason it is less is that that was conditioned on decreases
 4 in error rates.

5 The other Committee changes in Aid to Families with
 6 Dependent Children in H.R. 7200 are almost all to save money,
 7 basically by improving quality control and there is one
 8 substantial provision to pro rate benefits in certain cases
 9 related to family composition, and there are some other items
 10 that save money too.

11 So overall, H.R. 7200, as reported by the Committee,
 12 pays for the additional fiscal relief by various other
 13 tightening-up provisions.

14 The Chairman. All right.

15 Mr. Stern. One thing that we would like to mention to
 16 the Committee is that AFDC program now falls under the Social
 17 Security Administration and there is no legislative authority
 18 for paying for administrative costs out of the trust funds
 19 and later reimbursing them. They are doing this anyway.

20 We would suggest if this is going to be done it should
 21 be done instead of through a point of order language in the
 22 Appropriations bill. It should be done by legislation here.
 23 We are thinking in terms of a safeguard as the one you have
 24 in the SSI program that says the trust funds must be reim-
 25 bursed within the year.

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1 The Chairman. Mr. Moynihan?

2 Senator Moynihan. May I simply point out that there are
3 indeed, very substantial savings in H.R. 7200 and there is
4 the second half, the fiscal relief which we had agreed to
5 in principle, we accepted that from the House Conference
6 Committee so that I would hope that the Senate might find its
7 chance to take up 7200.

8 The Chairman. We will do that.

9 Mr. Stern. The next chart is on page 34, chart number
10 8, social services.

11 The basic social service grant program is a \$2.5 billion
12 program under Title XX of the Social Security Act. Until
13 the end of the current fiscal year, that is, fiscal year 1978,
14 we have authorized an additional \$2.4 million for child care
15 funds to provide to welfare recipients providing the child
16 care.

17 In addition, we have the Social Services program and the
18 Child Welfare Services program in training under the Social
19 Security Act. The Child Welfare Services program authorizes
20 \$266 million in appropriations, but the amount that has been
21 appropriated is only \$59 million.

22 In fiscal year 1979, the President's budget assumes both
23 the \$2.5 billion for the basic program and they assume
24 extending the child care funding another \$200 million for
25 another year. The Committee has already agreed to do this.

1 The way the Committee did this was by increasing the
2 basic authorization \$2.7 billion in fiscal year 1979. That
3 is already pending on the Senate calendar.

4 In terms of child welfare services, the President's
5 budget does propose an increase in child welfare services,
6 assuming enactment of the foster care and adoption subsidy
7 provisions that you have included in H.R. 7200.

8 Finally, we should mention that the President's budget --
9 this does not show on that chart -- included in 1978 a half
10 a billion dollars for settlement of old claims relating to
11 social services. This committee has reported out a bill to
12 do that however, because of the provisions of the Budget
13 Act, you have made it effective in fiscal year 1979 rather
14 than fiscal year 1978.

15 That would be an additional \$500 million that we forgot
16 to show on that chart.

17 The Chairman. That is '79. That starts in October?

18 Mr. Stern. October 1 of this year.

19 The Chairman. The states will have to wait awhile to get
20 that money then.

21 Mr. Stern. That is right.

22 The Chairman. All right.

23 Mr. Stern. I think everyone is reconciled to that delay
24 because of the Budget Act.

25 Turning then to the chart on page 36, unemployment

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1 compensation; because of the decline in unemployment, the
2 unemployment trust funds are now in a positive position and
3 gradually rebuilding their assets. The outgo is expected to
4 be about \$11.6 billion in 1978 and \$11.8 billion in 1979.

5 That is the unemployment trust fund.

6 The Federal funds will still be drawing money in fiscal
7 year '78. This is the states whose trust funds have become
8 exhausted and they are still borrowing money from general
9 funds.

10 However, in fiscal year 1979, it is expected that these
11 funds will start to be repaid to the tune of \$400 million.
12 In addition, on the Federal funds side, there is \$200 million
13 in trade adjustment assistance, the unemployment compensation
14 where a worker has been affected by increased imports. The
15 Federal Employment Benefit Program is about \$700 million;
16 Transitional payments to states for newly covered workers,
17 that is trailing off. What happens, when you enacted the
18 legislation in 1976, you extended coverage to certain farm
19 and domestic employment and state and local employees. You
20 said the states had to do this by January 1978, but if they
21 elected to make benefits earlier than that, there would be
22 Federal funding for those benefits during the transition
23 period.

24 The President's budget recommends two changes that
25 affect the funding of the unemployment trust fund. The

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1 provisions of the law say that the Federal unemployment tax
2 will be .7 of a percent rather than .5 of a percent until
3 the advances to the trust fund are paid back. The President's
4 budget recommends reducing that unemployment tax to .5 of a
5 percent, and since that will reduce the revenues to the
6 unemployment trust funds by \$600 million, they also propose
7 referring the repayment to the general fund, so the \$400
8 million that would otherwise be paid to the general funds
9 from the trust fund will not be repaid, and the Federal tax
10 rate will be reduced from .7 of a percent to .5 of a percent.

11 That does result in a net cost of \$200 million which
12 actually shows -- it will show up both on the revenue side
13 and the outlay side. If you want to do that, you are going
14 to have to make accommodation for that.

15 Finally, although the President has not recommended
16 changes in the trade adjustment assistance program, the House
17 Ways and Means Subcommittee on Trade is working on a proposal
18 which will cost about \$100 million in fiscal year 1979. So,
19 should you think that you might want to do something in that
20 area, you will have to make an allowance for that.

21 The President's budget also has funds that are not shown
22 on the unemployment chart for trade adjustment assistance for
23 firms and communities. We understand, in fiscal '79, the
24 outlay level will be \$63 million.

25 Turning to chart number 10 on page 40 --

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1 Mr. Constantine. Mr. Chairman, the chart shows the
2 usual increases in Medicare. Chart 10 shows the unusual
3 jumps in Medicare and Medicaid costs in the two programs.
4 Under existing law, the Federal share goes up, the Federal
5 expenditures go up by \$5.7 billion and counting the state
6 share, the total increase in Medicare and Medicaid is \$6.5
7 billion under existing law in fiscal '79.

8 Senator Curtis. Does that indicate that in '79 we will
9 pay out more under Medicare than we will receive under the
10 payroll tax?

11 Mr. Constantine. No, sir. The income is \$23.1 billion.
12 Senator; the income to the fund, because of the wage-base
13 increase, slightly exceeds the disbursements. There is an
14 increase in the funds, however the decrease in the Medicare
15 Hospital Insurance Fund begins in 1984 and with the fund
16 exhausted by the beginning of 1988.

17 Senator Curtis. On page 40, what does line 2 mean?
18 The second number is the outgo, is it not?

19 Mr. Constantine. Yes, sir. The Administration's budget
20 contains savings due to the proposed hospital cost containment
21 proposal, both in Medicare and Medicaid and quality control
22 in improvements on Medicaid. They propose increasing the
23 proposed child health assessment plan which is going to be
24 reported out of Interstate and Foreign Commerce, I guess, in
25 the next day or two, and increasing coverage of low-income

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1 women under Medicaid who are otherwise in eligible -- that
2 is, they are not categorically related.

3 We would recommend, the staff recommends, that you
4 include the child health assessment, the \$300 million that
5 they allow there, and the \$100 million for coverage of lower
6 income pregnant women pending an opportunity to look at it
7 when the bill comes over from the House. All the indications
8 are that the House will approve increases along those lines,
9 and we would recommend that you include that in there.

10 On the quality control, they will require -- in Medicaid,
11 they will require -- some legislative changes which we assume
12 the Committee would consider and we think that the \$400
13 billion that they show as a savings should be included, in
14 as much as they estimated that last year, the Medicaid
15 expenditures of \$19 billion, Federal and state some \$2 billion,
16 according to HEW's quality control program went down the
17 drain as a result of payments for ineligibles, unrecovered
18 third party liability, private health insurance held by the
19 recipient, \$200 million in claims errors.

20 This is on page 44.

21 Senator Hansen. Page 44?

22 Mr. Constantine. Yes, sir.

23 We do recommend however that the Administration's
24 estimated payments from the hospital cost containment proposal
25 not be included. It seems unrealistic to us that Congress

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1 will enact the Administration's proposal at this time. The
2 anticipated action in the House, if there is any, is probably
3 a voluntary approach to give the hospitals which have
4 organized an organization, an opportunity to see whether they
5 can moderate costs in the event that those costs are not
6 moderated below a set rate, putting in an overall cap kind
7 of thing, such as the Administration proposed. That seems
8 to be the likely understanding, likely course of action in
9 the House. Obviously, we do not know what the Senate will do
10 and however, at Senator Talmadge's direction, the staff has
11 been discussing with the Administration of HEW actively
12 alternative approaches to their proposal of last year, that
13 is the flat cap, the 9 percent solution, and those things
14 are proceeding constructively. But we do not see, even with
15 agreement, that we can come back and recommend to you, there
16 is no way we believe that those savings can be realized in
17 fiscal '79.

18 For that reason, we recommended that the amounts of the
19 savings shown by the Administration be deleted.

20 The Chairman. Let us come back to that recommendation
21 later on when we have more Senators here.

22 Senator Hansen. On hospital cost containment?

23 The Chairman. On the decision not to go along with the
24 Administration recommendation on that cost containment item.
25 We will have some discussion again, anyway, but I would assume

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1 that with regard to what they are recommending and to the
2 extent our staff is recommending, we can concur with it
3 unless someone wants to suggest otherwise that we will concur
4 with that. Of course, anyone can make a suggested change
5 if he wants to.

6 Mr. Constantine. That is all we have.

7 Senator Hathaway. You have a minus there. Should it
8 not be a plus?

9 Mr. Constantine. That is right. It would add \$600
10 million, yes, sir. If you deleted the savings of \$700
11 million, counting Medicaid, it would increase the budget by
12 \$700 million. Yes, sir.

13 Senator Hathaway. On page 44, it is minus.

14 The Chairman. You do not think we can save that?

15 Mr. Constantine. That is right. They show a savings
16 of \$600 million in Medicare. Realistically, we believe that
17 that will not be achieved.

18 Similarly, the related savings in Medicaid of \$100
19 million would not be achieved.

20 The Chairman. All right. You just do not think that
21 that can be anticipated?

22 Mr. Constantine. Yes, sir.

23 The Chairman. It is your understanding that the House
24 is not going to recommend that?

25 Mr. Constantine. Yes, sir. Our sense, in talking with

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1 Ways and Means and Interstate and Foreign Commerce on the
2 Administration's expectation is that the House will not
3 pass a flat ceiling bill such as that was proposed by the
4 Administration. It looks as though they would pass the
5 voluntary program, that is, where the hospital doctors are
6 getting together to try to moderate costs at the state level
7 with a trigger. If they do not succeed in moderating the
8 costs, then a limitation would apply.

9 If that is the case, you would have to give the volun-
10 tary effort a year or two years to demonstrate whether it
11 can work or not.

12 The Chairman. You also know what the Talmadge Subcom-
13 mittee is thinking of?

14 Senator Talmadge. Where we stand on that, Mr. Chairman,
15 the President recommended a bill last year, after recommend-
16 ing the Finance Committee's bill during the campaign.
17 We had Floor committees who have jurisdiction. On the
18 House side, you have the Foreign and Interstate Commerce
19 Committee, which is chaired, the Subcommittee, by Congressman
20 Rogers of Florida. On the Ways and Means Committee, you
21 have Chairman Roskenkowski who chairs the Subcommittee there.
22 Of course, as you are aware, this Committee has jurisdic-
23 tion over Medicare and Medicaid, and, as you know, I happen
24 to chair the Health Subcommittee here. We also have the
25 Committee on Human Resources of the Senate that has jurisdiction

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1 and that is chaired by Senator Kennedy.

2 Senator Kennedy's Committee last year reported the
3 President's flat 9 percent cap with certain modifications.
4 Congressman Rogers' Subcommittee also reported the flat
5 9 percent cap with certain modifications. Rostenkowski's
6 committee, where the bill must originate in as much as it is
7 a revenue-raising measure, reported nothing.

8 We have been working in this area for three years now
9 with some input by virtually every facet of health care and
10 delivery in the United States.

11 Our Subcommittee, after holding hearings on two separate
12 occasions, think it would be arbitrary and capricious to put
13 a flat 9 percent cap on all hospital costs because it would
14 reward the fat and penalize the lean. We are working on
15 something to compare hospitals with similar hospitals in
16 similar situations to make some prospective financing and
17 reward the efficient hospitals and penalize the inefficient
18 hospitals.

19 We have substantial support. We have 19 Senators who
20 are cosponsoring our bill. We have not made any effort to
21 solicit co-sponsors and we have virtually every segment of
22 health care delivery that is supporting our bill.

23 We even have the support now of the pathologists. That
24 was the last crowd that surrendered. What we are trying to do
25 now is eliminate these huge fees that the pathologists have

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1 been accepting, a percentage of the gross for their services.
 2 We found some of them who earned over \$200,000 a year for
 3 one or two days' work.

4 That is the approach that we take. My understanding is
 5 that Rostenkowski's committee will start to mark-up soon,
 6 challenging all of these health folks for a voluntary approach.
 7 In the event that the voluntary approach fails, put some kind
 8 of cost controls.

9 When it gets to us, what I hope we can do is put this
 10 approach that we have been working on for three years, which
 11 we think is reasonable, to reward the efficient and penalize
 12 the inefficient. That is the approach.

13 Senator Curtis. May I ask a question? In your opinion,
 14 what is the status of this arbitrary cap that the Committee on
 15 Human Resources is doing?

16 Senator Talmadge. They cannot do it unless by way of
 17 an amendment, because it is considered a revenue-raising
 18 measure and it must originate in the House and when the House
 19 sends us a bill, it will be time for the Finance Committee
 20 to act. When we do that, I guess we will be on the Senate
 21 Floor with the Finance Committee on one side, if the Finance
 22 Committee approves the bill, and the Human Resources Committee
 23 on the other.

24 Senator Curtis. They cannot move their bill.

25 Senator Talmadge. They cannot move it unless they attach

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1 it to a House-passed bill.

2 Senator Hansen. Mr. Chairman, we have some small
3 hospitals -- as a matter of fact, there are not any large
4 hospitals in the state of Wyoming. I have heard from a number
5 of them and their problem in trying to bring about a cost
6 containment reflects more importantly actions that have been
7 taken by the Congress plus the normal effects of inflation
8 on their operations, such as we have raised the minimum wage
9 as an example, and we have done other things, and these
10 smaller hospitals do not have this diversified staff as you
11 speak of here, and the role that the pathologists played,
12 plus their accreditation program. They come in and require
13 a certain amount of staff on hand around the clock.

14 These are the impacts that I am hearing in a far greater
15 degree than those that you have spoken of. It is a real
16 problem for small hospitals who are trying to keep their
17 standards up, to keep accreditation.

18 Senator Hathaway. If you will yield, under the bill, small
19 hospitals are exempt in the human resources bill. I forget
20 what the ceiling is.

21 Senator Hansen. Under the bill?

22 Senator Hathaway. That was reported out.

23 Senator Hansen. Under the House bill?

24 Senator Hathaway. I do not recall what the limit is.

25 I know that we exempted small hospitals up to a certain number

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1 of patients.

2 Senator Curtis. If the hospital has its fuel bill
3 raised, its utility bills raised, its laundry bill raised,
4 and labor costs go up and food costs go up, how do you
5 handle that by a cap?

6 Mr. Constantine. It is not, Senator. The Talmadge
7 bill tries to build that in by comparing hospitals.
8 Senator Curtis. I am talking about the Human Resources
9 Committee.

10 Mr. Constantine. No. In answer to Senator Hansen's
11 point, Senators Talmadge, Dole and Nunn sent a letter to the
12 Comptroller General, they have been raising this for several
13 years, asking for a complete review of all Federal, state
14 and local requirements, certification standards and so on,
15 and paper work applicable to hospitals, with recommendations
16 for eliminating duplicate staff, stuff out of date, overlapping
17 exactly what you are saying.

18 It will take them several years, but they are starting
19 it.

20 Senator Curtis. Has any study ever been made instead of
21 reimbursing hospitals for their costs to pay X dollars a day
22 for somebody in the hospital? I think that that ought to be
23 considered.

24 Senator Hathaway. Your question is answered by the fact
25 that this is a 9 percent increase from the normal inflation

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1 rate of 6, so that the food prices going up, and these other
2 items that you mentioned, they should still stay under 9
3 percent.

4 Senator Hansen. Nothing is normal these days, of
5 course.

6 Senator Hathaway. No, that is true. I think there is
7 a wage pass-through in there too, so that is not counted.

8 Senator Moynihan. As a point of information to Senator
9 Curtis, there is quite a bit of work going on in New York
10 along just that concept of setting a price for certain kinds
11 of services.

12 Senator Curtis. Most private insurance contracts agree
13 to pay you a fixed dollar amount when you are in the hospital.
14 It is the only thing that saves their solvency. If they
15 agreed to pay all of the costs incurred, the costs would go
16 on.

17 Senator Talmadge. Some of the states have done a fairly
18 good job in trying to control this cost escalation. I believe
19 Maryland has done about the best job of any state in the
20 union, have they not?

21 Mr. Constantine. A fair job. I think the state of
22 Washington has done a very good job. Massachusetts is having
23 a whack at it now, and a number of states are getting into
24 it with varying degrees of effectiveness. New York has
25 just simply said thus far, no further. That is about as

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1 effective as you can get.

2 The Chairman. I do not think we can settle this now.
3 It seems to me that we ought to come back and vote on this
4 when we have more Senators here, but just speaking as one,
5 I think that I would want to be guided by the suggestions of
6 the Talmadge Subcommittee on what they will estimate and
7 what they are going to recommend. It may not go that way,
8 but I think that probably the Committee is going to go along
9 with their suggestions. I think that is where the hospitals
10 are going to be.

11 They would prefer not to have any cost containment. I
12 think between the two, they would be strongly in favor of
13 the Talmadge proposal in contrast to the other one, because
14 they are going to say the other one is completely off. It
15 will penalize those who have managed to hold their costs down
16 to this point.

17 Senator Talmadge. What we have now is virtually no cost
18 controls whatsoever. We just write a blank check and they
19 fill it in. We pay their normal customary charges and, in
20 effect, the United States government is signing a check and
21 letting them fill it in.

22 Senator Hansen. Yes.

23 The Chairman. When the Medicare went into effect, some
24 said that this thing was going to cost a great deal more than
25 its sponsors were indicating and showed the reasons why, such

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1 as the fact that up until that point, doctors traditionally
2 did not charge to give medical services to their relatives,
3 but if the government is going to pay for it, they will
4 charge for everybody.

5 Senator Talmadge. And poor people, charity cases.

6 The Chairman. There were a lot of things you could
7 have anticipated that were not in those estimates. When the
8 costs came in the first year, it was shockingly above anything
9 that had been estimated. Some of us who had been saying
10 those things, had to say that is how we anticipated it, we
11 knew it had to be that way, but the sponsors of the early
12 program were not worried about the cost of it. They wanted
13 to get the program into effect. Let the other guy worry about
14 the cost of it.

15 Let us go on to the next thing. We will come back and
16 vote on this later on.

17 Mr. Stern. The next chart is on page 46. These are
18 the remaining three significant expenditure areas, and the
19 Committee's jurisdiction. The first is general revenue sharing.

20 Under general revenue sharing, the program is now
21 scheduled to run through the end of fiscal year 1980 at the
22 current level which is \$6.9 billion. In addition, last year
23 you enacted a countercyclical revenue sharing program which
24 runs through the end of the current fiscal year -- that is,
25 through the end of September of this year.

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1 That works on a somewhat different formula which
2 relates, among other things, to high unemployment and under
3 present law, that is expected to cost \$1.5 billion in fiscal
4 1978. Because unemployment is projected to go down, the
5 same program in fiscal year 1979 is estimated to cost \$1
6 billion and the Administration is proposing an extension
7 through fiscal year 1979.

8 Senator Hathaway. Mr. Chairman, I would say on that
9 we would play it safe and leave it at the \$1.5 billion for
10 '79. These projected unemployment figures often turn out to
11 be wrong. We are better off if we have the extra .5 than
12 to be short.

13 The Chairman. What you are suggesting --

14 Senator Hathaway. Leave it at the same level.

15 The Chairman. Proposing to stay at the same level.

16 Senator Moynihan. I would like to endorse that, if I
17 could, Mr. Chairman.

18 Senator Hansen. Mr. Chairman, I guess that we have a
19 unique situation in Wyoming. Is this the program where money
20 is put into short-term projects that the Federal government
21 has funded and an activity where unemployment runs high?

22 Mr. Stern. No, sir. This is just plain money, money
23 on the tree stump. This is just checks that go out to state
24 and local governments. It works the same way as revenue
25 sharing in that it is simply money that goes out, not money

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1 that is conditioned on projects.

2 Senator Hathaway. No strings attached?

3 Mr. Stern. Right.

4 Senator Hansen. Is this the program for which provision
5 was made that not fewer than \$10 million would go to any one
6 state? Do the funds from that program come from this source?

7 Mr. Stern. No, sir. The theory of this program is
8 that when unemployment is high, the tax base for states and
9 localities goes down because the income for income tax and
10 so on is less available, and therefore it is called counter-
11 cyclical because it attempts to make up, to some extent,
12 the cash revenues when unemployment is high.

13 Senator Hansen. It goes directly to the state and
14 local governments, then?

15 Mr. Stern. Right. It is based on the extent to which
16 the unemployment exceeds 4.5 percent as a sort of a normative
17 level. When it gets above that, then they begin losing
18 revenues.

19 The Chairman. My thought is if the unemployment stayed
20 at the level that the Administration is estimating, Congress
21 is not going to want to cut it back. We will just continue
22 the \$1.5 billion.

23 Mr. Stern. In any case, it is an estimate. If you
24 extend the law, then whatever amount you would need you
25 should provide.

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1 The Chairman. I suggest we tentatively agree to that
2 and we will take a good look at it tomorrow or the next
3 day. The rest of them are just Administration estimates, are
4 they not?

5 Mr. Stern. That is right. The estimate of \$1.0 billion
6 is the Administration's estimate.

7 The next program is the Sugar Act. The Sugar Act itself
8 expired at the end of 1974. However, there has been a
9 domestic price support program that is effective until the
10 end of this calendar year and, at the same time, to pay for
11 it there is a tariff and supplemental fee to supplement the
12 price support program which basically raises the same amount
13 of money.

14 However, the international sugar agreement has been
15 submitted. There is a treaty in the Foreign Relations
16 Committee which would require legislation in the jurisdiction
17 of the Finance Committee.

18 If you wind up with that kind of price support system,
19 you would probably be doing something like you did under
20 the Sugar Act of having some kind of excise tax which would
21 pay for the price support payments. The actual cost of the
22 program depends on what the world price of sugar is. The
23 higher the world price of sugar, the lower the cost of this
24 program.

25 Anyway, the estimate is that the payments would be about

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1 \$300 million. You would bring in revenues of about \$300
2 million if you think you are going to do something under this
3 program.

4 The Chairman. I would think that we would want to do
5 that.

6 Senator Talmadge. That is the tariff the President
7 imposed?

8 Mr. Stern. You might not do it in the form of tariff.
9 You might do it in the form of an excise tax on refining.

10 Senator Talmadge. He already called it a tariff?

11 Mr. Stern. Yes. But he has done it as a counterpart
12 of the Delagarth amendment.

13 Senator Talmadge. This was agreed to in our agricul-
14 tural act in '77 and it was financed, I believe, by importing
15 sugar, and the tariff would be levied thereon.

16 Mr. Stern. Right. It might be when that expires the
17 Administration expects the international sugar agreement to
18 take its place and that might show up through legislation
19 that comes through this committee that is more along the
20 lines of the older Sugar Act. So you might want to make
21 allowance. We do not know the form of the implementing
22 legislation.

23 The Chairman. If you make an allowance, it is plus or
24 minus, is it not?

25 Mr. Stern. You have to include most amounts, because
the plus amount shows up in revenues and the plus amount

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1 shows in outlays. The deficit effect is awash, but you do
2 have to show the amounts of both.

3 The Chairman. We just put a figure in there, assuming
4 that if the International Sugar Act goes into effect, which
5 is a distinct possibility, or the international sugar
6 agreement goes into effect, that we would raise the money.
7 We would also spend some money to participate in the inter-
8 national arrangement, is that not it?

9 Mr. Stern. Yes, sir.

10 The Chairman. Which would do what we should do for
11 our sugar farmers as contemplated by the Act?

12 Mr. Stern. Right.

13 Senator Hathaway. If it is a payment, why is it not a
14 minus?

15 Mr. Stern. In general, all of the payments and all of
16 the payment charts are shown as plus amounts.

17 Senator Hathaway. Even though they are really minuses?

18 Mr. Stern. Well, it depends on your philosophy. If
19 you start off that all of the money belongs to the government,
20 I suppose it is all a minus. Actually, we assume that you
21 would start from zero, so everything is a plus.

22 The Chairman. It seems to me if there is a plus there
23 should be a minus. Oftentimes you put a parenthesis around
24 it to indicate you have a minus in mind rather than a plus.

25 Mr. Stern. We use parentheses to show that it is

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1 revenues, which is different.

2 The Chairman. The payments go down as a plus. The
3 payments reduce revenues. Why would it not be a minus?

4 Mr. Stern. This is actually not a reduction of revenues.
5 This is the general fund of the Treasury. You have set up
6 a trust fund under the Sugar Act where the money comes in and
7 goes out of one fund. It comes in one place, and it goes
8 out the other.

9 The Chairman. You have general revenue sharing. You
10 do not have a plus or minus. You have 6.9. Then you have
11 your countercyclical 1.5 and 1.

12 The Sugar Act, I think payments -- you would not need a
13 plus or minus. It would be 0.3. Now, revenues, it seems to
14 me you would leave out the plus and minus, just put the
15 parenthesis around it, 0.3, which means you expect to raise
16 \$3 million to pay the \$3 million that appeared immediately
17 above it.

18 Mr. Stern. Right.

19 The Chairman. Let us do it that way, for the time
20 being.

21 Did you anticipate that we look at these tax bills?

22 Mr. Stern. I would suggest that you go over to revenues
23 and do that tomorrow.

24 Senator Packwood. Mr. Chairman, as I indicated earlier,
25 the fourteen of those on the committee sponsoring the tax

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1 credit bill may want to bring it up tomorrow.

2 The Chairman. Maybe you want to talk about it now?

3 Senator Packwood. I would be happy to talk about it.

4 This is a bill that Senator Moynihan and I and twelve other
5 members of the Committee are co-sponsoring. Bill Hathaway
6 is on it, fourteen out of the eighteen members.

7 It is becoming obvious to us that the philosophy expressed
8 in the tax credit bill which does do for primary and secondary
9 schools, administration and the Administration bill, which
10 is not only a different philosophy of higher education, but
11 does not include primary and secondary schools, and may be
12 setting for a clash. I hope not, but maybe.

13 We would simply like to send a bill out of this
14 Committee, get it on the calendar and get a vote on it on
15 the Floor, realizing it still has to go back to the Ways and
16 Means Committee to see what they would do with that, but I
17 think that there is overwhelming support for it on this
18 Committee and I think on the Floor of the Senate. I think if
19 we sent it out and passed it, that may be a significant
20 message to the Ways and Means Committee of the breadth of
21 support for the bill.

22 Senator Hathaway. Anything in the Administration's
23 bill, that is a grant?

24 Senator Packwood. Anything in the Administration's
25 bill, the grant is offset against any tuition credits you

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1 get, so they are not cumulative.

2 The Chairman. We did not have, as you know, Senators,
3 we did not have the provision for aid to primary and
4 secondary schools in the Roth amendment. We did have the
5 Roth amendment to take care of aid in the college tuition.
6 And I supported it, and fought for it in Conference. Senator
7 Moynihan and others who are here fought for that in Conference.

8 The House, at that point, could not be moved. The more
9 I thought about it, the more I concluded that we would be
10 just as well off from the point of view of those who approved
11 the amendment, to renew the fight on another piece of legisla-
12 tion and if we sent it down, the only way the House
13 Conferees would be willing to let it go, that some separate
14 bill that the President would veto with impunity, put a
15 pocket veto on it, and we would not even get a chance to
16 override.

17 Thinking about it since that time, I think that the
18 success of the program in some measure depends on the tactics
19 you use. If it goes down as a part of a major revenue bill,
20 the President wants to sign it, there is a better chance that
21 he will sign it than if it goes down as a separate piece of
22 legislation. But the Administration has chosen to send up
23 this authorization and appropriation approach and I do not
24 see how you are going to avoid a debate over the approach,
25 whether you want to do it by tax credit, or whether you want

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to do this by a grant.

Over the week-end, I happened to walk into some little drugstore and a fellow wanted to get some aid, some program they had where you can get a little help, to provide some services, health services, to somebody in the community. He said, we hope to get this help. Look at all of these papers we have to fill out.

He showed me a whole sheaf of papers that they have to fill out and send this application in. That gave me a chance to tell him I like the tax credit approach where you just, if you do something, you just reduce your taxes by the amount it takes to do something and let them come look you up if they are not satisfied. He thought that that was a far better approach than was filling out this whole sheaf of papers, then you go down to the office and you send it in and they say come talk to us.

So you go down there. Well, the man you are supposed to talk to is on annual leave so you can come back in a couple of weeks and he will be there and so it goes on from there. Then it works its way to the regional office and you find out that somebody failed to make clear something, so they send the application back to you.

I think that most people would prefer some simple form. You are entitled to this tax credit, and put it on your tax returns.

1 As you know, Senators; I am not a cosponsor of the
2 amendment, but I have a lot of sympathy with the idea of
3 just giving somebody a tax credit. If you are entitled to
4 it, claim it. Put it on the tax return. You probably would
5 have to take the long form rather than the short form, but
6 by the time you work it all out, here is what I owe the
7 government, here is what the government owes me.

8 So we will try to cooperate with you to see that you have
9 a chance to get your proposal before the Senate and that you
10 are not locked out on a procedural basis which I am sure
11 that some of you are concerned about.

12 Senator Moynihan. Mr. Chairman, I would like to say that
13 I very much appreciate that. This is a matter of very large
14 concern to a great many people and it is a clash of philosophy.
15 The Wall Street Journal, among other things, said that they
16 could not understand how the President, having campaigned to
17 get rid of that bloated monster, bureaucracy, the first time
18 a proposal on education comes along that would do so, he
19 suddenly throws \$1.2 billion in the direction of the
20 bureaucracy.

21 You ought to see the form on which you apply for a
22 Basic Education Opportunity Grant. It would be a pretty
23 good admissions test for college.

24 I would like to state my appreciation to you, sir, since
25 this is important to a lot of us. I point out that both the

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1 Republican and Democratic parties have committed themselves
2 in their platforms to something of this kind on elementary
3 and secondary schools, and the President himself committed
4 himself to something of this kind.

5 We feel strongly about it.

6 The Chairman. I hope that no one, including the
7 Administration, confuses this issue on a partisan basis.

8 It would seem to me that this was one of those things that
9 we ought to try to decide based on what is right rather than
10 who is right. If it is right, we ought to do it. If it is
11 not right, we should not do it, quite apart from the politics.

12 It just does not seem to me that it makes all that much
13 difference as far as Congress is concerned. If everybody
14 thinks it is a good idea, they can vote for it, and he can
15 go home and tell his constituents he helped put it on. If
16 he is not for it, he can vote against and tell his constitu-
17 ents the same thing.

18 So it can be whichever approach they like. There is
19 no doubt, from my point of view, I think I would prefer, if
20 we are going to do something along this line, as we have
21 already done on the college thing, to do it with the tax
22 credit approach rather than to do it with the grant and the
23 application and all of that.

24 If it is all the same, gentlemen, I suggest that we
25 come back at 10:00 o'clock tomorrow and go with these tax

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1 measures.

2 (Thereupon, at 11:50 a.m., the Committee recessed to
3 reconvene Thursday, February 23, 1978, at 10:00 a.m.)
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