

EXECUTIVE SESSION

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THURSDAY, SEPTEMBER 6, 1979

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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 Subcommittee, presiding.

Present: Senators Long, Talmadge, Ribicoff, Byrd, Gravel, Bentsen, Moynihan, Baucus, Boren, Bradley, Dole, Packwood, Danforth, Chafee, Wallop and Durenberger.

The Chairman: I will call this meeting to order, please.

Now, as the first order of business, I believe that we had better ask the Chief of Staff of the Committee to explain to us what the situation is in regard to the Budget Resolution because I think there are some real problems there. I think Mr. Stern knows more than I do.

Would you mind explaining to us what the Budget Resolution is, in regards to our recommendations to the Committee and their recommendations to the Senate is?

Mr. Stern: Yes, sir. First, Mr. Chairman, I will speak on the spending side, then the revenues.

As far as spending is concerned, the President's budget

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1 was sent up at the end of January and it contained a number of
2 cost savings proposals and when the Finance Committee sent the
3 March report to the Budget Committee, they said these were
4 fairly ambitious proposals for savings and perhaps not all of
5 them would be accepted. But, as a target, the Finance
6 Committee was willing to try to achieve the degree of savings
7 that the President's budget proposed.

8 The Budget Committee more or less used the same numbers
9 and incorporated them into the First Budget Resolution. There
10 have been a number of factors which have resulted in those
11 savings not being achieved.

12 First of all, there have been some substantial cost
13 re-estimates. The Hospital Cost Containment proposal of the
14 President, for which savings of \$1.7 billion were assumed in
15 the President's budget, it turned out it was actually going to
16 save a billion dollars less than that.

17 In the course of the First Budget Resolution, the House
18 Budget Committee apparently made a different set of
19 assumptions on legislation than the Senate Budget Committee
20 did, and they did not reconcile these differences. In
21 conference, the Ways and Means Committee was not told that
22 they had to achieve substantial savings. Indeed, they have
23 not sent any bills over to the Finance Committee to save
24 money, but only bills to increase the spending.

25 So, as a result, in the course of the last five or six

1 months, the only substantial action to achieve savings has
2 been in the health area. The Budget Committee wrote a letter
3 to the Finance Committee, asking for their views on what could
4 be achieved in the Second Budget Resolution. The Finance
5 Committee, just before the August recess, wrote a letter with
6 some suggestions for a rather more modest idea of what savings
7 could be achieved than proposed in the First Budget
8 Resolution.

9 Basically, the Budget Committee did not accept these
10 modifications and, more or less, stuck with the figures in the
11 First Resolution.

12 You have before you a staff document, a memorandum, on
13 the Second Budget Resolution. If you look at Table 1 on the
14 top of page 2, you will see, for example, in income security,
15 the First Resolution assumes savings of \$600 million. At the
16 end of July, the Budget Committee, you thought you could
17 achieve a net savings of \$200 million. They used the original
18 \$600 million savings figure.

19 In the health area, the original figure was \$1.8 billion.
20 Based on the actions you have taken to achieve substantial
21 savings, you estimated savings of \$600 million were possible.
22 The Budget Committee again incorporated \$1.8 billion as
23 savings.

24 In social services, although this shows as a plus number,
25 it would be to maintain the \$2.9 billion funding level, fiscal

1 year 1979 for another year, since the permanent level is \$2.5
2 billion.

3 The Chairman: Let me ask us to look at that chart and
4 see what this means. Let's take the first item, plus two.
5 Plus \$2 billion.

6 I am not here to challenge the Budget Committee on their
7 fiscal responsibility and conscience and doing what it thinks
8 it should try to do for the nation. They have their job, and
9 we have ours.

10 I am just trying to point out the problem, where it is.

11 We said that we thought that we had better leave some
12 leverage so we could provide some tax credits to stimulate
13 production of energy and to stimulate conservation of energy.

14 You look at that plus-\$2 billion. We said we did not
15 think that they could count on a net gain from this windfall
16 tax we are going to be considering here today. They are
17 claiming \$2 billion.

18 What that really means, we really cannot do much of
19 anything with regard to tax credits to stimulate production
20 and conservation. Is that not about the size of it, Mr.
21 Stern?

22 Mr. Stern: Yes, sir. The House bill raises \$2.5
23 billion. That does not deal, in any way, with any tax
24 credits.

25 The Chairman. \$2.5 billion. But that House bill

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1 proceeds on the assumption you are going to pick up a large
2 amount of money out of taxing Alaskan oil that everybody knows
3 is not realistic.

4 Mr. Shapiro, is that not about the size of it? Does that
5 not have to assume you're going to make a large amount of
6 money taxing Alaskan oil heavier than the administration is
7 recommending?

8 Mr. Shapiro: Yes, sir. A little more than the \$2.5
9 billion is raised in the House-passed windfall profits tax
10 bill and includes a significant portion of it in the Alaskan
11 oil. The administration on the House side proposed an
12 exemption for Alaskan oils. On the Senate side, they proposed
13 taxing Alaskan oil as tier two oil. however, doing that on
14 the Senate side would reduce the revenue pick-up significantly
15 from the House-passed bill.

16 The Chairman: How much would it reduce the \$2.5 billion
17 if you taxed Alaskan oil the way the administration is
18 recommending?

19 Mr. Shapiro: The Alaskan oil accounts for approximately
20 \$600 million. Very little of that would be picked up the
21 first year. What the Administration proposed to the Senate
22 Finance Committee would treat it as tier two and would not be
23 that much picked up. The \$600 million difference, just on
24 Alaskan oil.

25 The Chairman: If you take the administration

1 recommendation, just their recommendation on Alaskan oil, and
2 you take what the Budget Committee is recommending in this
3 bill, just take that, that one adjustment, that basiclay means
4 that we would not have any room for tax credits or for
5 production and conservation, unless we are going to raise that
6 tax above the House figure. Is that not the size of it?

7 Mr. Shapiro: That is correct.

8 The Chairman: So that sort of has the effect of locking
9 this Committee in and denying us the opportunity to do the
10 kinds of things that we did the last time we had an energy
11 bill which, incidentally, were some of the same things the
12 administration is recommending now in terms of tax credits to
13 help with conservation, tax credits to help ease the burden on
14 the poor. That is foreclosed, it seems to me, by this
15 recommendation.

16 We may have to find some way to get around that if we are
17 stuck with it, but it seems to me that that presents us with a
18 very difficult problem here.

19 Senator Packwood: I have a question.

20 The Chairman: Yes, sir.

21 Senator Packwood: Bob, what is the latest projection on
22 revenue based on our current estimate of inflation and the
23 fact that the recession will not be as deep as we initially
24 thought?

25 Mr. Shapiro: We have had some difficulties with our

1 computer model in the last part of August. We will have this
2 for you on Monday, the latest figures. We have not changed our
3 figures on what we gave you in the last committee in July. We
4 have had some difficulties with the runs we have had. We are
5 not going to have figures that you can have a copy in your
6 hand, but we will have that Monday.

7 Senator Packwood: You expect them not to be any
8 different than the projections in late July?

9 Mr. Shapiro: They will not be significantly different.
10 The aspect of the recession will not make that much difference
11 in the quantity of oil that will be sold so the economic
12 situation will not have an effect on the price of oil. The
13 unknown is whether the price will go higher.

14 Senator Packwood: As I sat through the Budget Committee
15 this year, we started off on a 7 percent inflation factor.
16 Now, obviously, that is out the window.

17 I just assume -- I have not seen any recent projections
18 since I got back -- the revenue projections have got to be up
19 based on the inflation.

20 Mr. Shapiro: The inflation has neutralized, to some
21 effect, as OPEC has raised its price. As far as the windfall
22 profits tax is concerned, on the base -- on the end-tax for
23 inflation.

24 Senator Packwood: I am talking about the projections
25 generally. It has to be up.

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1 Mr. Shapiro: If you are talking revenues, that is one
2 thing. If you are talking windfall profits taxes --

3 Senator Packwood: I am talking about revenues. The
4 Budget Committee is projecting a net change in revenues of \$2
5 billion. That, indeed, may come because of the inflation,
6 with or without any windfall profits.

7 Mr. Shapiro: You have to take in the whole economic
8 effect of the economy and recession. For example, inflation
9 will pick up more revenues in some circumstances where the
10 profits exist. To the extent the recession is taking its
11 toll, the profits in other industries, some workers -- there
12 is a decrease on employment, so there would be less wages so
13 you would have reduced taxes, generally speaking.

14 If you have a hard recession, revenues may go down
15 because you have less profits, less wages withheld.

16 Senator Packwood: Just an intuitive hunch, without any
17 facts, but a recession lighter than what we thought and an
18 inflation greater than what we were projecting. Those
19 revenues have to be up.

20 Mr. Shapiro: Yes, that is true. Revenues have moved up.
21 The indication we have, receipts and projections for revenues
22 are greater than what we anticipated.

23 The Chairman: Let me direct your attention to the next
24 point, and turn to income security. We had these
25 recommendations by the administration, such as to take away

1 the burial allowance, just take away the money to bury dear
2 old grandma and grandpa when the good Lord calls them home and
3 balance the budget. I just hope that somebody has gone by a
4 retirement home and talked to some of those people, since that
5 recommendation came out, and see how well that recommendation
6 is received by those people. I have. If you are planning to
7 run for office anytime next year, you had better forget about
8 that, because if those poor old folks can get out to the
9 polls, they are going to pay their respects with respect to
10 that burial allowance.

11 There is something in the other recommendations that is
12 not quite as impossible as that one. As we look them over,
13 what do we reckon we might be able to do here?

14 So we came up with a recommendation that we thought we
15 could come to the point to, relying on heavily on Senator
16 Boren over there to try to save us some money in areas where
17 there are rip-offs in the unemployment insurance program. He
18 has some very ambitious recommendations to save the taxpayers
19 money and get the taxpayer a fair run for their money in the
20 employment insurance area.

21 But when you try to do those things, you have to give the
22 state legislators time to act, and some of those legislatures
23 meet on a bi-annual basis; some meet every year, but even
24 their laws have to have 30 or 60 days to go into effect.

25 So when you take that into account, unless you are

1 going to force every Governor to call an emergency session of
2 the state legislature to try to comply, we cannot effectuate
3 those savings that fast.

4 What do you think, Mr. Stern, would be a realistic basis
5 of what we might be able to hope to achieve in this fiscal
6 year if we are very successful in the area -- based on past
7 experience -- in the area of trying to tighten it in that
8 area?

9 Mr. Stern: The area of unemployment compensation? There
10 are very few things that can be only done by the Federal
11 government. Of the proposals that were included for
12 consideration in that list that you refer to, one is to
13 eliminate a national trigger for the extended unemployment
14 compensation program. That might save a couple of hundred
15 million dollars. The others on the list would require changes
16 in state law.

17 Even though they ultimately might save a billion dollars,
18 I think traditionally we give states two years so every state
19 can have a legislative session.

20 The Chairman: The next point here is health. The
21 administration comes in and wants to save \$1.8 billion. We
22 would like to do something in health.

23 We reported out a bill recommended by Senator Ribicoff
24 that would not trigger until later in the year. The first
25 year impact would be light. But looking at all these

1 different ideas of savings and some of the things we wanted to
2 do, we thought we would use some of the savings to try to make
3 some progress in the area of health insurance for rank and
4 file Americans, so we have come up with a suggestion of a \$600
5 million savings in the health area and we have explained what
6 we had in mind and what we thought we could do and we have
7 gone as far as we think we can go in reporting something along
8 that line.

9 They come back with a \$1.8 billion. We have to find \$1.2
10 billion more in health savings, and we find that we can save
11 -- how can we find that extra \$1.2 billion?

12 Mr. Stern: Mr. Chairman, the \$.6 billion in this case
13 was based on extensive hearings held by the House Health
14 Committee and consideration of a whole list of proposals by
15 the Finance Committee. While you may find some additional
16 areas of savings, that \$600 million represents what you
17 already have done.

18 After spending some months at it, It would seem to us
19 that \$1.8 billion is not achievable in the health area.

20 Senator Dole: Where do they get the figure \$1.8 billion?

21 Mr. Stern: My assumption is that they said the original
22 resolution said that you could save \$1.8 billion. Since you
23 have not come up with it, we will just use that same number
24 and require you to do it through a reconciliation resolution.

25 This is the next point, that the Budget Act does allow

1 for a process called the reconciliation process. It has not
2 been used up until now on this pending side, but what it does,
3 it has a Budget Resolution itself direct various committees
4 achieve various savings. It requires to do it, in the case of
5 this resolution within ten days of Congressional action on the
6 budget process, or earlier, by September 25th.

7 For example, the commitment to the second House
8 Conference Report on September 24th, first, you would only
9 have four days to do it. In ten days, the Finance Committee
10 would be directed to report legislation that would save \$1.7
11 billion. Other committees would be required to report savings
12 of different amounts of money.

13 Although it would not have to be saved in the health
14 area, and the distribution would not necessarily have to be
15 \$600 million in income security and \$1.8 billion in health, it
16 would require the Senate Finance Committee save \$1.7 billion
17 in legislation in addition to what you have already reported.

18 That would be the first time that the Budget Committee
19 has recommended that this process be used on spending.

20 The Chairman: Let me see. How much more do we have to
21 find, one way or the other?

22 Actually, basically, you are talking about that we are
23 being called upon for \$2 billion more than we think makes any
24 sense in the energy area and --

25 Mr. Stern: On the revenue side, it is not a requirement

1 as a part of the reconciliation process, but it is
2 contemplated that you would raise \$2 billion and the points of
3 orders that would lie.

4 The Chairman: The points of order and all kinds of
5 problems in that area, that is a big problem in itself. Then
6 you come over here to the reduction area and we have been
7 studying this thing from starting in January through
8 September, and we cannot find -- let me see. Roughly \$1.6
9 billion that they are calling on us to do; we cannot find it.

10 Now, they say you have had eight months to find it and
11 you could not find it, now they are saying you have ten more
12 days to come up with it. That is vaguely what it amounts to,
13 is it not?

14 Mr. Stern: Yes, sir.

15 The Chairman: I do not know what they are going to do to
16 us if we cannot do it. What are they going to do? Fine us
17 for contempt, or a resolution to censor?

18 Senator Gravel: Only against the Chairman.

19 Mr. Stern: Specifically, the penalty is a motion to
20 adjourn sine die is not in order until the reconciliation
21 process has been completed.

22 Senator Gravel: We can never go home.

23 The Chairman: Just stay here forever, then.

24 Senator Moynihan?

25 Senator Moynihan: Mr. Chairman, I just wanted to note, I

1 am a member of the Budget Committee. This proposal came up in
2 circumstances that made no sense to me. I voted against it
3 and I said I did not see how this Finance Committee could be
4 given such instructions by another committee, not least is the
5 fact that the House of Representatives has proposed increases
6 above us in all the areas where they are requiring us to
7 decrease.

8 I do not think it was the finest hour of the Budget
9 Committee so far. It was producing a confrontation.

10 The Chairman: I would have hoped that before presenting
11 us with something like this, the Chairman -- perhaps the
12 ranking member of the Committee -- would speak to the members
13 of this Committee or to whomever they felt like talking to,
14 and say, "We do not know how you are going to do this" or, if
15 they had some ideas on how it should be done, tell us, "Here
16 is what we think you should do, and we would like to know what
17 you think about it. If you think you can do it --"

18 Senator Bentsen: There was no communication at all?

19 Mr. Stern: They did seek the advice of the Finance
20 Committee. The Finance Committee met and communicated its
21 views. That's the second column on this table. They did not
22 accept the recommendations.

23 Senator Moynihan: They rejected our statement that we
24 cannot do that.

25 The Chairman: And then proceeded to say, "Here is what

1 you must do."

2 Having done that, this is the communication. They voted
3 and said, here it is. Here is what we are recommending to the
4 Senate.

5 Frankly, I am interested to know what advice I could get
6 on this. Senator Packwood is a member of the Budget
7 Committee.

8 What is your suggestion, Senator?

9 Senator Packwood: One practical one, Mr. Chairman, that
10 I suggested some time ago is not to ask the Budget Committee
11 for suggestions as to where to cut, because they will give us
12 the suggestions. I do not want to get into that kind of
13 situation. We can give them back.

14 What do they want, \$1.7 billion in cuts and say, if you
15 insist upon going to the Floor with a Reconciliation
16 Resolution and you want to take it and you think this is
17 where you want to put your stamp of approval on it, here is
18 where you can make the cuts, but we do not approve of the
19 cuts, and see what they say.

20 I would not ask them for their thinking on it, because,
21 as you noticed on this memo, you will get a continual,
22 year-by-year battle with the Budget Committee, gradually more
23 and more specifying and earmarking where they think taxes
24 should be raised or cut and where the expenditures should be
25 raised or lowered, and directing the committees to come within

1 that compliance.

2 The Chairman: It seems to me, at a minimum we ought to
3 ask to amend that language. That gives us only ten days.

4 If I have to do something, I do not see how in the world
5 I am going to do it. I need more than ten days to try to
6 figure out a way to do it.

7 Maybe somebody else -- what would you suggest?

8 Senator Ribicoff: Mr. Chairman, how much room is there
9 in the windfall profits tax and utilization of it to work out a
10 reconciliation?

11 Mr. Stern: The reconciliation process does not apply to
12 the revenue side in this resolution. The budget process
13 itself makes more or less an absolute distinction between
14 spending and revenues anyway.

15 Even if you were to come up with \$1 billion more in
16 revenue than the resolution contemplates, that does not mean
17 that you could spend \$1 billion more than the resolution
18 contemplates.

19 Senator Dole: We could repeal the Budget Act.

20 The Chairman: Why do we not look at the other side of
21 it? On the so-called reduction side, we do not have to vote
22 today. We could think about it some, can we not, Mike?

23 Mr. Stern: The resolution itself will not be coming up
24 until next week. Of course, pending the Finance Committee's
25 vote, you do not have a committee position on anything anyway.

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1 There is some consideration being given to some Senators
2 anyway to having an amendment, simply striking out the
3 reconciliation process, not changing the numbers.

4 The Chairman: It seems to me that if the President wants
5 the energy bill to have the first priority, he wants an answer
6 from Congress on that at the earliest moment, they had better
7 give us more than ten days. We may have to use the first ten
8 days working on energy rather than his wild goose chase --
9 trying to find something that the Congress will not buy,
10 anyway.

11 It seems to me that what we are going to be compelled to
12 do here is recommend some things that we cannot sell to the
13 Senate.

14 I do not know how we go about getting the votes to report
15 out something that we do not think ought to be enacted. I
16 have done stranger things in my life. I must say I do not
17 welcome that task.

18 Senator Moynihan?

19 Senator Moynihan: Mr. Chairman, obviously I wanted to
20 know what Senator Packwood thinks in this matter and I defer
21 to him in his greater experience.

22 Let me say, this was not an agreeable experience that I
23 had in the Budget Committee, saying the Finance Committee
24 cannot do this. It is not going to be a good relationship, if
25 you just tell them to do it.

1 I think that we have an institutional problem here which
2 ought not be avoided by trying to find some solution to this
3 particular piece of paper. We have a process here that is not
4 working.

5 I would like to suggest that the Chairman and the Ranking
6 Minority Member of this Committee weigh upon their
7 counterparts in Budget and ask what is going on here.
8 Otherwise we are going to end up on the Floor with resolutions
9 coming from all different directions, none of them ours.

10 Senator Packwood: What is going to happen, if we are
11 going to make these recommendations, we will be like a state
12 legislature, making recommendations a way to cut. You pick
13 programs that are simply not going to cut, and you offer them
14 to the Senate Floor and the Senate turns you down then you are
15 right back where you are.

16 If that is a repudiation of the reconciliation process,
17 that is where we end up.

18 Senator Moynihan: That is where we end up.

19 I am sorry I have to say that it is an institutional
20 problem.

21 Senator Chafee: Mr. Chairman, I think that there is some
22 merit in what Senator Moynihan suggested. I see the problem
23 here from our point of view, but I also see it from the Budget
24 Committee point of view. It seems to me -- I did not get
25 around to the old folks homes too much at home, but I did meet

1 a lot of people and it did seem to me what was primarily on
2 their mind was the inflation situation in the country and what
3 the Budget Committee is attempting to do, as I see in this
4 directive to us and to each of the committees, is to try and
5 reduce the deficit.

6 I think that it behooves us as just one of the twelve
7 committees, or whatever it is, that are wrestling, each with
8 its own problem, is to do the best that we can. Maybe we have
9 an impossible situation; I do not know.

10 For instance, to me it is not beyond the realm of
11 possibility in the unemployment compensation, if suggested
12 state legislatures cannot meet, or they do not, or they have
13 to call special sessions, there is nothing unique about
14 special sessions, at least in our legislature, and if that is
15 something that we can do, I do not think it should be rejected
16 because it would be onerous on 50 states, or whatever it is.

17 I certainly came back from my experience this August with
18 the feeling that inflation has really got this country tied
19 up, individuals in a knot, and they are deeply concerned. If
20 we can do our part somehow, I would be prepared to do it,
21 unattractive and distasteful as it may be.

22 The Chairman: Generally, I think those who think we
23 should do it ought to come in with the amendments to do it.
24 Offer the amendments and say I think this can be done. I
25 think it can be done. Offer it and let's vote on it.

1 I have participated in these meetings. I have voted for
2 some cuts that other people did not vote for. I voted against
3 some that other people voted for, too.

4 I know the combined effect of it -- the combined effect
5 has been that we cannot find, at least we cannot get this
6 committee to agree on anything that would make that much
7 reduction. I voted in the cost containment area to go further
8 than I really wanted to just for reasons of that sort. But I
9 would think if we were going to try to do this, then, that we
10 need more than ten days to do it. Otherwise, we are going to
11 have to set aside the windfall tax bill and spend our time on
12 this.

13 I do not know -- I think we would be doing well enough if
14 the Congress recommended. I do not know any provisions that I
15 could sell to the Senate, although I guess maybe the answer
16 would be, well, if you cannot persuade the Senate to do that,
17 then it leaves the Senator's recommendation out here and let
18 the Senate turn it down, we might do that.

19 Mr. Stern: One of the things about the reconciliation
20 process, a reconciliation bill, once it comes to the Floor, is
21 almost unamendable. Under the Budget Act, no amendment is in
22 order that reduces the savings, so a person cannot offer an
23 amendment just to strike out one portion of it.

24 By the same token, since there is a rule of germaneness,
25 you pretty much cannot substitute a proposal. A Senator

1 cannot say, "I do not like that way of achieving savings, but
2 I have a different way of achieving it," because probably that
3 would be a test of germaneness, so you cannot strike something
4 in the bill nor can you substitute your own amendment. You
5 pretty much have to vote a reconciliation bill up or down,
6 under the rules.

7 If it cannot be modified, it could be voted down.

8 Senator Moynihan: Mr. Chairman, I do not want to talk
9 too much. I was there, and I am reporting.

10 The \$600 million cut in income security, it requires us
11 to reduce entitlements. In the fiscal year, that begins in
12 three weeks. I do not think we can do that, Mr. Chairman.

13 What can the government do? It is so tied up. It is
14 nonsense. We are not going to do that. These are
15 entitlements in the law and they commence to take effect in
16 three weeks time.

17 What? Change the Social Security law?

18 The Chairman: I would hope that there are enough
19 statesmen on this committee that they would not have to ask me
20 to vote for it if you report that resolution out. It is
21 something I do not enjoy doing. I have to go back and try to
22 explain what this committee does, from time to time, and I
23 would find it difficult to explain that.

24 For example, "Why did you vote for an across-the-board
25 cut in Social Security payments? Why did you do that,

1 Senator?" Well, the cost of living has gone up. We do not
2 have enough to offset that. Why did you vote to cut it?

3 It is hard to explain that is one way to do it. Maybe
4 you fellows can muster the vote to do that under protest and
5 give me a chance to vote against it the second time out there
6 on the Floor. I must say, at this moment, I cannot provide
7 the answers to it.

8 I guess if I had more time to think about it, I might
9 come up with something, but not in ten days. Those who think
10 they have the answers, I wish they would show them to me. I
11 do not see them. I do not see the answers.

12 Senator Dole: We could work it out so that all those who
13 are running next year would not have to vote.

14 The Chairman: I would vote against it. Those of you who
15 have more time to explain that thing to the people, you go out
16 and explain it, anywhere from two to four years. The people
17 who will not accept your explanation, you may have to forget
18 about it.

19 Well, I do not guess we can do anything more than just
20 alert you to it.

21 I would like to plead to each member to think about it
22 and see what their suggestions would be, especially those of
23 you who are chairmen and ranking members of committees,
24 because of the experiences you have had around here. These
25 are parallel problems.

1 I would hope I could attain from you helpful thoughts on
2 how to do this.

3 So I will take the suggestion that we talk to the
4 Chairman and Ranking Member of the Budget Committee, if it is
5 all right with Senator Dole, and discuss it. If we cannot do
6 any better, I will at least suggest that we ask for more time.

7 Senator Ribicoff: I would suggest, Mr. Chairman, that
8 Senators Moynihan and Packwood accompany you, since they are
9 members of both committees, and are instrumental in both
10 committees. It would be helpful.

11 The Chairman. Thank you very much.

12 Let's go on to windfall then.

13 Let me ask you to look at the chart before us. I would
14 like us to reach some decisions on this.

15 Is there any area of that chart that escapes the windfall
16 tax, Mr. Shapiro?

17 Mr. Shapiro: Which chart are you referring to?

18 The Chairman: I am looking at the thought that you had
19 here. Here is a chart that says determination of tier one and
20 tier two tax base.

21 Mr. Shapiro: This is a chart to make a determination of
22 which oil is tier one, tier two for purposes of tax. As far
23 as oil exempt from the tax, as of the bill passed by the Ways
24 and Means Committee, the only oil that was completely exempt
25 is newly-discovered oil in Alaska.

1 The administration has actually proposed to exempt heavy
2 oil. That was a proposal that was made during the August
3 recess, that they deregulate the oil and be exempt from the
4 tax. That is immediately.

5 Also, under the House bill, after 1990, newly discovered
6 oil and incremental tertiary oil would be exempt from the tax.

7 The Chairman: Under the existing bill?

8 Mr. Shapiro: Under the bill the House has passed. You
9 have only one category of oil completely exempt, and that is
10 newly discovered oil up in Alaska, oil that is not for
11 production now.

12 Any newly discovered oil in Alaska in nonproducing
13 reservoirs as of now is exempt. That is in the House bill.

14 In addition the House bill exempts newly-discovered oil
15 and incremental tertiary oil after 1990. During the recess,
16 the administration proposed to deregulate heavy oil, that is
17 defined in the regulations as to where it is 16 degrees
18 gravity or less, and if you have the heavy oil that meets that
19 definition, the administration has chosen to deregulate that
20 immediately as the regulations came out during the August
21 recess and they proposed that would be exempt under the
22 windfall profits tax.

23 The Chairman: That would require legislation to exempt
24 it.

25 Mr. Shapiro: That is correct. You do not require any

1 legislation to deregulate. The administration does that. It
2 does require legislation to exempt it from the tax.

3 The Chairman: Where is the heavy oil?

4 Mr. Shapiro: Most of it in California. California has a
5 large amount.

6 The Chairman: Is the President is recommending that?

7 Mr. Shapiro: Yes. He has already done it. He has
8 already deregulated.

9 The Chairman: He has deregulated. He suggests we exempt
10 it from the tax?

11 Mr. Shapiro: That is correct.

12 The Chairman: Why do we not do that?

13 Senator Dole: Mr. Chairman?

14 The Chairman: Senator Dole.

15 Senator Dole: Mr. Chairman, during the recess, I think
16 it is important. It is a very important piece of legislation
17 we are working on and many of us went across the country and
18 talked to producers and consumers and many questions were
19 asked, what are we going to do with \$300-some billion that we
20 have not been providing answers to that small question.

21 Before we start deliberation we ought to agree that this
22 is not a tax on windfall profits. There is no correlation to
23 profits. It is an excise tax. In my state of Kansas, an
24 oil-producing state, the average production being 3.5 barrels
25 a day, but we are proud of that production. It puts a lot of

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1 people to work in our state. It means something to our
2 economy.

3 So we are concerned about what finally comes out of
4 this committee.

5 Frankly, I question the need for any tax. It seems to me
6 that if we are concerned about production, then we ought to
7 talk about production. But I think that we have agreed that
8 if we can restructure the tax that will not penalize or punish
9 an industry but maybe provide for more production and more
10 incentive, whether it is newly-discovered oil or enhanced
11 recovery or some small producer exemption as Senator Bentsen
12 has suggested, then I think that we can make some progress.

13 I notice this morning on television that the price of
14 gold is up to \$331 an ounce. Some say it is because we have
15 not come to grips with the energy problem.

16 Everybody in the foreign market understands that we have
17 the power to tax. We had demonstrated that in this committee
18 from time to time. But we have not demonstrated that we have
19 the wisdom to provide incentives for more production.

20 I would hope that when we start deliberations the first
21 thing that we do is not only exempt heavy oil that President
22 Carter suggests, but let's exempt all newly-discovered oil,
23 any oil produced after a certain date, any oil produced
24 replacing a barrel of OPEC oil. There cannot be any
25 windfall profits on that. The revenue loss is not that

1 significant.

2 I would hope that we could broaden that amendment to
3 exempt all newly-discovered oil from the tax effective back to
4 the time the legislation was introduced.

5 The Chairman: Let me tell you about the problem that I
6 have about that, the reason that I hope we can defer that for
7 the time being.

8 The Senator has a good point. There has been a good
9 argument made for that. I am concerned about the numbers in
10 this bill and I think that, just as we do with most revenue
11 bills, we are going to find ourselves in a situation of the
12 administration expecting a certain amount of revenue, even the
13 prospect that the President might withdraw his recommendation
14 of it, that to commit him halfway to work this thing out, and
15 that is not in the short run, but in the long run, that
16 amendment will cost a lot of money, that has been anticipated
17 in this tax.

18 Can you tell us, Mr. Wetzler, or Mr. Shapiro, how much
19 money that will cost? How much revenue is estimated that
20 would be lost in the bill over the period of that program?

21 Mr. Shapiro: On the windfall profits taxes, approximately
22 \$33.5 billion, on a net basis, \$14 billion. That is from
23 1980's to the 1990's.

24 Senator Dole: On all newly discovered?

25 Mr. Shapiro: Newly discovered.

1 Senator Dole: He makes a point there when he uses the
2 term "net" that we ought to keep in mind. We use he figure
3 \$33 billion as compared to \$14 billion. That means, of
4 course, you are going to get a credit fo having paid the
5 windfall tax against your individual tax, but what we are
6 really looking at is net numbers and when we say it is going
7 to cost this much, or it is going to gain this much, we have
8 to deal in net numbers ant not try to get something that is an
9 inflated figure, that is really not fact.

10 Senator Wallop: May I add to that? I agree with what
11 the Senator says, and Senator Boren and the Chairman, and
12 Senator Dole and myself have written a letter to the Joint Tax
13 Committee that will, in essence, bring the numbers to net
14 numbers and into, perhaps, a more realistic timeframe than the
15 forecast out to 1990.

16 They will do that in addition, but the real timeframe
17 that makes any sense at all, that anyone can realistically
18 forecast is between now and 1985.

19 The Chairman: I think that maybe we ought to try to work
20 to get some understanding. I am not sure we can get everybody
21 to agree on it, whether we can get the administration to go
22 along with us. It seems to me if we vote in terms of revenue,
23 we should vote in terms of highest dollar, not propaganda
24 dollars that do not exist.

25 If you say it is going to cost \$33 billion, but all it

1 really costs is \$14 billion --

2 Mr. Shapiro: The reason we had these dual terms, the
3 administration had proposed putting in gross revenues in a
4 trust fund. When we talk about how much money in the trust
5 fund that they proposed, it is the gross revenues, and that is
6 why we have to keep on referring to that. The net is the
7 increase to the Federal Treasury.

8 As Senator Bentsen pointed out, you do get a deduction
9 for the windfall profits tax.

10 The Chairman: So far we have not agreed to set up a
11 trust fund. We have not not voted on it.

12 Mr. Shapiro: The Finance Committee has not voted
13 anything.

14 The Chairman: If we have not voted anything to establish
15 a trust fund, then there is really no basis to say that is \$33
16 billion when it is really \$14 billion.

17 Mr. Shapiro: That is why we are giving it to you both
18 ways. The committee has to act, and we have to give you both
19 numbers to make that determination.

20 The Chairman: I must say that I find it difficult to
21 vote for the trust fund if, by doing so, I am setting the
22 stage for a fraud to be perpetated on the American public, to
23 pretend that we are talking about \$33 billion when we are
24 talking about \$14 billion. Either figure is a lot of money.
25 That stretches over a long period of time.

1 That would give me some problems.

2 Senator Dole: In the newly-discovered oil, as I
3 understand it, based on figures prepared by the committee
4 staff, between now and the year 1984, we are talking about
5 less than \$3 billion. That is net revenue cost.

6 This suggests an exemption. If you are going to provide
7 any incentive to the producers, we are going to have to exempt
8 the newly-discovered oil. I do not understand any reason.
9 There is not much disagreement on that point with anyone on
10 the committee.

11 Maybe later on when we get on to exemptions, the small
12 producer exemptions in other areas.

13 The Chairman: Might I suggest that you modify your
14 amendment to restrict that between the years 1980, '81, '82,
15 '83, '84, to include just that part of it?

16 Senator Dole: I do not know what happens in the industry
17 if they know in 1985 we have to start paying a tax, whether
18 that is going to retard production or exploration.

19 The Chairman: I would think if a person finds a good
20 well that he should have it paid u by 1985. During the next
21 two or three years, he would have an added incentive to drill.
22 With another year to drill, he may find less interest.

23 That would give him the opportunity to show what they can
24 do when they have the incentive.

25 Senator Wallop: Mr. Chairman, I would like to focus, if

1 I could a little bit in the direction on the dialogue that the
2 Committee takes. Maybe the Committee does not see fit to.

3 It seems to me what we are doing here, in addition to
4 trying to create attacks, is dealing overall with the problems
5 of energy supply, whether we save it or produce it, and there
6 will be a supply response that is at least mildly predictable
7 over each act that we take.

8 Some of that has been requested in a letter that we sent
9 yesterday to the Joint Tax Committee.

10 It will be helpful to us to know that what we are doing,
11 by doing something, is not only providing relief, but we are
12 buying a certain amount of energy, and what the cost -- one of
13 the conversations that we had just when we went on the August
14 break is by doing something, you will buy a barrel of oil for
15 so much of the Federal money and obviously when you get to the
16 area of syn fuels, we will be buying a barrel of oil
17 in excess of \$40.

18 In addition to some of the proposals made on these excise
19 tax proposals, we will be buying the oil back for a good deal
20 less.

21 My experience over the August break was that the people
22 are interested in the producton and the savings of energy and
23 they are not so much interested in taxes. It seems to me if
24 we could focus the direction of what we do in each of these
25 instances, by a predicted supply response, there is always an

1 argument as to whether we can get that supply response. There
2 is with the syn fuels too. Then we can get a more reasonable
3 focus on how we proceed with the President's proposal.

4 Senator Ribicoff: Are there any figures or any
5 predictions, either from the oil industry or the
6 administration or the Department of Energy on what you are
7 proposing would produce in additional oil?

8 Senator Dole: Jack, do we have any barrel figures?

9 Mr. Hutter: I think the Department of Energy says that
10 that newly-discovered and incremental tertiary will be the
11 only categories that will have a significant production
12 response, but they were reluctant to give us the exact figures
13 which they had.

14 I cannot say they do not have the exact figures. They
15 would not give them to us.

16 Senator Ribicoff: I think those figures should be
17 procured fast.

18 Senator Dole: Do you have any figures?

19 Mr. Smith: We have some figures. We would be glad to
20 share them with you. There are a great number of variables in
21 the equation.

22 Senator Ribicoff: I wonder if a microphone could be put
23 in front of the witness.

24 Mr. Smith: There are two principal variables that have
25 to be considered in terms of measuring the production supply

1 response. Obviously, one is the tax base that is determined
2 from the administration's position in the House bill. The
3 second is the extent you believe and the industry believes,
4 that world oil prices are going to increase over time, so the
5 projected revenue will increase, establishing as a base line
6 in the House bill, and also the world oil price case that the
7 Joint Tax Committee has used as the base line for their
8 calculations, which is a 1 percent increase per year between
9 now and 1985 and I guess beyond then, although there are
10 different figures in there that go into future years.

11 If you take those figures, and those assumptions, the DOE
12 oil and gas model would project that the production impact of
13 new tax on newly-discovered oil would be in 1985
14 approximately 150,000 barrels a day, and in 1990 it would be
15 approximately 125,000 barrels a day.

16 That is the exemption of newly-discovered oil, to leave
17 those production increases over what otherwise would occur.

18 The Chairman: Put it in terms so that I can see it. You
19 just talked to some fellow who was interested in drilling. He
20 makes a living doing that and if he has an independent, he
21 will go out and try to find some people to go out and put some
22 dough into it. He will draw up something and put some of his
23 own money into it and try to find some other people.

24 What he will tell you, for example -- what is the world
25 market price today?

1 Mr. Smith: The landed price in the United States is
2 about \$22 to \$22.50.

3 The Chairman: If that is the approach you are talking
4 about, right now?

5 Mr. Smith: That is correct.

6 The Chairman: Otherwise, without this amendment, the new
7 oil price would be \$13.

8 Mr. Smith: No.

9 What the House bill passed -- the House bill has a base
10 price of approximately \$17 and a 50 percent tax on that, so
11 that with a \$22 world oil price, the producer would
12 effectively see a price of approximately \$17.50.

13 The Chairman: How much would he have left after the tax?

14 Mr. Smith: Approximately \$19.50, the same as a price of
15 \$19.50.

16 The Chairman: You could afford to take a lot more risks
17 for a \$22 barrel of oil rather than a \$19 barrel of oil.

18 Mr. Smith: Certainly.

19 The House bill does have a 2 percent real increase each
20 year so that by 1985 the base price, rather than \$17, is about
21 \$19. The producer would have a predictable price increase
22 over time, so the effective price in 1985, assuming the world
23 oil prices, was still \$22, would be approximately \$20.50.

24 Senator Ribicoff: I am curious. How do you arrive at
25 150,000 extra barrels a day? How do you get those figures?

1 Mr. Smith: The model that the DOE utilizes has been
2 developed over a period of seven or eight years. It is a
3 extremely complex mathematical model that attempts to
4 determine, in essence, what the elasticity of drilling is and
5 how people respond to price.

6 The same figures that give you 150,000 incremental
7 production with the exemption of new and discovered form the
8 basis for our estimates of production increases on the order
9 of a matter of 1,000 or 1 million a day from the increase of
10 \$13 up to the \$19 or \$20.

11 Senator Ribicoff: How accurate have your predictions
12 been, have your estimates been in the past, as you have worked
13 out the amount?

14 Mr. Smith: Well, I think if anything, the model is
15 probably slightly over-optimistic overall and has proven to be
16 so by the experience of the recent past. However, the
17 experience by which we can measure its effectiveness is
18 relatively small.

19 We have two, three, four year production projecting out
20 of two, three or four years ago.

21 Furthermore, the model has been changed from time to
22 time. The assumptions are updated. It is very difficult to
23 say, in experimental terms, how effective it is.

24 It is a relative measur, I think, more than an absolute
25 measure.

1 Senator Ribicoff: Are there any estimates that have any
2 credibility as to what our reserves are now in the ground?

3 Mr. Smith: Yes, sir.

4 The USGS publishes Circular 725 that makes an estimate of
5 crude reserves and potential reserves for oil and also the
6 resource base, what is economically recoverable but not
7 discovered.

8 At the present time, we have approximately 30 billion
9 barrels, 29 or 30 billion barrels of proven reserves in many
10 states including the Alaskan North Slope. We have, according
11 to the USGS estimates, approximately 80 billion barrels of
12 potential reserves -- that is, reserves not yet discovered,
13 which, in theory, could be exploited -- that is oil only.

14 Senator Ribicoff: Since you are trying to buy ten years
15 of time before we get synthetics or alternate sources of
16 energy, if you could have an incentive for more rapid
17 production, how much of that 30 or 80 billion barrels would be
18 forthcoming in the next century if there were compensation
19 paid for bringing more oil out of the ground?

20 Mr. Smith: The estimates that I gave you would be our
21 answer. 50,000 barrels a day would be the amount that we
22 would project that the industry would increase its capability
23 by in response to not having a tax.

24 Senator Ribicoff: Senator Dole, we have the figures from
25 the Department of Energy. I am always puzzled why the oil

1 industry does not come up with some figures of what they think
2 that there may be in the ground and what they think that they
3 could produce if they had his tax.

4 The Chairman: I think I could tell you a little bit
5 about that. I know a little bit about that. I think that
6 they can give you some figures about what they think the
7 potential reserves are. That is what we are talking about,
8 Mr. Smith; potential reserves.

9 Mr. Smith: Yes, sir.

10 The Chairman: I think that they think that they can give
11 you some figures on what they think the potential reserves
12 are, but the most knowledgeable of them will tell you that the
13 real answer to that question is that nobody knows.

14 For example, just recently, in Louisiana a few years back
15 somebody found this Tuscaloosa sand. It was someplace in
16 Tuscaloosa where somebody drilled a well where somebody
17 discovered a well and they found this sand where conceivably
18 there could be oil.

19 That is a tremendous thing in Louisiana, resulting in a
20 tremendous increase in natural gas production and it will
21 extend over in Texas and you will find a lot of gas over in
22 Texas as a result of that. Nobody knows. Nobody know.

23 You can pick up some recent magazine that will tell you
24 of a discovery in the way the earth was formed in the Rocky
25 Mountain area, a trend that starts up there in Canada and goes

1 on down into Mexico where they are going to find some
2 tremendous deposits of oil and gas in the Rocky Mountain area.

3 Senator Wallop is familiar with that. Nobody knows. You
4 just do not know. When you get down to it, nobody really
5 knows, and you drill a hole.

6 There are a lot of areas that have been condemned -- that
7 is, people have drilled down to a certain depth and they have
8 concluded there is no oil or gas there. They drilled down to
9 5,000 feet. It has been condemned; nothing there. But
10 somebody goes in and drills down to 15,000 feet and finds one
11 of the most tremendous deposits that one could find.

12 Livingstone Parish, Louisiana adjoins the parish where I
13 live. I have heard many people say that they bet their life
14 that you will never find a successful well in Livingstone
15 Parish. They just proceeded to find one of the largest natural
16 gas wells in the history of the United States over in
17 Livingstone Parish by drilling down below 15,000 feet.

18 So nobody knows. You will not know until you put the
19 money into it and try it. That is the kind of thing that you
20 are up against. The same thing out there in Montana. Nobody
21 knows how much oil and gas you have got out there until you
22 drill much deeper than people are drilling right now.

23 Is that not right, Senator?

24 Senator Baucus: Yes, sir.

25 The Chairman: If you give us a guess, I would think that

1 there was a time when people would tell you that you could not
2 count on any oil in Alaska. Is that right, Mr. Lubick, or
3 not?

4 Mr. Lubick: I do not know, Senator.

5 The Chairman: Is that right, or not?

6 Mr. Smith: The accounting people?

7 The Chairman: Was there a time when people would have
8 told you that you could not find any oil in Alaska?

9 Mr. Smith: I am sure there was, yes.

10 The Chairman: The late Robert Kerr sat on this committee
11 and said Alaska would be able to afford statehood. There
12 will be enough oil in Alaska to pay for it, and it did.

13 Senator Bentsen: Mr. Chairman, when we talk about the
14 models and projections, during the debate on gas deregulation,
15 I did not see any of these econometric models projecting what
16 we now have in a substantial increase in our gas supply. That
17 just was not projected.

18 All of a sudden we find that our supplies are inadequate
19 for the present anyway and we are having substantial
20 shortages.

21 The Chairman: Secretary Schlesinger, everybody respects
22 him on this committee. He told me personally if you paid more
23 than \$1.65 a thousand for natural gas you would not get one
24 cubic more gas than you would at \$1.65. He was convinced
25 that was true and he was so informed by people in the

1 Department of Energy.

2 We worked for two years listening to that kind of
3 evidence and then somebody decided to challenge it, and you
4 know what that was based on? That was based on the theory
5 that at that price all of th drilling rigs would be active,
6 and the people who made that estimate over in the Department
7 of Energy, as I understand it -- correct me if I am wrong --
8 they never even took into account the rigs that were under
9 construction, nor the fact that if you paid more money they
10 would build more rigs.

11 So at some point, somebody up at Chase Manhattan Bank's
12 Econometric Center got that information and they looked into
13 it and came up with the fact that that was based on a complete
14 fallacy. What has happened since that time, since they have
15 deregulated gas below 15,000 feet, people are drilling below
16 15,000 feet and they are looking for all the rigs they can
17 find to do it with. As a result, they are finding a lot of
18 energy that people did not count on.

19 The point is, Senator, if you do not know, if you provide
20 the incentive you will find a lot more than if you do not.
21 That is the answer.

22 Senator Nelson: Mr. Chairman, there are some figures
23 available, however. About nine years ago, we were drilling
24 about 27,000 wells per year and finding 3,800,000 million
25 barrels a year. We are now drilling, last year, 50,000 wells

1 and getting 1,600,000,000. So you are drilling twice as many
2 wells and getting half as much oil.

3 Those are, I think, rather significant statistics and
4 they are based on a span that goes from about 1970 to today.
5 So it is thought, if you give them more money, they will drill
6 more wells and get more oil. At least it has not stood up in
7 the last seven or eight years when we have dealt with the
8 drilling and getting half as much oil.

9 Senator Gravel: First off, you make a very good point.
10 That is the reason that the cost of energy is going up. I
11 think the American people ought to recognize that it takes
12 more footage to arrive at the same amount of oil, the same
13 amount of reserves, that we maintain.

14 In fact, if we are going to maintain the same reserves
15 now and not curve down, we are going to double the amount of
16 capital to \$14 billion a year just to stay even.

17 I do not understand the Senator's point except his own
18 facts cry out for the fact that we need more capital in the
19 oil and gas industry in order to bring out more oil and gas.

20 Now, it is going to be more expensive oil and gas, but it
21 will be a far cry cheaper than anything else that you can find
22 in the world, and a far cry, more efficient environmentally,
23 than anything else you are going to find in the world.

24 Senator Nelson: I was not reaching any particular
25 conclusion.

1 Senator Gravel: I was bringing you to one.

2 Senator Nelson: I think the facts are impressive, that
3 you have doubled the drilling and are getting half as much
4 oil.

5 And we act like the fanatic who lost sight of his goal
6 and just doubled his effort.

7 All I am saying, just to say everything in the world and
8 then they will drill a hundred thousand wells and still not
9 get 3 billion --

10 Senator Gravel: What would the Senator do?

11 The Chairman: Senator, I think you will find if you
12 check those figures out, check out the figures that you used
13 and just put this in the computer to go along with it, that at
14 the time of the Arab boycott the domestic oil and gas business
15 was in the process of going out of business. In other words,
16 they have pretty well given up finding the energy to provide
17 America's needs, and they had pretty well reconciled that
18 because you could produce it so much cheaper in Saudi Arabia
19 and Nigeria and elsewhere that they would just all go out of
20 business. Half of the independents have already gone out of
21 business and the majors were making their plans to drill
22 overseas.

23 So the first thing that you had to do was to turn around
24 the decline. If you had not reversed the American trend, you
25 would have had the remainder of the independents go out of

1 business. Half of them had already gone out of business. The
2 other half would go out of business, and the major companies
3 would have moved more of their activities overseas.

4 Those figures that you are talking about do not indicate
5 what it took to start the downward toboggen and to even get up
6 to where you were not losing ground.

7 I believe that you will find those figures that you are
8 citing to not take into account the tremendous effort it took
9 just to stop the downward decline where you were simply
10 producing out of inventory until the wells ran dry, where
11 there would not be any oil and gas business any longer.

12 If you take that into account, it makes a better story
13 for the industry.

14 Senator Gravel: Using the figures that Senator Nelson is
15 talking about, what is the alternative, he is stating the
16 obvious facts, that it costs more to drill oil and gas, so
17 what else is new? What alternative is there if you want to
18 have a country that relies upon energy? What else are you
19 going to do? You are going to get angry and take the money
20 away from them because it is costing so much?

21 What is the answer?

22 The Chairman: The answer to the problem is, Senator, if
23 you put enough money into it, you can provide America's
24 requirements of energy. I do not know exactly how much. I do
25 not say you can do it with oil alone; you cannot. I do not

1 say that you can do it with natural gas and oil. I do not
2 believe you can.

3 But if you include coal, you include solar, you include
4 hydro, you include the various other things available to you
5 by present, known technology and include conservation as some
6 Senators want to do, insulate the homes, have automobiles that
7 get better mileage -- if you do all of that and you put enough
8 money into it, you can provide America's energy requirements.
9 That is the answer to the problem.

10 You sure do it with money.

11 Senator Gravel: Again, I want to come back to the point
12 that Senator Nelson made. It is the most fundamental of all.

13 You have got to bring it to a conclusion. You cannot
14 just go out and say that everything is getting more expensive.
15 Of course everything is more expensive. It is dear to get to.

16 What are we going to do about it? Are we going to take
17 the money away from them, knowing that it costs more to do it,
18 or are we going to leave them whatever money we can get from
19 the sale of their product with a reasonable profit to go do
20 the job?

21 Senator Ribicoff: I think that there is a question. I
22 think that he raises a legitimate point. But I think there
23 are some other facts that I would like to know.

24 During this period, were these rigs digging to 5,000 feet
25 or were they going down to 15,000 feet? Were they doing

1 tertiary discoveries, reduction? Because, again, I think we
2 ought to focus on the next ten years because synthetics are
3 going to cost you \$40 a barrel and we are talking about
4 producing this in ten years. What do we do in the next ten
5 years? The \$14 billion that we are talking about -- what
6 would it take to increase OPEC oil to consume \$14 billion from
7 the American resources in dollars?

8 What would they have to raise the price of oil to to pick
9 up the \$14 billion that we are talking about. Could I have
10 that?

11 Mr. Smith: We import approximately eight million barrels
12 a day of oil, total, and that comes out to be three billion,
13 so a \$4 price increase would almost equal \$14 billion.

14 We have a very practical problem here, so that it does
15 not take much to consume that \$14 billion that we are talking
16 about in tax revenues. It is a question is that \$14 billion
17 worth the incentive you are giving to the producers to gamble
18 that you are going to get sufficient oil to overcome the
19 proposed increases?

20 We are certainly going to have those increases. I would
21 imagine in another year they are going to raise it another \$4
22 a barrel of oil.

23 The Chairman: Senator Bentsen?

24 Senator Bentsen: Mr. Chairman, I think that you make a
25 good point when you say that any figure that we get in the way

1 of estimates on increased production will be soft, very
2 difficult to arrive at, but I have been advised by my staff in
3 response to Senator Ribicoff's question that, as compared to
4 these figures given to us by DOE, that the industry figures,
5 their estimate as to what we will find in new oil without the
6 tax is at least twice as much as what the Department of Energy
7 is estimating.

8 I have another concern. When I was speaking a moment
9 ago, showing what the net cost is and not getting the bloated
10 figures that are misleading, because you do get the credit for
11 the tax paid against the income tax, that it is also my
12 understanding that the Joint Committee, in their estimates,
13 has given us a static analysis that, in effect, they have not
14 shown the amount of increased income taxes that would be
15 collected by increased productions if the tax is not put on.

16 In other words, if there is another 225,000 barrels a day
17 by 1990 as says the Department of Energy, but if the industry
18 happens to be right and it is well above a half a million
19 barrels a day, how much income taxes would be collected
20 thereby?

21 That certainly should be in the analyses that we are
22 presented with. I understand it is not. Is that correct?

23 Mr. Wetzler: I think you are misinformed. We are doing
24 the revenue estimates with a model that does involve
25 assumptions of how much drilling will change and production

1 will change in response to a change in the tax rates on newly
2 discovered oil. We do not have any production responses built
3 in for any other categories of oil other than newly-discovered
4 and we are certainly not certain about what we are assuming
5 about newly-discovered. We do not know much about it. We are
6 making an attempt.

7 Senator Bentsen: You did assume -- somebody was telling
8 me they did not have numbers. What numbers did you assume
9 from increased production from newly-discovered that in turn
10 you calculated the increased income tax that would be derived
11 therefrom?

12 We have been searching for that number. Let's have it.

13 Mr. Wetzler: There are two questions. One is we have a
14 number embodied in this model that I do not know.

15 Senator Bentsen: That is what we are searching for and
16 no one was responding.

17 Mr. Wetzler: We have not publicized estimates of how
18 much we think production would change in response to various
19 tax changes for essentially the reasons Senator Long gave.
20 We, I think, are confident we can make an estimate of how much
21 drilling will change.

22 Senator Bentsen: Do we not want your best judgment and
23 let us evaluate whether we think you are right or wrong? Are
24 you not researching this thing to try to help us?

25 Mr. Wetzler: We have done a lot of research but we do

1 not know the answer to Senator Long's question. We do not
2 know how much oil is down there.

3 Mr. Shapiro: Senator Bentsen, what we can do is we can
4 make a guess on the additional drilling, additional drilling
5 rigs that will be manufactured and put in service. We would
6 be very hard-pressed to determine how much oil.

7 Senator Bentsen: You have just come back to me and I
8 have just been told that you did use the number and that you
9 did not give us the static analysis and that you calculated
10 the income taxes to be derived therefrom because of increased
11 production.

12 That is what he is saying to me. He said I was
13 misinformed, that you had a number, that you cranked it in,
14 and the increased taxes to be collected from it.

15 Mr. Shapiro: We have told the Committee all along we did
16 not have confidence in the numbers we have given you. We have
17 been asked to project numbers out to 1990 assuming that
18 difference in production, and everybody is guessing what the
19 production will be, because no one knows how much oil is in
20 the ground.

21 The Committee has asked us to do it. We have been asked
22 to make projections out to 1990. We had trouble doing it
23 to the early 1980's, much less 1990. We are trying to give
24 the committee the best estimates we have, using the
25 information, but when we start trying to go to 1990 with exact

1 production and exact revenues, it is difficult.

2 In addition, there are other economic factors. For
3 example, we are using 1990 dollars. If you're talking about
4 1990 dollars in real terms in 1990, they are not worth as much
5 out there.

6 Senator Bentsen: I know that, and I understand that, and
7 I understand that gives us problems and we have to try to
8 evaluate the judgments that you arrive at as we make our
9 calculations. But if I am going to get a static analysis that
10 gives no credit for the additional tax to be collected by the
11 additional oil found, I want to extend the static analysis.

12 If it is not, if it is really credit for additional oil
13 to be found and some figure is used, I ought to know what that
14 figure is to try to decide whether I think you are right or
15 not in trying to arrive at the judgment here.

16 The Chairman: I just want to get one point in here.
17 Here is a point that I think we ought to all understand, and I
18 hope that the press can get this point, too, and all of those
19 who are attending the hearing. This numbers game is something
20 everyone should try to understand. Maybe someone can find
21 someplace on the blackboard to put it on.

22 If you start out by assuming that we have no windfall
23 tax, assuming no windfall tax, then -- and let's take the case
24 of a major company. All right. That company is paying taxes
25 in a 46 percent bracket to the Federal government.

1 All right, now. Assuming no windfall tax, if the company
2 made a million dollars of increased income as a result of
3 deregulation, 46 percent of that would be collected by the
4 government.

5 Is that right, Mr. Shapiro?

6 Mr. Shapiro: That is correct.

7 The Chairman: So that the company would then have left
8 \$540,000 and it would have paid Uncle Sam \$460,000.

9 So, if the windfall tax is 60 percent, then the windfall
10 tax would be 60 percent of the \$540,000 that was there to be
11 taxed, so the windfall tax would be \$300,000.

12 There administration estimates come in here just as
13 though there were no tax there to begin with, is that not
14 right? Gross estimates.

15 Mr. Shapiro: The whole numbers game -- you are on the
16 right track, but it is much more complicated because to
17 compute the Federal tax --

18 The Chairman: Let me try to explain it the simple way,
19 then you explain to me why it is different. It seems to me it
20 works out to this. If you start out by assuming that there is
21 no tax to begin with, then you estimate that your windfall tax
22 is going to collect 60 percent of that million dollars, so you
23 are estimating that it is collecting \$600,000 when all it is
24 really collecting is \$320,000 above what the existing law is.

25 Most people in revenue estimating would take the proposed

1 tax and estimate that that is only raising what you raise over
2 and above the other taxes there already. Is that right or
3 wrong?

4 Mr. Shapiro: The increased tax is otherwise what we
5 would have.

6 The Chairman: That is why there is a difference between
7 what Mr. Dole talks about as an amendment that would cost \$14
8 billion, reduce the revenue by \$14 billion. You have an
9 administration estimate of \$33.5 billion on the same thing
10 that the net estimate is \$14 billion, because these
11 administration figures take the new tax and figure that just
12 as though the old taxes were not there at all.

13 Is that right or wrong?

14 Mr. Shapiro: They put that amount in the trust fund.
15 The administration is aware that they do not get that much
16 increased revenue, but the administration proposal is gross
17 tax into the trust fund, and that is what the House bill does
18 as well.

19 The reason that was done was because when the
20 administration originated the proposal, there was not a
21 significant revenue collection and if they put the net in the
22 trust fund there would be little in the trust fund under the
23 assumptions the administration made to show that there was a
24 sizable amount of money that would be putting into the trust
25 fund. They had to use the gross revenues.

1 In addition to that, the administration even put into the
2 trust fund the corporate increases in tax, which have more
3 money in the trust fund. After the administration made its
4 proposals, OPEC raised the prices and that increased the price
5 approximately \$4. The revenue was much greater and the House
6 declined to put it in the trust fund, the additional corporate
7 taxes but they still put in the gross taxes.

8 It was just trying to get the money in the trust fund
9 that the administration and the House used the gross revenues.

10 The Chairman: Mr. Sunley?

11 Mr. Sunley: I would like to point out that every trust
12 fund that has been enacted, the gross excise tax goes in.
13 That is true of the airport and the highway user funds. These
14 are the cost of doing business and are deductible in computing
15 income tax.

16 I would disagree with Bobby's reasoning about why we put
17 the gross revenue in but I also would like to point out for
18 the committee that in all of the administration releases
19 relating to the windfall profits tax, this distinction between
20 gross and net has been brought out, that the gross was going
21 into the trust fund, but the net increase in Federal revenues
22 takes into account the fact that the windfall profit tax is
23 deductible for purposes of the Federal income tax.

24 The difference that you see between the \$33.5 billion and
25 \$14 billion, I think shows this effect. Obviously it is a 50

1 percent tax, straight static analysis, and you have a 43
2 percent income tax, so the net amount would be half of the \$33
3 billion. It is less than half; it is \$14 billion compared to
4 the \$33 billion. That is reflecting the additional billing
5 and additional production that you get.

6 That is the model that the Joint Committee is using, one
7 that they have done an awful lot of work on refining some work
8 that we started, but we started down that path, too, of trying
9 to build in a consistent way of estimating the revenue, taking
10 into account the fact that you would get production response
11 with the types of oil, making the suggestions that you can
12 make in these cases.

13 I hope that the administration keeps clear, gross versus
14 net. At least in all of our written documents, we have.

15 Senator Byrd: Let me ask this question, Mr. Sunley -- or
16 Bob.

17 The \$33 billion goes into the trust fund but the net
18 revenue to the government is only \$14 billion. Why do you get
19 the other \$19 billion?

20 Mr. Sunley: One of the problems -- there has been
21 confusion here, Senator Byrd -- is that we were putting the
22 gross revenue into the trust fund. We spent all that revenue,
23 then, when we increased the deficit.

24 I think, by itself, the answer has to be yes, except that
25 we really need to come back to the dialogue that was taking

1 place with Senator Danforth at the end, just before the August
2 recess, because there is some additional revenues from
3 decontrol.

4 There are two different pieces.

5 Senator Byrd: According to your statement, \$33 billion
6 will go into the trust fund.

7 Mr. Sunley: That is correct.

8 Senator Byrd: The government will only get a net of \$14
9 billion. Where do you get the other \$19 billion?

10 Mr. Sunley: Decontrol itself does generate some
11 additional revenue. You take the whole program together, the
12 President decontrolling oil. That increases tax revenues, not
13 by the full amount, but the increased taxes paid by oil
14 companies and royalties.

15 Senator Byrd: How much does it increase it by?

16 Mr. Sunley: The Joint Committee has been trying to
17 present some estimates for Senator Danforth.

18 Senator Byrd: After all these days, weeks and months we
19 still do not have any figures?

20 Senator Danforth: It is being passed around.

21 Mr. Sunley: I did not want to get in the numbers game.
22 Our figures are close to what the Joint Committee's numbers
23 are.

24 Senator Danforth: Mr. Chairman, could I respond?

25 Senator Talmadge: Senator Danforth.

1 Senator Danforth: I really think this follows along the
2 same point. A memorandum from the Joint Committee is being
3 passed over now, Mr. Chairman. It seems to me that the way to
4 go about considering this whole matter is as follows. The
5 first question is how much do we want to raise in Federal
6 revenues for a nonoil production portion of the total energy
7 program? How much do we want to raise for the President's
8 energy program, synthetic fuels, aid to the poor, and so on?
9 Or whatever Congress wants to do to modify the President's
10 program. The President has asked for \$142 billion over ten
11 years for its energy program.

12 That amount, and how that \$142.5 billion is divided up is
13 in dispute.

14 The Energy Committee of the Senate, as I understand it,
15 wants a synthetic fuel program that will cost, not \$88
16 billion, but \$20 billion. Some people suggest more in the
17 form of tax credits, more in the form of aid to the poor, but
18 \$142.5 billion is, I think, the outer limit of what anybody
19 has proposed for a total energy trust fund or energy program.

20 How much additional federal revenues are going to be
21 produced as a result of the windfall tax plus increased
22 Federal revenue from income taxation, plus increased revenues
23 from royalties between now and 1990. That is a question that
24 I understand that Senator Byrd raised.

25 During the recess, the Joint Committee ran revenue

1 estimates and what is interesting about them, depending on the
2 economic assumptions that are made, their estimates are all
3 over the place.

4 They range from a low of \$144 billion to a high of \$480
5 billion in combined revenues from the windfall tax from
6 increased Federal income tax due to decontrol, and from
7 royalties.

8 Under the smallest estimate, more revenue is produced
9 from the total increased taxes than the President's energy
10 program calls for. Under the highest estimate, the highest
11 estimate would produce more than three times -- almost three
12 and a half times -- the additional Federal revenue that is
13 necessary to support the President's program.

14 Senator Moynihan: The \$480 billion figure?

15 Senator Danforth: The \$480 billion.

16 Senator Bentsen: Are these gross figures?

17 Senator Danforth: Total revenue estimates. I would like
18 Mr. Wetzler and Mr. Shapiro to go through them and explain
19 what the various estimates are. There are different estimates
20 as to how oil prices are going to go up relative to the
21 Consumer Price Index, and so on.

22 There are a variety of different assumptions as to the
23 effect of decontrol on GNP, on price increases, and so on that
24 go into these various estimates.

25 But it seems to me that the scheme to be followed in

1 devising the tax is not just to say that we want to raised
2 money for the fun of it, but the scheme that you go through
3 is, what is our best judgment in the Congress as to how much
4 money should be raised for an energy program? The President
5 says \$142.5 billion; we might say something different.

6 What is the total amount that we want to raise?

7 Secondly, what are the best estimates as to how much will
8 be raised? The estimates are all over the place, but it is a
9 matter of judgment what is the best available judgment as to
10 how much money is going to be raised.

11 It is my hope, Mr. Chairman, that we raise every penny
12 that is necessary for an effective other-than-oil energy
13 program, that we raise every penny that is necessary to
14 cushion the impact on poor people.

15 It is also my hope that we do not raise a penny more.

16 It is also the hope that under the guise of solving the
17 energy program we do not further increase the Federal tax bite
18 on the American economy. For the last six years, every single
19 year, Federal tax revenues as a percentage of Gross National
20 Product, has increased.

21 If we need the money for energy, fine. But I would hope
22 that we do not undertake a tremendous increase in Federal
23 taxation which is well over -- up to, under these projections,
24 up to three-and-a-half times what is called for by the
25 President's energy program for, as the Treasury said before

1 the recess, money that would be available for general
2 budgetary purposes.

3 I think that these figures are revealing, Mr. Chairman,
4 and I would hope that the Joint Committee staff might go
5 through them and we could, maybe, squeeze them a little bit so
6 that we can get some sort of a consensus as to the total
7 revenues projected over this total period of time.

8 Senator Byrd: If I may make this comment, I think
9 Senator Danforth has done the Committee a fine service in
10 obtaining these figures. I think they are very important.

11 Could I ask, before you start going through it in detail,
12 could I ask either Mr. Sunley or Bob, Mr. Shapiro, to respond
13 to this question: where do you get that \$19 billion?

14 The Chairman: That is a good question.

15 Mr. Shapiro: That was one of the points I was making as
16 to whether or not the trust fund should be net revenues
17 instead of gross revenues in response to one thing that Mr.
18 Sunley said in his answer, that the other excise taxes in the
19 trust fund ---they put the gross in, but, generally speaking,
20 in almost all of those gases, it means higher prices. When
21 you have a gas tax, that does not come out of the profits to
22 the oil company or service station dealers. It is put onto
23 the consumer.

24 The airway tax is part of the condition of the price, not
25 part of the profits. This particular tax -- the windfall

1 profits tax -- comes out of profits; it is not passed on in
2 higher prices. The prices are controlled, and it comes right
3 out of the profits. It is not a passed-on tax like the
4 other taxes that go into the trust fund.

5 What the administration is suggesting, although there
6 very well may be an argument to put the net into this trust
7 fund in this case, against the gross because it is not passed
8 on in higher prices, what they are saying, the way the
9 government recoups the money that goes into the trust fund,
10 that is a part of your question, "Where do you get that \$19
11 billion?"

12 It is a fact that, in addition to just this tax, the fact
13 that when the prices were \$18 a barrel, \$16 to \$18 before --
14 let me give you another example. The old oil was selling at a
15 control price of \$6. The net price under decontrol, when
16 decontrol expires, 46 percent on the difference between \$22
17 and \$6. That is additional revenues that are corporate
18 revenues.

19 What Treasury is suggesting, that is where the government
20 recoups its money. The additional corporate tax of 46 percent
21 on that price of \$22, between \$16 and \$22.

22 Senator Byrd: What figure would that be? All I need is
23 a figure.

24 Mr. Shapiro: That total figure is in the neighborhood of
25 \$175 billion over the period between now and 1990. It is in

1 the neighborhood of \$175 billion. The additional corporate
2 taxes, as the result of increase in prices.

3 The Chairman: Let me just help you get this straight for
4 both of us.

5 What is the gross tax, the way these figures come in,
6 what is the gross tax to be collected over a ten-year period?

7 Mr. Shapiro: The gross tax is in the neighborhood of
8 \$185 to \$186 billion.

9 The Chairman: \$185 billion.

10 Mr. Shapiro: Yes.

11 The Chairman: What is the net?

12 Mr. Shapiro: The net is in the neighborhood of \$105
13 billion.

14 The Chairman: So a difference of \$80 billion?

15 Mr. Shapiro: Yes, \$180 billion. Between gross and net.

16 The Chairman: \$180 billion.

17 Mr. Shapiro: I am sorry. What I am getting to --

18 The Chairman: Tell me the gross.

19 Mr. Shapiro: \$186 billion.

20 The Chairman: \$186 billion.

21 Mr. Shapiro: The net is \$105 billion.

22 The Chairman: \$105 billion.

23 Mr. Shapiro: Under that case, the difference is \$81
24 billion.

25 The Chairman: All right, there. Now we are getting

1 somewhere.

2 Now, what is the \$81 billion difference? What is the
3 difference?

4 Mr. Shapiro: That is the windfall that is offset against
5 the corporate taxes. They get to deduct.

6 The Chairman: Hold on a minute.

7 Is it not right that \$81 billion -- and I will vote for
8 this whole thing -- that \$81 billion is a tax I did not vote
9 for?

10 Mr. Shapiro: Yes.

11 The Chairman: I did not vote for that. That was already
12 in the law. Right?

13 Mr. Shapiro: All I really voted for -- let me see. I
14 voted for \$105 billion. I did not vote for \$186 billion. I
15 only voted for \$105 billion.

16 I did not put all of that tax on. All I put was \$105
17 billion.

18 Mr. Shpairo: That is right.

19 The Chairman: It seems to me we ought to get that matter
20 straightened out. If we do not get it straightened out, we
21 are going to have to go through this whole proceeding every
22 time we talk about something.

23 We have two figures. One, the tax that we are not voting
24 for; the other the tax that we are voting for.

25 About the only way I can see to straighten that out is

1 just starting off by eliminating the trust fund, and then put
2 the trust fund back, if we want to put it back. That being
3 the case, we will only then be talking about one set of
4 figures, would that be right?

5 Mr. Shapiro: If that is what the Committee wants, we
6 will only talk about the net.

7 The Chairman: All we would be talking about, then, are
8 how much taxes we are voting for, how much money the bill
9 would actually raise, and not all this deception about a big
10 bunch of numbers that would have come in anyhow. The \$181
11 billion, that is what you would get anyway, is that not right?

12 Mr. Shapiro: Yes.

13 Senator Packwood. I wonder if we could work backwards
14 also. You have hit upon it here.

15 What we are trying to do is cut our imports, try to
16 produce more oil or conserve more oil or generate more by solar
17 energy. If we could go through a variety of alternatives,
18 synthetic fuels, if you want, and what we think it is going to
19 cost, what Senator Danforth is saying, and if we want to levy
20 a tax on the oil companies to produce what the figure happens
21 to be.

22 Why start with a tax?

23 The Chairman: We have to start somewhere.

24 Let me just make the suggestion that just for starters
25 that we follow the procedure that we have done so many times

1 on this committee with difficult, complicated bills where we
2 simply agree that we will do something more tentatively on the
3 basis -- if, at any point, you do not want to do it that way,
4 we will do business differently rather than go through this
5 whole bill where you are talking about two sets of figures
6 every step of the way.

7 You start out without the trust fund, just eliminate the
8 trust fund. That way, all we are talking about is honest
9 numbers. So when you look for a tax, you are voting to
10 actually tax somebody and not talking about some add-on number
11 that is not correct at all, which would have been a number
12 that he would have paid and not pass the bill at all. If we
13 do it, that way we would be talking about honest numbers. We
14 will all be using the same figures.

15 Senator Bentsen: Mr. Chairman, I guess I started this
16 this morning, talking about net numbers. I totally agree with
17 what you are saying, as I understood it, that we did not use
18 the static analyses of the Joint Committee on new oil. I
19 believe maybe that is what Treasury or DOE said. I was
20 delighted to hear that. I would be interested in seeing what
21 went into those estimates.

22 Do I also understand that you only did that figured in
23 what would be forthcoming in the way of new oil, additional
24 taxes on new oil, and you did not do that as to other
25 mentioned things, such as stripper, for example?

1 Mr. Wetzler: That is correct. Let me explain why we did
2 that. Let me give you the history on how this whole model
3 started.

4 When the President first proposed the windfall profits
5 tax, the White House put out figures that showed that the
6 oil companies would pay some regular income tax on their
7 deregulation of profit.

8 Some people criticized that saying that the oil companies
9 paid a low rate of tax. The administration responded
10 correctly by saying the oil companies do pay a marginal rate
11 of 46 percent like everybody else. The only question is, how
12 do you get to the taxable income, and they say when you get
13 some windfall profit, some state income tax, severance tax,
14 then you get some independent producers to get the percentage
15 depletion that is deductible and that is all fairly
16 straightforward.

17 The key is, to the extent that the deregulation
18 encourages drilling, people will do additional drilling, which
19 means they will generate more intangible drilling and
20 initially produce more oil and you will get less taxable
21 income but more taxable income in the future.

22 And the Treasury built this rather simple computer model,
23 although it is getting increasingly complicated as we go on --
24 a computer model to try to do the revenue estimates to take
25 into account all of these interactions.

1 Senator Bentsen: I understand that. That is fine. I am
2 still concerned about how we have evaluated what we do. If we
3 were to talk about something about the stripper. I do not
4 want a phony figure out here. I know any number that we get
5 is not going to be exact and can be argued about, but I would
6 like the best judgment.

7 Mr. Wetzler: For revenue estimating judgment purposes,
8 when you get an increase in production, you get additional
9 revenues for the company that you report as income, but you
10 have additional expenses that are income.

11 The assumption made in the model is not necessarily that
12 there will not be increased production, but rather that you
13 get increased production from tertiary recovery, that the
14 cost of these additional barrels of oil will be so close
15 relative to revenues that there will not be a big change in
16 taxable income, therefore, you will not get very much
17 additional revenue from that increased production.

18 It is still a good idea to have it, but the model, as I
19 say, is not designed to measure increased production. It is a
20 revenue-estimating tool that is important for newly-discovered
21 oil because the drilling occurs in one year and the production
22 occurs later. You do get big changes in taxable income for
23 the additional production you might get from keeping the
24 stripper oil in production, a tertiary recovery project, or
25 other things. We just assume that the cost in comparison to

1 the revenue, without much effect on taxable income or
2 revenues, which does not make any judgment at all about
3 whether this additional production would occur, but if it
4 would occur or not, it would not have much effect on the
5 revenue estimate.

6 Senator Bentsen: If we are talking about strippers --
7 you are not talking about the companies, you are talking about
8 small operators, to keep those in operation. He cannot keep
9 those in operation unless he makes more profit by doing that.
10 We know that.

11 The Chairman: Could we not just settle this one thing
12 here? In other words, with this understanding, that as of
13 now, I could go either way on the trust fund. I just want to
14 get this thing on some comprehensible basis so we can
15 understand what we are talking about.

16 Can we agree that, for starters, we will take the trust
17 fund out? We will consider the trust fund later on. We can
18 put it in, take it out, whatever you want to do. If it takes
19 us two weeks to get this bill out of here -- I do not want to
20 spend two weeks talking about every time you bring a figure up
21 we get two sets of figures.

22 Is that agreeable to the Committee?

23 Senator Danforth: I do not know. I do not know what you
24 are talking about. I do not know of any other way to
25 determine tax policy other than to make an initial decision as

1 to how much money you are trying to raise.

2 The Chairman: That is fine.

3 Senator Danforth: Secondly, to decide how much money
4 these various proposals are going to raise, gross money. What
5 difference does it make if it is a windfall tax or an income
6 tax or a royalty? More money for Uncle Sam to spend.

7 The Chairman: All you are saying, I am with you on that.
8 That is fine. I want to satisfy you on that. All I am saying
9 is, everytime you talk about a figure here for next week and
10 longer, everytime you talk about a figure you have to say, "Do
11 you mean the gross or the net?"

12 Senator Dole had a set of figures here. Are you talking
13 about a net figure or a gross figure?

14 I think we ought to try to bypass all the confusion and
15 talk about how much money we are going to raise in taxes. We
16 are not going to be able to do that without ending this
17 confusion unless we leave the trust fund out when you are
18 talking about the tax.

19 Senator Ribicoff: Mr. Chairman, I do not think you have
20 to leave the trust fund out of it to determine what figure you
21 are going to use in the net, then determine whether that net
22 is going to go into the trust fund or not. As far as I am
23 personally concerned, I can go along with this, but I will not
24 go along if there is not a trust fund. I am not interested in
25 taxes, I am interested in producing more energy. I am

1 interested in devising a program for producing more energy.

2 We are not here to have more taxes. We are here to
3 produce more energy in any way we can. We do not have to make
4 that decision.

5 We do have to make a decision whether we are going for
6 the net or the gross. You can leave the trust fund factor
7 completely aside, whether we are going for the \$101 billion or
8 \$181 billion. So you are going to \$101 billion. I would go
9 along with \$101 billion. Let us keep in abeyance whether we
10 are going to use the trust fund or not, instead of ruling out a
11 trust fund.

12 The Chairman: What I would like to do is just to start
13 out by taking the trust fund out of it and then we will vote
14 on the trust fund and put it back in later on.

15 My thought is, if you take the trust fund out when we
16 talk about the tax, then we are talking about what the tax
17 really is.

18 Now, I am willing to vote for tax credits and things like
19 that. I think we can come into agreement on that.

20 Senator Ribicoff: The difficulty we will have doing it
21 your way, getting the same result that you want, you have the
22 problem what you are going to do with the heating costs for
23 the poor. What are you going to do for mass transit. What
24 are you going to do for the synthetic fuels program.

25 So this whole thing contemplates a trust fund.

1 I think the issue around this table is not a question of
2 a trust fund. The issue is, are you talking about net or
3 gross? I think that is the important issue to be decided
4 first.

5 The Chairman: I am willing to vote for the amendments to
6 the bill and I think most people are. Whether you have a trust
7 fund or do not have a trust fund, I am willing to vote for
8 amendments that provide a tax credit, that provide whatever we
9 want to do for the poor, for the urban transit and all the
10 rest.

11 All I am saying is that it looks to me as though as long
12 as we have that trust fund in there, we are talking about
13 gross and net figures. To avoid that, we ought to leave the
14 trust fund out and put the trust fund back in later.

15 Senator Gravel?

16 Senator Gravel: I share the same view they have. We are
17 talking about the money when we have not even arrived at a
18 decision whether we need any money and if we do need some
19 money, how much. That is the first thing we should do, and I
20 share that view.

21 The first statement Senator Danforth made, do we need any
22 money for energy and, if so, how much, and once we know how
23 much, let's just go get it. It is that simple.

24 Let's start with the fundamentals. We can be two weeks,
25 truly, playing with these figures and manipulating them. I

1 would hope that we would go back to the fundamentals.

2 What is the problem? Are we going to defer -- are we
3 going to defer to another Committee? Maybe it is not germane
4 to this Committee. Maybe we should not make a judgment as to
5 how much money we are going to raise for the trust fund.

6 Maybe we should not make a judgment as to how much money
7 we should raise for syn fuel. Maybe what we ought to do is
8 throw \$100 billion out there and let the rest of the Congress
9 scramble on what to do with it.

10 I would rather that this Committee assert some
11 responsibility as to where the money is going to be spent and
12 make a judgment as to whether or not we should then raise the
13 money.

14 The Chairman: Senator Baucus?

15 Senator Baucus: I have two points. I tend to agree with
16 Senator Gravel. I think it is a basic question that Senator
17 Ribicoff and Senator Danforth are driving at, how you are
18 going to spend the money. It is a question of how large the
19 reserves are. It is an illusory number, but it behooves us to
20 get to that point.

21 The real point I am making, assuming we drop the trust
22 fund at this point for purposes of discussion, I am curious as
23 to how we proceed. We get into possible amendments, the
24 decline curve changes, and so forth.

25 What framework are the discussions going to be if we do

1 not have this trust fund?

2 The Chairman: Whether you have a trust fund in here, or
3 whether you do not have a trust fund in here, if I detect the
4 sentiment of this committee, we are going to vote to put some
5 taxes on. We are also going to vote for some tax credits and
6 we are also going to vote for some deductions and tax
7 expenditures.

8 Within the area of our jurisdiction, we are going to try
9 to vote to encourage production and conservation. It seems to
10 me that is the way this committee had voted in the past and
11 would vote in the future.

12 What I am worried about, and what I do not like, is the
13 confusion that is going to arise from these two sets of
14 figures.

15 Senator Baucus: I agree. I worry that we will be in a
16 great deal more confusion by dropping the trust fund kind of
17 analysis. I agree with all the confusion that that analysis
18 creates here. As long as we know what we are talking about,
19 we should proceed with the public conception of our approach
20 to the problem, the House version, and at the same time, be
21 aware of the difference between gross and net.

22 The Chairman: Mr. Lubick, on behalf of Treasury, do you
23 have a suggestion as to how we can do business where we are
24 talking about the real tax figures rather than the money that
25 would come in anyhow?

1 Mr. Lubick: Senator Long, basically you raise the
 2 question of the difference between \$186 billion and \$105
 3 billion. We propose to place the gross revenues from the
 4 windfall tax into the trust fund for expenditure, recognizing
 5 that the net amount that was going to be raised was only \$105
 6 billion.

7 In that sense, I think Senator Danforth is correct in
 8 saying that one has to make some estimate of what it is you
 9 are going to spend, and the tax was designed to cover two
 10 points. One, to provide a vehicle for the funding of these
 11 programs. The tax also was presented with the notion that it
 12 had a basis in equity, that the windfalls arising as a result
 13 of decontrol -- I do not think you can separate the
 14 recommendation of the tax from the fact that prices are being
 15 allowed to rise. That is putting a burden on the uses of
 16 energy on the American public, and some of that burden ought
 17 to be placed upon the recipients of the windfalls as a result
 18 of the cartel-induced price rises.

19 That leads to the other question that Senator Danforth
 20 pointed out. If, indeed, that results in a net increase in
 21 revenue to the Federal government beyond what you are going to
 22 spend it was not the intention ultimately to raise additional
 23 revenues overall in the tax burden.

24 At some stage the Congress -- this is running for ten or
 25 eleven years -- at some stage, the Congress is going to have

1 to get into the question of the overall tax burden on the
2 American public and some adjustment will have to be made in
3 the tax burden, in other taxes.

4 Basically, the way to proceed that we would recommend is
5 that you proceed to consider what is an equitable tax burden
6 to place on the producers of oil consistent with the needs to
7 maintain an adequate supply response and to design a windfall
8 profits tax that will capture the windfalls and will, at the
9 same time, not interfere with adequate incentives to
10 production. I think that is the proposal we have made, and
11 when we face up to that sort of tax, we can go on to some of
12 these other questions.

13 The Chairman: Senator Boren?

14 Senator Boren: Mr. Chairman, it seems to me the first
15 question we have to ask we have to ask even before we get to
16 what Senator Danforth is saying on how much money we can
17 raise. We have got to make a judgment.

18 This goes back to what Senator Ribicoff was saying. This
19 is fundamental.

20 Where can we get the most production, or conservation,
21 per dollar spent? I remember the day we had the debate --
22 Secretary Schlesinger was here. When he said, for example,
23 use some rough figures for \$7 billion or \$8 billion for
24 incremental tertiary spent by exemption over the next ten
25 years or so, we would get a million barrels a day.

1 Then, when we compare that to spending \$80 billion, we get
2 2 million barrels a day of synthetic fuels.

3 Now that, very clearly, is seven times the cost, if the
4 figures are roughly accurate. Do we want to spend seven times
5 as much per barrel for synthetic as we do for incremental
6 tertiary?

7 Somewhere we have to have a yardstick where we say, okay,
8 newly-discovered exemption will give us so many barrels per
9 dollar. It will cost so many dollars per barrel. Tertiary
10 will cost so many dollars per barrel. Synthetics will cost so
11 many dollars per barrel. Conservation in the form of
12 insulation of housing will give us so many barrels say, per
13 dollar.

14 It seems to me we have got to get down to somewhere where
15 we can do that before we can answer the question that Senator
16 Danforth was raising, because I think that our responsibility
17 -- we are talking about the taxpayers' dollars. Where can we
18 give the taxpayers the most energy production or conservation
19 per dollar?

20 It looks to me like -- I do not know. This is with the
21 trust fund or out. Let me ask this question.

22 We want to get down to the newly-discovered, for example.
23 All right. Given the House-passed bill, that is so much
24 revenue coming into the House-passed bill. All right.

25 Now, let us suppose we exempt newly-discovered. How many

1 dollars will not come in, total?

2 And to get that figure, you have to assume that there is
3 going to be some supply in response. We will differ on that.
4 The figure I have seen is 600,000 barrels by 1990 rather than
5 200,000 barrels. Let's say half a billion barrels by 1990.
6 Half a billion barrels a day additional production by 1990.
7 That gives you an additional income tax collection, as we said
8 a moment ago.

9 Some figures have been assumed in the model, so you are
10 going to have so many billions of dollars collected. You come
11 out with a net cost between the difference in Column 1, the
12 House-passed bill, Column 2, if you give an exemption have a
13 supply increase, you will have increased income tax
14 collection. That is your figure.

15 Then you get over here. Your figure is 500,000 barrels a
16 day and you have a net cost. Is that figure \$12 billion, \$10
17 billion? Whatever that figure is, then you have to lay out
18 exactly how many more barrels are we getting for dollar spent.

19 We do that for each of these categories, do it for credit
20 proposals, for insulation, whatever it happens to be,
21 conservation. Then we get some idea of where we are getting
22 the most per dollar.

23 I think what you are saying is right, because the figure
24 we are interested in is getting that net cost per unit of
25 energy produced or saved.

1 Am I right in saying that?

2 The Chairman: I think that you are right.

3 Senator Boren: How else can we go or know what we are
4 for if we do not know what the relative costs are --
5 relative costs for exemptions, credits, whatever it might
6 happen to be.

7 Senator Wallop: If you would yield on that.

8 Using Mr. Smith's own figures this morning, which are
9 different than the DOE supplied to the House, just using the
10 figures that he supplied this morning, 500,000 barrels a day
11 over the course of this bill, a billion barrels a year, ten
12 billion barrels and a \$14 billion cost. That is \$14 oil and
13 that is not too bad.

14 Senator Boren: That is a pretty good bargain compared to
15 what we are faced with. It seems to me, if we can have them
16 come out with a chart, four or five of us have sent a letter.
17 It was just delivered at the beginning of the meeting, so Mr.
18 Shapiro cannot have that. If we can get the gross figure onto
19 the bill and go for that --

20 The Chairman: Senator Danforth?

21 Senator Danforth: Mr. Chairman, thank you.

22 First of all, I assume that we are going to provide a
23 fund of money that is available to government for
24 energy-related purposes, not just to put our eggs in the
25 production of oil.

1 I assume that we are going to have some sort of energy
2 trust fund financed by some sort of tax. There is going to be
3 a dispute as to how much should be put into synthetic fuel,
4 how much should be put into synthetic fuel, how much should be
5 put into aiding the poor, how much should be put into oil. I
6 assume that.

7 Now, in response to Mr. Lubick's point, he has basically
8 two justifications for the tax. One justification is to
9 create a fund which would be available for energy purposes,
10 solar, synthetic, help to the poor, mass transit.

11 The second justification that he has is what he has
12 equity. That is to say, that it is the administration's
13 position that, regardless of any need for the funds, the oil
14 companies are going to be reaping what they call a windfall
15 profit and, therefore, that should be taxed.

16 My response to that is if that is right, I do not think
17 that the Federal government should reap that windfall. If
18 that is correct, then I think that money should be earmarked
19 to go back to the American people in the form of a tax cut and
20 therefore, to the extent that we are proposing a total tax
21 increase, estimated tax increase over and above what is
22 necessary for energy purposes, I believe that that should be
23 coupled with some kind of a tax deduction rather than to have
24 it at the whim of the Congress at some future date to keep
25 increasing spending.

1 The Chairman: That is clear to us now.

2 Senator Bentsen?

3 Senator Bentsen: Let me interject a thought.

4 I think that it is our responsibility to do those things
5 obviously within our jurisdiction in the way of tax credits
6 and trying to encourage energy production, but when it comes
7 of going beyond that, I wonder if we should not consider
8 decoupling the collection of the tax from the trust fund? I
9 wonder if there is really a need for the trust fund? I wonder
10 if we should not be talking about the Energy Committee's
11 telling us what they think should be spent for the synthetic
12 fuel program above and apart from what we are talking about in
13 tax credits.

14 Getting back to Senator Danforth's idea, structuring the
15 size of the tax, but trust funds can give you a lot of
16 problems as years go by. Perhaps this should be the excess
17 that should be going to the general revenue, but we should be
18 trying to structure this tax in an amount to take care of what
19 the Energy Committee is talking about in terms of the
20 synthetic fuels program and in terms of what we are talking
21 about in tax credits.

22 I throw that out as something that we ought to seriously
23 consider. The trust fund can really put some binders on you
24 in future years that really do not match up to the tax
25 available and the needs.

1 The Chairman: Yes, sir.

2 Senator Dole?

3 Senator Dole: I want to get back to my amendment. I
4 cannot remember what it was. I want to make a point.

5 We are talking, even under DOE estimates, which I
6 think are low, and I will try to find solid figures for
7 Senator Ribicoff -- you make the point, what does the industry
8 say? Are they soft?

9 I think Senator Bentsen has pretty much stated that
10 figure, and Senator Wallop. Mine are a little bit lower;
11 380,000 by 1985. But I just want nonproducing states to
12 understand in my state of Kansas, we produce about 60 million
13 barrels of oil a year. That is about a week's supply of what
14 we import; 60 million barrels.

15 The average production is 3.7 barrels. 95 percent of our
16 production is less than ten barrels a day. So we are talking
17 about producing, in the state of Kansas, known as an
18 oil-producing state, 160,000 or 170,000 barrels a day. We are
19 talking about, in this exemption, probably doubling or
20 tripling what we produce now in the state of Kansas.

21 It seems to me that we have to ask the question, what do
22 we lose by exempting newly-discovered oil, and what do we gain
23 by exempting newly-discovered oil, and I think one way to do
24 that is to do what the Chairman suggests ---talk about net
25 figures and set aside the gross figures of the trust fund for

1 the time being.

2 I am not going to press a vote on the amendment today,
3 but particularly I want those Senators from nonproducing
4 states to understand the enormity of the problem.

5 We are not a very big state as far as production is
6 concerned, particularly in view of what we can produce if we
7 can provide some incentive.

8 I do hope -- I would not know of anyone who would object
9 to finding any more oil if we are going to have the tax bill.
10 Then we are going to dwell on taxes. If we are going to have
11 an energy bill, we ought to dwell on energy.

12 Finally, I am concerned in another area about the trust
13 fund. I believe that we have the wisdom in this committee to
14 figure out ways through the private sector through tax credits
15 and tax credits for low income, and maybe some other way to
16 provide income to low-income people.*

17 It is a question of jurisdiction. As I see it, once we
18 create the trust fund, I am not certain what jurisdiction we
19 have in this committee. I would rather approach the tax
20 credits for shale oil development that Senator Talmadge has
21 been working on, tax credits that Bob Packwood has been
22 working on, the mystery proposal that you will receive later
23 on and a number of other ideas that we can properly have
24 jurisdiction over in this committee.

25 I just asked Mr. Lubick, you do not object to exempting

1 newly-discovered oil? You want production, not taxes.

2 Mr. Lubick: We are in favor of production, Senator Dole.
3 According to our calculations, however, an exemption of
4 newly-discovered oil, if we use a date of rough calculation --
5 I bought a new calculator while I was home for \$13. If we use
6 Mr. Smith's figure in 1985 of 150,000 barrels per day, as a
7 result of an exemption, that comes as I calculate it, to
8 54,750,000 barrels a day.

9 If the revenue loss is \$2.9 billion, \$53 a barrel.

10 So that we think that a total exemption of
11 newly-discovered oil would not be appropriate. We think that
12 the important consideration, that there has been complete
13 decontrol of the price and that the world price will provide
14 an incentive for discovery and production, that to allow
15 unlimited prices that are set by cartel outside of the United
16 States we think is not appropriate.

17 On the other hand, we do believe that there should be an
18 adequate base. We think that the \$16 base adjusted for
19 inflation is appropriate. We would favor the 15 percent rate
20 on newly-discovered and, we think that diminution in
21 production as a result of maintaining the tax on
22 newly-discovered is of such small magnitude that it is an
23 adequate trade-off.

24 Senator Dole: Accepting the very lowest figure, 150,000
25 barrels, plus you have to crank into that consideration, we

1 would be spending money in this country and creating jobs in
2 this country and paying more taxes in this country.

3 The \$54 or \$56 a barrel, I think, is a little high
4 according to our estimates.

5 Senator Wallop: Accepting the highest figure, which the
6 Chairman has been talking about from the beginning, accepting
7 the trust fund figure, not the net figure.

8 Senator Dole: Not the net figure, right?

9 Mr. Lubick: I think one, if you use a different figure
10 from \$150,000 barrels a day, you obviously would come up with
11 a different answer. Our judgment is based on the figures as
12 to what is an appropriate trade-off.

13 If you had a figure of an induced number of barrels by
14 1985, you could divide that by four, and it would be a good
15 bargain.

16 I think the judgment has to be made on the basis of what
17 the incentive will stimulate.

18 Senator Danforth: I would like to, as long as Energy and
19 Treasury are here, find out what the Administration's position
20 is on the relationship between the world price of oil and the
21 cartel price.

22 What is the difference between the cost-of-living
23 increase and the OPEC price?

24 The Joint Committee's estimates I have -- they have three
25 different estimates. One is that the price of oil is going to

1 go up at just the rate of inflation. The second is that it is
2 going to go up at 1 percent over the rate of inflation. The
3 third is it is going to go up 4 percent over the rate of
4 inflation.

5 I would like to find out if we could get an
6 administration position on what is going to happen.

7 Mr. Sunley: Senator Danforth, there is tremendous
8 uncertainty in what the future path of world oil prices are
9 going to be, just the problems that we have had in the last
10 four or five months. When the administration's proposals were
11 put together in April, the basic OPEC price was \$16 and we
12 assumed either for illustrative purposes that the world price
13 would not rise, or where it would rise at a rate of 3 percent
14 better than inflation.

15 By the time that we moved to a mark-up in the Ways and
16 Means committee, OPEC had increased prices to \$18 a barrel and
17 the Joint Committee made the assumption that with that price
18 increase probably the higher rate of price increase was
19 unrealistic and the most reasonable level would be a 1 percent
20 real price increase which we in the administration, after some
21 consultation, then agreed that for the purposes of the market,
22 that seemed to be a reasonable set of figures.

23 Senator Danforth. 1 percent?

24 Mr. Sunley. 1 percent real.

25 1.5 percent, I am sorry -- Jim reminds me ---1.5 percent

1 in the market. By the time we came over to the Senate side,
2 OPEC had begun to increase prices and it was \$22 basic price.
3 At that point, the Joint Committee made a decision that maybe
4 we will come down to 1 percent. It will not rise in
5 real terms.

6 I still think that the only way to proceed is to keep a
7 couple of different assumptions available.

8 Senator Danforth: You see that it is an impossible
9 situation to try to make a judgment, if the administration's
10 assumption varies depending on the point that they are trying
11 to make.

12 Let me explain what I am talking about. You assume that,
13 from the standpoint of estimating total tax revenues, that the
14 increase in the oil prices are going to go up only at the rate
15 of inflation. That is your assumption that you made before
16 the recess.

17 However, when you are arguing for the equities of the
18 windfall tax, you were saying that the oil companies are going
19 to get a windfall because of artificially maintained prices.
20 I do not see how you can have it both ways.

21 Mr. Lubick: You are right on that. What we are saying,
22 Senator Danforth, if there is a windfall, then the tax will
23 come in. The tax is not triggered if, indeed, there is no
24 real increase in OPEC prices.

25 Senator Danforth: If you look at Table 2, that assumes

1 there is no increase on the oil prices over the rate of
2 inflation. The total windfall tax, in and of itself, the
3 total windfall tax is \$78 billion over ten years.

4 Mr. Lubick: We have to differentiate, I think, between
5 newly-discovered and other items that would be in Tier Three
6 where you start out with the base, which is the world price,
7 and Tier One and Two where you already have a windfall
8 generated as a result of decontrol and the revenues, indeed,
9 if there is no real increase in OPEC prices, that is say
10 starting from the base we propose at \$16, other than
11 inflation, then the revenues are going to trail off to
12 practically nothing in the later part of the ten-year period,
13 because your Tier One and Tier Two oil will gradually become
14 exhausted and will not generate any revenues. There will not
15 be any revenues. There will not be any revenues from Tier
16 Three if there is no real increase.

17 In fact, there has been a real increase beyond the \$16
18 base since we started.

19 Leaving that aside, we are not proposing to tax where
20 there is no real increase.

21 Senator Danforth: What would be your best estimate in
22 the administration as to what was going to happen? Can we
23 work with 1 percent? Can we agree with that 1.5, 0, what is
24 it?

25 Mr. Sunley: For purposes of this mark-up, I think it

1 would be very useful just to have one assumption. I think the
2 Chairman has made a useful suggestion that we ought to focus
3 on the tax. We should have one set of numbers and a net
4 increase in revenues. It makes a lot of sense for purposes of
5 the market if we have one price path, recognizing that in the
6 Committee report we should use a couple of price assumptions.
7 I think it would be very helpful.

8 Senator Danforth: What is your assumption on prices?

9 Mr. Sunley: Our personal preference is to use no real
10 price increase.

11 Senator Danforth: I know that is your preference. Is
12 that the administration's judgment as to what is going to
13 happen?

14 Mr. Sunley: No.

15 If we had to make a guess of just what our best guess
16 was, it would be 2.5 percent in real terms and it was that
17 price path that was used in pricing out what the syn fuel
18 program would cost, and it was that, and under that
19 assumption, we then determined the amount of money we needed
20 for these various expenditure initiatives.

21 But to make certain that we have enough money in the
22 trust fund to pay for it, we wanted to be very conservative in
23 our assumptions and use 0, real price assumptions.

24 I am saying that if all we have to do is take our best
25 guess, then maybe it would be the 2.5 percent but you have to

1 recognize the error from the high side. You have committed
2 yourself to a larger expenditure program that would expend all
3 the revenue, then real price does not rise. There is a
4 tremendous shortfall.

5 Senator Danforth: The question on tax policy, if you are
6 going to err, it is all a question of judging revenue. It is
7 a question of your best judgment.

8 But if you err, do you err in favor of leaving the public
9 with the money or do you err with taking it from him and
10 putting it into the Treasury on the assumption that you need
11 it.

12 Mr. Sunley: Senator Danforth, it is impossible to make a
13 ten-year plan in this kind of economy and in the case of the
14 political system.

15 Senator Danforth: The administration has asked for a
16 ten-year plan.

17 Mr. Sunley. We are not proposing to take the sums of
18 revenue and just spend it, regardless of whether there is any
19 need for spending. If it turns out that there is more revenue
20 being raised than there are appropriate programs to spend it
21 on, we would propose the very kind of tax cuts that you talk
22 about.

23 What we cannot do is commit, at this point, to a ten-year
24 plan and schedule tax cuts on the assumption that we know
25 exactly how much revenue is going to be coming in over thi

1 ten-year period.

2 Every year, every administration faces this problem of
3 expending revenues and expenditures at what is an appropriate
4 level of fiscal stimulus and what is the appropriate level of
5 fiscal stimulus and what is the appropriate tax return.

6 The Chairman: I wish we could vote on a couple of things
7 before we leave here today.

8 One thing that we can clearly, for the purpose of talking
9 in terms of one set of figure instead of two sets of figures
10 or more than that, I would like to settle this matter that we
11 are going to do business here on the basis of talking about
12 one set of figures.

13 In order to do that for the time being, not on the merits
14 one way or the other -- if I have to break the tie in favor of
15 putting the trust fund back in, I will. Just in order to get
16 this thing before us, I would like to vote on the proposition
17 though for the time being that the trust fund is not in here
18 so that we are talking about one set of figures.

19 All in favor, say aye.

20 (A chorus of ayes.)

21 Senator Danforth: Just a second, Mr. Chairman. I am not
22 sure what that means.

23 Do you mean that the trust fund is just a legal tool to
24 govern the fund, or do you mean that we are going to talk
25 about how much we are going to raise without any

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1 consideration as to what we are going to raise it for?

2 The Chairman: All we are talking about is raising money
3 and spending money. We are not going to confuse ourselves
4 with two sets of figures.

5 Senator Danforth: Then we should use the total amount of
6 estimated tax revenues from all sources.

7 The Chairman: That is right.

8 Senator Danforth: That is what you are talking about?
9 You are not going to talk about the windfall tax only, you are
10 going to talk about the combination of windfall tax plus
11 income tax plus royalties?

12 The Chairman: Yes.

13 Senator Boren: So we can get at what I was talking about
14 awhile ago, so we have newly-discovered -- you can analyze it
15 all out exactly what the total revenue cost will be.

16 The Chairman: Then you are talkinga about what you are
17 going to pay and hat yo hope to get for it.

18 Mr. Shapiro: One point. He is making the assumption if
19 the Committee had no bill, what would be the revenue you would
20 be picking up and what is the difference between what you
21 would take.

22 The difference is what he wants to talk about here, not
23 what would happen with no bill. You are going to have some
24 increased revenues to the Treasury because there will be a 46
25 percent corporate rate on the increased price of oil. That is

1 what is going to happen if the Committee has no bill.

2 The Chairman: Let me say this quickly. If the
3 President's deregulation order goes into effect, you are
4 going to pick up a lot of money. About \$80 billion over a
5 ten-year period will be picked up just by the President's
6 deregulation.

7 All right. That is revenue the government will get
8 anyway, as far as I am concerned. After we are through
9 settling everything else, we can put it in the trust fund or
10 leave it out of the trust fund or dispense with it by means of
11 tax credits, or whatever.

12 That is money the government is going to get in any
13 event, unless the President sees fit to withdraw his
14 deregulation order.

15 Now, we know that that is there. We know that is money
16 that we have the right to dispose of in tax cuts.

17 Point number two, in terms of talking about taxes, all we
18 are going to be talking about is taxes that we are levying,
19 not taxes that we are not levying, not revenue that we will
20 get by future of the President's order, and then we will be
21 talking about cutting the rate, or raising the rate, or
22 changing something, you will then be talking about how much
23 taxes you are voting to levy on somebody. You will not be
24 talking about the tax that is already there.

25 Do you get the point, Senator?

1 Senator Danforth: I get the point, but I do not agree
2 with you.

3 The Chairman: Let us vote on it.

4 Senator Danforth: Let me say, Mr. Chairman, I do not
5 know where you get this \$80 billion, but in the chart that I
6 have got here without any windfall tax, you are talking about
7 maybe \$174 billion or \$148 billion.

8 Mr. Wetzler: If you consider any amendment to the bill
9 on your figures, all of that will change. Your figures
10 include the net windfall profits tax, plus something else,
11 plus the Federal royalty, plus the corporate income taxes from
12 decontrol. In terms of any particular amendment to the bill,
13 all that amendment will change is the net windfall profits
14 tax. All of the other figures in your charts will stay the
15 same.

16 Your position is not really inconsistent with Senator
17 Long's. He is saying evaluate all of the amendments in terms
18 of their effect on the revenue, and that number will be the
19 same, the effect of that amendment on the total that you are
20 asking us to deal with.

21 Then when you get to the end and you want to say how much
22 money has been made available by decontrol, you will want to
23 look at these other sources of revenue as well. In terms of
24 the Committee's mark-up and looking at each individual
25 amendment, we really do not need the difference.

1 Each amendment will affect Senator Long's total and your
2 total of the same amount.

3 The Chairman: It is not going to affect you one bit,
4 Senator, I promise you.

5 Those opposed?

6 Senator Chafee: Mr. Chairman, the one figure we will be
7 discussing under your proposal is only what we call the net
8 figure, only the windfall profits figure?

9 The Chairman: What I am saying, by doing this, when we
10 are talking about taxes we will be talking about the taxes we
11 will levy or the taxes that we will not levy. We are not
12 talking about the revenue that we get by virtue of the
13 President's order.

14 Senatoar Baucus: My question is, assuming we do this,
15 how are we going to be talking about additional taxes? Are
16 you talking about increasing the corporate tax rate, or is it
17 an excise tax?

18 The Chairman: Here is what you've got. You have a gross
19 here of \$186 billion, of which \$105 billion is new taxes, \$81
20 billion is revenue that you get by virtue of the President's
21 deregulation order.

22 In terms of deductions and credit and tax expenditures,
23 you can vote to spend all of that, as far as I am concerned.
24 That is under our jurisdiction.

25 In terms of talking about the taxes that we are levying,

1 all we ought to be talking about is that \$105 billion that
2 we are being asked to levy here in this committee, in terms of
3 taxes that we are voting for, taxes that you vote against.

4 By doing it that way we are talking about one set of
5 figures.

6 And then if we vote for the amendment -- suppose you vote
7 for Mr. Dole's amendment, you would be voting for something --
8 the \$14 billion amendment. You would not be voting for the
9 \$33 billion amendment. It is not a \$33 billion amendment.

10 Whatever you want to do, but the point is we will at
11 least have a handle on the thing and not two handles on it,
12 not knowing which one to pull.

13 Senator Boren: I think Senator Danforth and you are
14 saying the same thing. We are not arguing whether to have a
15 trust fund or not. What we are trying to get, and I think it
16 is consistent with the methodology that several of us asked for
17 in the letter that Mr. Shapiro has -- first of all in the
18 House-passed bill, you are going to get so much money. It
19 will include income tax plus the windfall profits tax.

20 You get a newly-discovered exemption. Using that as an
21 example, you are going to lose so much out of the windfall
22 profits.

23 But if you get a supply response and assume we will
24 generate more income tax, then we come out with a net figure.
25 Compare that net cost with that exemption, with the supply

1 response, and thereby you can get some idea of
2 cost-effectiveness and syn fuels conservation credits, and
3 something else.

4 Is that it?

5 The Chairman: Yes.

6 Senator Dole: Can we agree on the heavy oil? That is
7 the President's request.

8 The Chairman: We have voted on the first one. I heard
9 no objection to the first one.

10 Senator Danforth: I would just like to ask you this. If
11 we do that, that is all right. That is just a matter of
12 method. But just so we have the picture in front of us of
13 what we are talking about, could we have an explanation and a
14 discussion of the various assumptions behind these tables.

15 The Chairman: Sure.

16 Senator Danforth: At the next meeting, could we take a
17 half an hour, or whatever it takes, to just go through and get
18 the Joint Committee to describe the total picture of what we
19 are looking at and to get the Administration's view on it.

20 The Chairman: Can you do it in a half-hour?

21 Mr. Shapiro: Yes, sir.

22 The Chairman: We will do it, fine.

23 All in favor, say aye?

24 (A chorus of ayes.)

25 The Chairman: Opposed, no.

1 (No response)

2 The Chairman: The ayes have it.

3 Now, let's go to the President's proposal about the heavy
4 oil.

5 Those in favor of that say aye?

6 (A chorus of ayes.)

7 The Chairman: Opposed, no?

8 (No response)

9 The Chairman: The ayes have it.

10 We have settled those two things. Thank you very much,
11 gentlemen.

12 We will come back Monday.

13 (Thereupon, at 12:40 p.m. the committee recessed, to
14 reconvene on Monday, September 10, 1979.)

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