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H.R. 3477  
TAX REDUCTION AND SIMPLIFICATION ACT OF 1977

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Tuesday, April 19, 1977

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

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

Present: Long, Talmadge, Byrd, Nelson, Bentsen,  
Matsunaga, Moynihan, Curtis, Hansen, Dole, Packwood, Roth,  
Laxalt, and Danforth.

The Chairman. I would ask that we start this meeting,  
and that we talk about the issue, and that the other  
Senators will be arriving. Senator Ribicoff sent his proxy  
and others will be here after the meeting at the White House  
is finished, after the President has explained his position  
on energy and defense.

Meanwhile, I think we might be well-advised to discuss  
the latest developments and at least get some of the things  
said that need to be said while we at least have Senators  
here and representatives to discuss these problems.

The President communicated to me what is known generally

25

1 in the Press that he felt that the improvement in the  
2 economy was such that he felt that we would be well-advised  
3 to just drop the \$50 tax rebate for now. I indicated, if  
4 that is what he wanted to do, I would personally respect his  
5 wishes in that respect.

6 I have here a letter from Senator Ribicoff indicating  
7 that he is opening hearings on the President's consumer bill  
8 and he would support a motion to strike Title I, which is the  
9 \$50 rebate provision.

10 Now, it might be well for someone to state on behalf  
11 of the Treasury what the Treasury's attitude is with regard  
12 to the remainder of this bill.

13 Mr. Woodworth will be along shortly.

14 Would you identify yourself?

15 Mr. Sunley. Mr. Sunley.

16 The Chairman. Would you explain the Administration's  
17 position with regard to the remainder of this bill?

18 Mr. Sunley. The Administration supports dropping both  
19 the rebate and also the business portions of the bill. Can  
20 I elaborate a little bit on that?

21 The Chairman. Yes.

22 Mr. Sunley. With respect to the rebate, it was a  
23 very marginal decision on whether to keep the rebate or to  
24 drop the rebate. The Administration weighed the pros and cons  
25 involved and on balance came down on the side of not having

1 the rebate.

2 The key factors influencing this decision were the  
3 release of the economic statistics during early April and  
4 during March which showed that the economy had rebounded  
5 considerably from the position the economy was in in December  
6 when the first rebate decision was made. If I may review  
7 some of those statistics for you, in the case of unemployment,  
8 last December when the rebate decision was made, the  
9 unemployment rate was 7.8 percent. It had been no lower  
10 during the second half of 1976.

11 Since then, the unemployment rate has fallen to 7.3  
12 percent despite the effects of a severe winter and large  
13 increases in the labor force in the last two months. We are  
14 now estimating that the unemployment rate will fall to 7  
15 percent by the end of the year, even without the rebate.

16 Also, industrial production has rebounded. Industrial  
17 production rose 1 percent in February, which more than wiped  
18 out the January decline, and it rose a further 1.4 percent  
19 in March.

20 This morning we see that the housing starts have  
21 rebounded also. March housing starts were 2.1 million units;  
22 that is 49 percent above where the housing starts were just  
23 one year ago.

24 At the same time that these signs of increased economic  
25 activity were occurring, there were also signs of increased

1 inflationary pressures in both the wholesale and the  
2 consumer price index. The wholesale price index rose 1.1  
3 percent in March, the largest monthly rise since October,  
4 1975.

5 Over the first three months of this year, the index  
6 has risen at a 10.2 percent annual rate and it has risen  
7 6.8 percent over the last twelve months.

8 The Consumer Price Index for March will be released on  
9 Thursday. It rose at a seasonably adjusted 1.0 percent in  
10 February, the last month that we have data available.

11 As I said, it was a close decision within the Adminis-  
12 tration, weighing the pros and cons, but on balance, the  
13 decision was made that the rebate was not needed at this  
14 time.

15 The Administration also concluded that tax reduction for  
16 business should not be considered at this time and that it  
17 would be better to weigh the appropriate tax reductions for  
18 business in the context of the September program which the  
19 Administration will be presenting to you. Thank you very  
20 much.

21 The Chairman. All right.

22 As you know, we have the Bentsen amendment here which  
23 has the 2 percent investment tax credit and it had a 25  
24 percent jobs credit compared to 40 percent jobs credit in the  
25 House bill. What is your attitude with regard -- the

1 Administration's position in regard to that part of the bill  
2 which would increase the investment tax credit by two points  
3 but also provide at least a substantial part of the jobs  
4 credit proposal recommended by the Chairman of the Ways and  
5 Means Committee and those who serve on that Committee with  
6 him.

7 Mr. Sunley. In choosing between the House version of  
8 the bill and the Senate version with respect to the business  
9 tax reductions, we have no information on which the President  
10 would prefer, if a choice had to be made.

11 The Treasury Department itself would prefer the Bentsen  
12 proposal as preferable to the proposal that is contained in  
13 the House bill. This is, of course, consistent with what  
14 we indicated to you several weeks ago in the Executive  
15 Session.

16 The Chairman. Are there any questions, gentlemen?

17 Senator Curtis. Yes.

18 The Chairman. Senator Curtis?

19 Senator Curtis. I would like to ask the witness the  
20 position of the Administration on a couple of other provisions  
21 of the bill. We have a provision in here which would remove  
22 the retroactivity in reference to the increased taxes, in  
23 reference to sick pay, where it was less.

24 What is the position of the Administration on that  
25 provision as to what we should do now?

1 Mr. Sunley. The Administration's position has been  
2 that we do not support that amendment. We believe that there  
3 are considerable administrative difficulties in having  
4 approximately 1 million amended tax returns filed. Therefore,  
5 because of these administrative difficulties, we are not  
6 able to support that provision.

7 Senator Curtis. Is that what your position was earlier  
8 in the year also?

9 Mr. Sunley. Yes, it was.

10 Senator Curtis. So it is not based upon the fact that  
11 it called for amended tax returns?

12 Mr. Sunley. Even before the April 15th deadline, many  
13 of the affected taxpayers may have filed their tax returns  
14 under the new law's provision, and it would have not involved  
15 their filing an amended return. The April 15th date just  
16 added to the administrative difficulties of making a retro-  
17 active change at this time.

18 Senator Curtis. There is also a provision in this bill  
19 that would permit members of state legislatures to obtain a  
20 reduction by reason of their away-from-home expenses involving  
21 calendar year 1976. What is your position on that?

22 Mr. Sunley. As I recall it, the provision in the Senate  
23 Finance Committee bill, extends for one year the provision  
24 in the Tax Reform Act of 1976 and we would support that  
25 extension. We have worked with the House Ways and Means

1 Committee in a bill that would provide a more permanent  
2 solution to this problem which the Ways and Means Committee  
3 has reported at this time.

4 Senator Curtis. Now, there is another provision in the  
5 bill that relates to the exclusion of wages drawn by U.S.  
6 employees abroad. I believe it is identified as the Ribicoff  
7 Amendment.

8 What is your position on that?

9 Mr. Sunley. Again, the Administration opposes any  
10 retroactive change in this provision and has so stated before  
11 your Committee. In this case, we can say that we believe  
12 that there are some difficulties in this area. It is one  
13 of the areas that we are reviewing with respect to our  
14 September program as to whether it might be better to scrap  
15 Section 911 and start all over with some other type of  
16 provision. But we do not believe deferring the benefits  
17 retroactively for one more year is the right solution and  
18 this involves considerable difficulty for the Internal  
19 Revenue Service and we are not able to support that  
20 provision.

21 Senator Curtis. In other words, your position today  
22 is as far as this bill is concerned, we have no bill?

23 Mr. Sunley. Oh, no.

24 Senator Curtis. You do not want the rebate, you do not  
25 want the provisions relating to business and these others.

1 Mr. Sunley. There are two important titles in the bill  
2 that we are very interested in. One relates to a change in  
3 the standard deduction to provide a flat standard deduction  
4 for all taxpayers who claim the standard deduction and the  
5 accompanying changes that would provide that 95 percent of  
6 all U.S. taxpayers would be able to use the tax tables and  
7 we would not encounter the large increase in taxpayer errors  
8 that have occurred this year because of a change that was  
9 made in the Tax Reform Act of '76.

10 We also -- if I may just briefly conclude -- support the  
11 extension of the tax cuts that is contained in the bill as  
12 reported by the Senate Finance Committee.

13 Senator Curtis. That is an extension.

14 Mr. Sunley. Extensions of existing law, the surtax  
15 exemption which benefits many small corporations and the  
16 earned income credit and the \$35 per capita -- or I guess it  
17 is now known as the general tax credit -- which would expire  
18 at the end of this year if not extended by Congress.

19 Senator Curtis. One more question. If the Congress  
20 would enact your recommendation for the standard deduction,  
21 how many taxpayers would go off the rolls?

22 Mr. Sunley. I believe it was approximately 5 million,  
23 Mr. Curtis. We will try and get that number for you.

24 Senator Curtis. Who are now paying some tax?

25 Mr. Sunley. They would be paying some tax if this change



1 were not made.

2 I would point out, however, that because of inflation  
3 each year, if we do not make any changes in the tax law, more  
4 and more taxpayers are put on the tax rolls. As you look  
5 over the last ten or fifteen years, the percentage of the  
6 U.S. adult population which are paying tax has changed very  
7 little.

8 Each bill, we say here we are moving 5 million taxpayers. --  
9 it is 3.7 million taxpayers from the rolls -- but then we find  
10 a couple of years later that these 3.7 million taxpayers have  
11 been put back on the rolls because inflation has decreased  
12 the real value of the standard deduction.

13 Senator Curtis. You have a real valid point there, but  
14 I must ask another question. Suppose those people above that  
15 group who are eliminated, what do you recommend that would  
16 save them from an increase in taxes by reason of inflation?

17 Mr. Sunley. This bill does not provide any permanent  
18 tax reductions for taxpayers who itemize their personal  
19 deductions, so it does provide a tax reduction for 75 percent  
20 of all taxpayers who claim the standard deduction but not for  
21 the 25 percent who now claimed itemized deductions.

22 Senator Curtis. What class of people itemize generally,  
23 those buying a home?

24 Mr. Sunley. Yes.

25 Senator Curtis. If someone of modest income were buying

1 a home or paying interest, he is not going to take the  
2 standard deduction, is he?

3 Mr. Sunley. No.

4 I should point out, though, that inflation increases  
5 most itemized deductions in a sense to the extent that  
6 the taxpayer is itemizing his personal deductions, let us  
7 say medical expenses. One year he incurs \$800 of deductible  
8 medical expenses and there is 10 percent inflation. Next  
9 year, he would have \$880 of medical expenses.

10 To some extent, the current itemizers are already  
11 protected from the effects of inflation compared to standard  
12 deductors because the expenses they itemize tend to rise with  
13 inflation. In recent years, the big ticket items in the  
14 itemized deduction area are home mortgage interest, medical  
15 expenses, state and local taxes, have risen much more  
16 rapidly than inflation.

17 Senator Curtis. But it is true that among those who  
18 itemize are significant groups of individuals, buying a home,  
19 those who have high medical expenses, and those who give  
20 rather generously to religious, educational or charitable  
21 organizations. Is that correct?

22 Mr. Sunley. Yes.

23 Senator Curtis. Thank you.

24 The Chairman. Are there any further questions, gentlemen?

25 I would suggest that we simply vote on the Committee

1 amendment, or at least, I think the best way to get that  
2 to a vote, the first order of business should be to go ahead  
3 forthwith without the \$50 tax credit. I would like to have  
4 the Committee's support to do that, a routine motion to  
5 recommit and to submit without Title I.

6 Senator Bentsen. I so move.

7 The Chairman. If we do it that way, we can proceed  
8 along.

9 Senator Danforth. Mr. Chairman, your procedural plan  
10 is what?

11 The Chairman. As manager of the bill, I would suggest  
12 that the Committee, if they are so disposed, to instruct the  
13 Chairman to move to recommit the bill and report back without  
14 Title I.

15 Mr. Shapiro. You could modify your Committee amendment  
16 to have the same effect that the Committee amendment would  
17 not have Title I in it.

18 The Chairman. As I understand it, Title I is not the  
19 Committee amendment. There is a Committee amendment to  
20 Title I.

21 Mr. Shapiro. You mean the Committee amendment to strike  
22 Title I of the bill that was sent over?

23 The Chairman. That is right.

24 Mr. Shapiro. You could have a Committee amendment to  
25 strike Title I?

1 The Chairman. Right.

2 Senator Danforth. Then --

3 The Chairman. Do we not have a Committee amendment on  
4 the Table of Contents? It seems to me, if you want it to  
5 be the first order of business, you should vote to recommit  
6 without Title I.

7 If I gain unanimous consent to strike Title I, I will  
8 do that. If there is objection, then I suggest that we  
9 simply move to recommit and simply report back without Title  
10 I.

11 Mr. Shapiro. That seems to be an appropriate way to  
12 handle it.

13 The Chairman. On the Senate Floor.

14 Senator Curtis. That would give full freedom for  
15 Floor amendments.

16 The Chairman. Any Floor amendments that anybody wants  
17 to offer.

18 Senator Roth. Mr. Chairman, you are not going to consider  
19 further amendments here in Committee?

20 The Chairman. Senators can suggest if they want to that  
21 we might offer, if they want to suggest that the Committee  
22 amendment be offered to the bill that is on the Floor, they  
23 can, but it seems to me -- and we can discuss that if we  
24 want to -- it seems to me, as far as Title I is concerned,  
25 it is pretty generally agreed that we ought to just strike

1 Title I. The Administration no longer supports it. Had it  
2 not been for the Administration's support, it would have  
3 been stricken previously.

4 It seems as though we should strike Title I. However  
5 we bring that about makes not much difference to me, except  
6 I think we should do it as a first order of business. If we  
7 are not going to have it in there, we ought to take it out  
8 right at the very beginning.

9 That being the case, we ought to proceed with the rest  
10 of the bill.

11 Senator Danforth. Mr. Chairman, at some point I would  
12 like to question the witness. I do not know what the  
13 appropriate point would be at which to do that.

14 The Chairman. Is this about Title I?

15 Senator Danforth. It is about all that is happening  
16 here.

17 The Chairman. Let us vote on this and then question  
18 the witness.

19 Senator Danforth. Fine.

20 The Chairman. All in favor of the motion, say aye?

21 (A chorus of ayes.)

22 The Chairman. Opposed, no?

23 (No response)

24 The Chairman. The ayes have it.

25 Senator Danforth?

1           Senator Danforth. Mr. Sunley, I am puzzled by what  
2 the Administration's position is. My understanding of what  
3 the position was was that the economy was making something of  
4 a rebound but the rebound was not strong enough and therefore  
5 we needed stimulus in order to accelerate the recovery of  
6 the economy.

7           Is that no longer the position of the Administration?

8           Mr. Sunley. As I say, the Administration's position was  
9 a close call. The net effect was that the economy was doing  
10 sufficiently well at this time that the rebate was no longer  
11 needed.

12           I tried to go through the points --

13           Senator Danforth. Let me rephrase it. The rebate is  
14 no longer needed, but the rebate was simply one notion of how  
15 to provide stimulus. Is the Administration now saying that  
16 no additional stimulus is needed in the form of tax relief?

17           Mr. Sunley. The Administration is also saying that  
18 the business tax reductions are also not needed. We do support  
19 the extension of the tax cuts, the one-year extension of the  
20 tax cuts. We do support the changes in the standard deduc-  
21 tion.

22           Senator Danforth. The one-year extension is really no  
23 change at all, just the preservation of the status quo. The  
24 change in the standard deduction is a very modest, limited  
25 form of tax reduction.

1 My understanding of what the Administration's position  
2 was was that there was a recovery, but that the recovery was  
3 too slow and therefore we needed to do a variety of things  
4 in order to accelerate the recovery. One was to increase  
5 consumer demand, and that was to be done by the rebate.  
6 Another approach was to provide some tax relief for  
7 businesses and that was to be done by an investment credit.  
8 And there are all kinds of approaches in which the tax laws  
9 could be used to stimulate the economy.

10 Is it now the position of the Administration that no  
11 stimulus is needed, or simply that the rebate is a bad idea?

12 Mr. Sunley. The Administration position is both that  
13 the rebate is not needed and the business tax cuts should also  
14 be dropped. Let me just look one moment at plant and  
15 equipment spending.

16 The latest survey by the Department of Commerce indicates  
17 that plant and equipment spending should rise by nearly 12  
18 percent in current dollars during 1977. In real terms, this  
19 increase might be 6 percent.

20 Even if the increase indicated for the year by the  
21 Commerce survey were to be met, real business capital spending  
22 would not match the level of previous years, I should tell  
23 you that, but with the rebate and investment tax credit, it  
24 may have a depressing effect on capital spending unless  
25 it is outweighed by the confidence factors discussed so much

1 in the Press. Otherwise, one of the factors, very hard to  
2 quantify but which has an impact on this decision, was the  
3 business community continually said that the rebate program,  
4 if enacted, would decrease their confidence in the economy.  
5 It would be an inflationary program, it would drive up  
6 interest rates.

7 I personally have some problems with that economics  
8 that underlie the interest rate effects. Nonetheless, some-  
9 times it is how the economy is perceived rather than how  
10 the economy is actually operating that affects business  
11 investment.

12 In a sense, removing the rebate in itself might be a  
13 stimulus to investment. We should remember, as the economy  
14 generally expands, investment expands with it. A major  
15 determinant of investment is consumer spending.

16 Senator Danforth. I hasten to say that I agree with the  
17 removal of the rebate. What I want to inquire about is  
18 what is next?

19 Do we just sort of take the position that, well, the  
20 economy is going to improve on its own and we do not need  
21 any tax measures in order to provide further expansion of  
22 the economy? Is that the Administration's position?

23 Or is the Administration's position simply that this  
24 particular approach should be abandoned?

25 It seems to me that 7 percent unemployment is a very high



1 rate of unemployment.

2 Mr. Sunley. Again, as I tried to point out, this is a  
3 close issue. We think we can come back to you in September  
4 with a package of tax proposals, some affecting business,  
5 and I can assure you that the proposals that will be made  
6 in September will not be anti-capital formation. We intend  
7 to have the package that in effect will lower the overall  
8 taxation on the income from capital. We think we can do a  
9 better job of stimulating investment if we wait until  
10 September to do something rather than adding these temporary  
11 tax credits at this time.

12 Senator Danforth. You are not going to be waiting  
13 until September. You will be waiting until the bill is  
14 enacted into law and signed by the President which could  
15 be a very long time ahead, is that not right?

16 Mr. Sunley. Yes.

17 Let me point out one additional thing, Senator, that  
18 although we are abandoning most of the tax stimulus portions  
19 of the program, the Administration is not dropping the  
20 stimulus from the spending side. We continue to support the  
21 increase in public service jobs, the increase in public works,  
22 the counter-cyclical Revenue Sharing portions of this  
23 program.

24 If you look at the total \$30 billion, we are dropping  
25 about one-third of the total package, we are dropping about

1 two-thirds of the tax portion of the package.

2 The great bulk of the stimulus that the Administration  
3 proposes is still supported by the Administration.

4 Senator Danforth. Is it the Administration's position,  
5 then, that we should not be considering any alternative  
6 form of tax stimulus to replace the rebate?

7 Mr. Sunley. Yes.

8 Senator Danforth. All right.

9 Could you provide us with the Administration's  
10 projections by quarter of the increase in GNP and inflation  
11 and unemployment rates between now and the end of 1978?

12 Mr. Sunley. I believe that the Administration is  
13 re-estimating their forecast at this time. I will try to  
14 get that to you as soon as it is available. That should  
15 be next week.

16 Senator Danforth. It should be next week? Nothing  
17 available now?

18 Mr. Sunley. Not that I have seen, no.

19 Senator Danforth. You mean the decision was to  
20 abandon the rebate without having any projections as to  
21 unemployment between now and the end of 1978?

22 Mr. Sunley. You have some rough projections, sort of a  
23 procedure of getting the Administration forecast which  
24 involves all of the different agencies coming together and  
25 making an agreement on the forecast. You start with the

1 forecast in January. You find by the time you get into  
2 the early part of April, the economy is doing much better  
3 than your forecast, it is doing much better than it was  
4 forecasting in the Ford Administration Budget, much better  
5 than the forecasts in the Carter Administration Budget.

6 We know that the old forecasts are not performing very  
7 well. In the process of reviewing those forecasts -- I am  
8 not saying that there is one set of numbers that have  
9 been agreed upon as the official forecast which the Admin-  
10 ~~istration~~ is prepared to release.

11 Senator Danforth. You will get me whatever the official  
12 estimates are? I would also like to know what the Adminis-  
13 tration is working on and what their assumptions are, because  
14 there are all kinds of assumptions, you know, that have  
15 been made by various model makers. Some of them are fairly  
16 gloomy, especially for 1978.

17 Mr. Sunley. Yes.

18 Senator Danforth. The Administration does not believe  
19 those?

20 Mr. Sunley. The bulk of the stimulus package which  
21 would affect 1978 we are still supporting. What we are  
22 dropping is the one-time payment in June of '77 which every-  
23 body agreed would not have much to do with 1978. It was  
24 a one-time stimulus to get the economy going. At this time,  
25 we find out that the economy is already performing very well

1 at this time.

2 The spending increases which were a part of President  
3 Garter's initial proposals for increased public works,  
4 counter-cyclical revenue sharing, those are still supported  
5 and those will have a major impact in 1978, the year you  
6 are particularly worried about.

7 Senator Danforth. Thank you.

8 Senator Roth. Mr. Chairman?

9 The Chairman. Senator Bentsen had asked for recognition  
10 for some time.

11 Senator Bentsen. Thank you very much, Mr. Chairman.

12 First, I want to congratulate the President on his  
13 changing his position on the \$50 rebate. One of the problems  
14 that Presidents usually have is that they take a position  
15 and often it is many months before the Congress can fully  
16 react to it, and yet indices change and conditions change.

17 The Presidents sometimes have been inflexible in their  
18 positions, but in this situation, the President has responded  
19 to increased consumer spending which has increased very  
20 substantially. The package as now put together takes care  
21 of the problems of 1978 where some of the forecasts have  
22 been a little gloomy.

23 I, for one, want to see the investment tax credit left  
24 in and the employment tax credit. I believe that is a  
25 balanced package.

1 We are talking about approximately a \$6 billion package  
2 on the standard deduction. I do not look on that as a  
3 nominal thing; I think that is very major. To say that 95  
4 percent of taxpayers are going to have a simplified tax  
5 return, I think that is good.

6 I am concerned about the inflation aspects and what  
7 may happen if we do not do something to encourage the  
8 modernization of manufacturing capacity in this country.  
9 Mr. Sunley has said that often capital spending follows  
10 consumer spending, but unfortunately, that has not been the  
11 case this time.

12 There is a prediction we will have a 6 percent expendi-  
13 ture in real dollars. We have not seen that yet. I have  
14 seen that forecast by the Chief Economist, Mr. Greenspan,  
15 for 1975, and that did not happen.

16 I would like to see encouragement to try to see that we  
17 do not have developed what happened just a few years past  
18 when we had bottlenecks in production. When you talk about  
19 utilization, about 70 to 80 percent utilization in this  
20 country, that is not a true -- because the other 20 percent  
21 is inefficient. The product is put aside because it does  
22 not do a job in an efficient way.

23 I would like to see business respond in this country.  
24 I would like to see them given the incentive to do so, and  
25 they have not been doing it. Today we are spending a

1 smaller percent of our GNP on modernized, manufacturing  
2 capacity than any other industrialized nation in the  
3 world -- England next to us, and we can see the problems  
4 they have.

5 If we are going to remain a competitive society, if we  
6 are going to flight inflation, see that the consumer gets  
7 a product at a reasonable price, then we have to have a  
8 modernization of manufacturing capacity. So I very much want  
9 to see this investment tax credit for capital intensive  
10 business left in it, then I want to see the employment tax  
11 credit for those like small business. I think it is a  
12 balanced package.

13 When you have, next year, \$7.6 billion going into the  
14 standard deduction route and on the other side you have  
15 \$2.4 billion balanced equally between capital-intensive and  
16 labor-intensive companies, I think it is a well thought-out  
17 package brought forth by this Committee, and in part by the  
18 Administration. I am pleased to see that is still in the  
19 package; I hope we will continue with it.

20 But again, I am just delighted that the President has  
21 made a change in his position on the \$50 rebate, the extension  
22 of the \$35 credit, and it was not such a taken-for-granted  
23 fact, if I remember the debates last year, on the \$35 credit.

24 Mr. Sunley. Senator Bentsen, if I may add one thing  
25 to what I said that may bear on this decision, tomorrow

1 night, the President is going to reveal his energy program.  
2 This program will contain significant incentives for  
3 investment related to conservation of energy. So I think,  
4 as you look at the energy program in the context of part  
5 of the macroeconomic policies of this Administration, you  
6 will find that the Administration is proposing significant  
7 stimulus to investment, and that, as I say, will be outlined,  
8 I believe, tomorrow night.

9 Senator Bentsen. I understand that. That is on the  
10 conservation side. I am all for that; I think that is great.  
11 That is not something that, in effect, makes us more  
12 competitive in the products that we manufacture.

13 I think where we have the incentive, to have people  
14 to conserve industry -- we had the Bureau of Standards give  
15 us a study showing us that industry could save 35 percent of  
16 the energy they now use just by converting to energy-saving  
17 machinery. I hope the President has something in his  
18 package to help bring that about.

19 The Chairman. Senator Matsunaga?

20 Senator Matsunaga. Thank you, Mr. Chairman.

21 A point of information: the bill has not been recom-  
22 mitted to this Committee yet, has it?

23 The Chairman. No.

24 Senator Matsunaga. We are not in a position to offer  
25 amendments?

1           The Chairman. What we are talking about is the bill  
2 and if the Committee wants to agree that a Committee amend-  
3 ment should be offered on the Floor, we can certainly do that.

4           What we are talking about, what we agreed to at this  
5 moment is simply as manager of the bill, I would be instructed  
6 to ask consent to strike Title I and if not, to ask to  
7 recommit.

8           If the Committee wants to suggest further changes in the  
9 bill, it, of course, can do so.

10          Senator Matsunaga. Thank you, Mr. Chairman.

11          As I understand it now, the President has withdrawn  
12 the \$50 rebate. He also is withdrawing his request for  
13 an additional 2 percent of the ITC.

14          The bill, as you know, reported out both by the House  
15 and Senate includes the jobs tax credit, assuming some form  
16 of jobs tax credit. Say the Senate version or a compromise  
17 version, should be approved by the Congress, will the  
18 President then sign that bill?

19          Mr. Sunley. I really cannot say at this time, but you  
20 said the President has withdrawn his rebate and investment  
21 credit. The President has also withdrawn his support for  
22 the employment tax credit.

23          The Chairman. He never did support it.

24          Mr. Sunley. He never did support the form.

25          The Chairman. He could not withdraw that. He was not





1 the 7.8 percent level in December to 7.3 percent in March  
2 is an indication that the economy is, in fact, doing very  
3 well.

4 The whole problem in the economic forecasting last  
5 December was the rapid improvements in the economy as it came  
6 out of the recession. It seemed to level off, and, in fact,  
7 many of the indications had turned down. There was an issue  
8 of was this a pause or would this in fact be the beginning  
9 of a new recession?

10 But looking back, it was quite clear that it was a  
11 clog, that the Administration itself has created approximately  
12 1 million new jobs.

13 Senator Matsunaga. 7.3 percent unemployment is still  
14 much too high.

15 Mr. Sunley. We agree with that.

16 Senator Matsunaga. There are those that have been out  
17 of work for over two years now. They cannot wait another  
18 year. We have to put these people back to work.

19 I have people back home picketing my office because  
20 they do not want jobs and cannot get any jobs. I cannot give  
21 them jobs. Saying we will do something about it, we will  
22 create jobs in the small business sector by creating incen-  
23 tives for small business to hire people, I am hoping the  
24 President will see it the way the Congress sees it and when  
25 this measure is sent to him that he will sign this bill,

1 so while there are signs of improving economy, we will  
2 expedite the recovery without inflation. This is what we  
3 are trying to do.

4 I might raise this question of Senator Bentsen, in  
5 line with the suggestion offered by the Chairman.

6 As you know, there are several of us who will be offer-  
7 ing an amendment to your proposal and if the Senator is  
8 agreeable, maybe we can increase from \$1,000 to \$1,328 and  
9 from 25 percent to 33 percent on the maximum allowed with  
10 a ceiling of \$100,000 rather than no ceiling at all, with  
11 approximately 72 jobs.

12 My proposal is bipartisan in nature. Senator Laxalt  
13 is prepared to support that.

14 Senator Bentsen. I say to my distinguished friend, if  
15 he did something like that -- I started working on this about  
16 three years ago and I have one I put in three years ago I  
17 think that beats all of these and that gets rid of some of  
18 the incremental problems, gets to a position of talking about  
19 a 96 percent level instead of 103 percent.

20 Again, we run into the limits of money, how much we  
21 expend in this, the problems of the deficits in this budget  
22 to try to address ourselves to that.

23 Senator Matsunaga. With the withdrawal of the \$50  
24 rebate --

25 Senator Bentsen. I am delighted with it. I do not think

1 that means suddenly we have to use that up, that that is so  
2 much money that we could grab and spend. I think we should  
3 have fiscal responsibility.

4 Senator Matsunaga. I just offer it as a suggestion.  
5 As an intelligent, broad-minded Senator, you would agree that  
6 there could possibly be improvement?

7 Senator Bentsen. I think we have. I think that is what  
8 we have passed through this Committee.

9 Senator Matsunaga. Thank you.

10 Senator Byrd. Mr. Chairman?

11 The Chairman. I had said I would recognize Senator  
12 Roth first, then I will come to Senator Byrd.

13 Senator Roth. Mr. Chairman, like Senator Bentsen stated  
14 earlier, I too applaud the President in reconsidering the  
15 rebate and withdrawing it. As a matter of fact, when Mr.  
16 Lance, the Director of OMB was here before us, that the  
17 American people would applaud such action.

18 Having said that, I am concerned with where we are now  
19 and the procedure that we are proceeding on. As I understand  
20 it, tomorrow night we are going to have an address by the  
21 President before a Joint Session of the Congress which is  
22 going to have some very significant tax proposals in it which  
23 I believe necessarily will have an effect on the economy.

24 It seems to me that it is inconsistent and not very  
25 orderly for us to try to move ahead on this package at this

1 date until we know exactly what he is going to propose in  
2 this other area of activity.

3 I also think that it would be bad procedure to move  
4 ahead until we have the opportunity to again hear the  
5 Secretary of Treasury and Mr. Lance, Director of OMB, as  
6 well as Mr. Schultze, to get what Mr. Danforth was suggesting,  
7 an up-to-date, evaluation of the economy and where we are  
8 moving.

9 I agree with Senator Matsunaga when he says over 7  
10 percent unemployment is not satisfactory and I do not think  
11 we can wait. As the Administration is again saying,  
12 again as they said in the hearings before us, that we should  
13 wait until some time next fall when they get a comprehensive  
14 tax reform package together.

15 If we act now, I think we ought to act in such a way  
16 that we do something about unemployment as rapidly as  
17 possible. Instead of doing that, we are holding onto the  
18 spending programs which probably are the most inflationary  
19 part of the package and we are doing nothing in the way, as  
20 Senator Bentsen has pointed out, to help capital formation  
21 make our private sector more efficient.

22 I cannot agree that I would call it a balanced approach.  
23 We are continuing the standard deduction, which I strongly  
24 approve, but we are forgetting much of working America.  
25 Nothing is being proposed to help those who have suffered

1 as much as any group in the way of tax relief. If we are  
2 really going to get the economy moving and provide meaningful  
3 jobs in the private sector, it necessarily must come about  
4 through tax relief for them; so Mr. Chairman, I would urge  
5 and recommend as quickly as possible after the President  
6 addresses the Joint Session of Congress with his energy  
7 program, that we invite the same trio, the Secretary of  
8 Treasury, Mr. Blumenthal; the head of the Budget, Mr. Lance;  
9 and Mr. Schultze up here to one, testify on how they see  
10 our economy moving in the next two-year period, what they  
11 think needs to be done to assure that we do get the country  
12 moving, and secondly, what impact and effect the energy  
13 package will have, not only in promoting a national energy  
14 program, which I agree with the President is a top priority,  
15 but what effect is that going to have on the economy as a  
16 whole?

17 For us to move today or tomorrow without that informa-  
18 tion, I think, would be most unwise and would subject this  
19 Congress to criticism.

20 I would urge and ask the Chairman if he would not  
21 consider this approach.

22 The Chairman. Senator, one of the reasons that the  
23 President withdrew his recommendation was that it took so  
24 long to get action on Capitol Hill that the time for the  
25 action had pretty well passed. It was the President's hope

1 that those \$50 refund checks could have been mailed out  
2 immediately, and part of his decision to withdraw the  
3 recommendation had to do with the fact that by the time the  
4 people would get the refund check it might be June, and what  
5 remains in the bill would still provide a lot of stimulation  
6 for the economy -- not as much as the President had in mind  
7 to begin with, but it would result in a reduction of the  
8 withholding rates, so that would help.

9 Now, the President is not the only man in this entire  
10 United States who is thinking of something that might help  
11 the economy. This Committee has had some ideas of what  
12 they thought was a pretty good idea in their judgment and  
13 had been recommended by their Committee after the Senators  
14 made their suggestions and we voted on them,

15 I asked Senator Packwood before we met if he was willing  
16 to drop the Packwood amendment; he said, which one, and the  
17 response was that he was not willing, as far as I can see,  
18 to drop any of the Packwood amendments which have been  
19 agreed to on the bill.

20 I do not think Senator Dole wants to drop the Dole  
21 amendment.

22 Offhand, I do not know of anything the Senator for  
23 Louisiana was responsible for putting in that bill; if there  
24 is, I am not in favor of dropping it.

25 As a matter of fact, I inquired of Senator Bentsen about

1 dropping his amendment. He says no, he thinks it has as  
2 much merit now as when he made the suggestion.

3 If anybody offered any amendment that was agreed to and  
4 wants to drop it from the bill, I will be happy to consider  
5 his motion. As far as I know, everything we have in the  
6 bill is something that is favored by the majority of the  
7 Committee, which I believe the Senate would agree to, and  
8 I am happy, Senator, to do everything we can to get your  
9 information but those people you want to hear testify are  
10 somewhat busy men themselves. It used to be on a tax bill  
11 all they had to do was come up and testify before the Ways  
12 and Means Committee and then testify before the Finance  
13 Committee.

14 Nowadays, before the Finance Committee ever sees a  
15 revenue measure, the Ways and Means Committee, of course,  
16 has the leadership. Prior to that, the Budget Committee wants  
17 the men, so they have to testify before the two Budget  
18 Committees.

19 Then the Joint Committee on the Economic Report, the  
20 Budget Committee -- then the Joint Committee on the Economic  
21 Report tells us what we have to do about it. By the time we  
22 get around to it, it is pretty old news anyway.

23 Senator Curtis. You left out Common Cause and Ralph  
24 Nader.

25 The Chairman. That was a big oversight, I must admit.



1           Senator Roth. Nevertheless, Mr. Chairman, we have a  
2 new set of circumstances today. I am not asking for any  
3 untimely delay. I am not suggesting that many of these  
4 amendments that were adopted by the Finance Committee be  
5 dropped.

6           What I am trying to propose is an orderly manner in  
7 which to consider, at least briefly, the entire economic  
8 package as it is being changed, first by the President,  
9 second by the energy proposals this Wednesday.

10           As I see it, what is left in this package, from the  
11 President's standpoint, is very minimal in the way of  
12 stimulus. I have some reservations on the spending side of  
13 what he wants to retain.

14           I would like to strongly recommend that this week,  
15 Thursday or Friday, that we be given an up-to-date picture  
16 as to what is happening to the economy so we can use our  
17 best judgment as to what we think is adequate.

18           The Chairman. Senator, I will try to accommodate  
19 you on this, but I personally would favor moving on ahead.  
20 I have a letter here from Senator Dole wanting to get action  
21 at the earliest possible moment on those matters that involve  
22 workers that have filed retroactively in regard to sick  
23 pay.

24           We are disappointed that we have not been able to act  
25 already. I do not think it is really our fault. We do the

1 best we can.

2 I am told that the House members on the Ways and Means  
3 Committee are going to be reluctant to go to conference on  
4 that bill when they want to talk to us about this one. The  
5 Dole amendment is in this bill.

6 From their point of view, if we want them to take  
7 Section 911 and some of these other provisions, they would  
8 like to talk to us on a bill where some of their handiwork  
9 is in it, in addition to that. I am trying to accommodate  
10 everybody I can. You have some who are going to be dis-  
11 satisfied that we have taken as long as we have. I will  
12 try to accommodate you with regard to the information you  
13 want, Senator Roth.

14 I really think if we are going to do something, we  
15 ought to do it. Part of the President's reason for withdrawing  
16 the \$50 was that by the time that it has taken to get  
17 to the decision in the Congress, it is no longer timely to  
18 do it.

19 Senator Roth. Mr. Chairman, that is a part of my  
20 concern now. I happen to think that we need a permanent  
21 tax cut. The Administration is saying wait until September  
22 or this fall when they can come up with whatever ideas they  
23 have at that time.

24 If we use the same reasoning, the action on that  
25 proposal will be at the earliest the end of the year, or

1       sometime next year. I do not think we can afford to  
2       wait.

3               What I am really trying to do is expedite what I think  
4       are some necessary tax stimuli to get the private sector  
5       moving and moving now, and not waiting for a year. That is  
6       the reason I am urging that we at least -- we are only talking  
7       about a week; I cannot really believe that it is going to  
8       make that much difference.

9               The Chairman. Senator, I will do what I can to  
10       accommodate you, but unless I miss my guess, if we agreed  
11       to the Roth amendment and at that time I moved to recommit  
12       the bill, the Senator would be the first to say, let's not  
13       recommit; let us forge on ahead. It is just a matter of  
14       judgment; everybody can have their own views.

15              As far as obtaining information for you, I will do  
16       what I can to cooperate with you.

17              Senator Danforth. Mr. Chairman, what is there in this  
18       bill that cannot wait a week?

19              The Chairman. Senator, everything in the bill can wait  
20       until Kingdom Come if that is what the Senate wants to do.  
21       If the Senate wants to vote, it ought to have the right to  
22       vote too.

23              Senator Danforth. The whole point of the bill was that  
24       it was to be an economic stimulus bill. Now, we are told  
25       literally in the twinkling of an eye that the same economic

1 conditions that gave rise to the bill do not exist. We  
2 have inquired, what are the new economic conditions? We  
3 are told that the Administration will not tell us for another  
4 week and furthermore, they are going to have an energy  
5 message and they will not tell us what that is, and we are  
6 supposed to act, it seems to me, totally in the dark, just  
7 because the Administration tells us to change our minds.

8 The Chairman. The people just got finished filling out  
9 their tax returns, the most complicated manuever they have  
10 gone through in the history of the tax law. I do not know  
11 about you, Senator, but I have gone out and told people that  
12 next year it is going to be simpler than it was this last  
13 year.

14 I recall when I first had the opportunity to talk to  
15 President-elect Carter, at that time, about tax reform, the  
16 point he made to me was, number one, we ought to simplify  
17 this.

18 We have here a proposal that is going to vastly simplify  
19 this matter for 75 percent of all taxpayers -- it will  
20 simplify it for 95 percent, really -- and that is something  
21 the citizens of this country want. If you want to go back  
22 and tell people, you will simplify it but wait until next  
23 year, go ahead, that is your privilege. I am not going to  
24 tell them that we had the opportunity to simplify this  
25 thing and failed to do so.

1 Senator Danforth. Senator, I am not either. I want  
2 to know how many people are going to file the simplified  
3 tax returns in the next week.

4 The Chairman. My impression is, if you have a chance to  
5 do something, do not do it, it may never happen.

6 Senator Moynihan?

7 Senator Moynihan. I have no questions.

8 The Chairman. Senator Byrd?

9 Senator Byrd. Mr. Sunley, you said a little while ago  
10 that we found out that the economy is doing very well at this  
11 time. Would you tell the Committee when you reached that  
12 conclusion?

13 Mr. Sunley. I think the conclusion was reached in the  
14 second week in April when you start to get the unemployment  
15 figures for March, the industrial production figures for  
16 March, the indication that the housing starts were very  
17 strong in February and will be strong again in March.

18 Also, substantial increases in the Consumer Price Index  
19 that we had for February. The Consumer Price Index for  
20 March will be available this Thursday. The Wholesale Price  
21 Index for March, we already have that; it was up substan-  
22 tially.

23 So a combination of increased pressure on prices and  
24 the strength in both production and reduction and unemployment.  
25 It was really the March figures, as they became available,

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1 in pretty much the second week in April.

2 Senator Byrd. You reached the conclusion, as a result  
3 of that, that the tax rebate of \$10 billion would be  
4 inflationary?

5 Mr. Sunley. We reached the conclusion that it was not  
6 needed for the gains we would get and the direct impact  
7 on inflation, the business fears that the rebate would have  
8 on inflation.

9 Senator Byrd. As you emphasized a little while ago,  
10 there are two aspects to the President's economic stimulus  
11 program. One is the tax rebate part of \$10 billion and  
12 the other is an increase in spending of \$22 billion.

13 Would you agree or disagree that the \$22 billion  
14 increase in spending would be equally as inflationary,  
15 if not more inflationary, than the \$10 billion tax reduction?

16 Mr. Sunley. I do not think it makes much difference  
17 if you reduce the Federal deficit by cutting the rebate or  
18 cutting the spending. It is pretty much the same thing.  
19 We are talking about the deficit that the Carter Administra-  
20 tion had originally estimated at something like \$68 billion.

21 The February revised budget, this in itself, dropping  
22 the rebate will drop that deficit by \$10 billion. I have  
23 not indicated, but the President has indicated, that there  
24 is some indication that we are having expenditure shortfalls  
25 and possibly some higher receipts than originally expected.

1           That, itself, may have a \$10 billion impact on the  
2 deficit. The overall deficit is going to be substantially  
3 less than what was anticipated in the February revised  
4 budget.

5           Senator Byrd. The Carter Administration has recommended,  
6 has it not, a \$22 billion increase in spending?

7           Mr. Sunley. I am not certain of that number right at  
8 this point. It seems a little high. It was about \$10 billion  
9 in the rebates and about \$4 billion in standard deductions.  
10 The Senate has raised it to \$5 billion.

11           Senator Byrd. I am speaking of spending.

12           Mr. Sunley. The total package proposed by the Adminis-  
13 tration was \$30 to \$31 billion, as I recall. The House has  
14 added to the spending portion.

15           Senator Byrd. Earlier, you emphasized, and gave strong  
16 emphasis to it, in reply to Senator Roth, I believe, or one  
17 of the members of the Committee, that you wanted to  
18 emphasize that the Carter Administration was eliminating only  
19 one part of the economic stimulus package. The remaining  
20 two-thirds will continue if the Carter Administration has  
21 its way.

22           Is that not correct?

23           Mr. Sunley. Yes. That mainly has an impact in fiscal  
24 year '78.

25           Senator Byrd. Mainly the spending part would continue?

1 Mr. Sunley. Yes.

2 Senator Byrd. The Administration and Treasury would  
3 favor the continuation of the increase in spending as  
4 proposed by the Carter Administration, is that not correct?

5 Mr. Sunley. That is correct.

6 Senator Byrd. Is that not equally as inflationary, if  
7 not more inflationary, than the \$10 billion tax rebate?

8 Mr. Sunley. If the economy is near full employment,  
9 a dollar increase in spending has about as much inflationary  
10 impact as a dollar reduction in taxes. There is really not  
11 much to choose between.

12 If you have to choose, for a technical reason I would  
13 agree that a dollar increase in spending is slightly more  
14 inflationary.

15 Senator Byrd. It is not a dollar versus a dollar; it  
16 is \$2 versus \$1. A \$2 increase in spending for every dollar  
17 reduction in taxes. You have a double situation, assuming  
18 your premise is correct, which I do not assume.

19 If you have an across-the-board tax reduction as  
20 Senator Roth proposes, how would that reduce the revenues  
21 in the current fiscal year and in fiscal '78?

22 Mr. Sunley. I do not know. Which permanent reduction  
23 is Senator Roth's that you are referring to? The Republicans  
24 have had several packages of tax reductions.

25 Senator Byrd. What will it cost to have first a 5 percent



1 reduction in all tax rates across the board; secondly, a  
2 reduction of 10 percent in all tax rates across-the-board?

3 What assumptions do you make in arriving at those  
4 figures?

5 Mr. Sunley. You are referring to individual income tax,  
6 not corporate?

7 Senator Byrd. Right.

8 Mr. Sunley. In fiscal year '78, it is estimated that  
9 the individual income tax receipts would almost be \$180  
10 billion, so a 10 percent reduction on a \$180 base would be  
11 \$18 billion; a 5 percent would be \$9 billion.

12 Senator Roth. What was the last statement?

13 Mr. Sunley. Fiscal year 1978 receipts for individual  
14 income tax are estimated to be just under \$180 billion, so  
15 a 10 percent reduction -- this is not in the calendar year;  
16 I am working on fiscal year receipts -- a 10 percent reduc-  
17 tion effecting at that level would be about \$18 billion; a  
18 5 percent reduction would be about \$9 billion.

19 Senator Byrd. Your assumption is that a 1 percent  
20 reduction would be about \$1 billion per percentage point?

21 Mr. Sunley. \$1.8 billion per percentage point.

22 Senator Byrd. If there is a 7 percent reduction, it  
23 would be 7 percent of the \$180 billion. These are the  
24 assumptions you are working on?

25 Mr. Sunley. 7 percent would be almost \$13 billion.

1 Senator Byrd. That is how the Treasury normally figures  
2 the reduction?

3 Mr. Sunley. Across the board, reducing all marginal  
4 tax rates by 5 or 10 percent, a 10 percent reduction. You  
5 would take 14 percent right down to 12.6 percent. The  
6 70 percent marginal tax rate down to 63 percent.

7 Senator Byrd. That is what I wanted to get clear. My  
8 office was informed this morning that historically a 10  
9 percent tax reduction is considered to have a 15 percent  
10 reduction in revenues. It seemed to me not to be reasonable.

11 Mr. Sunley. No, sir.

12 Senator Roth. Would the Senator yield?

13 Senator Byrd. Yes.

14 Senator Roth. It is worthwhile observing that accord-  
15 ing to the Congressional Budget Office, the flowback would  
16 mean they calculate that the 10 percent reduction would end  
17 up with a \$19 billion, because of the flowback, it would net  
18 out at \$12 billion for the full year. That is considerably  
19 less.

20 Treasury has never taken that into consideration in  
21 their estimates.

22 Senator Byrd. Thank you.

23 The Chairman. I recognize Senator Dole.

24 Senator Dole. Mr. Chairman, I appreciate your earlier  
25 reference to the bills pending now in the Senate. Is there a

1 chance we could go to Conference? Many of these people  
2 involved have either filed for an extension or are prepared  
3 to file an amended return. I am talking about the sick pay  
4 exclusion.

5 There are some other non-controversial amendments on that  
6 bill. Is there any reason that we cannot go to Conference?

7 The Chairman. It is all right with me. I have no  
8 objection to going to Conference. If you want to, we could  
9 send the bill over there and ask for a Conference.

10 I think the House members are going to say that they  
11 would like to confer on this bill. Since your amendment is  
12 in this bill, they would like to talk to you about their  
13 handiwork along with what this Committee has suggested,  
14 including your amendment.

15 I have no objections to sending that bill over and  
16 asking for a Conference.

17 Senator Dole. I would appreciate it, if that could be  
18 done. Maybe there is not the urgency that there was prior  
19 to the recess, but there are a great number of people  
20 concerned about these noncontroversial amendments. Maybe  
21 we could go to Conference and work that out.

22 The Chairman. It is all right with me. If we do what  
23 I would like to see us do it is not going to make a lot of  
24 difference. We can get the whole thing done within ten days  
25 anyway. I would like to see this bill passed.

1 I have learned one thing. You have to accommodate  
2 yourself to the views of 100 Senators and 435 House Members.  
3 They all have their rights.

4 We will do it however we can do it.

5 Senator Dole. I regret being late, but has the  
6 Administration indicated that they support everything but  
7 the rebate in the present bill?

8 The Chairman. They have indicated that they do not  
9 support your amendment.

10 Senator Dole. What about all of the other amendments?

11 The Chairman. They indicated their position. If you  
12 want them to restate their position --

13 Senator Dole. Very quickly.

14 Do you think we should proceed with what we report out  
15 of the Senate, with the exception of the rebate and perhaps  
16 other specific amendments you object to?

17 Mr. Sunley. The two major problems are the rebate and  
18 the business tax reductions. Those are the two major ones.

19 Senator Curtis asked about the sick pay and the 911, the  
20 retroactive provisions. All along we have opposed, we have  
21 not supported those provisions.

22 Senator Dole. What I am trying to find out, are you more  
23 apt to veto it if we pass this little bill pending on the  
24 Floor now, the sick pay exclusion, the legislators' pay and  
25 others? Are you more apt not to veto if we put it into a

1 bigger package?

2 Mr. Sunley. I think you could probably judge that one  
3 pretty well. Sticking out there alone, we are more likely  
4 to raise the issue. It is pretty clear that the stimulus  
5 bill with the sick pay provision in it, the sick pay is not  
6 going to weigh the Administration one way or the other, but  
7 I do not believe that the Administration has threatened to  
8 veto that sick pay bill.

9 Senator Dole. They have not?

10 Mr. Sunley. No, they have not.

11 Senator Dole. It would not make any difference, then?

12 Mr. Sunley. I did not say that. I said the Adminis-  
13 tration has never stated that they would veto that bill.

14 The Chairman. As I understand it, and I want to avoid  
15 any misunderstandings about this -- maybe my position has  
16 been misrepresented.

17 What I have said about the matter is that you cannot  
18 give anybody any assurance that that bill will become law,  
19 because when the Administration -- at least when the Treasury  
20 is recommending two out of three things that are in the  
21 bill, you cannot be sure that the President is going to sign  
22 that bill. He may sign it, then again he may veto, while  
23 the bill that has been passed by an overwhelming vote might  
24 be the subject of an override of a Presidential veto.

25 I have learned, to my dismay, just because you have a

1 lot of votes for the bill does not mean that you are going to  
2 override a veto.

3 There is a problem in some of these matters where you  
4 think you have the vote, and for some reason it never seems  
5 to happen. I have seen some things with the majority of the  
6 Senate sponsoring it, and it never became law. That is what  
7 happens.

8 In any event, I will help see to it that the matter is  
9 considered, either on that bill, this bill, or any appropriate  
10 way that we can move it along.

11 Senator Dole. Maybe we should proceed on both fronts.

12 The Chairman. I am not your problem, that is what I  
13 am trying to say.

14 Senator Dole. You are my Chairman.

15 The Chairman. Senator Moynihan?

16 Senator Moynihan. Mr. Chairman, I would like to say that  
17 I fully agree with you that we should move forward with this  
18 legislation and we will be right behind you in doing so.

19 I would like to put to Mr. Sunley one proposition in the  
20 way of an appeal, as much as a request, to say that this  
21 program comes before us in aid, primarily, of the situation  
22 of unemployment in our country. I come from a region of the  
23 nation that has never recovered from the recession of '74 and  
24 '75, the worst recession since the 1930 Depression. We have  
25 never recovered. Our employment has continued to go down.

1 from that moment in June '75 when, on the national average,  
2 it commenced to go up. We are still in that recession.

3 Now, I am pleased, I am happy to know, that by a  
4 fortunate symbiosis, the econometric projections in April  
5 that you did not need the tax rebate when the vote count  
6 showed you only had 35 votes on the Floor of the Senate--  
7 it is one of those happy coincidences that come along from  
8 time to time.

9 Sir, you do remember that you set out to put this package  
10 through to create jobs for the American workers and there is  
11 no place that they are more out of work than in the Northeast.  
12 They are still out of work. That recession goes on.

13 While we will support you just as the members on this  
14 side will support you on the rebate -- now, you do not have  
15 the votes for it, we will support what is left.

16 We still want you to tell us, do you think you have enough  
17 to put Americans back to work?

18 Am I making my point, sir?

19 Mr. Sunley. Yes, you are, sir.

20 I believe that the additional stimulus is not needed at  
21 this time. I have tried to emphasize the Administration  
22 considered it a very close call, one way or the other. There  
23 is no doubt there are some who advocate the rebate and some  
24 on the other side. It was a close call but, we believe, given  
25 the improvement in the economy, particularly the very

1 favorable economic news through March -- one of the real  
2 problems was this cold weather period that we had in  
3 February that caused a lot of difficulty in having you  
4 interpret the statistics: did unemployment go down because  
5 people dropped out of the labor force because it was too cold  
6 to go to work, or did unemployment increase because people  
7 were laid off because of the cold weather?

8 You do not know whether it is the employment or the,  
9 labor force participation as being more affected by the cold  
10 weather.

11 So it was very difficult, sir, to interpret those  
12 statistics and you have next month and you want to know, it  
13 is sort of a catch-up, a statistical fluke. So it has been  
14 a hard one to call, but I think the conclusion is, at this  
15 point, that the economy is, in fact, experiencing a real,  
16 sustained growth much more than was expected. I think that  
17 when we see the quarterly GNP figures released tomorrow  
18 that the first quarter will be a much better quarter in  
19 spite of this cold weather period than anyone anticipated.

20 Senator Moynihan. That is all good news, but I want  
21 to reaffirm --

22 Senator Dole. Not everyone anticipated.

23 Mr. Sunley. You are correct.

24 Senator Moynihan. You do acknowledge this point, that  
25 the Northeastern region of the country, the decline in



1 employment that was associated with the last recession, that  
2 this stimulus package was supposed to get us out of, that  
3 decline has continued to this day?

4 Mr. Sunley. Yes.

5 Senator Moynihan. As if the recession was still on?

6 Mr. Sunley. Yes.

7 Senator Moynihan. I thank you, sir.

8 The Chairman. I want to ask Mr. Woodworth, assuming we  
9 move forward with this bill, as it stands minus the \$50  
10 rebate, as it stands, we would have a 2 percent investment  
11 credit and we would have the 25 percent employment credit  
12 suggested by the Bentsen amendment. We have the simplifica-  
13 tion amendment in the Committee.

14 We have the extension of the \$17 billion tax cut.  
15 When was that tax cut due to expire otherwise?

16 Mr. Woodworth. At the end of this year. It extends it  
17 for one more year.

18 The Chairman. To the end of this year, the calendar  
19 year?

20 Mr. Woodworth. That is right, the calendar year.

21 The Chairman. During this year, if you do not count  
22 the \$17 billion extension --

23 Mr. Woodworth. I think it is actually about \$14  
24 billion.

25 The Chairman. Can you tell us just how much of a

1 stimulation package this would be just with the simplifica-  
2 tion part plus the employment tax credit and the 2 percent  
3 investment credit to which the Committee agreed?

4 Mr. Shapiro. Could I make one observation before you  
5 get to that figure?

6 There are two points I would like to suggest to the  
7 Committee. Instead of making a modification in addition  
8 to the Title I that relates to Title I, but one of those  
9 that should be considered possibly before there is an answer  
10 to this is that you have the withholding to take effect  
11 May 1 with respect to the standard deduction. You may want  
12 to consider that and move that forward to June 1.

13 That would effect the amount of stimulus. There is no  
14 way you could have the withholding take effect on May 1.  
15 Larry's answer should take into account that advancing the  
16 withholding from May 1 to June 1 with respect to the standard  
17 deduction, the figures we have with respect to that is if  
18 you move the withholding to June 1, the stimulus for fiscal  
19 year '77 would be approximately \$2.8 billion. That would  
20 be made up of \$1.5 billion, with a standard deduction;  
21 \$900 million with the business tax reductions, and \$400  
22 million with respect to changes in the retroactive date  
23 on sick pay, Section 911, and other changes that the Committee  
24 made.

25 Those accounted for \$2.8 billion for fiscal year '77.

1 For fiscal '78, it would total \$18.9 billion.

2 The Chairman. \$18.9?

3 Mr. Shapiro. Yes.

4 The reason that goes up is the approximate \$500 million  
5 related to the standard deduction taken out in '77 because  
6 the withholding date is being put up will go into fiscal  
7 '78.

8 I am sorry. It is \$18.7. \$18.7 for fiscal year '78.

9 The Chairman. That includes that \$14 billion of  
10 extension?

11 Mr. Shapiro. The extension is \$7.8 billion.

12 The Chairman. The other items, then, total --

13 Mr. Shapiro. For fiscal year '78, assuming the June  
14 1 withholding date, the standard deduction would be  
15 approximately \$8.1 billion. The business tax cuts, 2 percent  
16 credit and jobs tax credit would total \$2.4 billion. The  
17 extension of tax cuts is a total of \$7.8 billion.

18 Then you have the \$400 million for outlays for WIN and  
19 that total is \$18.7.

20 The Chairman. In the fiscal year, it breaks  
21 September 30th?

22 Mr. Shapiro. Yes.

23 The Chairman. Even the \$2.8. That is what you are  
24 getting on about a six month basis? On an annual basis,  
25 that would be an equivalent of \$5.6 billion right there.

1 Mr. Shapiro. On an annual basis, the standard deduction  
2 is approximately \$6 billion, business is approximately  
3 \$2.4, on an annual basis, because for the fiscal year, you  
4 are starting in June. You are saying four months, June,  
5 July, August and September, four months of these provisions  
6 would be in fiscal '77. That is why it is \$2.8.

7 The Chairman. If you try to measure that impact in  
8 terms of an annual impact, what would that amount to? What  
9 would you have for fiscal '77?

10 Mr. Shapiro. Approximately \$8.5 billion.

11 The Chairman. That would be the same as the \$8.5  
12 billion tax cut for 1977 and then for 1978, it is the  
13 equivalent of an \$18 billion tax cut. That might not look  
14 like much stimulation to some people, but that is a big bill,  
15 and I have seen some big ones. It is still a very big package  
16 in terms of something that would hopefully stimulate the  
17 economy and move us in the right direction, even if you  
18 settle for that. That is the way I read it.

19 Mr. Shapiro. In addition, the tax cuts that you are  
20 talking about that were extended into 1978 in this bill  
21 are included in the totals. They are already in place for  
22 '77 and those were extended for '76. That is not including  
23 your totals, but that is the stimulus that is currently  
24 in effect at the present time.

25 The Chairman. This is not an insignificant bill. I hope

1 no one gains the impression that that is the case.

2 Mr. Woodworth?

3 Mr. Woodworth. We think that the standard deduction  
4 changes are very important, not just from the standpoint of  
5 their revenue impact, but also, we think, because they will  
6 very substantially simplify the tax return for next year and  
7 we think that that is very important that that occur.

8 We also favor the continuation of the tax cut; insofar  
9 as the business changes are concerned, the Administration does  
10 not favor leaving those in the bill. They oppose that on  
11 the grounds that, with the rebate out, that it would be  
12 appropriate to postpone the consideration of the business  
13 tax cuts until this fall.

14 This fall we plan to have ready for you a substantial  
15 tax bill dealing with tax reform, dealing with capital forma-  
16 tion and dealing with tax simplification, all three of those  
17 elements, and we think that it would be better longrangewise  
18 to have those funds to be available to employ towards a  
19 longer range capital formation program than will occur in  
20 this particular bill which is before you.

21 The Chairman. Here is the point. If we are going to do  
22 anything of a substantial nature to try to create more jobs  
23 through the tax system and we are going to do anything to  
24 simplify and reform the tax system that would be meaningful  
25 to the rank and file taxpayers in this country, we are not

1 going to do it with the bill you are bringing here in  
2 October; you know that.

3 Mr. Woodworth. I would not anticipate that you would  
4 act on it before next year.

5 The Chairman. Look at the time that you have been on  
6 the tax reform bills? You were over there on the House  
7 Ways and Means Committee. It took three years to get to us  
8 from the House side. Once it got to us, it was too late to  
9 be acted on in the Senate. The next year, they spent a year  
10 in the House and a year in the Senate.

11 It took almost four years to get that big tax reform  
12 act in 1976 enacted, did it not?

13 Mr. Woodworth. In that sense, yes. I could point out  
14 examples the other way around. The '69 Tax Reform Act  
15 started in the same year it was enacted. It is possible to  
16 do it.

17 We had hoped, by having the bill available, the program  
18 available this fall, that it would be possible for Ways and  
19 Means to get started on hearings this fall so that they  
20 could act quite rapidly next year. That is our hope.

21 The Chairman. You are talking about the '69 Act. That  
22 was something that was pieced together by the Committees  
23 and even that, from the time we started working on it, that  
24 took almost a year, did it not?

25 Mr. Woodworth. Yes.

1           The Chairman. If we wait for the recommendations, you  
2 do not want us to go ahead without Treasury's recommenda-  
3 tions, I know that.

4           Mr. Woodworth. We would prefer that you did not.

5           The Chairman. If we wait for the Treasury recommenda-  
6 tions and Treasury comes in here in October with them, even  
7 if we moved, as we did with the '69 bill, that is when  
8 we started using the egg timer on the witnesses to move things  
9 along expeditiously, even if we did all of that, under that  
10 timing, it would still be a year before it became law, is  
11 that not correct?

12          Mr. Woodworth. That is correct.

13          The Chairman. If you want to do something for taxpayers  
14 who are going to file their returns next year, we had better  
15 pass what you are thinking about in terms of simplification  
16 this year.

17          Mr. Woodworth. That is correct. That is why, in the  
18 simplification area, we do urge that you do act on that now  
19 in this bill so that we can have the simplified return next  
20 year and you are perfectly correct that it would be impossible  
21 as we see it to have a simplified return for next year unless  
22 you do pass the simplification portion in this bill now.

23          Senator Danforth. Mr. Chairman?

24          The Chairman. There were two Senators seeking  
25 recognition. Senator Roth?

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Senator Roth. The thing that I cannot understand, you keep coming in here, the Administration does, and you talk about permanent tax cuts come September. I do not understand why it is desirable in September and it is not now when you have over 7 million people unemployed.

Furthermore, I understand from some reports in the paper that what the Administration is talking about in the way of recommendations is a general outline in September and the specifics are not going to come until January of next year.

Mr. Woodworth. I think there will be plenty of specifics the 1st of October.

Senator Roth. That is four months away. We are talking about trying to put people back to work now. We had a very eloquent dissertation about the situation in the Northeast, and the longer we delay, the longer it is going to take to have the kind of impact that we want in the private sector.

I would just like to know what are the factors, what are the factors that are going to change the mind of this Administration between now and April and next June, or next September?

Why does it not make better sense, if we are going to get this economy moving, to move now?

What did the Administration base its judgment on to



1 withdraw the rebate. What were the factors, specific  
2 factors, that caused that change this last ten days?

3 Mr. Woodworth. First of all, we hoped by having this  
4 additional time that we could come up with a more reasonable  
5 bill, one which was a better analysis where the reductions  
6 need to be made, and we believe that if you provide the  
7 reductions now, the simplification aspects are likely to fall  
8 by the wayside and it will be impossible to incorporate those  
9 unless they are done at the time when there is a reduction  
10 as such.

11 You asked, what are the factors that led to the reason  
12 for not having the rebate now. I had thought that Mr. Sunley  
13 had gone through those with you, but it was, without repeating  
14 those factors, it was a relatively close decision, but the  
15 economy is definitely coming along better than we had  
16 anticipated earlier, and we are concerned about inflation.  
17 We have seen the price rises that have come along, and it is  
18 a combination of the economy coming along better and concern  
19 that we not overstimulate the economy now that has caused  
20 the Administration to rethink this proposal and come back  
21 with the idea of not having the rebates included at this  
22 time.

23 Senator Roth. Again, it has been said that the present  
24 package without the rebate provides considerable stimulus.  
25 I think it should be pointed out, insofar as continuation of

1 the temporary tax cuts are concerned, our own reports show  
2 that basically inflation last year has eaten up the effect  
3 of that something like 5 percent. You cannot see there is  
4 much stimulus by merely continuing year by year tax cuts  
5 adopted two years ago. I cannot agree that that is a  
6 stimulus.

7 Mr. Woodworth. It is our impression that tax cuts  
8 were \$14 billion. That is the continuation portion, whereas  
9 the inflation factor, I think, used up, in effect, somewhere  
10 about \$4 billion of that total.

11 Let me put it the other way around. If you do not extend  
12 the tax cut, you will have an adverse impact as far as the  
13 economy is concerned, to the extent of \$14 billion. I am  
14 not contending that that is an additional factor --

15 Senator Roth. I was not suggesting that you were,  
16 personally, but that comment was made as a part of the  
17 stimulus.

18 I am just saying that I think you have to wash a major  
19 part of that out.

20 The thing that really bothers me is that the Administra-  
21 tion is unwilling to move now in the direction that can have  
22 a significant impact on jobs within the next year. It has  
23 been estimated by the Congressional Budget Office going to  
24 the 10 percent proposal that that would create by the end of  
25 next year, that would create over 900,000 jobs in the private

1 sector. That is significant. It is a lot more significant  
2 than talking about a lot of these tax reforms. That is  
3 putting people back to work in meaningful jobs. I think that  
4 is going to be a top priority.

5 Secondly, we are just totally and completely ignoring  
6 the problems of the middle and working class by this package  
7 we are proposing to pass out. The guy who is making  
8 \$20,000, \$25,000 and \$30,000 is having tough problems because  
9 of inflation, not like a Federal Congressman and Senator  
10 getting substantial wage increases to offset that.

11 All I am saying is that the time is for action now. We  
12 do not have six months to worry about refinements and  
13 technicalities. I am all for tax reform, as you all know.  
14 The Joint Revenue Committee has the responsibility of coming  
15 up this summer with some of its own recommendations.

16 What bothers me the greatest is where is the leadership  
17 in this Congress? Why are we not moving? That is what we  
18 have got to do.

19 If the Administration is not ready to move ahead on  
20 its own right now to do something about this deplorable  
21 unemployment, then the Congress should finally show that it  
22 has initiative and leadership to do so. For that reason, I  
23 would hope that the Congress would consider some permanent  
24 tax cuts.

25 The Chairman. I will call Senator Danforth, but let me

1 submit this matter. We were scheduled to have a presentation  
2 by the people on behalf of the building trades industry  
3 to the situation in that industry and perhaps some suggestions  
4 in terms of what might be done in terms of employment in  
5 construction. That is

6 That had been scheduled for what time?

7 Mr. Stern. Originally it had been scheduled for 10:30,  
8 then it was moved to 11:00 o'clock when the Committee meeting  
9 was set up. They understood that they would have to wait  
10 until this matter was completed. I believe there is quite  
11 a group here.

12 The Chairman. I am told that they would like to make  
13 their presentation before us. I want to hear Senator  
14 Danforth after that. Can we call those people in and let  
15 them make their statement before us?

16 Senator Danforth. I just have a question on the time  
17 schedule with respect to the simplification in the change  
18 of the standard deduction.

19 When would Congress have to act on that to let the IRS  
20 have enough time?

21 Mr. Woodworth. The action would need to be completed  
22 in time so that the tax return form for next year would  
23 reflect that. The regular time for getting out the tax  
24 return form is in September and October.

25 I cannot very well say that it cannot be done later.

1 It has been done later, with difficulty.

2 In other words, it causes problems both in being sure  
3 that you have the best form available and it tends to make  
4 the return forms late in coming out.

5 Senator Danforth. There is nothing in the next week or  
6 two --

7 Mr. Woodworth. There is one aspect. If you want the  
8 standard deduction changed to be effective for a substantial  
9 part of this year, then you have to take into account that  
10 it is probably going to take about thirty days before date of  
11 enactment to take effect.

12 You have to think of it as of right now, as Mr. Shapiro  
13 says, ~~rethink~~ think right now, you need to work it, move it up  
14 from May 1st to June 1st. I agree with him on that.

15 The Chairman. Is there any objection here on the  
16 Committee to a Committee motion to modify our date to make  
17 it June 1?

18 Senator Hansen. I move it.

19 The Chairman. If there is no objection, we will modify  
20 the date to June 1.

21 Senator Danforth. Here is my problem on this whole  
22 thing. We were told that ~~the~~ economy was not making an  
23 adequate recovery and a tax stimulus was needed, and then  
24 we began the series of hearings and we heard Administration  
25 witnesses and other witnesses who told us about the need for

1 a stimulus and the form that the stimulus should have.

2 Then, in a period, really, of about twenty-four or  
3 forty-eight hours, the Administration changed its position  
4 and now we are in a position of enacting into law what the  
5 Chairman has pointed out is a substantial program, nothing  
6 like it was, but it still involves \$18 billion in 1978.

7 It seems to me that we are kind of operating in the  
8 dark here, because we do not know what the Administration's  
9 thinking is -- I do not. We do not know what the Administra-  
10 tions projections are over the next year and a half to two  
11 years or GNP and for inflation and for unemployment.

12 We really do not know the basis for the decision that  
13 has been made. We do not know what else we should be  
14 considering.

15 So it seems to me what we are being asked to do now  
16 is just go along with the Administration's change of  
17 direction, to be field runners. What I wonder, is there  
18 any reason on earth why we could not put this subject off  
19 for a week to ten days, find out what the Administration's  
20 energy proposals are, and the effect that that is going to  
21 have on the continuing state of the economy, find out what  
22 the figures that will come out, I understand from Mr.  
23 Sunley next week, will be on the Administration's projections  
24 over the next year and a half or two years for GNP unemploy-  
25 ment and inflation, and then lay down an informed judgment

1 as to what stimulus, if any, should be forthcoming as  
2 opposed to just changing direction as opposed to any other  
3 information, other than the Administration has changed its  
4 mind and we are asked to go along with it.

5 Mr. Woodworth. I agree that we will have more informa-  
6 tion available shortly. As far as the energy bill is  
7 concerned, I have some familiarity with that proposal, and  
8 I think is so far as this year is concerned, that is not  
9 going to be a major factor, insofar, if you are looking at  
10 the economy beyond that period of time. I would agree that  
11 is a very important factor to take into account. It will  
12 probably have some effect this year, but relatively a minor  
13 one.

14 So that is not a factor when you are talking about what  
15 to do this year.

16 Insofar as the other factors are concerned, of course  
17 you know, every time you can always wait and there is  
18 another series of statistics that are going to come out a  
19 little further down the line, but we believe the housing  
20 starts are up. I think the March figures we saw this morning  
21 indicate that starts shown a bigger increase than any prior  
22 period of time.

23 We believe that unemployment during the year is likely  
24 to fall belong 7 percent. In other words, I could go down  
25 through. We have a substantial amount of information.

1 Senator Danforth. I wish you would share it with us,  
2 before you come here and give us a two to three minute  
3 resume of some figures that you think are significant.

4 We were told repeatedly by Administration spokesmen, top  
5 spokesmen of the Administration, that the economy is making --  
6 I am not denigrating you -- top spokesmen of the Administra-  
7 tion came here and said the economy is making a recovery, the  
8 rate of recovery is inadequate, we need a tax stimulus to  
9 push it around. And now, with almost no explanation at all,  
10 a total reversal is called for by the Administration, and  
11 I do not understand why we cannot make a reasonable and  
12 informed judgment.

13 Maybe we should be concentrating on something else. Maybe  
14 we should continue to address ourselves, in one form or  
15 another, to the desirability of increasing consumption.  
16 Maybe we should be addressing ourselves solely to structural  
17 unemployment. Maybe we should be spending a lot more time  
18 thinking about depreciation, thinking about capital forma-  
19 tion.

20 I am not sure. But the fact of the matter is that some-  
21 thing has happened in the last week or two which has caused  
22 the Administration to fundamentally change its position, and  
23 let us find out what it is and whether or not we are going  
24 to change our position, or is our role to simply run along  
25 with the Administration and do whatever it wants to do, when



1 it wants to do it?

2 The Chairman. Let me suggest this. We are not going  
3 to be able to get Senator Danforth the information he wants  
4 this morning. He was discussing this previously, before you  
5 got here. I think we should have another meeting -- I  
6 would be glad to call one -- and try to accomodate Senator  
7 Danforth with the witnesses he wants.

8 I would like to urge at this moment that we go ahead  
9 and let the building trades people make the presentation,  
10 because that has been scheduled for some time, and some of  
11 them have other commitments, if it is all right, Senator.

12 Senator Danforth. Yes, sir. Thank you.

13 Mrs Woodworth. I will try to get for you a substantial  
14 set of data bearing on what you are asking for.

15 (Pause)

16 The Chairman. Mr. Murphy is here.

17 Mr. Murphy. Thank you, Mr. Chairman.

18 My name is Thomas F. Murphy, I am President of the  
19 Bricklayer's International Union. On my left is my  
20 Special Assistant, Mr. Merlin Taylor, a native of Louisiana,  
21 as I am a native of New York City. On my right is Joe  
22 Scheckling, President of our local union from Philadelphia,  
23 Pennsylvania, and of course, everybody knows the Honorable  
24 Bob Georgine, the President of the Building and Construction  
25 Trades.

1 I have sat through, as have you, a long morning of  
2 discussion. I was a bit bewildered, as you seemed to be,  
3 as to the outcome of what we were talking about, or you  
4 were talking about, or trying to find out. I am concerned  
5 about the unemployment situation. I heard Senator Roth talk  
6 about, and of course, the rest of you gentlemen.

7 I am not going to take the time of the Committee to talk  
8 about that. I would like your permission, Mr. Chairman, to  
9 place into the record the formal statement. There is a lot  
10 of nitty-gritty in there and statistical information, one  
11 with respect to housing, the other with respect to water  
12 projects.

13 Housing I am an expert on, as a bricklayer. That is  
14 what we live on, housing. Water projects I am a little  
15 finky about. Mr. Hoss is the President of the Heat and  
16 Asbestos Organization. He has many of his constituents here  
17 in town, as there are 3,000 delegates from the building  
18 trades throughout the United States in town now, trying to  
19 find a solution to the problem of unemployment that we are  
20 all concerned about.

21 Mr. Hoss has this delegation at a meeting now, and he  
22 asked to be excused and asked me to present it for him. I  
23 also would like permission of the Chairman and the Committee  
24 to place it into the record as the subject has to do with  
25 unemployment.

1        Having said that, may I just take a little time of the  
2 Committee and put forth a proposition which I think is a  
3 simple solution to this whole problem of unemployment, and  
4 that is in relation to the building and construction trades  
5 department.

6        As I said, President Georgine represents them, and I am  
7 speaking on their behalf before you today.

8        We have 3,000 delegates here in Washington, D.C. all  
9 crowded into the ballroom of the Washington Hilton with the  
10 main problem of the pressing solution of what do you tell  
11 your constituents back home.

12        They all "left" and came here for the purpose of  
13 saying, we have come to Washington and we have the perfect  
14 solution: do not call us, we will call you.

15        It seems to me we have always prided ourselves that  
16 the economy of this country was based primarily on the  
17 building construction trades or the building construction  
18 trades projects we could develop. Housing was one of  
19 the great ones of the last twenty-five years.

20        We had an FHA administration that not only provided  
21 housing for people but made money for the Federal government.  
22 Apparently, that is not the stimulus we are all talking  
23 about today. You make money as a public agency for the  
24 Federal government, they somehow destroy it. It was destroyed  
25 supposedly because of the so-called windfall that emanated

1 from the public housing administration, yet they built thous-  
2 ands and thousands of garden-type apartment houses. They did  
3 it overnight, practically. There was no question about the  
4 ability of the construction industry to do the same thing  
5 again to stimulate the economy.

6 I was born and raised in New York City -- I live in  
7 Maryland, now. Thank God I do, because I have been back to  
8 the lovely city of New York and I see an absolute shambles.  
9 It seems to me the very simple process of even the city of  
10 Washington, Chicago, any major city, the housing developments,  
11 they call it South Bronx, Fort Apache -- disgraceful and  
12 devastating.

13 It seems we owe a debt to the people of this country to  
14 provide decent housing for them. The simplest way to do it,  
15 you had riots here in Washington seven years ago and the same  
16 thing is there today that there was the day after the riots.  
17 That happened in the city.

18 Pledge after pledge of administrations said, we will  
19 clear this thing up. The simple solution is this. Go up  
20 the avenue, any avenue with somebody with some responsibility  
21 to say, put it there. Because what we have been dependent  
22 upon is the so-called democracy of community participation,  
23 block grants and things of this nature, so they call upon  
24 the community leaders who want a housing project but do not  
25 want it here, but want it on the other side of town.

1 Frankly, if it was not for President Franklin D.  
2 Roosevelt, nobody would be able to get to Washington, D.C.  
3 and National Airport, because when he came here as President,  
4 they had an airport in the District of Columbia that was  
5 inadequate. They said we have to put in a new airport.

6 Virginia did not want it, the District did not want it,  
7 Maryland did not want it. They finally went to the President  
8 with a map of the area and he said, put it there, and that  
9 is why we have a National Airport in Virginia. As simple as  
10 that.

11 Just imagine if he had not made that decision.

12 I am saying that the same decision can be made today  
13 by this or any other Administration by going up to the areas  
14 of this city and saying, put it there.

15 Charlie Buckley is an old-time Democratic politician  
16 and he talked about this community participation. The  
17 citizens organizations and other groups that want to  
18 participate in a democracy, he said, you cannot leave it up  
19 to those people. They will rob you blind and you will get  
20 nothing done because of the fact that everybody wants a  
21 project, but they do not want it in the community.

22 A simple solution to this whole unemployment in the  
23 building trades, and particularly the industry I represent,  
24 the bricklayers, is going up with a checkbook, buy up the  
25 area, a bulldozer behind it, tear it down, and somebody to

1 excavate it and build it up. A simple thing. It is a  
2 simple situation.

3 I say buy, build and finance. Then you will put  
4 everybody to work overnight.

5 I thank you, Mr. Chairman.

6 The Chairman. I thank you very much, sir.

7 Mr. Murphy. Do I have your permission to put these  
8 statements into the record?

9 The Chairman. Yes.

10 (The material to be furnished follows:)

11 COMMITTEE INSERT  
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1 Mr. Murphy. President Georgine may want to say something.

2 Mr. Georgine. I would be glad to answer any questions  
3 you may have with regard to anything you feel is of any  
4 importance. I do not have anything to add.

5 Mr. Murphy. Then I would like our President of our  
6 local in Philadelphia to tell you about it and give you first-  
7 hand information on what is happening to our trade.

8 Mr. Scheckling. I would like to say it is an honor and  
9 a pleasure to be here, representing my constituents of 1200  
10 people.

11 We have had unemployment of over 75 percent. That is  
12 devastating to maintain a local organization of skilled  
13 tradesman that have the skills to build America again.

14 In my area of Philadelphia, the City of Homes, there  
15 is a city that was the City of Homes -- now it is the City  
16 of Slums. There is an obligation to rebuild that city.  
17 The suburbs could not exist without a core, a hub, a city to  
18 operate from.

19 The city of Philadelphia is a first-class city and must  
20 be helped with all of the other major areas in this country  
21 that are now devastated by unemployment. My people cannot  
22 pay taxes because they are unemployed. They do not want  
23 a dole. They do not want welfare. They do not want  
24 unemployment compensation. They want jobs. You do not have  
25 to train them, they already possess the necessary skills to do

1 the job.

2 Thank you.

3 Mr. Murphy. I would like my Assistant, Mr. Taylor to  
4 tell you -- he is a former business agent of our union in  
5 New Orleans, Louisiana.

6 Mr. Taylor. Senators, again, as Mr. Scheckling says,  
7 it is a real privilege to have the opportunity to enter into  
8 the record comments and impressions with regard to our total  
9 situation. My prime responsibility as Mr. Murphy's assistant  
10 is in the area of training.

11 In all of our local unions throughout the United States,  
12 of course, we have this strong cadre of trained people, as  
13 do all of the unions of the building and construction trades,  
14 and of course, the other international unions. But recently,  
15 I had an opportunity to visit with a Minister of Housing  
16 and Reconstruction in Cairo, Egypt just two weeks ago, and  
17 we suffer, based upon what I saw there, we suffer a  
18 different kind of loss with unemployment, because people  
19 leave the skilled trades when they cannot find employment  
20 never to return.

21 There is a considerable investment in persons that have  
22 been trained, an investment by the government, by the  
23 people, and in this country of Egypt, it is really a pathetic  
24 situation, because they have actually lost the art. They  
25 have lost the cadre of people, the skilled people that actually



1 perform building and construction. The vast majority of  
2 the construction of that nation is being done by foreign  
3 firms. There is very little in the way of local skills.

4 If we were to continue over a long period of time,  
5 it is conceivable that we would lose a large percentage of  
6 our skilled people to other industries, and it would be a  
7 serious loss to this nation should we ever reach a point  
8 of emergency.

9 This was proven in World War II.

10 I think it is vital that we reactivate all of the  
11 resources we have to make certain that we put these people  
12 back to work.

13 Thank you, sir.

14 Mr. Murphy. To conclude my remarks, I am representing  
15 the Bricklayer's International Union and naturally my prime  
16 interest is in putting them back to work, but the component  
17 part of the building and construction industry is represented  
18 here by the various seventeen building trades, the bricklayers,  
19 the carpenters, the laborers, the asbestos workers, the  
20 electricians, plumbers and whatever. That represents 4  
21 million people who are in the building industry that requires  
22 some positive attention.

23 We have unemployment in every one of those trades, and  
24 certainly the skills that they have developed, the skills  
25 that are applicable, we have the government-sponsored training

1 programs. I read a little piece in the AFL-CIO News, that  
2 the laborers were granted \$650,000 for a training program  
3 by the Federal government.

4 Why are we spending \$650,000 on a training program if  
5 we do not have anyplace to put them? The bricklayers are  
6 doing the same thing, the carpenters, the iron workers, every  
7 one of the trades are receiving money from the Federal  
8 government -- for which we are very grateful. It at least  
9 gets some of us off the street, and we can put some of our  
10 constituents to work training people.

11 But if we do not have the jobs to put them to work,  
12 we are really in trouble.

13 You fear to talk to your constituents. As you people  
14 have to account to them, we have to account to them. My  
15 appearance here is based on the fact that we are a disaster  
16 area. We are an endangered species. That is the going word  
17 now because of the environmentalists and ecologists. People  
18 worry about eglets, alligators.

19 I went into a situation down in Florida where there  
20 were environmentalists concerned about the alligators and  
21 the Frank Mackerel Company was going to build any number of  
22 homes down there, but they had to dredge the swamps. Who  
23 lives in the swamps? Eglets.

24 They had an eglet in a tree. Senator, honest, there  
25 were 1500 people at a town hearing in Naples, Florida, and

1 they were concerned about the environmental quality of  
2 life for the alligator.

3 There was a tree in the middle of a project that housed  
4 an eglet. An eglet is a small eagle. They had him in a nest.  
5 In order not to disturb the nest, they moved the whole  
6 Goddamned tree.

7 Do you know how much it cost to do that? \$100,000.  
8 Could they not have sneaked up on the eglet in the middle  
9 of the night and lifted him out of the tree and kind of  
10 tippy-toed over and dropped him in another tree? Would  
11 he have been concerned?

12 Let's worry about the alligators. There was an  
13 alligator. A bricklayer was laying on the bank there and  
14 he was half asleep and he ate him up. That is not very  
15 friendly.

16 The Chairman. I played on the golf course you are  
17 talking about and there was an alligator so big on the tee  
18 that I could not hit the ball off the tee. I had to find  
19 my way around that big alligator.

20 They told me that the environmentalists had won so  
21 many victories in that area that they could not move the  
22 alligator, they could not do anything with him. It took  
23 them almost a month to get somebody to go out there and  
24 lasso the alligator and haul him away from there.

25 In Louisiana awhile back, there were complaints about

1 neutria. They multiplied so rapidly they ate all the  
2 swamp grass.

3 About that time, somebody made us quit hunting alliga-  
4 tors. The next thing you know, instead of being eaten  
5 up by the neutria, now the alligators are eating all of the  
6 neutria and the alligators have taken over the whole place.

7 We used to call them damned neutria. We had more damned  
8 neutria than the whole wide world put together. Now we  
9 have more alligators than the whole wide world put together.

10 Yet, when you try to go forward and put people to work,  
11 you run into those kinds of concerns. Some people do not  
12 have the same concern about a working man. They want  
13 to go out and build a home. In the area that you are  
14 talking about, any house they build they can sell immediately.

15 You have workers who would like to build homes.

16 Mr. Murphy. It would not cost the government a nickel.

17 It seems to me the simple solution is a direct solution.  
18 Never mind this community participation, block grants. I  
19 think it is a conspiracy to keep people from doing something.  
20 We asked too many people. Everybody wants to get into the  
21 act, so to speak. Nothing is done.

22 Somebody has to go up and down the streets of America  
23 and pick out the areas and say there we are going to put  
24 the projects. That is as simple as I am going to make it.

25 If we buy, build and finance it, we will have no problem

1 about this unemployment situation we are talking about in  
2 the building trades. That is what I came here to tell you,  
3 sir.

4 I appreciate your listening to me.

5 Senator Dole. The same is true in your statement on  
6 water projects?

7 Mr. Murphy. Yes, sir. The snails in Tennessee -- that  
8 stopped a \$90 million dam from going ahead which was a week  
9 from completion and now it is all dead.

10 These are things that when you read them in the paper,  
11 you think that you are losing your mind.

12 The Audobon Society was against the project for the  
13 development corporation on Micro Island. They had 13,000  
14 acres of refuge for birds and wanted another 10,023 acres  
15 of refuge. They already had 13,000 that had been given them.

16 I am not here to defend the corporation. We even had  
17 the whole community, the old retired men, very wealthy  
18 people, they were supporting our efforts to get this project  
19 moving. They came up with the country club coats on them,  
20 the red seal and all of that.

21 I am not ridiculing them, sir. I am just telling you  
22 what the interest in that community was to provide employment  
23 in the housing that they could sell immediately like that.

24 Yet we have these goofy environmentalists that come  
25 here. Thank you, sir.

1           The Chairman. Are there any further questions,  
2 gentlemen?

3           Senator Roth. You were here during the earlier discus-  
4 sions and one of the points of controversy is whether we  
5 should move now in the way of a permanent tax cut or if we  
6 should wait until some time this fall.

7           It is my position that one way that we can help the  
8 building trades union is to begin getting homes built as  
9 one part of the package. The only way you are going to do  
10 that is to let some people in the private sector keep some  
11 of their money so that they can afford to buy them.

12           The guy that is making \$20,000, \$25,000 or \$30,000 cannot  
13 afford to buy a home today because of inflation. The house  
14 that cost \$30,000 or \$40,000 a few years ago now costs  
15 \$60,000, \$70,000 or higher. We are told by the Administra-  
16 tion that we should be patient. We should wait until next  
17 fall.

18           I am saying we ought to have a tax cut now so we  
19 can put people back to work as soon as possible. I wonder  
20 if you would care to comment.

21           Mr. Murphy. I would, sir, but I am not so heavy on the  
22 tax cut. If you are out of work, what tax are you  
23 worrying about? Nobody is paying any taxes anyway.

24           Senator Roth. Do you not want houses built?

25           Mr. Murphy. That is not going to put them to work.

1 We have to provide an incentive, FHA, something of that  
2 nature. We have to make the money available. Never mind  
3 the interest rate. People will borrow money at whatever  
4 the interest rate is as long as they can get the money.  
5 That is the point, get the money.

6 How do you get that? Make it available through an  
7 administration like FHA.

8 The reason I say that, we had a very prominent builder  
9 here, a close friend of mine, Morris Cafritz. He was hauled  
10 before one of these Senate Committees investigating the  
11 so-called windfall business. He said, gentlemen, I borrowed  
12 \$5 million from the Public Housing Administration through  
13 the arrangements with the bank at whatever the rate of  
14 interest.

15 I built the project for \$4 million -- these are  
16 hypothetical figures. Obviously, the thought is that I have  
17 a \$1 million windfall. He says, I paid you back \$5 million  
18 and I paid you at the rate of interest prescribed in the  
19 law, and so what is your beef?

20 They said, you are excused.

21 The point I am making, make the money available  
22 through some administration. That means you do not worry  
23 about the nitty-gritty, so-called windfalls. They would  
24 still make money, even though there was some windfall.

25 It seems to me if we make the money available through

1 some direct business through the Federal government or  
2 the Administration, the banks give it to those people, they  
3 will put the people to work.

4 Tax cuts, you know?

5 Senator Roth. You have to have somebody to buy those  
6 houses.

7 Mr. Murphy. Yes, but you have to put them to work.  
8 Then they will buy them.

9 Mr. Georgine. Senator, we would favor immediate  
10 tax relief rather than, of course, the rebate that has been  
11 talked about. We do not think that is the proper thing to  
12 do to stimulate the economy.

13 In direct answer to your question, we do favor tax  
14 relief and we think the sooner the better. We would like  
15 to see the Administration move on it as quickly as possible.

16 I might add -- I have to run because I do have to be  
17 at the White House in about twenty minutes -- I might add  
18 that Senator Long, you may recall a couple of years back  
19 that you and I talked about the possibility of giving a  
20 tax credit to people who would buy homes in a given period  
21 of time, and speaking of the houses that Tom was speaking of  
22 a little earlier, it was in that way that we really cleared  
23 up all of those condominiums and apartments that were  
24 laying there in south Florida because of that tax incentive  
25 that you allowed at that particular time that really did clear



1 up the inventory and did a great service and allowed us to  
2 build more houses because of that.

3 Senator Roth. Thank you.

4 Mr. Murphy. One last comment.

5 Mentioning condominiums, all of the housing projects  
6 built by the Public Housing Administration and FHA, that made  
7 the money available and gave the stimulus to the building  
8 industry, those houses are now being turned into condomin-  
9 iums, everybody is taking a profit out of the damned things.

10 Now it has been turned over to the condominiums. The  
11 people who have been living there for years and years are  
12 now forced to buy and pay for it a thousand times. That is  
13 not fair.

14 The Chairman. Mr. Moynihan?

15 Senator Moynihan. Mr. Chairman and Mr. Murphy, it is  
16 good to see a New Yorker here -- and Bob, to see you, sir.  
17 I do not want to get too much involved in our internal  
18 affairs, but you do know, I am sure, the Senate, by  
19 overwhelming vote, passed a Public Works Employment Act,  
20 a \$4 billion Public Works Employment Act. I had the  
21 honor to manage it on the Floor. We are stuck in conference  
22 with the House. We are meeting again this afternoon.

23 We want to get that \$4 billion out in the building  
24 trades. We hope you might be paying a visit on the other  
25 side.

1 Mr. Murphy. We would be delighted. I will tell my  
2 staff about the egllet. Maybe that will arouse them.

3 Senator Moynihan. Thank you, sir.

4 Mr. Georgine. We did have a delegation over there this  
5 morning to address themselves to that very point. I might  
6 take this opportunity to compliment you. You did a magnifi-  
7 cent job and it was something that was well-needed. I think  
8 quite obviously by the small amount of money that was allocated  
9 last year, we showed that you could get public works moving  
10 and it would inject a stimulus into the economy.

11 I think it is one of the greatest things that has  
12 happened.

13 The Chairman. I would like the record to show as far  
14 as this Committee is concerned, we not only have been willing  
15 to do anything that we can get any Administration to ask us  
16 to do to move on housing and to try to put people to work.  
17 We have gone repeatedly beyond what they were willing to  
18 recommend.

19 One of our difficulties has been to try to get the  
20 Administration to do something even when we pass a law and  
21 tell them to do it. It is hard to make a program work, Mr.  
22 Georgine, to try to get somebody in a home when you have  
23 the Administration resisting it.

24 Then when they put their badmouth on it and it becomes  
25 law, they do everything they can to keep it from working.

1 That is sort of hard to do.

2 If they would get behind something of the sort that  
3 you are advocating -- the Majority on this Committee has  
4 consistently favored doing anything we can to put your  
5 people to work. I am in favor of building more highways  
6 to expand the capacity right now. You have these magnifi-  
7 cent interstate highways designed twenty years ago with  
8 traffic moving in rush hour a mile and a half an hour on  
9 highways that was supposed to be moving traffic at 45 miles  
10 an hour.

11 You have railways in horrible shape. They ought to be  
12 put in modern condition so they can be used to move the energy  
13 around and to move people and materials around. That needs  
14 to be done.

15 You have people who need homes, workers who want to build  
16 homes and do whatever it takes to get the homes under  
17 construction. We just have a lot that needs to be done.

18 I do not think that this Committee can fault you in this  
19 respect. We want to help.

20 Mr. Murphy. We know that, Senator, and appreciate that  
21 very much.

22 One last comment about Senator Moynihan's \$4 billion  
23 public works program. This is what the stimulus is needed  
24 to generate.

25 Me, I do not get so uptight about highways because I am

1 a bricklayer. I will go along with the idea that I went  
2 through the WPA period. That is what saved this country from  
3 almost a revolution with a gigantic public works program  
4 and down through history when there was unemployment in the  
5 area, the King built a new palace, the Archbishop built a  
6 new cathedral, the Pope built an extension to the Vatican.

7         These were public works in the sense that we are  
8 talking about today. This is the type of public works I  
9 want. Even if we have to build a new White House, let's  
10 put somebody to work.

11         Thank you, Mr. Chairman.

12         The Chairman. Thank you very much, gentlemen.

13         The Committee will stand adjourned subject to the call  
14 of the Chair.

15         (Thereupon, at 12:30 p.m. the Committee adjourned to  
16 reconvene subject to the call of the Chair.)

17                     - - -