

TASCIONE:amt

EXECUTIVE SESSION

- - -
THURSDAY, MARCH 2, 1978
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United States Senate,
Committee on Finance,
Washington, D.C.

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

Present: Senators Long, Ribicoff, Byrd, Gravel, Haskell, Matsunaga, Moynihan, Curtis, Hansen, Dole, Roth and Danforth.

The Chairman. The Committee will come to order.

I suppose that one reason that we have so few Senators present is that there are other committees meeting at this time that have some crucial votes that are occurring in those committees.

I, for one, do not feel that we can proceed and do business in the absence of at least one Republican member so I suggest, in the absence of a quorum, the Clerk will call the roll.

Mr. Stern. Mr. Talmadge?

(No response)

Mr. Stern. Mr. Ribicoff?

(No response)

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Mr. Stern. Mr. Byrd?

Senator Byrd. Here.

Mr. Stern. Mr. Nelson?

(No response)

Mr. Stern. Mr. Gravel?

Senator Gravel. Here.

Mr. Stern. Mr. Bentsen?

(No response)

Mr. Stern. Mr. Hathaway?

(No response)

Mr. Stern. Mr. Haskell?

(No response)

Mr. Stern. Mr. Matsunaga?

(No response)

Mr. Stern. Mr. Moynihan?

(No response)

Mr. Stern. Mr. Curtis?

(No response)

Mr. Stern. Mr. Hansen?

(No response)

Mr. Stern. Mr. Dole?

(No response)

Mr. Stern. Mr. Packwood?

(No response)

Mr. Stern. Mr. Roth?

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1 (No response)

2 Mr. Stern. Mr. Laxalt?

3 (No response)

4 Mr. Stern. Mr. Danforth?

5 Senator Danforth. Here.

6 Mr. Stern. Mr. Chairman?

7 The Chairman. Here.

8 There are four present and fourteen absent. If we had
9 a prospect of obtaining a quorum sometime soon, I would stay
10 here and try to get a quorum. But I am afraid we are not
11 going to get it. I notice that we have the majority of
12 our Democrats who are not going to be here because most of
13 them are attending meetings of other committees.

14 I suggest that the staff obtain from the offices of
15 the Senators who want to make the information available that
16 the central business that the various Senators were engaged,
17 in the business at the time. Under the circumstances, I do
18 not know what we can do.

19 Senator Gravel. I know I have one item and I think
20 Senator Moynihan may have an item. I have six proxies involved
21 in the issue.

22 The Chairman. You cannot vote those six proxies without
23 a quorum.

24 Senator Gravel. I realize that. The point I am making,
25 Mr. Chairman, is there is interest in the subject. As you

1 pointed out, there are some comments. I think those
2 conflicts, as scheduled, may resolve themselves in the course
3 of the morning. If you would go ahead to deal with the two
4 subject matters and a full quorum were present, then the
5 votes could be legitimized.

6 The Chairman. Why do we not talk about it and see?

7 Senator Gravel. We are getting members showing up, I
8 think, in the course of the morning. I know Senator Dole
9 is going to be here later on.

10 The Chairman. Meanwhile, I will instruct the staff to
11 send word to all Senators. We do not have a Sergeant-at-
12 Arms to arrest Senators, but I will instruct staff to send
13 word to Senators that we are trying to call the absentees
14 to try to muster a quorum here.

15 Senator Gravel. Title XX is one of the most flexible
16 Federal programs administered at the state level. It allows
17 those states to develop a mix of programs to meet the
18 individual needs of its citizens.

19 A majority of Federal money in 1976 was spent on health
20 related services, counselling, child care, child day care,
21 protective services for children, and case management services.
22 In 1972, the Congress imposed a \$2.5 billion ceiling on the
23 Federal share of social services costs due to the rapidly
24 rising costs.

25 I think we all recall that runaway situation. At that

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1 time, six states were allocated their ceiling share and
2 have received no increase. In 1977, 19 states were at the
3 ceiling and in 1978, HEW estimates 35 states will reach their
4 ceiling.

5 The Consumer Price Index has increased 34.9 percent
6 since the ceiling was imposed. The \$2.5 billion ceiling
7 purchases only \$7 billion in '77 dollars.

8 The Congress rewrote the program making more demands on
9 the state, broadening the population to be served, but no
10 intention of funds was provided. In 1976, the Congress
11 temporarily increased the ceiling to \$200 million for day
12 care services.

13 Legislation is pending to make this increase permanent.
14 However, the purchasing power of the original \$2.5 billion
15 has been nearly cut in half by a recession and has also
16 created a greater need for social services.

17 Since the allocation formula is based on populations in
18 large urban areas, experiencing loss of population have reduced
19 allocations. Yet, their Title XX population is not decreased.

20 A permanent \$200 million increase is to allow states a
21 modest expansion of social service programs and enable states
22 to undertake some measure of longrange planning.

23 What I would hope, Mr. Chairman, and move, is that we
24 would have a permanent increase of \$200 million in Title XX
25 funds.

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1 The Chairman. I think that the amendment has bipartisan
2 support. There is a good case for increasing the amount of
3 funds available under Title XX. When we are able to muster
4 a quorum --

5 Senator Gravel. How close are we?

6 Mr. Stern. You need ten for a quorum, Senator.

7 Senator Gravel. How many have shown up so far?

8 Mr. Stern. You have seven Senators present now.

9 The Chairman. Three more Senators.

10 At such time as we are able to muster a quorum --

11 Senator Gravel. I have a problem with the Public Works
12 Committee. The section that I chair there on the water
13 resources budget --

14 The Chairman. Why do we not talk about the things we
15 want to do and try to set a time to come back here and we
16 will have a quorum so we can talk about what we would like
17 to vote on, then when we get a quorum in here, we can vote
18 on it, if we can get it.

19 I think you have made your case, Senator, and we could
20 turn to other matters that somebody might want to discuss
21 and set a time when we hope to get a quorum in here and
22 come back here and hope that we have one at that point.

23 Why do we not set a target date and say we will try to
24 get everybody in here at 11:30. If we do not get a quorum
25 at 11:30, we will have to give up and come back tomorrow.

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1 Meanwhile, we can talk about some other matters if you
2 like. We will vote on this when we have a quorum.

3 Senator Gravel. I will be back here at 11:30 and will
4 try to get some other Senators at 11:30.

5 The Chairman. We will try to notify all Senators. We
6 will make a final attempt to have a quorum in here at 11:30
7 if we can.

8 If it is all right, we will just vote at this time on
9 this matter, we will vote on it and go ahead to the next
10 subject.

11 What is next?

12 Mr. Stern. Basically, you have gone through the expendi-
13 ture side of the work in the Budget Committee and were about
14 to begin on the revenue side. You will find a long sheet
15 in front of you and you should have the number 2 in a circle
16 on the top of it.

17 The Chairman. How about explaining these things for
18 those present so we will know what we are voting on?

19 Mr. Stern. This chart was prepared by the staff at the
20 Committee's direction to show alternative proposals for
21 Committee consideration, alternatives to what is in the
22 President's budget.

23 Mr. Wetzler. Should I go down the chart and explain
24 the items?

25 The Chairman. Yes.

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1 Mr. Wetzler. The first item involves the extension of
2 tax cuts that have been enacted in the last several years and
3 are scheduled to expire at the end of 1978. These are the
4 so-called general tax credits, which is \$35 per person, or
5 2 percent of the first \$9,000 of income.

6 The small business tax deductions and increase in the
7 corporate surtax exemption to \$60,000. The earned income
8 credit. Those three.

9 Senator Hansen. Do we have copies of that? I would
10 like to follow along there.

11 Mr. Wetzler. On page number 2, the sheet in front of
12 you, does not break them down, but this is the extension of
13 the expiring provisions which is listed under the Administra-
14 tion proposal of \$8.3 billion. The Administration budget
15 proposed to extend the earned income credit, the small
16 business tax cuts and the general tax credit, and that would
17 amount to \$8.3 billion in fiscal year 1979.

18 The other important tax cut that is expiring at the
19 end of 1978 is the new jobs tax credit that you enacted last
20 year in the tax reduction act, and the Administration does
21 not propose to extend it, but if you did propose to extend
22 it for another year, that would be \$700 million in fiscal
23 year 1979.

24 If you wanted to allow yourselves room to extend the
25 jobs credit as well as the other three, you would want to have

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1 \$9 billion.

2 I think Mike has just exhibited a chart outlining those
3 temporary provisions that are expiring.

4 The second item is the Administration's proposals for
5 new tax reductions which is a net of \$25.1 billion. This is
6 \$25 billion of tax cuts and \$100 million of outlays.

7 The outlays that the Administration has proposed,
8 subsidy for taxable bonds.

9 The second item on the chart is the Administration's
10 proposal for new tax cuts, which is a net for them of \$25
11 billion. They are proposing, in addition, \$100 billion of
12 outlays for the taxable bond subsidy, a proposal to give
13 state and local governments the option of issuing taxable
14 bonds and subsidizing them, initially at a 35 percent rate
15 and then subsequently at a 40 percent rate.

16 If the Committee wants to give itself the room to
17 consider this proposal when it gets the tax reform, you would
18 want to improve the outlays for the taxable bond option which
19 are \$100 million.

20 The Chairman. Let me suggest, then, that you offer us
21 the opportunity of voting on that, then, when we have our
22 quorum here. That is one that we ought to vote on.

23 Mr. Wetzler. The next item is the tuition credit, which
24 the Administration does not propose, but the --

25 The Chairman. We voted on that. That ought to be in

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1 there. This Committee recommended it.

2 Mr. Wetzler. The next item involves three different
3 things. The Committee has already pointed out the technical
4 amendments bill, including the carryover basis. The tax
5 treatment extensions act, which extends a number of provisions
6 that were changed by the 1976 Tax Reform Act, the main one
7 being the exclusion for income earned abroad, Section 911.

8 Those two provisions are \$400 million. In addition,
9 the Committee discussed, at the last meeting, the possibility
10 of adding another \$100 million to leave room for miscellaneous
11 bills that come up from time to time during the year. So
12 the thought was that you might want to allow \$500 million for
13 both passage of the two bills that the Committee has already
14 reported and \$100 million for miscellaneous things that may
15 come up.

16 The next item is the energy bill. There, the Adminis-
17 tration's proposals, which are in its budget, the tax provisions
18 and also outlays are related to the taxes, such as the rebates
19 of the crude oil equalization tax or the rebate of the gas
20 guzzler tax. The Administration's proposal would be a net
21 increase in the deficit of \$0.7 billion.

22 The \$5.1 billion is just exactly this: In a past
23 bill, the thought was that the Committee would simply not want
24 to give up any ground in the budget resolution but simply
25 bring to conference the exact figure that was in the Senate

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1 for fiscal '79, which is a revenue loss of \$5.1 billion.

2 Those items add up -- I am sorry. There is one other
3 item that we omitted from the list inadvertently which is
4 in the President's Budget, which is a provision to reduce
5 the air line ticket tax by 2 percent and provide that that
6 money be contributed to the air line companies for purchase
7 of low noise airplanes. That would be \$300 million in
8 fiscal year 1979.

9 The Chairman. Let me ask you now, would that just be
10 a matter of us reducing the tax by that amount so they can
11 keep the money? How would that work?

12 Mr. Wetzler. I think the Administration's proposal
13 reduces the tax by an amount which, during the first fiscal
14 year, fiscal '79, was \$300 million and provides that that
15 be a fee instead of implementing a fee imposed by the air-
16 lines. There are a number of different ways that you could
17 do that. It would all involve a revenue reduction of some
18 sort.

19 The Chairman. Would the airlines themselves impose the
20 fee on themselves? How would they do that?

21 Mr. Wetzler. I am not sure of the exact details of
22 their proposal. I understand it is a fee that goes into a
23 fund that is used for retrofitting airplanes.

24 The Chairman. I do not want to cooperate with these
25 schemes that they are trying to generate over there on the

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1 House side, where they try to put taxes on and call them
2 something else. We just got through with that fight over
3 the black lung bill.

4 What this is all about, as I understand it, is an
5 effort to bypass the tax-writing committee some things that
6 are going to cost money. For example, you go to the Labor
7 Committee which, for a very good reason, is very much a
8 labor-oriented committee, and say, look, let us put a big
9 tax on coal to pay these benefits. And the Committee is
10 very sympathetic and, oriented towards labor, will vote
11 for it, sight unseen, for whatever tax they would want to put
12 on coal just to pay benefits to workers.

13 In fairness, that type of thing would be more appropri-
14 ately voted on by a committee which is better balanced to
15 look at the overall problems of taxing people. This
16 committee has good labor representation but also has repre-
17 sentation from business and whatever.

18 That being the case, the tax writing committee ought to
19 do that. You do not make a revenue bill something other
20 than a revenue bill just by calling it something else.

21 That rule does not say that the tax writing committees
22 have jurisdiction on tax bills. They just have jurisdiction
23 over revenue bills. Whether you want to call it a fee or a
24 tax or whether you want to call it a dues, or whatever, one
25 of these bills arranged a great amount of income for government

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1 is a revenue bill.

2 I do not know what they are going to do over there on
3 the House side. More and more they are going along with
4 this thing of trying to levy large amounts of taxes or
5 revenues, revenue collections, on people and trying to call
6 it something else, feeling that they could put more taxes on
7 people by calling it something other than taxes.

8 It seems to me that we ought to insist that we have
9 jurisdiction over this. It is all right with me to give them
10 a credit or to do this kind of thing. They can do it by way
11 of a tax credit or by way of appropriations. They can do it
12 anyway they want to, as far as I am concerned, but I am
13 opposed to calling a tax by a different name for trying to
14 bypass the jurisdiction of the appropriate Committee.

15 If that is what is involved here, I do not think we
16 ought to do it. Is that what the effect of it would be over
17 on the House side?

18 Mr. Wetzler. Ways and Means is keeping jurisdiction over
19 the whole program, however they do it. I think that this
20 Committee would clearly have jurisdiction over any proposal
21 to change the name of the airline ticket tax.

22 The Chairman. If we just make it a tax credit against
23 that tax for that purpose, there is no problem, is there?

24 Mr. Wetzler. I think there are a number of different
25 ways that the Committee could do it, including a tax credit



1 approach.

2 The Chairman. If we use the tax credit approach, there
3 is no problem whatever that I can see, is there?

4 Mr. Wetzler. I do not think that there is any problem
5 in the House. I think the Ways and Means Committee has
6 asserted jurisdiction and it is clearly recognized that they
7 have jurisdiction over the whole matter, so I do not think
8 that that is a problem.

9 The Chairman. What is the budget problem? Why is it a
10 problem for the budget?

11 Mr. Wetzler. You will, regardless of how you do this,
12 if you decide to do it, you would have to reduce the ticket
13 tax or give a credit against it, but in some way reduce
14 receipts by the \$300 million which we forgot to put on the
15 chart; so that you would, if you wanted to add all of these
16 items, you would not need 40.8, you would need 41.1.

17 We would request the Budget Committee give you a little
18 more room so you would have room to consider whether you want
19 to do this reduction in the ticket tax.

20 The Chairman. My thought is that a simple way to do it
21 is not levy a new tax, just say that one quarter of the
22 ticket tax money will go to a different fund, will go to a
23 fund towards noise pollution.

24 Mr. Wetzler. You would put the money into a trust fund
25 and require that that money be put into a trust fund through

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1 the normal authorizations and appropriations process. The
2 spending would be under the jurisdiction of a different
3 committee. The airlines have not suggested that that be the
4 route chosen. They would rather that the program not go
5 through authorization and appropriation.

6 You could give a credit against the ticket tax. I
7 think the problem there may be the particular airlines may
8 be spending money on low-noise airplanes, may not exactly
9 be proportional to the amount that each one collects in
10 ticket tax.

11 When this bill comes before the committee, you would want
12 to consider a wide range of options. Each of the options
13 would have the effect of reducing receipts by the same \$300
14 million.

15 The Chairman. Put that in there.

16 Senator Byrd. Let me ask a question, if I may, Mr.
17 Chairman.

18 The tax now is paid by the passenger, is it not?

19 Mr. Wetzler. It is imposed on the passenger.

20 Senator Byrd. It is imposed on the passenger.

21 Under the new proposal, it would still be imposed on
22 the passenger but, instead of going into the general treasury
23 it would go into a fund to be utilized by the airlines, is
24 that correct?

25 Mr. Wetzler. That is right.

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1 Senator Byrd. It would not be a reduction on the
2 passenger?

3 Mr. Wetzler. That is correct. It would be a reduction
4 in the receipts.

5 Senator Byrd. To the Treasury?

6 Mr. Wetzler. To the Treasury.

7 Senator Byrd. Thank you.

8 The Chairman. All right.

9 What is the next item?

10 Mr. Wetzler. Of the items that we have listed, they
11 add up now to \$41.1 billion, when you add in the reduction
12 in the airline ticket tax. Then various members of the
13 Committee have suggested other items that the Committee might
14 want to leave room for in its budget request.

15 Senator Roth. Mr. Chairman, before we get to some of
16 the additional measures, could I ask a question or two?

17 Under the Administration's proposal that we had incor-
18 porated here as a tax cut, you have the loss of \$25.1 billion.

19 To arrive at that particular figure, we are accepting
20 that certain increases in revenue will come about that have
21 been proposed by the Administration, or comparable proposals.
22 Is that not correct?

23 The Chairman. Correct.

24 Mr. Stern. Senator Roth, if you arrive at a number, all
25 you are arriving at is a net number. You are not saying how

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1 you are getting at it. It does not represent any kind of
2 commitment to any particular level of tax increase.

3 Senator Roth. Nevertheless, it does recognize that if
4 we do not accept those we have to find some substitutes.

5 Mr. Stern. Or have a tax cut.

6 Senator Roth. That is correct.

7 One further question. We have this figure of \$5.1
8 billion loss of revenue for energy. I guess, Mr. Chairman,
9 I do not know what the status of that conference is, or
10 whether or not that would happen, but let me ask you this.
11 If, for some reason, that energy loss did not come about,--
12 I have heard rumors that maybe the equalization tax would
13 not be accepted. I do not know if that is a fact or not --
14 would we have flexibility with that loss of revenue?

15 Mr. Wetzler. The money is completely fungible. All
16 you need to send to the Budget Committee is your bottom line
17 figure. You need the breakdown to sort of figure out how to
18 get there. If you do not spend money on energy provisions,
19 you have it available -- if it is in the budget resolution,
20 you have it available for anything you want.

21 Senator Roth. The only point I am trying to raise
22 here, Mr. Chairman, is how much flexibility do we have if
23 we have the \$40.8 and we do not use all of that \$5.1 on
24 energy, could we use that in the event to offset some of
25 the proposed increases of the Administration which we may or

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1 may not want to buy?

2 My understanding is that we would have that right, so
3 that would provide that flexibility.

4 I think, in all candor, there are some very serious
5 questions on some of the Administration's proposals. The
6 increases -- I think they are a rip-off on a middle class
7 who takes deductions and I think they are very deliberately
8 designed that way, so I have some problems with them.

9 As you know, I do not feel that the proposed Adminis-
10 tration's tax cut for the American people to be adequate.
11 It is very much concentrated on the low end and I think they
12 need relief, but I am very seriously concerned about the
13 Administration's proposals from two standpoints.

14 One, it does nothing for middle America. It is another
15 rip-off on the working people and I do not consider those
16 that earn \$20,000, \$25,000 or \$30,000 wealthy. I have yet
17 to see a Federal employee who thinks they are wealthy as to
18 their own compensation.

19 More importantly, I am concerned about the status of
20 the economy. Maybe the Administration is right and we are
21 moving up, and I hope they are right.

22 There are a lot of economists who feel that, come this
23 fall, we could be in deep trouble, deep problems. I would
24 like to echo once more something that I have said before.
25 I think that this Committee, and I think this Congress, has

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1 an opportunity to try to bring some punch into the economy,
2 to try to get the country moving forward, to try to get
3 meaningful jobs in the private sector, and I think that that
4 only can be accomplished by an across-the-board tax cut that
5 does not only benefit one group, those on the lower end of
6 the economic scale, but those in the middle as well.

7 I do not think we, as some do, that we can have our
8 cake and eat it too. What President Kennedy said when he
9 proposed his general tax reduction, sure, he might accomplish
10 some of the same benefits by increased spending, but he felt
11 that the better way to do it was to let the private economy,
12 the private sector, show what we can do.

13 For that reason, I think it is very important we give
14 this opportunity to the private sector and have included a
15 proposal of an additional \$10 billion tax cuts for individuals.

16 I would like to pass out, if I could at this time, to
17 the members of this Committee and to anybody else who is
18 interested, to show why larger tax cuts are needed. The
19 President's claim, in announcing his program, that 96 percent
20 of all taxpayers will benefit from his tax cut proposal and
21 the fact is that that is simply not true.

22 It fails to take into account the impact of inflation
23 on the tax system. Therefore, it has greatly over-estimated
24 the impact of the proposed tax cuts.
25

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1 I think it is important to recognize that, after calcu-
 2 lating the effects of inflation and the Social Security tax
 3 increases, every family of four now earning more than \$17,250
 4 if they stay even on purchasing power, will be paying higher
 5 taxes under the President's proposal.

6 By 1980, every family of four now earning \$10,000 or
 7 more will be paying higher taxes under the President's proposal.

8 I might point out that this was an Administration which
 9 came in on the premise that the working man and woman is not
 10 going to pay higher taxes. We have a chart in this memoran-
 11 dum that has just been handed out to you that shows the net
 12 impact of the President's tax proposal on a family of four
 13 at various income levels whose income merely keeps pace --
 14 I emphasize that -- whose income merely keeps pace with the
 15 Administration's own inflation estimates for the next several
 16 years.

17 There is a typographical error.--5.9 -- these are the
 18 inflation estimates of the Administration. 5.9 in '78,
 19 6.1 in '79, 5.7 in 1980, 5.2 in 1981.

20 Senator Hansen. Where is the typo?

21 Senator Roth. The year. It should be 1979, '78, '79,
 22 '80.

23 Senator Hansen. That is what I have.

24 Senator Roth. Maybe they corrected it. Mine has not
 25 been corrected.

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1 Senator Hansen. 5.9 in '78, is that right?

2 Senator Roth. 6.1 in '79; 5.7, '80; 5.2 in '81.

3 The figures below that show the tax cuts and tax
4 increases that result from a person who keeps cost of
5 living, secures cost of living, increases.

6 I would like to point out, in 1979, under the Carter
7 tax program, the guy who gets \$17,500 would be paying an
8 additional \$14 tax, if he has a cost of living increase.
9 That will go up to \$92 in '80; \$257 in 1981.

10 The Department of Labor has come out with figures that
11 a family of four have a minimal standard of living if they
12 are in the city, so we are not talking about wealthy people
13 here who are going to suffer a tax increase.

14 Senator Curtis. May I ask a question here?

15 Senator Roth. Yes.

16 Senator Curtis. This second chart here, does that
17 include Social Security taxes?

18 Senator Roth. All we are talking about now is the impact
19 of the Social Security taxes, the impact of inflation. If a
20 person is fortunate enough to get a cost-of-living increase
21 to keep his purchasing power up.

22 Senator Curtis. You are on the first chart?

23 Senator Roth. Yes.

24 Senator Curtis. What does not include Social Security.

25 Senator Roth. It does include Social Security, yes. It

1 does not include the impact of energy taxes, if we should
2 agree to what the Administration or the House is pushing.

3 These figures are conservative as far as the impact on
4 working America is concerned.

5 So, what I am saying is that middle income taxpayers
6 face substantial tax increases over the next three years
7 under the President's tax proposal, and it is misleading,
8 in my judgment, to claim that they will be paying lower
9 taxes.

10 The chart below the one column that you are making
11 reference to compares the Administration's tax cut claims
12 with the actual tax increases that an individual will suffer
13 if he gets the cost of living increase.

14 For example, your Federal employees. As the chart shows,
15 the Administration has over-estimated the impact of its tax
16 cuts for virtually every income level. A guy who is making
17 \$17,000, \$17,500, will not be getting a tax-cut of \$186 but
18 will have a tax increase of \$14. At \$20,000, he will not
19 be getting a tax cut of \$150; it will be \$186.

20 Go to the guy who is making \$35,000. The Administration
21 says here there is a tax increase of \$24, but it will be
22 \$549.

23 Mr. Chairman, this is not the place and time to propose
24 my specific tax plan, but what I am concerned about is that
25 I see our economy in trouble and I see the opportunity for this

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1 Committee and for this Congress to be the policy-making
2 body, that the framers of our Constitution intended it to be.
3 What bothers me about the President's proposal is that it is
4 not even putting back into the economy the money it is taking
5 out through higher taxes. It will be something substantially
6 less -- and it will be very substantially less, if the
7 energy taxes go through.

8 So we face the problem that we could have a stagnating
9 economy this fall that is not going to create the jobs that
10 all of us want. More important -- not more important, but
11 equally important is the fact that middle America is facing
12 some very substantial tax increases down the road, and I
13 think that it is time, at this stage, at least, that we give
14 ourselves the flexibility to take what steps to be passed
15 down the road rather than cut ourselves out.

16 For that reason, we have proposed that we increase the
17 room for an additional tax cut of \$10 billion. I would make
18 that in the form of a motion, Mr. Chairman.

19 Senator Byrd. Mr. Chairman, may I ask a question of the
20 staff for factual information?

21 As I understand it, on page 52, the President's proposal
22 is to reduce individual income taxes by \$22.5 billion.

23 Mr. Wetzer. That is right.

24 Senator Byrd. Suppose in place of the President's
25 program, if a proposal to reduce each income tax bracket

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1 across-the-board by 10 percent were made, am I correct in
2 my belief that for fiscal year 1979, that would be virtually
3 the identical figure that the President envisions from the
4 reduction of personal income tax?

5 Mr. Wetzler. That is right. It would be very close.

6 Senator Byrd. So, without changing any figures from the
7 sheet, the book that we have here, there could be an across-
8 the-board 10 percent tax reduction without changing any of
9 the figures?

10 Mr. Wetzler. Yes, approximately.

11 Senator Byrd. Approximately yes. Thank you.

12 The Chairman. Senator Moynihan?

13 Senator Moynihan. Mr. Chairman, I would like to respond
14 in a colleague way to Senator Roth to say, first of all, that
15 I think this Committee has shown that it shares his concern
16 with the burden of taxes on working Americans. It fought
17 hard for one Roth amendment in the last session and it is
18 going to do it, and it has already adopted the Roth amendment
19 in the Committee stage and the report was filed just two
20 days ago, and we will pass that bill so that it will be law.
21 It will be the Roth bill.

22 That is a major reduction in taxation for middle
23 Americans, and they know it. That is why some of the papers
24 were howling so, it was outrageous.

25 In any issue that involves economic judgment, all the

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1 calculations are on the margin. They are incremental
2 decisions. You ask yourself, what would be the effect of the
3 last dollar, up or down. And I would have to say, Mr.
4 Chairman, that a proposal to increase the deficit to \$70
5 billion is, as far as I can see, a proposal to increase the
6 inflation rate to 7 percent.

7 This is the dilemma that all policy faces in this age.
8 We are not supposed to face it. You are not supposed to
9 have inflation or taxation. As Dr. Burns said, the rules are
10 not working the way they are supposed to. These things are
11 happening.

12 We have a situation in which it is quite clear that
13 after a period of seeming stability we are onto a bad moment
14 again in inflation. The increase of the CPI by .8 of one
15 percent, about a 7 percent annual rate, took place in
16 January and chilled us all -- February, forgive me. It shook
17 everybody.

18 The prospect that we are running out of a long recovery,
19 a recovery that is already historically just at the median
20 extent in terms of recovery is a pretty alarming one, because
21 we have learned, curiously, inflation is associated more
22 with the increase, a part of economics that nobody knows.

23 The cruelest tax of all is inflation. The fundamental
24 problem that middle Americans have, it really can be described
25 very simply: inflation. It has lifted the dollar, the size

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1 of that income has gone up with inflation and that is taking
2 them up a progressive tax ladder such that the amount of
3 their income that is taken by the government has increased.
4 Without anybody choosing to make an increase in the tax rate,
5 we have increased their taxes.

6 I see the Senator from Missouri is much exercised and
7 wants to respond. If I am wrong, tell me so, because we
8 have to get something right on this subject sooner or later.

9 Senator Danforth. I think that you have made your point
10 very well. Your point is, as I understand it, in order to
11 control inflation, we should increase taxes.

12 The reason that is a fair way to present the position is
13 at least it faces up to the reality that even after the
14 President's proposed tax program, when adjusted for the
15 increase in Social Security taxes which we have already
16 enacted and when adjusted for the effect of inflation of
17 putting people in higher brackets, we are not going to have
18 a tax reduction, we are going to have a tax increase.

19 I think that what you have done is to really give us a
20 step forward and a rational analysis and what our situation
21 is in this economy. I do not think that it is very helpful,
22 in trying to make public policy, if we try to fool people
23 and fool ourselves by talking in terms of a tax cut.

24 We are not, if we follow the Administration's lead, going
25 to cut taxes. President Carter said in the State of the Union

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1 speech that 96 percent of the American people are going to
2 have their taxes cut, and that is simply not true. And,
3 Senator Roth has very clearly demonstrated that it is not
4 true, that the majority of the people of this country under
5 the Administration's tax program are going to be paying more
6 in taxes rather than less.

7 It is true that we have a very serious problem of infla-
8 tion and I agree with you that that is the cruelest tax of
9 all. Maybe, just maybe, the way to control inflation would
10 be not to increase Federal taxes but to reduce Federal
11 spending.

12 The fact of the matter is, I think that the clearest
13 measure of what has been going on is that the percent that
14 the Federal government has taken out of gross national
15 product in the form of taxes has been on the increase. So
16 that, for a period of about 20 years we had a plateau of
17 18.6 percent. That has now gone up to 19.4 percent and,
18 under the present projections, it will go up to somewhere
19 around 22, 21 or 22 percent of GNP consumed by Federal
20 taxes.

21 I think that is what Senator Roth is saying, that
22 instead of always socking it to the taxpayer, and the way
23 we are socking it to them now is to say to them, look, we
24 are really reducing your taxes, which we are not doing at
25 all.

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1 Senator Moynihan. Senator, all of us are groping in
2 this field. There is no theory in place. None of us are
3 Marshallians, none of us Keynesian, and nobody knows what a
4 neo-Keynesian is, and there is always a lot of comedy in this
5 Committee and the staff, which will be embarrassed by us
6 if we make too many egregious mistakes.

7 Let me say one of the remarkable statements of the
8 President's economic message to the Congress this year, an
9 important statement, I do not know why it has not been paid
10 more attention to because it marks the first time that this
11 concept has entered the political economy in the United
12 States. It has been around in Europe for a generation now.

13 The President said that the Federal expenditure has
14 reached 22.5 percent of GNP in this year, 22.5 percent.
15 He is quite right, that it plateaued at 18 for a period and
16 then went up rather sharply in the last seven years.

17 Republican excesses. And the President proposes to bring
18 the proportion back down to 21 percent.

19 This seems to me to be an innovation in political
20 economy, in the terms and language about which we talk about
21 it. You can obviously have a different view, it should be
22 20 percent, or 18, or 28, or whatever, but we still know it
23 is a nice way to think about it. How much money, how big of
24 a share of the budget, of the national economy, should be
25 represented by the Federal budget?



1 Our President, this President, under the influence of
2 Dr. Schultz who has been of this view for some time, brought
3 that ratio brought back down. He is not increasing the
4 ratio, Senator; he is decreasing it.

5 But the one thing that has always beset governments
6 trying to do that is a combination of inflation and under-
7 utilized resources which takes the automatic size of the
8 budget up much further than projections. So you go up higher
9 in your proportion of GNP.

10 The President is trying to cut the Federal budget as
11 a proportion of GNP. He has to have some restraining on spend-
12 ing. He is proposing a \$61 billion deficit.

13 Mr. Chairman, as a young Assistant Secretary of Labor
14 at the time when President Johnson came into office, and he
15 sent out word that the Federal budget for fiscal '64 was
16 going to come in under \$100 billion. When we retreated a
17 little, we finally got that figure -- \$99.9 billion.

18 Thirteen years later, we have a deficit that is approach-
19 ing the size of the Federal budget under Lyndon Johnson.

20 Senator Roth. Mr. Chairman, Senator Danforth has, in
21 my judgment, made a very telling point. I agree and I con-
22 gratulate the Administration to the extent that they are
23 slowing down the rate of increase and trying to make it
24 smaller.

25 Unfortunately, our parliamentary procedures are such that

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1 this is not the the nor place to debate the spending side
2 of the budget.

3 Since I am not a member of the Budget Committee, it is
4 something that we will have to do on the Floor.

5 I do think that many of us feel that this \$500 billion
6 budget is not quite the tight, irreducible minimum that the
7 Administration has characterized it as. At an appropriate
8 time, I intend to make some proposals on the spending side.

9 I thought that Jack Kennedy in the 60's made a great
10 deal of sense in trying to get the economy moving. He said,
11 you know, you can move in several directions. Sure, one
12 possibility is to keep increasing spending, have a new
13 program to increase the dollar for those already on the
14 books.

15 But he said that one thing to do right now is to concen-
16 trate on letting the private sector show what it can do,
17 and I think his advice then makes a lot of sense today.

18 It bothers me, for example, in all candor -- I know this
19 is something that is important to you; we will have a vote
20 on it -- the countercyclical funds. A proposal is being made
21 to increase that from \$1 billion to \$1.5 billion.

22 Frankly, I have a serious question, both as to its
23 effectiveness and to the need to continue it when the facts
24 show that your state budgets today, while they are not in,
25 perhaps, a \$40 billion surplus that some people have claimed

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1 do have a favorable balance compared with the Federal
2 budget.

3 In many ways, I think the best way of helping the states
4 and local governments is by making sure that the people are
5 employed in the private sector and they are keeping more of
6 their earnings. That makes it more available to them if they
7 actually need it.

8 What I am trying to say, I am not proposing -- I would
9 want to make that very clear -- that we increase the deficit
10 by this tax cut, because I can only make half of my proposal
11 here because that is all the jurisdiction that this Committee
12 has.

13 What I am urging is that we give a chance to the private
14 sector to get the economy moving and being the engine that
15 provides the jobs that we can still be generous, as I think
16 this Federal government has in its spending. But, for
17 awhile, we are going to have to put the lid on.

18 I propose to do that on the Senate Floor.
19 The Chairman. Senator Danforth, then Senator Hansen,
20 then Senator Curtis.
21 Senator Danforth. I would simply like to take issue,

22 as a matter of fact, with Senator Moynihan, because I think
23 that what the Administration is proposing is not a reduction,
24 in the percent of Gross National Product consumed by taxes
25 but an increase in the Gross National Product consumed by

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1 taxes.

2 The figures that you were referring to were not the
3 tax revenues percent of GNP but spending as a percent of GNP.
4 Tax revenue within the purview of this Committee, tax revenue
5 as a percent of GNP has been at about 18.6 percent for a
6 period of a couple of decades. It has recently taken off
7 to about 19.4 percent and my understanding of the Administra-
8 tions proposal is that by 1981 it wants to reduce spending
9 as a percentage of GNP to 21 percent.

10 It also wants to balance the budget by 1981, which would
11 mean, ipso facto, that the tax bite as a percent of GNP would
12 be increased from 19.4 to 21 percent, which is a very substan-
13 tial increase in percent of GNP.

14 I think that what Senator Roth is saying is that it is
15 just not a question of moving the economy forward. It is an
16 effort to try to offset the drag on the economy which is
17 created by a combination of Social Security tax increases
18 plus the effect that inflation has had on moving people into
19 higher brackets, so the same person who has an identical
20 real income, has more paper income, increased paper income --
21 it is increased at a higher marginal rate and, therefore, he
22 has less real spending power as a result of inflation.

23 I really enthusiastically second I guess a motion that
24 has been made by Senator Roth. I really think that the basic
25 issue that is before the country now, as a matter of fact,

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may not be the Panama Canal but it may be the question of how big and expensive the Federal government is going to be as far as the ordinary person is concerned.

The basic issue is how much of his money is he able to keep and how much of that money does he have to turn over to Uncle Sam.

The Chairman. Senator Hansen?

Senator Hansen. Mr. Chairman, we used a lot of terms that I think must make our thoughts confusing, not only to us, but to the public generally. I think it was well-stated by what you were saying, Senator Danforth, when we talk about a tax in terms of Gross National Product as compared to expenditures in terms of Gross National Product, the point I want to make is that I, too, see some merit in a balanced budget.

I think overall we ought not to lose sight of the fact that there are different ways that we can try to achieve that goal.

One, obviously, is to bring tax income and expenditures more nearly into balance. Another is to take steps, as has been proposed by Senator Roth which will bring about a stimulation to the economy as to result in more people becoming gainfully employed, making taxpayers out of people who otherwise would be tax consumers, and to reverse a process that alarms me now, when I hear about it. As an



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1 example, Humphrey-Hawkins, stating a goal that I think all of
2 us would hope might be achieved sometime although by different
3 routes than have been proposed in that particular piece of
4 legislation.

5 If we can -- and I think we can -- by encouraging the
6 private sector to bring about an increase in employment, I
7 would suspect that overall we can find, as was experienced
8 back in the 60's when President Kennedy proposed a tax cut
9 and it was predicted that we come up with a bad fiscal
10 situation -- I forgot precisely what those figures are.
11 Maybe someone could help me. But, as I remember, estimated
12 tax loss of around \$89 billion. We round up with an actual
13 revenue gain of \$54 billion.

14 What happened, not that there was a failure to have the
15 tax laws as was contemplated in that proposal by President
16 Kennedy but rather the stimulation that came about in the
17 private sector of the economy, putting people to work,
18 resulted in their becoming taxpayers instead of tax consumers
19 and actually a revenue gain resulted of \$54 billion.

20 That seems to me to be an important consideration that
21 we ought not to lose sight of.

22 Let me give you another example. We had the oil
23 industry -- a lot of people have said they have been ripping
24 off people. Of course, this is an old story that has been
25 played time and time again. So we reduced the depletion



1 allowance and changed a lot of other taxes. Actually, what
2 has happened, in about 20 years time we have wound up
3 having reduced the number of people, the number of independ
4 dents in the oil business in this country from about 40,000
5 to about 10,000. And the oil industry moved abroad and we
6 are paying now pretty dearly for that misguided idea.

7 I think that when we follow it, eventually, we are going
8 to turn that around, but we do not have as many wealthy
9 taxpayers in the oil business in this country as we might
10 otherwise have had and we are sure paying very dearly for
11 that questionable privilege by having to submit to the
12 situation where roughly half of our oil imports now come
13 from abroad.

14 I would hope that we could give overall consideration
15 to the point that is being made by Senator Roth and Senator
16 Danforth in trying to get the stimulus that I think that we
17 could get through tax cuts to the private economy and put
18 people back to work.

19 The Chairman. Senator Curtis?

20 Senator Curtis. I yield to the Chairman.

21 The Chairman. Let me just get this part of it straight.

22 In terms of alternative options, we have \$40.8 billion
23 that is an alternative that we are considering here. What
24 other items have we more or less, are we considering adding
25 to that prior to the time we get to this \$10 billion tax cut

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1 suggestion? You are talking about a billion here, \$100
2 million here, \$100 million there. What does that raise the
3 \$40.8 billion to?

4 Mr. Wetzler. In the footnote, footnote number 3 on the
5 sheet, it lists several items that Committee members raised
6 at the session last week.

7 The Chairman. You just got through telling us about
8 this tax for the noise.

9 Mr. Wetzler. The ticket tax is 0.3. 41.1.

10 The Chairman. All right. Then you have these other
11 items. There is something else that you covered that should
12 go in there, or not?

13 Mr. Wetzler. The only other things that would be added
14 are whatever the Committee, however much flexibility over
15 and above this amount the Committee wants to give it.

16 The Chairman. \$41.1. Here are these items. Larger
17 tax cuts for individuals and corporations, because you might
18 want to put the corporations in there for some part of it,
19 for tax credits, the employee stock ownership, goodness knows
20 what. Then you have something I am concerned about, and
21 that is a very low figure. I would like to be more ambitious
22 than that. Employee stock ownership plan provisions, \$200
23 million. Retirement income credit provision, \$100 million.

24 Sliding scale for capital gains, \$200 million. Roll
25 over of capital gains for independent and small business,

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1 \$100 million.

2 All right. \$10.5 billion. We could try, if we wanted
3 to, to fit some in.

4 Here is my thought. If we go in here and tell them --
5 I do not think that we should invite the budget committee
6 to write line items. They are not really supposed to be
7 in the business of suggesting the specific provisions as
8 such that we are talking about here. They are supposed to
9 think in terms of the overall, the macroec-nomics.

10 I have told the story many times before about how when
11 Barker married the second time, people asked him how things
12 were coming along, he said they were coming along great.
13 He had an agreement with his wife that he would make all the
14 big decisions and she would make all the small decisions.
15 He said so far we have just not had any big decisions to make.

16 Sometimes I find myself talking to our Budget Committee
17 friends and they are supposed to make the overall decision
18 and we are supposed to make the small decision. Every now
19 and then, they find so many big decisions they do not leave
20 us any small decisions to even be considered.

21 It is backwards from the way it was with Barker's
22 problem.

23 I think if we go in there, I would like to suggest
24 that we consider going for a figure of \$43 billion. \$1.9
25 billion above the \$41.1 that I think we necessairly should be

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1 submitting.

2 Then we should tell them that we hope to consider items
3 of this sort and we would hope to work all of this in. In
4 order to do it, if we got a \$10 billion tax cut, we would
5 probably postpone some of the effective dates and the tax
6 recommendations of the President to squeeze all of that in.
7 But if we go over there with something that goes beyond that
8 I think we are going to be condemned as being big spenders
9 or being extravagant and making a huge budget deficit that
10 we cannot afford.

11 The Administration is recommending a \$61 billion deficit
12 and what amounts to a \$34.5 billion tax cut. If we go in there
13 and say we want to have a \$70 billion or \$80 billion deficit
14 or a \$50 billion tax cut, I really think that the media would
15 hold us up to scorn and we would be accused of being irrespon-
16 sible and the Budget Committee would cut us back and the
17 Senate would sustain it, and be applauded for doing that.

18 Senator Curtis?

19 Senator Curtis. Mr. Chairman, we are in a peculiar
20 situation this morning. We do not have clear choices because
21 this is not the forum or place to talk about expenditure
22 cuts and appropriations and authorizations.

23 Secondly, I am not sure that I think that the Congress
24 should pass the Carter tax cuts, whatever they are, plus the
25 Roth. I think that when we debated my position might be

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1 that the Roth approach would do more good in providing
2 jobs than the Carter approach, but we are not considering
3 the details of what should go into a tax bill at this time.

4 It looks like that the only thing that we are facing
5 is shall we have a resolution that gives us enough elbow
6 room to debate the various alternatives of tax reduction.

7 Also, I am not conceding at all that a reduction in
8 taxes in the right places adds to the deficit. If I did not
9 think a tax cut would be productive, I would not be for it.

10 I do not think that we can reduce taxes to take up the
11 situation for cost of living wage increases. I think that
12 taxes and the cost of living and the increase takes care of
13 that, but that does not mean that I would not be for as much
14 tax reduction as Senator Roth.

15 But I would like to preserve, for the Congress and for
16 this Committee, the right to say where this taxing ought to
17 go and it is about time that we directed a tax policy towards
18 the economy of the country.

19 I do not know how many million taxpayers the President's
20 program will take off the rolls, but it is a sizable one.

21 Right now, as of today, there are over 60 million people over
22 18 years of age who pay no direct income taxes. The number of
23 people who voted in the last Presidential election for all
24 candidates was 81.5 million.

25 You have enough people in the United States over 18 years

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1 of age to elect a President of the United States even if a
2 third of them stayed at home.

3 Now, I am not against the poor. Not at all. But I
4 would like to see the poor of a stable economy where our
5 production went up, and that would do something about infla-
6 tion, and where the finances of the country would be condu-
7 cive to preventing inflation.

8 I also think that many people are poor because they
9 cannot get a job.

10 So I want to see where the tax cut should be made. I
11 think that it is about time that we direct our tax cuts to
12 the -- not only to the private enterprise economy, but I
13 would say to business, a substantial portion.

14 My distinguished friend from New York -- and I love when
15 he talks, because he always makes sense. I do not always
16 agree with it, but he brings up the point, and that is this.
17 He talked about the Keynesian philosophy. If I had not
18 analyzed the financial policy of the Congress for the last
19 three decades, it would be that we spend like Keynesians and
20 tax like Marxists.

21 When you combine two failing philosophies, you get a
22 double failure.

23 I wanted to state my reason for supporting the position
24 so that Mr. Roth can have his day in court.

25 The Chairman. Now that we have a quorum here in the room,

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1 I would like to ask that the roll be called.

2 Senator Dole. Mr. Chairman?

3 The Chairman. Yes.

4 Senator Dole. Does this increased funding for Title XX,
5 has that been voted on?

6 The Chairman. We will vote on that when we get a
7 quorum.

8 Call the roll.

9 Mr. Stern. Mr. Talmadge?

10 (No response)

11 Mr. Stern. Mr. Ribicoff?

12 (No response)

13 Mr. Stern. Mr. Byrd?

14 Senator Byrd. Here.

15 Mr. Stern. Mr. Nelson?

16 (No response)

17 Mr. Stern. Mr. Gravel?

18 (No response)

19 Mr. Stern. Mr. Bentsen?

20 (No response)

21 Mr. Stern. Mr. Hathaway?

22 (No response)

23 Mr. Stern. Mr. Haskell?

24 Senator Haskell. Here.

25 Mr. Stern. Mr. Matsunaga?

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1 Senator Matsunaga. Here.
2 Mr. Stern. Mr. Moynihan?
3 Senator Moynihan. Here.
4 Mr. Stern. Mr. Curtis?
5 Senator Curtis. Here.
6 Mr. Stern. Mr. Hansen?
7 Senator Hansen. Present.
8 Mr. Stern. Mr. Dole?
9 Senator Dole. Here.
10 Mr. Stern. Mr. Packwood?
11 (No response)
12 Mr. Stern. Mr. Roth?
13 Senator Roth. Here.
14 Mr. Stern. Mr. Laxalt?
15 (No response)
16 Mr. Stern. Mr. Danforth?
17 Senator Danforth. Here.
18 Mr. Stern. Mr. Chairman?
19 The Chairman. Here.
20 Now, if we can, I would like to suggest that we agree
21 with this \$9 billion for the extension of the expiring
22 provisions that include \$700 million.
23 Mr. Wetzler. The jobs tax credit.
24 The Chairman. Without objection, we will agree to
25 that.

1 The Administration part of it, the \$25 billion, do we
2 agree to that and include that in the figure?

3 Senator Byrd. Mr. Chairman?

4 The Chairman. Not to do it their way, but put enough
5 money in for it.

6 Senator Byrd. I would like to ask a question, if I
7 could.

8 The Chairman. Yes, sir.

9 Senator Byrd. I would like to ask the same question that
10 I asked before, but phrase it in a different way.

11 If the budget recommendations as outlined for the
12 Committee on this sheet which is before the Committee, if
13 those recommendations are adopted, the figures involved, as
14 I understand it, would accommodate a 10 percent across-the-

15 board tax reduction for individual income tax payers?
16 Mr. Wetzler. Senator Byrd, the Administration proposal
17 for fiscal '79 has \$30.5 billion of tax cuts offset by \$5.5

18 billion of tax increases. If you agree to the \$5.5 billion
19 of tax increases, you would then have room for a \$30.5
20 billion gross tax cut which could accommodate the \$22 billion

21 needed for a 10 percent across-the-board individual cut.
22 If you did not agree with the \$5.5 billion in tax

23 increases, it would be a lot harder to squeeze in the \$22
24 billion for an individual tax cut and the \$25 billion total,
25 if the effective date were kept at October 1st.

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Senator Byrd. On page 52 of the blue book submitted by the Committee staff, it has "President's individual income tax reduction of \$22.5 billion."

Mr. Wetzler. That is the reduction. On page 56 are the offsetting increases. The President proposed some increases of \$5.5 billion. The \$25 billion is the net of the increases and the reductions.

Senator Byrd. Leaving out his proposed increases, what is the reduction?

Mr. Wetzler. \$30.5 billion is the President's proposed gross reductions.

Senator Byrd. He proposed gross reductions of \$30.5, right?

Mr. Wetzler. That is right.

Senator Byrd. He proposes increases of what?

Mr. Wetzler. \$5.5.

Senator Byrd. That leaves you \$25 billion, right?

Mr. Wetzler. That is right.

Senator Byrd. On page 50, the individual income tax is estimated to total \$221.2 billion. My question is, would the figures as submitted accommodate a 10 percent across-the-board income tax reduction for individual income taxpayers?



Mr. Wetzler. A 10 percent reduction would involve, after you extended the existing cuts, would involve \$21.5 billion.

1 Senator Byrd. That is within the \$25 billion.

2 Mr. Wetzler. You would have to give up some of the
3 President's other proposals to do it.

4 Senator Byrd. I understand that thoroughly. I will
5 state it again, because I think it is important that we get
6 this clear.

7 If a motion were made at some future time to substitute
8 for the President's tax program an across-the-board 10
9 percent reduction in individual income taxes, would these
10 figures accommodate such a motion?

11 Senator Hansen. Senator Byrd, if you would yield, let
12 me try to be helpful. Instead of substituting for the
13 President's tax program, why do you not say for the President's
14 tax cut. Would that not be what you mean?

15 Senator Byrd. The President's tax cut for individuals.

16 Senator Hansen. He proposes tax cuts of \$3.5 billion
17 and your suggestion is, if that were to be substituted by
18 inserting your 10 percent across-the-board cut and then leave
19 everything else in place, the \$5.5 billion raise that you
20 spoke of. Is that what you meant?

21 Senator Byrd. I thank the Senator. That is what I am
22 trying to get at.

23 Mr. Wetzler. You would have \$25 billion to work with
24 and your proposal would be \$21.5 billion, roughly, so it
25 would clearly fit in in the \$25 billion total.

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1 Of course, the President has proposed other things.

2 Senator Byrd. What do you mean, "other things?"

3 Mr. Wetzler. Excise tax cuts.

4 Senator Byrd. This deals with the individual income tax.

5 The Chairman. If I could just interrupt, by now every-
6 body, I would hope, understands that you can offer a substi-
7 tute for anything here, anything. Anything.

8 All we are doing is trying to get an estimate to the
9 Budget Committee of how much this stuff could run and it does
10 not commit anybody to any of it. It just means if you do not
11 ask for that much latitude in the Budget, you cannot do it.

12 From what is listed here, the alternative that has
13 been suggested by the staff would be \$40.8 billion, but they
14 would go to \$41.1, that extra \$300 million for noise
15 pollution.

16 I am going to suggest that we go to \$43 billion. If
17 you want to, the Committee can substitute something for all
18 of it, for the whole thing.

19 We are just trying to arrive at an overall figure to
20 ask the Budget Committee for that much latitude.

21 Senator Byrd. May I say, in trying to determine how to
22 vote on that issue, I feel I need to know whether the figure
23 which is listed in here for individual income tax cuts as
24 proposed by the President, leaving off the offsetting
25 features, as proposed by the President would accommodate a

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1 motion to substitute a 10 percent across-the-board individual
2 income tax --

3 The Chairman. It certainly would accommodate a tax cut
4 across the board for that much money, whether it is 10
5 percent, 9.5, 9, what difference does it make? You certainly
6 can substitute an across the board for that amount of
7 money.

8 Senator Byrd. The amount of money, as I understand it --
9 I would like the staff to verify that the amount of money
10 involved in a 10 percent across-the-board tax cut for
11 individual income taxpayers would be roughly -- what did you
12 say?

13 Mr. Wetzler. \$21 to \$22 billion, approximately the same
14 size as the President's proposed individual tax cut.

15 Senator Byrd. All right. That takes care of it.

16 The Chairman. We agreed that we would try to get a
17 quorum here at 11:30 and vote. Not debate, vote. So what
18 I want to do, while we have the quorum here, is just vote
19 on this.

20 If there is no objection I think that we ought to agree
21 that we have this \$1.2 billion tax credit.

22 Mr. Stern. In connection with that, I would like to
23 mention one thing about Committee flexibility. That cut in
24 the President's proposal assumed a reduction of unemployment
25 taxes. That does have the effect of also reducing budget

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authority, money going into the trust fund. Since the Committee does not want to make a legislative decision now about whether part of that cut will be in the form of reducing unemployment taxes we would suggest not assuming a decrease in budget authority for the Unemployment Trust Fund.

The Chairman. What does that make the figures?

Mr. Stern. That would not change the revenue figure at all. It changes the budget authority figure. It gives you more flexibility.

The Chairman. All right.

Then if there is no objection, we will assume that it will be \$500 million for technical and miscellaneous revenue measures. If there is no objection, we will assume that the \$5.1 billion which is presently in conference on the energy bill, the Senate position, might be accepted, and then that gets us down to this item 3 where we say an additional allowance would include any combination of the following: larger tax cuts for corporations and individuals, \$10 billion; employee stock ownership plan, \$200 million; retirement income, \$1 billion; a sliding scale of \$2 billion; roll over of capital gains, .1 for a total of \$10.5 billion.

I think we ought to add to that -- that would bring us up to \$41.1 billion -- I think we ought to add to that another \$1.9 billion for other suggestions that will be made either



1 in the committee or by Senators on the Floor. That would get
2 us up to \$43 billion.

3 That is the figure I would like to suggest to the
4 Committee, \$43 Billion. There is a lot of allowance for a
5 lot of tax cuts.

6 Senator Danforth. Would you consider rounding it off
7 to \$45 billion?

8 The Chairman. In the spirit of compromise, I would be
9 willing to round it off to \$44 billion. Is that fair?

10 Senator Danforth. I think that is a good round number.

11 The Chairman. This does not bind anybody to any of
12 this. You could vote for all of it or you could vote against
13 all of it.

14 Senator Dole. Could you vote for something else?

15 The Chairman. You sure can.

16 Senator Roth. I would point out, Mr. Chairman -- and I
17 am sure you agree -- when the budget resolution comes up we
18 are free to make any proposal.

19 The Chairman. Senator Dole, you had a particular thing
20 I think?

21 Senator Haskell. Before we adopt the \$44 billion, I
22 would like to say something.

23 The Chairman. Yes.

24 Senator Haskell. I want to be sure that the extension
25 of the jobs credit is in there. That would be \$700 million.

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1 If it is not, I would like to --

2 The Chairman. That is in there.

3 Senator Haskell. All right.

4 The Chairman. Senator Gravel?

5 Senator Gravel. I have a \$200 million Title XX of a
6 permanent nature. I think we need a vote on that.

7 The Chairman. All in favor of including \$200 million for
8 Title XX which is social services, say aye.

9 (A chorus of ayes.)

10 The Chairman. Opposed, no?

11 (A chorus of nays.)

12 The Chairman. The ayes have it.

13 Senator Dole?

14 Senator Dole. I had the same thing. That is taken care
15 of. But, in addition to that, what about things which are
16 not on this list at the bottom, like indexing?

17 Mr. Stern. You arrived at a gross number of \$44 billion.
18 Actually, since you agreed to make an allowance for the Sugar
19 Act, it would be \$43.7 billion.

20 Senator Curtis. Parliamentary inquiry.

21 The Chairman. The whole thing could be in that \$44
22 billion figure.

23 Senator Curtis. Would that include this increase for
24 Title XX?

25 The Chairman. Yes, sir.

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1 Mr. Stern. That is not on the revenue side, it is on
2 the outlay side, the expenditure side.

3 Senator Curtis. Did we not just vote to approve that?

4 Senator Matsunaga. We just voted --

5 Mr. Wetzler. That does not come to \$44 billion.

6 Senator Curtis. How did the vote on \$44 billion have
7 anything to do with that?

8 Mr. Wetzler. We did not have anything to do on it.

9 Mr. Stern. They are two separate questions.

10 Senator Curtis. What did we vote on?

11 Mr. Stern. You voted on Senator Gravel's motion for
12 expenditures.

13 The Chairman. He explained that earlier today.

14 Senator Curtis. I ask for a roll call.

15 The Chairman. Call the roll.

16 Senator Curtis. May I have two seconds to make a
17 speech.

18 The Chairman. Two seconds, by unanimous consent.

19 Senator Curtis. They did use \$36 million of this this
20 year or \$100 million last year. I am opposed to increasing
21 the social programs.

22 The Chairman. Call the roll.

23 Mr. Stern. Mr. Talmadge?

24 (No response)

25 Mr. Stern. Mr. Ribicoff?

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Senator Ribicoff. Aye.
 Mr. Stern. Mr. Byrd?
 Senator Byrd. No.
 Mr. Stern. Mr. Nelson?
 Senator Gravel. I have his proxy. Aye.
 Mr. Stern. Mr. Gravel?
 Senator Gravel. Aye.
 Mr. Stern. Senator Bentsen?
 (No response)
 Mr. Stern. Mr. Hathaway?
 Senator Moynihan. Aye by proxy.
 Mr. Stern. Mr. Moynihan?
 Senator Moynihan. Aye.
 Mr. Stern. Mr. Curtis?
 Senator Curtis. No.
 Mr. Stern. Mr. Hansen?
 Senator Hansen. No.
 Mr. Stern. Mr. Dole?
 Senator Dole. Aye.
 Mr. Stern. Mr. Packwood?
 (No response)
 Mr. Stern. Mr. Roth?
 Senator Roth. Aye.
 Mr. Stern. Mr. Laxalt?
 (No response)



1 Mr. Stern. Mr. Danforth?

2 Senator Danforth. Aye.

3 Mr. Stern. Mr. Chairman?

4 The Chairman. Aye.

5 We can poll the absentees. There are 11 yeas and three
6 nays. The motion carries.

7 Mr. Stern. Senator Gravel, I should say that is
8 actually a vote on whether to include it in the budget
9 resolution than the question of whether it is permanent or
10 not.

11 Senator Gravel. I realize that. I am not getting
12 intoxicated with my success.

13 Mr. Stern. I was referring to the question of whether
14 it is a permanent change or not.

15 Senator Gravel. It is encouraging.

16 The Chairman. Senator Moynihan.

17 Senator Moynihan. Mr. Chairman, I would like to raise
18 this question that Senator Hathaway particularly wanted us
19 to do it. It has to do with how much of a sum we make
20 available for countercyclical revenue sharing.

21 I can keep the Committee by discussing the details and
22 the arguments but, in sum, the proposition is that the
23 Committee staff propose that we keep this number at \$1.5
24 billion, and this was the original proposal of the Treasury.
25 OMB reduced it to \$1 billion from its present \$1.5 billion.

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1 The Committee staff recommended that we keep it at the
2 present \$1.5 billion and Senator Roth proposed the reduction.
3 There are those of us who feel for many reasons, all of which
4 can be explained, if you like, that we ought to do what the
5 Committee staff originally proposed to do, which was to
6 maintain this at \$1.5 billion. This is particularly a
7 concern of Senator Hathaway who could not be present and
8 asked that I speak to the matter.

9 The Chairman. Our standing understanding here is that
10 we can always reconsider these decisions. If the Senator
11 moves that we have \$1.5 billion instead of \$1 billion --

12 Senator Moynihan. I so move.

13 The Chairman. Which is the figure that we had this
14 last year, but it would go on by \$500 million unless we
15 wanted to continue.

16 Senator Dole. Mr. Chairman, it says the allowance may
17 include any combination of the following. My point is, are
18 we restricted to any combination of the following, or could
19 there be other matters on this list?

20 Mr. Stern. We say "could include" because those were
21 the ones --

22 Senator Dole. We have a number of items not on the list,
23 like indexing, Social Security tax credit.

24 The Chairman. That can all be included in that first
25 item, larger cuts for individuals and corporations.

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Senator Dole. We are not shut out?

Mr. Wetzler. You are completely free to do any revenue reductions you want.

The Chairman. Let us vote on this \$500 million.

Those in favor --

Senator Roth. I ask for a roll call.

The Chairman. Those in favor of a \$1.5 billion rather than \$1 billion will vote aye. Those opposed will vote no.

Mr. Stern. Mr. Talmadge?

(No response)

Mr. Stern. Mr. Ribicoff?

Senator Ribicoff. Aye.

Mr. Stern. Mr. Byrd?

Senator Byrd. No.

Mr. Stern. Mr. Nelson?

(No response)

Mr. Stern. Mr. Bentsen?

(No response)

Mr. Stern. Mr. Hathaway?

Senator Moynihan. Aye, by proxy.

Mr. Stern. Mr. Haskell?

Senator Haskell. Aye.

Mr. Stern. Mr. Matsunaga?

Senator Matsunaga. Aye.

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1 Mr. Stern. Mr. Moynihan?

2 Senator Moynihan. Aye.

3 Mr. Stern. Mr. Curtis?

4 Senator Curtis. No.

5 Mr. Stern. Mr. Hansen?

6 Senator Hansen. No.

7 Mr. Stern. Mr. Dole?

8 Senator Dole. No.

9 Mr. Stern. Mr. Packwood?

10 (No response)

11 Mr. Stern. Mr. Roth?

12 Senator Roth. No.

13 Mr. Stern. Mr. Laxalt?

14 (No response)

15 Mr. Stern. Mr. Danforth?

16 Senator Danforth. No.

17 Mr. Stern. Mr. Chairman?

18 The Chairman. Aye.

19 The yeas are seven and the nays are six. We will poll
20 the absentees and simply report it and adjust it as to however
21 the final vote is.

22 We would ask that Senators Packwood, Laxalt, Nelson
23 and Talmadge would record themselves on this vote.

24 All right. I would suggest we vote on the \$44 billion
25 figure.

1 Mr. Stern. Mr. Chairman, just to make it clear,
2 the Sugar Act actually brings in \$300 million. Do you want
3 to make it \$44 -- in effect, \$44.3 billion, offset by the
4 \$3; so a net of \$44 billion? Is that what you are saying?

5 The Chairman. Yes. That will give us a net of \$44
6 billion.

7 Mr. Stern. That is correct.

8 The Chairman. All right.

9 All in favor of the \$44 billion figure, say aye?

10 (A chorus of ayes.)

11 The Chairman. Opposed, no?

12 (No response)

13 The Chairman. The ayes have it.

14 That takes care of it.

15 Mr. Wetzler. There is one more point that the Committee
16 ought to look at, which is that the tax cut includes \$100
17 million of outlays for the Administration's proposed subsidy
18 for taxable bonds, which is a revenue increase of \$100 million
19 and outlays of \$100 million in order for you to have room
20 to consider this proposal; when the bill comes over, you want
21 to, as a part of the \$44 billion, realize that you are
22 approving \$100 million of that for outlays.

23 The Chairman. Without objection, that should be included
24 to it. Without objection, we will include it in.

25

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