

1 EXECUTIVE COMMITTEE MEETING ON PROPOSED TAX REFORM ACT OF
2 1986
3 FRIDAY, APRIL 18, 1986
4 Committee on Finance
5 Washington, D.C.

6 The committee met, pursuant to recess, at 9:53 a.m. in
7 Room SD-215, Dirksen Senate Office Building, the Honorable
8 Bob Packwood (chairman) presiding.

9 Present: Senators Packwood, Dole, Danforth, Chafee,
10 Durenberger, Armstrong, Grassley, Long, Bentsen, Moynihan,
11 Baucus, Boren, Bradley, Mitchell, and Pryor.

12 Also present: Roger Mentz, Assistant Secretary for Tax
13 Policy, Department of the Treasury.

14 Also present: Bill Diefenderfer, Chief of Staff; David
15 Brockway, Chief of Staff, Joint Committee on Taxation; Randy
16 Weiss, Deputy Chief of Staff, Joint Committee on Taxation;
17 John Colvin, Chief Counsel; Bill Wilkins, Minority Chief
18 Counsel; Mary Frances Pearson, Tax Counsel, Majority; Barbara
19 Groves, Tax Counsel, Minority; and Susan Taylor, Executive
20 Assistant.

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ICHARD
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1 The Chairman. The committee will come to order, please.

2 We are going to make a slight change in the agenda.

3 One, we are not going to meet this afternoon, and there will

4 be no votes this morning.

5 And there will be no votes this morning for a very

6 specific reason. I will tell you why.

7 We are now \$29 billion off of our mark. Assuming that

8 everything in the chairman's draft was accepted this morning,

9 and assuming that all of the excises that we were going to

10 have hearings on on Monday were accepted, we are still \$29

11 billion off the mark.

12 And the time has simply come and reflect a bit. If

13 you will look this morning, the 80 percent limit for meals

14 is \$12 billion, State and local is another \$27, the one

15 percent floor on business expenses is \$15, the limitation

16 to the 25 percent, rather than 35 percent, mark for most

17 deductions--not all but most--is \$21 billion. The marriage

18 penalty is \$27.

19 The way we are going, if those votes are thrown away

20 today, and the members are on record as throwing away those

21 votes, I think we have thrown away any chance of tax reform

22 at all.

23 I understand that each of us has specific political

24 problems. This is a Federal structure, and we run from

25 the same States all the time. This is not the British

1 Parliament where the Party sends you out to run from
2 someplace you have never lived in and you are never going
3 to live in again.

4 And all of us have particular interests to represent
5 in our States, and there is nothing wrong with that. And
6 we should defend our States because nobody else is going
7 to watch out for our States.

8 But there are also issues that are generic, and they
9 aren't really much different than they are in Arkansas
10 or Wyoming or Maine or Montana or Missouri; and we each
11 have a small constituency in some of those who will be mad
12 no matter what we do.

13 But the question is going to be, I think, if we are
14 going to have a meaningful tax reform bill, if we are
15 going to reduce rates that all of us say we would like to do,
16 if we are going to close loopholes that all of us say we
17 would to do -- then it cannot be but for, but for, but for.

18 So, today I would like to talk a bit about the
19 individual section because there is so much money in this
20 section. I would say there is over \$100 billion that we
21 could consider today if we wanted to vote on it; but I am
22 hesitant to vote based upon what we have seen before.

23 And I am hoping that next week we can continue on with
24 our meetings, but I would be prepared to cancel them if
25 necessary in order for the members to have a chance to talk

1 privately if that is what we have to do, to see if we want
2 to reach a bill.

3 Other comments?

4 Senator Chafee. Mr. Chairman, I think it is worthwhile
5 pursuing the goal of tax reform. Actually, there was a
6 threefold objective when this process started.

7 First, there was the so-called simplicity, and I think
8 that has gone by the boards; and maybe that is inevitable.

9 And secondly was fairness; and thirdly was what we
10 might call economic efficiency, that is, through the lower
11 rates and the reduction of the preferences, that money would
12 flow where it was most economically efficient for the benefit
13 of the nation.

14 And pretax decisions are the same as after-tax decisions
15 as opposed to the present situation where there is a
16 difference.

17 You wouldn't go into it in the pretax situation, but
18 the after-tax consequences make it attractive.

19 I recognize the problems we are running into here, Mr.
20 Chairman, in that we are way off the mark; and indeed, I
21 think we probably started off the mark because the
22 chairman's draft provided for the bills to be paid by an
23 excise tax that I think most of us from the very beginning
24 didn't think was going to prevail.

25 At least, we had great problems with it; and we have gone

1 through this markup. I must say this isn't an arena where
2 high value is placed on chastity.

3 (Laughter)

4 Senator Chafee. Pretty soon, if you try to fight for
5 what might be called the absence of preferences, and
6 preferences not only succeed but others are adding, I think
7 there is a tendency, I think, on the part of all of us to
8 join the crowd.

9 And indeed, I have got a few I was thinking about myself
10 that we haven't gotten to yet; but nonetheless, this is a
11 process.

12 We have seen it happen in the House, I think in a
13 similar fashion, that they went through it once and were
14 way off. And then, I think we can come back and review the
15 bidding and see if, now that everything is out on the table
16 as it were, if it is not possible to get to the original
17 goal, which were those three objectives I named, but they
18 are based upon lowering the rates.

19 That is the attraction. The lower rates benefit
20 everybody in my judgment, and it is worthwhile to continue
21 to struggle toward that.

22 Maybe we won't succeed, but I would hate to see us cease
23 the effort now.

24 The Chairman. Malcolm?

25 Senator Wallop. Bob, it is not difficult to see the

1 dilemma in which you find yourself. We watched it unfolding
2 day by day.

3 I go back to what I said and have maintained even whilst
4 we were up in West Virginia, that the base structure from
5 which we begin is not tax reform.

6 It really is akin to hiring a redecorator, not an
7 architect. Many of these things, such as the deductibility
8 of State and local taxes, take on significantly less onerous
9 meaning in a maximum tax rate of 25 or something less than
10 30 percent.

11 In order to do that, the base has to be significantly
12 broader than it is at this moment in time; but when the
13 decision was made for some reason or another, and not by you,
14 but by first the Administration and then by the House, that
15 somehow or another it would be embarrassing to have a
16 maximum rate down in those below 30 numbers, necessarily a
17 significant portion of the existing tax structure of
18 preferences--deductions or whatever one wishes to call them--
19 remained in.

20 And as they remained in, they created a pool of envy on
21 the outside. Those out wanted back; those in, as long as
22 they were in, just as well have an improvement.

23 And that has been a reflection that we have seen in
24 here from the beginning.

25 I think there is a column in the Wall Street Journal

1 this morning which really would give us pause as to where
2 we might be able to go from here, following the same
3 structure that the House sent us over and the guidelines
4 which the President has restricted us to.

5 As long as those restrictions are in place, we have
6 really hardly any choice but to shuffle things around
7 within the inside.

8 The legs on the stool are all gone but one called rate
9 reduction, and it depends on who you are, and that really is
10 who you are even with spectrum of the U.S. economy, whether
11 you have a rate reduction or not.

12 It depends on literally how your income is developed,
13 not what your income is.

14 So, it would be my hope that if we do decide to go
15 forward, that we really might take a deep breath and be
16 rather bold and propose something that is, in fact, tax
17 reform and not tax redecoration because let me make the
18 point one last time.

19 Simplicity is the quintessential element of fairness;
20 and the more complex it is, the more it favors the most
21 powerful amongst us, not that they seek and wish to have
22 complexity, but because they are more able to cope with it
23 than are the less powerful.

24 The less powerful will sit down and will not have the
25 means by which to figure their taxes seven ways from Sunday

1 with a variety of machinery and accounting.

2 And so, they will take the most understandable one and
3 submit to it and still have that overarching solemnness that
4 we sought to avoid when we went into the concept of
5 simplicity and fairness in the first place.

6 So, if we go forward, and I think we should, I think
7 we ought to go forward with the idea in mind that we are
8 really trying to achieve true tax reform on the legs of
9 the stool that the President required us to consider:
10 simplicity, the fairness, and the economic stimulation that
11 would come from it.

12 At this moment in time, I think we have achieved none
13 of the above.

14 The Chairman. Senator Danforth and then Senator
15 Mitchell.

16 Senator Danforth. Mr. Chairman, it is very difficult
17 in this city to walk down a hallway without somebody saying:
18 Are we going to have a tax bill?

19 And my answer to that question has always been the same:
20 I think we are going to have a tax bill. I think we are
21 going to pass a tax bill. I would say that it is about a
22 70 percent chance.

23 I don't see anything surprising about what is happening
24 now. I mean, I think that this is exactly what has happened
25 in the past in tax legislation, and I think it is what is

1 going to happen this time; and I believe it is what is going
2 to happen every time we have a big tax bill.

3 And that is we will go through this very lengthy process
4 of holding hearings, and we will go through a very lengthy
5 process of marking up and bill. And we will find ourselves
6 way short on revenue.

7 And then, after we finish the process, we will all
8 adjourn to a back room--maybe two back rooms. It won't be
9 a room with a view; it will be a room with a list.

10 And you, Mr. Chairman, will pass out a list to the
11 members of the Finance Committee, and the list will have all
12 kinds of ideas and all kinds of numbers beside the ideas.

13 And then, we will have to make a decision. What do
14 we want to do? How low can we get rates? Are there
15 specific choices that we want to rethink for picking up
16 revenue?

17 Are there some decisions that we have made here in this
18 markup that we want to revisit? Are there new sources of
19 revenue that we want to think about?

20 A lot of people have proposed different ideas for new
21 sources of revenue. Senator Boren has been an advocate of
22 an oil import tax.

23 Senator Roth has suggested a business transfer tax.
24 A lot of people have suggested a gasoline tax; and I am sure
25 there are all kinds of ideas for picking up revenue.

1 So, I think that is what is going to happen. I believe
2 we are going to head for the back room eventually and we
3 are going to come out with something.

4 And I think we will report out a bill. It might just
5 be almost a shell of a bill. It might be a very simplified
6 bill. It might be a bill that takes the position that we
7 are not going to have all of these very comprehensive
8 reforms of subchapter (c) or of pensions.

9 It may be just a very simple bill that says we are
10 just going to do a few things, but I believe we are going
11 to do it.

12 Will I end up supporting a bill? I don't know. I mean,
13 this has always been an open option as far as I am concerned,
14 to oppose it.

15 I said, I believe the first day of the hearings, that
16 my own criterion for a good tax bill isn't so much where
17 rates are or who gets what, but rather, what are the
18 implications of the bill for the economic growth of the
19 country?

20 I think economic growth is the criterion. Is it a bill
21 that fosters growth, or is it a bill that discourages growth?
22 I think that is going to be an open question right til the
23 end.

24 I believe the House bill is terrible. I think the House
25 bill is an antigrowth bill. I would certainly oppose anything

1 that looks like the House bill, but I think you, Mr. Chairman,
2 have made a very good effort to try to solve the problems
3 that are in the House bill.

4 I think that you have come a long way, and I certainly
5 think that it would be premature at this point to throw in
6 the towel.

7 The Chairman. Senator Mitchell?

8 Senator Mitchell. Mr. Chairman, I hope that we will
9 continue. I encourage you and all of the members of the
10 committee to continue.

11 There is no question but that, in your opening remarks,
12 you accurately described the current situation; and I think,
13 as you indicated and Senator Chafee did as well, we all share
14 responsibility for that.

15 I hope we do get a bill, and I hope that it will qualify
16 for the description of tax reform although that very much
17 remains to be seen.

18 My only regret, Mr. Chairman, frankly is that you didn't
19 make the same speech before we dealt with the business
20 preference sections because I think it is the clear
21 collective lack of discipline that we have had in that
22 process that has set the stage for what is now occurring.

23 And I hope that we will revisit many of these areas
24 with the kind of spirit that you have described and not limit
25 it to only those matters that remain before us because I

1 think it is obviously not going to be possible to say: Let's
2 be disciplined in this area as it deals with individual
3 preferences, having gone through a procedure where that was
4 not the case with respect to business preferences.

5 As I said, I think we all share the responsibility. I
6 doubt there is a single member of this committee who hasn't
7 voted in one or more respects to lose some revenue along the
8 way--some more than others--but nonetheless, I think it is
9 a collective responsibility.

10 So, I hope that you will pursue whatever course you deem
11 is appropriate, whether that suggested by Senator Danforth
12 or others, but to press hard for a bill; and in that, you
13 will have my support because I think it is a very worthwhile
14 endeavor and that we should be doing everything we can to
15 try to get a bill that genuinely qualifies as tax reform.

16 The Chairman. Mr. Secretary?

17 Mr. Mentz. Thank you, Mr. Chairman. I would just like
18 to say that it may be a natural tendency to get discouraged
19 as one goes through a tax reform bill such as this, and you
20 start looking at the numbers and see the negative signs
21 mounting up.

22 But I would just like to recap what has been done that
23 I think is a very significant improvement over current law,
24 and has been done and agreed to in this committee.

25 Start with the retirement plan amendments. When we

1 finished that section, I was feeling a little bit unhappy
2 that it lost money, and talked to the people at Treasury
3 who are deeply involved in that; and they basically said
4 to me: Roger, don't feel too bad because it is very good
5 retirement plan policy. It is a big improvement over current
6 law.

7 And that is right. You are bringing more of the
8 benefits to the lower and middle income people. The
9 integration proposals and numerous other proposals in that
10 program are very good, very much improved over current law.

11 Look at what we did yesterday on bonds; and again, it
12 could be easy to say: Oh, look at the negative numbers on
13 bonds. But the arbitrage rebate rule extended to all
14 municipal obligations is a major step forward.

15 And the repeal of the State of Washington case, the
16 taking into account of expenses and not letting them be
17 paid for out of arbitrage in advanced refunding is a major
18 step forward, a big improvement over current law.

19 The changes that were done in the foreign area, the
20 changes on cross-border loans that would provide no more
21 than a tax exemption, not a greater subsidy. That is a
22 big improvement and one long overdue.

23 And even the interest allocation issue that was hotly
24 debated and finally worked out in, I think, a very acceptable
25 way is a big improvement over current law.

1 Even depreciation, I hear sort of some unhappiness in
2 the ranks of the tax bar about productivity property and I
3 don't know whether that distinction makes any sense; but
4 remember, elimination of the investment credit and a potential
5 reduction in rates results in a much more neutral system and
6 a much greater neutrality among different assets.

7 So, if you look at it not so much as a sort of where are
8 we and how much money have we lost, but where are we going?
9 And look at the improvements versus current law; then, I think
10 we can look at what we have to date as a major step forward.

11 Now, I happen to agree with Senator Danforth that you
12 go through this process and you certainly are going to end
13 up somewhat short of money and maybe significantly short
14 of money; but there are ways of curing that problem.

15 And I agree with you, Senator, that you probably end up
16 curing it in the back room; but I don't think we should feel
17 like we haven't accomplished quite a bit to date.

18 I think we have, and I think the process very clearly
19 should go forward.

20 The Chairman. Mr. Secretary, thank you. Senator
21 Bradley?

22 Senator Bradley. Mr. Chairman, let me say that I think
23 that we are at a predictable point in these deliberations,
24 and I think that the process has moved along in a
25 predictable fashion.

1 And by that I mean that we approached we tax reform
2 issue with the idea that we are going to reduce rates. The
3 President has given us very specific numbers.

4 And then, we start to deliberate only what we are going
5 to give up in order to get those rates down; and there clearly,
6 in the first time through, is not sufficient discipline within
7 each member and within the committee as a whole to achieve
8 those objectives. And we end up with a very serious revenue
9 loss.

10 I think that that realization that, in order to get
11 rates down, you do have to make more tough decisions than
12 each of us thought probable when we began is a moment of
13 insight.

14 And I think that the number that we are in the hole
15 provides that kind of moment of insight. And I think that
16 it is appropriate that we step back and say: Okay, what is
17 tax reform all about?

18 I agree with Senator Danforth. It is about economic
19 growth. And I think that it poses the question: Do we get
20 the economic growth by lowering the rates and improving the
21 overall efficiency of the economy? Or do we hold to the
22 view that we get the economic growth only if we keep special
23 incentives in the Code directed toward specific sectors of
24 the economy?

25 And I think that it is important to get the rates down

1 for more than economic reasons. I mean, I would argue that
2 the lower rates across the board and the improved efficiency
3 of the economy will be the means for economic growth.

4 But there are other things at stake here as well, and
5 we all know that.

6 The fact of the matter is that there are millions of
7 Americans who don't have any faith in this income tax system,
8 and they don't have any faith in the income tax system because
9 they believe that they are not getting a fair share, which
10 boils down to the phrase that people who make the same
11 amount of money don't pay the same tax.

12 And so, in addition to the economic argument for tax
13 reform, I think that it is also an argument that is rooted
14 in fairness and how individuals view their Government as
15 to whether the Government is being even-handed.

16 So, Mr. Chairman, I hope we will proceed. I think that
17 we are at a predictable and, I think, positive point in these
18 deliberations.

19 And I would again argue that, as we look at what we
20 have done and how we are going to proceed, that we consider
21 some principles: how low we can get the rates for the
22 greatest number of people, that we look at how it affects
23 low and middle income people, that we look at the total
24 effect of tax reform on the economy; and we make our best
25 judgments.

1 I think we are going to be in the back room making some
2 trades, and that we are probably going to come out with
3 something that is not as pure as maybe I would like; but I
4 think we can come out with something that does significantly
5 reduce the rates for the majority of the people in this
6 country.

7 I do think we can come out with something that does
8 take low income people off of the rolls and that, compared
9 to the present system, does improve the overall efficiency
10 of the economy, and thereby generate the forces for long-term
11 economic growth.

12 So, I hope that we will go on, proceed.

13 The Chairman. I didn't mean to give any impression this
14 morning that I had any intention of quitting. What I did
15 not want to do, after I made my last two or three phone
16 calls this morning to some of the members, was to proceed
17 ahead with votes today and have members on record on some
18 things that they might have to change their positions on
19 later on.

20 Once you are frozen in concrete, it is difficult to
21 change. And I apologize to the members for indicating there
22 would be votes today.

23 Up until about 7:30 this morning, I intended to have
24 votes today; and I have tried to hold the committee as best
25 I can to the schedules that I have indicated.

1 And we will meet at least for the next two weeks, the
2 five days a week, but no votes on Monday mornings and no
3 votes on Friday afternoons. And we will try to schedule
4 most of the votes that we do have in the mornings.

5 But short of adhering to that schedule, we honestly are
6 never going to finish a bill. There will be some slippage,
7 and there will be a day when I have said there will be votes
8 that we don't have votes because we didn't finish the
9 preparatory discussions the day before because it took longer
10 than I thought it was going to take.

11 That I cannot fully control. As far as the reform is
12 concerned, however, having sat through all of those hearings
13 last summer--short of maybe six or seven hours--and I think
14 it was 30 or 35 days of hearings, having looked at the House
15 bill, having now read the International Trade Commission
16 study that Senator Baucus requested, although there are lots
17 of caviats in it, but basically they say any of the bills
18 won't hurt our international competitive position too much.

19 Now, there are some caviats, but they basically conclude
20 that.

21 What we have got is a President's bill that shifted about
22 \$122 billion of taxes off of individuals onto business.

23 You have a House bill that shifted about \$140 to \$145.
24 you have got my draft that shifts about \$120.

25 They are all sort of generic bills in that sense of the

1 incidence of taxation. And the differences between them are
2 not differences of principle; they are differences of slight
3 tinkering.

4 For those who would say that corporations and businesses
5 don't pay any taxes, only individuals pay taxes, I suppose
6 following that theory to its ultimate conclusion, you could
7 place all of the taxes on business.

8 It is a more efficient way of collecting them; and as
9 long as they pass them all along, instead of collecting from
10 100 million taxpayers, collect just from the businesses and
11 use that as your device.

12 You are always faced with the problem of international
13 competitiveness. I don't know of any committee that is
14 more sensitive to that situation than this committee, whether
15 it be on a straight trade-and-tariff policy or whether it
16 is an out-and-out capital formation--what does it cost the
17 Japanese to put up a steel mill versus what does it cost us
18 to put up a steel mill?

19 But I have come to the conclusion after the hearings
20 that business in this country can survive the shift in the
21 incidence of taxation that was in the President's bill, the
22 House bill, and this bill.

23 And I thought one thing that the President tried to do
24 --he tried to do it best in Treasury I, then it slipped a
25 bit when he made his proposal, and then it slipped a bit

1 again--was to try to even out the incidence of taxation among
2 different kinds of businesses.

3 And I understand the problems when you have tax
4 incentives now for certain businesses; they don't want to
5 lose them. And if we do nothing, we irritate nobody because
6 those who would benefit from the shift don't feel it until
7 the benefit comes, and those who think they will lose from
8 the shift in the incidence or the equality of taxation among
9 business don't like it.

10 And the House does have one certain advantage over us,
11 and I think it was perhaps best illustrated--and I don't say
12 this in any way to embarrass anybody--but I thought it was
13 best illustrated in the issue of the Federal employees
14 retirement and taxation.

15 The House had no hearings on it, as I recall; did they,
16 John?

17 Mr. Colvin. That is correct.

18 The Chairman. Although it was in the bills, there were
19 no hearings. Nobody gave it much credence; I shouldn't say
20 gave it no credence, they didn't pay any attention to it.
21 And at the last, it appears in the House bill, but there
22 had been no lobbying on it.

23 But then, it comes over here, and there it sits out in
24 the open for four or five months. Now, I don't think many of
25 us had many of our constituents coming to us and saying: Tax

1 those Federal retirees.

2 What we had coming to us was a lot of Federal retirees
3 saying: Don't tax us. I understand, given that situation,
4 how it is easy to come to one conclusion.

5 But that is just illustrative of a dozen problems, once
6 the bill passes the House and once their targets out there
7 --whether it is the bank's decision or the House's decision
8 to tax only the 450 biggest banks and not all the rest, or
9 whether it is the House's decision not to tax credit unions,
10 or perhaps to tax something and the group comes to us that
11 isn't taxed and doesn't want to be taxed.

12 But basically, I think the President's philosophy was
13 right. I think Senator Bradley's concept is right. Senator
14 Chafee and Senator Danforth have alluded to it.

15 The lower we can get those rates, the better off we are
16 going to be; and if we can get it down to 25 percent or close
17 to it, there will be a sea change in the debate over the
18 political implications of deductions because we will have
19 gotten the rates low enough that many people will say: At
20 that rate, I don't mind paying one-quarter of my income to
21 the Federal Government, so long as I can keep the other
22 three-quarters.

23 And I would like to see us moving and moving and moving
24 down toward that level. Further comments?

25 Senator Armstrong. Mr. Chairman?

1 The Chairman. Senator Armstrong?

2 Senator Armstrong. Mr. Chairman, as one of those who
3 is disappointed that we are not going to be able to do
4 business this morning, I would just like to follow up on
5 a comment you made a moment ago about the procedure under
6 which we operate.

7 You have pointed out that you have made a sustained and
8 serious effort to set a schedule and hold us to it, and I
9 compliment you for that.

10 I think that is the right thing to do; and even though
11 it isn't necessarily convenient for every member on every
12 occasion, in general terms it is helpful for us to have a
13 schedule.

14 You have also pointed out that there are times when we
15 can't stick to that schedule--when we get behind, when issues
16 arise unexpectedly, and we will be unable to stick to it.

17 Mr. Chairman, that is a little different than having
18 the chairman decide not to have some votes because the
19 probable outcome of such votes is not to his liking. I just
20 want to make the point that most of us are eager to be helpful
21 to you.

22 You have got a tough job, and I think virtually every
23 member of the committee began this process by congratulating
24 you for really going at it in a thoughtful and broad-gauged
25 manner.

1 And I think most of us had a great sense that you had
2 gone out of your way to take us into your confidence and
3 to consult us and to be fair about it.

4 And I just want to suggest that I hope we won't, as we
5 conclude this process--however it winds up--we won't depart
6 from that because, in the final analysis, members of the
7 committee are entitled to win a vote even if it is a vote
8 that the chairman doesn't necessarily agree with.

9 And there are a lot of us who are going to defer on
10 many occasions to the desire of the chairman, either for
11 institutional or personal reasons, and I am one of them.

12 But I just hope there won't be many occasions when you
13 will be disposed to call off votes simply because you think
14 it might not go the right way.

15 The Chairman. As a matter of fact, there aren't many
16 --had I been following that policy--we wouldn't have had
17 many meetings this week or many votes this week.

18 What I was afraid of today--and there are some on here
19 that actually I think the committee would sustain--but I
20 think it probably is doubly unfair to say, all right, we
21 are going to vote on the two that I think the committee
22 will sustain, and we will put off the others.

23 What I was afraid of, Bill, today is that if we had
24 votes, it was the end of the bill because we would have had
25 members on record for things that we may have to make some

1 other decisions about.

2 And we all know what it is like when you go on the
3 Senate floor and you cast a vote. You don't think much about
4 it for six months, and then later on, things have changed,
5 but you have got a vote, and you had letters or you sent
6 letters; and you are stuck.

7 And I just didn't want the committee to get in that
8 position today because if the bulk of what was in this title
9 today went down to defeat, I don't see of any way--in any
10 way, shape or form--under the most optimistic of
11 circumstances of making this bill come out.

12 Senator Mitchell. Mr. Chairman, does that mean that
13 you think there is no possibility of reconsidering any of
14 the votes that we have already had?

15 The Chairman. Oh, yes. I think when we go into the
16 back room that Senator Bradley and Senator Danforth suggested
17 --a room without windows and without doors--

18 (Laughter)

19 The Chairman. And not allowing any exits from the room
20 for 12 or 14 hours, we will come to all kinds of conclusions
21 on things we have even considered before.

22 Let me take Senator Pryor and then Senator Durenberger.

23 Senator Pryor. Mr. Chairman, I would like to say that
24 I have no complaints whatsoever with the way the hearings
25 have been conducted on the schedule or whatever. Now, I

1 certainly want you to know that.

2 I also sense that we are all riding a lame horse right
3 now, and we are the point where we have to decide whether
4 we are going to try to cure the horse or trade the horse
5 in or whatever.

6 And I frankly think that this is a horse that is so
7 lame that we can't continue riding it.

8 I think all of us, Mr. Chairman, sit here--I know I do
9 daily--and I sit here and I say: My gosh, I wonder what I
10 would be doing right now if I were Chairman Packwood sitting
11 in that chairmanship.

12 And I will be honest with you, Mr. Chairman; I don't know
13 what I would do. The President has issued an ultimatum to
14 all of us that he wants tax reform. He wants it revenue
15 neutral. He doesn't want anybody's taxes to go up. He
16 wants to lower tax rates.

17 And we are caught in a real dilemma; but the intensity
18 of the dilemman, I think, Mr. Chairman, as I sense it, and
19 I am the newest person on this fine committee, most of the
20 time when we do something as an institution, we do it in
21 response to our constituents. We react; every now and then
22 we act.

23 Sometimes we create our own issue and it is driven that
24 way; but generally, we react as an institution. And what we
25 are going through here is an exercise pretending we are

1 reacting to a public demand out there that frankly is not
2 there.

3 The only demand that we ever have any contact with is
4 all these people--and I love all of them; they are all
5 sitting here and they are out in the hall and they are
6 downstairs in the auditorium--and that is the only demand
7 we are hearing from, and: Don't tax us. And that is all
8 we are hearing from right now.

9 Maybe the rest of you are getting a lot of letters saying
10 please increase our taxes or whatever, but I am just simply
11 not.

12 Mr. Chairman, another thing I would like to say, and I
13 hope I am not misspeaking myself, but we are \$25 billion
14 down and, very honestly, I think, Mr. Chairman, with due
15 respect to you, I think after Monday's hearing on excise
16 taxes, I think we are going to go down another \$62 billion;
17 and that is going to be about \$87 to \$90 billion.

18 The Chairman. You are giving me the benefit of picking
19 up an additional \$15 billion.

20 Senator Pryor. Well, this is all bad news; and then the
21 good news part, State and local I think, I just have a sense
22 that you are going to lose on that.

23 I don't know whether you are or not, and that is going
24 to put us well over \$110 to \$112 billion down. If you wanted
25 to pick up another \$31, I think you might be able to repeal

1 your idea on payback--buying back all these investment tax
2 credits because frankly I think you are going to lose on
3 that.

4 (Laughter)

5 Senator Pryor. I think, Mr. Chairman, what I am saying
6 with all due respect, I think it is time maybe we took a
7 little recess and sort of thought this thing out a little
8 bit, maybe have some individual consultations, and maybe
9 find that room that you are talking about and have some
10 discussions there, rather than here.

11 And that is my proposal.

12 The Chairman. Senator Durenberger?

13 Senator Durenberger. Mr. Chairman, it strikes me that
14 the question we are all wrestling with is whether this is
15 the beginning of tax reform or the end of tax reform.

16 I mean, whether the President's proposal was the
17 beginning--like with so many things with this President--is
18 it the beginning of a process of changing the way we look
19 at the Tax Code in this country, or has he by some magic
20 found the solution in income tax rate reduction through base
21 broadening?

22 And I tend to look on it as the beginning of a process;
23 and yet, as I have listened to my colleagues on this committee
24 talk, the presumption has been that if we pass a bill this
25 year, we are not coming back to tax reform for five years or

1 or 10 years or something like that.

2 And it strikes me that that is one of the problems here
3 --no one has made it clear to us whether or not Ronald
4 Reagan has found the magic answer to a better tax system
5 with a 35 percent top rate, a \$2,000 exclusion, and revenue
6 neutrality in the process.

7 I don't think you agree with that. I think you think
8 it is 25 percent. You think that the Bradley track is an
9 appropriate track.

10 So, it sounds to me as though you think this is just the
11 beginning of the process and that, if we were lucky enough
12 to get at the 35 percent by some magic, we ought to keep
13 going.

14 But that is one question we need to resolve.

15 The second is where the President is on all of this.
16 I mean, there are 20 experts in this room; and unlike Evans
17 and Novack and everybody else--and regardless of where we
18 come from--the reality is that we have been at tax reform
19 for a long time.

20 And I think that this is not a group that is responsive
21 to special interests. I think this is a group, even though
22 the folks out there may represent a special interest, this
23 is the general interest sitting around this table.

24 I don't think there is any question about that. And
25 the question is where the priorities are. I frankly think

1 that this phase of tax reform died when the President changed
2 Secretaries of the Treasury. I don't think there is any
3 question about that.

4 I mean, if we had Treasury I in front of us today, we
5 would have a bill. It would be up because it does just what
6 the chairman said the President wanted to do. It evens out
7 the base--what did he call it?--evening the incidence or
8 equality of taxation among different businesses.

9 That is what Treasury I did. In the first two weeks
10 after Treasury I came out, everybody rose up and complained
11 about its impact on them.

12 But two weeks later, after they got a look at it, they
13 said, well, by God, you know it is tough, but if everybody
14 gets treated the same I will look at it.

15 Then, he changed Secretaries of the Treasury; and at
16 that point, we started the process of selective base
17 broadening. And here we are today at the culmination of
18 that process.

19 The House did it to a degree. We are doing it some
20 more, and I think it is because we don't have a sense of
21 principle to guide us.

22 We debate the savings issues, the investment issues,
23 and the consumption issues; and there is no leader to say
24 we are going to change the Tax Code so that the incidence
25 of taxation on investment and savings is at least the same

1 as the incidence on consumption, or some other principle.

2 We all talk principles on all of these issues, and we
3 reflect our own sense of principle; but when it comes to
4 the end, we are \$100 billion short.

5 I have a terrific statement here on the principle of
6 Federalism, you know. I think it is a great statement, but
7 it doesn't just talk about taxes.

8 It talks about the things that Bob Dole is trying to
9 solve in terms of the deficit, in terms of the equity
10 between State, local and Federal governments.

11 The principle behind taxation in this country is not
12 economic growth, as somebody said. The principle behind
13 taxation is a way to share in the obligations of meeting
14 the needs of the society.

15 That is the principle of taxation, and that is done in
16 various ways: by taxing various things we do at various
17 levels; and yet, where the heck are we, you know, in talking
18 about things like that?

19 So, I am happy you gave us each a chance to share some
20 of our frustrations, but please, Mr. Chairman, do not take
21 in any on yourself the responsibility for where we may be
22 today.

23 I honestly believe it started when the Secretaries of
24 the Treasury changed, and I am not blaming anybody for
25 anything.

1 Mr. Mentz. Senator Durenberger, maybe the real problem
2 was when they changed assistant secretaries.

3 (Laughter)

4 Senator Durenberger. Bring back Ron Pearlman, right.

5 (Laughter)

6 The Chairman. Senator Dole and then Senator Moynihan.

7 Senator Dole. I was just passing through town and I
8 saw all these people here.

9 (laughter)

10 Senator Dole. I have been dropping in and out now and
11 then, and I keep wondering if I have missed anything.

12 I certainly want to commend the chairman. I think we
13 are on the right track. I found in my brief tenure as the
14 chairman, and I am certain also that Senator Long, discovered
15 that tax bills sort of have a life of their own.

16 They go up and down, and there is all sorts of doom and
17 gloom. And many times, we forget about all the concensus
18 we have reached that we haven't talked about.

19 We talk about three or four votes today or three or four
20 votes next week, and there are still many, many good changes
21 in the overall Packwood plan or whatever plan we may end up
22 with.

23 So, I intend to start coming more often and trying to
24 contribute, instead of causing problems for the chairman;
25 though I must say there are a few things that I can't agree

1 with him on. And that is one luxury you have when you are
2 not the chairman.

3 But I want to wish you luck; and I think we will get a
4 tax reform bill out of this committee that is tax reform.
5 It may not be simplification, but no one has talked about
6 that for six months.

7 So, we are ready to take it up on the floor any time.
8 We have to take care of the budget first. And your target
9 was what, June 15th?

10 The Chairman. I would like to be on the floor in
11 June, early June.

12 Senator Dole. And there is a lot of enthusiasm. I
13 can't recall even enthusiasm in 1981 for the tax cut, and
14 a lot of people wrote to us saying: Pass it. We did, and
15 we may have gone too far then.

16 The Chairman. Senator Moynihan?

17 Senator Moynihan. If this is going to become a sort
18 of Quaker meeting all intent on --

19 Senator Bradley. Quaker meetings were silent --
20 (Laughter)

21 Senator Moynihan. Declaring our faith in Brother
22 Packwood, let me join and say two things.

23 I think Senator Durenberger made an important point, and
24 it might just help us think our way through this situation.

25 There are at least two, and fundamentally there are

1 always two propositions about taxation. One is prior to the
2 other.

3 Taxation begins as a means of sharing the cost of what
4 are thought to be desirable Government activities. I mean,
5 that is how taxes begin, historically or anywhere else.

6 What do you feel you ought to do collectively, and how
7 will you provide for it and how do we share the cost of
8 doing so?

9 And then, more recently as we came to understand
10 economics or hope we do, theories have developed about the
11 effect of taxation on economic growth.

12 And these are two different things that are both
13 legitimate.

14 Now, the real problem with the President's bill, in
15 my view, is it starts out from the tax policy group in
16 Treasury, which is basically a seravian group, and whose
17 main concern is equity as Stanley Surrey, who was Assistant
18 Secretary for Tax Policy under President Kennedy, and set
19 up the Office of Tax Policy. I was Assistant Secretary of
20 Labor for Policy Planning then.

21 They were concerned with equity in the sharing of
22 the burdens of providing for Government.

23 The President's people, however, have been much more
24 interested in the question of stimulating the economy,
25 equally legitimate, but not always compatible.

1 If you remember the President's bill, I would say it
2 began to have some trouble the day after the Inauguration,
3 long before they switched Secretaries of the Treasury.

4 When the President was asked in an interview with the
5 Wall Street Journal: What about tax reform? Are you very
6 hopeful about that? He said: Yes, I am very hopeful for
7 that; that is going to be very important to me.

8 And the Wall Street Journal said: Mr. President, do
9 you really plan to increase business taxes by \$140 billion?
10 And the President said: No, no, we are cutting tax rates.
11 And they said: Mr. President, it also requires you to raise
12 \$140 billion.

13 And I can see the scene where the President looks over
14 his shoulder and says: Hey, Don, would you come here a
15 minute and explain a little bit of detail?

16 I mean, I think these two notions are important; and
17 that is why--and this will not go on endlessly--Senator
18 Durenberber and I were going to raise this morning the
19 question of the deductibility of State and local taxes
20 because, as Senator Durenberger's statement very capably does,
21 this goes to the capacity of Government to provide to those
22 collected goods--schools--that we need.

23 And we think that to take away that deductibility would
24 be devastating to Senator Long, Senator Bentsen's States.
25 It would not be as devastating to yours or Senator Bradley's

1 --mine would be sort in the middle a little bit, more toward
2 being less of a burden than the sales tax States--but in
3 any event, we could meet that concern and still go on to
4 the second part and be with you.

5 I think the fact of the matter is, Mr. Chairman, that
6 we had the votes. We have precinct captains in this
7 committee, too, and we have tallied. And Mr. President,
8 would you like to read the morning line as of 9:15 --

9 The Chairman. Oh, I think I have the same line. I
10 just do not read it.

11 (Laughter)

12 Senator Moynihan. We are as usual putting you down as
13 the strategic swing vote.

14 (Laughter)

15 Senator Moynihan. But, sir, I want to say that we have
16 got the votes on State and local. And those of us who
17 think about it in terms of Government provision, as Senator
18 Durenberger says, still want a bill and still want to work
19 with you for a bill.

20 The Chairman. Further comments?

21 Senator Long. Mr. Chairman, let me say that you are
22 doing a great job, and I am going to be where you are coming
23 down the home stretch, I suspect. Do it your way, and I
24 will do the best I can to go along with it.

25 The Chairman. Not only do I appreciate Senator Long's

1 saying that, but having watched him for years as chairman
2 and then watched him as the ranking member when Bob Dole
3 was chairman, I don't think anybody is a more loyal supporter
4 of the committee or the institution when we finally reach
5 a conclusion than you are.

6 Even when you have been beaten on several issues that
7 you have wanted, you go out on that floor and you carry the
8 bill, and you would defend the position of the committee.

9 And I hope when we get a bill--and we will get a bill--
10 that I can do as well.

11 Senator Long. Mr. Chairman, I love the Senate, but I
12 love the Finance Committee even more.

13 (Laughter)

14 The Chairman. Well, I wonder if there is a way you
15 can retire from one and not the other?

16 (Laughter)

17 Senator Long. That would be nice. Thank you.

18 The Chairman. Any other comments?

19 (No response)

20 The Chairman. If not, I apologize to those who changed
21 their schedules to be here today. I just did not want to
22 run the risk of killing this bill by going ahead.

23 Next, Monday all day long, I think, and on into the
24 evening perhaps--the excise--and we have 30 to 32 witnesses,
25 including some Senators. And I am going to try to hold the

1 witnesses down, but I have a feeling there will be lots of
2 statements and lots of questions.

3 Tuesday morning, 9:30 a.m., U.S.-Canada free trade. I
4 have a feeling there will be a few comments before we get
5 to a vote. We will vote that day.

6 I will then try to avoid as many votes as possible in
7 the afternoon in committee, and we may move to the back room
8 mid-week next week.

9 There are some other sections I think we can still go
10 over and dispose of that are not particularly controversial.
11 There would be some votes on them, but they are not big
12 revenue sections.

13 And to the extent that we can get things out of the way
14 that I think are not impediments, we will do that.

15 But there are clearly about five or six sections of
16 this bill involving about \$150 billion that I think are
17 going to have to be tied together somehow.

18 So, with that, we are adjourned.

19 (Whereupon, at 10:35 a.m., the hearing was recessed,
20 to reconvene Monday, April 21, 1986, at 9:30 a.m.)

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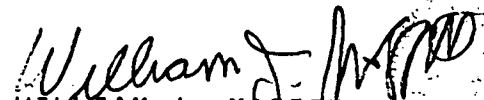
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C E R T I F I C A T E

1
2 This is to certify that the foregoing proceedings of
3 an Executive Session meeting of the Committee on Finance,
4 held on April 18, 1986, in re: Tax Reform, were held as
5 appears herein and that this is the original transcript
6 thereof.

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8
9
10 
11 WILLIAM J. MOFFITT
12 Official Court Reporter

13
14
15 My Commission expires April 14, 1989.