

EXECUTIVE SESSION

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TUESDAY, FEBRUARY 27, 1979

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

The Committee met, pursuant to notice, at 10:25 a.m. in Room 2221, Dirksen Senate Office Building, Hon. Russell B. Long (Chairman of the Committee) presiding.

Present: Senators Long, Byrd, Nelson, Bentsen, Moynihan, Baucus, Boren, Bradley, Dole, Packwood, Roth, Danforth, Heinz, Wallop and Durenberger.

The Chairman. This Committee will come to order.

Might I just suggest that the Senators down on the end just move on up toward the head of the table and we will move the nameplates around a little bit so we can all be closer together and it will be easier to talk with each other. Others will be along.

We tend to operate under the Early Bird rule anyway, so we will be close enough to talk.

Now, you have before you, gentlemen, a pamphlet that was prepared by the staff setting out the information that the staff got that you might want and such advice as they could make available to you about the budget items that affect this

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1 Committee in so far as they might be able to give you some  
 2 helpful thoughts about our recommendations to the Budget  
 3 Committee. I am going to ask Mr. Stern to just go through the  
 4 various items that he thought that we might want to increase or  
 5 he thought that we might want to reduce and see how we might  
 6 be able to live within the President's budget or hear the  
 7 suggestions of people as to how we might solve some of these  
 8 problems.

9 Why do we not just let Mr. Stern run through these sugges-  
 10 tions? I think we will make progress quicker that way. If you  
 11 want to make a note or two about whether you think that what is  
 12 being suggested here is something that we ought to do or whether  
 13 you think we ought to do something different than that, then we  
 14 will try to go to the key items and probably take the most  
 15 controversial ones first and try to give our recommendations to  
 16 the Budget Committee.

17 Go ahead, Mr. Stern.

18 Mr. Stern. Mr. Chairman, if you like, we could go through  
 19 the various items sort of area by area. After you have gone  
 20 through them, make sort of an overall suggestion, or you can take  
 21 them chart by chart. The matter that you have before you is not  
 22 something that we have given out to everybody, just something  
 23 we prepared for you.

24 The Chairman. I would think that maybe -- I believe that it  
 25 might be best for you to go through all of this in chief first.

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1 Then the Senators can see about what the problem looks like.

2 If they think we are going to need more money in certain  
3 areas, if we are going to stay within the President's budget, we  
4 will have to shave it off somewhere else.

5 So you might just indicate as you go through these items,  
6 how some of these things might be done and what our options are  
7 going to be.

8 Mr. Stern. All right.

9 By way of introduction, Mr. Chairman, the budget process  
10 contemplates two resolutions which set limitations for Congres-  
11 sional action particularly as it affects new legislation and the  
12 First Budget Resolution is acted on by the Congress by March 15th.

13 As we go through the blue book here starting with the first  
14 chart on page 10, the role that each Committee plays is to report  
15 to the Budget Committee by March 15th on their views and estimates  
16 of the matters within their jurisdiction.

17 In the case of the Finance Committee, that means estimates  
18 and outlay programs, expenditures, revenues, tax expenditures and  
19 the public debt, and both with respect to existing legislation  
20 and also with respect to changes in existing law.

21 So moving on to page 12, a critical element in the cost  
22 estimates is the economic assumptions that you make. What we  
23 have shown on this chart on page 12 are the economic assumptions  
24 in the President's budget. We should mention that those assump-  
25 tions are on the optimistic end of the range, particularly with

1 respect to the inflation rate.

2 However, to assume a higher rate of inflation will increase  
3 the estimates for Social Security benefit payments and for SSI  
4 payments for the aged, for unemployment benefits and they affect  
5 almost all of the programs under existing law.

6 The Chairman. Look, Mike, I would -- I do not think we are  
7 going to get through this today if we try to summarize what is  
8 written here, which everybody could have read by now, and I assume  
9 that quite a few have. Why do you not just take -- do you have  
10 a copy of this mimeographed sheet that you showed me here?

11 Mr. Stern. Yes, sir.

12 The Chairman. It seems to me that that zeroes in on the  
13 areas where we are going to have to make decisions, where we are  
14 going to have to either accept the President's suggestion or make  
15 reductions or go beyond it.

16 Mr. Stern. The purpose of this table is just to show a way  
17 that you could arrive at the same deficit impact a little bit  
18 differently from the President's budget so that you have sort of  
19 an alternative proposal that you can be looking at at the same  
20 time. It represents, in effect, a redistribution where savings  
21 are in the President's budget, so I can run down what is in this  
22 chart and we can go into the specifics of the different areas  
23 chart by chart.

24 Now, just looking at this legal-sized sheet called budget  
25 alternatives, it assumes that in the Social Security --

1 Senator Roth. Mr, Chairman, before we leave the economic  
2 assumptions, because I think that is critical, I would be inter-  
3 ested in knowing on page 12, these are the proposals of the  
4 Administration. That is their economic assumptions.

5 Mr. Stern. That is correct.

6 Senator Roth. Do we have the economic assumptions of, number  
7 one, the CBO office and two, Mr. Chairman, we talk a great deal  
8 about getting our own models. I just wonder whether we have any  
9 analysis. It seems to me that this is basic to whatever we do  
10 and certainly --

11 The Chairman. Let me tell you what tends to happen with the  
12 these economic assumptions. I think it will prove true today,  
13 and Mr. Wetzler can advise us on this.

14 As often as not, we look at these budgets and we look at the  
15 economic assumptions and if we proceed to second-guess these  
16 economic assumptions in the President's budget and say that they  
17 are more rosy than they are actually going to be, then that winds  
18 up with our projecting a much bigger deficit, because we do not  
19 buy their economic assumptions.

20 Would that be the case here, Mr. Wetzler, on the whole?

21 Mr Wetzler. Well, yes. The Administration's economic  
22 assumptions are probably somewhat unrealistic in their estimate  
23 of inflation. They predict about a 7.5 percent inflation rate  
24 over the year 1979 and most private forecasters are predicting  
25 upwards of 8 percent. The higher inflation rate would increase

1 your revenues and reduce the deficit that way. It would also  
2 increase the interest on the national debt because of the infla-  
3 tion; we would have to pay higher interest. It would increase  
4 your Social Security spending. It would increase the cost of  
5 the real wage insurance tax credit, if that were to be  
6 enacted and the net effect, then, of higher inflation is to have  
7 an increase in the deficit.

8 Now, the Administration's estimates of real economic growth  
9 are also somewhat higher than some private forecasters, but not  
10 significantly so. But again, to the extent that the Administra-  
11 tion may be overestimating real economic growth, then you know,  
12 using a more pessimistic estimate would increase your spending  
13 for unemployment compensation and welfare and reduce your  
14 revenues. But I think, on real growth, the Administration is  
15 somewhat closer to the private sector than they are on inflation.  
16 So there would be some difference.

17 The Congressional Budget Office, I have their assumptions  
18 which I can read to you and compare it to the Administration's  
19 if you like, Senator.

20 Senator Roth. I would be interested in having them.

21 Mr. Wetzler. In terms of real economic growth, real GNP,  
22 the Administration estimates a 2.2 percent growth rate between  
23 the end of 1978 and the end of 1979 and the CBO has a range  
24 from 0 to 2 percent, so you can see that the Administration is  
25 just about at the upper end of what the CBO considers to be a



1 helpful if we could have in writing the CBO comparison. I would  
2 just like to point out, those are very significant changes.

3 Take, for example, the case of the wage insurance plan. If  
4 you are talking 8.5 percent or higher, you are talking -- instead  
5 of 2-1/4 -- you are talking about \$7.5 billion to \$10 billion  
6 cost. I think that is something that I want to draw to the  
7 attention of the panel because, as I indicated by letter, I intend  
8 to make some proposals within the next day or two to cut taxes  
9 generally in a more affirmative way than I think the tax insur-  
10 ance plan is.

11 Thank you, Mr. Chairman.

12 The Chairman. I am hoping that we can get the decisions  
13 that we have to make made in the time that we have available to  
14 us. Somehow we manage to do these things. How much time do we  
15 have to work on this, Mike?

16 Mr. Stern. Three days, Mr. Chairman.

17 The Chairman. We have three days. Do we have a meeting  
18 scheduled for tomorrow?

19 Mr. Stern. Yes, sir. Today, tomorrow and Thursday.

20 The Chairman. Now, my thought is on this item here on the  
21 economic assumptions, if we are going to secondguess those  
22 economic assumptions, then I have no doubt that those economic  
23 assumptions are going to prove to be wrong in one direction or  
24 another, because things are going to change. But if we are  
25 going to try to secondguess those, then we have to change. There

1 are all sorts of things in this thing that will have to change  
2 before we get through, and it is going to take awhile to arrive  
3 at where our estimate is at variance with their estimate, and by  
4 the time we get through doing that, when we have done some of it  
5 in the past, we then wind up having our estimates a lot higher  
6 than they would be otherwise, because we undertook to second-  
7 guess economic assumptions.

8 What we wound up doing on a previous occasion -- and I think  
9 it would be wise to do it here -- is, for purposes of arriving  
10 at these figures that they have got to assume that their economic  
11 assumptions are correct and send it on in that way.

12 At the Budget Committee they are doing a lot of studies on  
13 the economic assumptions and all of that. If they want to work  
14 on a different basis, a different set of assumptions, let them  
15 suggest what the change ought to be, based on that. We simply  
16 say that, based on these assumptions, here is what it should be.  
17 Then, when we get up to the Second Budget Resolution and if the  
18 situation is changed and obviously the estimate proves to be  
19 in error because of what has happened since that time, in so far  
20 as time has passed and you see what the actual situation was, you  
21 could make your adjustments for it.

22 But, at that point, we are simply making an adjustment for  
23 fact, rather than making an adjustment for estimate. For us to  
24 come in with a different estimate on economic assumptions, that  
25 then causes us to look like a bunch of budget busters, because we

1 are estimating on a different set of assumptions than they are.  
2 It just creates problems for itself.

3 It seems to me that, that being the case, we would be better  
4 off just to assume that we have down, what they have got here, is  
5 a correct set of assumptions because those assumptions are  
6 cranked in, are they not, to the Social Security adjustments,  
7 the Social Security payments, and what else?

8 Mr. Stern. The SSI payments for the aged are tied to the  
9 cost of living also and probably unemployment benefits will be  
10 affected by this and there are other formulas, I think, that are  
11 tied to it.

12 The Chairman. Rather than go in there and change their  
13 assumptions and come up with a less optimistic set of assumptions  
14 that then puts us into the deficit, it seems to me we would be  
15 just as well off to make our estimates based on the assumptions  
16 here.

17 Senator Roth. Mr. Chairman, if I may make one observation,  
18 while I do have some reservations, I recognize the difficulty of  
19 the problem. At the same time, I just want to make the point  
20 clear, for example, I happen to be of the school that we ought to  
21 have some broad tax cuts as well as spending cuts this year in  
22 the overall budget and based on that, I do not want to be chal-  
23 lenged later that I am proposing a bigger deficit.

24 I just want to make the observation, for example, the  
25 so-called wage insurance plan, instead of costing \$2.5 billion, as

1 listed, I think, in this study, could very well cost \$5 billion  
2 to \$10 billion or even higher, depending on the rate of inflation.  
3 So if we are going to move on the assumptions by this Administra-  
4 tion, I do not think those of us who disagree with those assump-  
5 tions and who feel there is a more intelligent approach to get-  
6 ting the economy moving again, we do not want to be faced with  
7 the charge that our proposal may create a greater deficit.

8 With that reservation, I understand what the Chairman is  
9 saying.

10 The Chairman. I fully agree that what you are saying is  
11 correct, that real wage items, because of a number of things that  
12 have not been -- well, it may change. Perhaps there were some  
13 errors in the program to begin with. That figure might wind up  
14 to be \$10 billion.

15 Senator Dole. That is dead, is it not?

16 The Chairman. It is not dead until someone votes it down.

17 So I would think --

18 Senator Roth. As I say, Mr. Chairman, I hope this Committee  
19 would consider a flexibility in the area of taxes, whether it  
20 would be the President's proposal of wage insurance, which I have  
21 some reservations about, or some other approach, and I just want  
22 to lay the groundwork to make those proposals at a later time.

23 The Chairman. That will be respected.

24 Why do you not go ahead with this budget alternative that  
25 the staff has worked up here? I had not seen it until a half

1 hour ago, but I think the Committee ought to look at it, and I  
2 think it might move us into the problem areas as expeditiously as  
3 anything that we might do.

4 Mr. Stern. Let me reiterate the position that the Committee  
5 has taken in previous years. The decisions you are making now  
6 are budgetary decisions rather than legislative decisions, so that  
7 when you do wind up with a particular number, whatever may have  
8 been in your mind when you arrived at that number, it does not  
9 represent any kind of legislative commitment. It is only a  
10 budgetary commitment.

11 So, in light of that, the numbers that are shown here in this  
12 alternative assume that they are a way of arriving at a set of  
13 numbers that produces no higher of a deficit than the President's  
14 budget does, but arrives at it somewhat differently. Of course,  
15 the Committee will have its own approach to that.

16 These are some of the elements of it that will go into  
17 detail as we do it chart by chart. First, in the area of Social  
18 Security cash benefits, the staff alternative assumes that, while  
19 you can reach some savings, particularly in the disability insur-  
20 ance program, that it would be unrealistic to assume that you will  
21 reduce benefits as much as the President's budget assumes.

22 Senator Packwood. What are you assuming there, that we are  
23 not going to get rid of the burial benefits?

24 Mr. Stern. The elements of the President's program, that I  
25 will go into individually if you would like to, include not

1 only the lump sum benefits but the real significant items are  
2 in the disability area in phasing out student benefits. That  
3 would be the largest single item.

4 Senator Nelson. How much is the disability benefits savings?  
5 That only leaves a small part of the OASI proposed amendments?

6 Mr. Stern. In terms of the \$500 million in fiscal year 1980,  
7 that is less than \$100 million.

8 Senator Nelson. The other \$400 million?

9 Mr. Stern. Over the long run, it is a very significant  
10 savings, the other \$400 million, the largest immediate one is  
11 lump sum death benefits. The second is phasing out the student  
12 benefits.

13 The Chairman. What page are you on?

14 Mr. Stern. All right. If you want to look at these items,  
15 turn to page 26 of the blue book. That chart shows all of the  
16 elements of new legislation in the President's budget. They add  
17 up to something over \$500 million in fiscal year 1980, but by  
18 1984, they are more than \$4 billion.

19 If you are looking at the long run, the largest single  
20 item is ending the student benefits which ultimately will save  
21 \$1.8 billion and the second largest item is in the disability  
22 program.

23 The Chairman. Which are the big cost savers that you  
24 estimate might happen?

25 Mr. Stern. Well, I was actually being a little bit vague

1 about that, but I was thinking that you would probably do some-  
2 thing in the disability area, plus you might do some combination  
3 of some of the other things that the Administration is proposing,  
4 but whatever you choose to do, that it probably would not save  
5 more than a couple of hundred millions of dollars in the first  
6 year.

7 Senator Bentsen. Mr. Chairman, these proposals on cutting  
8 Social Security benefits are proposals that have been around a  
9 long time. They have been made by previous administrations with-  
10 out much effect, and politically, they are extremely difficult.  
11 You are talking about a \$600 million loss in revenue in fiscal  
12 1980.

13 I would propose that, instead of trying to do something that  
14 I frankly do not think can be done, that we ought to look at  
15 cutting out the Revenue Sharing for the states. There you are  
16 talking about \$2.25 billion.

17 Every state, there is not one state that has a deficit in  
18 the forthcoming fiscal year and I do not think it makes any sense  
19 at all to leapfrog their surpluses on the back of the Federal  
20 deficit.

21 Last year, we have a \$26 billion deficit. This year they are  
22 hoping that we have a \$29 billion deficit. With the deficit  
23 we are facing, that we should be paying from the taxpayers and  
24 then send that money to the states when they do not share the  
25 depth and the intensity of the problem that we are facing on the

1 Federal budget, it frankly does not make any sense to me, and  
2 I would strongly suggest that we look to that as an alternative  
3 to try to cut the budget and fulfill the responsibilities of this  
4 Committee.

5 The Chairman. I think what Senator Bentsen is saying should  
6 definitely be considered in the Committee in connection with this  
7 Budget Resolution because we are going -- a), it is my view that  
8 we should try to stay within the President's budget. He is  
9 recommending a deficit of \$29 billion. My thought is we should  
10 try to stay within it and I think that there is a lot of appeal  
11 to that, to even stay below that, cut the deficit and move towards  
12 a balanced budget.

13 So this Committee is usually a very fiscally responsible  
14 committee. I think this Committee is going to way to stay within  
15 the deficit that the President is recommending. We do not want  
16 to bear down on things that we do not want to do, and this is a  
17 good example right in here.

18 If we are going to stay within that figure we are going to  
19 have to do some things that we do not want to do, but we will do  
20 because of money, a squeeze on money.

21 While I do not personally favor what Senator Bentsen is  
22 recommending, it would be inconsistent, in view of the position  
23 I have taken in the past, to vote that way, the Committee might  
24 want to do that. If the Committee does want to do that, then  
25 I think we ought to think in terms of that as an alternative to



1 my state ten days ago, they reduced taxes by almost \$1 billion,  
2 \$915 million, and the idea that we should be taxing Wisconsin  
3 citizens, hauling the money out here, running it through the  
4 Federal bureaucracy, sending it back to the states and then having  
5 the state legislature meet and reduce the taxes is nonsense.

6 Senator Bentsen is referring solely to the question of the  
7 states' share of the general revenue sharing, not the cities'  
8 and municipalities', which is quite another question. So I  
9 think Senator Bentsen is correct.

10 One more point, on the OASI benefit reductions on students  
11 and death benefits and so forth, I do not think that there is  
12 much sense in wasting any more time on that. I do not believe  
13 the House is even going to bother to hold hearings. They are  
14 going to take up disability but the best intelligence I get is  
15 they are not going to take up the other items, although some of  
16 them ought to be modified.

17 I think you are really looking at \$100 million potentially  
18 for the disability and the other \$400 million not. There is  
19 one other point that we need to think about and that is whether  
20 or not Congress will override the Social Security Administration  
21 in changing the payment dates for municipalities and state  
22 governments for their Social Security. That regulation will go  
23 into effect in 1980.

24 Last year, sixty Senators in a letter expressed their  
25 opposition. That proposal has been modified somewhat, but if

1 Congress did decide to postpone the implementation of that  
2 regulation for a year, that would mean that the budget deficit  
3 on paper would go up \$2,100,000 because the funds -- they are  
4 counting on receiving these payments in July-August, 1980 and  
5 if you stick with the present law they will not receive those  
6 payments until October-November of 1980 which would be a different  
7 fiscal year and would cause the President's budget on paper to  
8 be \$2.1 billion.

9 We had hearings on that question and the municipalities,  
10 the League of Municipalities and the Governors came in objecting  
11 and raising certain points which I asked the Administrator, Mr.  
12 Ross, to respond to. He did, as of the day before yesterday or  
13 thereabouts. I am now sending that to the League and to the  
14 Conference of Governors. He refutes or he undertakes to contest  
15 their claims.

16 I am asking them to respond. We will not have that, I sup-  
17 pose, for two or three weeks. I have no notion of what Congress  
18 may want to do or whether they ought to do anything, but if they  
19 did anything, it is \$2.1 billion, about.

20 The Chairman. We are going to be under a great deal of  
21 pressure. When you look at what is being suggested in Social  
22 Security and welfare, cutting back on health programs. We are  
23 going to be under a great deal of pressure to find savings in  
24 that budget, find some savings in the present spending levels.

25 If the Committee wants to do what Senator Bentsen is

1 recommending, it eases the burden. It very greatly eases the  
2 burden. That is the largest portion of the money you are going  
3 to have to have.

4 Senator Bentsen. Even though you may vote against my  
5 amendment, Mr. Chairman, I hope at the appropriate time in the  
6 debate you will tell that story about Louisiana about the old  
7 gentleman who wrote to God and asked him to send him the money  
8 and then wrote him again to please next time not send it through  
9 the Governor's office, or Washington.

10 Senator Nelson. We ought to adopt Senator Bentsen's proposal  
11 today while the Governors are in tow so they can get the full  
12 enjoyment out of it.

13 The Chairman. It seems to me that if the Committee wants to  
14 take that attitude while the Governors are here, the Governors  
15 can find out about it and they can talk to their Senators and  
16 you would not have to count a hundred noses on this end to see  
17 if the Senate wants to do that and pretty well have some indica-  
18 tion if that is what is in store.

19 We are being asked to balance the budget by the majority of  
20 the states already and if the Committee thinks that this is  
21 something that we ought to do, then I think it would be helpful  
22 to know it. If they do not think that, I think it would be  
23 helpful to know that, too.

24 Some of these things we can debate from now until Kingdom  
25 Come without changing minds, so I indicated I cannot vote for it,

1 and I am not going to vote for it. There are good arguments that  
2 can be made; I think we can make some on the other side. But  
3 I have heard from of the arguments; they are very impressive.  
4 But we cannot do justice to it today in these budget proceedings.  
5 We cannot do justice to the merits of the issue. We just have to  
6 take a position on them and plan on debating it to an extent  
7 later on.

8 As far as I am concerned, I would be pleased to vote on it  
9 right now.

10 Senator Roth. Mr. Chairman, I have some reservations about  
11 doing it at this time. It seems to me we ought to go down our  
12 list so we have a better understanding of where we are going to  
13 set our priorities.

14 I have two reservations, even though I may support what  
15 Senator Bentsen is proposing. Number one, I am concerned that  
16 some people are construing this effort -- which I am sure is  
17 wrong -- as a means of telling the states not to move ahead with  
18 any kind of a Constitutional amendment. I would hope that was  
19 not the intent. I can see a great deal of merit in substance to  
20 your suggestion.

21 However, there is another question that arises in my mind.  
22 I do not know how exactly how we might work out of it, but one  
23 of my concerns is that the states, just like the private sector,  
24 is very much concerned about the red tape and mishmash that we  
25 have to get funds into the states. One of the simplest proposals

1 that Congress has adopted as far as getting revenue into the  
2 states has been revenue sharing.

3 I think you will find the number of people administering it  
4 are very significantly small, compared to these other programs.  
5 It may well be that a better approach is to get rid of some of  
6 these other programs that get money back into the states with a  
7 lot more red tape and administrative cost.

8 That is one of the problems that I have with this specific  
9 proposal. I am delighted to hear my brethren on the other side  
10 talk about about the problems of taking money from home and  
11 bringing it down here and getting a much smaller amount when it  
12 goes back to the states. I just wonder, rather than voting on it  
13 today, which I think could be construed for political reasons to  
14 tell the states that we do not want them to move ahead on the  
15 Constitutional amendment that we should, as we normally do, as  
16 I recall, go down through the various proposals and then set our  
17 priorities where we want to make the additions or cuts.

18 The Chairman. At some point, we have to start making some  
19 decision or giving some indication of what we feel. If anybody  
20 does not want to vote, he should just withhold his vote. I would  
21 like an indication of what the Senate thinks about it.

22 Senator Danforth. Mr. Chairman?

23 The Chairman. Yes.

24 Senator Danforth. I think one of the strongest arguments  
25 made in favor of cutting the states out of revenue sharing is

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that there has been an alleged substantial surplus in state budgets but one thought that has been raised to me but that I had never considered before, and just raised in the last couple of days, is that those figures on the surplus in the state budget have been called into question.

Senator Nelson. I did not hear that.

Senator Danforth. That the fact of the surplus in the state budgets has been called into question and it has been suggested that a portion of it, maybe all of it, is accounted for not by the general revenue accounts of the states but, instead, by state pension funds.

So I wonder if we could put this question off for a day or so so that the staff could at least tell us whether or not this is true, whether or not this surplus does, in fact, exist in the general revenue accounts.

The Chairman. Well, we just cannot do justice to any legislative proposal in a budget meeting, and to do that, we would have to hold hearings and we would have to bring all the different things that people want and when we do all of that, anybody can change his mind about the situation and say I do not favor that, and if everybody does not know what his position is going to be, he has a right to withhold his vote.

I would like to have an indication of what the Committee thinks about it. There may be no support at all; maybe there is a lot of support. I would like some indication.

1 Senator Nelson. May I make one point first?

2 I think one, we are talking about what you include in the  
3 Budget Resolution and, at a subsequent date, if you are going to  
4 deal with the question of general revenue sharing, I am sure we  
5 will have some hearings and people will wish to change their  
6 minds. All we are talking about is should we include this item  
7 in the budget resolution and one may vote for that and subsequently  
8 decide on the merits. I guess I am not going to go along with  
9 cutting general revenue sharing.

10 The Chairman. You can talk to your Governor tonight and  
11 come back here tomorrow and change your mind. That is all right.  
12 I would just like some indication of how the Senators think.

13 Senator Bentsen. What Senator Danforth has referred to,  
14 I think, is when they are talking about unfunded liabilities  
15 of the pension programs and a number of states do have unfunded  
16 liabilities, certainly you can throw that in as something  
17 to object to. When they have had unfunded liabilities for many  
18 years, I do not believe, is a fair objection.

19 The Chairman. I do not think it is going to change many  
20 minds anyway, but, at some point, there is always a time when  
21 you can just indicate how you feel about it and then you can  
22 change your mind later on. That is one way we do business here.  
23 You can reconsider a hundred times, if you want to, between now  
24 and the time that we finally vote on final passage.

25 Those who think they would favor --

1 Senator Byrd. Mr. Chairman, when revenue sharing was enacted  
2 some six or eight years ago, whenever it was, I was the only member  
3 of the Finance Committee to vote against it, so I have no problem  
4 with it. I do have a problem if we are going to eliminate revenue  
5 sharing and then add that amount of money to other categorical  
6 grant programs. Then I do not know what we have gained.

7 So, for that reason, I am not prepared to vote to eliminate  
8 revenue sharing at this time, although I voted against it originally  
9 and I am prepared to vote against it now, to eliminate it now, but  
10 I am not prepared to do it.

11 If, as was mentioned here a little while ago, that we are  
12 going to take that money and add it to other programs, that is not  
13 going to help the budget deficit any.

14 Senator Bentsen. Mr. Chairman?

15 The Chairman. Those who think they are in favor of the  
16 Bentsen proposal, raise your hands, if you think you are in favor.

17 (A show of hands)

18 Senator Bentsen. We have some convincing to do, I see.

19 The Chairman. Those who do not believe they could vote for  
20 it raise your hands.

21 (A show of hands)

22 The Chairman. That solves the problem, gentlemen.

23 Senator Bentsen. Mr. Chairman, that does not surprise me.  
24 That does not solve the problem, because a number of these gentle-  
25 men have stated that they might vote for it later and want some

1 questions answered, and I can understand that, so I do not take  
2 that as an indication that this Committee will not vote for it.

3 I also know if it does not happen here, I will be trying it  
4 on the Floor, and one of the interesting things to me is the  
5 number of former Governors who believe very strongly that this is  
6 what we should do.

7 The Chairman. Senator, I have all the information I need.  
8 We cannot proceed on the assumption we are going to pass the  
9 Bentsen motion right now. That being the case, let us go on.

10 Senator Nelson. I just want to say it is very hard to vote  
11 for something so specific. Why do we not pass a resolution  
12 voting to cut \$29 billion of waste from the budget? We could all  
13 vote for that.

14 Do not be specific about it.

15 The Chairman. Mr. Moynihan?

16 Senator Moynihan. Mr. Chairman, was it right to go by the  
17 Social Security item so quickly?

18 The Chairman. We are not by it, we are right at it.

19 Senator Moynihan. Well, I would just like to make a point, not  
20 in advocacy, that is not this conversation. We know the problems  
21 we have maintaining the fiscal integrity of that program. We know  
22 the tax increases we have had to levy, and the President has come  
23 along and proposed some reductions that are certainly in the range  
24 of responsible ones.

25 In particularly, I will say -- let's everybody say one

1 unpopular thing this morning. Can we agree to that?

2 The student benefits, which only began in 1965, they are not  
3 a part of the heritage of Franklin D. Roosevelt, or anything like  
4 that. Last year, thanks to the initiative of Senator Roth and  
5 Senator Packwood and myself, the President managed an enormous  
6 increase in the BOGS program. That is a program that was not  
7 available in 1965, but is available now, and I was talking to  
8 Senator Nelson who said, it is not probable that the House might  
9 act, but is it to be assumed if the House does not act that we will  
10 not?

11 The Chairman. No.

12 Mike, out of that list, why do you not touch on some of those  
13 that are going to be difficult to enact?

14 Senator Bentsen. Mr. Chairman, I have to go to another  
15 Committee. It is not because I have been momentarily delayed on  
16 revenue sharing. I shall return on that issue.

17 Senator Moynihan. You have not said your unpopular thing yet.

18 Senator Bentsen. I thought I qualified early on that one.

19 Senator Wallop. Mr. Chairman, one of the things I understood  
20 Mike to say was the possibility of savings in the disability  
21 program. As you all know, last year I had a bill and the Senate  
22 saw fit to repeal Section 224 of the disability of the Social  
23 Security Act, which essentially takes the Workers' Compensation of  
24 said provision and eliminates it.

25 It seems to me we have an obligation because the only people

1 who have that offset provision are those who are not covered by  
2 some other kind of disability insurance.

3 In other words, the least able to accommodate it, the workers,  
4 are the ones who are being asked to bear the full brunt of it.  
5 It is a hard \$20 million impact to bear than next year. Those  
6 who do not have to do it, the Civil Service retirement annuities,  
7 Railroad Retirement tax and other annuities, the VA program, we  
8 could eliminate these programs but, in all fairness, we thought  
9 to include those workers. Sometime during the year I will be  
10 making that as some sort of impact on this. We should be really  
11 consistent on it.

12 The Chairman. Mike, why do you not touch on the ones that  
13 are going to be the most difficult to do anything about?

14 Mr. Stern. The elimination of the lump sum death benefit  
15 payment is one that is not a particularly popular proposal.

16 The Chairman. I would hate to be the Floor Manager on the  
17 bill to do that, to take charge of it when that comes up.

18 Mr. Stern. Another one that would be phased in and have a  
19 significant effect in a few years would end the mother's benefits  
20 when all the children are over 16, rather than 18. I do not know  
21 which of these items has been selected as being the least popular.  
22 The groups who have spoken out against them have more or less  
23 spoken out against them en bloc.

24 It may very well be --

25 The Chairman. Just give us your estimate, what you think if

1 you are trying to persuade the Committee to vote for it, what do  
2 you think would be the most difficult ones to sell?

3 Mr. Stern. The elimination of the student benefits is diffi-  
4 cult to sell probably because it affects so many people.

5 The Chairman. So that is really a big item in contention of  
6 whether we are going to make much reduction, but the Administra-  
7 tion's argument there -- you have the loan program, is that not  
8 right?

9 Mr. Stern. They argue at this time there are different ways  
10 of assisting students who are more closely related to need where  
11 the benefits of the children or the Social Security program simply  
12 are there because of the death of the person's father, usually.  
13 In the first year, that would affect about 380,000 people. It  
14 seems to be sort of a fact when a benefit affects enough people  
15 it is difficult to change it.

16 Senator Moynihan. Is it not the case, Mr. Chairman, that  
17 the Administration does not propose to drop anybody from  
18 the program, just so they will not be admitted into it?

19 Mr. Stern. That is right. It would be prospective,

20 Senator Moynihan. Sort of a negative thing affecting people,  
21 people who would not be affected.

22 The Chairman. People who previously -- people coming to apply  
23 for it could no longer be eligible.

24 Mr. Stern. The way it works, you would ordinarily -- you  
25 would stop receiving benefits at age 18. If you are a student,

1 you could continue to receive benefits. If somebody is 16 years  
2 old now, they would not get the student benefits in the future.  
3 If you are getting student benefits now, you will continue to get  
4 them.

5 The Chairman. I take it, Senator Moynihan, you think that  
6 is something that we could do? That is an economy that could be  
7 achieved?

8 Senator Moynihan. I do. That is my one. Now I am finished  
9 for the morning, Mr. Chairman.

10 Senator Wallop. Does it count for your unpopular thing to  
11 say if you second an unpopular thing that has already been said?

12 The Chairman. That item right there would probably make a  
13 difference. If you want to think in terms of being able to save  
14 one point -- let us say a lot more than point two, that would  
15 be the big item that we would have to be looking at, would it  
16 not?

17 Mr. Stern. Yes, sir, that would. There are other things  
18 that could be done if you wanted to take a broader, more philosoph-  
19 ical view of the Social Security program itself and get into some  
20 issues that have not been raised by the Administration proposal,  
21 but to do something like that, usually you cannot have really a  
22 large impact on the immediate fiscal year because it takes awhile  
23 to enact something like that.

24 The Administration has assumed that its various proposals  
25 will be affected by the full fiscal year, so you have the full

1 fiscal year effect.

2 The Chairman. October.

3 Mr. Stern. That is correct.

4 As a practical matter, the more difficult something is to  
5 enact, the more effort is involved, the later the effective date,  
6 usually.

7 It is hard, even if you agree to the exact proposal, to make  
8 it effective during the full fiscal year.

9 The Chairman. Let us understand this, now. Is this  
10 correct, that a youngster terminates -- when a young person becomes  
11 18, he is no longer eligible for the benefits under the survivor  
12 program except if that person is a student in college, the benefits  
13 continue. Is that right?

14 Mr. Stern. That is correct, to age 22.

15 The Chairman. The recommendation is to take the view that  
16 we have loan programs to help those students if they need it and  
17 that type thing.

18 Senator Moynihan. And grant programs.

19 The Chairman. And grant programs. Loans and grants to help  
20 those students.

21 And those programs are based on need, so where if one goes  
22 to work or does not go to college he does not get it, and those  
23 who do, do get it. So that is a very substantial item there.  
24 I guess really it is sort of a guess as to what we think ought  
25 to be done about that item, to determine whether we want to

1 recommend this savings or not.

2 Senator Dole. What we know, and what Moynihan has under-  
3 scored, that might be one that we could take care of.

4 Mr. Stern. What you are trying to arrive at is a number that  
5 you think would accommodate what is possible to legislate and it  
6 may be that the staff alternative at \$200 million is too pessimis-  
7 tic. In terms of ability to legislate savings, it may be that  
8 you feel that there is a figure closer to what the President  
9 has budgeted. In the past, you have assumed that it is difficult  
10 to enact a bill that only cut Social Security benefits.

11 At such times as you have made reductions in Social Security  
12 benefits, it is usually in the context of a bill that also includes  
13 some increases and does some other things.

14 The Chairman. You are talking about \$10 worth of goodies for  
15 every dollar you have in cuts. That way, it is not too hard,  
16 to put a cut in there. When it is just a cut and you ask these  
17 people to vote for it, it is awfully hard to find enough votes  
18 to pass it. They do not like to say, "I voted for that."

19 Why do we not pass this one here? There is one of the  
20 items where we could, if we get closer to the Administration  
21 recommendation, we could come closer to balancing the budget.

22 Let's talk about the next one now.

23 Senator Nelson. I would like to say on that one, I do not  
24 want to go through the exercise of conducting hearings on this  
25 thing if the House is not going to act.

1 The Chairman. My guess is that if you are going to do it,  
2 you are going to have to pass it and send it to them and make  
3 them take it in conference. What we hear over there indicates  
4 they are not planning to do it, is that not right?

5 Mr. Stern. They are planning to act in the disability  
6 insurance area. If you want to go ahead and do these things, I  
7 would assume that would be an appropriate bill to add any addi-  
8 tional savings that you wanted to, so you would have a legislative  
9 opportunity.

10 But, as I understand it, all they plan to do right now is  
11 act on the disability proposals.

12 The Chairman. Could I ask you what your thought is, Senator  
13 Nelson? How do you react to that?

14 Senator Nelson. If they are not going to do anything, it  
15 would take an awful lot of planning. It would be hard to get  
16 hearings scheduled before November 15, 1980.

17 Let me check with the House side to see if they will deal  
18 with any of these.

19 The Chairman. Fine.

20 Mr. Stern. One thing I would like to mention in the Social  
21 Security cash benefit area, this appears on the chart on page  
22 16, which Senator Nelson referred to. The amounts shown in the  
23 President's budget under present law assumes the implementation  
24 of the Administration's regulations on accelerating state contri-  
25 butions.

1 Senator Nelson. What page?

2 Mr. Stern. Page 16. You will see there is a little footnote  
3 in the present law, income of \$117.2 billion. The footnote  
4 points out as soon as you are going to get \$2.2 billion on more  
5 frequent contributions from state deposits, by accelerating the  
6 payments you would get fourteen months worth of payments during  
7 the one fiscal year 1980.

8 If you think you are going to do something to prevent that  
9 from happening legislatively, you should make provisions the other  
10 way around. You should allow for a proposal that will reduce  
11 the income to the Social Security cash benefit trust fund. We  
12 have not assumed that you would do that for the purposes of this.

13 Senator Nelson. I did not have any notion whether the  
14 Congress wants to do that or not. The savings, if it is imple-  
15 mented, the actual savings in there would be about \$130 million.

16 Mr. Stern. That is correct. The real savings is savings  
17 and interest, but the fluke of having fourteen months worth of  
18 payments in that one fiscal year puts you in a position if you  
19 are going to delay it, you will be increasing the deficit.

20 The Chairman. I think that we could assume that we could  
21 save about \$200 million. As to whether we can do more depends on  
22 whether we think we could tackle something like that phase-out  
23 of student benefits.

24 That is what we will have to think about. As of this moment,  
25 I assume that, as of now, we are not in a position to say that we

1 think we can do that.

2 Let's talk about the welfare thing.

3 Mr. Stern. In the welfare area now, if you turn to page

4 36 --

5 Senator Dole. Before we leave that, there is nothing contem-  
6 plated that would provide for any rollback of Social Security,  
7 is there? Will that come later, would we discuss that later?

8 Mr. Stern. That is a revenue matter, per se, but we have  
9 not assumed that you are doing anything that will affect fiscal  
10 year 1980. The substantial tax rate increase occurs in January  
11 1981, fiscal year 1981 instead of fiscal year 1980.

12 One question is, if you want to do some of these things in  
13 the Social Security area, one of the reasons would be to offset  
14 part of the Social Security increase that otherwise would take  
15 place, but since that is a 1981 issue rather than a 1980 issue,  
16 we have not particularly addressed it in the blue book.

17 Senator Dole. I think it is something later on we will want  
18 to at least address and get it out in the open because there will  
19 be some proposals introduced that would, in effect, provide a  
20 rollback without damaging the system.

21 We could do it later.

22 The Chairman. Let us move to the welfare programs.

23 Mr. Stern. All right. I am on page 36 now.

24 The Chairman. The Administration there is assuming about  
25 \$300 million in welfare cuts.

1 Mr. Stern. This is one area where the Finance Committee in  
2 the past has approved savings in welfare beyond what the Adminis-  
3 tration has recommended. For example, eliminating the work  
4 expense deduction, the President's proposal would save \$80  
5 million. What the Committee has approved in the past would save  
6 three times that much.

7 And there have been other various things that you had pro-  
8 posed in the area of welfare programs for families to save money  
9 in quality control and some other areas that you might be willing  
10 to consider savings beyond what the President has recommended in  
11 this area.

12 One area that seems to be promising has to do with the  
13 retrospective reporting of income. Instead of a person coming in  
14 and saying what she expects her income to be during the next  
15 month, have her come in and tell you what her actual income was  
16 during the previous month.

17 In the demonstration projects that have been run on that,  
18 that seems to save a substantial amount of overpayments because  
19 the payments are based on actual income.

20 That is an example of something that you might do, or you  
21 might expand the use of it, and save some additional money.

22 The Chairman. You are saying, based on the kind of thing  
23 the Committee recommended in the previous Congress, this Commit-  
24 tee could say to the Budget Committee, "We think we could save  
25 \$700 million in this area."



1 area, you are saying in this area the combined figure of the  
2 President's budget and what the Committee is recommending is  
3 something that you are inclined to think we can achieve, not  
4 necessarily since this all falls in the same category.

5 If you cannot quite make it in welfare, we can make it by  
6 saving in Social Security or vice versa, right?

7 Mr. Stern. Yes, sir.

8 The Chairman. If there is no objection, then, then I think  
9 we will recommend in this area, we think we can stay within the  
10 President's budget. All right.

11 Next, Social Services. Tell us about that.

12 Mr. Stern. Social Services shows up as an item on page 42  
13 in the blue book. The total funding limit level for the basic  
14 Social Services Grant Program, including the child care element, is  
15 scheduled to drop from \$2.9 billion in '79 to its permanent level  
16 of \$2.5 billion. The President's budget assumes you will continue  
17 the \$2.9 billion level.

18 The other proposal in the legislative area really relates  
19 to increasing funds for child welfare services. This is a  
20 proposal the Committee has approved in the past. You may just  
21 find that you will have to delay the effective date on it in order  
22 to live with it.

23 The total amount, if you do not want to increase the deficit  
24 in the President's budget, on the other hand, if you feel there  
25 are some other areas where you feel you can save more money, there

1 is no reason to postpone this.

2 The other item that the President has recommended --

3 The Chairman. Give me that again, how you think?

4 Mr. Stern. There are two proposals here. One for \$400  
5 million and another one for a little less than \$100 million and

6 you have actually approved both of them in the past, but one  
7 possible way of saving some money would be to delay the additional

8 funding for child welfare for one year. The other element of that  
9 proposal was a limitation on foster care funds, and I presume

10 that you also would postpone the limitation.

11 The Chairman. Should we go with the President's recommenda-  
12 tion, Mr. Moynihan?

13 Senator Moynihan. I would go with the President's recommen-  
14 dation.

15 The Chairman. All right. Without objection, we will go  
16 with the President's recommendation.

17 Senator Roth. Instead of delaying, as you were proposing,  
18 for one year?

19 Mr. Stern. Include the amount for child welfare funds.

20 The Chairman.. All right.

21 Senator Roth. Mr. Chairman, I propose we delay according  
22 to the proposal of Mr. Stern. That would save how much?

23 Mr. Stern. The amount is \$85 million in fiscal year 1980,  
24 so \$.1 billion.

25 The Chairman. What page are you looking at now?

1 Mr. Stern. Page 42, the first item under proposed legisla-  
2 tion, the President's budget increase in child welfare services.  
3 This was the additional amount in connection with subsidized  
4 adoptions and moving children out of foster care and into subsi-  
5 dized adoptions.

6 The other part of the proposal that was agreed to last year  
7 was to put a ceiling on Federal funds for foster care.

8 The Chairman. May I propose a suggestion? Does this fall  
9 into a different category than one and two?

10 Mr. Stern. Yes, sir.

11 The Chairman. May I propose a compromise on that that we  
12 just reduce what is in item one and two by \$100 million so that  
13 we estimate there that in those two areas that we could get about  
14 \$100 million less and then take the President's recommendation  
15 on this item three.

16 Mr. Stern. All right. Then the net effect of all three  
17 would be the same in the President's budget.

18 The Chairman. Then you would wind up with the same figure.  
19 I think that would probably accommodate what Senator Moynihan would  
20 like to do and the overall balance, if we squeeze a little more  
21 out here and take care of this item down here.

22 Senator Moynihan. Mr. Chairman, it is the case that we are  
23 not bound by these categories. We are just bound by the total sum  
24 that we send forward.

25 Mr. Stern. Even in the First Resolution they were thought of

1 as being targets. The Finance Committee has always taken the  
2 position in filing an allocation report that it is free to shift  
3 money around as long as the total stays the same.

4 The Chairman. If there is no objection, we will adjust those  
5 two figures to come out, by saving \$100 million, an additional  
6 \$100 million on items one and two and come up with the President's  
7 figure on item three.

8 Now, tell us about the health program.

9 Mr. Stern. Before getting to that, Mr. Chairman, on page 46  
10 is a chart dealing with unemployment compensation. We have not  
11 assumed any additional funds for unemployment compensation in this  
12 staff chart but, on the other hand, the Committee and the Senate  
13 have approved in the past an increase in trade adjustment assis-  
14 tance. It was not proposed by the President, but I should point  
15 it out to you on page 46, the very last line. That has been an  
16 item that the Finance Committee has approved in the past.

17 Senator Roth. But the Senate did adopt that legislation and  
18 I think that it is legislation that will be important this year  
19 with the multilateral negotiations coming to a completion so that  
20 we should have this flexibility either by including it here; one  
21 possibility might be to delete the countercyclical revenue sharing  
22 funds and make those funds available for trade adjustment.

23 The Chairman. The thought occurs to me that there might  
24 be savings that could be made in the unemployment area so that  
25 there are some things in the unemployment area that appear to be

1 extravagant, wasteful, and maybe we might find some ways to save  
2 some money in the unemployment insurance area.

3 Some states run a much tighter ship than others do in that  
4 regard. That would save enough so that we could have your  
5 increased assistance inside this item here.

6 Senator Roth. Whatever approach gives us that flexibility  
7 is satisfactory to me, Mr. Chairman.

8 Mr. Stern. In effect, what that says is whatever amount you  
9 decide you want to spend for trade adjustment assistance you would  
10 find equivalent savings in the unemployment category.

11 The Chairman. I think Senator Boren is very ambitious about  
12 saving money in areas where money is being wasted in the unemploy-  
13 ment area.

14 Senator Boren. I think I can do that, Mr. Chairman. We  
15 certainly found that from state experience that we increased our  
16 reserves \$50 million in one year just in one state by making some  
17 changes.

18 The Chairman. If we just do a few of those things, then you  
19 could easily find \$100 million there and then I should think that  
20 should be easy to do, to find \$100 million in savings in areas  
21 where there are a lot of rip-offs.

22 All you have to do is look at that program, "60 Minutes," of  
23 all these people vacationing, these golf pros vacationing down  
24 in Florida and all of that sort of thing to find where you can  
25 save some dough. We could cover the cost of the trade adjustment

1 assistance just by saying that you take out some of these less  
2 deserving cases. That would be reducing some of the more deserving  
3 cases not presently provided for in the trade adjustment area  
4 which could be taken care of. I could hope we could adjust that.  
5 We would reduce it by \$100 million.

6 I would like to see us save more than that, but just for  
7 starters, commit ourselves that we are going to save \$100 million,  
8 or try. We think we can do it in the area above, and offset that  
9 in the parts below.

10 Senator Roth. We are talking about according to your figures  
11 \$300 million for trade adjustments. Is that correct?

12 Mr. Stern. No, sir. Last year's total was \$100 million and  
13 there have been other proposals.

14 Senator Roth. I was wondering where we got the \$.3 on page  
15 46.

16 Mr. Stern. I am sorry. That is trade adjustment assistance  
17 under the present law. We do not have any disagreement with the  
18 Administration's estimate under present law. The question is  
19 how much are we going to allow for new legislation.

20 Senator Roth. Additional, right, Mr. Chairman? As long as  
21 we have that flexibility, I am certainly satisfied.

22 Senator Dole. Could we address all of these areas that we  
23 had hearings on a couple of years ago, the very thing the Chairman  
24 mentioned, how some people planned their vacations?

25 Mr. Stern. Senator Boren has indicated he is interested in

1 moving ahead in his Subcommittee on some of these areas. The  
2 Committee itself has not had a hearing like that.

3 Senator Dole. The point I wanted to make, we apparently did  
4 not address all of the areas where we might possibly save some  
5 money. We had some hearings, I think, two or three years ago  
6 and had the Baseball Commissioner testify and others. A lot of  
7 people were misusing or abusing the program.

8 Mr. Stern. Yes. You acted in certain areas such as  
9 seasonal unemployment, such as professional baseball or teachers  
10 and you have done some other things and considered some other  
11 possibilities in connection with some of the extended benefit  
12 programs.

13 But I think there are still areas you might look into.

14 That takes us to a very large area, namely reductions in  
15 health programs.

16 Senator Nelson. What page are you on, Mike?

17 Mr. Stern. I am on page 48 under existing law. I guess  
18 really we might just go directly to page 52, because that is  
19 where the decisions are relating to new legislation.

20 Mr. Constantine. Mr. Chairman, we had a great problem with  
21 this one because the Administration's cost savings were grossly  
22 overexaggerated, based on assumptions we could not find credible  
23 at all and leading to enormous numbers.

24 They wound up with essentially \$1.7 billion in hospital cost  
25 containment savings, assuming enactment of their proposal. As we

1 understand it, they decided on the number and then the proposal  
2 was developed. All it means, very simply, is that to achieve  
3 the \$1.7 billion in fiscal 1980, hospital expenditures, rate of  
4 increase on hospital expenditures and overall expenditures would  
5 have to be limited to 6.4 percent in fiscal 1980, against CBO's  
6 projection of a 9 percent increase, just in the cost of goods and  
7 services which hospitals purchase. It is just an impossible  
8 number.

9 If the voluntary effort succeeded -- that is, the hospital  
10 voluntary effort, which was the standard last time -- the savings  
11 would be on the order of \$300 or \$400 million, we estimate.

12 Senator Nelson. Let me interrupt at that point. However,  
13 the CBO estimates \$1,050,000, I believe?

14 Mr. Contantine. No, sir. We have the CBO.

15 Senator Nelson. Are they not at \$1,050,000?

16 Mr. Constantine. On what, sir?

17 Senator Nelson. On savings to Medicare and Medicaid.

18 Mr. Constantine. No, sir.

19 Senator Nelson. Larry, what is the CBO's estimate of savings?

20 Mr. Gage. I think, Senator, Mr. Constantine is talking  
21 about estimates of the voluntary efforts of the hospitals them-  
22 selves working instead of a mandatory program. CBO made estimates  
23 about a voluntary program.

24 Mr. Constantine. Last year, the voluntary effort, the  
25 discussion was a voluntary effort for hospitals. A voluntary



1 speculating about something that nobody knows anything about  
2 because if you passed a mandatory act, you might very well have  
3 every state in the union meet the standard voluntarily before you  
4 triggered the mandate, or you might have half of them, or you  
5 might have one-third of them meet it. There are nine states that  
6 already have been meeting the standard and they are mandated  
7 states, so I do not know how you would end up on this, but I would  
8 be astonished if you adopted the hospital cost containment act,  
9 basically the same as we adopted last year, with a 9.7 trigger  
10 or a 10.3, depending on what the inflation rate was.

11 I would be astonished that there would not be a whole lot  
12 of hospitals the next year just needing it because if they did  
13 not, they are going to have to be dealing with a mandatory act.

14 I do not know what the figure is. I do not have very much  
15 confidence in committee staff figures, HEW figures, or my own.

16 Mr. Constantine. I think what we are really saying, Senator.  
17 We are not debating whether the Congress will enact a standby  
18 hospital cost containment program.

19 What we are suggesting, Senator, is that the \$1.7 billion  
20 savings is highly improbable in as much as it is based on a  
21 6.4 percent increase in expenditures, which is considerably less  
22 than the price increase alone for goods and services, let alone  
23 population, and so on.

24 We are just arguing about the number.

25 Senator Nelson. I think the Administration probably concedes

1 the 1.7 is high. Only one state in the union is meeting the 6  
2 percent now, and that is New York.

3 Mr. Constantine. Our problem became, in order to assist the  
4 Committee, and avoid again, as Senator Long termed it, budget  
5 busting simply because of inaccurate assumptions and exaggerated  
6 assumptions by the Administration was to come up with kind of a  
7 budget buffet here where we put on page 54 to give the Committee  
8 some possible alternative approaches assigned to achieve savings  
9 approximating the magnitude of those in the President's budget.  
10 In addition to that \$1.7 billion, they have another \$200 billion  
11 savings by requiring that employers who employ older workers,  
12 people over 65, to pay benefits before Medicare does on health  
13 insurance, that the private insurance may not address for the  
14 fact of Medicare coverage.

15 We think it is unlikely that Congress -- we think it is  
16 completely unlikely that Congress would do that. It would dis-  
17 courage the employment of older workers in many cases and lead  
18 to increased costs and, in effect, involve a triple tax on the  
19 older worker.

20 So we had all of this money to try to give you alternatives  
21 on and that is why we just came up with a range of fairly tough  
22 suggestions.

23 Senator Dole. What do they add up to?

24 Mr. Constantine. \$1.5 billion, Senator, if you did all of  
25 them.

1 Senator Dole. Mr. Chairman, can I say that I think if we  
2 take Jay Constantine's \$1.5 billion and add it to the President's  
3 \$1.5 billion it can be done. I wish that you had not mentioned  
4 that you were going to cut down on it, because obviously it is a  
5 little -- I am glad you did. I do not have to say for you that  
6 it is possible to hold hospital costs to a 6 percent figure.

7 Senator Nelson. I do not think there is any question about  
8 that.

9 Senator Moynihan. It can be done, and it is a true saving.  
10 There will not be less health. If we can get the 1.5 and if Jay  
11 has another 1.5 he can get, let's take both. We have to cut the  
12 budget and we have to hold down these costs. It can be done.

13 Mr. Constantine. We were simply saying, Senator, that  
14 certainly it is possible. You can make it any number. That is  
15 possible. But the 6.4 percent, Senator, that is considerably  
16 less than simply the price change, let alone population change.

17 So we simply just felt -- you certainly can save some, but  
18 we thought that the amount -- there was no way Congress was going  
19 to put a mandatory program in effect.

20 Senator Moynihan. I think we should think of our wishes  
21 here and let this assumption -- if this Committee takes the lead,  
22 Congress will follow. Certainly they will follow Gaylord Nelson.

23 Senator Dole. They did last year, part of the way.

24 Is there anything different about New York? I do not  
25 understand how they can do that. They do not do well in other

1 areas.

2 Mr Constantine. They are very rough, they are very tough.  
3 In their hospital regulation they are very fair in many areas.  
4 They have effective review. They are oppressive. The hospitals  
5 will also tell you they are unfair. The jury is still out on  
6 it.

7 I do not think they have held the overall rate of expendi-  
8 tures to 6 percent. The overall rate, Senator, not the per diem  
9 cost. You have population changes and so on.

10 Senator Dole. What is the overall rate?

11 Mr. Constantine. In New York? I do not have that handy.  
12 We can check on that for you, but New York is atypical. A lot of  
13 it occurred because of their budget problems in New York.

14 Senator Moynihan. A lot of it occurred because we decided  
15 we had to do it. It can be done. It just does not follow that  
16 there is no way that you cannot have a 12, 15, 20 percent  
17 increase every day. You say no, we cannot afford it, and it  
18 happens.

19 Senator Nelson. Of course, the Administration is not even  
20 asking that. They are saying we will give the hospitals 2.5  
21 percent above the inflation rate.

22 Mr. Constantine. No, sir. Not under this, they cannot.

23 Senator Nelson. Under the hospital cost containment proposal  
24 it will be about that. Would it not be?

25 Mr. Gage. 2.5 percent, it works out to be.

1 Senator Nelson. When they were assuming 7 percent, it was  
2 9.5.

3 Mr. Gage. The President's guideline is based on 1.8 percent.

4 Senator Nelson. At least we are not asking them to go where  
5 New York is, although there are a number of very good hospitals  
6 and big ones that have met as low as 7 and 8 percent. There is  
7 one in my state that has.

8 But they are not asking the hospital to go where New York  
9 has gone in terms of the percentage. They are asking them to go  
10 about 2 percent above the inflation rate, and I do not think there  
11 is hardly a hospital in this country if they discipline them-  
12 selves that could not meet it.

13 Mr. Constantine. If you had asked them, using that assump-  
14 tion that Mr. Gage just gave you, would they have to revise their  
15 estimated savings? If they follow that in fiscal 1980, would  
16 your budget savings be less? I think your answer would be less,  
17 because they could not assume a 6.4 percent increase.

18 They are assuming --

19 Senator Nelson. I think they will concede that 1.7 is high,  
20 do they not, Larry?

21 Mr. Gage. The \$1.7 billion savings is based on the President's  
22 voluntary guidelines being met, Mr. Chairman. Those guidelines  
23 were set in December. They are tough. They were tough as the  
24 rest of the President's anti-inflation guidelines were for the  
25 country. 9.7 percent for hospitals and an additional .5 percent





1 twelve months. My friend, Senator Danforth, says it is supposed  
2 to be fighting inflation. Well, I have to do for the President  
3 what he has not done himself. He sent a budget that are not  
4 true savings, or savings that are anticipated that will not  
5 occur.

6 We have to cut.

7 Senator Dole. That is not unusual for Presidents to do that.

8 Senator Nelson. You would not do that.

9 Senator Dole. No. I do not want to defend President Carter,  
10 but other Presidents have done the same.

11 Senator Moynihan. A good point. You are a wise and  
12 experienced man. We have to do some reducing. Let's at least  
13 say we will reduce as much as the President says. Let's apply  
14 the muscle to what he says. There is an element in this to say  
15 I tried, but unhappily.

16 Senator Dole. The problem is, it is not realistic. I do  
17 not think that is the problem. The President makes the very point  
18 you just made.

19 Senator Nelson. Why do we not pass the thing? We are going  
20 to meet tomorrow and the next day and get back to it and, at  
21 some stage, if necessary, have a vote on it and decide what we  
22 want to do.

23 What is your next item, Mike?

24 Mr. Stern. The next item after health is in the revenue  
25 sharing area, on page 56.

1 Senator Dole. Could I ask a question before we leave that  
2 area? I think I know the answer. There are a number of bills  
3 pending on health insurance and I hope that there will be a  
4 Republican proposal. I assume none of these will be effective  
5 in 1980, is that correct?

6 Mr. Stern. Yes, sir. We assume you need at least 18 months  
7 lead time in any real, significant proposal. We did not assume  
8 any impact in fiscal year 1980.

9 Senator Dole. The so-called Long-Ribicoff, and also other  
10 bills that address national health insurance, none would impact  
11 until '81?

12 Mr. Stern. That is right.

13 The first item on page 56 is the countercyclical revenue  
14 sharing item.

15 Mr. Morris. The Administration has proposed an extension  
16 of fiscal assistance to state and local governments of \$50 million  
17 for fiscal '70 and \$150 million for fiscal 1980. There has been  
18 introduced legislation by Senators Moynihan and Danforth which  
19 will continue those programs at roughly \$500 million for fiscal  
20 '79 and roughly \$700 million for fiscal year 1980.

21 For purposes of this budget exercise, we have included  
22 roughly the Administration's recommendation of \$200 million for  
23 fiscal year '79 and '80.

24 Senator Danforth. Mr. Chairman?

25 Senator Nelson. Senator Danforth?

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1 Senator Danforth. I think it is important to bear in mind  
2 that there is a difference between countercyclical revenue shar-  
3 ing and targeted revenue sharing. I have talked to Senator  
4 Moynihan about this, and we will be willing to concede the  
5 trigger figure, which I think is 6.5 percent of the President's  
6 countercyclical revenue sharing, so that would leave in question  
7 for budget purposes only the so-called targeted revenue sharing  
8 and their fear, the difference in cost there, it would be about  
9 \$340 million under the bill that we have introduced, as opposed  
10 to -- I think the way this works out, the President has got \$250  
11 million in '79 and \$150 million in 1980, where we would have  
12 \$340 million in both.

13 Now, I really feel that I have sort of a stake in this.  
14 You will remember last year we had something of a fight on counter-  
15 cyclical revenue sharing with Senator Moynihan very strongly  
16 taking the position in favor of a significantly more expensive  
17 countercyclical revenue sharing measure, supported, as I recall,  
18 by Senator Bentsen.

19 We had a big fight in the Finance Committee on it and then,  
20 I think, as I recall, there was a tie vote, or a very close vote  
21 in the Committee and then we went out on the Floor and went  
22 through the whole thing again for several hours and we finally  
23 arrived at a compromise between the two positions which I think  
24 all of us felt was fair.

25 And therefore what happened as this Congress convened was



1 Mr. Stern. 0.3 instead of .2. In actual millions of dollars,  
2 it would be 340 instead of 150 in fiscal year 1980, about \$200  
3 million more in money. It rounds to .3 and .2.

4 Senator Nelson. I remember the debate over that issue last  
5 year, but I would like to refresh my memory upon it. I think I  
6 was on the other side from Senator Bentsen and so forth on that  
7 issue.

8 Why do we not -- it is four minutes to twelve. Why do we  
9 not just let that one ride until tomorrow, and I would like to  
10 take a look at it myself, because I cannot recall all of the  
11 specifics of it, and what time did the Chairman want to meet  
12 tomorrow?

13 Mr. Stern. 10:00.

14 Senator Nelson. If it is all right, we will adjourn until  
15 10:00 tomorrow morning.

16 (Thereupon, at 11:55 a.m., the Committee recessed to  
17 reconvene on Wednesday, February 28, 1979 at 10:00 a.m.)

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