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EXECUTIVE SESSION

~~WEDNESDAY~~  
TUESDAY, JULY 27, 1977

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

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

Present: Senators Long, Talmadge, Ribicoff, Nelson, Gravel, Bentsen, Hathaway, Moynihan, Curtis, Dole and Danforth.

Senator Ribicoff. The Committee will be in order.

Mr. Stern, will you explain the situation as it affects the Budget Resolution of the Finance Committee?

Mr. Stern. Yes, sir.

The Senate Budget Committee will be marking up the Second Budget Resolution beginning on Friday of this week. This resolution has to be acted on by the Congress before the beginning of the fiscal year. The Second Budget Resolution is a binding resolution. That is, the totals in the Budget Resolution can be enforced by raising points of order against bills that exceed the Budget Resolution so that this is not only a target, this is more than just a target.

The Chairman of the Budget Committee, Senator Muskie, has

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1 sent a letter to the Finance Committee asking for its  
2 recommendations in legislation having major budget impact  
3 during fiscal year 1978.

4 Basically, we are talking about three measures. One is  
5 Social Security financing. The second is public assistance  
6 and social services, H.R. 7200. The third is the energy tax  
7 bill.

8 The Committee has a number of other bills, but none of  
9 them have significant budget impact in fiscal year 1978, so  
10 that the question is, how much should you allow for your  
11 legislation in Social Security public assistance and in the  
12 energy tax area?

13 The amounts that are already included in the budget, in  
14 the First Budget Resolution, the staff feels will be adequate  
15 in the public assistance area. We think that you can readily  
16 wind up just about where you were in public assistance, that  
17 is, have a bill that has a net cost of over \$450 million.  
18 That is what your target was in the First Resolution and we  
19 believe you will be able to fit within that target.

20 In Social Security, however, the First Budget Resolution  
21 assumes that you would make savings of \$800 million through  
22 various benefit restructuring. You may be able to do that.  
23 In fact, we have some materials that we have prepared where  
24 you can look and see if you want to do that in the course of  
25 your legislating on social security. That is a very substantial

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1 reduction in Social Security benefits in particular areas.

2 The First Budget Resolution also assumed that you would  
3 save \$800 million in Medicare through hospital cost contain-  
4 ment, Medicare and Medicaid. You may come to the conclusion  
5 that it is unrealistic at this time to assume savings of  
6 that magnitude, but the point is that if the Budget Committee  
7 now writes into the Second Budget Resolution that savings of  
8 that magnitude shall be achieved, then you would have to come  
9 up with legislation to do that, so that your recommendations  
10 will be quite important in this area.

11 Finally, the energy tax bill, although the House Energy  
12 Tax Bill overall raises money, as is usual with the tax bill,  
13 the tax reductions go into effect right away and the tax  
14 increases go into effect in the following year, so that the  
15 actual impact of that bill is a loss of \$1 billion in revenue  
16 in fiscal year 1978.

17 Senator Curtis. May I ask a question, Mr. Chairman?

18 Senator Talmadge. Senator Curtis.

19 Senator Curtis. You said this next resolution is a  
20 binding one. Does the Senate have power to amend it at a  
21 later date once it is adopted?

22 Mr. Stern. It does, but it would have to be amended by  
23 both houses.

24 Senator Curtis. By both houses?

25 Mr. Stern. The whole resolution would have to be amended.

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1 Senator Curtis. Can a waiver be granted after it  
2 is adopted?

3 Mr. Stern. Well, the enforcement mechanism in the  
4 Budget Act is through raising points of order. Yes, the  
5 points of order could be waived or could be voted down.

6 In other words, if the majority of the Senate wanted to  
7 proceed --

8 Senator Curtis. The procedure now is they refer to it  
9 as a budget waiver?

10 Mr. Stern. The budget waiver is usually for questions of  
11 timing. Certain types of a bill cannot come up before a  
12 certain date or after a certain date.

13 Senator Curtis. Before we started debate on public  
14 financing, why the Senate passed a budget rule just yesterday  
15 or the day before which I assumed was based on the fact that  
16 the cost of that was not in the budget and they had to have  
17 a waiver.

18 Mr. Stern. I think that the usual reason for a waiver is  
19 a procedural reason to suspend some procedural requirement,  
20 whereas the enforcement mechanism, whereas the enforcement  
21 mechanism I am talking about is supposing the income mainte-  
22 nance category has a certain amount of money allowed for  
23 it and the Finance Committee will report out a bill that  
24 would cost \$1 billion more in Social Security, then someone  
25 could raise a point of order.

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1 Senator Curtis. I think that we have a very serious  
 2 problem here. If we are expected to state how much money  
 3 will be raised, how much revenue will be lowered on an  
 4 energy proposal that we have not had a day of hearings on  
 5 and if we agree to a figure, we have abdicated as a Committee,  
 6 we have given up all right to examine the details of the  
 7 law, and we have given up all right to ascertain what type  
 8 of laws will produce the most energy. We have given up  
 9 the right to examine a proposal and say that it is just or  
 10 not, because we put blinders on our eyes and say, here is the  
 11 figure that they adopted, and then on the Senate Floor say  
 12 you have already made that decision. It is a decision even  
 13 before we have the proposition stated.

14 What is the deadline that we have to respond to the  
 15 Budget Committee's request?

16 Mr. Stern. Basically, if you are going to affect what  
 17 they do, you are going to have to respond by tomorrow after-  
 18 noon, because their mark-up begins on Friday. They are going  
 19 to try to complete it in a day, day and a half.

20 Senator Curtis. Is there a deadline?

21 Mr. Stern. In terms of influencing what the Budget  
 22 Committee does, the deadline would be Friday morning first  
 23 thing.

24 Senator Curtis. When does the Budget Committee have to  
 25 act? That is fixed by statute, is it not?

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1 Mr. Stern. The Senate has to pass the Second Budget  
2 Resolution by September 15th. It has to pass it by then.  
3 Of course, the Budget Committee has to act before then.

4 Senator Curtis. There is no lawful authority for the  
5 Budget Committee to compel us to answer by Friday of this  
6 week?

7 Mr. Stern. No, there is nothing that compels you to  
8 answer at all. The statute itself only writes a role for  
9 the Committees on the First Budget Resolution in the spring.

10 Senator Curtis. Does the statute fix the time that we  
11 have to report to Budget?

12 Mr. Stern. The statute does not fix any Committee role  
13 at all, except for the Budget Committee, for the Second  
14 Concurrent Resolution. The Finance Committee could easily  
15 do nothing at all.

16 On the other hand, the Budget Committee will proceed on  
17 its way and will put numbers in which everybody will have to  
18 live with.

19 Senator Ribicoff. When is that date, Mr. Stern, that  
20 you have to have something definitive for the Budget Committee?

21 Mr. Stern. You would have to give them a letter by  
22 tomorrow afternoon. The mark-up starts Friday morning.

23 Senator Curtis. Who said that?

24 Mr. Stern. The Budget Committee wrote a letter; Senator  
25 Muskie wrote a letter.

1 Senator Curtis. That is what I am getting at. They do  
2 not have to take their decision to the Floor until September  
3 15th.

4 Mr. Stern. They have to take their decision to the  
5 Floor before the 15th because it has to be acted on by the  
6 Senate on the 15th.

7 Senator Curtis. They want it on energy; we have not  
8 had a day of hearings.

9 Senator Talmadge. We have the same problem in Agricul-  
10 ture.

11 Senator Ribicoff. I wonder, Mr. Chairman, if we could  
12 not authorize the Chairman and Senator Curtis to consult with  
13 one another on behalf of the Committee and send a letter to  
14 Senator Muskie's Committee with their best educated appraisal  
15 as they see this developing in the next month. You have so  
16 many large items in the energy tax bill and the Social  
17 Security financing that I do think that I have an obligation  
18 to come up with some sort of an estimate.

19 Senator Talmadge. I agree with that.

20 Senator Curtis. We are pretty bound by it.

21 Senator Ribicoff. That is right. That is why I think,  
22 between the Chairman and Senator Curtis, they can consult in  
23 the next day or so with the other members of the Committee  
24 and authorize them to send a letter on behalf of the Committee.  
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raising \$2.6 billion in calendar year 1979 and by 1982 they raise \$11.4 billion by removing a ceiling. Over the five years, it is \$30 billion.

The increase in employee taxes by raising the wage base in \$600 increments four times raises \$4 billion in the next five years. They suggest reallocating some of the Medicare trust funds beginning in 1978 and that is a shift of \$7 billion.

They would increase the self-employment tax rate --

Senator Talmadge. Would you yield at that point?

Mr. Stern. Yes, sir.

Senator Talmadge. The Medicaid Trust Fund is in worse shape than the other one, is it not?

Mr. Stern. It is not in good shape. It is not in worse shape than the other one. It will run out of money in the late 80's rather than the early 80's.

Another item, really, is a response to a court decision on equal treatment of men and women, and this is the Administration's proposal, to require wives, widows, husbands or widowers to meet a dependency test in order to qualify for dependents or survivors benefits. That is estimated to save \$3 billion over the period.

In total, you have \$59 billion worth of financing changes under the Administration's proposal over the next five years.

Senator Curtis. May I ask a question right there?

You have it tabulated there, additional employer tax,





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1 revenues than we have provision for, because the tax does  
2 not come into being. It must mean that this is going to  
3 increase debt.

4 Mr. Stern. Yes.

5 As Senator Curtis pointed out, the general revenue is not  
6 actually any increase in revenues to the Federal government  
7 from the private sector.

8 I assume that they had in mind was to have a lower  
9 economic impact in the next couple of years by simply having  
10 a bigger debt.

11 Senator Gravel. Also projecting a lowering of unemploy-  
12 ment. That is what you stated earlier; they projected less  
13 than 6 percent.

14 Mr. Stern. That is correct, the level of unemployment,  
15 would go down.

16 The staff has prepared an alternative for your considera-  
17 tion, which is outlined on page 11 of the same pamphlet and  
18 to characterize it briefly, it eliminates two elements in the  
19 Administration's proposal, the general revenue financing, the  
20 transfer of funds from the hospital insurance program. To  
21 make it up, it takes the other elements of the President's  
22 proposal and changes the effective dates so under this alterna-  
23 tive, you would remove the ceiling on annual wages for the  
24 employer tax beginning January 1978 rather than achieving  
25 that fully in January 1981.

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Senator Ribicoff.. How much does that raise?

Mr. Stern. That raises \$48 billion over the five-year period, \$48 billion. This is shown on the table on page 12.

Senator Nelson. \$48 billion instead of \$30 billion?

Mr. Stern. Yes.

Again, the Administration does recommend an employer or employee tax rate increase beginning in 1985. This would move that up for four years so it will become effective in January, 1981. That would be an increase of a half a percent, a quarter of a percent each on employer and employee.

That would bring in -- well, in the five-year period, it would bring in an additional \$12 billion; for the four years I guess it would be about \$25 billion additional funding. If we are just looking over the next five years, it brings in an additional \$12 billion.

The Administration's self-employment tax rate increase under this proposal will be deferred at the same time as the employer-employee tax rate occurred, namely 1981.

This assumes that you would accept the increments in the employee wage base that the President proposed in 1979, '81, '83 and '85. We assume no transfer of fundings from the Hospital Insurance program. All of the funds that you gain by raising the wage base --

Senator Ribicoff. What would that bring in, number 3? How much would that bring in?

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1 Mr. Stern. The self-employment tax?

2 Senator Ribicoff. Yes.

3 Mr. Stern. That would bring in \$1 billion compared --  
4 well, the increase in the wage-base for employees would bring  
5 in \$3 billion as under the Administration bill, and as I  
6 mentioned, all of the additional funding that you would get  
7 out of raising the wage base would go into the cash benefit  
8 program, not into the hospital insurance program.

9 Senator Curtis. Increasing the wage base on employees  
10 would bring how much?

11 Mr. Stern. Would bring in \$48 billion.

12 Senator Curtis. \$48 billion, and that is a tax deduction  
13 to the employers?

14 Mr. Stern. That is correct.

15 Senator Curtis. It is a tax deduction. Has anybody ever  
16 figured out how much of an increase in corporate tax, that  
17 would be equivalent to what kind of increase in corporate  
18 tax?

19 Mr. Stern. We have asked the Joint Committee staff what  
20 they thought would happen if the tax were applied. Their  
21 assumption is -- the question really is how much of the  
22 increase is going to be absorbed by the employer. Their view  
23 is the employer increase would be passed along in the form  
24 of higher prices, and therefore there would be no loss in  
25 general revenues.



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The Treasury Department took the view that the entire increase would be absorbed, so that gives you the whole range that you should apply. That is the difference between the Joint Committee staff and the Treasury Department.

Senator Curtis. Whose guess was that, that employees would pay it all, would absorb it all?

Mr. Stern. The Treasury Department. That is to say, would absorb it all and therefore deduct it from taxes.

Senator Curtis. If it would not be confusing, I would guess if they find the money and it would not cost anybody anything.

The Chairman. It is ridiculous to assume they are not going to pass it on to the public in the price of the product. As far as the employers are concerned, that is a sales tax, a value-added tax, by payroll.

I have had many businessmen from sawmill operators on up say if you levy a flat across-the-board tax on me, whether I make a profit or not, as you do with the Social Security tax, I can pay it if the other guy can pay it. We both have to pay it. It does not either help or hurt my competitive position, compared to the other guy.

I will just have to add that to the cost of my doing business, so will he. Nobody but an idiot would keep doing business at a loss, so you design it to the cost of doing business and add on.



1 eliminate it.

2 It seems to me that that is the way to do it.

3 Mr. Stern. If you look at the series of charts, number 2,  
4 that is before you, if you look at the top, you will see a  
5 comparison between the Administration's proposal and the  
6 alternative in terms of the balances in the trust fund. You  
7 can see they are very close for the next five years. After-  
8 wards, since the tax rate increase goes into effect earlier  
9 in the alternative, it raises somewhat more.

10 Senator Curtis. Does that give credit, in that chart,  
11 for the counter-cyclical transfer of funds?

12 Mr. Stern. That is correct. It is taking that proposal  
13 at face value.

14 Senator Curtis. Then that position of the government  
15 in toto is probably better under the Chairman's proposal?

16 Mr. Stern. Under this alternative, it is all additional  
17 money to the government, no transfers involved from the  
18 hospital fund or general fund.

19 The Chairman. The only thing that bothers me about  
20 the Administration's proposal, it is not easy to find enough  
21 taxes to finance this government, but I am sort of proud of  
22 the fact that this Committee has been willing to raise the  
23 taxes to finance the programs that this Committee is entrusted  
24 to handle, Social Security being the prime example.

25 Now to start this thing with the program that the Finance

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1 Committee itself has entirely within its jurisdiction in both  
2 the money-raising and the spending, to start the precedent of  
3 having that program financed by the Federal Reserve printing  
4 press, to me is kind of ridiculous when this is one program  
5 where you can get the vote to raise the money to pay for it.

6 And if this Committee cannot muster the votes to do that,  
7 it seems to me we are just not up to what the country has  
8 a right to expect of us. We have the potential to do it.  
9 The only thing that would stop us from doing it is people  
10 trying to pretend that you can have these benefits without  
11 paying for them.

12 Of course, in the short-run you can finance yourself  
13 with printing press money. In the long-run, the money will  
14 not be worth the paper it is printed on. I do not know why  
15 we should get into this type of thing with this type of  
16 program when we have as much support for the Social Security  
17 program as anything that the government does.

18 If you cannot find the money to pay for it, you cannot  
19 find the money to pay for anything, it seems to me. All we  
20 have to do, by my thought, is say, well, you want to raise  
21 that tax? Okay, instead of doing it in three steps, do it  
22 in one. You do not use the printing press money.

23 Senator Bentsen. I understand taking the ceiling off  
24 the employers results in \$48 billion, is that correct?

25 Mr. Stern. That is correct, over a five-year period.

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Senator Bentsen. Over a five-year period.

What does it mean in the first year?

Mr. Stern. In calendar year 1978, that gives you \$6.6 billion, of which \$2.5 billion accrues in fiscal year 1978. When you take the ceiling off, you get almost all of your money, or a very large preponderance of your money, in the fourth quarter, because in the first quarter, not many people make more than \$16,500 a quarter. The same thing is true of the second quarter.

Then you pick up a fair amount in the third quarter, most of it in the fourth quarter.

Senator Bentsen. I am trying to determine the impact in that period of time, that is all, Mr. Chairman, to try to get a feel for it.

The Chairman. It would hardly impact at all for the first six months of the next year. It would not impact this year, it would not impact for the six months of the following year.

If all of these things we are doing are going to do any good, we should have the economy rolling by that time.

Senator Bentsen. You are not impacting in the first part of next year. Most of it phases in later. That is what I wanted to be sure of.

Mr. Stern. That is correct.

Senator Bentsen. This is five years?



1 Mr. Stern. When we are talking about \$48 billion, we  
2 are talking about five years. Each year the impact is toward  
3 the end of the year.

4 Senator Nelson. It will be about \$3.5 billion per year  
5 average on the employer.

6 Mr. Stern. No, it will be more than that. It would be  
7 more like --

8 Senator Nelson. I mean, between the \$30 billion, between  
9 the phase-in by the Administration which is \$30 billion and  
10 the \$48 billion, there would be an additional \$3.5 billion?

11 Mr. Stern. There would be an additional \$6.6 billion in  
12 1978, because they have no increase in '78. Then, in '79, an  
13 increase of \$5 billion or so.

14 The Chairman. I think we should give as much flexibility  
15 as we can in this area. What we should be doing right now,  
16 until this matter is resolved legislatively, what is the best  
17 flexibility we can give ourselves on the Social Security tax  
18 problem?

19 Let me ask you, budgetwise, does it help the budget if  
20 we did assume that we are just going to take the printing press  
21 money approach? That does not reduce the overall budget  
22 deficit, does it?

23 Mr. Stern. No. That does not affect revenues; it does  
24 not help you any.

25 Senator Curtis. Mr. Chairman, if I may ask a question,

1 before you came in, I very much approved of the procedure  
 2 here that we go through and refresh our minds on what the  
 3 Administration recommended, and the staff's and your proposal,  
 4 and then I have a couple of suggestions that I would lay before  
 5 the Committee so that we can look at them.

6 You have had notice, so before we start to vote, I  
 7 would like to present them.

8 Senator Nelson. Let me ask a question on that. Are you  
 9 assuming a mark-up of the bill in the next two days?

10 Senator Curtis. I do not know about that. What I mean,  
 11 arriving at a tax, we have worked on something that we would  
 12 like to suggest.

13 Senator Nelson. You said the vote. That is the reason  
 14 I raised the question.

15 Senator Curtis. I mean before we arrive at a decision.

16 The Chairman. Let me tell you a thought that had occurred  
 17 to me. One, this Budget Resolution does not have to be agreed  
 18 to until September 15th. Two, I think that it would be well  
 19 that that budget, Second Budget Resolution, be in place when  
 20 the Social Security bill comes up, especially if we are going  
 21 to try to raise the money to pay for benefits, because if  
 22 the Budget Resolution is not in place, then all of these  
 23 Senators, and some of them have some very attractive amendment  
 24 that would spend a great deal more money and will come in, as  
 25 I anticipate, and have amendments to spend more money as fast

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1 as we can print it over at the Federal Reserve, or raise it  
2 with taxes.

3 If we bring it in after the Second Budget Resolution say,  
4 all right, this is the bill to pay for the deficit in the  
5 fund and this thing is in the Second Budget Resolution, then  
6 I would think that the Budget Committee would block us because  
7 we cannot do it at this time, we do not have the money to do  
8 it. It is not in the budget.

9 That would help us to hold the line on the amount of  
10 spending that we are anticipating.

11 I do not know of any more appropriate use of the budget  
12 process than to take advantage of it just that way, to say,  
13 look, this is to cover what we anticipated was going to be  
14 done and this is what we have the money to cover. If the  
15 budget process works, having raised the money to eliminate the  
16 deficit would do exactly that, rather than to pay for addi-  
17 tional benefits.

18 In the alternative, somebody has to find the tax to pay  
19 for it. As I understand it, if someone wants to offer an  
20 additional benefit, he would have to be out of order unless he  
21 would have a tax on there to pay for it. Is that not right?

22 Mr. Stern. He would be out of order in any case, even  
23 if he offered the tax to pay for it. That has not been the  
24 usual practice in the Senate anyway.

25 Senator Dole. You mean offered to pay for it?

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1 Mr. Stern. That is right.

2 The Chairman. At that point, if he wants to put these  
3 new benefits in, he would have to amend the Second Budget  
4 Resolution?

5 Mr. Stern. That is correct.

6 Senator Dole. Mr. Chairman, that does not prevent someone  
7 from going to the Budget Committee and trying to take care  
8 of their amendments in advance.

9 The Chairman. They have a right to do that. All I am  
10 saying, that with a measure like this, as you know, we could  
11 take a big Social Security tax up there and pick up \$15  
12 billion worth of goodies on the Floor. If the Budget Resolu-  
13 tion was in place at that point, we would not have that to  
14 contend with.

15 Senator Bentsen. Let me understand you, Mr. Chairman.  
16 You would go to the Budget Committee with what we are proposing  
17 ahead of time to get it in the Budget Resolution and then  
18 we would bring up to the Floor after the Budget Resolution,  
19 the Second Budget Resolution was in effect? Is that it?

20 The Chairman. That is what I am thinking. You see,  
21 there is no way that we can agree on what that Social Security  
22 bill is going to be today and even if we did, we could not  
23 bind the House by it. We could come a lot nearer knowing what  
24 we were going to recommend by September 15th.

25 While we cannot give them the last word on what is likely



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1 to be the case today, by the time the Resolution is agreed  
 2 to, we might be able to. If we did that, we would be in a  
 3 position, if the Budget Committee really goes along with us,  
 4 which they probably would -- I would assume that they would --  
 5 we would be in a position of supporting a responsible approach  
 6 that would have the acquiescence of the Budget Committee and  
 7 I think their support.

8 We could avoid that for which we are sometimes criticized  
 9 of loading a bill down with all sorts of things that cannot  
 10 possibly survive in Conference. If it did, it would be  
 11 very irresponsible to load \$15 billion of additional spending,  
 12 for example, on top of the Social Security bill. I have seen  
 13 that type of thing happen.

14 Senator Dole. It would be a good escape hatch for the  
 15 Committee, too.

16 The Chairman. The whole idea of the budget process  
 17 was to decide in advance how much spending we are going to  
 18 do and then hold ourselves to it.

19 Senator Bentsen. I really think that that is accomplishing  
 20 the objectives of the Budget Committee and the Budget Resolu-  
 21 tion. I think that is very much attuned to it.

22 Will we not have had to have made some decisions in this  
 23 Committee to try to structure the Budget Resolution to take  
 24 care of what we have to do? Is that not what you are saying?

25 Senator Long. I think so. It seems to me about the

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1 best we can tell the Budget Committee right now is that we  
2 have conducted hearings on this bill, the House has conducted  
3 hearings. The House Committee has not acted and our Committee  
4 has not acted. Both Subcommittees have conducted the hearings  
5 on that side and this side.

6 The House Subcommittee has done some mark-up work, but  
7 they have not reported to the full Committee, and even when  
8 they get through, we do not know what they are going to  
9 recommend over there. We will know in a few days, I guess.  
10 We should know by September 15th.

11 Senator Ribicoff. Mr. Chairman, before you and other  
12 members came here, in your absence I proposed, and the Committee  
13 adopted, an authorization for you and Senator Curtis to comply  
14 with the request of the Budget Committee that you have to  
15 submit your estimates within the next two days, to give you  
16 the authority to do the best you can without consulting  
17 with one another, what it looks like to you. You can amend  
18 it later, but you and Senator Curtis do have the authority of  
19 the Committee to present that.

20 The Chairman. Assuming we do, but I think by September  
21 15th, we should be able to give a much better guess.

22 Senator Ribicoff. You do have the requirement for the  
23 next two days. Then you can amend it, I can assume.

24 Senator Nelson. You can give them what the budget  
25 implication would be of the Administration bill, what the



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1 budget implication of the short-term alternative on page  
 2 11. So I suppose that may be responsive to what they are  
 3 asking, but I agree with the Chairman that we are in a much  
 4 better position some time in September to give them a firmer  
 5 figure.

6 I could, if I had to, vote right now on the package that  
 7 would finance it, but even though I sat through the hearings  
 8 and have gone through the papers, I would hate to do it,  
 9 because there are still some unanswered questions in my mind;  
 10 but I have been hoping that we would go through the exercise  
 11 here of looking at all of the alternatives, including that  
 12 Carl may have something that everybody is interested in,  
 13 maybe somebody else. And during the recess, everybody has  
 14 looked at all of the alternatives and ways of financing  
 15 and we come back here and sit down in one day, if it takes  
 16 all day, and mark-up a proposal and vote it out.

17 Senator Bentsen. The only thing I am concerned about,  
 18 a lot of times we get a good deal of editorial comment out  
 19 of the Budget Committee as to what in the hell we are supposed  
 20 to do, and I hope we can structure it a little ahead of  
 21 time where we are influencing how that is done instead of  
 22 them trying to direct us as to how it is accomplished.

23 Senator Curtis. May I ask of the Chairman, we really  
 24 have two propositions before us. One is how to cooperate and  
 25 comply with the Budget Committee and it is my understanding that



1 the Committee will not have to arrive at a Social Security  
2 tax decision until some time later, or that you had in mind  
3 that we can attach it on to 7200.

4 Can you throw any light on that?

5 The Chairman. I have been thinking that perhaps we would  
6 just put this on 7200 and bring it on out. That may be the  
7 thing to do.

8 The more I look at it, the more I find myself thinking  
9 that we are not going to be able to do this until the House  
10 takes a position with regard to that tax, so it may be in the  
11 end that they may want to insist on sending that bill to us  
12 and letting us, if we want to amend this bill, or 7200, do  
13 it that way, rather than the other way around?

14 I do not think that we can anticipate passing what this  
15 child bill, this welfare bill we have here, between now and  
16 the recess. I think it might be just as well to bring these  
17 both on together.

18 The one reason that I say that is the probability the  
19 President will sign the Social Security bill and you would  
20 have a better chance of getting the Moynihan amendment, for  
21 example, agreed to, if that were attached to the Social  
22 Security bill instead of the child adoption bill.

23 Senator Dole. Are there any deadlines for 7200?

24 Mr. Stern. There are some October 1st deadlines. I am  
25 not sure that there are any before then.

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The Chairman. I think we could act by October 1.

Senator Curtis. Whenever you are ready, Mr. Chairman, I will tell you what I have. Have you finished?

Mr. Stern. The one thing we did not mention, we have a somewhat different suggestion to handle this equality of treatment of men and women. We think it is a little simpler administratively, but that is a very small part.

Senator Curtis. Not a big item in the financing?

Mr. Stern. No.

Senator Curtis. I have two papers here, Mr. Chairman, one page, and I would like to have the opportunity of going over both. There may be something in here that would appeal to the Committee. It is two separate proposals; they are not combined.

When you get them distributed, I will briefly go over them. Here is what we have. This is labelled "The Myers Proposal" and "The Two-Year Plan." Actually, the Myers proposal has a modification. It is not exactly as our former chief actuary prescribed it. It varies in one particular. We will look at the Myers proposal first.

He recommended one-half of 1 percent on employer and employee, to go into effect next year. The Myers proposal and our two-year proposal is predicated on this plan. That, we ~~stage~~ with the conventional way of financing Social Security, so that the recipient and people who expect to be

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recipients, will have the knowledge that they paid, that it does not have welfare aspects, and not only has he paid, but the employers all over the country pay half and employees pay half. So it is in that ballpark that we worked that out.

Now, raising -- Myers suggested a half a percent on both. If we took .3 of 1 percent in calendar '78 and then the other .2 percent for '79 over a five-year period, that would bring in \$51.1 billion.

The self-employed rate, if we made that one and one-half times the employee's rate, would bring in \$750 million. The dependency test -- and is that not similar?

Mr. Pritts. Mr. Stern was getting ready to explain that. It is similar to the staff proposal.

Senator Curtis. Now, the decoupling. The decoupling is the correction of the formula that reads down into the future that is going to give us some trouble, because people will be drawing greater benefits than their wages.

Actually, Robert Myers proposed a different type of decoupling, but this price indexing would be less expensive, or it would save more money, but it would still guarantee that benefits would be increased according to the cost of living, and, as you will see down below, that totals up to \$51.1 billion.

Across on the righthand side is the net increase in the trust fund. The first year, we would not have an increase in



1 the trust fund. Now, we have about a \$6 billion deficit.  
2 We would cut that deficit down to \$1.8 billion.

3 In '79, '80, '81 and '82, we would increase, have a net  
4 increase in the trust fund. Now here, or below that, are the  
5 assets at the end of the year. We will have \$35 billion this  
6 year; it will go to \$33, \$36, \$40, \$44 and \$47. Assets at  
7 the beginning of the year as a percent of outgo. In other  
8 words, that would stabilize it.

9 If you include this in the other increases built into the  
10 tax this might take care of it for several decades. I recall  
11 somebody said in there, thirty years.

12 At any rate, you would have a fairly good idea of what  
13 is going to happen to '82.

14 Now, if I may direct your attention to the two-year plan --  
15 incidentally, other members of the Minority side may have a  
16 proposal or variation; I do not know. After all, when we  
17 deal with these people back home of, how about my Social  
18 Security and they know we are running better than a \$6.5  
19 billion deficit now, they want some answers.

20 There are those who believe, with good cause, that  
21 some very major changes have to be made, that we ought to  
22 bring Civil Service in or any of these that run into quite  
23 a few billion dollars in revenue. Obviously, we could not  
24 do that in the next few years, so in order to preserve options,  
25 we have taken the same principles as the Myers proposal and

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1 this is based upon the idea that a recipient can have his  
 2 benefit in dignity under the traditional plan, that it is  
 3 not deficit financing, somebody has paid all of it. Half of  
 4 the burden has been on employers and employees, so both of  
 5 them followed that.

6 Here is the two-year plan. We could increase the tax rate  
 7 on both by .3 of a percent on a \$10,000 wage, that is \$30 a  
 8 year. That is all on the employer for the next two years.

9 The reason we put two years is so that the issue would  
 10 becoming before the Committee two years from now. We have  
 11 to do something this year. Next year, everybody will be in  
 12 a hurry because of the election. That would bring in \$11  
 13 billion, and the self-employed, same thing there and the same  
 14 for the next two items.

15 Below, our estimate is, in what we propose here, and  
 16 these extra things which are really not in controversy but  
 17 applying a .3 percent tax this year. In '78, '79, we would  
 18 have a net addition to the revenue of a total of \$5 billion  
 19 the first year, \$5.9 billion the next year.

20 The net increase in the trust fund, and I want Minority  
 21 staff to correct me, we would not put the trust fund in the  
 22 black but we would reduce the deficit to \$1.8 billion the  
 23 first year, \$1.2 billion the second year.

24 Am I stating that correctly?

25 Mr. Pritts. Yes.

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Senator Curtis. So that what we would do, the assets at the end of the year under this two-year plan, '77, is going to be \$35.6. In '78, it would be down to \$33.8; in '79, \$32.6. Not a drastic reduction.

It would go from 36 percent to 31 percent.

Now, Mr. Chairman, as I say, I am offering this as an individual because others may disagree with parts of it. When the Committee gets ready to make its decision, I may have a little more to say about this, because I feel very strongly that here is a situation where the smartest politics is a job well done, and I think there is an uneasiness over the country about Social Security and its future. I think any innovation is bound to run into some problems. It may be shocking in its impact on a few, but it is so much a part of our life here, and people know if their utility bill has to be raised, it has to be raised. They are realizing these cost problems more than anybody else.

I think that we would meet with more public approval on one, where we take some of these smaller things that are necessary and have a .33 percent raise for a couple of years so the matter would have further attention, or take a little longer, .3 the first year, raise it about another .2 of a percent the next year --

Senator Dole. You do not change the wage base?

Senator Curtis. No, because it goes up automatically.



1 That could be done, because in my two-year plan, I do  
2 not wipe out the deficit. I think that the people in the  
3 country understand that the Social Security fund is short  
4 and they know, regardless of what we put in our speeches,  
5 that we cannot lower benefits and we do not want to, and they  
6 know the only way to get out of such a hole is going to cost  
7 more money.

8 Senator Nelson. This is a minor point, Carl. Is not  
9 what you have tagged the Myers Proposal actually a price  
10 index proposal, Hsiao?

11 Senator Curtis. That is correct.

12 Senator Nelson. Myers is one, I think, who tried for  
13 alternative wage indexing.

14 Senator Curtis. I think Myers would have raised the  
15 tax in one jump a half a percent. We proposed here .3 of a  
16 percent the first year --

17 Mr. Pritts. He would do it the same way.

18 The Chairman. All right. Let me get one thing straight  
19 about all of this.

20 Let me see. What is the current rate of tax? What are  
21 they paying right now?

22 Mr. Stern. The current rate of the tax is 4.9 percent  
23 in the cash benefit program. When you add hospital insurance,  
24 it goes to 5.85.

25 The Chairman. 5.85. So you would add something like .3

1 or .5, depending on which one of these approaches?

2 Mr. Stern. It is my understanding when that is the  
3 combined rate, when Senator Curtis talks about .3 of a percent,  
4 he means one and a half tenths percent on employers, one  
5 and a half tenths of a percent on the employees.

6 Senator Curtis. No, .3 of a percent on each.

7 The Chairman. Then you would be up to 6.15, or if you  
8 went to the 5, you would get 6.35. You would raise the same  
9 amount, would you not, by raising it on the employer?

10 Mr. Stern. In the alternative, if you do not change the  
11 tax rate until 1981, so you simply applied the 5.85 percent  
12 against the total payroll instead of the 1977 --

13 The Chairman. You would achieve the same result as .5;  
14 that would raise \$9 billion -- is that right, about \$9 bil-  
15 lion?

16 Mr. Stern. In the first year, \$6.6 billion, then it goes  
17 on up after that.

18 The Chairman. The full operation would be what, \$9  
19 billion?

20 Mr. Stern. By 1981, it is actually \$11.4 billion.  
21 By 1982, it is \$11.4 billion.

22 The Chairman. You would be in somewhat the same ball-  
23 park if you used this other approach, when we have an Executive  
24 Session on that particular thing.

25 Senator Curtis. I just wanted to throw it in for

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1 consideration. Someone may want to come up with a variation,

2 The Chairman. I am glad you did. It gives us a chance to think  
3 about it and consider the relative merits of the suggestion,  
4 along with all of the others.

5 Senator Curtis. What this amounts to, what I have  
6 inaccurately labelled the Myers Proposal, the first three  
7 items are Myers', four is staff, and five is the other  
8 gentleman, Hsiao.

9 Senator Nelson. On decoupling?

10 Senator Curtis. Yes.

11 Senator Dole. Have we agreed we are not going to dip  
12 into general revenues, or we have not voted on anything?

13 The Chairman. We have not.

14 Senator Dole. We are sort of agreed on that, are we  
15 not?

16 Senator Nelson. We have not found anybody in favor of  
17 that yet, so I do not think the Administration has the votes  
18 for that.

19 The Chairman. Right now, we are acting like people who  
20 are serving on six year terms.

21 I do think we have the potential of coming out with a  
22 good bill.

23 Senator Dole. If we are not looking in terms of revenues,  
24 it is just a question of working out some arrangement.

25 The Chairman. Have we concluded the study of this Budget

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1 Committee matter?

2 Mr. Stern. Before you came, Mr. Chairman, the Committee  
3 agreed to delegate to you and Senator Curtis --

4 Senator Nelson. Is there anybody here who is in favor  
5 of the \$14 billion transfer and the back-up of the general  
6 fund when unemployment goes above 6 percent?

7 The Chairman. I would just as soon have a discussion  
8 on that so we would know, because it might help the House  
9 Committee in their judgment of this matter. I personally  
10 feel that we have the capability of raising the money to  
11 finance this Social Security program, we ought to do it that  
12 way.

13 Senator Nelson. I am opposed to it, unless there is not  
14 any alternative. I told one of the Administration spokesmen  
15 that I have not heard anybody yet on either side of the aisle  
16 who was in favor of that, and they did not faint. I do not  
17 think they are going to get that.

18 Senator Talmadge. Would the Senator yield?

19 Senator Nelson. Yes.

20 Senator Talmadge. I do not know what we gain when we  
21 recognize the fact that we have a Social Security deficit,  
22 we have a general fund deficit. You gain nothing by adding  
23 to the deficit of one by trying to put it in the other.

24 Senator Bentsen. Mr. Chairman, I share the view that  
25 we ought to have the discipline of having to raise the tax

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and not take it from general revenue. I think that is the unanimous view.

Senator Dole. It is just a matter of getting together on how we do that.

The Chairman. That is right. It seems to me that, as far as I am concerned, I am inclined to like the idea of just moving those dates on the Administration's record along what Senator Curtis has suggested, or the Myers suggestion, which ever one you make it.

I would prefer that. If you are not going to do it precisely the way I would recommend it, I think the last thing I would put on the list would be the idea of just telling the Federal Reserve to print the money.

It seems to me that the country has a right to expect fiscal responsibility of us here, and that ought to be the last resort. If we cannot do it any other way, then perhaps we ought to consider, or tell the Federal Reserve to pay it, pass the buck to them.

But if we sit fast and say we are not going to do business that way, I think the most timid soul in that Senate, rather than seeing people do without Social Security benefits, would vote to pay a tax in order to finance Social Security benefits.

We have, I think, a better alternative available, more than one, we have two or three different way. I would be willing

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1 to value any one of them.

2 The suggestion of Senator Curtis and Senator Danforth --  
3 he has a far more imaginative way. I might be willing to  
4 vote for it if he is willing to take 100 percent credit for  
5 it and name it the Danforth tax to pay for it.

6 Senator Danforth. Mr. Chairman, is this an appropriate  
7 time for me to make some comments?

8 The Chairman. Why do you not go ahead and tell them how  
9 you think it should be done.

10 Senator Danforth. I am prepared to let it be named  
11 after the Chairman of the Committee.

12 First, I would like to make some comments about the  
13 proposal to eliminate the base on the employers and some  
14 problems that exists with that.

15 First, if you eliminate the base on the employers, the  
16 burden of doing that will not fall evenly on all employers.  
17 It will fall most heavily on businesses with relatively high  
18 numbers of technical or highly paid professional employees  
19 and on more educated, skilled workers and on people who have  
20 high seniority.

21 For example, medical offices, doctors' offices, it is  
22 estimated that the increase in the Social Security liability  
23 as a result of eliminating the employer wage base would be  
24 a 60 percent increase in Social Security liability. In  
25 construction firms, it would be 14 percent. In mining and

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durable manufacturing, 14 percent. Wholesalers, Social Security tax liability would be increased to an estimated 24 percent.

One consulting firm has estimated, and it has 500 employees -- this consulting firm has estimated that whereas it now pays \$384,000 a year in Social Security taxes, its liability would be increased from \$380,000 to \$867,000, or an increase of \$487,000 by eliminating the base on the employer.

Senator Curtis. You are eliminating the ceiling, are you not?

Senator Danforth. Eliminating the ceiling on the base. In Virginia, a communications firm with 55 employees has estimated that it would incur an 82 percent increase in the Social Security tax liability as a result of eliminating the ceiling on the employers' wage base.

Also, it should be pointed out that eliminating the base will have an effect on the state and local governments and on nonprofit organizations which are unable to pass on the effect of the tax to customers. The effect on local government can be demonstrated by some specific examples.

In Harris County, Texas, the estimated increase in Social Security tax liability would be 14 percent, or \$244,000 over last year's Social Security cost.

In Milwaukee, it would be just short of an 18 percent

1 increase, or \$724,427 dollars.

2 In New York City -- and this is the projection in the  
3 President's proposal for a staged lifting of the lid off the  
4 base -- it would cost an additional \$40 million to \$51.8  
5 million, depending on where it happens, to salary increases  
6 over the period of time, over the next three years in New  
7 York City.

8 So it could have a very substantial effect on local  
9 government, which, as a Constitutional matter, are able to  
10 opt out of the system, and it could backfire on the system  
11 itself.

12 Educational institutions, colleges and universities,  
13 which are having a very difficult time typically in meeting  
14 their budgets, the estimated increased costs in Social  
15 Security liability for colleges and universities is 17 percent  
16 as a result of eliminating the lid on the employer base.

17 Also, there is a cost to the Treasury itself in that  
18 employers are entitled to deduct the cost of Social Security,  
19 and it is pretty hard to get figures on what the effect of  
20 the increased reduction of Social Security taxes would have  
21 on general revenue, but the Treasury has estimated to my  
22 staff that there would be about a \$20 billion loss in revenue  
23 as a result of lifting the lid.

24 I agree that we are going to have to do something, but  
25 anything we are going to do is going to be unpopular, and

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1 therefore it is simply a question of what we do and how  
2 unpopular it is going to be.

3 So my suggestion -- and I have tried it out on you,  
4 Mr. Chairman, and I have tried it out on others of the  
5 Committee as a sort of trial balloon -- and there is a lot of  
6 lead in this trial balloon, so unless I get a little enthu-  
7 siastic support from some quarters, I am just going to throw  
8 it out and drop it --

9 Senator Dole. Do not drop it near me.

10 Senator Danforth. Senator Dole says that we should try  
11 this out on a Friday and then leave town.

12 I think we should bring Federal employees within Social  
13 Security and I think we should do this in a way that obviously  
14 you should not take away the vested rights in their existing  
15 pension programs, but I think over a period of time, beginning  
16 on January 1, 1980, so we would have a starting time to get  
17 ready for it, we could start having a double-track system for  
18 Federal employees so, like private employees, they would be  
19 participants in the Social Security program and would also  
20 have a pension program to cover the system. There would be  
21 no loss in benefits under this proposal for Federal employees.  
22 It would be simply a mounting of the present Civil Service  
23 pension program on Social Security and it would produce, if  
24 that would be done on January 1, 1980, it would produce,  
25 during this five-year period that we are talking about, which

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1 ends in 1982, an estimated \$18 billion of additional revenue  
2 for the Social Security trust fund increase.

3 My second proposal is that we levy a 3 percent surtax  
4 on corporate and individual income taxes. That would produce  
5 \$43.1 billion in revenue.

6 Why do I propose a surtax on the income tax? Because,  
7 somebody is going to have to pay the cost of financing Social  
8 Security, and if you do it by raising the Social Security  
9 tax, the people who pay the cost are the wage earners below  
10 the base. That is, it is a very regressive way to do it.

11 If you do it by raising the base, the people who are  
12 stuck with the increased cost are people between the old base  
13 and the new base, namely people, say in the \$20,000+ range.  
14 That, again, I think really hits people who are really not in  
15 a very good position to pay the cost.

16 But if you put a surtax on the income tax -- I know the  
17 income taxes are high enough now -- but if you put a surtax  
18 on the income tax, it is the most progressive way to raise  
19 the revenue. It puts it on those who are most able to pay the  
20 tax.

21 As I say, if you did that, you would raise \$43.1 billion  
22 which, together with bringing in Federal employees, would be  
23 \$18 billion.

24 Senator Curtis. What percent surtax?

25 Senator Danforth. 3 percent.

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1 That is my idea. I have tried it out in private, and  
 2 I did get an enthusiastic welcome then, but I do feel obligated  
 3 to do it now, because I really do not like the idea of lifting  
 4 the lid on the employer's base for the reasons previously  
 5 stated, and I think that this is a more equitable way to  
 6 accomplish the unpopular result of raising revenues.

7 Senator Ribicoff. Mr. Chairman, this has been a very  
 8 valuable session, but are you not in a situation, as I listen  
 9 to these comments -- and many of them are very constructive --  
 10 that more or less we are being faced with three different  
 11 tax programs in the next three months: Social Security,  
 12 energy and the so-called tax reform, and will there not be  
 13 some interconnection of the impact of these various tax  
 14 programs on the economy as a whole, what money we are taking  
 15 out of the general, private sector.

16 So I think we have a very, very tough job ahead of us  
 17 and long-range, it is not short-range. Maybe Carl is right.  
 18 Originally when he talked of two years, I did not think of  
 19 it. As I am listening to all this conversation, it is a  
 20 coordination from the timing standpoint.

21 When is the last time we will have an opportunity to do  
 22 something with Social Security, sometime in September?

23 The Chairman. They are going to be up here with the  
 24 welfare reform plan, they are going to be up here with the  
 25 tax reform bill this year. Obviously, unless the Congress is

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1 going to stay in session until January 1, we are not going  
2 to be able to act on those. We are going to have to come back  
3 and work on those two things next year.

4 The President is doing the best he can, a man who came  
5 from Georgia, he came here and took over all of the complex-  
6 ities of this nameless bureaucracy in Washington and learned  
7 day by day more than he knew when he came here. There is  
8 nothing new about that. I have been around here thirty years;  
9 I learn something new every day. The same thing is true for  
10 him.

11 Now, he learns a lot faster than I do, I suppose. He  
12 had a news conference and said he did not see why a tax reform  
13 bill needed to increase the deficit. I think that the people  
14 in the Treasury now have convinced him that there is no doubt  
15 about it, if you are going to pass a major tax reform bill,  
16 it is going to increase the deficit somewhere between \$12  
17 and \$15 billion.

18 Now I think the President now understands why they think  
19 that. So there is a \$12 billion item we have not talked  
20 about.

21 The people over there in HEW are trying to convince the  
22 President that if he wants to do something in a significant  
23 way about welfare reform, that is going to cost money. The  
24 President did not see any reason why you could not get rid  
25 of a lot of needless complexity and confusion in the welfare

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program and do some of the things that you and I would advocate about reducing the number of people who should not be on the rolls to begin with and finance it with existing revenues. I think they are beginning to convince him that that is going to cost money.

Now, the health program will cost money. The cheapest version down there is the Long-Ribicoff bill -- the Long-Talmadge-Ribicoff bill; Herman is very active in this health area. That is the cheapest entrant in the whole derby, and that starts out with about a \$10 billion cost. I know it will cost more than that, because history shows that the cost of these things always winds up being more than we anticipate.

I can think of some things that I have put on the statute books. As much as I regret to say it, if we are going to help the President keep all of those commitments it is going to cost money.

For starters, we have a simple thing here that I think we have faced up to before, and that is just to raise money to pay for what we have right now, the existing Social Security program. If the President has not learned, then I think the fellows on this Committee know it: if we start to run away from levying the taxes to pay for these things, there is no place to stop until you just get run off into outer space, because you cannot do these things without raising the money to pay for it, especially if it is already



1 there.

2 So, Senator Nelson, I am willing to work with you and  
3 I want to work with Senator Curtis here. I do not want to  
4 claim complete credit for whatever tax we do wind up recommend-  
5 ing, that is why I told Senator Danforth, if we are going to  
6 put this surtax on, I want to be sure that that be known as  
7 the Danforth surtax. I do not want it known as the Long sur-  
8 tax.

9 Senator Curtis. As I understand your proposition, if  
10 somebody is willing to have the tax named after him, he can  
11 write it?

12 The Chairman. I am not promising to vote for it. All  
13 I am saying is that I will be much more considerate and kind  
14 if it is named after you than after me. If you take complete  
15 credit for it, I might be able to vote for something. Other-  
16 wise, I would have to hold back on the basis of saying it  
17 did not seem like a very good idea at the time, but this  
18 fellow was so positive about the matter that we agreed if he  
19 would take complete responsibility, we would vote for it, or  
20 at least we would let it come to a vote.

21 Senator Danforth. It certainly sounds less attractive  
22 to me on that basis.

23 The Chairman. Can we settle some of these items here  
24 this morning?

25 Mr. Stern. Do you want to move on to the other bill,

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H.R. 7200?

The Chairman. I believe we ought to have Senator Moynihan here.

I would ask if the Committee would be willing to vote on these confirmations.

Is there any objection to Robert H. Mundheim, nominated to be General Counsel of the Treasury?

If there is no objection, I suggest that we vote to confirm that nomination.

How about Ms. Azie Taylor Morton, nominated to be Treasurer of the United States?

Is there any objection to that? Without objection, Ms. Morton will be confirmed.

Ms. Blandina Cardenas, nominated to be Chief of the Children's Bureau. Is there any objection?

Without objection, she will be confirmed.

I think you might want to ask some additional questions of Mr. Charles Ruff, Senator Dole?

Senator Curtis. I would like to see the transcripts on Ruff. On the others, I have no objection.

The Chairman. I will be willing to vote on the adoption and foster care services bill now, but I really think that Senator Moynihan wants to be here.

Senator Curtis. Mr. Chariman, I have a few things to call up in connection with that. They are reforms in the

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1 welfare field that the Senate passed before, but it will  
2 take a little time for each one of them.

3 The Chairman. Senator Dole?

4 Senator Dole. Are you going to go into the scheduling  
5 there?

6 The Chairman. I would just like to briefly discuss  
7 this matter of hearings on the energy tax bill. Of course,  
8 the bill is not here yet, but I fully anticipate that we  
9 will have the contention made that a lot of people who have  
10 a right to be heard might not be heard and that being the  
11 case, I have proposed, requested of the Majority Leader,  
12 Senator Robert Byrd, to hold hearings during August 8th  
13 through August 12th to try to get as many people as we can  
14 to be here to attend those hearings. The attendance will be  
15 scant, but every Senator can read those hearings, and I am  
16 sure they will read what was said by the major witnesses,  
17 those such as Mr. Schlesinger and the Cabinet officers and  
18 the key witnesses.

19 I would be willing to call those witnesses to answer  
20 such questions as those Senators would like to ask, because  
21 I do not want to gloss over anything that these witnesses  
22 say, but I would hope that we could absorb the benefit of  
23 what those witnesses have to tell us during that week and make  
24 that information available to all of those who had made other  
25 plans so we could move right along with this bill.

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Senator Dole. Mr. Chairman, I do not object to that, but I think it is going to look very bad for some of us from the producing states. I have three days of hearings in Kansas on food programs that week. I am going to be out in my state, and the people in the business are going to be wondering why I was not here, and I think it is going to be a direct reflection on those of us who are not present, even though we may be doing other things that are totally official.

I would rather meet at night than miss the hearings or some other time in August, but then you get into everybody else's schedule.

The Chairman. I think Senator Dole -- I will be glad, to the best of my ability, to explain to everyone that Senators have made plans and what their plans were, the commitments that they are fulfilling during that week in August.

Senator Dole. We are going to be accused to be off fishing somewhere or on a junket when we probably have the most important bill we are going to have in the Congress in the next several years. I do not care how it is explained. It will be that we were absent, particularly those of us from producing states who are going to bear the brunt of the tax.

I assume they are going to wonder why we were out in Kansas holding hearings on food programs when they should have been in the Senate. Maybe not everyone has that problem.

1 I do not know of anybody on this side who is going to be  
2 here.

3 Senator Curtis. Senator Hansen clearly has that problem.  
4 Senator Hansen has carried quite a load on energy in his  
5 other committee and a producing state very much like yours,  
6 Mr. Chairman, and he is somebody I was going to rely on.

7 The Chairman. This Committee runs by majority rule. If  
8 the majority says do not hold a hearing in August --

9 Senator Ribicoff. If I could make a suggestion, what  
10 about the other end? I could not be here August 8th to  
11 12th, but if you could start it early in September, I could  
12 be here then. I would adjust my schedule accordingly.

13 The Chairman. If that is what the Committee wants to  
14 do --

15 Senator Talmadge. I suspect that the other members of  
16 the Committee have some engagements on the early end and  
17 the other end. I am perfectly willing to have the Chairman  
18 select any times he sees fit to during the August recess  
19 and be here on such dates as I can. Such dates as I have  
20 made previous commitments, I will be absent. I imagine  
21 many other Senators feel the same way.

22 Senator Curtis. How many witnesses are you going to  
23 call a day?

24 Mr. Stern. As of now, we have Mr. Schlesinger scheduled  
25 for the 8th and Secretary Blumenthal for the 9th. We have not

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scheduled anybody else because we have just only begun to get the requests, but we will perhaps schedule something like perhaps eight witnesses a day on the 10th, 11th and 12th.

Senator Curtis. One thing would help when we get into this, and we could spend more hours, if at that time we would shut down all of these subcommittees. We are confounding our own problem by sometimes subcommittees being in competition with each other.

Mr. Stern. As of this moment, I do not believe that we have any Subcommittee activity scheduled in September. To the extent that I have talked to people about it, I have suggested that after Labor Day it would be a poor time to do much of anything.

Senator Curtis. I will get in trouble here, but I would rather attend two or three night hearings after we reconvene than to stay here a week in August.

Senator Long. Let me tell you what bothers me about that. The Senators need some time to think about the alternatives that are available to them and, frankly, members of this Committee, they have great talent for coming up with answers to problems right before them and have a chance to think about them awhile.

It occurred to me that by holding the hearings early in August, before the middle of August, making all of this

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1 information available to Senators, laying out as many options  
2 as we could put to them of different suggestions, that we  
3 could presume that their thinking might advance to the point  
4 where, when we come in and start on September 8th, or about  
5 three weeks later, their thinking would have matured to the  
6 point that they could offer us better suggestions than they  
7 would if we had night sessions.

8 Senator Ribicoff. Along that line, if the Chairman is  
9 willing to assume the burden -- maybe it is going to be a  
10 lonesome one and a lonely one -- if the members of our staff  
11 can get to us the testimony, the copies of the testimony  
12 wherever we may be, to have a chance to read that and then if  
13 they suggest questions, if we would then, in the recess,  
14 submit written questions to the witnesses to have them respond  
15 so that when we come back on September 8th we will have a  
16 fairly full transcript, submitting written questions to the  
17 witnesses to have them respond and have it for us by the  
18 8th, would that work out, Mr. Chairman?

19 Senator Curtis. Or could we substitute next week and  
20 let Blumenthal and Schlesinger --

21 The Chairman. What kind of schedule do you have for  
22 next week?

23 Mr. Stern. There are two problems: you would not have  
24 the House bill. What would they testify on? The Ways and  
25 Means Committee has one set of recommendations; the Ad Hoc



1 I doubt if we will get to it during August, the first part,  
 2 but as soon as we can; and of course, this anti-fraud, anti-  
 3 abuse bill will hardly take any time because we passed it on  
 4 the consent calendar in the Senate last time.

5 I think the Finance Committee will be able to act on that  
 6 in an hour or two, maybe less.

7 Mr. Stern. Basically I think you will need the Executive  
 8 Sessions that you have scheduled for the rest of this week  
 9 and for next week in order to do the nonenergy things that  
 10 you can do before the recess. It will probably take you that  
 11 long.

12 The Chairman. Here is what I think we ought to do.  
 13 Today and tomorrow, Senator Curtis, you and I ought to get  
 14 together and try to get this chore done for the Committee to  
 15 respond to the Budget Committee and we will ask the full  
 16 Committee to take another look at what we are recommending and  
 17 hope to second-guess what we have done and give us their best  
 18 judgment when they get back in September. We will show them  
 19 what we have.

20 I would hope that we make it clear to the Budget Committee  
 21 that this is tentative and get further advice on the Committee  
 22 before we give this as the final judgment of our Committee  
 23 and then I think we can assume that we will follow the  
 24 schedule that we have.

25 Let's look at that schedule, Senator Curtis, and see to

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1 what extent we might be able to make some changes in it  
2 to accommodate the problem.

3 For example, I would certainly like to show any Cabinet  
4 Officer or any spokesman for the President on the energy bill  
5 the courtesy of as much attendance as we can muster, moving  
6 the staff to have Mr. Schlesinger and Secretary Blumenthal  
7 for a period of time when everybody would be here, that would  
8 be good.

9 I still think it might serve a purpose to get some of  
10 this information, even though we would only have a few  
11 Senators here to hear it during this recess, because frankly  
12 the Senators know that that type of thing happens even when  
13 the Senate is here. Sometimes Senators are busy, they have  
14 to go to other Committees, they have to do their duty on the  
15 Floor or elsewhere, and sometimes we are compelled to hear  
16 witnesses with only two or three Senators here to hear what  
17 is said.

18 There is nothing to do about that. I tried to educate  
19 those people who testify if there are very few people there --  
20 if I am one of them, I just pad down the hall and knock on  
21 the door and speak to people and at least read what I had to  
22 say.

23 Senator Dole. Well, at that energy hearing you are going  
24 to have all the Senators from producing states not present  
25 and should be present. I think your suggestion about a

1 subcommittee hearing may have some merit. Maybe you can  
2 discuss that with Senator Curtis.

3 Senator Curtis. The Subcommittee on Energy is Gravel,  
4 Bentsen, Hathaway, Hansen, Laxalt.

5 The Chairman. Can you be here during the recess?

6 Senator Hathaway. I will be here part of the time,  
7 Mr. Chairman.

8 The Chairman. I will be here, in any event, to help out,  
9 regardless of how we do it. If we decide to do it in the  
10 latter part, I cannot be here every day, but I will be here  
11 part of the time, and we can talk to those Senators --  
12 Senator Packwood has indicated --

13 Senator Packwood. What did I indicate?

14 The Chairman. He indicated he would be here for a  
15 hearing.

16 Senator Packwood. Yes, I will be here.

17 The Chairman. We will just inquire of the Senators and  
18 see if they can be here.

19 Senator Curtis. If we can possibly work it in to hear  
20 Schlesinger and Blumenthal next week, and then have a  
21 Subcommittee continue another session or two while we work  
22 on the things that we want to finish up here, we would  
23 reach the Chairman's objective of having the issues raised  
24 so that we can think about them all through the recess.

25 The Chairman. Senator Moynihan is on his way here.

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1 We had, more or less -- and if he can arrive here in short  
2 order, I think we ought to take care of this adoption and  
3 foster care measure, at least to vote on the issues here.

4 Senator Curtis. Is that the whole of 7200?

5 Mr. Stern. I do not think you can finish them today.  
6 Foster care is one major segment of it. There are other  
7 elements of it too.

8 The Chairman. May I ask the Committee, would there be  
9 any objection to us voting on the so-called deficit financing  
10 proposal for Social Security? It might serve a purpose just  
11 to get that much of it nailed down, if we can raise the tax.

12 What I suggest is that we take the view that we ought  
13 to finance the Social Security program with a tax or taxes,  
14 if we could. We would do it that way rather than simply  
15 reaching in for money out of the Treasury.

16 Senator Curtis. I do not think there is objection.

17 Senator Nelson. I do not have any objection on that.  
18 I would not want to vote on any more. I am six weeks behind  
19 on my mail, now. If you adopt something today, we will be  
20 all of six months behind between now and September.

21 Senator Curtis. I understood that a letter six months  
22 old did not need any answer.

23 The Chairman. I think it would serve our purpose if  
24 we just called the roll on that principle, that we propose  
25 to finance the Social Security program with taxes, that we do

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not propose to do this by simply a draft on the Treasury.

An "aye" vote means that we agree to finance these programs with taxes.

Mr. Stern. Mr. Talmadge?

Senator Talmadge. Aye.

Mr. Stern. Mr. Ribicoff?

Senator Ribicoff. Aye.

Mr. Stern. Mr. Byrd?

(No response)

Mr. Stern. Mr. Nelson.

Senator Nelson. Aye.

Mr. Stern. Mr. Gravel?

(No response)

Mr. Stern. Mr. Bentsen?

(No response)

Mr. Stern. Mr. Hathaway?

Senator Hathaway. No.

Mr. Stern. Mr. Haskell?

Senator Hathaway. No.

Mr. Stern. Mr. Matsunaga?

(No response)

Mr. Stern. Mr. Moynihan?

(No response)

Mr. Stern. Mr. Curtis?

Senator Curtis. Aye.

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Mr. Stern. Mr. Hansen?

Senator Curtis. Aye.

Mr. Stern. Mr. Dole?

Senator Dole. Aye.

Mr. Stern. Mr. Packwood?

Senator Packwood. No.

Mr. Stern. Mr. Roth?

Senator Curtis. Aye.

Mr. Stern. Mr. Laxalt?

Senator Curtis. Aye.

Mr. Stern. Mr. Danforth?

Senator Danforth. Aye.

Mr. Stern. Mr. Chairman?

The Chairman. Aye.

Senator Packwood. May I have the record show that I have no objection to financing this by taxes. I do not want to exclude general revenue sources also.

Senator Moynihan. May I be recorded as aye?

The Chairman. Senator Bentsen has also expressed himself before he left; you should record him as aye. Senator Byrd, of course; I think you should contact the absentees and make it a matter of record how they feel about it.

Senator Curtis. Why not have the staff contact everybody, including those who voted?

The Chairman. This will be eleven ayes and three nays.



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I would like for the staff to contact the others and have them state their position on it. We want to know what direction we should go to finance it.

Now, let us turn to the adoption matter and see if we can make as many decisions on that in the time remaining to us.

Mr. Stern. H.R. 7200 is a substantial bill and has a number of different elements to it. There is a staff document before you that is entitled "Public Assistance and Social Service Amendments." We suggest starting with the sections dealing with adoption, foster care, child care and other services.

Before getting into the details, I would just like to outline the present law, the House bill, what the President has proposed and a staff alternative for your consideration.

Under present law, you have different programs relating to these different items. The largest source of Federal funding for foster care is through a portion of the program of Aid to Families with Dependent Children. AFDC matching is available if the child meets the state eligibility requirements for AFDC and also if he is removed from his home as a result of judicial determination. There is no adoption subsidy program in Aid to Families with Dependent Children, but states may use funds under the welfare services grant program for that purpose.

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1 That program, which is Title IV, part B of the Social  
2 Security Act, authorizes \$266 million for child welfare  
3 services that are quite broadly defined and actually the  
4 appropriation is only \$56.5 million.

5 There are state matching requirements that five  
6 states spend far more than is required for matching.  
7 They spent about \$700 million in fiscal year '76 for child  
8 welfare services and about three-quarters of that money went  
9 for foster care for children who did not meet the eligibility  
10 requirements for AFDC.

11 Senator Curtis. May I ask a question there?

12 Mr. Stern. Yes, sir.

13 Senator Curtis. As far as the Federal law is concerned,  
14 if someone has a child in a home and the relationship is that  
15 of a foster child, they can be paid for that?

16 Mr. Stern. That is correct.

17 Senator Curtis. If they decide that they want to adopt  
18 the child and have it as part of their family, the payments  
19 end?

20 Mr. Stern. In almost all circumstances.

21 Senator Curtis. As far as the Federal program?

22 Mr. Stern. Yes, sir.

23 Senator Dole. There are about 40 states-- 43, I guess --  
24 who have a program.

25 Mr. Stern. Yes, sir. There are 43 states, listed on the

1 bottom of page 3 that has an adoption subsidy program, but  
2 they are virtually paying for them entirely out of state  
3 funds right now.

4 Senator Curtis. How do the states do it, do you know?  
5 Can anybody throw any light on that?

6 Senator Moynihan. Mr. Chairman, from their general  
7 revenues.

8 Senator Curtis. How do they handle the cases?

9 Mr. Stern. The concept is that the subsidies are for  
10 hard-to-place children. The usual reasons for a child being  
11 hard-to-place is because he is physically handicapped or  
12 mentally retarded, disabled in some way, or a member of a  
13 minority group that is hard to place, or perhaps comes with  
14 other brothers or sisters that they try to place as a group  
15 in one home.

16 Senator Curtis. I think the one thing that we should  
17 be very careful about, and that is that the subsidy for  
18 adoption would never exceed the payment for foster care,  
19 because we do not want to place a monetary reward on going  
20 through an adoption that might be done just for the financial  
21 reward.

22 Senator Dole. We raised that question.

23 Senator Moynihan. Mr. Chairman, if I may first apologize  
24 for not being here, I was in the Intelligence Committee,  
25 as far as you can go and still be on Senate property, at the



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1 Capitol Dome, and the answer to Senator Curtis' question is  
 2 that this would be almost automatic, because basically the  
 3 provision would be to provide a child an adoption with the  
 4 AFDC payment that he would be eligible for, plus the medical  
 5 benefits, and I think that without exception, I cannot say  
 6 that HEW has given us anything like an analysis of 43 states,  
 7 they have not -- without exception, the foster care payments  
 8 are much higher. They range about four times as high, is  
 9 that not the rule of thumb?

10 Foster care payments seem to be about four times what  
 11 AFDC payments are.

12 I do not want to make too strict a rule, but your quest-  
 13 ion is a direct and legitimate one; I think this does respond.  
 14 It is not a very encouraging thought.

15 This is very sound legislation, Mr. Chairman, but the  
 16 Secretary of HEW came before us and proposed it as though this  
 17 were a new idea. The fact that there were 43 states doing  
 18 it, he did not know.

19 That is the only time this has ever happened in the  
 20 history of social legislation. Forgive them this month.

21 Mr. Stern, is that roughly approximate, that four to  
 22 one, or is my memory bad?

23 Mr. Stern. In general, the average AFDC payment for  
 24 children in foster care nationally is about \$290.

25 Senator Curtis. Per child?

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Mr. Stern. Per child per month. In the month of  
December, 1976 --

The Chairman. Senator Curtis has made this suggestion  
and I think that Senator Moynihan seems to agree, why do we  
not agree with that suggestion?

Senator Moynihan. It is a good suggestion.

The Chairman. Without objection.

Mr. Stern. In any case, the amount of the monthly  
adoption subsidy could not exceed --

Senator Curtis. I do not want that to be a floor.

Mr. Stern. A ceiling.

Senator Curtis. If true that the foster schedule  
runs four times as much as the adoption, we do not need it.

Senator Ribicoff. Your provision is a prudent one  
and should be looked at.

The Chairman. What is the next point?

Mr. Stern. To answer the question, yes, that is  
correct. It is about four times.

Senator Moynihan. About four times.

Mr. Stern. \$75 per child; \$290 in foster care.

Senator Moynihan. There is no real, immediate danger,  
but let's put your provision in.

The Chairman. All right.

Senator Talmadge. That is a state ceiling, not a  
national average?

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1 Mr. Stern. I think what Senator Curtis is saying, if  
 2 in a particular state they will pay X amount for foster care  
 3 for a child, then when that child is adopted, if they are  
 4 going to provide a subsidy, the subsidy cannot exceed X  
 5 amount; not some national figure, but the amount that that  
 6 state would have paid for that child in foster care.,

7 Senator Moynihan. There will always be children in foster  
 8 care at the state level, so you will always have the figures.

9 Mr. Stern. We are talking about foster home care.  
 10 Institutional care can be very expensive. If you want  
 11 comparable amounts --

12 Senator Moynihan. Foster home care --

13 Senator Dole. Are we accepting the entire provision,  
 14 then?

15 Mr. Stern. There are many elements of it.

16 Just finishing up, under present law you have a general  
 17 social services program of \$2.5 billion. You authorized an  
 18 extra \$200 million for child care only in fiscal year 1977,  
 19 so that would expire at the end of this October.

20 There is one other Social Services program, that is  
 21 services for disabled children under SSI. That is \$30  
 22 million, so today you have authorizations of just about \$3  
 23 billion in social service programs under the Social Security  
 24 Act.

25 The House bill would make some very substantial changes



1 in the foster care, adoption programs and the child welfare  
 2 services. First of all, it would continue open-ended Federal  
 3 matching for foster care under AFDC but it would broaden it  
 4 to include two cases that were now excluded, namely it would  
 5 include cases where a child is removed from a home with the  
 6 agreement of the parent and not only cases where there is a  
 7 judicial determination, and for the first time, it would  
 8 allow Federal matching for foster care and public institutions  
 9 that care for 25 or less children. Public institutions  
 10 today are excluded.

11 Senator Curtis. Could you elaborate on that, court  
 12 order removal?

13 Mr. Stern. The two requirements of Federal law in order  
 14 to get Federal matching for foster care under AFDC are, number  
 15 one, the child has to meet the AFDC income and other eligibil-  
 16 ity requirements but, number two, that removal from the  
 17 home has to be pursuant to a court determination.

18 The House bill would no longer require a court determina-  
 19 tion if the parent voluntarily agreed that the child be  
 20 removed from the home.

21 Senator Curtis. That is advanced primarily as an improve-  
 22 ment in the administration rather than being very much of a  
 23 cost factor, is that true?

24 Mr. Stern. Those people who argued for it indeed argued  
 25 that it will save the trouble of having to go through the

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The Chairman. This is a matching program, is it not?

Mr. Stern. It is a matching program, but the matching does not have much practical meaning, because states are now putting up about 93 percent of the cost of the program, even though the matching requirements are from 33 to 36 percent. They do not have real meaning in this program when you make it an entitlement program.

It is basically 100 percent additional Federal money.

Specifically in the House bill, and even in the Administration bill which requires 75 percent matching, it has little practical effect.

Senator Moynihan. May I say, Mr. Chairman, just to go to the point where we are going to be in the subcommittee's deliberations, we are going to propose that this be made an entitlement and put into Title XX. Senator Packwood feels strongly about that, and so does my distinguished colleague to my right who has joined us over here, Senator Danforth.

The point goes to the question of state autonomy in these matters. Under Title XX, states pretty much direct their own activities. Under Title B, it is endless, with more government detail, and this would extend it further.

Also, there is a question that the House would like to put it in Title XX. They want to do something responsible in the House. There is an argument to consolidating and





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The alternative is to put these people to work entirely out of Federal funds. I am not against this, but if you had your choice between subsidizing someone into a job where you really make money out of it and having to pay the whole cost of it with Federal funds, obviously it would save some dollars to subsidize the person into a job.

So, we sent that over to the Appropriations Committee. They think they would like to see the program more. So they do not put the money in.

I find myself on that one, I am going to want to find a way, if the Appropriations Committee does not want to do it, but this Committee undertakes to find a way to work for that work program which we can do. We can find a way to do it if it is within the jurisdiction of this Committee, and we can find a way to do it.

From my point of view, when we go out and leave the choice to raise the dough to pay for their program, and we find the money to pay for a program and they will not fund something we want to do, and we have the capability of funding it, I think we ought to go ahead and do it.

That is what I am inclined to think on this one. I do not want to tell the states that they are going to get the money, then, after we decide and Congress goes along with us, find someone over in the Appropriations Committee does not like that approach at all and they do not fund it.

Part of the difficulty is, under the rules of the Senate,



1 at least the rules we are going under these days, you cannot  
 2 serve both on this Committee and on the Appropriations  
 3 Committee, so if they do not want to fund it, we think it is  
 4 worth doing and I think we should try to put it in the  
 5 context to see that they have little choice about it. We will  
 6 do it anyway.

7 That is why, on this one, Title XX is an entitlement  
 8 program.

9 Mr. Stern. It is an entitlement program. The objective  
 10 here is that you would have a fairly flexible Title XX Social  
 11 Services program in which priorities are determined with a  
 12 few limitations in it, particularly the House bill and also  
 13 the Administration bill has a fairly long series of restric-  
 14 tions in order to get this entitlement money. If you do  
 15 it under the child welfare services approach.

16 Senator Dole. I am just raising a question. It just  
 17 occurred to me, in addition to Senator Muskie on the Floor,  
 18 in addition we had Senator Eagleton. Of course, the  
 19 Appropriations Committee is a little wary of locking in  
 20 entitlement programs.

21 Now, one day you will not need the Appropriations  
 22 Committee. Everything will be an entitlement.

23 Maybe that will be all right, too. We are not on that  
 24 Committee. It does increase, I think, the authorization  
 25 has been about \$266 million for some time. and appropriations

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about \$56 million, so it is a fivefold increase in the funds which are needed, does remove state matching.

It has a clause It prohibits a state from spending less.

It has the guarantee that there will not be a let-down in the states because of more Federal funds.

Mr. Stern. The approach that we are suggesting of increasing the Social Security program to a \$3 billion program would mean that the additional money -- I guess that is something like \$250 million or so would be subject to the requirement of 25 percent state matching.

Senator Dole. There is a provision here that if we adopt the proposed law, the states cannot reduce their efforts.

Mr. Stern. That requirement really would not have any applicability if you took this alternative.

Senator Moynihan. They now spend so much more than even the matching requirement.

I wonder if I could say to Senator Dole --

Senator Dole. I am not objecting to it.

Senator Moynihan. I would just like to make two points. In doing this, we are putting more money into child welfare in this bill. We are doing that, but we are trying to do it without getting more Federal regulation.

On the question of entitlement, I think there is a case to be made. It is unique to child care, adoption, foster care. It is really long term. You get an eight year old

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1 It would put a ceiling on foster care matching on the AFDC  
 2 program beginning in 1980 which is 10 percent higher than  
 3 1979. It would offer a 10 percent increase after that.

4 Senator Dole. What page?

5 Mr. Stern. I am in the middle of page 2. Those funds  
 6 would also cover subsidized adoption; if a state did not use  
 7 its allotment, it could use any leftover money for child  
 8 welfare services. Again, the child welfare services program  
 9 would become an entitlement program. In fiscal year 1978,  
 10 they would only propose an additional \$63 million for a  
 11 series of purposes that are spelled out in a fair amount of  
 12 detail in the bill.

13 After 1978, when once they have met those requirements,  
 14 then they would be eligible for the rest of the \$266 million.  
 15 The alternative approach that we would suggest would also  
 16 put a ceiling on foster care, as the Administration proposes,  
 17 but we would recommend doing it in fiscal year 1978.

18 It seemed to us to do it, to allow states to do whatever  
 19 they wanted, to put as many children on foster care for  
 20 two years, to have the highest possible ceiling--

21 Senator Moynihan. It says, rush, the train leaves in  
 22 two-years' time.

23 Mr. Stern. Other than that, we would not recommend  
 24 the broadening of what the Federal funding is for. We would  
 25 not recommend any continued move requiring court.

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1 determination and you not include public institutions.

2 On adoption subsidies, it would seem to us that that  
3 part could be open-ended on the grounds that you do need a  
4 parent willing to adopt a child and it simply is not subject  
5 to manipulation for budgetary purposes. You really must have  
6 a child to adopt in order to get that subsidy.

7 However, we recommend that you look at that program  
8 after three years. It would be open-ended as far as the  
9 subsidies to parents under any agreement that you make for  
10 the next three years, but the Federal funding would not cover  
11 any new agreement after three years.

12 That would give you a chance to look at it in three  
13 years to see what has happened to the program since then.

14 Senator Dole. Is there any income test in the alternative  
15 approach?

16 Mr. Stern. In our alternative, we would suggest the  
17 same income test used in Title XX, 115 percent of state  
18 median income. That represents roughly 60 percent of the  
19 population.

20 Senator Dole. What about Medicaid eligibility for the  
21 child?

22 Mr. Stern. We would recommend Medicaid eligibility for  
23 existing medical conditions and for the treatment of those  
24 conditions. That would be a narrower approach than the House  
25 and Administration bills.



1 Senator Dole. I am trying to make certain that we are  
 2 going to make it a good program. I do not want to take any  
 3 benefit away that may encourage the adoption of particularly  
 4 the handicapped or the hard to place child.

5 Senator Moynihan. To the contrary, the Federal government  
 6 will now support adoption in a way that it has never done and  
 7 with a good faith commitment to this.

8 Senator Dole. How long does this subsidy last?

9 Mr. Stern. We would suggest until maturity, which we  
 10 would define as being age 18.

11 Senator Dole. Is there not already in the proposed  
 12 legislation the thing that Senator Curtis was concerned  
 13 about?

14 Mr. Stern. That limitation is already in the House  
 15 bill. We would recommend that as a provision.

16 Senator Dole. Not more --.

17 Mr. Stern. Than you would otherwise pay for foster  
 18 home care.

19 Senator Dole. Plus cost of health care if the health  
 20 condition existed prior to adoption?

21 Mr. Stern. The health would be covered on the Medicaid  
 22 program, not in the monthly payment. The theory there, a  
 23 person normally gets health insurance coverage for his  
 24 family, but there are sometimes clauses that prevent you,  
 25 say you have an adopted child with a handicap, or you come

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1 into a health insurance program, sometimes there is a clause  
2 that does not cover treatment for pre-existing conditions.  
3 This would cover the pre-existing condition.

4 Ordinary treatment, of colds and the like, should be  
5 covered in the same way as the other children.

6 Currently, in about 80 percent of the cases, there are  
7 other children in the family when there is an adoption.

8 Senator Dole. Would the subsidy cover the cost of  
9 any premium for health insurance?

10 Mr. Stern. The amount of the subsidy is something that  
11 should be negotiated, not just a flat amount. It should be  
12 negotiated depending upon the parent's economic circumstances  
13 and so on and we certainly ought to take this into account.

14 Senator Dole. Do we have any range of subsidies, what  
15 they might be dollarwise?

16 Mr. Stern. We can tell you in AFDC foster care, a  
17 typical average cost per case -- the trouble is that these  
18 figures average both children in institutions and in foster  
19 homes. I could give you selected examples of foster care  
20 homes alone.

21 Senator Moynihan. It tends to be about \$300 a month.

22 Mr. Stern. That is the average for all children.  
23 For example, in California foster family homes, the average  
24 was \$212 in December, 1976. In Kansas, \$188.

25 Senator Dole. Are there safeguards so that somebody would

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1 not make this a business?

2 Mr. Stern. In adoption, to legally adopt a child, it is  
3 a permanent commitment.

4 Senator Dole. I understand all of that. I handled some  
5 adoption proceedings. I also am aware that there are a lot  
6 of resourceful people in this country that might be looking for  
7 a little adoption scheme. If they can adopt these children,  
8 maybe you do not need that, but it just occurs to me that  
9 in ten years you are going to be talking about someone adopting  
10 ten children in ten different states.

11 Senator Moynihan. May I say, sir, the Federal government  
12 is not leading the states in this matter. The states are leading  
13 the Federal government. Forty-three states now do this.  
14 They have done it on their own because they feel it is  
15 necessary.

16 We had five full days of hearings and never heard a word  
17 about abuse of this. The only place it might come is in  
18 providing institutional care. We will come to that next.  
19 You could get into problems there. But with respect to  
20 people taking children into their homes and adopting them,  
21 we have no evidence to say that this is not compassionate  
22 and decent.

23 Mr. Stern. That is really one of the reasons that we  
24 recommend that it be open-ended and stopped after three years  
25 if that develops.



1 Senator Moynihan. If you find someone adopting 15  
2 children in Iowa, it may be someone who loves children.

3 Mr. Stern. As far as foster care in larger institutions  
4 goes, we would suggest that you do adopt the Administration  
5 recommendation beginning in 1980, the matching percentage  
6 be reduced 20 percent in the case of large institutions,  
7 institutions caring for more than 25 children.

8 The Chairman. That is already in the bill?

9 Mr. Stern. In the Administration bill, not in the House  
10 bill?

11 The Chairman. Is it in the House bill also?

12 Mr. Stern. No, sir.

13 The Chairman. Is there any objection to that?

14 If there is no objection, we will adopt the Administra-  
15 tion proposal.

16 Mr. Stern. Other than that, what we mentioned before,  
17 we recommend that after a one-year transition period  
18 beginning in fiscal year 1979 that all of the additional  
19 funds come through the basic social services grant program.

20 I think I have outlined the major things --

21 The Chairman. Is that in the bill also?

22 Mr. Stern. The House bill puts the additional child  
23 care funds, the additional \$200 million in child care funds,  
24 into the social services program, but other than that they  
25 set up the child welfare services program as a separate



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entitlement program.

The Chairman. Do you agree with that suggestion?

Senator Moynihan. I do.

The Chairman. Without objection, we will modify it to take that into account.

Senator Moynihan. Mr. Chairman, may I go back one step to the question of the trial period for the adoption subsidy?

We could review this in three years or in five. It is a question of what the Committee thinks best. A case can be made for five.

These are slowgrowing processes, I wonder if there is any review that the staff reports of three or five?

The Chairman. What is the view of the program?

Senator Hathaway. What do you recommend? Five?

Senator Moynihan. There is a case for five. Five years is a good test of the program; three may not be.

These are such slow-moving matters in the best of circumstances.

The Chairman. If there is no objection, then we will make it five.

What else do we have?

Mr. Stern. I have just about said everything. We have been a little bit disappointed in the lack of statistical information in this area. The one requirement we would make



1 on states is that they do report and the Secretary should  
2 publish statistical information regarding adoption and  
3 foster care.

4 The Chairman. Without objection, that will be agreed  
5 to.

6 Senator Moynihan. I do not want to delay the Committee.  
7 It was surprising and disappointing that the Department of  
8 HEW came before our Committee with a major program about which  
9 it had almost no information. I am sorry to have to say  
10 that.

11 Senator Dole. If the Senator from New York would yield,  
12 not on that point, but one of the witnesses, the witness from  
13 the Kansas Child Welfare --

14 Senator Moynihan. A very good witness.

15 Senator Dole. She expressed some concern to me later,  
16 if we put IV-B money into Title XX that it risks the chance  
17 that it will not finally get to child welfare. Is there any  
18 problem with that happening, to put that all under one Title?

19 Senator Moynihan. We heard that from persons in the  
20 profession, yet we see that the evidence of state practice --  
21 it is a legitimate concern, but it is one that we do not --  
22 it gets us back in the business of telling the states what  
23 they must do.

24 If we look at the record of what states do do, they put  
25 much more money into this program than is ever matched.

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It is the Federal government that does not put up what is authorized.

Senator Dole. She was suggesting that perhaps IV-A and IV-B money could go into some sort of a block grant for the states that would give them that flexibility but still insure that it would be available for those purposes.

Mr. Stern. I think that the statement was the Acting Commissioner of New York State who was apprehensive whether children would be able to get their fair share of social services funds. We actually checked the state plans. In the case of New York -- just taking the identifiable services for children, child day care or foster care, it is just about three-quarters of a million in New York. Nationally, HEW analysis is about 60 percent goes for services for children.

Senator Moynihan. We are saying in this approach that the states have their priorities right, and they do this job well, and we were really a little bit alarmed that Mr. Stern said that the House bill had three pages of detailed regulations about how the states must account for any money. That does not make any sense to us.

The Chairman. The point being that if the states are doing a good job in this area, they are doing a lot of it without any Federal aid at all, is that right?

Senator Moynihan. That is right.

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The Chairman. Here, HEW comes in. They are going to help. They start right out with three pages of statutory language to tell the state how to do this. They undoubtedly will follow up with three volumes of HEW regulations, and you have the option to prevent that from happening by just saying that this goes into Title XX social services money and the states would have the discretion to use it the way they would want.

This is a good example of what you are going to see more of when you see welfare reform. I heard the Secretary of HEW -- I am sure in complete good faith; he is against all of these regulations -- and then proceeded to advocate that you bring in a whole new batch of regulations to tell the states how to spend their money, which I really think are totally unnecessary.

But everybody comes up with that. You watch until the welfare reform bill comes up. They are going to put more regulations on it, tell the states how to spend the money. Even though the Secretary himself testified that he has told his people to get rid of every regulation not necessary, now he comes in here with a raft of regulations which we think for the most part are not necessary.

So I would think that this approach here -- I know from the states' point of view, they would love this compared to having all of these regulations put on that they are doing



1 a good job of already, and that is a good idea, to keep the  
2 regulations to a minimum.

3 Senator Dole. I just raised the question.

4 Senator Hathaway. You said 60 percent of Title XX money  
5 went to this program?

6 Mr. Stern. According to HEW analysis, 60 percent went  
7 for services for children in fiscal 1976. The table we have  
8 in here is one the Congressional Research Service did; just  
9 looking at the various categories in the state plans, the  
10 figures are somewhat less.

11 Senator Hathaway. Why do we not just put that as a  
12 condition, 50 percent of the money be spent for these  
13 purposes.

14 Senator Moynihan. As a condition that 50 percent?

15 Senator Hathaway. He says it runs over 50.

16 Mr. Stern. Nationally it runs about 60 percent. The  
17 question is, why do you want to put that kind of limitation?

18 Senator Moynihan. I would just like to say, Senator  
19 Hathaway has a point. I feel the state sees no reason for us  
20 to act suspicious of state behavior here. They have been  
21 responsible and progressive and ahead of the Federal government.

22 Senator Hathaway. You may be entirely right. I am just  
23 basing it on my experience with alcoholism programs. The  
24 states are required to use Title XX money for that. They vary  
25 from 0 to 10 percent of the money actually being used. To be



1 sure, this program has a better lobby in the state than alco-  
2 holism programs have, but that is today. We do not know what  
3 the lobby would be tomorrow.

4 If you say they are responsible, why can we not just say  
5 they have to spend 50 percent?

6 Senator Moynihan. Could we not say in the report that  
7 this is something that this Committee will keep track of,  
8 the uses of these funds? If they seem declining from a  
9 historical average, we will take the matter up again and we  
10 should keep track.

11 I think one of the things, a lot of people are fearful --  
12 could we not say in the report that this Committee's over-  
13 sight function will keep track of the proportion of Title  
14 XX funds spent for child services if they decline from the  
15 historical averages, we will take the matter under advisement  
16 on whether or not --

17 The Chairman. I think that we would be far better  
18 advised to have the General Accounting Office, the Senate  
19 Subcommittee, perhaps the House Subcommittee, as well as the  
20 Inspector General, carefully look and see how the states are  
21 doing their job.

22 If somebody is not doing a good job, call their hand  
23 from this end rather than impose a whole new raft of regulations  
24 on the states when they seem to be doing a good job of something  
25 already.

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1 As far as we know, there is no abuse anywhere in this  
 2 program, and then if they will arrange, perhaps it might be  
 3 good to ask them to keep a uniform set of books so you can  
 4 see one to the other to see what they are doing. Besides  
 5 that, let us assume the burden on this end of calling upon the  
 6 various agencies, doing some of it ourselves, to keep up with  
 7 what they are doing.

8 If they are doing a good job, let's not impose any  
 9 regulations on them. And, of course, if we find that they  
 10 are doing something wrong, then, of course, we might have  
 11 to legislate in that area.

12 I think that would be a better approach.

13 Senator Hathaway. I agree with you, as far as the  
 14 regulations are concerned. I cannot see why you could not have  
 15 a 50 percent guarantee in the program, 50 percent of the  
 16 money. You know already that the states are spending more  
 17 than that.

18 Mr. Stern. Now the states may not be. Nationally, it  
 19 is 60 percent.

20 Senator Hathaway. Do we have a list?

21 Mr. Stern. The list that we have that appears on page  
 22 18 of the staff document is a list of those items that we  
 23 could clearly see were services for children, foster care,  
 24 adoption services, child care. There were other services,  
 25 but it is pretty hard to identify when the states, they are

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1 spending X millions of dollars in counseling services.

2 Senator Moynihan. I was going to make a point from  
3 my memory of this table that there are some states, now  
4 Florida spends 26.7 percent, and I am prepared to think that  
5 services to the aging in Florida might make a considerably  
6 greater claim.

7 Senator Hathaway. North Dakota is 12 percent.

8 Senator Moynihan. They have problems with their birth  
9 rate, as you must know. The states are not uniform in their  
10 circumstances here.

11 I would be prepared to take a vigilant look at practice  
12 and hold hearings in a year's time about the experience. I  
13 wonder if we know enough to legislate at this point. That  
14 would be my point.

15 The Chairman. Let me make this point. Senator Dole  
16 had to leave. That leaves us without a Republican member  
17 here.

18 While I used to take the view, according to the rules  
19 of the Committee, we will sit, I do make one exception: if  
20 we do not have a Republican member here, we will not proceed  
21 in the absence of Republican representation.

22 I suggest that we complete action on this bill if we  
23 can at our next meeting.

24 Mr. Stern. Tomorrow morning.

25 Senator Moynihan. I will try to find more, if I may,

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Mr. Chairman, in response to Senator Hathaway, and we can work together.

The Chairman. The Committee will stand in recess.

(Thereupon, at 12:40 p.m., the Committee recessed to reconvene at 10:00 a.m. on Thursday, July 28, 1977.)

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