

Wilson
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1 EXECUTIVE COMMITTEE MEETING

2 FRIDAY, OCTOBER 12, 1990

3 U.S. Senate

4 Committee on Finance

5 Washington, D.C.

6 The hearing was convened, pursuant to notice, at 11:14
7 p.m., the Hon. Lloyd Bentsen (Chairman) presiding.

8 Also present: Senators Moynihan, Baucus, Boren, Bradley,
9 Mitchell, Pryor, Riegle, Rockefeller, Daschle, Breaux,
10 Packwood, Dole, Roth, Danforth, Chafee, Heinz, Durenberger,
11 Armstrong and Symms.

12 Also present: Vanda McMurtry, Staff Director and Chief
13 Counsel; Edmond Mihalski, Chief of Staff, Minority.

14 Also present: Dr. Gail Wilenski, Director, Health Care
15 Financing Administration.

16 Also present: Sam Sessions, Chief Tax Counsel; Bob Kyle,
17 Chief Trade Counsel; Dr. Marina Weiss, Chief Analyst; Joseph
18 Humphreys, Margaret Malone, Shannon Salmon, Professional Staff
19 Members; Lindy Paull, Deputy Chief of Staff, Minority.

20 (The press release announcing the hearing follows:)

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1 The Chairman. The Committee will come to order. If you
2 will please be seated and cease conversation.

3 When this process started, as Chairman of the Committee, I
4 set about to put together a proposal on taxes that would break
5 the bubble, would go to 33 percent, and in turn I took out of
6 the budget that the President submitted at the beginning of
7 the year his provision for a capital gains cut -- chapter and
8 verse; period and semicolon -- because I thought that that was
9 what he wanted. And in turn breaking the bubble at 33 percent
10 would see that in cutting this deficit that those with the
11 highest income bore a fair share of that burden.

12 It became apparent that he changed his mind on that,
13 insofar as the capital gains version submitted in the budget
14 and that obviously was not going to work. There is no way we
15 can get a provision out of this Committee that is major and
16 controversial without it being a bi-partisan approach.

17 But the one thing that I was determined was that we would
18 not see the top six-tenths of 1 percent of the people not
19 bearing a fair share of that burden. That the average family
20 middle income people would not be bearing the biggest part of
21 it. And with that goal in mind I went to work with Senator
22 Mitchell, Senator Packwood and Senator Dole as representing
23 the Republicans on the Committee to develop a bi-partisan
24 alternative that did not break that bubble, but carried
25 through the thought that the burden of cutting this deficit

1 was shared by all of those who could afford to share it.

2 We put in extraordinary hours and Senator Packwood and
3 Senator Dole shared that, and Senator Mitchell. And what we
4 have brought you tonight is the result of those discussions
5 that requires a substantial contribution by those with the
6 highest income. With those of income over \$200,000 a year,
7 their contribution will be substantially larger than in the
8 Budget Summit. And the burden on the vast majority of average
9 American families will be substantially reduced.

10 We made other changes. We reduced the burden on Medicare
11 beneficiaries by some \$10 billion. We eliminated the 2 cent a
12 gallon surcharge on petroleum -- and to my friends in the
13 northeast, we took out heating oil. We reduced the gasoline
14 tax from what was proposed in the Senate. We deleted the two-
15 week delay in paying laid off workers in receiving their
16 unemployment compensation. Those were some of the details and
17 we will get into the rest of them as we go along.

18 Let me talk for just a moment about what this nation has
19 been going through. Last weekend we saw the Government shut
20 down because we were arguing and could not resolve our
21 differences. The American people were duly upset by that.
22 This Finance Committee in resolving this problem shares by far
23 the largest part of bringing it about.

24 The Finance Committee has the responsibility of reducing
25 that deficit by \$195 billion over the next five years. In

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1 making some very tough and often some very politically
2 unpopular decisions, the Committee has a reputation of getting
3 its job done and setting aside partisan differences when it is
4 really needed. I think they have lived up to that reputation
5 in what we are considering tonight in deficit reduction.

6 We have had a staff that has put in extraordinary hours
7 and dedication. They have done an excellent job of it. We
8 have extenders that we put in that are time sensitive and have
9 broad bi-partisan support. I believe we have done the job.

10 I would like to defer to Senator Packwood for any comment
11 he might have.

12 Senator Packwood. Mr. Chairman, thank you.

13 It is with some trepidation that I support this package,
14 although I do, because my experience in the 22 years I have
15 been here and looking back on history prior to that very,
16 very, very seldom are tax increases used for deficit
17 reduction. They are usually used to support increased
18 spending.

19 Evidence of that is simple. Thirty-five years ago in this
20 country we taxed 20 percent of the gross national product --
21 all of our governments, Federal, State and local -- taxed 20
22 percent of it and we spent 22 percent of it. Now we tax about
23 30 percent of it and we spend about 32 percent. Taxes have
24 gone up rather dramatically. Spending has gone up rather
25 dramatically. And we have not narrowed the deficit.

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1 But in this bill there is an effort to guarantee, as the
2 bill comes out of the Finance Committee, that the taxes will
3 be used in large measure to reduce the deficit. So as the
4 bill comes out of here, I am willing to support it. And make
5 no doubt about it, there are ample increases in taxes on the
6 rich in this bill.

7 Despite the publicity, I do not think that was ever an
8 issues, except for those who wanted to attempt to maintain
9 that if you opposed increasing the rates on the rich you were
10 opposed to increasing the taxes on the rich. It is amazing
11 how quickly the wheel turns when not five years ago, ten years
12 ago, we were talking about very high tax rates and the scandal
13 was that the rich avoided paying taxes.

14 Maybe some people got a great solace out of a 92 percent
15 tax rate or a 70 percent tax rate or a 50 percent tax rate,
16 but that is all you got in many cases because the rich did not
17 pay taxes. They had tax shelters and deductions. We tried to
18 trim those.

19 The reason I so desperately did not want to go up on the
20 rates -- not the taxes on the rich, but the rates -- is I
21 could see the cycle coming back. Go up on the rates and then
22 add capital gains. And then pretty soon we'd go up on the
23 rates again because it would be alleged that capital gains
24 favored the rich and we would have to raise them once more and
25 then the passive losses would have to come back because people

1 would not undertake activities we wanted them to undertake
2 because the rates were too high.

3 So this bill is an effort to keep the tax rate down while
4 increasing revenues from the rich by limiting deductions and
5 that has been successful.

6 So I will note this bill out of Committee. And if the
7 rest of the package that comes to us from the Budget Committee
8 is satisfactory, I will vote for the package. But I am
9 withholding my judgment on that because for those who have
10 covered this for the better part of six months, they have
11 heard me say time and again that there were three parts to
12 this package -- there is going to be spending restraints,
13 hopefully; and revenues; and enforcement. And enforcement
14 would be far in a way the most difficult part of this package.
15 And not enforcement coming out of this Committee.

16 If you pass a tax you know what it is. And by in large
17 our enforcements are in the entitlements; and the entitles are
18 law. And you cannot get any more out of the entitlement than
19 the law says you can get. That is the restraint. But we
20 collectively -- Republicans and Democrats, House and Senate,
21 liberal and conservative -- have a miserable history of being
22 able to enforce alleged spending restraints.

23 So the bill is not perfect, but it is satisfactory. And
24 if the rest of the Committees do their job we will have a
25 package that genuinely reduces the deficit. Part of it with

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1 taxes, part of it with spending limitations. If we achieve
2 that, it will be the first time in my memory that we have used
3 taxes, including significant increases in taxes on the rich to
4 reduce the deficit.

5 Thank you, Mr. Chairman.

6 The Chairman. Thank you.

7 I would like to call on the Majority Leader for any
8 comment he might want to make.

9 Senator Mitchell. Mr. Chairman, thank you very much for
10 your courtesy in calling upon me; and thank you very much for
11 the outstanding leadership you have displayed in bringing us
12 to this point. I think it fair to say, and I believe I can
13 speak for all of our colleagues, that this would not have been
14 possible without your determined leadership through a very
15 difficult period.

16 I will support this package because I believe it is a fair
17 compromise. It does not represent my preference. With all
18 due respect to my good friend and colleague, Senator Packwood,
19 I believe that the most fair, logical way to raise the
20 necessary revenues would be to increase the maximum marginal
21 rate on those whose incomes exceed \$200,000 a year to 33
22 percent. To say that one is a 33 percent rate on those whose
23 incomes exceed \$200,000 a year is not to say that one is for a
24 90 percent rate or a 70 percent rate.

25 My position comes as no surprise to any member of this

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1 Committee because, of course, in 1986 I offered an amendment
2 to the Tax Reform Act to have a third rate which I felt was
3 fair. I believe that would be the fairest and best way to
4 accomplish the task we are attempting to accomplish. But we
5 cannot do that.

6 The President has indicated he would veto such legislation
7 and with Senator Packwood's determined leadership our
8 Republican colleagues are unified in opposition to it. And,
9 therefore, we have to do what we can to develop an acceptable
10 alternative that is itself fair, although not the first
11 preference of myself and perhaps others here.

12 This package is such an alternative. As Senator Packwood
13 rightly noted by the limitation on itemized deductions and by
14 the increase in the health insurance tax, those whose incomes
15 exceed \$100,000 a year are called upon to pay a fair share of
16 the burden of meeting this serious national problem. The
17 result in terms of fairness is far superior to the Summit
18 Agreement I am pleased to say.

19 The distribution charts which have been or will be made
20 public demonstrate that very clearly. And for that, all of
21 those who participated in the shaping of this agreement
22 deserve great credit.

23 At each step of this process it has seemed as though we
24 have just climbed Mount Everest and no sooner do we get over
25 the top than we look and see an even higher mountain ahead of

1 us. I think that is where we are now with the reconciliation
2 process confronting us. But with good faith, with a bi-
3 partisan approach, and with determination, I believe that we
4 can enact meaningful, fair and responsive deficit reduction
5 legislation. This is an important contribution to that effort
6 and I encourage all of my colleagues to support it.

7 Thank you, Mr. Chairman.

8 The Chairman. I would like to call on the Minority
9 Leader, Senator Dole.

10 Senator Dole. Thank you, Mr. Chairman. I thank the
11 Ranking Republican, Senator Packwood, and the Majority Leader.
12 We are getting into the hard part now and that is passing a
13 reconciliation bill. This has been a long torturous process
14 for some of us who have been involved from the first day and I
15 know that some of our efforts have not been fully appreciated
16 by our colleagues.

17 But that is all right if the end result is all right. I
18 believe the end result is right and necessary. If we do not
19 face up to our responsibilities when it comes to deficit
20 reduction now, as I said on the floor last week, when will we.
21 And if not this group of Senators, which group of Senators.
22 We had a majority in the Senate who favored the Budget Summit
23 package. As the Majority Leader has indicated, this is even
24 more finely tuned. It softens some of the sharp edges in the
25 budget package and I am certain we have the votes on the

1 Senate floor for this package if, as the Senator from Oregon
2 pointed out, Senator Packwood, the other Committees produce
3 real savings and we end up with a \$500 billion package.

4 We have talked a lot about the capital gains and the poor
5 verses the rich. I assume maybe at one point or another there
6 may have been some justification for that. I think if anybody
7 examines this package we are going to pick up about \$30
8 billion from those over \$100,000 because of the so-called Ps
9 Amendment, which is going to limit deductions.

10 There will be another \$20 billion because we raised the
11 AGHI cap from about \$53,000 to \$89,000, which will touch upper
12 middle income Americans and the Ps provision will touch those
13 with even higher incomes. But I assume some will still make
14 the argument that we should tax the rich more -- whoever the
15 rich are. Nobody in this room. But somebody may walk in
16 later who is rich.

17 (Laughter)

18 Senator Dole. And then the rest of the taxes are
19 primarily excise taxes -- gasoline, tobacco, wine, beer,
20 distilled spirits. About a third of the package, about \$50
21 billion, will go to that people from \$53,000 up to over
22 \$100,000 -- about a third of the package. And we will
23 compensate through the EITC and other ways those at the bottom
24 end.

25 So I think all in all, as the distribution tables will

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1 show -- and I am not certain that the distribution tables are
2 exactly accurate -- but they do show a fair distribution. I
3 wanted to thank the Chairman and Senator Packwood and others
4 for their patience.

5 I believe we can go to the floor. One of our colleagues
6 is already over on the floor criticizing the package.

7 (Laughter)

8 Senator Dole. I put him down as undecided.

9 (Laughter)

10 Senator Dole. But he is going through point by point to
11 say you are raising taxes, raising taxes and not getting any
12 spending reduction. Well I guess that is the way it will end
13 up. I do not favor taxes, but I think if we are realistic and
14 want to address the budget deficit we never could do it
15 without revenues.

16 I wanted ten years for growth to get us out of the
17 deficit.

18 (Laughter)

19 Senator Dole. I remember the witness who was here before
20 our Committee who had the good news/bad news joke about supply
21 siders. He said the good news -- I guess this is not my
22 quote --

23 (Laughter)

24 Senator Dole. ``The good news is that a bus load of
25 supply siders went over the cliff. The bad news is there were

1 three empty seats.''

2 (Laughter)

3 Senator Dole. We debated that a lot over the past decade
4 and I think growth is certainly important. Do not
5 misunderstand me. But so is restraint and spending restraint.

6 I agree with my colleagues, if we could do it all through
7 spending restraint that would be the ideal. But it is not
8 going to happen. So do we do nothing or do we do the best we
9 can? I believe in this package we have done the best the
10 majority of this Committee can do. I believe the Senate and
11 the Senate leadership and those who are part of the Budget
12 Summit are going to do the best that we can to uphold the
13 Budget Summit Agreement and the bi-partisanship we had from
14 day one. Without it, we are not going to achieve anything.

15 We will do our part in the Senate. I would hope we will
16 have the same luck on the House side. I do believe that the
17 changes for success there are better.

18 So again, thank you very much, Mr. Chairman. I look
19 forward to voting for this package. Obviously, it is not
20 going to be popular with everyone and there will be some
21 people willing to blame just those in the budget so-called
22 ''Big Eight'' and so it is good to expand the group.

23 (Laughter)

24 Senator Dole. Thank you.

25 The Chairman. Thank you very much, Mr. Minority Leader.

1 Let me say it is now 25 minutes of 12:00 and we still have
2 to go through this bill, walk our way through it. And of the
3 19 members who are here, as apart from the one who is over
4 speaking against it, if you desire recognition, you can have
5 it.

6 Senator Pryor. Could we vote first and then explain the
7 bill? We have had plenty of explanation.

8 (Laughter)

9 The Chairman. Senator Moynihan?

10 Senator Moynihan. Mr. Chairman, I am one of 15 at least
11 who will vote to report this bill and, of course, of
12 acknowledging what you and Senator Packwood have done.

13 I think I do want to record a concern about the Ps
14 Amendment. It is a form of double taxation and it produces a
15 double bubble in that very area we were concerned about. But
16 you cannot do everything in one bill and what you could do you
17 have done.

18 The Chairman. Thank you.

19 Are there others? Senator Roth?

20 Senator Roth. Mr. Chairman, I want to congratulate you
21 and the others for the job you have done. But I have to say
22 that I very strongly disagree with the idea of raising taxes
23 at this particular time. We have a stagnant economy, one with
24 practically no growth, increasing unemployment, and it makes
25 no sense to me to be undertaking one of the largest tax

1 increases in the history of this country.

2 Just let me say that as I believe Senator Packwood pointed
3 out, there is no assurance -- no assurance that there is going
4 to be any spending cuts. History has shown, a study has been
5 made, that for every dollar of increased revenue spending
6 increases \$1.58. And what we see on the floor gives us no
7 reason to be encouraged that the situation is going to be
8 otherwise now. Because practically every appropriation or
9 every piece of legislation lays the groundwork for increased
10 spending.

11 Last night an appropriation was adopted that would
12 increase spending by 7 percent. That is not reducing the
13 deficit. That is increasing the deficit. Now I think that it
14 is discouraging that we do not see anything in the package
15 that really provides or helps create incentives for growth,
16 jobs and opportunity. One may laugh at the 1980s, but that
17 was the longest peace time growth with millions of new jobs
18 created.

19 I fear that instead of reducing the deficit, instead of
20 creating the kind of incentives that are necessary for an
21 expanding economy, we are going to be taxing more and more for
22 less and less. My understanding that with the tax proposal
23 that we have before us today that revenue will rise to 20
24 percent -- over 20 percent, 20.1 percent -- the highest tax
25 rate in the history of this country.

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1 Just let me say, I fear that we will be back here next
2 year because there will not be the kind of reductions in
3 spending that there ought to be. I am proud of the fact that
4 I voted against Gramm-Rudman. It seems to me that all it does
5 is to create a crisis; and as a result of crisis each year we
6 raise taxes. I think that is the wrong way to go; and I will
7 vote against the package.

8 The Chairman. Thank you.

9 Are there others? All right. Thank you.

10 Yes. Senator Riegle?

11 Senator Riegle. Mr. Chairman, I just want to put an issue
12 on the table that I mentioned inside in our other meeting. I
13 want to say at the outset that I will be voting with you to
14 report this package, as I indicated earlier that I would. I
15 am going to reserve how I vote on the Senate floor when the
16 issue comes to the Senate floor.

17 I want to say that I agree with the point that has been
18 made earlier -- I think by George Mitchell -- that this is a
19 fair compromise. That is a very carefully chosen phrase. I
20 think it probably is a fair compromise given the polarity of
21 interest. I do not think that is the same thing as saying it
22 is a fair package. I think there are elements of it -- and we
23 would all see it differently; we all have reservations about
24 it -- but I for one am very concerned about the size of the
25 Medicare charges to beneficiaries, even though they are less

1 than they were in the Summit.

2 The reason they are less than they were in the Summit is
3 that they were unconscionably high there and that it was not
4 able to carry when it was put to a vote of a broader
5 membership. I think if this were put to a vote of the country
6 today -- and I do not just mean a vote of elderly people in
7 the country, people who get Medicare; but people of other age
8 groups -- I think you would have an overwhelming vote to
9 reduce further the size of the burden on Medicare
10 beneficiaries.

11 This package that we now have in the area of just the Part
12 B deductible increase alone, which would go up to \$150, that
13 will take \$7.7 billion away from that group over five years.
14 Now that group as everybody here in this room knows is the
15 group who constitute the elderly people with health problems
16 and they only pay this if they actually go out and have to
17 require health services.

18 I do not think that that \$7.7 billion which is just part
19 of what we are asking them to pay -- there is another part in
20 here that will remain -- I do not think they should be asked
21 to carry it. I do not think there is any justification for
22 it. I realize there are people on this Committee who hold a
23 different view. I am expressing my view. I do not think it
24 ought to be in here; and I think that part of the deficit
25 reduction ought to be born by people in a position, in a much

1 stronger position in our society, to pay those bills.

2 I think the tax increases that are in here are really very
3 modest. When you look at it over the context of what happened
4 during the 1980s and what was done with tax policy in terms of
5 whose load was light in the context of whose load is now being
6 increased to deal with that problem, Senator Dole in a sense
7 implies a lack of promised growth out of those tax cuts during
8 the 1980s. So at some point later on down the line it will be
9 my intention to offer an amendment that would eliminate that
10 increase in the Part B deductible to \$150 which is, as I say,
11 amounts to \$7.7 billion out of the elderly with health
12 problems over the next five years.

13 The way I would propose to pay for it, because everything
14 has to have an offset and has to be paid for, and I appreciate
15 and respect that requirement, my present thinking is that the
16 best way to do that would be with a surtax on taxable income
17 of individuals earning more than \$1 million a year. In other
18 words, this surtax would not apply to the first \$1 million of
19 taxable income. It would only apply to the amount of income
20 above that level. And according to the tax estimates that we
21 have, that figure is roughly \$7.6 billion which is virtually a
22 wash with the Part B premium increase.

23 So one of the questions we are going to have to ask here
24 -- I mean this is -- I beg your pardon, deductible.

25 One of the questions we are going to have to ask ourselves

1 here is, this is a very important Committee and I feel very
2 privileged to serve on this particular Committee, and
3 everybody that is in this room is in a privileged position, if
4 you will, just by virtue of their presence and the role that
5 they play, whether they are out here or out in this end of the
6 room. There are 240 million Americans out there, a large
7 number of them senior citizens, to whom this is, I think, a
8 crucial item.

9 I think they have been under represented, if you will, in
10 the jockeying for positions and tradeoffs because of just the
11 way the leverage sits and the equations that have led up to
12 this particular point. That is just the way it is. I realize
13 that the negotiators that would represent my point of view
14 have fought very hard to change this and were not able to do
15 so beyond what we see. But I just want to serve notice now
16 that there are those kinds of feelings and in any case, I
17 think the increase in the offset to pay for that reduction in
18 the cost of Medicare beneficiaries is something that is very
19 much in the national interest.

20 I think it is fair. I think it is right. I think if the
21 public would vote on it in a public referendum on November 6th
22 they would vote for it, probably 80 to 20 or even higher than
23 that. So I think there ought to be an opportunity at a later
24 point for that issue to be put out in a broader form so that
25 it can be debated and voted upon.

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1 I thank the Chair.

2 The Chairman. Thank you.

3 Gentlemen, we have a long task ahead. Senator?

4 Senator Danforth. I have but a one-sentence response,
5 maybe two.

6 During the five-year period of this budget agreement, in
7 response to Senator Riegle, Medicare spending will increase
8 from \$92 billion to \$154 billion under this agreement which is
9 a 66 percent increase in the cost of Medicare.

10 Senator Baucus. Mr. Chairman?

11 The Chairman. Yes. Senator Baucus?

12 Senator Baucus. Mr. Chairman, I, along with all of us,
13 commend you, the Majority Leader, and Minority Leader, and
14 Senator Packwood, for the extraordinary work that you have put
15 into this package. I do not know how you did it frankly --
16 all the time and effort that you put into it.

17 And now each of us faces the inevitable question as to
18 whether this is better for our country or whether it is better
19 for our own States, for our parts of the country. There is
20 always that inherent intention -- you know, the degree to
21 which we as Senators are voting for the national interest, and
22 the degree to which we as Senators are representing our own
23 States and voting our own State and geographic interest.

24 It is with some reluctance and with some regret that as I
25 look at this package see that although it is more fair than

Pages

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missing

1 I will not go on into it. We will cover it later on the
2 floor. I know I speak for what Senator Armstrong thinks and a
3 large group of the members of the House and Senate that really
4 have a basic philosophical difference of what is going on here
5 tonight. I say it with all respect.

6 I think the Chairman knows the respect I hold for him and
7 for Senator Dole and others. But I think we are really headed
8 down the wrong track. It is going to be detrimental to the
9 country. It is going to be detrimental to our ability to
10 govern this country, to have the financial markets maintain
11 stability. And it seems to me like we are following the track
12 of the Brazilian and Argentine model, instead of a model based
13 on a strong, free America that we should be following.

14 So I will be opposing this package.

15 The Chairman. Thank you, Senator.

16 Are there others?

17 (No response.)

18 The Chairman. If not, let's start through this piece of
19 legislation. The first one I would like to speak to is Mr.
20 Kyle. We have some trade legislation. If you would get on to
21 that.

22 Mr. Kyle. Yes, Mr. Chairman. There are two provisions,
23 really, that are trade related. The first relates to the
24 Customs user fee which the Congress modified and passed for
25 another year earlier this year. The Committee package would

1 extend the Customs user fee through September 30, 1995 and
2 tied to that extension is authority to the administration to
3 adjust the fee to make it GATT consist. Other appropriate
4 changes are made.

5 Also, Mr. Chairman, there are provisions making technical
6 corrections to the Customs and Trade Act of 1990. Those are
7 the trade related provisions.

8 The Chairman. Do I hear a motion to approve?

9 Senator Moynihan. I so move, Mr. Chairman.

10 The Chairman. All in favor of the motion stated, make it
11 known my saying aye.

12 (A chorus of ayes.)

13 The Chairman. Opposed?

14 (No response.)

15 The Chairman. Motion carried.

16 Mr. Humphreys, if you would go ahead with income
17 securities.

18 Mr. Humphreys. Yes, Mr. Chairman. There are a number of
19 amendments relating to Social Security and income security
20 provisions. There is an extension of an expiring provision
21 which allows claimants to get benefits during an appeal
22 process. There is a change in the definition of disability as
23 it applies to widows to make it the same as the definition
24 that applies to workers. There are reforms of the procedures
25 for selecting and monitoring representatives of payees of

1 Social Security recipients. There is a provision streamlining
2 the process for approving attorney's fees and there is a
3 provision which pays for these and the other income security
4 changes which modifies the requirements for claiming benefits
5 on a retroactive basis.

6 And then there are several other minor and technical
7 provisions relating to the Social Security and welfare
8 programs.

9 The Chairman. Are there questions?

10 (No response.)

11 Senator Dole. I move we approve this section.

12 The Chairman. A motion has been made. All in favor of
13 the motion stated make it known by saying aye.

14 (A chorus of ayes.)

15 The Chairman. Opposed?

16 (No response.)

17 The Chairman. Motion carried. Thank you.

18 Ms. Malone, if you would go ahead on the section of child
19 care.

20 Ms. Malone. Mr. Chairman, the child care provisions
21 include the October 4th Committee offer to Ways and Means,
22 refundable tax credits which include the family size
23 adjustment of the EITC, the child health insurance credit and
24 the refundable dependent care credit, and child care
25 provisions under the Labor and Human Resources Committee

1 without prejudice to any discussions there may be with the
2 White House.

3 The Chairman. May I have a motion?

4 Senator Moynihan. I move the adoption, sir.

5 The Chairman. All in favor of the motion stated make it
6 known by stating aye.

7 (A chorus of ayes.)

8 The Chairman. Opposed?

9 (No response.)

10 The Chairman. Motion carried. Thank you.

11 Dr. Weiss, if you would make your presentation.

12 Dr. Weiss. Yes, Mr. Chairman. The Medicare deficit
13 reduction provisions include \$34.044 billion over five years
14 in reductions in reimbursement to providers; \$17.645 billion
15 over a period of five years in additional cost sharing for
16 Medicare beneficiaries; \$2.8 billion in Medicare deficit
17 reduction; other outlay reductions totaling \$2.9 billion for a
18 gross deficit reduction total in the mandatory and outlay
19 category of \$58.1 billion over the five year period.

20 In addition, there are approximately \$5.4 billion worth of
21 spending initiatives which include closure of the urban/rural
22 gap between payment rates for hospitals, an increase in fees
23 for certified registered nursed anesthetists, living wills, a
24 series of items in the Medicaid category with the near poor
25 elderly to ease the burden of the additional cost sharing, a

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1 series of items in a child health package relating to improved
2 Medicaid coverage for young children and children up to the
3 age of nineteen, a series of technical and minor adjustments
4 in the Nursing Home Reform Bill adopted by this Committee and
5 enacted in 1987, and two small initiatives in the area of home
6 and community-based care for the mentally retarded,
7 developmentally disabled, and frail elderly.

8 The Chairman. Are there questions?

9 (No response.)

10 The Chairman. If not --

11 Senator Moynihan. I move the adoption of the section.

12 The Chairman. All in favor of the section being adopted
13 make it known by saying aye.

14 (A chorus of ayes.)

15 The Chairman. Opposed?

16 (No response.)

17 The Chairman. Motion carried.

18 Mr. Sessions?

19 Mr. Sessions. Mr. Chairman, the revenue component of the
20 package includes a number of expiring provisions -- would
21 extend a number of expiring provisions of current law. It
22 would include a package of energy incentives. It would
23 include a modification to the estate freeze rules. It would
24 include a provision to provide a credit for expenditures that
25 facilitate access of disabled persons to public facilities, in

1 combination with a proposal to lower the current law provision
2 that allows expensing of similar amounts.

3 It would include an increase in the earned income tax
4 credit and an additional amount of tax relief provided to low
5 income individuals provided through a similar proposal. It
6 would include a limitation on itemized deductions, an increase
7 in the motor fuels tax by a total of 9.5 cents phased in over
8 several years, an increase in the tobacco excise taxes by an
9 amount equivalent to 8 cents per pack of cigarettes, also
10 phased in over the period.

11 It would include increases in the current alcohol taxes, a
12 10 percent luxury excise tax. A number of smaller items,
13 including the expansion of the current excise tax that applies
14 to ozone depleting chemicals, an extension of the leaking
15 underground storage trust fund excise tax, an increase in the
16 airport trust fund aviation excise taxes, an increase in the
17 harbour maintenance excise tax, a provision that would change
18 the treatment of loss deduction and salvage values for
19 insurance companies, a provision relating to the amortization
20 of deferred acquisition expenses of insurance companies,
21 certain tax compliance provisions related to bills -- H.R.
22 4308 and S.2410 -- a provision relating to withdrawals from
23 overfunded pension plans to fund retiree health expenses, and
24 a related provision dealing with withdrawals from overfunded
25 pension plans, a provision relating to the disallowance of

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1 interest on corporate tax deficiencies, a number of provisions
2 that would deal with various corporate loop holes or other
3 business tax loop holes, an extension of certain IRS user
4 fees, an extension of the Medicare tax to all State and local
5 employees, an extension of the Social Security taxes to State
6 and local employees not participating in a public employee
7 retirement system, an extension of the FUTA surtax, an
8 increase in railroad retirement payroll taxes, modification of
9 the payroll tax deposit rules, an extension of the telephone
10 excise tax, and an increase in the Medicare tax wage cap to
11 \$89,000.

12 In addition, there would be a proposal to increase the
13 refund review threshold of the Joint Tax Committee.

14 The Chairman. Thank you.

15 May I have a motion on the approval of this section.

16 Senator Packwood. So moved.

17 The Chairman. All in favor of that motion make it known
18 by saying aye.

19 (A chorus of ayes.)

20 The Chairman. Now let me say before the final vote that
21 we will also have a Czechoslovakian Trade Agreement yet
22 tonight which will take a very short period of time. So I do
23 not want the members to all cut out on me here.

24 You had something, Mr. Humphreys.

25 Mr. Humphreys. Yes, Mr. Chairman. I need to point out

1 that the budget resolution also instructs the Committee to
2 include a debt limit change in the Reconciliation Bill.

3 The Chairman. May we have approval of that?

4 Senator Moynihan. I so move.

5 The Chairman. Give us the date on that.

6 Mr. Humphreys. It's a five-year -- It's a dollar
7 extension that is estimated to go for five years. It is \$1.9
8 trillion.

9 Senator Dole. \$1.9 what?

10 Mr. Humphreys. \$1.9 trillion.

11 Senator Dole. Trillion?

12 Mr. Humphreys. Trillion.

13 The Chairman. That's the estimate.

14 Senator Dole. I think that may be contentious. I guess
15 it was part of the agreement, sort of the budget process
16 agreement. But I know we have a couple of very stiff
17 opposition to that provision if it is over a trillion dollars.

18 Does it have to approved in this package?

19 Mr. Humphreys. The budget directive in the resolution, I
20 believe, says that we are directed to include a debt limit
21 increase of up to \$1.9 trillion in the Reconciliation Bill.

22 Senator Breaux. Up to or anything less than?

23 The Chairman. The Senate hears the language. The
24 Senate Committee on Finance shall report changes in law within
25 its jurisdiction which provide for an increase in the

1 permanent statutory limit on the public debt by an amount not
2 to exceed \$1,900,000,000.

3 Senator Heinz. Mr. Chairman?

4 The Chairman. Yes.

5 Senator Heinz. Mr. Chairman, what I am about to say
6 relates to the point. First, I would like to point out to
7 those who are interested that this legislation not only
8 includes all the changes in law that have just been voted on,
9 but it contains a recommendation to the Budget Committee that
10 the Finance Committee -- and I do not recall anybody voting
11 against it, so I think it is fair to say it was adopted
12 without any disagreement, perhaps unanimously -- to include
13 their Gramm-Rudman scoring, in the targets, in the base line,
14 all of Social Security, not just the revenues, not just the
15 expenditures. Not just part of the revenues, I should say,
16 but all the revenues, including interest that is earned on the
17 money that is lent by the Social Security system to the
18 Federal Government.

19 Right now the budget agreement only contains part of the
20 truth, part of the revenues. And many of us feel very
21 strongly that if we are going to truly safeguard the Social
22 Security system, all of the revenues and all of the
23 expenditures should be out of the budget deficit accounting
24 process, out of Gramm-Rudman-Hollings, out of the targets, and
25 out of reconciliation.

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1 And unless this proposal is acted upon favorably by the
2 Budget Committee or is acted upon in the case of a floor
3 amendment, I think there will be a number of us who will have
4 trouble supporting the final package.

5 One other comment related to that is that there are
6 burdens, real burdens, in this package. I think they have
7 been fairly distributed but they are still burdens. It is
8 terribly important that we do what we say we are going to do
9 on follow through if some people get off the hook -- if the
10 wealthy get off the hook or if big corporations get off the
11 hook or certain special interests get off the hook or certain
12 regions get off the hook -- we will not have distributed those
13 burdens fairly.

14 So enforcement is a very real issue with most of the
15 people on this Committee. Senator Packwood said it very
16 clearly and very well. That is critically important.

17 I have one last point and it is this: That John Chafee
18 referred to the fact that this, even if we passed this half a
19 trillion dollar budget deficit reduction package that we would
20 still during the five-year period accumulate in excess of a
21 half a trillion dollars additional deficit. He is right, but
22 the number is closer to three-quarters of a trillion dollars
23 in deficit, and that is still cheating to the tune of \$170
24 billion by pretending that that revenue which properly belongs
25 in the Social Security system is somehow general revenues,

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1 which it is not.

2 Therefore, we are faced with somewhere between a three-
3 quarters of a trillion and a one trillion dollar deficit.
4 Hence this exorbitant increase in the national debt. We
5 should recognize that as unpleasant as the work that we have
6 had to do leading up to this point is that it represents
7 something less than a halfway measure if we are going to leave
8 to our children anything approaching a balanced budget and a
9 posterity in terms of a national debt that will be anywhere
10 near a burden that they can, let alone should, be able to
11 bear.

12 The Chairman. Thank you.

13 Are there other comments?

14 Senator Bradley. Mr. Chairman?

15 The Chairman. Yes. Senator Bradley.

16 Senator Bradley. Mr. Chairman, I want to thank you for
17 your unfailing courtesy. I am sorry that I will not be able
18 to go along with you. I think it is wrong to raise taxes on
19 middle income families at the same time that we are creating
20 new tax breaks for wealth oil and energy investors. I think
21 it is unfair to ask senior citizens to pin it on Medicare to
22 bear an unreasonable portion of the cost of the deficit
23 reduction package.

24 So I will vote no.

25 Senator Durenberger. Mr. Chairman?

1 The Chairman. Senator Durenberger?

2 Senator Durenberger. Mr. Chairman, I am going to vote
3 with you again this year and I am going to quote my leader,
4 Bob Dole, to the affect that our choices are, do we do nothing
5 or do we do the best that we can. And I am going to add to
6 that, under the circumstances.

7 Jack Danforth said the Medicare budget alone is going to
8 increase from \$92 billion to \$150 billion over the next five
9 years. We have 63 million Americans who go for some part of
10 this year without access to health insurance. I can go on and
11 on with the realities that we all know about the cost of
12 health care in this country and access to health care. So
13 while I compliment my leadership, I must say that this has
14 been a difficult year for followers.

15 We did not have to do the work. This Committee did not
16 meet that often. We did not have to go to Andrews Air Force
17 Base. But once again we were faced with doing the best we
18 could under the circumstances. And those of us who would like
19 to get a handle on access to health care for everybody in this
20 country, and who would like to get a handle on the cost of
21 health care and a lot of other things, we are faced simply
22 with a set of choices that relate to a deficit.

23 All I can do, Mr. Chairman, is hope that next year is
24 going to be different.

25 The Chairman. I hope so.

1 Senator Durenberger. And that the people on this
2 Committee who have over the time I have been here have
3 demonstrated a tremendous skill at dealing with the policy
4 issues that face this country.

5 Somehow or other by next year we will be able to apply
6 those skills to some of the problems this country faces. I do
7 not think any of us have enjoyed this year. We certainly have
8 not enjoyed the last week or two. This Committee is a
9 Committee of tremendous opportunity. It has the best
10 leadership and the best staff in this Congress. I just hope
11 and pray that after we get over this very rough hurdle over
12 which you and George, the two Bobs have led us, that maybe
13 with the help of the rest of the leadership in this Town, that
14 somehow or other next year is going to be different.

15 The Chairman. Thank you, Senator. Any further comments?

16 Senator Armstrong. Mr. Chairman?

17 The Chairman. Senator Armstrong?

18 Senator Armstrong. Mr. Chairman, I have one question and
19 then perhaps a brief comment. Have you announced what the
20 schedule will be for filing views on the bill?

21 The Chairman. No, I have not. They tell me that they
22 hope to get, by working over the weekend, that the staff will
23 be able to get the language to the Budget Committee by Monday.

24 Senator Armstrong. If we have our views in by Monday
25 morning?

1 The Chairman. That would be fine.

2 Senator Armstrong. Mr. Chairman, if we have the
3 opportunity then to file views I will make my comments very
4 short.

5 Every once in awhile every one of us makes a dreadful
6 mistake. Every once in awhile even the Senate Finance
7 Committee makes a dreadful mistake. I think history is going
8 to record that this is probably the worst mistake I have ever
9 seen the Finance Committee make. I feel just like David
10 Durenberger does, that this is the best Committee of Congress,
11 the most astute, the most thoughtful, with only a few
12 occasional lapses, the most congenial, and the most bi-
13 partisan.

14 But, Mr. Chairman, I am convinced this is really dumb. I
15 have not talked to anybody among the professional economists
16 who look at things that think it is smart to raise taxes on
17 the brink of a recession. In fact, we are really not on the
18 brink of a recession, we are in a recession. There is some
19 dispute among economists of whether or not this is going to be
20 a mild recession that might last one or two quarters or
21 whether or not we are really heading into something that is
22 much worse than that. I do not know the answer.

23 I do know that the real estate market is in dreadful shape
24 all over the country -- in Colorado, in Texas, and elsewhere.
25 The stock market has crashed. It is down 600 points in the

1 last few weeks. The bond market is sagging badly. There are
2 some -- Well I don't need to recite the data. Every Senator
3 knows it.

4 To raise taxes at that particular moment in the life of
5 our economy not only suggests insensitivity to the future
6 economic growth of the country, but is likely in my view to be
7 self-defeating. It is actually likely to produce less revenue
8 rather than more.

9 So I think it is a mistake. I am buoyed up by a thought
10 which Jim Miller suggested last night or this morning, that we
11 do not have to trade anything to get a capital gains tax cut
12 because by January or February it will be obvious to everybody
13 that the economy is in a full blown recession and in that
14 setting Congress will stampede the pass of capital gains tax
15 cut. Later than it should perhaps, but my hunch is that is
16 exactly what will happen. I am sorry I will not be a member
17 of the Committee when it does.

18 In the meantime, for the reasons I have just stated, I
19 will vote no.

20 The Chairman. Thank you, Senator.

21 Are there other comments?

22 Senator Boren. Mr. Chairman?

23 The Chairman. Yes. Senator Boren?

24 Senator Boren. Mr. Chairman, I want to join the others in
25 commending you for your responsible leadership. Just

1 listening to my colleague from Colorado, I share his deep
2 concern about the economy and the direction the country is
3 taking in terms of the economic strength of this country.

4 I have to come to a different conclusion than he, however,
5 with all due respect, as to what that should lead us to do
6 tonight. I believe for us to remain in gridlock, for us to
7 show an inability after being challenged by the President and
8 the Leaders of both parties, that to reach some kind of
9 agreement to deal with the deficit crisis which faces us could
10 well be the final blow to the fragile level of confidence that
11 remains in our national economy.

12 I think for us to fail to act to deal with this problem
13 that we face would be to play Russian roulette with the
14 American economy. I simply do not think it would be
15 responsible for us to do so. So I think while many of us have
16 misgivings about part of this package, the only responsible
17 thing for us to do is to accept this compromise, as George
18 Mitchell has called it, and to try to move forward on reducing
19 the deficit which really cripples the economic future and
20 well-being of the country.

21 I had hoped that we could have adopted your original plan,
22 Mr. Chairman. Because it address two great needs of the
23 country that I think really are twin responsibilities and
24 tonight I believe we are only meeting one. One is to try to
25 reduce the deficit. The other is to try to rebuild the

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1 economic strength of the country and make us more competitive
2 and more productive so that we can regain a share of our world
3 markets.

4 And as we look ahead to the next century we realize that
5 it is not on our military strength, but it is on our economic
6 strength that the leadership possibilities of this country are
7 going to rest. I happen to believe that if we could have had
8 the trade off between bringing tax fairness to the Code by
9 doing away with the so-called bubble, by doing away with an
10 indefensible situation in which those that make \$80,000 a year
11 are charged at a marginal tax rate of 33 percent while those
12 over \$200,000 are charged at a marginal tax rate of 28
13 percent; and if we could have coupled that action with a
14 reasonable capital gains proposal, and perhaps another series
15 of incentives to encourage saving and investment in this
16 country, I think it would have been a much better package.

17 We have to start thinking in this Committee about Tax
18 Codes in other countries. We have to start thinking about the
19 cost of capital at the margin in this country compared to the
20 cost of capital elsewhere. We have to start thinking about
21 how they treat certain kinds of economic activities in terms
22 of the tax burden compared to how we do.

23 I understood that when I was a Governor. I can assure you
24 I didn't think about changes in tax policy in Oklahoma without
25 knowing about taxes in Texas or Colorado or New Mexico. We

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1 are in a global economy and we had better start thinking about
2 our comparative tax burdens in this country, the way we tax
3 certain elements of income compared to the way they are taxed
4 in other countries.

5 So I think that we have measured up rather well to the
6 first responsibility of doing something about the deficit. I
7 do not think we have yet begun to come to grips with our
8 second responsibility of doing something to rebuild the
9 economic competitiveness of this country and to use the Tax
10 Code as an instrument of economic policy related to what we
11 need to do to increase saving and investment in this country.

12 I am also disappointed because I think cutting the capital
13 gains rate at this point, as Senator Armstrong has said, would
14 have helped stimulate the economy and would have helped
15 stimulate economic growth at a time in which the economy is
16 headed into a downturn.

17 So I think it has been a missed opportunity. But, Mr.
18 Chairman, it certainly has not been your fault. You offered a
19 very reasonable package, one that I think the vast majority of
20 the American people would have applauded, a package that would
21 have traded off that unfair tax bubble and would have also
22 allowed us to adopt some real incentives for economic growth
23 at the same time.

24 I think that is what should have happened. Senator Nunn,
25 and I, and others are still working on a package that we hope

1 might still come to fruition, perhaps as we consider this
2 matter on the Senate floor, and it might be possible.

3 But as for tonight, that is not possible. We have to
4 forge a bi-partisan agreement. You have led us to the best
5 possible bi-partisan agreement -- one that reduces the
6 gasoline tax, the regressive nature of it; one who hits
7 Medicare a little less; one which makes the Tax Code somewhat
8 more progressive, with some other important incentives for
9 small business. And in that area there are some real
10 incentives for small business growth.

11 So I commend you for your leadership. My only hope is, as
12 other members of the Committee have expressed, that we will
13 come back to visit our other responsibility of really using
14 tax policy as an instrument for economic competitiveness in
15 this country and not just having to act in emergency
16 situations as we face tonight.

17 The Chairman. Thank you very much, Senator.

18 I think what you are going to see here is serious,
19 credible cut in that deficit. That is what we have to do if
20 we are going to get this country moving again and get interest
21 rates down.

22 I would like to now call for a roll call vote and a motion
23 on it.

24 Dr. Weiss. Mr. Chairman, before you vote, if the staff
25 could ask for the usual authority to make necessary minor and

1 technical adjustments to achieve the targets.

2 The Chairman. Without objection that will be done.

3 May I have a motion for a roll call vote?

4 Senator Moynihan. I so move.

5 The Chairman. All right.

6 Will the Secretary call the roll.

7 The Clerk. Mr. Moynihan.

8 Senator Moynihan. Aye.

9 The Clerk. Mr. Baucus.

10 Senator Baucus. No.

11 The Clerk. Mr. Boren.

12 Senator Boren. Aye.

13 The Clerk. Mr. Bradley.

14 Senator Bradley. No.

15 The Clerk. Mr. Mitchell.

16 Senator Mitchell. Aye.

17 The Clerk. Mr. Pryor.

18 Senator Pryor. Aye.

19 The Clerk. Mr. Riegle.

20 Senator Riegle. Aye.

21 The Clerk. Mr. Rockefeller.

22 Senator Rockefeller. Aye.

23 The Clerk. Mr. Daschle.

24 Senator Daschle. Aye.

25 The Clerk. Mr. Breaux.

1 Senator Breaux. Aye.
2 The Clerk. Mr. Packwood.
3 Senator Packwood. Aye.
4 The Clerk. Mr. Dole.
5 Senator Packwood. Aye.
6 The Clerk. Mr. Roth.
7 Senator Armstrong. No.
8 The Clerk. Mr. Danforth.
9 Senator Danforth. Aye.
10 The Clerk. Mr. Chafee.
11 Senator Chafee. Aye.
12 The Clerk. Mr. Heinz.
13 Senator Heinz. Aye.
14 The Clerk. Mr. Durenberger.
15 Senator Durenberger. Aye.
16 The Clerk. Mr. Armstrong.
17 Senator Armstrong. No.
18 The Clerk. Mr. Symms.
19 Senator Symms. No.
20 The Clerk. Mr. Chairman.
21 The Chairman. Aye.
22 The Clerk. There are 15 Senators in favor, 5 opposed.
23 The Chairman. Good. The Bill is approved.
24 Mr. Kyle, we have the Czechoslovakian Trade Agreement.
25 Mr. Kyle. Mr. Chairman, we have before the Committee this

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1 evening the U.S.-Czechoslovakian Trade Agreement which was
2 reached in April by the administration and is before the
3 Committee for approval. The primary feature of that is that
4 it would provide most-favored nation treatment for both
5 countries. It also provides easier access for U.S. companies
6 seeking to do business in Czechoslovakia.

7 Senator Packwood. I move we report the Treaty.

8 The Chairman. A motion is made to report the Treaty. All
9 in favor of the motion stated make it known by saying aye.

10 (A chorus of ayes.)

11 The Chairman. Opposed?

12 (No response.)

13 The Chairman. The ayes have it. The Treaty is approved.
14 We had a study, did we?

15 Mr. Kyle. That is correct, Mr. Chairman. There is also a
16 Section 332 study to be conducted by the ITC that was first
17 requested by Senator Packwood regarding Canadian apples in the
18 Canadian and U.S. apple markets.

19 The Chairman. May I have motion to approve the study?

20 Senator Moynihan. I so move.

21 The Chairman. All in favor make it known by saying aye.

22 (A chorus of ayes.)

23 The Chairman. Opposed, no?

24 (No response.)

25 The Chairman. The motion is approved.

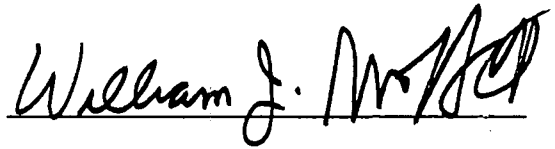
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Gentlemen, we are adjourned. Thank you.
(Whereupon, the meeting was adjourned at 12:23 a.m.)

C E R T I F I C A T E

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This is to certify that the foregoing proceedings of a an Executive Committee Meeting, Committee on Finance, United States Senate, held on October 12, 1990, were transcribed as herein appears and that this is the original transcript thereof.



WILLIAM J. MOFFITT

Official Court Reporter

My Commission Expires April 14, 1994.

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