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HEARINGS

Before The

COMMITTEE ON FINANCE

UNITED STATES SENATE

EXECUTIVE SESSION

Washington, D. C.

May 15, 1980

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EXECUTIVE SESSION

THURSDAY, MAY 15, 1980

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

The Committee met, pursuant to notice, at 10:45 a.m. in room 2221, Dirksen Senate Office Building, The Honorable Russell B. Long (Chairman of the Committee) presiding.

Present: Senators Long, Talmadge, Ribicoff, Byrd, Bentsen, Moynihan, Matsunaga, Baucus, Bradley, Dole, Packwood, Chafee, Heinz, Wallop and Durenberger.

Staff Present: Mr. Lighthizer, Mr. Stern, Mr. Shapiro, Mr. Lubick, Ms. Burke, Mr. Melton, Mr. McConaghy, Mr. Kern, Dr. Mongan, Ms. Davis and Mr. Constantine.

The Chairman: Let's come to order, please.

I think as the first order of business before we get on the health thing, Senator Matsunaga was kind enough to stick around for everybody else's bill and when we got to his bill he was informed that Senator Heinz did not want to act on that and Senator Heinz was not here.

We had to ask him to wait until we considered everybody else's legislative suggestion. I thought we should take that as the first order of business.

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1 Senator Matsunaga: Thank you very much, Mr. Chairman.

2 Since the enactment of the Tax Reform Act of 1976 a number
3 of problems have developed relative to the foreign convention
4 tax reduction rules.

5 As some of you may know, on October 8, 1978 the Ways and
6 Means Committee reported a simplification proposal to the House
7 but the House did not take up the bill because of the time
8 constraints at the end of the 95th Congress.

9 Early last year a number of senators introduced various
10 proposals addressing this issue. Senator Bentsen led the move
11 in co-sponsorship with Senators Javits; DeConcini; Hayakawa
12 and Church, introducing S. 589 to exempt Canada and Mexico
13 from the restrictions of the Tax Reform Act of 1976.

14 Senator Goldwater and Senator DeConcini also introduced
15 S. 794 to repeal the 1976 provisions. Senator Mathias introduced
16 S. 940 to repeal the present reporting requirements.

17 As Chairman of the Subcommittee on Tourism and Sugar there
18 was a full day's hearing on July 20, 1979. I believe that the
19 present rules are necessarily complicated. For example no
20 deduction is allowed for expenses in attending more than two
21 foreign conventions a year.

22 This particular restriction has severely hampered
23 taxpayers who need to attend more than two foreign conventions
24 a year such as American engineers who attend conventions abroad
25 which establish international engineering standards. These

1 engineers must attend these meetings to ensure that the
2 international standards will not exclude United States' products.

3 Also burdensome are the limitations restricting the
4 deductions to economy class travel in the Federal per diem level.

5 The recordkeeping requirement for the hours attended at
6 convention functions has also proved burdensome under the
7 present law. They are required to keep a record of how many
8 days of the convention they attended and how many hours in the
9 day. They have to present a certificate from the convention
10 chairman or responsible person in order to qualify for the tax
11 deduction.

12 I am proposing in line with Senator Bentsen's bill the
13 simplification program outlined in the staff briefing paper.

14 While I feel the present rules are complicated and need
15 simplification I do not believe that they should be repealed
16 completely.

17 The 1976 provision was enacted to prevent abuses of the tax
18 laws for business expense deductions. Prior to its enactment
19 expenses were generally deductible as ordinary and necessary
20 for a business purpose even when the taxpayer did not attend
21 most of the convention functions or when no structured format
22 for a convention existed.

23 Many foreign conventions, seminars and cruises were described
24 as tax paid vacations. Organizations advertised they could find
25 a so-called business convention in any part of the world at any

1 given time of the year for an individual. This type of
2 promotion eroded public confidence in our tax laws and as a
3 consequence came the Tax Reform Act of 1976.

4 I am not saying since the enactment of the Tax Reform Act
5 of 1976 all abuses have been eliminated because we still find
6 for example the promotional booklet circulated by California
7 Trial Lawyers Association which says "Decide where you would
8 like to go this year, Rome, the Alps, the Holy Land, Paris and
9 London, the Orient, cruise the Rhine, all of the Mediterranean,
10 visit the Islands in the Carribbean, delight in the treasures
11 of Florence." Somehow they omitted Hawaii.

12 "These trips have been designed to qualify under the 1976
13 Tax Reform Act as deductible foreign seminars."

14 I think in light of our relationship with Canada which we
15 must concede is our best ally. They have come forward in Iran.
16 The ambassador of Canada risked his life and the lives of his
17 embassy people to rescue Americans and bring them back safely
18 to America and they were first to stand up to boycott the
19 Olympics.

20 They are really our closest ally. This has been a real
21 thorn in their side. We have got to remove that thorn.

22 We had an official of the Government of Canada testify
23 before the Subcommittee. He indicated very plainly this has
24 been really a thorn in the side of the Canadian Government. I
25 assured him I would do everything I could to remove that thorn.

1 On the other hand we have the broadcasters especially in
2 New York and Washington State where they are saying the Canadians
3 are being discriminatory against us. They have in retaliation
4 provided that no business tax deductions will be allowed for
5 Canadian businessmen who broadcast over American systems.

6 That is true. The Treasury Department and I can ask the
7 Treasury representative to explain it but they have already
8 negotiated in a treaty with Canada this very provision away.
9 They have given this in return for tax gains for American
10 businessmen in Canada which is much more valuable in dollar
11 amounts and otherwise than this restriction on Canada.

12 Even under present law as many as two conventions may be
13 held and still qualify the businessmen who attend for tax
14 deductions. It is only after the third.

15 The proposal as made by the Bentsen bill is to exempt
16 Canada and Mexico. We have come forth with a bill to exempt
17 all of North America in effect and that would be Canada and
18 Mexico from the two convention per year restriction.

19 I would strongly urge that not only for purposes of taxation
20 and equality in taxation that we eliminate this because Canada
21 has conceded quite a bit in its negotiations for a tax treaty
22 with the United States but I think more importantly from the
23 international relationship between the United States and
24 Canada and the United States and Mexico that we ought to pass
25 this proposed lifting of the restrictions in Canada and Mexico.

1 The loss of revenue is very negligible.

2 The Chairman: Let's hear from Mr. Lubick.

3 Mr. Lubick: Senator, we support the basic approach of
4 Senator Matsunaga's bill. We think he has put together a
5 package that will very significantly deal with the abuses in
6 the foreign convention area but at the same time relieve a lot
7 of the onerous reporting restrictions; a lot of the arbitrary
8 restrictions which the two convention limit entailed and at
9 the same time under his test any convention that has a reasonable
10 basis for being held abroad would qualify.

11 I take it the chief point of concern in this area seems to
12 be the exemption of Canada and Mexico from the restrictions,
13 even the restrictions of his bill that apply to foreign
14 conventions generally.

15 In other words, the requirement it be as reasonable to
16 hold a convention in Canada or Mexico as in the United States
17 would not apply under this provision.

18 As far as Canada is concerned the reasonableness test would
19 of course operate to allow I would say most of the conventions
20 in Canada because business organizations quite generally have
21 Canadian operations. The closeness between Canada and the
22 United States is so pervasive that it would be quite easy
23 in most conventions to support the holding of the convention
24 under the basic test.

25 The Canadians were concerned that they be treated on the

1 same basis as conventions in the United States.

2 For three and one half years since we have been involved
3 in the negotiations with Canada we have fought very hard to
4 secure a concession in our tax treaty negotiations from the
5 Canadians to eliminate the practice which they have under their
6 law of denying deductions to Canadian advertisers on United
7 States television broadcasting channels. That is the so-called
8 Border Broadcasting issue.

9 We felt that was an unwarranted and an undue discrimination
10 against the United States.

11 The issue continues to be negotiated by the special trade
12 representative and by the State Department with respect to
13 other negotiating issues between the United States and Canada.

14 I must say when we got down to the very wire we were faced
15 in our treaty negotiations with a choice; either we were going
16 to insist on border broadcasting and the elimination of that in
17 the tax treaty and therefore have no tax treaty because there
18 was no way under the Canadian political situation that the
19 Canadians were able to make that concession or we were going
20 to conclude a treaty which we felt was very significantly
21 advantageous to United States interest.

22 When it came down to the ultimate wire the Canadians
23 made for the first time in Canadian negotiating history a
24 very significant concession in that they reduced the rate of
25 withholding by Canada on remittances to the United States to

1 parent corporations of dividends in the interest area and in
2 the royalty area a concession reducing the rate from 15 percent
3 to 10 percent.

4 That concession to our minds was far more significant than
5 our insisting on holding foreign conventions hostage for border
6 broadcasting, in order to make what we think was a deal which
7 is mutually advantageous but particularly advantageous to
8 American business. We felt it appropriate and desirable to
9 leave the border broadcasting issue to more specific trade
10 negotiations.

11 We have not conceded on the Canadian practice but in the
12 tax convention we have negotiated an agreement whereby the
13 provisions of Senator Matsunaga's bill would be exchanged for
14 the balance of the concessions in the treaty on both sides.

15 The treaty has been forwarded to the State Department and
16 to the President for submission to the Senate which we anticipate
17 will occur in due course.

18 As a practical matter the Treasury Department has concluded
19 an agreement with the Canadians conceding this issue so that
20 in that sense it is not a bargaining chip referring to the
21 conventions which the special trade representative has any more.

22 We will of course be prepared at the appropriate time to
23 defend the treaty and to demonstrate it has significant value
24 for all of American business.

25 We regret we were unable to move the Canadians on the border

1 broadcasting issue. In a sense the insistence on the border
2 broadcasting I suspect moved the Canadians to a position that
3 they were otherwise reluctant to take which entails benefits
4 much broader for all American business.

5 Approaches have been put forth that may lead to successful
6 resolution of the border broadcasting issue in the trade
7 negotiations. I do not know we can discuss those here.

8 I assure you the position of the Administration in
9 negotiating to eliminate the discrimination on border
10 broadcasting continues to be one that is asserted and asserted
11 vigorously and I would hope that a solution can be found.

12 There are promising avenues of exploration. As far as
13 foreign conventions are concerned the basic thrust of the
14 Matsunaga bill which substitutes a reasonableness test is going
15 to take away a good bit of the sting of the 1976 rules from
16 Canada because so many of their conventions are reasonable
17 any way and the remaining portion exempting them from the
18 Matsunaga bill generally and putting them on the same basis as
19 American conventions is such that we think we have concluded
20 a very important treaty.

21 Canada is our most important trading partner. Our
22 commercial relationships with Canada are the closest of any
23 country and we do not have any objection to the exemptions since
24 we have already negotiated that as a position which we are
25 submitting to the Senate in connection with the tax treaty.

1 Senator Heinz: Mr. Chairman?

2 The Chairman: Senator Heinz.

3 Senator Heinz: Let me thank Senator Matsunaga for being
4 so understanding as to yesterday. I thank you, Sparky, and the
5 Committee for allowing us to come over today. I had arranged
6 a month or two previously a speaking engagement in Pennsylvania
7 and I did not know at the time this was going to come up.

8 Senator Matsunaga: I hope you got a good honorarium.

9 Senator Heinz: I have to tell you this group does not offer
10 honorariums and since I do not take them I am always embarrassed
11 to admit that I do not get them. That is called speak at any
12 price.

13 I have some concerns about our acting on this bill at this
14 time. Mr. Lubick has discussed the problem with border
15 broadcasting.

16 I think he is well aware and particularly as I hear him
17 speak that border broadcasting was on the one hand useful to
18 you but I guess I would characterize what you have been able
19 to negotiate as getting something for a lot of other American
20 business people at the expense of border broadcasting.

21 Mr. Lubick: We tried the best we could, Senator.

22 Senator Heinz: I am sure you tried. The fact of the
23 matter is a lot of people -- I suppose to the people involved
24 this is a fine benefit. I am sure there are people in every
25 state that are likely to benefit. A group of people are going

1 to benefit from reduced withholding but one group of people,
2 the broadcasters, are going to bear the cost of doing so.

3 We are all aware that the Canadians do not permit a deduction
4 for advertising expenses if a Canadian company goes over and
5 buys a station just over the border to advertise either in the
6 United States or Canada and it amounts to great discrimination
7 against our border broadcasters.

8 It is the kind of issue that personally I feel if we allow
9 the Canadians to discriminate against one group of businesses
10 in this regard we are likely to find them doing it again some
11 place else.

12 I am advised that we may be making some more progress in
13 this area right now. We are making the progress because this
14 Committee in 1978 amended Section 301 of the Trade Act of 1974
15 to make it absolutely clear that the special trade
16 representative would have the authority to file a complaint
17 under 301, the trade discrimination statute, against Canada
18 and they have done so.

19 A complaint was filed about a year and a half ago. It has
20 reached the point where resolution is very near. I am told
21 STR intends to resolve the complaint by July 26th which is
22 the statutory deadline and then the President has 21 days after
23 that to act on their recommendations. That would be August 18th.

24 My feeling, Mr. Chairman, is we should delay action on this
25 without prejudice until STR and the President have acted. That

1 would be August 18th at the latest. It could be sooner.

2 I think it would undercut STR's position in their quite
3 intense negotiations with Canada right now on the border
4 broadcasters were we to let them off the hook at this point.

5 I wish I did not have to argue for delay of the fine work
6 Senator Matsunaga has done. STR has contacted me and I believe
7 some other members of the Committee. They feel very strongly
8 that the integrity of the 301 process rests on our continuing
9 to send a clear message to Canada that we should not give them
10 convention relief at this time while this 301 complaint is
11 pending and there should be a settlement of the broadcast
12 dispute and this they specifically state for the record and
13 maybe there is someone from STR here who will say this for the
14 record that any action by Congress signaling possible Canadian
15 relief before Canada has reciprocated on this known as the C-58
16 issue would severely undermine the 301 process and the U.S.
17 negotiating position.

18 To which I would only add that as I understand Mr. Lubick
19 the treaty that has been negotiated has not been signed by
20 anybody. It has not been signed by the Canadians or it has not
21 gone through their ratification process.

22 Mr. Lubick: It has been approved by the Canadian Cabinet.

23 Senator Heinz: What do they have to do next?

24 Mr. Lubick: They submit it to their parliament.

25 Senator Heinz: Do they know when they are going to do that?

1 Mr. Lubick: I do not know that. You are right that it
2 has not been signed by the United States either. We have
3 submitted it to the proper channels.

4 Senator Heinz: It seems to be to be getting the cart just
5 a little bit before the horse for us to move on this. If we
6 do move on Senator Matsunaga's proposal today the cart will
7 not only be before the horse but the horse will be out of the
8 barn and we will never be able to lock the barn doors if we
9 should judge it indeed would have been necessary.

10 I would ask my colleagues to go slow on this not out of any
11 disrespect or prejudice to the merits but so we do not undermin
12 our negotiating position on C-58 with the Canadians.

13 Is STR in the audience?

14 (No response.)

15 Mr. Lubick: I would like to say that the fact of the matter
16 is the United States Government representative have negotiated
17 this as part of an agreement, as a result of which the
18 Canadians have agreed to reduce their withholding rates.

19 I am not sure this chip can be played twice. In effect it
20 has been played. What you are suggesting is really the
21 elimination of a five percentage reduction for all American
22 business with respect to dividends, royalties, et cetera.

23 Senator Heinz: That is why I was hoping someone from STR
24 would be here.

25 The Chairman: They are not. We will try to get them

1 later on.

2 Let's hear from Mr. Moynihan.

3 Senator Moynihan: Thank you, Mr. Chairman.

4 I would join Senator Heinz in expressing our appreciation
5 to Senator Matsunaga for a first rate piece of work undoing
6 absurdities in previous legislation.

7 Secondly, I would like to endorse as emphatically as I can
8 what he said about Canada. That is there are no people more
9 important to us and closer to us and it is one of the problems
10 of those of us who have states on the border. We also have to
11 feel strongest about this particular issue.

12 I would like to say it is not just an issue of trade. It
13 is an issue as Senator Heinz referred to that we do not want
14 our respective politics getting between us in the exchange of
15 goods and ideas and information. Both sides are capable of this.

16 Senator Ribicoff: I am interested in some trade.
17 Connecticut does not border Canada. We have a big problem here,
18 Mr. Chairman.

19 The United States has a \$30 billion surplus throughout the
20 world in services. We earn an awful lot of money in services,
21 advertising, insurance, banking. This is what keeps our balance
22 of trade from really sinking to the depths.

23 In the 1974 Trade Act in Section 301 we were very careful
24 to nail down the elimination of discrimination of one country
25 against the United States.

1 The MTN negotiations never bothered much with the whole
2 problem of services. This is one of our biggest earners in our
3 trade field. I have asked the staff before the year is up to
4 have some special hearings on the problems of services or what
5 it means for the United States trade posture.

6 What has happened, if we allow Canada to do this you are
7 going to find throughout the world they are going to chip away
8 and discriminate against American services which are a very big
9 earner. The STR is supposed to report back to Congress by
10 July 26th concerning this Canadian problem.

11 I do not think we ought to undercut STR before they report
12 back but also to send a signal to the entire world that we are
13 not concerned with services and what it earns for American
14 industry and allow discrimination throughout the world and
15 this would be devastating to us.

16 I will go along with Senator Matsunaga but I think I do
17 agree with Senator Heinz and Senator Moynihan that we are doing
18 a lot of damage to the American position.

19 The Chairman: Let me suggest we go vote and come back as
20 quickly as we can.

21 Senator Moynihan: Mr. Chairman, my office has been
22 officially asked by STR to ask if we would put off consideration
23 until the July date.

24 Senator Wallop: Mr. Chairman, my office also.

25 The Chairman: Let's go vote.

1 (Whereupon, the Committee recessed for a vote on the Floor
2 at 11:15 a.m. to reconvene at the call of the Chair.)
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AFTER RECESS

1
2 (Whereupon, the Committee reconvened at 11:33 a.m., The
3 Honorable Russell B. Long, Chairman of the Committee, presiding.)

4 The Chairman: During the informal recess for the vote
5 there has been some discussion. I think Senator Matsunaga has
6 a suggestion about how this matter might be handled.

7 Senator, would you explain your suggestion?

8 Senator Matsunaga: Mr. Chairman, during the recess as you
9 say I spoke with Senator Moynihan and Senator Heinz. They both
10 have agreed that if I will agree to a postponement of action
11 by this Committee until August 18th when the deadline for
12 negotiations by STR with the Canadian Government will have
13 expired, then they will not object to the reporting out of the
14 bill.

15 In order to give STR every opportunity to negotiate on the
16 broadcasting issue, I will agree to withdraw my motion at this
17 time.

18 Senator Ribicoff: Mr. Chairman, the proceedings this
19 morning indicate one of the great problems we have had in the
20 whole trade field. The failure of the different agencies of
21 the Government that are involved in different elements of trade
22 to talk to one another and to understand what each one is doing.

23 It is obvious Treasury is off on one track and STR is
24 on the other track. It is one Government with one objective.

25 I would hope that Treasury and STR would be able to get

1 together on these trade matters and not put us in the embarrassing
2 position we have been in today.

3 Senator Bradley: Mr. Chairman?

4 The Chairman: Yes, sir.

5 Senator Bradley: May I remark that I think STR is engaged
6 in important negotiations that affects the broadcasters of our
7 country, services, exporters and so forth. It does deal with
8 television and communications because that is what the Canadian
9 objection is.

10 I would like to say as one of four senators from two states
11 that have no television station at all that maybe we need a
12 special trade representative to begin negotiating with New York
13 and Connecticut and the other states in the Union.

14 The Chairman: Without objection, Senator Matsunaga's
15 suggestion will be agreed to.

16 Let's turn over to the health matters.

17 Senator Dole: Mr. Chairman, I wanted to note that
18 Mr. Lubick now has a permanent sign. I think that is an
19 indication of something.

20 The Chairman: Let's turn to the health matter. I have
21 had some discussions with Mr. Constantine and also with
22 Dr. Mongan about the discussions we have had in the Committee
23 and how we might think in terms of the budget requirements
24 and starting out on a somewhat less ambitious scale than we
25 were heading toward to see if we could take to the Senate

1 something that would not shock or upset anyone who is thinking
2 about the budget aspects of it by reducing the first year's cost
3 and at the same time offering the Senate the opportunity to do
4 what it wants to do with the theory that on the Floor there
5 will be suggestions to do a lot more and there will be
6 suggestions that we should not do as much as we are recommending.

7 Mr. Stern is pretty good at writing something on the
8 blackboard. You have some things before you. Why do we not
9 talk in terms of what we might be able to do if we wanted to
10 start out with a minimal program to hold the costs down to a
11 very low figure during the first year and see what we might
12 suggest along that line thinking in terms of the kind of things
13 we have tentatively agreed on but also thinking in terms of
14 how we might hold the costs down and perhaps allay some of the
15 fears of some of the people who think it is going to cost them
16 a great deal of additional taxes.

17 Mr. Stern, why do you not help lead us in that direction?

18 Mr. Stern: Mr. Chairman, I wanted to note that on this
19 Attachment C, this table which shows the different dollar
20 amounts, that is the first full year of implementation. We did
21 that so you would know what the cost of the various elements were.

22 That does not mean in fiscal year 1981 it need cost that
23 much. For example when you previously discussed the child
24 health assurance program you had thought of making it effective
25 late in the fiscal year. At that time you were talking about

1 fiscal year 1980. Even though that program might cost
2 \$300 million in the first full year you could wind up with the
3 spending being well under \$100 million if you made it effective
4 only for the last month of the fiscal year.

5 Similarly the amount that is shown as the employer subsidy
6 through the tax credit, since it would be taken as a tax credit
7 we have discussed this with the Joint Committee on Taxation.

8 They would estimate that relatively few employers would
9 actually reflect this tax credit in their advanced payments
10 and therefore even a subsidy that would cost \$300 million
11 on a full calendar year basis might only cost \$100 million
12 during the nine months of fiscal year 1981.

13 You could well design a program with a revenue effect of
14 \$100 million or less and a spending effect of \$100 million or
15 less even though the program really would cost \$1 billion or
16 \$1.5 billion in the first full year.

17 The Chairman: Maybe you could put up there on the
18 blackboard what the minimal thing could be if you wanted to start
19 out on a minimal basis to handle the budget problem and also
20 to try to work towards the lowest common denominator.

21 Mr. Stern: I would like to give one example in the case
22 of the employer subsidy tax credits. The estimate if you were
23 to allow a 50 percent credit for new employer costs of providing
24 catastrophic health insurance on a voluntary basis, it is now
25 estimated at \$300 million. The fiscal year 1981 effect if you

1 made it effective January 1, 1981 would probably be something
2 like \$100 million.

3 The Chairman: Why do you not put down the first year cost
4 and the second year cost?

5 Senator Heinz: Mr. Chairman, while Mike is doing that I
6 would like to express my gratitude to Senator Matsunaga and to
7 the other people who worked with him on the legislation. I want
8 to thank him personally for his understanding and his willingness
9 to postpone until August 18th at the latest after the President
10 has acted upon the STR proposal.

11 I have assured him at that time I will do everything I can
12 to expedite the consideration of the legislation.

13 Senator Matsunaga: You are most welcome. You owe me one.

14 Mr. Stern: That is for small business. That tax credit
15 is for small businesses. For purposes of the estimate they were
16 defined as non-professional corporations having less than
17 100 employees.

18 This assumes the voluntary program versus the mandatory
19 program.

20 The Chairman: If you included that and got started on
21 one of the items you have here in terms of if you are going to
22 start something you have to do this at least.

23 About that thing for the aged? Could you start some of
24 that at the end of it?

25 Mr. Constantine: Mr. Chairman, you could use the

1 effective date, the provision to provide unlimited hospitalization
2 for Medicare with a 25 co-insurance factor from the 61st day
3 for all additional days and no co-payment on skilled nursing
4 facility days from the 21st through the 100th day as is
5 presently the case.

6 You could pick any effective date you wanted on that. You
7 could actually make that October 1, 1981. I am sorry, it is
8 September 1, 1981, which would probably bring it down to
9 about \$40 million.

10 The Chairman: You could do the same type thing with the
11 CHAP provision?

12 Mr. Constantine: Yes, sir. There would be one other
13 element that would be no cost and that is to incorporate the
14 previously approved state pools for the offering of
15 catastrophic and basic insurance coverage to all who do not
16 otherwise have access or find that a more economic approach.

17 The Chairman: You could start out by relying upon the
18 fact that the employers would not claim their tax advantage
19 until the end of the year and then by pushing your dates off
20 until September, to get to the last month of the year and you
21 could start out with a first year cost of about \$170 million
22 even though the full year cost of those items would be about
23 \$1.1 billion.

24 Mr. Constantine: That is right, about \$1.1 billion.

25 The Chairman: You could start the following year with

1 whatever you want adding to these various items following in this
2 next column. For example for 1982 what items do you think would
3 claim the highest priority to try to push into 1982?

4 Mr. Constantine: We might disagree with the Administration.
5 Assuming your objective is progressive expansion of eligibility
6 obviously the next area would be low income other than the low
7 income people you are helping with Medicare improvements and
8 then we had suggested the two parent families using state
9 standards and meeting state assets tests.

10 That is in distinction to the Administration's approach
11 which does not have an assets test and has state standards of
12 55 percent of poverty whichever is greater.

13 I should say, Mr. Chairman, the staff proposal by way of
14 explanation was developed in the context of the Committee's
15 expression that they wanted something that might be budgetable
16 in the immediate future. It does not necessarily express their
17 view as to the way the world ought to be in future years.

18 The Chairman: The two parent family, that is a low income
19 program and not really a health insurance program. Is that
20 correct?

21 Mr. Constantine: These are intact families. Let's say
22 a family of four who have an income but because they are an
23 intact family are ineligible for Medicaid. This would bring
24 them in and make them eligible.

25 Senator Dole: What was that again?

1 Mr. Constantine: Let's say it is a woman with three
2 children and an income of \$3,000 or \$4,000 who is eligible for
3 Medicaid but an intact family, husband and wife with two
4 children would not be eligible with the same income.

5 This moves those two parent families in.

6 The staff stopped at that point, fitting it within the
7 framework of what we felt the Committee had asked us to do.

8 The Chairman: Mr. Cole?

9 Senator Dole: I would like to take a minute. We discussed
10 this yesterday in a meeting of the Republicans. I think we
11 support the concept. We are concerned about the budget problem
12 and also what the out year costs may be. I know we can start
13 it off at practically zero.

14 I do not think I am in a position to indicate what would
15 happen on the Republican side if we presented some bare bones
16 approach just to start the program.

17 I think I should suggest that there was general concern
18 expressed. We are going to be faced as it is with finding
19 about \$1.1 billion in the health function for cuts. That
20 probably will not be particularly easy.

21 There are some things we could do without even getting into
22 that much cost. We could proceed with CHAP and the Medicaid-
23 Medicare reform; the pools do not cost anything, the state
24 insurance pools. We might work out some demonstration unit
25 to see whether or not this competition theory advanced by

1 Senator Durenberger has any merit or how much merit it has. I
2 know it has a great deal.

3 Senator Durenberger: That is a much better way to put it.

4 Senator Dole: That is not a health insurance plan but
5 at least it takes care of a problem that Senator Ribicoff is
6 concerned about and that is the CHAP program. It takes care
7 of Medicare reform that I think is a concern to many of us
8 on the Committee.

9 It would go ahead with state insurance pools and the
10 industry could start to implement pool programs agreed to by
11 the Committee.

12 I just suggest that in case everything else fails, that
13 might be an area we should address.

14 Do you have any estimates at all of out year costs? It
15 depends on how much we do.

16 Mr. Constantine: Yes, sir. It really depends on different
17 eligibility assumptions between what the Administration has
18 prepared. That is whether you use state standards or their
19 poverty level which is an indexing approach.

20 The CHAP by 1985 under the Senate version goes from
21 \$300 million a year to \$800 million. The two parent families
22 rises to \$1.1 billion. Is that a correct estimate?

23 Ms. Davis: Yes.

24 Mr. Constantine: It rises to \$1.1 billion by 1985
25 according to the Administration. It really depends on what you

1 want to do. In terms of what the Committee has already agreed
2 to, it is tentative catastrophic decisions, for example, placing
3 a limit on the aged.

4 The thing we described is for unlimited hospitalization as
5 opposed to the \$1,000 limit on co-insurance and deductibles. The
6 co-insurance limitation has a full year cost of 1980 dollars
7 of \$2.3 billion rising to \$4.2 billion by 1985.

8 Those are different dollars. More people are eligible.
9 Those are the kind of out year costs.

10 Senator Moynihan: Mr. Chairman, I simply would like to
11 make a point that the Senator from Kansas has alluded to. In
12 a very short order now we are going to be instructed by the
13 Budget Committee to reduce expenditures from the Finance
14 Committee outlays somewhere between \$2 and \$4 billion and maybe
15 about \$3 million.

16 Senator Packwood: It could be more than that if we repeal
17 the oil import fee.

18 Senator Moynihan: It will be the most extraordinary
19 revision of social programs and perhaps tax programs this
20 Committee has ever gone through. We have never gone through
21 such a reduction.

22 I am interested that we might spend \$40 million in fiscal
23 1981 on Medicare and unlimited hospital days but \$4 billion
24 in reductions is a different order of concern to us.

25 I see Senator Packwood shares the concern. I wonder if

1 we should wait until that hits us on the head or start talking
2 about the reconciliation process which is much more demanding.

3 The Chairman: Senator Packwood.

4 Senator Packwood: Mr. Chairman, I would echo that in spades.
5 and not only the reconciliation process. I would like to see
6 what the first concurrent resolution generally shows in terms
7 of what they may expect if they are going to try to balance the
8 budget and we drop the oil import fee; what they may be
9 expecting out of this Committee in terms of increased revenues.

10 They are already counting on the withholding tax which
11 they are not going to get. Any program of this magnitude
12 where we started out with \$40 to \$50 million worthy as it is,
13 somewhat the future costs are almost unestimatable, I think
14 we are making a mistake in going ahead until we see the first
15 concurrent resolution and going through the process of
16 reconciliation which will be painful enough for this Committee
17 let alone can we hold it on the Floor when we get to the Floor.

18 I think you are making a mistake to start down this road
19 of catastrophic now.

20 The Chairman: We have hundreds of billions of dollars
21 of social welfare programs that we are funding right now. We
22 just got through voting yesterday on the food stamps.

23 We are giving food stamps to young college people who
24 really ought to be offered a work opportunity and really if
25 there is a work opportunity available, to do a little work while

1 they are going to school the way it was when I went to school.
2 Everybody was happy to have a job and to make some money while
3 they were going to college.

4 If you simply put a work opportunity in place of a
5 guaranteed payment in the food stamps and some of the other
6 programs where you are just going to try to get some people
7 to put their own resources to work, goodness knows of the
8 potential for huge amounts of savings in a lot of these areas.

9 If you look at it in terms of priority, you take some
10 of your low priority items compared to providing for people who
11 are sick and who are dying, it just seems to me that in terms
12 of priorities we should be able to find one way or another
13 either in the taxing area by tightening up on some of the
14 tax provisions or in the spending area by making some reductions
15 where we should be able to find enough slack to get started
16 if all you are talking about is your first year of \$170 million.

17 We have a vote. Senator Heinz?

18 Senator Heinz: Mr. Chairman, what you are saying is let's
19 act now and look later. We have done that on occasion in the
20 Congress and perhaps too many times.

21 A couple of years ago before I was on the Committee we
22 passed out a tax increase on Social Security which is going into
23 effect in fiscal 1981. At that time we were told this was
24 going to put the Social Security Trust Fund on easy street
25 for the next several decades.

1 It is now two years later and we are told that unless we
2 do something else in this decade the Social Security Trust Fund
3 is going to be in terrible shape and we are already looking at
4 future tax increases just to take care of what we have already
5 done.

6 I echo Senator Moynihan and Senator Packwood. We have
7 a lot of commitments made to people right now on Social
8 Security, health care for the elderly, children's health
9 assurance, a number of very worthy programs. They do not happen
10 to include the food stamp program which we all know is not in
11 the jurisdiction of this Committee. Maybe the Chairman wishes
12 it was.

13 If we spent a lot of money this year, even if we committed
14 in future years it could come back and bite the elderly. It
15 could come back and bite the children. It could come back and
16 bite the people that we already have commitments out to right
17 now when instead of getting a \$5 billion reconciliation demand
18 from the Budget Committee as we will get for fiscal 1981, it
19 might be \$10 billion or \$15 billion at some future year.

20 The Chairman: Let's vote. The voting on the Floor will
21 be continuous so we will recess the Committee at this time to
22 reconvene at the call of the Chair.

23 (Whereupon, the Committee was recessed at 12:08 p.m. to
24 reconvene at the call of the Chair.)
25

