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**TRANSCRIPT OF PROCEEDINGS**

**UNITED STATES SENATE**

**COMMITTEE ON FINANCE**

**MARKUP SESSION**

**November 18, 1983**  
**Washington, D. C.**

**MILLER REPORTING COMPANY, INC.**  
320 Massachusetts Avenue, N.E.  
Washington, D.C. 20002  
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MARKUP SESSION

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FRIDAY, NOVEMBER 18, 1983

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

The Committee met, pursuant to recess, at 10:20 a.m., in Room SD-215, Dirksen Senate Office Building, Hon. Robert Dole, Chairman, presiding.

Present: Senators Dole, Packwood, Roth, Danforth, Chafee, Heinz, Wallop, Durenberger, Symms, Grassley, Long, Bentsen, Matsunaga, Moynihan, Baucus, Boren, Bradley, and Bradley.

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The Chairman. Rod, do you want--you know, the House's failure to pass the rule late yesterday does complicate matters. I assume there will be no action, at least in talking with the Chairman of the Ways and Means Committee and the ranking Republican, Congressman Conable, there will be no action today, no action then I guess until next year, assuming that we adjourn today on the very small tax package the House had before it, which means that an effort to resolve the problems for the insurance industry and others who were in that bill and wanting action before we adjourned have been jeopardized. We have just met with the Majority Leader,

1 Senator Domenici, Senator Chiles, the Parliamentarian and  
2 others, trying to figure out which course we should pursue.  
3 Obviously if we take any action on the reconciliation package  
4 insofar as taxes are concerned, it is on a Senate bill that we  
5 get into a constitutional question, there is no House vehicle,  
6 and so it has been suggested that we separate the spending  
7 portion of reconciliation, try to pass that today, leave the  
8 revenue portion, and then that would give us some opportunity  
9 in January, February, to include the larger package on that  
10 portion of the bill, assuming the House takes some action.

11 Is that pretty much the way you understand it?

12 Mr. DeArment. That is correct, Mr. Chairman.

13 The Chairman. So it does not do us much good today, the  
14 floor, to pass the reconciliation tax portion, is that correct?

15 Mr. DeArment. That is correct, Mr. Chairman. It would,  
16 if we sent it over, it would be most certainly blue slipped,  
17 being a Senate originated tax measure in contravention of the  
18 constitutional origination clause.

19 The Chairman. And I do not know what the problem was  
20 with the rule, but as I understand, it was a Medicaid amend-  
21 ment, IDB's, and whatever else may have entered it. Some  
22 members wanted to go home and there were a number of reasons,  
23 but I think first this morning we have asked Sheila Burke to  
24 go back and take a look at the Medicare spending restraints  
25 and see if we could not modify, at least in two areas, the

1 Part B premium and the restructuring areas, Senator Heinz and  
2 Senator Chafee, I think Senator Baucus and others expressed  
3 some concerns in those areas...

4 I understand that you have done that, Sheila, and still  
5 have substantial--substantially the same amount of savings.

6 Ms. Burke. That is correct, Mr. Chairman. At your  
7 request, we reviewed the proposals and have made modifications  
8 in a number of areas.

9 With respect to the Part B premium, the original proposal  
10 would have increased that premium to 35 percent by 1988. We  
11 have extended that period of time until 1990, resulting in a  
12 savings of \$2.9 billion over a four-year period of time. The  
13 previous estimate was \$4.2 billion, so that resulted in a loss  
14 of savings of 1.3 billion.

15 With respect to the provider cost sharing provision, the  
16 restructuring provision, as you may recall, the original pro-  
17 vision had a savings of \$3.2 billion, the proposal that the  
18 Committee may now wish to consider would provide for a 3 per-  
19 cent cost sharing on all days, would again provide for no  
20 limit on days which would provide a full benefit. It would  
21 eliminate the spell of illness, apply a deductible for each  
22 admission, would limit the skilled nursing facility cost  
23 sharing to 3 percent of hospital deductibles, and to provide  
24 an annual out-of-pocket limit for the beneficiary or \$1,500  
25 per year. That program would be made effective on January 1,

1 1985, and it would have a full year cost savings of \$1.6  
2 billion. That is a loss of savings of \$1.6 billion from the  
3 prior proposal.

4 We also pursued a proposal at the suggestion of Senator  
5 Heinz which would modify the lab proposal originally agreed  
6 to by the Committee; the modification would reduce the pre-  
7 vailing rate for payment to 62 percent rather than the original  
8 65 percent. It would provide for four years and it would  
9 include hospital based labs. This new proposal would provide  
10 an additional savings of \$900 million over a four-year period  
11 of time.

12 We have also modified, at your suggestion, and Senator  
13 Heinz's suggestion, the physician provision. The new provision  
14 would provide for a six-month freeze on prevailing fees for  
15 all physicians and it would continue that freeze for two  
16 years for those physicians unwilling to take assignment. This  
17 modification would provide for an additional savings of \$2.2  
18 billion over a four-year period of time. As a result of this,  
19 the savings proposals in addition to the provisions previously  
20 agreed to by the Committee would result in a spending reduction  
21 of approximately \$24.1 billion over a four-year period of time,  
22 as compared to 25.5 in the original proposal. So there is a  
23 loss of \$1 billion from the original proposals--excuse me,  
24 there is a loss of 1.4 billion.

25 The Chairman. And again, Senator Chafee is here now, but

1 I indicated earlier that you expressed some concern in the  
2 Medicare area, so did Senator Heinz, Senator Baucus, and I  
3 assume others, Senator Moynihan, and I instructed or asked  
4 Sheila to go back and see if we could not ease some of those  
5 concerns. And I think we made substantial progress and  
6 changes. These Medicare cuts obviously will not solve the  
7 Medicare problem. The HI Trust Fund will be in serious  
8 jeopardy here in the next few years, but it would restrain the  
9 growth in a few areas, and we hope that on the spending side  
10 we have now taken care of most of the concerns, we have to do  
11 something if we do not agree to do something on the spending  
12 side. I think the Medicare--and are these savings, will they  
13 be funneled into Medicare Trust Fund?

14 Ms. Burke. Those savings that are not as a result of  
15 deductions in Part A would indeed be returned to the trust  
16 fund. So those changes in Part B, for example, the physician  
17 payment reform, would be funneled into the Part A trust fund.  
18 That is correct, Senator.

19 The Chairman. Senator Chafee.

20 Senator Chafee. Well, Mr. Chairman, I have spoken here  
21 many times about concerns about the deficit and so I am  
22 interested and anxious to do something about it.

23 In the Medicare field, it seems to me, Mr. Chairman,  
24 that as you know probably as well as anybody, this is an  
25 emotional and inflammatory issue, and somehow we have got to

1 convince--I wonder if we could have silence here?

2           And it seems to me, Mr. Chairman, if we are going to  
3 move ahead on this, we have got to have a full understanding  
4 on the part of the American public of the dangers that beset  
5 the Medicare Trust Fund, and I think this--I do not think this  
6 is true now, I do not think they are aware of the problems,  
7 but I think they can be made aware of the problems. So then,  
8 also, I think, Mr. Chairman, in considering the Medicare fund  
9 and these changes in it, we have to ensure the public that the  
10 savings, as I understand has been done here, go into the Medi-  
11 care fund so therefore we are considering it as an entity as  
12 we did in the social security situation.

13           I think the great danger is that the public in any way can  
14 do the changes that are being made as being directed toward  
15 solving the deficit, the national deficit. I think the public  
16 is prepared to accept changes if it is within the context of  
17 the fund, and I think that is what made the social security  
18 report acceptable.

19           So, Mr. Chairman, what I am suggesting is that I do not  
20 believe--I agree with your views that we cannot have commissions  
21 to solve everything for the United States Congress. I think,  
22 however, that it is helpful in this particular situation if  
23 you could appoint six, eight, 10 people of considerable  
24 stature who would come and analyze the problem and report to  
25 us saying this is the situation, these are the dangers, this

1 is what has to be done, and these are the solutions that we  
2 recommend. Now, you say, well, what is the difference  
3 between that and a commission?

4 First of all, this is being within the context of this  
5 Committee that this would be done. It is not something that  
6 the President appoints somebody and somebody else, but I  
7 believe it brings forward to the public and to the Nation as  
8 a whole the dangers that are out there for this program and  
9 the actions that must be taken. And thus I think the actions  
10 that we would then follow on with would be far more readily  
11 acceptable, not solely to this Committee, but to the Senate  
12 as a whole and hopefully to the Congress and to the Nation.

13 Those are my suggestions.

14 The Chairman. Right. And as I indicated last evening when  
15 Senator Chafee mentioned this, this is something that we had  
16 given some thought to. And what I am certainly willing to do  
17 is to consult with Senator Long and Senator Baucus and Senator  
18 Durenberger, the Chairman and the ranking member of the Health  
19 Subcommittee, and see if we might be able to suggest some  
20 outstanding--and there are a number of outstanding persons in  
21 the country who would be willing to help us between now and  
22 the end of January. It seems to me it probably would give us  
23 enough time to do that, and I am certainly willing to try it.  
24 I mean what we did not want to do is to get into another--it  
25 may come to that, but not to give up in the Congress, but I



1 assume these persons that we can find, seven or eight that  
2 would be willing to do that, could more or less consult with  
3 the Committee and give us some advice and direction.

4 Senator Chafee. Well, as I understand, those who served  
5 on the Social Security Commission and, of course, you know  
6 this better than I do, they all seem to say that all of the  
7 Commission was in action for 18 months. I get the feeling  
8 that they could have done their work in about a month.

9 The Chairman. Or less.

10 Senator Chafee. And the rest was treading water waiting  
11 for the others to make up their minds.

12 So, therefore, I think leveling this requirement on a  
13 group of people could easily be done in January. I mean  
14 Sheila and others on the staff have a mass of information  
15 they have assembled and some very thoughtful suggestions and  
16 proposals.

17 The Chairman. Okay. We will give that a try. I think  
18 your Social Security Commission, the first year, was like  
19 watching paint dry. I mean nothing happened.

20 But then when the President and Tip O'Neill got onboard,  
21 it all happened within a week. No, I guess two weeks. Okay.  
22 Let us explore that.

23 Now, are there any other--no other changes on the spend-  
24 ing side?

25 Ms. Burke. That is correct, Mr. Chairman.

1 The Chairman. So you lose about 1.4 billion but you do,  
2 I think, ease some of the concerns that members of both sides  
3 have expressed, and the only change in the COLA's would be  
4 the rounding down which picks up about 5.1 billion, as I  
5 recall.

6 Ms. Burke. That is correct, Mr. Chairman.

7 The Chairman. Now, what about--we met last night, as we  
8 agreed to, it was not 8 o'clock, it was about 9 o'clock, with  
9 Treasury, Joint Committee and our own staff to go over a  
10 number of the matters raised by members on the Committee.

11 Buck, are you prepared now to--

12 Mr. Chapoton. Yes, sir.

13 The Chairman. I think what might be helpful, if you  
14 could give us the ones where you now have no objection, with-  
15 out foreclosing some compromise in other areas. In other  
16 words, I think we are going to have a little time to continue  
17 to work on these, but are there certain ones that you now  
18 indicate no objection to?

19 Mr. Chapoton. Yes, sir. And there is some modifications  
20 in some of them.

21 The Chairman. Does anybody have a sheet?

22 Mr. Belas. Senator, we do not have a sheet.

23 The Chairman. You are still on the original sheet?

24 Senator Symms. Mr. Chairman, would you please, at least  
25 for my edification, restate exactly what we are going to do

1 with respect to taxes?

2 Did you say we are not going to move any bill that  
3 touches the Tax Code or we are?

4 The Chairman. I have not said anything on that, I do  
5 not think. You mean today?

6 Senator Symms. You started out on the spending cuts.  
7 Now, are we going to go through this additional item list, is  
8 that it?

9 The Chairman. Right.

10 Senator Symms. Okay.

11 So the amendments will be in order this morning?

12 The Chairman. Right. But what I want to do first is to  
13 have Buck go through where they have taken a look at all those  
14 that have been suggested by members and give us their view on  
15 those that they can accept and then those that cannot be  
16 accepted, I do not know, we are going to have votes on them,  
17 but at least will give members a chance, because I think we  
18 are going to have a couple of months here to work on some of  
19 the problems.

20 Mr. Chapoton. Mr. Chairman, the way I have got it  
21 arranged or concerns particular Senators raised or proposals  
22 that particular Senators raised, let me go--if I might, I  
23 would just go through them and say the ones that we have not--  
24 that we have raised objections and where we have not satisfied  
25 our objection why we have not, and then the ones that we have

1 worked out.

2 The Chairman. Could you give us the good news first?

3 Mr. Chapoton. Okay. Well, the first one is not on--  
4 there are some of them that are not on this additional items  
5 list, this November 16, with most of the members' things, a  
6 couple of items that were in the basic package of tax shelter,  
7 and related items that we had proposed.

8 The first one is what we refer to as the premature  
9 accruals of deductions. That is accruing a deduction now that  
10 is going to be paid maybe over a year in the future. Concern  
11 had been raised about the effect of that on property and  
12 casualty companies, and we agree that that is a concern and  
13 that the property and casualty companies require further study  
14 so that ought to be pulled out. I think you and Senator  
15 Bentsen raised questions about that. And there was--

16 The Chairman. I think Treasury also had some question  
17 about that. I think Treasury had some concern about that.

18 Mr. Chapoton. Yes. We had questions about the property  
19 and casualty thing, and that is why we thought it was a good  
20 idea to study how you would deal with the property and  
21 casualty companies further, and there was an exception for  
22 man reclamation expenses which would be clarified, but that  
23 exception would remain to be broadened slightly.

24 There was a question, and I think you raised, Mr. Chair-  
25 man, on the distributions of appreciated property which would

1 affect ongoing transactions, and the thought was to put the  
2 effective date of that change out, I think we had suggested  
3 July 1 or, excuse me, date of enactment.

4 The Chairman. Date of enactment.

5 Mr. Chapoton. Date of enactment. So that would be fine.

6 The 1 percent bad debt reserve for banks, two-year  
7 extension of that provision, we have supported that, and I  
8 think that is basically agreed to.

9 The super fund change that was raised, the question I  
10 think was raised by Senator Boren and others--

11 Senator Symms. Back on that bad debt reserve. Did you  
12 just reject out of hand my suggestion that we make that  
13 permanent?

14 Mr. Chapoton. The proposal--no, the proposal that I had  
15 before me, Senator, was a two-year extension of it. We could  
16 --we have been supportive of the bad debt reserve.

17 I think the suggestion was made by the staff that it  
18 might not be appropriate after the passage of time, but I  
19 think we were basically supportive of the proposal so we are  
20 fairly indifferent on that.

21 Senator Symms. I guess my point, Mr. Chairman, is on  
22 everyone of these items that we could possibly put it into the  
23 Code, like the bad debt reserve, it seems to me like it is  
24 more fair to the country and the taxpayers to make it permanent  
25 and then if somebody thinks that it is wrong, later you come

1 back and try to change it, but then you do not have every  
2 accountant in the country trying to figure out what Congress  
3 is going to do next and then they can see. But, see, the way  
4 we do this, it is always hanging in a cloud over their head,  
5 and then, in two years, it will come by pretty soon and then  
6 soon we will have to get it extended again, and then they all  
7 get in a dither. I just think it would be good if we just  
8 settled some of these things and make it permanent, and if  
9 somebody wants to change it later, they can change it, but  
10 then they have to--it puts the burden of responsibility on  
11 the Congress to change it instead of having some poor guy out  
12 here in the private sector worrying about what we might or  
13 might not do.

14 I would like to encourage you to put all those things as  
15 permanent instead of temporary.

16 The Chairman. In this case, it was even suggested on the  
17 Senate floor that we repeal the provision so there is some  
18 strong feeling on the other side. I do not share that view,  
19 but, Rich, do you--

20 Mr. Belas. Mr. Chairman, the particular provision that  
21 is in the Code is a provision that is phasing down overtime  
22 to a level that the Congress, I think back in 1969, decided  
23 should be the permanent rule. What has happened in the mean-  
24 time is that banks have in fact had worse experience, at least  
25 in the last few years, than was anticipated, and the question

1 really is is whether the members believe that that adverse  
2 experience will continue in the future or whether it is  
3 appropriate at sometime in the future to continue that  
4 phasedown.

5 Senator Symms. It is 8.7 billion less bad experience  
6 after last night.

7 The Chairman. Probably make it three years. Three years.

8 Mr. Chapoton. In three years?

9 The Chairman. Yes.

10 Mr. Chapoton. The super fund regulations were raised by  
11 Senator Boren as covering substances that should not be taxed.  
12 We have looked into that last night. We think that Senator  
13 Boren is correct, that the regulations, while probably required  
14 under the present law, that they should be--that we would like  
15 an amendment to make it clear that the substances covered in  
16 the regulations are not covered. That is, the substances that  
17 go in, directly into gasoline, for example, are not subject to  
18 the tax because that is not consistent with the policy of the  
19 super fund legislation. So we agree with Senator Boren on that.

20 The allocation of research and experimental expenditures  
21 to domestic sources, the 861 problem the Administration had  
22 supported a two-year extension of the allocation domestic  
23 thing, it was suggested yesterday a five-year extension, and  
24 that is agreeable.

25 As we had raised--let us see, the boundary waters matter

1 that was raised by Senator Durenberger, and I think Senator  
2 Boschwitz had a particular interest in, we had decided that  
3 it would be appropriate to treat payments received by these  
4 taxpayers as payments received in condemnation of property  
5 and therefore if they reinvested the funds, so that would be  
6 tax free, would be a rollover of tax and a reduction in bases;  
7 we could not agree if there were no reinvestment that the cash  
8 just would not be taxable.

9 Senator Durenberger. And, Mr. Chairman, I could not  
10 agree on that basis. I went back and reread the bill, and  
11 some of the testimony that was used as a basis for the bill.  
12 As I stated yesterday, they had their option of going to  
13 condemnation route and, as Buck understands, and we all do  
14 who practice law in this area, that property taken under a  
15 threat of condemnation can get certain tax benefits, and they  
16 already had that option and chose this option as an alternative  
17 on the premise, I guess it is not in the law, but the premise  
18 that everybody understood was that this was an alternative to  
19 that other route.

20 So I do not know if there is somewhere in between that we  
21 can work this out, but I do not think we can settle for the--  
22 the same kind of a provision.

23 Mr. Brockway. Senator, they took an amount less than  
24 they otherwise receive.

25 Senator Durenberger. The problem here is that they did



1 not dispose of their property as you would in a condemnation.  
2 There was no transfer of title of the property to the govern-  
3 ment or anything like that.

4 Mr. Chapoton. Well, no, we recognize that, but it is a  
5 restriction of their use of existing property so the funds  
6 that they receive would be under this proposal, would be tax  
7 free without regard to whether they have made a disposition of  
8 property, but it would be tax free only if they invested those  
9 funds in some property. Otherwise, they are simply receiving-

10 Senator Durenberger. Or in some business.

11 Mr. Chapoton. Or in some business, some reinvestment  
12 requirement.

13 Senator Durenberger. I will try to work some requirement-

14 The Chairman. I did talk to Senator Boschwitz, I do not  
15 think he has followed it quite as closely, not being a member  
16 of the Committee, but he indicated at least tentatively that  
17 that might work, but why do you not check.

18 Senator Durenberger. Yes. Okay.

19 Mr. Chapoton. The prepayment rule by cash basis tax-  
20 payers, that in our proposal, that if a payment were made and  
21 services or goods were not provided within a reasonable time  
22 after the end of the year, then the deduction would not be  
23 available. We have, and Senator Grassley and others raised a  
24 question about that, so we have revised that to make it apply  
25 only to syndications and only to non-form syndications.

1 Senator Matsunaga raised the question about Samoa and the  
2 Virgin Islands. We understand that that proposal would  
3 simply--it was clear that it would give those jurisdictions  
4 the power to issue industrial development bonds but subject  
5 to all restrictions of the Internal Revenue Code. That is  
6 agreeable.

7 Senator Moynihan has--

8 Senator Symms. Could you back up on that, the one  
9 before Senator Matsunaga? Senator Grassley did not hear you  
10 say that. And I do not know as he was satisfied on that, and  
11 Senator Boren raised some questions on that. Accrual account-  
12 ing?

13 Mr. Chapoton. Okay. We had proposed originally that  
14 payments by cash basis taxpayers for goods or services that  
15 would not be used within a reasonable time or delivered within  
16 a reasonable time after the end of the year, if for deductible  
17 goods or services would not be deductible in the year when paid,  
18 but would be deductible in the year when used. That is ques-  
19 tions that both you and Senator Grassley raised yesterday so  
20 we have modified the proposal to zero in on the problem we are  
21 dealing with, and that is tax shelter syndications so that it  
22 would not apply to any taxpayer other than a syndication, and  
23 that is a publicly offered partnership, more than where less  
24 than 35 percent--excuse me, more than 35 percent of the  
25 interest owned by limited partners who are not in the business,

1 in the same business as the partnership and because of special  
2 problems in the present rules dealing with farm syndications,  
3 they would simply not apply to farm syndications at all.

4 Senator Symms. Well, let us say, for example, that we  
5 have a group of people that are feeding cattle. How are you  
6 going to treat it if in fact the group of people feeding the  
7 cattle get an opportunity to make a prepurchase of a year's  
8 supply of feed, say? And a year's supply of feed and their  
9 fiscal year ends halfway through this purchase, but they have  
10 a good buy by buying it in advance and assuring a supply and  
11 so forth. Now, you are going to deny them a good business  
12 practice, it would appear to me.

13 What if they are just a group of people feeding cattle?

14 Mr. Chapoton. Number one, it would not apply to cattle  
15 feeding because that would be a farming syndication, but  
16 another business activity that is publicly offered partner-  
17 ship where more than 35 percent of the partners are passive.

18 Senator Symms. For example, give us an example. See,  
19 to me that sounds like it is a loaded time bomb.

20 Mr. Chapoton. It is directly aimed at partnership  
21 publicly offered tax shelter partnership operations. It might  
22 apply in some real estate transactions where services are  
23 prepaid for a number of years in advance. It might apply in  
24 some oil and gas publicly offered syndications where the  
25 intangible drilling expenses were paid at year end, prepaid at

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year end, it would not be but for wells to be drilled later, that type of thing.

It is pointed out that the farming corporation or syndicate basically is not--has similar rules applicable to it now. This rule is not applicable to farming but would be applicable to publicly offered registered partnerships that try to take advantage of the cash basis of accounting to accelerate deductions or expenses that are not going to be delivered, be resulting goods or services until after the end of the year.

Senator Symms. You are saying if a farmer buys fertilizer now that he cannot write it off in this year's expenses even if he stacks them--

Mr. Chapoton. Well, I am not so clear on the existing rules. If it is a syndicate, farming has to be on the accrual basis, but there are--I need to get back to you on the rule applicable to farming right now. I am not altogether clear on it.

Mr. Brockway. Under current law, Section 464, amounts paid for feed, seed, fertilizer, other similar farm supplies, are covered if it is a syndicate, and this would not affect farming activities whatsoever, the proposal that Treasury is outlining now would establish a similar concept for other businesses at--or other syndicates, tax shelter syndicates in other areas that presently applies in the farming area.

Senator Symms. What if you prepay, say, for your

1 intangible drilling costs?

2 Mr. Chapoton. The current law is if you prepay for  
3 intangible drilling costs and there is a business purpose in  
4 the prepayment, then the deduction, and there are rules, there  
5 is an IRS ruling that says that the well has to be staked,  
6 and that type of thing, and it has to be a business purpose,  
7 then it is deductible to a cash basis taxpayer in the year  
8 when paid even though the well will be drilled in the following  
9 year. That would continue, except under this proposal, if it  
10 would not be allowed for publicly offered syndicates.

11 The Chairman. Well, we can get into some of those, if  
12 there are other questions, but I think it is a pretty good  
13 resolution of that problem. We are not going to finally adopt  
14 this today.

15 Senator Long. Does that mean if we do that, does that  
16 not mean that there is going to be a reduction flowing into  
17 drilling?

18 Mr. Chapoton. I am sorry, I could not hear.

19 Senator Long. Will that not reduce the amount of funds  
20 flowing into the drilling activity for oil and gas?

21 Mr. Chapoton. It will mean--no, I do not think so,  
22 Senator. It would mean that the year end operation, the year  
23 end payments would not be as attractive in a syndicate.

24 Senator Long. Well, at the end of the year, if people  
25 are going to have a high tax liability that is one place where

1 they might find deductions, if they have a high tax liability  
2 they are going to try to find deductions toward the end of  
3 the year. That is par for the course for high bracket tax-  
4 payers, people have money to invest.

5 Now, if you put this in here, does that not mean that  
6 they will shy away from drilling ventures at the end of the  
7 year, find something else to put their money in?

8 Mr. Chapoton. If they are in--the drilling ventures  
9 usually are not put together; the public offered ones are  
10 put together all year long. It would mean that a publicly  
11 offered drilling venture would probably have some reduction  
12 in its tax deductions in the original year, yes, sir.

13 Senator Long. Surely you know something about that  
14 business. Surely you know it has got to reduce the amount of  
15 money that goes into drilling. There is no way to avoid that.

16 Mr. Chapoton. They could have that, Senator, but the  
17 drilling, the publicly offered drilling ventures are not  
18 ordinarily--well, in the case where you are putting one  
19 together here, it would have that effect, yes.

20 Senator Long. Well, you have got about 50 percent of  
21 your rigs idle the way it is now. How many more do you want  
22 to put idle now? It has picked up a little bit so we only  
23 have about 40 percent of our drilling rigs idle. You ought  
24 to have them all working.

25 Now, why do we want to do something to take more drilling

1 rigs out of operation?

2 Mr. Chapoton. Senator, I do not think it would take them  
3 out of operation. It would just be a question of when the  
4 deduction is claimed. It would be when the well is drilled in  
5 the tax--in the publicly offered case.

6 Senator Long. Well, I cannot agree with it.

7 Senator Pryor. What would the revenue from this proposal  
8 --or what would our revenue be, Buck, on this?

9 Mr. Chapoton. .6 billion over the period four years, and  
10 over a three-year period it would be .5.

11 Senator Long. So that is applied to not just this item,  
12 but a whole--I assume--

13 Mr. Chapoton. That is all the prepayment provisions.  
14 Limited to syndicates, it would be half a billion dollars over  
15 three years.

16 Senator Pryor. I really heard that we worked out a  
17 solution to this and I felt pretty comfortable about it when  
18 you first explained it. I am not sure that we really know  
19 what the impact of this provision is going to hold. I have  
20 seen some confusion about it, and a lot of probabl̄es and  
21 possibl̄ies , but I am just wondering if we might ought to  
22 submit this to a little more study. It may have a greater  
23 ramification and impact than we realize.

24 Mr. Chapoton. The confusion in discussing with Senator  
25 Symms is what the current law is in my mind on farming

1 syndicates. This does not apply to farming syndicates. So  
 2 this does not add to that confusion. The question that  
 3 Senator Long is raising though, it does clearly apply to the  
 4 oil and gas drilling syndicate. So it would have some effect  
 5 on those ventures that Senator Long suggests.

6 Senator Long. Here is the way I understand it, Mr.  
 7 Chapoton.

8 Mr. Chapoton. I am sorry, sir?

9 Senator Long. I am told that the ACRS today, when you  
 10 include the investment tax credits, is about the equivalent  
 11 to expensing a purchase of new equipment, is that correct?

12 Mr. Chapoton. That is correct. With the present value  
 13 of the benefit is about equivalent to expenses when the  
 14 property is placed in service though, Senator. So if you buy,  
 15 it would be--this would really be comparable to that. When  
 16 the property is placed in service, the ACRS benefit is avail-  
 17 able. This would say that a deduction is available when the  
 18 activity is before us.

19 Senator Long. Then it looks to me as though what you are  
 20 proposing to do here to make an investment in drilling for oil  
 21 and gas, which is our principal source of energy, less attrac-  
 22 tive than buying new equipment in other lines of endeavor?

23 The Chairman. Well, why do we not get some information  
 24 on that precise question between now and the time we consider  
 25 this finally?

End of  
 transcript.



1 Mr. Chapoton. Senator Moynihan proposed an increase in  
2 the charitable--a charitable package which was the package  
3 proposed by the President's Council on Arts and Humanities,  
4 which would increase the limit on charitable giving from  
5 50 to 75 percent, allow 50-year carry forward for charitable  
6 gifts and disallow the appreciated--the deduction for  
7 appreciated property if the property is given within give  
8 years of its purchase.

9 There had been questions raised yesterday about the  
10 revenue impact of raising the 50-percent limit all the way  
11 to 75 percent. Our figures now show that it would be revenue  
12 neutral at about--excuse me, all the way to 75 percent, our  
13 figures show it would be revenue neutral, the whole package  
14 would be revenue neutral if it were raised to somewhere  
15 between 55 and 60 percent.

16 Senator Bentsen. Mr. Secretary, if we could be  
17 referring to a page or a number on one of these forms, why  
18 we could follow you a lot better, Mr. Secretary.

19 Mr. Chapoton. Senator, that one is not on here, I am  
20 sorry. That was raised by Senator Moynihan independently.

21 Senator Moynihan. Mr. Chairman, I believe Part 3 of  
22 that proposal is in here somewhere if we look for it.

23 Mr. Brockway. That is on the summary of the proposed  
24 package on page 3, Item 7, deals with charitable contributions  
25 of appreciated property where the basic rule there was that

1 you had to hold the property for five years if you wanted to  
2 deduct the fair market value.

3 Senator Danforth. Mr. Chairman?

4 The Chairman. Senator Danforth.

5 Senator Danforth. Mr. Chairman, as I understand it,  
6 there was a three-part package and the original part that was  
7 suggested by the Administration would have picked up very  
8 modest amount of revenue. What was it, about \$100 million,  
9 something like that over three years?

10 Mr. Chapoton. Yes, we had suggested the entire package,  
11 Senator.

12 Senator Danforth. Oh, I thought that Senator Dole's  
13 proposal was the one part of it, the five-year holding  
14 period and that that would have produced something like \$100  
15 million over three years.

16 Mr. Brockway. I think it was closer to point three,  
17 yes.

18 Senator Danforth. Point three?

19 Mr. Brockway. Yes, that was the part that was in the  
20 tax shelter hearings.

21 Senator Danforth. When Senator Dole was looking for a  
22 series of things to pick up revenue, that one part of it  
23 would have picked up point three over three years and Senator  
24 Moynihan then made the suggestion well, if we are going to  
25 deal with one part of the package, in fairness we should deal

1 with all three parts of the package.

2 It is my understanding that if we were to deal with all  
3 three parts of the package it would be revenue neutral, is  
4 that right?

5 Mr. Chapoton. Only if we take the--we cannot go to the  
6 full 75 percent and be revenue neutral.

7 Senator Danforth. Right.

8 Now Mr. Chairman, my suggestion on this piece of the  
9 program, if we are talking about something that probably is  
10 revenue neutral, is that we forget it until we have some  
11 hearings on it. I do not think that we are serving the cause  
12 of reducing the deficit and I think what we are doing here  
13 is to really unsettle art museums and the universities which  
14 have expressed, at least to me, in talking to Senator  
15 Moynihan, I think to him also, great concern for the five-year  
16 holding period.

17 The Chairman. Can we just--I might say first of all  
18 this is part of the Treasury's total package on abuses.  
19 Could you give me a couple of examples of why we need to do  
20 something?

21 Mr. Brockway. Well, Senator, I guess the principal  
22 element of Senator Grassley's oversight hearings was dealing  
23 with the contribution of appreciated property that is not  
24 readily tradable and I guess the most notable example was the  
25 gemstones at the Smithsonian where they were acquiring

1 gemstones and making contributions to the Smithsonian at very  
2 inflated prices with just the present law requires the  
3 one-year holding period and they would them for one year  
4 and claim a charitable deduction for a very inflated price.  
5 And there was some real question whether those gemstones  
6 were significant additions to the Smithsonian's collection.  
7 But for the taxpayer it made money to go out and buy the  
8 stone, have an inflated value and make the deduction. And  
9 there is a feeling on the part of the Administration, at  
10 least when they have looked at this, that this is a  
11 significant problem in a lot of areas where there is  
12 contributions of property where you do not have a readily  
13 tradable value to measure, that taxpayers will acquire the  
14 property, hold it for a short period, claim a much higher  
15 value and get an appraisal and take the deduction.

16 Senator Durenberger. Mr. Chairman, let me say that I  
17 agree with Jack Danforth's suggestion and I feel very strongly  
18 about the recommendations and so forth. But Bill Armstrong  
19 and I have decided to withhold on volunteer mileage and  
20 some other things that are in the area of charitable  
21 deduction in exchange for moving on the foundation area. And  
22 I do think it would take some hearings.

23 Mr. Chapoton. Senator, this was covered. We were just  
24 checking in Senator Grassley's hearing on June 24. It was  
25 mentioned in the press release and it is a major concern to

1 us. When this publicity appeared about the Smithsonian  
2 gemstone matter, it was quite an embarrassment to us, it was  
3 an embarrassment to the Secretary and it was an embarrassment  
4 to the President's Commission on Arts and Humanities. So they  
5 became concerned enough about it that we were developing other  
6 things to help contributions and they were very supportive  
7 of such a restriction.

8 Senator Durenberger. I guess my only point is that  
9 there may be other things that will help charitable  
10 contributions in addition to or as a substitute for the  
11 helpmates the Arts and Humanities gave us. And I think when  
12 we do this, we ought to, as Jack pointed out, we ought to do  
13 it all together, eliminate the abuses and do some of the  
14 positives.

15 Senator Long. Mr. Chairman, I would like to ask for  
16 chapter and verse on what you told us? What kind of prices  
17 are you talking about? I would like to get it down.

18 The Chairman. Just give us an example of real numbers.

19 Senator Long. I mean numbers, yes. Buying those  
20 stones, just how much tax savings are achieved by doing  
21 that? Put it down there so an ordinary human being who has  
22 not been--does not have three or four college and law degrees  
23 can understand it.

24 Mr. Chapoton. Well, we have a case--I will have to get  
25 all the figures in that case, but where the appraisal was

1 more than 500 percent of the taxpayer's original costs--

2 Senator Long. I would like to have a number. Give us  
3 a number. How much do they save, whoever this was, was  
4 saving against the tax rate, just so we can see what we are  
5 talking about.

6 Mr. Chapoton. Senator, I will have to bring it back.  
7 We did go over some figures. Clearly the taxpayer has in some  
8 of the cases made a profit from the charitable giving but I  
9 will have to come back.

10 Mr. Brockway. If you use that example, for example, if  
11 you acquired the property for \$10,000 and you held it for a  
12 year and gave it for \$50,000, then it would cost the taxpayer  
13 \$10,000 to buy the gemstone, let us say a lithograph, and  
14 take a deduction a year later for \$50,000. So it reduces his  
15 tax by \$25,000.

16 Senator Long. He has made a profit of \$15,000 because  
17 it cost him \$10,000.

18 Mr. Brockway. That is correct.

19 The Chairman. Is that widespread?

20 Mr. Brockway. It is the expression of the Internal  
21 Revenue Service that evaluations of nonmarketable property,  
22 they--typically I think the hearings were showing something  
23 like 95 percent incidence of overvaluation.

24 The Chairman. Andre?

25 Mr. Leduc. My understanding, Mr. Chairman, is that we

1 have seen a number of types of shelters which take precisely  
2 that form with respect to lithographs, with respect to bibles,  
3 with respect to gemstones.

4 The Chairman. We took care of bibles, did not we?

5 Mr. Leduc. We have worked in this area but I do not think  
6 Mr. Chapoton would agree that we have taken care of the  
7 problem heretofore.

8 Mr. Chapoton. I am sorry, I could not hear that.

9 Senator Moynihan. Mr. Chairman, I originally brought up  
10 this matter at the request of the President's Committee on  
11 the Arts and Humanities and this is chaired by the honorary  
12 chairman, it is still chairman, it is Mrs. Reagan. And I see  
13 Donald T. Regan is a member of the board--member of the  
14 committee. And it is had been agreed to by Treasury.

15 Now, we have since learned two things. There were three  
16 parts. One that we were just discussing was Part 3 and it  
17 was meant to offset the concessions in Parts 1 and 2. We  
18 have since heard from the American Association of Museums,  
19 the many universities, that Part 3 is very much--that they  
20 feel very much threatened by it and they do not see any  
21 particular--they feel that it does not offset the advantages  
22 of Parts 1 and 2.

23 The institutions we are hearing from are not normally  
24 given to fraudulent or devious practices and although clearly  
25 these things can happen. Senator Danforth and I suggested

1 the thought that perhaps since this matter--perhaps we could  
2 put this over until next year when we could hear from  
3 the--hear from everybody concerned. When the President's  
4 Committee on the Arts and Humanities writes us, writes  
5 everybody, gets agreement from the Treasury, we sort of  
6 assume that all the parties that are involved have agreed  
7 and then we learn that this is not quite so. So the case  
8 for a Committee hearing or Subcommittee hearings to find out  
9 what to do is certainly advanced, particularly if the  
10 Treasury now finds that it cannot go to 75 percent, it really  
11 could only go to 55 to 60. I think the members of the  
12 President's Committee would understand that and I would like  
13 to suggest, is that not what we are transcending toward,  
14 leaving out this item on page 3 with the understanding that  
15 we quite take the point that there is to be--you know, this  
16 cannot become a racket. But no respectable university or  
17 museum wants such a thing.

18 Senator Danforth. Mr. Chairman, may I--

19 Senator Bentsen. I have been asking for some time, if  
20 I may.

21 Mr. Chairman, there obviously have been some very major  
22 abuses in this area and unfortunately you have appraisers  
23 sometimes bowing to so-called professional organizations who  
24 have lent their prestige to those abuses and I think it is  
25 important that we take some serious steps in trying to crack



1 down on it, some of the cases that have been cited by the  
2 Secretary, really quite shocking cases. And I would like to  
3 see an end put to it.

4 By the same token, I am not sure how much you have in  
5 the way of serious hearings and that does concern me. We  
6 sometimes overreact on this Committee and I want to be sure  
7 that whatever we do is appropriate. But without question,  
8 this kind of abuse has to be addressed.

9 The Chairman. Why do not we--if I might suggest,  
10 Senator Grassley did have a hearing on this and again, I do  
11 not want to get stuck on this the rest of the morning. But  
12 I think it is an area that we should address and I do not know--  
13 obviously no one on the Committee wants anybody to misuse  
14 the provision.

15 Senator Grassley, maybe you could--

16 Senator Grassley. Mr. Chairman, about all I can say,  
17 obviously the hearings centered on the abuse and we came to  
18 the conclusion that dramatic things ought to be done to curb  
19 the abuse. I do not know whether I can comment on the impact  
20 that it might make along the line of what Senator Moynihan  
21 said, from the testimony of our particular hearings, except  
22 to say that it seemed to be overwhelming judgment that we  
23 needed to take the action that is proposed and that is here.

24 So I would only ask that we think in terms of doing  
25 that, because the Subcommittee did give considerable thought

1 to the issue of abuse.

2 Senator Moynihan. Do I not remember--if I could ask  
3 Mr. Chapoton, in our reconciliation bill, you asked for the  
4 right to disbar appraisers, I believe, as you can do from the  
5 proceedings.

6 Mr. Chapoton. Well, to not allow them to practice before  
7 the Internal Revenue Service.

8 Senator Moynihan. Before the IRS.

9 Mr. Chapoton. Right.

10 Senator Moynihan. Well, there is an issue here and  
11 Senator Grassley has addressed it but perhaps we can bring it  
12 all together a little bit.

13 The Chairman. Right, let us not get hung up on this.  
14 We have a lot of other things to move on to. So --

15 Senator Grassley. Mr. Chairman, if I could be of help  
16 to the Chairman and if there is something that we did not  
17 look into adequately enough, I will be glad to look into it  
18 again. But we did spend considerable amount of time on the  
19 issue.

20 The Chairman. Nobody is questioning the museums  
21 or the directors or universities. I think you are not after  
22 anyone there.

23 Senator Grassley. No.

24 Mr. Leduc. Mr. Chairman, the Smithsonian testified in  
25 favor of dealing with this abuse at the hearings that Senator

1 Grassley held.

2 The Chairman. O.K.

3 Mr. Chapoton. I guess we would like to--

4 The Chairman. Senator Bradley?

5 Senator Bradley. No, another subject.

6 The Chairman. Right now we are going through a list of  
7 things that they say they can approve. Then we will go to  
8 you.

9 Mr. Chapoton. O.K.

10 The next one was--well, I was going to say I am a little  
11 surprised at this date about the concern about this rule,  
12 because it was discussed at length in the President's  
13 Commission's meetings and in the hearings here and in the  
14 hearings on the House side. So I would like, if we are going  
15 to delay it at all, I would like to hear more of the basis  
16 of the objection on the other side, which we have not heard.

17 The next one was--Senator Moynihan raised the industrial  
18 development bond provisions, the suggestion that there be an  
19 exemption from changes on properties that were exempted under  
20 the leasing, the tax-exempt rules that this Committee adopted  
21 earlier in the fall where a facility, public facility or  
22 I think theaters and some properties such as that were exempted  
23 under the rules that the Committee adopted on leasing to  
24 tax-exempt organizations were grandfathered, and suggested  
25 that the same grandfather ought to apply under the industrial

1 development bond changes in this package and we think that  
2 that is appropriate.

3 The Chairman. Who raised that?

4 Mr. Chapoton. I believe Senator Moynihan raised it  
5 initially and then other Senators had--

6 Senator Heinz. Mr. Chairman, I had expressed some  
7 concern about the Philadelphia Convention Center, Senator  
8 Moynihan had other concerns and also there is the problem of  
9 solid waste disposal facilities, that this would catch, that  
10 we had talked about in the leasing bill and I do not think  
11 we ought to solve their problem on the one hand and then kind  
12 of get them in the backdoor here. If that would be amenable  
13 to the Committee.

14 The Chairman. Well, you get into the solid waste?

15 Mr. Chapoton. I did not think the solid waste would  
16 not be affected by the industrial bond development provisions  
17 before you now. So I would not think so. They would not be  
18 affected.

19 I will check that but --

20 Mr. Brockway. Those properties that were not affected  
21 by last year's legislation with solid waste would not be  
22 affected by this, so they would not be affected by the slow-  
23 down depreciation.

24 Mr. Chapoton. I think Senator Heinz, in the House bill  
25 I am not sure that is correct. I think there would be some

1 impact on the House side.

2 Mr. Brockway. Clearly in the House bill they would be  
3 affected.

4 Senator Heinz. The House bill would affect solid waste?

5 Mr. Chapoton. Right.

6 Senator Heinz. This does not?

7 Mr. Chapoton. That is correct. This does not.

8 Senator Heinz. All right. Thank you.

9 Where are we?

10 Mr. Chapoton. We are still on the industrial development  
11 bond provisions of this bill.

12 The Chairman. Does that appear on the add-ons?

13 Mr. Chapoton. It does not appear on the add-ons.

14 Mr. Brockway. That is additional items. On the package  
15 labeled additional items, on page 11, the overall industrial  
16 development bond package is there.

17 Senator Symms. Mr. Chairman, could I ask a question?

18 Maybe one of you could tell me. I have had different  
19 people bring up the question that there are some--there is  
20 a hotel I think in Michigan, a recreational facility in  
21 Minneapolis and a few other places that are under way or  
22 partially under way and I am not a great fan of industrial  
23 revenue bonds in the first place. But are they included in  
24 the grandfathering or can you take a look of some of these  
25 specific projects that are partly under way or bids have been

1 been let and so forth, just so we can know whose contract we  
2 are cutting across?

3 Mr. Chapoton. Yes, sir, we can look into that.

4 Senator Symms. Keep that open so that we can look at  
5 it. There is two or three instances that I know of that  
6 different Senators are interested in the thing, and some that  
7 are not on this Committee.

8 Mr. Chapoton. O.K.

9 Senator Moynihan. Mr. Chairman, could we just--Mr.  
10 Chapoton has proposed that we grandfather the specific projects  
11 that we have put in the reconciliation bill. Is that agreeable  
12 to the Committee?

13 The Chairman. That is fine. In fact, we can add a  
14 number of others, probably 15 or 20 to that. Yes.

15 Senator Heinz. This is No. 5 on page 12.

16 The Chairman. We will grandfather those.

17 Mr. Chapoton. Yes, the ones that were grandfathered in  
18 the leasing bill would be grandfathered here.

19 The Chairman. Plus we have some additional ones.

20 Mr. Brockway. You will ultimately have some additional  
21 ones.

22 The Chairman. Right, we will ultimately have some  
23 additional ones. I am not quite certain what the status is  
24 now.

25 Are there any others?

1            Senator Heinz. On this particular point, this No. 5,  
2 still talking about No. 5 on page 12, is that the one you were  
3 talking about?

4            Mr. Chapoton. Yes.

5            Senator Heinz. I am advised by the--

6            Mr. Chapoton. Excuse me, really we are talking about  
7 No. 1 on page 11 but it is No. 5 as well.

8            Senator Heinz. Oh, when we get to it--I will withhold.

9            Mr. Chapoton. No, I am through going through the add-on  
10 items that we had agreed to. Senator Packwood mentioned the  
11 proposal that we discussed yesterday with Senator Packwood and  
12 Senator Bentsen on the interest deduction from a partnership  
13 to a partner that would have disallowed the interest deduction  
14 if accrual basis partnership paid to a--excuse me, yes,  
15 accrual basis partnership paid to a cash basis partner. And  
16 you raised the question about the effect on low-income  
17 housing. We are still working on that, so we do not have  
18 any more information on that.

19            Senator Packwood. But I did not hear that. Would you  
20 say that again?

21            Mr. Chapoton. You had asked the question about the  
22 impact on low-income housing and we still need more information  
23 on that.

24            Senator Heinz. Mr. Chairman, but have you recommended  
25 an effective date or is there one implied here?

1 Mr. Chapoton. I think on the industrial development  
2 bond provisions, is that what you are referring to? It would  
3 be bonds issued after the end of this year.

4 Senator Heinz. After the end of this year?

5 Mr. Chapoton. Yes.

6 Senator Heinz. I just want to be sure that we do not get  
7 any transitional problems there. I think that is going to be  
8 all right, Mr. Chairman.

9 Senator Symms. That is a question that I want explained  
10 a little further to me. If the project say has started but  
11 a bond has not actually been issued, and say if somebody has  
12 made a bid to the contractor, what happens then? Do you have  
13 a plan worked out so that there is a time period, a transitional  
14 period?

15 Mr. Brockway. There is a transitional rule and it would  
16 not apply if the property was under construction, which  
17 typically would be a case where you have the bond outstanding  
18 to finance construction, that that would not be affected.  
19 So the general rule would not apply unless you have bonds  
20 issued next year, after this year, plus it would not affect  
21 the properties under construction which might be a situation  
22 where you might have construction financing outstanding.

23 Senator Symms. I am not certain exactly in some of  
24 these cases just where the projects are. I would like to keep  
25 that open if we could.



1 Mr. Brockway. I think some of the projects that you were  
2 talking about were under construction, they would be grand-  
3 fathered.

4 Senator Durenberger. Before we leave IDB's, could I  
5 just raise one question on Item 7 on page 12, the degree to  
6 which the denial is in current law or the degree to which  
7 we are changing current law in the interest deduction.

8 One of the projects that Steve referred to in the Twin  
9 Cities is a racetrack and I do not want to jump up and down  
10 here and change that wording of racetracks in my State. But  
11 it has been so long since we had that kind of industrial  
12 development activity that I am wondering.

13 Mr. Brockway. Is it a project that is currently in  
14 process, are they in the process of building the racetrack?

15 Senator Durenberger. Well, they are at the contract--  
16 contracting stage right now.

17 Mr. Brockway. They have a binding contract right now?

18 Senator Durenberger. I am not sure that there is a  
19 binding contract right now.

20 Mr. Brockway. Because I think the general structure  
21 would turn on whether it has a binding contract or is under  
22 construction.

23 Senator Durenberger. But these general prohibitions,  
24 are they under way right now?

25 Mr. Brockway. These would affect a racetrack if--once

1 it was fully effective, once it goes into effect it would  
2 affect the racetrack. So this project would need a transition  
3 rule if it is not already under contract or other construction.

4 Senator Durenberger. Well, maybe I can work with you.

5 Senator Heinz. Mr. Chairman, before we leave IDB's --

6 The Chairman. Yes, we want to leave them quickly if we  
7 can.

8 Senator Heinz. Well, I will try. I think this will be  
9 quick.

10 We talked with staff about a problem that we have and  
11 we worked out an amendment with staff to raise the limitation  
12 on capital expenditures from \$20 million to \$25 million.

13 Mr. Susswein. Senator Heinz, I think, if I understand  
14 correctly, that applies only to bonds that were outstanding  
15 already and in connection with the UDAG.

16 Senator Heinz. That is correct. And I would like to be  
17 sure that that is in our package. It is a transitional  
18 problem. That is all it is.

19 The Chairman. Senator Bradley, do you want to raise  
20 something?

21 Senator Bradley. Yes, Mr. Chairman, I have just a couple  
22 of points.

23 One relates to section 367 modifications that are in the  
24 list of proposals. This relates to the transfer of technology  
25 abroad. It seems to me that we have not really had a thorough

1 discussion of the issue per se; that it does have some  
2 implications for our trade competitiveness, etc. and I wondered  
3 if we could maybe have the Treasury agree to do a study of  
4 this before any change would go into effect? I know that that  
5 is soon it will be April or June 1984.

6 Mr. Chapoton. Senator, the proposal would have a delayed  
7 effective date until January 1, 1985. This has been the  
8 subject of hearings and it is a--the problem is this, that  
9 the intangible asset that often developed by--well, it is  
10 developed by deductible expenses in this country and then  
11 is transferred abroad now to low-tax countries often. And so  
12 the jobs go abroad, the development is here and the jobs  
13 go abroad. We dealt with this problem last year, this  
14 Committee dealt with a similar problem last year when we  
15 dealt with the section 936 provision of Puerto Rico. We  
16 went to great lengths at that time to say that you could  
17 transfer the intangible if there were a cost-sharing payment  
18 or a value paid for the intangible. But in doing so, we then  
19 in attempting to help Puerto Rico, we really put Puerto Rico  
20 in a worse position than a country like Ireland, for example,  
21 which will give a significant tax break in that same  
22 situation.

23 So I think we have given the problem a lot of study and  
24 feel like something has to be done about it. But by delaying  
25 the effective date, it would give us ample time to put out

1 regulations to be very specific on what exactly the rules  
2 would apply. For example, what would be a reasonable royalty  
3 which would make no tax apply on the transfer.

4 Senator Bradley. Mr. Chairman, could we have Treasury  
5 do a study as a part of this approach, part of the bill and  
6 return to us with the results of the study. And maybe might  
7 come up with more appropriate changes than the ones you have  
8 recommended here.

9 Mr. Chapoton. Do you mean in lieu of this proposal?

10 Senator Bradley. No, no, this proposal might go into  
11 effect but contingent upon the study which would be done prior  
12 to the date--

13 Mr. Chapoton. That would be fine. The effective date  
14 is now January 1 of 1985 and the study, we could have a study  
15 say June of next year, is that what you suggested?

16 Senator Bradley. Or earlier if you could get it done  
17 so that the Committee would have a chance to look at the  
18 issue.

19 Mr. Chapoton. O.K. That would be certainly agreeable.

20 Senator Bradley. Mr. Chairman, I have one other  
21 clarifying point and that is on the mortgage discount on bonds  
22 treated as ordinary income. Does that apply only to new  
23 issues?

24 Mr. Chapoton. That is correct, only to new issues.

25 Senator Bradley. Only new issues.

1           And one other thing really with the Joint Tax Committee,  
2 what I need to get is--since I am not sure that I understand  
3 it, but exploring the possibility of coordinating the foreign  
4 personal holding company income with Subpart F and not that  
5 we can get into that here, but if sometime before this gets  
6 to the floor, if we could work with the Joint Tax Committee  
7 we might come up with a little clearer understanding of  
8 what would be appropriate.

9           Mr. Brockway. We would be very happy to look at it.  
10 It is a complicated area but I think there is some problem  
11 that maybe the foreign personal company holding rules overlap  
12 incorrectly with the Subpart F rules and we will work with  
13 you in trying to come up with appropriate resolution.

14           Senator Bradley. So that if we did get some agreement  
15 prior to the floor, we might then make the changes.

16           Thank you, Mr. Chairman.

17           The Chairman. Now, we have gone over the ones that have  
18 Treasury approval. That does not mean that the others cannot  
19 be modified or somehow compromised. I assume some are just  
20 going to have to vote on it at the appropriate time. I do  
21 not think this is the appropriate time.

22           I think what we need to determine now, very honestly,  
23 is whether we are serious about continuing the efforts of  
24 deficit reduction. We are about the only game left in this  
25 town, even the very modest approach by the House yesterday

1 defeated, not because of the bill but because of a lot of  
2 different concerns that I do not fully understand. And  
3 rather than to vote on a package, spending or combination of  
4 the add-ons, the package and the revenues, because there may  
5 be some changes, there may be a better approach, but I for  
6 one do not want to give up what I think is the last chance  
7 in this Congress and this town to be serious about deficit  
8 reduction. And I think every member of this Committee,  
9 if they can write their own package, could probably come up  
10 with \$150 billion somehow. And I would hope that there will  
11 be some expression by the Committee that that is the--the  
12 course that we should follow.

13 Senator Danforth?

14 Senator Danforth. Mr. Chairman, I have a motion to make  
15 in that regard and I would like to have a rollcall vote of  
16 the Committee on the motion.

17 Mr. Chairman, I think it has been fairly clear,  
18 increasingly clear to all of us that we are not going to be  
19 passing a tax bill in this session of the Congress. It is  
20 now 11:30 on Friday morning. The majority leader wants to  
21 go out today, the House wants to go out today. And I think  
22 it is going to be a little hard to get a bill through the  
23 Finance Committee onto the floor of the Senate and through  
24 conference when there is not even a House bill to put it on  
25 and have that all wrapped up by sometime today.

1           So clearly, we are not going to be able to pass the tax  
2 bill today. I am disappointed in that and I know that you are  
3 too, Mr. Chairman. And I think most members of this Committee  
4 are.

5           For the past several weeks, month or so, you, Mr.  
6 Chairman, have been the one leader in our country to try to  
7 do something about the deficit and your Committee has been  
8 with you. What we were doing two or three weeks ago when we  
9 met and agreed to come up with \$150 billion package, some of  
10 us were even talking about doing more, \$200 billion, was  
11 really electrifying because we had a spirit of cooperation  
12 in this Committee which I think really spoke well for the  
13 quality of the people who serve on the Finance Committee and  
14 for their sense of purpose and sense of dedication to doing  
15 something that is responsible. But we had very little support  
16 from any other quarter.

17           The House yesterday, as you pointed out, did not even  
18 get a rule on just a few billion dollars of deficit closing  
19 measures. And the President has just left the field. He  
20 takes the position apparently that this is not his deficit.

21           During the four years of the Reagan Administration, the  
22 national debt will have increased under present projections  
23 by 79 percent during four years. And that is a problem that  
24 our children are going to be stuck with. And yet the  
25 President says well, Congress is spending too much.

1 Now, it is conventional wisdom to say that next year is  
2 an election year and therefore we will not do anything. And  
3 I guess that is the position of the Administration that we  
4 should not do anything. And it is the position of a number  
5 of people in the Congress. Maybe we will not do anything  
6 next year, Mr. Chairman, but if we do not do anything, at  
7 least this issue is not going to go away. We are not going  
8 to steal silently into the night. At least one Senator is  
9 going to steal loudly into the night.

10 The issue of the deficit is going to be the foremost  
11 domestic issue before this country in the Presidential  
12 election. If Congress does not want to do anything, the  
13 fact that it has not done anything, is going to be the  
14 foremost issue before the country. If the President does  
15 not want to do anything, the fact that he does not want to  
16 do anything about the deficit is going to be the foremost  
17 issue before the country next year. This is not just going  
18 to go away. We are not going to be silent.

19 Now, the question is, is anything concrete left to be  
20 done? Can anything specific be done over the next weeks or  
21 months or are we just going to forget about it? And it is  
22 my hope, Mr. Chairman, that if nobody else is going to assume  
23 leadership, that this Committee would at least continue to  
24 try to work at it. Maybe we will not get anywhere but I  
25 hope that we at least continue to try and therefore I have



1 a motion to make which is as follows:

2 I move that the Committee instruct the Chairman and  
3 the staffs of the Finance Committee and Joint Committee on  
4 Taxation and the Treasury Department to report back by  
5 February 1 a draft bill based on the outlines of the spending  
6 restraint and revenue increase proposals that the Committee  
7 has been considering over the last several weeks.

8 That is the motion. The motion does not lock us into  
9 any of the several ideas or proposals that we have had but I  
10 think we have accomplished something in that there is a sense  
11 of what direction we are working in and it simply asks the  
12 Chairman and the Finance Committee and the Joint Committee  
13 staffs, together with the Treasury Department if it cares to  
14 be a part of this, to report back to us by February 1 a  
15 specific draft bill so that we can again commence working  
16 on something that is definite.

17 Senator Long. Mr. Chairman, I heartily support what  
18 Senator Danforth has said.

19 Let me say to the members of the Committee that eloquence  
20 speaks to the same nature by Senator Danforth, is what  
21 dictated my vote when they finally voted on the debt limit  
22 the last time, I voted to extend it except I thought the  
23 Senator made a truly inspired speech and he was completely  
24 sincere about it as we all know, and what he is concerned  
25 about and what the entire Nation is concerned about.

1           Now, when that debt limit bill comes back in here, we  
2 ought to be ready with proposals to control spending and we  
3 ought to look at what some States are doing because the  
4 Federal Government has failed miserably and the budget process  
5 has failed completely.

6           One thing we ought to look at, a practice in the State  
7 of Georgia Sam Nunn tells me about from time to time, their  
8 procedure is to first determine how much revenue they are  
9 going to have and then undertake to decide how they are going  
10 to cut the melon. And if they overspend in one area, it  
11 has to come out of some other area because they are not going  
12 to spend more than they have to spend. They start out in  
13 the beginning agreeing how much it will be.

14           Now Senator Pryor has told some of us how they do it  
15 in the State of Arkansas where they divide their budget into  
16 several categories. If there is not enough money to go  
17 around, then the third category, which is the one that can  
18 be deferred, will have to be deferred until they have enough  
19 money to initiate new construction projects and things of  
20 that sort.

21           So that we ought to be proposing, and I would hope it  
22 would be with the support of the Budget Committee, measures  
23 that will control spending.

24           Now, we cannot balance a budget in one year, but we could  
25 start, we could start on a trend that will work us to it and

1 we have been going too long with this deficit going up, and  
2 up. And of course the responsibility is to try to head them  
3 down.

4 So I strongly support the motion.

5 I would like to suggest that we add to that, that this  
6 group will be studying suggestions as to ways we can change  
7 our structural approach to bring about reduced deficits and  
8 a balanced budget.

9 The Chairman. Could I just say one word before I hear  
10 other members. You know my own view, we just have to decide,  
11 we all like to come here every morning and I know the staff  
12 likes to work all night as they have done in the last several  
13 days and the Treasury has been very helpful and they are  
14 willing to do it between now and the time we come back. But  
15 if we are just blowing smoke, then why go through the exercise?  
16 I want to reduce the deficit. I am willing to make the tough  
17 choice, I think most of us are on the spending side as well  
18 as the revenue side. And as the revenues contingent on  
19 spending reductions.

20 Now, we are not suggesting that you have to--a vote on  
21 this is a vote for any package. We are suggesting that it  
22 is a vote for us, for me to instruct the staff to do what  
23 we can between now and February 1, if that may be a bit early,  
24 but anyway, February 1, to try to satisfy not only members  
25 of this Committee in certain areas, because there are about

1 40 or 50 matters yet unsettled that Members have. And also  
2 to take another look at different ways to reach the revenue  
3 and the spending restraint figures and make it real.

4 Now, if we do not want to do that, we ought to say we  
5 do not want to do that and I would hope everybody wants to do  
6 that. If not, I am certainly willing to--I recognize the  
7 majority. And there are a lot of things that we could do in  
8 the meantime. But I would hope that we are not going to  
9 send a signal to the country and to the President and to the  
10 Speaker and the others that we are going to walk away from  
11 deficit reduction. And we are talking about deficit  
12 reduction, not a tax package.

13 So I hope the motion is agreed to.

14 Senator Moynihan. Mr. Chairman, I will vote for this  
15 motion and with a good conscience and with some hope. But I  
16 would like it understood where at least one member of this  
17 Committee stands. And I think this is a view that has been  
18 fairly consistent, that what we are seeing in this present  
19 crisis, and it is a crisis, when as--the devoted servant and  
20 dear friend, Mr. Chapoton agreed the other day, we have seen  
21 \$448 billion added to the national debt in 1,000 days, where  
22 we have seen the Government as a percentage of GNP at the  
23 highest level in history, and all those things, that does not  
24 represent the failure of a policy with respect to elements  
25 in this Government and this Congress; it represents the

1 success of the policy. The policy was to create a crisis,  
2 a crisis on which in the absence of revenues, we would not  
3 discuss the dismantling of the disability program. Where in  
4 the absence of revenues, we would put an end to housing  
5 programs, where in the absence of revenues the whole of the  
6 social commitments and domestic programs of the Federal  
7 Government would be called under scrutiny save those that  
8 involve the dairy industry.

9 And I think we have to ask--I would like to hope that  
10 I would like to hear from Senator Danforth that he agrees,  
11 what did we do to the taxation of corporations in the 1981  
12 legislation? Has the corporate tax almost disappeared as a  
13 source of revenue? And I would hope that I could hear from  
14 Senator Danforth, who I think would be open to this question.  
15 What did we do? And was there a real judgment, was there  
16 that reducing those tax rates that would really produce no  
17 loss in revenues; does the Treasury really think that or were  
18 their people prepared wanting to create a crisis, thinking  
19 that was the only way to bring about outcomes they desired?

20 Now, I do not ask Senator Danforth to agree with my  
21 proposition but he knows this is what I think. Does he agree  
22 that the corporate taxes are a question? Have we in effect  
23 let them dwindle to insignificance in our revenue structure?

24 Senator Danforth. Mr. Chairman, I am one who does not  
25 believe that uncontrollable spending should be matched by

1 uncontrollable taxation and I believe that taxation was going  
2 up at a rapid rate prior to this Administration and that it  
3 was correct for us and the Congress to try to contain the  
4 growth rate of the tax burden. And we did that.

5 Even so, much of the tax cuts of two years ago have  
6 already been matched by a combination of Social Security tax  
7 increases, plus energy tax increases, plus inflation  
8 ratcheting of tax brackets. So I think that it has to be a  
9 combination of things. I think we are going to have to come  
10 up with some revenue and I think we are going to have to come  
11 up with spending restraints.

12 I do think that spending, that Federal spending has  
13 gotten out of control. I think that we are going to have to  
14 fight that battle but I think the most important thing for  
15 us to decide is not going back over the past couple of years  
16 and pointing the finger, but whether we are going to be able  
17 to keep the process going which we initiated approximately  
18 a month ago, which involved an understanding of coming up  
19 with about \$150 billion over a three-year period of time,  
20 maybe more, comprised about 50-50 between revenue and increases  
21 and spending cuts and we can do that in a way that is at least  
22 reasonably acceptable to most of us in the Congress.

23 No part of it is going to be perfectly acceptable to  
24 anybody, as Senator Moynihan well knows, there are people on  
25 this Committee who believe that we should accelerate tax cuts

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or that we should have no tax increases at all. And there are other people who believe that we have already cut too much taxes.

So somehow we are going to have to come to some reasonable consensus and I think that there is the basis of that on this Committee and a real desire to do it.

Senator Long. Mr. Chairman, I would just like to ask this question, because I think there is confusion about this corporation tax matter.

It is my understanding that this low level of corporate tax collections at this moment is because of the recession primarily. Now, Treasury ought to be able to tell us about their estimates. My understanding is that it is estimated that down the road a year or two when we are hopefully going to have full employment or what we usually define as full employment, full recovery, that we will be collecting more than \$90 billion a year with that corporate--corporation income tax.

Is that correct or not?

Mr. Chapoton. That is correct. The corporate tax share of total receipts of the Government which was--and I will have to speak from memory and very round figures, but in the '60's it was at 25 percent of total receipts range had dropped over the years to about 12 percent; in the late '70's, 11 percent. ACRS dropped the corporate tax receipts further

1 until it dropped to about 8 percent. And the ACRS and the  
2 downturn in the economy, you cannot isolate those two--you  
3 can isolate particularly the economic projections say in  
4 early 1982, mid-'82 and see the drop in corporate receipts  
5 as the recession, the extent of the recession is known. And  
6 then under our economic projections, the corporate receipts  
7 pick back up in the 11- and 12-percent range again in the  
8 1988 period.

9 Senator Long. It is estimated to pick up to about--

10 Mr. Chapoton. I can give you those specifically.

11 Senator Long. But is it estimated to pick up to about  
12 \$90 billion?

13 Mr. Chapoton. That is correct. I think \$90 billion.

14 Senator Long. I think someone has the figures. Where  
15 is the total for 1987? Where is the total figure? It is  
16 estimated in 1987 to be about \$90 billion. Now, furthermore,  
17 I think it is worth noting that every nickel of those corporate  
18 taxes amounts to double taxation in that those--the corporation  
19 is merely a surrogate for the shareholders and everyone of  
20 those people is subject to being taxed individually and most  
21 of them are taxed individually.

22 Mr. Chapoton. That is correct. Some individual or  
23 charitable organization ends up paying--bearing corporate  
24 taxes. And economists argue hard and long about who actually  
25 bears them, whether it is the customer or the corporation or



1 the owners. Somebody certainly does.

2 Senator Long. Whoever pays it is also a taxpayer.

3 Everyone who is either receiving it has a burden now of  
4 consumer or shareholder, they are all taxpayers in event; is  
5 not that correct?

6 Mr. Chapoton. That is correct.

7 Senator Long. Now, in addition to that, more and more  
8 were taking the view that the money that is being invested  
9 should not be taxed the same way you would tax money on the  
10 expenditure side, with people spending it for their personal  
11 expenses, their personal living, whatever purpose. And the  
12 IRA, the individual retirement accounts, the Keogh Plans and  
13 things like that are all going forward with the thought that  
14 we ought to ease the burden of taxation on investment capital,  
15 is not that also a part of the picture?

16 Mr. Chapoton. Yes, sir. A lot of discussion is going  
17 on these days about the necessity of removing some of the  
18 bias in our system against savings. We do that partially by  
19 the IRA plan, by pension, by giving tax benefits to pension  
20 plans. Those are the two biggest items.

21 Senator Long. Thank you.

22 Senator Packwood (presiding). I believe Senator Wallop  
23 is next.

24 Senator Wallop. Mr. Chairman, I hope that Senator Long's  
25 counsel as to the structural means by which we might improve

1 our prospects of doing this is taken as much as the language  
2 contained in Senator Danforth's motion.

3 We can sit here and politically recriminate against  
4 each other and gain headlines but no progress on reducing the  
5 deficit. I think that it is unwise. I will not respond as  
6 I have just been sort of tempted to to Senator Moynihan's  
7 comments because I do not believe that is going to get us  
8 to where we have to go. If anybody in this room is free  
9 from guilt of having tried to put a tax prospective on an  
10 interest within his State or other things, then he can quite  
11 comfortably get up and make the recriminations but I doubt  
12 that there is any of us here who have not voted for some  
13 package of spending that has come through higher than the  
14 President's recommendation, higher than the Committee's  
15 budget authorization, higher than the Budget Committee.  
16 And we can recriminate like hell but we will not get any  
17 reduction in the deficit.

18 I think what Senator Danforth has proposed, along with  
19 Senator Long's admonition that we should look at the structural  
20 incapacity of this Government at the national level to deal  
21 with deficits is well taken. And we ought to do that. And  
22 our goal ought to be some reduction in the deficit. And  
23 all of us will reap political advantage.

24 But I think all of us deserve the scorn of the country  
25 if all we do is summon up rhetoric and not summon up the

1 effort, the bottom to go forward on the thing.

2 Senator Boren. Mr. Chairman.

3 The Chairman. Senator Boren.

4 Senator Boren. Mr. Chairman, I want to commend Senator  
5 Danforth for offering this motion. I of course intend to  
6 strongly support it. I hope with that in implementing it  
7 that the staff will follow the basic principle of trying to  
8 strike a balance between spending cuts and any revenue  
9 changes, at least in the 50-50 realm that I think to be  
10 balanced we need to try to do that.

11 I think there is another important principle at stake  
12 and it is certainly a principle that Senator Danforth,  
13 Senator Wallop and I and others tried to have in the  
14 proposals which we made earlier and that is that I think we  
15 have to operate under the principle of shared sacrifice.  
16 My feeling is that unless we do something on the spending  
17 and revenue side that touches virtually all Americans, there  
18 is always going to be the feeling of why me, why single out  
19 this group? If you start making exceptions, everyone wants  
20 to be an exception. If as Senator Wallop just said, we are  
21 all guilty of protecting our own regions and the particular  
22 economic interests in our regions and if we start exempting  
23 anyone from the sacrifice, then we all become obligated to  
24 fight for exemptions for those interests in our own States.  
25 So I think the principle of share sacrifice is very

1 important.

2 I realize this motion is not an adequate substitute  
3 for an actual piece of legislation that we all hope we could  
4 report out a bill today that had real dollars in it, real  
5 deficit reduction in it, this is not an adequate substitute  
6 but I think it is important nonetheless because it sends  
7 a message that we have not given up.

8 Mr. Chairman, I want to commend you. I think I have  
9 never seen anyone take more brickbrats unfairly and more  
10 large doses of cold water and still mark them down in the  
11 undecided column as you have. And that takes a lot of  
12 courage and a lot of perseverance.

13 I do have one suggestion, that if we start to put  
14 together a package I hope that Treasury will help us. But  
15 having sat through the last one when we were told that yes,  
16 press ahead but do not touch revenues, maybe only \$2 billion  
17 or \$3 billion in defense over three or four years. And  
18 even though some of us running have already said we are  
19 willing to touch entitlements and COLA's, we cannot touch  
20 those.

21 I would suggest, Mr. Chairman, if we get something really  
22 rolling that we do not have any more closed-door meetings  
23 with the Secretary of Treasury. I think we should just press  
24 ahead on our own. I have not turned down an invitation to  
25 be chairman of his fan club, but I think we ought to do it

1 and I think this motion is valuable and I commend you and I  
2 commend Senator Danforth for offering it.

3 The Chairman. Senator Bradley?

4 Senator Bradley. Mr. Chairman, if I could, I will vote  
5 for the Danforth resolution. I think it keeps the ball in  
6 the air a little bit longer, it keeps the issue before the  
7 public a little bit longer, it gives a lot of people we  
8 respect an opportunity to study the issue a little bit longer  
9 but ultimately we are going to have to decide, is the  
10 President on board or is he not on board? And my hunch is  
11 that it is going to be very difficult for him to join the  
12 process that Senator Dole has started, admirably, in a  
13 leadership way and that Senator Danforth seeks to continue.  
14 And the reason I think it will be difficult for him to come  
15 on board is because to get the deficit reduction that we  
16 need, the size of deficit reduction that we need, will require  
17 the President to essentially renounce the tax program that  
18 he put into place in 1981 and to cut back on the commitment  
19 that he made to dramatically increase defense spending.  
20 That is a fact of life.

21 If you continue to argue as Secretary Regan did just  
22 a few days ago that the only way to get this deficit is  
23 spending, then you will never close the deficit. I mean it  
24 is like arguing which blade of the scissors cuts the paper?  
25 Both cut the paper. Not one. And tax cuts and spending are

1 both responsible for this deficit.

2 Now, I think that there is even a more calculated  
3 decision here and that is between now and 1984 nobody will  
4 be able to pin on the President the deficits because my  
5 party over the years made a lot of mistakes in a sense.  
6 They will not be able to pin the deficits on the President.  
7 I would hope that that is not true. I would hope that the  
8 President would be a part of this process, even if it requires  
9 developing a new message for the 1984 campaign. But I have  
10 serious doubts that that will occur. But we will see.

11 Senator Danforth's resolution keeps the ball in the  
12 air a little bit longer and maybe by February the figures  
13 that Mr. Chapoton gave us might even register on the White  
14 House. It might even register that when corporate tax  
15 revenues have dropped to 8 percent of all revenues down from  
16 25 percent, maybe it will register that taxes have something  
17 to do with the deficits and that the tax cuts that were  
18 provided to individual Americans in the 1981 Act were largely  
19 eroded by the high interest rates that were precipitated  
20 by the high deficits.

21 So I will vote for this resolution, modest as it is,  
22 in hope that we might have a new kind of dialogue here and  
23 not be locked into the old categories and the old  
24 recriminations of the past 30 years.

25 Beyond that, I would have the hope and I think the

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Chairman would as well, that we could move to a system where we do have lower rates of tax, that we have lower rates of tax in a way that it does not even increase the deficits by seriously closing these loopholes.

The Chairman. A number of members want to speak and I try to write them down: Chafee, Symms, Pryor, Matsunaga, Durenberger, Baucus, Roth, Bentsen.

Maybe we just ought to vote on the package, I think. Yes?

(Laughter.)

*Bing*  
*(7)*  
*follows*

1 Senator Chafee. Mr. Chairman, I hope we will go forward.

2 I commend Senator Danforth and I particular associate  
3 myself with the remarks of Senator Boren and I think, too, we  
4 have to do this because of who else joins up. There is some  
5 suggestion, well, we cannot go anywhere without the President.

6 Well, the President's position has been pretty clearly  
7 indicated and I think we ought to press ahead despite the  
8 President's remarks or the Speaker's remarks, or the House's  
9 action, or whatever happens.

10 Secondly, I hope, Mr. Chairman, that you would give some  
11 further consideration to the suggestions I made regarding the  
12 Medicare earlier, and the formation of a task force, whatever  
13 you want to call it, appointed by this Committee, to come up  
14 with some recommendations regarding that.

15 And, thirdly, I am concerned that I do not know whether  
16 you touched on this earlier, perhaps in a discussion with  
17 Senator Bentsen about the insurance situation.

18 The Chairman. I have a statement that I had to read  
19 about that.

20 Senator Chafee. And I suppose at this stage the only  
21 thing that can be done is some kind of an exchange of letters  
22 between you and Chairman Rostenkowski, is that about where it  
23 is left?

24 I think between hopefully Senator Long and myself,  
25 Congressman Conable, and the Chairman of the Ways and Means



1 Committee would direct a letter to the Treasury.

2 Senator Chafee. Because obviously the industry is put in  
3 a real quandry and I am an expert in this subject, they asked  
4 me what would happen, and I said no matter what happens,  
5 clearly we will pass some legislation extending it. It was  
6 sort of reducing the number of phone calls that I get on this  
7 subject seeking advice on that matter.

8 The Chairman. Tell them to call the House.

9 Senator Chafee. So if we can do something, I think that  
10 would do it.

11 And, finally, I have to leave, and we are not going to  
12 vote on this for awhile, judging on this. I will give you my  
13 proxy.

14 The Chairman. Thank you.

15 Senator Symms, and then Senator Pryor.

16 Senator Symms. Mr. Chairman, I think for my three short  
17 years on this Committee, I would say this is encouraging and  
18 I do not think there is a finer group of Senators than the  
19 members of this Committee or a finer Chairman, and the ranking  
20 member than we have here.

21 But I would only say that one premise that I keep hearing  
22 here is that somehow the deficit is the big problem and I do  
23 not know if you look at the actual outlays and receipts and  
24 the percentage of the GNP, the tax, we are actually taxing  
25 people on an average between--in 1983 through 1988 projected

1 to be 19.7 percent, but the outlays are almost 25 percent.  
 2 And it is clear from the results of many, many studies that  
 3 have been done, that the problem is that we have not controlled  
 4 spending and I think if we can focus in on spending and not  
 5 somehow think that, you know, this shifting target, it is un-  
 6 employment, it is high interest rates, it is inflation, I  
 7 guess it was actually inflation and then high interest rates,  
 8 and then unemployment, is the order it goes in.

9 Now, all of a sudden the crisis seems to be the deficit  
 10 but the problem is, and I know that I have quoted Dr. Freedman  
 11 many times to this Committee, he made the point very well many  
 12 many times in many articles, that what is wrong with the  
 13 economy is that we have an \$800 billion budget, that we would  
 14 be well, better off to have a \$600 billion spending budget  
 15 for the sake of America's economy with a \$200 billion deficit  
 16 than we would be to have an \$800 billion budget with a balanc-  
 17 ed budget.

18 Because we are spending too much money and consuming too  
 19 much of the production of the country and the Government is  
 20 spending too much money.

21 So I have reservations about--not that I have reservation  
 22 about the sincerity of what the Committee is trying to do, of  
 23 having any kind of a vote for this resolution to be viewed as  
 24 a vote that somehow I am caving into the principle here that  
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1 we have to go out here and raise taxes to solve this problem.  
2 I think what we need to do is come back with a bold new plan  
3 and I would hope that the Committee would include in their  
4 view an offensive program, you know, it is kind of interesting.

5 The one thing the President has done in the last few  
6 weeks is when he finally realized that the people down in  
7 Grenada were pretty obnoxious and got offensive about it, he  
8 became the most popular guy in America by going after it; if  
9 we would go after this budget like they went after Grenada, I  
10 wonder if the Marines could take this Committee as well as they  
11 did down there.

12 Maybe we can solve this problem. But I would like to see  
13 the Committee come back with a plan that would completely  
14 throw out this tax code, all these people out here are good  
15 people, but for heaven's sake, this thing is so complicated,  
16 so cannot we come back with a bold plan where we had a taxing  
17 code that was going to raise, say, \$700 billion or \$800 bil-  
18 lion or \$600 billion, some figure, and have it based on some  
19 form of a consumption tax and a flat rate tax that would be  
20 simple, easy for people to understand, so people knew what  
21 they were paying for, get away from all of these complicated  
22 loopholes and everything that we have, and then come back to  
23 the same kind of a budget based on the one that our colleague,  
24 that is not on the Committee, from Minnesota, Senator Boschwitz

1 has, and I hope some of you have had a chance to look at that.  
2 I know that those of us on the Budget Committee have, where he  
3 has what they call the fair play budget, but it is based on a  
4 formula.

5 And I just believe if we try to go at it the way we have  
6 been doing it for the last 40 years, it is not going to make  
7 any difference who is in office. This situation becomes im-  
8 possible with this complicated thing. We need a bold, new  
9 plan to completely revise our basis of our formulation so that  
10 we do not try to--we do not have every member of Congress  
11 compromised with the special interests and parochial interests  
12 and sectional interests from their States, but that we are  
13 only going to have so much money and that is all we are going  
14 to spend.

15 So I do not know how I will vote on your resolution. I  
16 wish this Committee staff good luck, I know they are hard  
17 workers and I appreciate that, but I think for this kind of a  
18 package we are just not ever going to get the problem solved,  
19 and I would like to see us ask the Heritage Foundation or the  
20 Brookings Institute and some others to come in here with a  
21 proposition that we might be able to have some alternatives  
22 to this nickle and dime approach to this problem.

23 And I do not know how I would like to vote. I feel like  
24 if I vote no, it looks like I am not interested in the problem,  
25 if I vote yes, I am endorsing a tax increase, which I do not

1 think will solve the problem.

2 The Chairman. Senator Pryor?

3 Senator Pryor. Mr. Chairman, I would just like to say  
4 that first I would like to ask you a question.

5 I am the new guy on the Committee and I really have  
6 enjoyed my year here, and I am kind of naive about what is  
7 going on.

8 But let me ask you a question: if the Danforth motion  
9 carries, does that signal the end of the Finance Committee's  
10 work for 1983; is that correct?

11 The Chairman. Well, I think so. We could have a hearing  
12 or something, but as far as any votes, unless there was popular  
13 demand that we continue.

14 Senator Pryor. Well, I thought that would be the answer,  
15 Mr. Chairman, and I would just like to say that in response to  
16 something Senator Symms said about a bold new plan, I think  
17 that we tried a bold new plan in 1981, in fact, I voted for  
18 it, and I voted for President Reagan's plan, I do not think it  
19 is working, I think we need to make some changes.

20 But I think when Senator Danforth's proposal does pass,  
21 and it appears that it will, it is sort of going to be a way  
22 for us to get out of kind of a sticky situation here, and I  
23 think we need to get out of it and go home and reflect on it.

24 I think the taxpayers right now would be well served if we  
25 did it, and I think it also sort of confirms a diagnosis when

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we support Senator Danforth's proposal of the paralysis of the institution as we know it, not only the Congress as an institution, but the institution of a relationship between the Executive and the Legislative bodies, and I do not want to come and blame President Reagan or blame the Congress. I would like to salute you, Mr. Chairman.

You have tried, you have been sincere in your efforts to meld us together, and I felt as Senator Danforth so eloquently stated this on the last two days, speeches and statements in this Committee and on the floor of the Senate, I felt like he did and like many of us, that we really had something going for us for a period of several days, and that momentum, for one reason or another, our hopes were dashed and we can all have our own reasons why that would occur.

But I would just, in closing, I would like to say that I am hoping that sometime before we get too far into the next session, I am hoping that sometimes we might get out and get away from this crazy town for a couple of days, all of us maybe put our blue jeans on and sit down away from all the pressures that we have and really, I love all of these people out here in this audience, and I enjoy seeing them, but I think if we could just charge admission to the second floor of the Dirksen Building, we could go a long way in retiring the deficit.

I think that is one solution to it. But that is part of

1 our system and I am not making disparaging remarks about that.

2 I wish we could go off and maybe come up and look at some  
3 of the structural problems because I do not think we are ever  
4 going--this is like a Committee writing a speech. All of us  
5 make speeches and when you have got a Committee writing  
6 speeches, it is never going to be written. And I think we are  
7 going to have look at the structure itself and then follow  
8 along with some of these things that we are talking about.

9 Finally, I just wish I was Senator Boren's CPA, because  
10 he is going to be audited as sure as the world. You know,  
11 after those statements he made, but I hope it will not be too  
12 serious, Dave, and I know you do not have anything to hide.

13 But finally, I would like, Mr. Chairman, to take a  
14 moment to commend Buck and all of his staff and all of his  
15 Finance Committee staff, these people worked night and day and  
16 around the clock and when we get to go home, they still work,  
17 and I do not agree with everything they have said, and they  
18 do not agree with everything we said, but these people have  
19 done a heck of a fine job, and I think we owe them a vote of  
20 thanks from this Committee and all of us, they have done a  
21 superb job in giving us the information; sometimes they have  
22 had to go back and look for it, but they have done a fine job,  
23 and your staff and Senator Long's staff has just done a splen-  
24 did job, and I think the Committee is about to come to a  
25 close for 1983, and I sure have enjoyed my year, Mr. Chairman.

1 Thank you.

2 The Chairman. Well, we have enjoyed having you here.

3 Senator Pryor. That sounded like past tense.

4 The Chairman. No, we are not going to meet anymore this  
5 year. Except there could be hearings and I think the idea you  
6 had, maybe we ought to give a little retreat. But we have  
7 been retreating around here for years.

8 Senator Durenberger and then Senator Matsunaga.

9 Senator Durenberger. Mr. Chairman, let me take a minute  
10 to build on what Dave said.

11 When I first came to this Committee, it was also the  
12 first time that I came to Washington, and I ran into somebody  
13 who was reviewing a book about how much the press can cover,  
14 and they had sort of worked it down to the fact that the  
15 national media cannot cover more than about 100 people. There  
16 are only 100 significant people in this country, either as  
17 individuals or the jobs that they hold.

18 What I want to say in my remarks is to try to say that  
19 there is more in terms of the leadership on this issue than  
20 the Chairman of this Committee. Bob not only--and we can com-  
21 pliment him about his guts, but he also has to take all of the  
22 crap for why he is doing it. And that is why it is important,  
23 I think, for people first for Jack Danforth to have stepped up  
24 here with Dave and Malcolm about three or four months ago with  
25 their proposition.



1           Secondly, it is important for people to understand that  
2 this is an institution sitting around here, and it includes  
3 that terrific staff and it includes all these people, and;

4           Next, it is important for people to understand that this  
5 institution, in the last three years, has done a lot about this  
6 problem. I mean, we came in as an institution in 1981, and we  
7 addressed ourselves to one of the major problems in taxes in  
8 this country, and that is that they are falling on the folks  
9 that elected us to come here, not on the folks that are stand-  
10 ing in the back of this room.

11           And we did something about that. But at the same time, I  
12 remember Jack Danforth saying to me, hey, you know, we really  
13 ought to be doing something about savings, so he delivered us  
14 the all-savers, which we no longer have.

15           But there was a sense in that, that there is more to tax  
16 reform than just cutting the taxes. The second year we came  
17 along, last year, and as an institution we did tax reform, but  
18 nobody knew it. All they thought that we were trying to do is  
19 undo some supply side economics on the tax cut, but we start-  
20 ing the process of tax reform and, again, Jack at that time,  
21 remember, giving us some suggestions and everybody else in  
22 this room.

23           So now we sit here today and at the end of a very tough  
24 year, and I am glad that we went through this here, but I do  
25 not think in the last three years as an institution we can be

1 blamed for Social Security or the index on Social Security.  
2 We cannot be blamed for Medicare and the high cost of health  
3 care. We cannot be blamed for inflation. We cannot be blamed  
4 for the fact that this room has to be loaded and 200 people  
5 have to be outside.

6 That is our fault. But I'm sure the President in the  
7 next year is going to be out there talking about the larger  
8 institution and those are the terms he is going to be talking  
9 about.

10 And Tip O'Neill is going to be giving some version of  
11 Pat's speech, and it is all going to be directed at those,  
12 whatever it is, 60 million people that vote, and they are go-  
13 ing to be asked to make a decision about the deficit.

14 What Jack has given us in this resolution is an oppor-  
15 tunity for this institution to do something about that deficit.  
16 I do not think 1984 is a bad year to do something about it.  
17 I do not agree with any of it and that is why I have generally  
18 supported our efforts here. The only regret that I have about  
19 his resolution is that we cannot come up with a genuine tax  
20 reform. We cannot do Steve's bold new plan, we cannot go to  
21 a consumption based income tax like they are apparently working  
22 on down there.

23 We just do not have the time nor have we laid the ground-  
24 work.

25 But this institution has done a lot of reform and what we

1 have been talking about in Medicare and Medicaid and private  
2 sector health changes, just to name the things that I am fam-  
3 iliar with, we have done a hell of a lot to start to turn this  
4 country around in the last three years. It does not make the  
5 front pages of the newspaper, but we have done a lot as an  
6 institution because of our staff, because of the kind of  
7 people that sit around this table, and I think we have the  
8 capacity to pick up that resolution, Mr. Chairman, and do some-  
9 thing about it by February 1st, and as an institution, I guess  
10 this little group of folks here. Not just Bob Dole, or not  
11 just Jack Danforth.

12 I think we can step into the void that exists out there  
13 and so I strongly support what Jack is doing here today.

14 The Chairman. Senator Matsunaga, then Senator Baucus.  
15 Senator Matsunaga. Thank you, Mr. Chairman.

16 I am a little concerned about referring to ourselves as  
17 an institution because when I talked about marriage as being  
18 a great institution to my confirmed bachelor son, he said,  
19 well, Dad, do you know what kind of guys they send to an in-  
20 stitution?

21 So I support the proposal of the Chairman of the Sub-  
22 committee on Taxation and Debt Management, and I wish though  
23 that the staff would seriously consider this, Mr. Chairman,  
24 and I just discussed this matter with the ranking member,  
25 Senator Long, but we should seriously consider a special tax,

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a one-time tax, for the purpose of retiring our national debt and, of course, it was Edmund Burke, I believe, who said to tax and please, like to love and be wise, was not meant for men. But sometimes it is amazing how even by proposing a tax we can still please and you have heard the talk about the experiences in Hawaii where the Democrats who had been out of power for 59 years, ran on the platform of retiring the territorial tax. Our predecessors have accumulated a considerable debt and we ran on the backbone of raising taxes to retire the territorial government debt, and we won overwhelmingly, and it was with a special gross income tax that we were able to retire the State tax debt.

So I would propose seriously a gross income tax where nobody can escape the tax and we live today in an age, Mr. Chairman, which is anomalous in that even the tax lawyers, CPAs are advising the clients to invest, to avoid tax. I have a friend who is a CPA and he advised me to invest part of my pay in a project and I looked it over and said, well, heavens, I will be losing \$450 a month. Yeah, but look at the tax you are going to save.

So the attitude today, on the part of businessmen, as well as even private individuals, is to invest for the purpose of avoiding taxes, not for the purpose of making money as it used to be at one time, that you invest to make money.

Now, it is invest to avoid tax and I think we have got to

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change this around. And one way of doing it is to tax at a point where taxes cannot be avoided. I think the tax on gross income, as was proposed by my good friend from New Jersey, after I have proposed it many years earlier, and met with such opposition that I gave up, but I think we can sell it and I would urge, Mr. Chairman, that the staff look into this.

You see, right now, at 3-1/2 percent gross income tax, you see, it will bring in about a billion fifty dollars a year and, well, if we extend it for two years, well, heavens, we can perhaps add on a graduated gross income tax, we might be able to at least pay the national interest of our debts, which by 1986 I am told will amount to \$200 billion. We have got to do something about retirement, which means we have got to raise that money, and one way of doing it is on a gross income

Thank you, Mr. Chairman.

The Chairman. Thank you, Senator Matsunaga.

Senator Baucus, Senator Roth, and then Senator Bentsen.

Senator Baucus. Mr. Chairman, I will be short.

I will not take much time here.

I think it is clear where we are. You, more than anyone else in the Congress, have tried to galvanize different groups together, nudge groups along, push groups along, in order to address the deficits that we know are compounding the problems that face us and it is like a box in a spring, that if something is not done, it is going to spring loose and cause not

1 cataclysmic and catastrophic results, but certainly very pain-  
 2 ful and disastrous results.

3 The problem is, that here we are in the winding down days  
 4 of the Congress as a disappointing hollow nervousness, anxiety  
 5 here. The battle lines were formed, the President and Tip  
 6 O'Neill playing high stakes poker game. It is like Howard  
 7 Baker's description of riverboat gamblers. They are digging  
 8 in their heels, not wanting to give in in anyway whatsoever.

9 Whereas we basically under your leadership, and with the  
 10 efforts of other members of this Committee, try to take the  
 11 first step, try to move, but obviously the President won. I  
 12 think that he has frankly won only temporarily, and that Tip  
 13 O'Neill has only won temporarily.

14 When we go home, when Dave Pryor puts on his jeans and  
 15 when some of us go back to our home States and spend most of  
 16 our times in our States, and even if some of us vacation some-  
 17 place else, we are going to, I think, find new hope that we are  
 18 going to get a new lease on life, and we are going to encourage  
 19 and increase our resolve to do something when we come back  
 20 after the new year, with the New Year's Resolution next year.

21 I think the American people are ahead of the Congress.  
 22 I think the American people are waiting for leadership. They  
 23 are waiting for something to be done and I think that it is  
 24 unfortunate, it is too bad that we in the last days of 1983  
 25 have not done what they expect.

1 I understand it, it still is only 1983, but I fully expect  
2 and hope that 1984, when we get our batteries charged again  
3 more after going home, and when more pressure is put on us and  
4 the Congress and the White House, both ends of Pennsylvania  
5 Avenue, so that the elephant and the donkey walk down both  
6 ends of Pennsylvania Avenue, and meet next year, that we come  
7 up with a solution that, it is up to our responsibilities as  
8 members of the Congress.

9 In the meantime, I think, Mr. Chairman, because we have  
10 not lived up to our responsibilities and we wake up Christmas  
11 morning we are going to find coal in our stocking, we have  
12 not done what we should have done and with coal in the stocking,  
13 as Senator Moynihan just pointed out to me, is a good luck  
14 symbol, next year let us hope that it is good luck for the  
15 country.

16 The Chairman. Thank you.

17 Senator Roth?

18 Senator Roth. Thank you, Senator Dole.

19 I would just like to spend a few minutes setting the  
20 record straight.

21 You know, it has become very fashionable here in this  
22 Committee and on the floor to attack the President, to attack  
23 the Secretary of the Treasury as not meeting with us and be  
24 responsive, but I, for one, strongly disagree with that.

25 You may not like what they say, you may not like their

1 message, but they certainly have had some very strong proposals,  
2 both with respect to taxes and to spending.

3 Now, I hear a lot of talk about doing something about  
4 deficits. But let us set the record straight.

5 First of all, the big problem is on the spending side--  
6 on the spending side. We are now, for the first time, spend-  
7 ing at the Federal Government level, 25 percent of the gross  
8 national product. Twenty-five percent. That is the highest  
9 in our history. And everybody likes to talk about how we have  
10 made these substantial tax cuts, how we have done too much in  
11 that area. And the fact is that we are collecting today  
12 roughly 20 percent of gross national product. And if we put  
13 this tax increase through, you'll totally wipe out, you will  
14 totally wipe out the 1981 tax cut.

15 Now, I am interested, I enjoyed listening to all of these  
16 people being so concerned about deficits and how we should do  
17 something about it. But frankly, I wonder where their votes  
18 are, where they votes are when we are voting on the job bill,  
19 when we voted on the HHS, when we voted on the IMF housing  
20 bill, time and again the same people are complaining about  
21 deficits and they are spending increases and make no mistake  
22 about that.

23 Now, you can attack the President and his program, but  
24 ladies and gentlemen, we are not in an emergency, we are not  
25 in a panic, our economy is not dropping out. Look at the record.



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It is a record of achievement. Inflation is down less than half. Unemployment is dropping, interest rates have been cut in half, still too high, unemployment still too high, but we are moving in the right direction, but all of a sudden we have this great group of people who want to go back to the days of Carter and balance the budget by raising taxes.

I happen to believe there has to be some reform in taxes, elimination of loopholes, promoting savings, but I think the worst thing we can do is to abort this recovery by trying to raise all kinds of false issues.

This Committee, ladies and gentlemen, have almost half-- has jurisdiction of almost half of the spending, half of the spending and we are slapping ourselves on the back and how great we are in talking about raising taxes, but I do not see us doing much on the side of spending.

Medicare, Medicaid, in three years are going to double and I think in the last proposal we did make some progress, but if you really want to do something about the deficits, if you really want to do something about the deficits we are going to have to have the courage to reform the spending programs and that is going to have to be done on a bipartisan way, and we all know it.

Sure, go ahead, in fact, it is my understanding that the legislation is already drafted. But just let me point out that for roughly every two dollars of increases in taxes we are

1 going to only cut spending one dollar. The President suggest-  
2 ed that we should cut spending three dollars for every two  
3 that is raised, I think in the contingency plan. I would  
4 suggest, Mr. Chairman, that if we are going to have some  
5 studies, that we ought to open it up or draft, if that is what  
6 you want to call them, let us look at the proposal of Sparky  
7 Matsunaga and see what would happen there, let us look at the  
8 proposal of Steve Symms, let us not rule them out.

9 We have not held any real hearings. All this work has  
10 been going on when many of us are Chaimen of other Committees,  
11 and have other obligations.

12 So I have no objection if you want to go ahead and make  
13 a study or a draft as long as it is understood that that is  
14 not the only alternative, the only option, but I would pro-  
15 pose that our staff should at the same time, at the same time  
16 make some proposals, some options so that we within our juris-  
17 diction, cut spending dollar for dollar, and three for two  
18 dollars, and I would propose that as an amendment.

19 Just let me say that if we are really going to do some-  
20 thing about the deficits, if we are really going to do something  
21 about balancing the budget, then we are going to have to have  
22 some basic reform and I think it is very foolish to be saying  
23 and doing things now when we are going to be in an entirely  
24 new ballgame when we come back next January.

25 The President is going to make a new State of the Union

1 address. You will have a new budget proposal and incidentally  
2 the Congress, the Congress will propose a new Congressional  
3 budget resolution.

4 I have been interested in looking at all the people who  
5 vote for that Congressional budget resolution both in the  
6 House and in the Senate, and seeing how many were able to pur-  
7 sue that, when you talked about the specific proposals, but  
8 Mr. Chairman, just let me say in closing that I think it is  
9 very, very important that it be clear that there are other  
10 options available and I would ask you that you assure us the  
11 hearings will be held on these other options, both spending  
12 and taxes, and I would propose that the Danforth amendment or  
13 proposal be amended to provide options for a dollar for dollar  
14 savings and three to two.

15 The Chairman. Senator Bentsen?

16 Senator Matsunaga. Will the Senator yield for one  
17 correction of a figure that I gave?

18 I meant \$105 billion, and not one billion five.

19 That figure of the 3-1/2 percent on grossing.

20 Senator Bentsen. Thank you very much, Mr. Chairman.

21 Let me join the others in thanking you for your leader-  
22 ship in the tough role that you have had to fill and you have  
23 done it with grace. We are appreciative of what you have been  
24 able to do.

25 You know the problem we have around here is that we try

1 to say that one thing is a total solution or the total problem  
2 and we deal in excesses.

3 I am a Senator who voted for the 25 percent in tax cuts,  
4 and I think that if that is all we had done in this country,  
5 we could get away with it, the economy could have handled it.  
6 There is no question but what we had to make some tax cuts.

7 In the previous Congress, controlled by Democrats, we  
8 passed a bill through the Finance Committee by a vote of, I  
9 think, about 19 to 0, or 1, maybe, in trying to cut back on  
10 taxes, and I played a role in that.

11 On the other hand, I believe we had to increase defense  
12 spending and we did just that and I voted for that. And I  
13 think that if that is all we had done, this economy could have  
14 handled it very well.

15 But then you put in a third factor. We went to control  
16 of the money supply with a disregard for what happened to in-  
17 terest rates and we ended up with the tightest money the  
18 country had seen in 20 years. Now, I think the economy might  
19 have handled anyone of the two, but it sure could not handle  
20 three.

21 And you ended up with something that there was no way that  
22 the economy could digest and the biggest deficits that this  
23 country has ever seen, and I do think they are important and  
24 I do think they have to be curbed.

25 I hear my friends say, this problem is all on the spending

1 side. I do not believe that. That is a part of the problem  
2 and the cuts sure have to be made there. But, also, structur-  
3 ally we have gone too far on the tax cuts and also structural-  
4 ly we have tried to increase military spending too fast, and  
5 finally, we see the Federal Reserve beginning to pay some  
6 attention to interest rates, thank God, and some moderation  
7 in those.

8 So what we have to do is approach each of these things in  
9 trying to resolve this problem.

10 And I do think it is important that we go back and that  
11 we raise some taxes and that we cut some loopholes and do what  
12 we can once again to see that we cut this deficit. What  
13 was done for capital formation was important, what was done  
14 for incentives for savings had to be done, and I fought very  
15 hard for each of those. But if we will work together and make  
16 the cuts in the spending as we have been trying to do in this  
17 Committee, and find those places where we can bring back some  
18 of the tax base that the country needs to operate and still  
19 have the social programs that are necessary for our country,  
20 then we will truly make some progress and I think this Com-  
21 mittee collectively has been working to do just that.

22 And I compliment the membership on it.

23 The Chairman. Senator Heinz.

24 Senator Heinz. Mr. Chairman, I thank you.

25 First, as I have listened to all my colleagues with

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wonderfully articulate expressions of where we are, I, too, cannot resist the impulse to congratulate you and Jack Danforth and many others who have been actively involved.

I think there is some hope for what we are engaged in. But at the same time I have a sense of unease. That unease is, I suppose, not surprising, that it is based on the fact that we are all talking about what 1984 is going to be like, or 1985, and as I say, that is natural of us and it is not that any of us do not look farther. We all do.

I think we are all concerned about whether the country is going to have a fundamental recovery of its productive abilities and I do not mean that in the kind of trite economic recovery sense coming out of a recession, I mean that we want to see the country grow as it did for two or three decades between 1945 and 1973.

But I, as I listened to us talk about the choices between cutting and spending and not cutting taxes or cutting taxes and increasing taxes, and not cutting spending, in a way I fear we are missing a point and underneath those choices, important as they are, I think there is a somewhat more profound set of values, choices, or even realizations.

And I guess I can best put this into words by asking you all to think back to a time when the country was reasonably prosperous, it was reasonably strong from a standpoint of defense, and we did not seem at that point to have a lot of

1 economic problems in our future. I am thinking of around  
 2 1960, kind of the Eisenhower-Kennedy era, and, to throw you a  
 3 number, we--the Federal Government--took about 20 percent of  
 4 the gross national product at that point and the budget was  
 5 more or less in balance.

6 And here we are today and we are spending about 24 per-  
 7 cent, the Federal Government is, of our gross national pro-  
 8 duct; our revenues are around 18 percent of our gross national  
 9 product. We have a little gap of about 6 percent of our  
 10 gross national product and the question is: how is the United  
 11 States different in 1983 than in 1960?

12 And I think we are very different indeed. We accounted  
 13 for about 40 or 45 percent of the world's gross national  
 14 product, the free world's national product back then, we account  
 15 for about 25 percent today. It is a much more competitive  
 16 world. We were the only really competitive rich kid on the  
 17 block. We are no longer that. We are getting challenged from  
 18 overseas from countries we used to refer to in those days as  
 19 undeveloped, not less developed, not newly developing, but un-  
 20 developed countries like Taiwan.

21 We have more people living longer. That means they are  
 22 going to be retired longer. More strain on retirement income  
 23 of one kind or another. There is much higher standards of  
 24 medical care. Education, particularly higher education, has  
 25 become much more important. Back in 1960, there was no

1 recognition per se that hunger and malnutrition and abject  
2 poverty were a national discrepancy that we had to address.  
3 And what has changed in the last 23 years is us and I really  
4 just want to say to those who have said in different ways,  
5 that when we talk about whether we should raise taxes or reduce  
6 spending, we really have to make some fundamental choices about  
7 whether we want--whether we recognize that our world, our  
8 country, our population, and their aspirations, are different.

9 And it is my view that they are very different indeed,  
10 that there are savings of course one can have and that we  
11 should have, but as long as we duck the issue of these values,  
12 we will tend to see maybe not in this Committee, because I  
13 think we get along pretty well, but I think we will see an  
14 awful lot of other people talk past each other and if that  
15 continues, notwithstanding our very best efforts, nothing will  
16 happen.

17 The Chairman. Vote?

18 Senator Roth. Mr. Chairman, I proposed an amendment that  
19 it would also have options prepared to show spending savings,  
20 one for one and three to two.

21 The Chairman. The one to one, I think, is implicit in  
22 the general guidelines, but--

23 Senator Danforth. I would like to oppose Senator Roth's  
24 proposal. It seems to me that what we do not need is four  
25 sheets of alternative proposals.



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I think what we need is a concrete working draft and that is specifically what this--what this motion calls for and back on February 1st with a draft bill, and I think the idea of options is something which is contrary to the concept of a draft bill.

Senator Baucus. Mr. Chairman?

The Chairman. Senator Baucus.

Senator Baucus. Mr. Chairman, my reaction is something similar to that of Senator Danforth.

My reaction is that we do a one for one and that the three for two, we should also do a two for three. It seems to me that apparently, fundamentally, we want to keep the balance and I frankly think a better alternative is the one suggested by Senator Danforth, let us just keep the one for one.

But at the stake of interest or imperative here, I might ask the Senator from Delaware to either back off on his or agree to mine. Some of the members might not realize this, but the interest of disparity and comraderie and friendship, the Senator from Delaware and I graduated from the same high school. So I am hoping that the Senator from Delaware, for the sake of high school fraternity--to back off on that and just keep the one for one.

The Chairman. We can get the information, I do not think that will not frustrate the resolution and we are happy to do that for both Senators, but we do not want another 13 speeches.

1           Senator Roth. Mr. Chairman, maybe you do not want 13  
2 speeches, but I would point out that we have held no hearings  
3 and the idea that we are going to go ahead with one particular  
4 approach next year, I, for one, am not willing to agree on.

5           You can go ahead and do it, I am fully aware of that. But  
6 the point that I'm trying to make--

7           The Chairman. We can get the information for you.

8           Senator Roth. But the point I am trying to make is that  
9 there are a number of different options that ought to be con-  
10 sidered.

11           The President is going to make a new State of the Union  
12 budget proposal and I think it is very foolish for us to assume  
13 that this is going to be the only alternative. I have no  
14 objection to any options you want to include. I would say to  
15 my distinguished high school graduate.

16           Senator Long. May I suggest to the Chairman that we just  
17 vote on both of them as freestanding resolutions.

18           I'm willing to vote for both of those Senators. I would  
19 like to accommodate both of them, and I would suggest that we  
20 first vote for Mr. Danforth's and then vote on Mr. Roth's.

21           I'm going to vote for both of them.

22           Senator Baucus. How about the third one?

23           Senator Long. Okay.

24           (Laughter.)

25           The Chairman. Well, what I do not want to do is to

1 indicate that we are just going to be in sort of a shopping  
2 basket here and say, well, let us just explore everything and  
3 come back in January. I think we want to be a little more  
4 specific.

5 Certainly, we are willing to look at those things  
6 suggested by other Senators and anybody can offer an amend-  
7 ment, if we come back here with a proposal, we have the Wallop-  
8 Boren-Danforth original proposal which sort of started, gave  
9 us this, if we have any momentum.

10 I would rather vote on the Danforth proposal and just  
11 agree with Senator Baucus and Senator Roth, and we will provide  
12 the information.

13 Senator Roth. I think we ought to follow the distin-  
14 guished proposal of Senator Long.

15 The Chairman. Well, first, let us vote on the Danforth  
16 proposal.

17 Mr. DeArment. As modified?

18 The Chairman. No, straight up.

19 Senator Symms. Mr. Chairman, you are Chairman, and you  
20 run the staff and do very well at it. Why do we have to vote  
21 at all?

22 I cannot quite see the significance in this.

23 The Chairman. Well, I want to make certain that there is  
24 at least sort of like a get well card.

25 (Laughter.)

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Mr. DeArment. Mr. Packwood.

Senator Packwood. Aye.

Mr. DeArment. Mr. Roth.

Senator Roth. Present.

Mr. DeArment. Mr. Danforth.

Senator Danforth. Aye.

Mr. DeArment. Mr. Chafee.

Senator Chafee. Aye.

Mr. DeArment. Mr. Heinz.

Senator Heinz. Aye.

Mr. DeArment. Mr. Wallop.

Senator Wallop. Aye.

Mr. DeArment. Mr. Durenberger.

Senator Durenberger. Aye.

Mr. DeArment. Mr. Armstrong.

(No response.)

Mr. DeArment. Mr. Symms.

Senator Symms. No.

Merry Christmas.

Mr. DeArment. Mr. Grassley.

(No response.)

Mr. DeArment. Mr. Long.

Senator Long. Aye.

Mr. DeArment. Mr. Bentsen.

Senator Bentsen. Aye

1 Mr. DeArment. Mr. Matsunaga.  
2 Senator Matsunaga. Aye.  
3 Mr. DeArment. Mr. Moynihan.  
4 Senator Long. Aye, by proxy.  
5 Mr. DeArment. Mr. Baucus.  
6 Senator Baucus. Aye.  
7 Mr. DeArment. Mr. Boren.  
8 Senator Boren. Aye.  
9 Mr. DeArment. Mr. Bradley.  
10 Senator Bradley. Aye.  
11 Mr. DeArment. Mr. Mitchell.  
12 (No response.)  
13 Mr. DeArment. Mr. Pryor.  
14 Senator Pryor. Aye.  
15 Mr. DeArment. Mr. Chairman.  
16 The Chairman. Aye.  
17 Senator Danforth. Senator Mitchell votes aye, by proxy.  
18 The Chairman. On this vote, the yeas are 16, the nays  
19 are one, one voting present and two not recorded, and they will  
20 be permitted.  
21 Now, what are we voting on?  
22 Senator Danforth. Mr. Chairman, I am going to vote  
23 against the Roth proposal, and the Baucus proposal, because I  
24 really think that it diminishes what we have just done. I  
25 think that we either have one concrete bill coming before us

1 or we just have a grab bag of various alternatives. Everybody  
2 can prepare alternatives and I am sure the staff will help  
3 people get alternatives together. I think what we need is a  
4 working bill.

5 Senator Roth. I would just point out, Mr. Chairman, that  
6 I think in fairness to all of us that we are all entitled to  
7 have our opportunity, we are entitled to have the Committee  
8 work with us, and if you are going to put the stamp of en-  
9 dorsement on one proposal, I think--I have never before seen  
10 this Committee try to shut others off from their alternatives  
11 and I think that would be a serious mistake.

12 The Chairman. Well, what I do not want to happen is to  
13 divide this out into about three different camps. I understand  
14 where Senator Roth comes from and we can have ten studies and  
15 it is not going to change his position, and I do not quarrel  
16 with that.

17 But what I want to do is try to come back here in February  
18 with at least the hope that we are going to do something. It  
19 may not be--it is going to be the general guidelines we adopt  
20 at the outset, we are sort of one for one. Now, if somebody  
21 wants to change that or we want--I am perfectly willing that  
22 the staff accommodate every member.

23 There may be others who want 60-40 or whatever, but we  
24 can have a vote on it, but what else is there? What would be  
25 the nature of the motion?

1 Senator Roth. Well, I requested that we have options for  
2 a dollar for dollar savings.

3 The Chairman. That is sort of--we are doing that. So  
4 that part is agreed to.

5 Senator Roth. And then three to two as proposed by the  
6 President.

7 The Chairman. And then Senator Baucus--

8 Senator Roth. And you can amend that to include whatever  
9 you want.

10 Senator Packwood. Mr. Chairman, let me ask one question.

11 Bill, when you are talking about three to two, are you  
12 talking about the quantity of money that we have been thinking  
13 about in the past?

14 Are you talking about \$30 billion and \$20 billion?

15 In retrospect, that does not make very much difference  
16 on the deficits.

17 Are you talking about things about like \$150 billion  
18 versus \$100 billion?

19 Senator Roth. I'm talking if we have \$50 billion--

20 Senator Packwood. Right.

21 The Chairman. Senator Bradley.

22 Senator Bradley. Mr. Chairman. So we are going to have  
23 two more votes, three for two and two for three?

24 Senator Long. Why do not we just have one vote?

25 The Chairman. Just have one package.

1 Senator Long. If the Senator wants the information, it  
2 seems he can add one--

3 Senator Bradley. And the vote is that they provide two  
4 for three and three for two.

5 The Chairman. That is right.

6 This would be a separate resolution. I do not know that  
7 anybody has any real objection.

8 Senator Danforth. I do.

9 Senator Baucus. I do, too, Mr. Chairman.

10 Frankly, even though I suggested going in the other  
11 direction, my preference would be that we just do the one for  
12 one. My preference would then be if Senator Roth wants to go  
13 ahead with his, that his be defeated, and if his is defeated,  
14 I will not offer mine.

15 What I am saying is, I agree with your position, Mr.  
16 Chairman, fundamentally as I understand it, that is, let us  
17 stick with the original proposal of one for one.

18 If other Senators want different ratios of spending to  
19 revenue, they can get them and propose them at different times  
20 but I would think it would be better if we stuck with one for  
21 one, otherwise we are back in the same position that we are in,  
22 and also there is a greater likelihood, as you pointed out,  
23 that they are going to get pushed into separate camps, and I  
24 think we should do everything that we can to avoid that.

25 Senator Grassley. All we are asking is that the staff



1 come up with the documents. This is not the vote that is going  
2 to be locked in people's memory. This is a vote that is going  
3 to ask the staff to draft a few more documents just like they  
4 drafted the last two weeks. It is going to come back to us in  
5 February.

6 Senator Danforth. Mr. Chairman, that is not what the  
7 resolution says. The motion says that the staff is to present  
8 us with a draft bill.

9 I think that we have had so many spread sheets, so many  
10 alternative proposals, that if we go out of here saying all we  
11 want is another batch of spread sheets, that is exactly the  
12 wrong signal.

13 We are about to adjourn, having done nothing about the  
14 deficit and I think that the least that we could do is to  
15 set in motion a process leading to a bill and, therefore, I  
16 think that the vote on Senator Roth's proposal is a significant  
17 vote.

18 Senator Roth. Mr. Chairman, I would just point out that  
19 it has never been the practice in the many years that I have  
20 served on this Committee, under either Senator Long or Senator  
21 Dole, where an effort was made to cut off anyone, whether it  
22 was minority of one or three or eight.

23 These are some very important proposals that are going to  
24 come up in February, and it seems to me that in the democratic  
25 mode, that it is the right of every Senator to be entitled to

1 the assistance and help of the staff and I say nothing to me,  
2 to try to foreclose one, on some grounds, that it undercuts  
3 another proposal, it is just inconsistent with the practice.

4 The Chairman. I think the only--you know, if there is a  
5 specific proposal on that--are you asking the staff to draft  
6 a proposal that would give you three for two?

7 Senator Roth. A number of options. Yes.

8 The Chairman. You would be asking it in a separate way?

9 So we have been looking at this general area for the last  
10 two or three weeks and then at the last minute somebody drops,  
11 well, let us forget about that--

12 Senator Roth. Just let me point out, Mr. Chairman, that  
13 many of us have other Committee assignments, I'm Chairman of  
14 another Committee, just as you are Chairman of this one. There  
15 have not been hearings on this particular approach and I think  
16 nothing should be--I certainly do not rule out the proposal  
17 that is being offered here today, but I do not think the other  
18 proposal--

19 The Chairman. Why do not we do this?

20 That would be on the same broad guidelines of \$150 billion  
21 range. You did not object to that. I mean, it is not the size.  
22 It is just that you want a different mix.

23 Senator Roth. Yes.

24 The Chairman. Senator Baucus.

25 Senator Baucus. I still oppose it, Mr. Chairman.

1 I think it is wrong to go this route. I fundamentally  
2 believe this. I think it's only proper course is to stick  
3 with the Danforth resolution and, by next January, different  
4 Senators will talk to Joint Committee staff and other staff  
5 and will present their own different variations of the one for  
6 one, and staff will always be available to do that.

7 The Chairman. Could I just ask the staff, including  
8 Treasury, can we accommodate the request of Senator Roth and  
9 Senator Baucus without formal action, I guess?

10 Can you draft something?

11 Mr. Brockway. Senator, we can do it, we would have to  
12 talk to Senator Roth and to go over what elements he would like  
13 in the package.

14 The Chairman. That is what I am willing to do, the same  
15 as Senator Baucus.

16 Mr. DeArment. What we can do is, we will have additional  
17 spending options that would be over and above the package and  
18 additional tax options that members want to consider and, if  
19 you have a basic core, it would be to add some spending and  
20 not more taxes, or add some more taxes and not some more  
21 spending.

22 The Chairman. Yes, I want to accommodate both Senators,  
23 but I do not want to dilute what little we have done here this  
24 morning.

25 If we have done anything, we have indicated--

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Senator Boren. Could we ask as a third option to study how many angels can dance on the head of a pin?

The Chairman. Yes, that is about it, then.

Buck, can you provide--

Mr. Chapaton. As I understand, the Committee has directed the staff to draft a proposal and this would be alternatives to that proposal?

The Chairman. That is right.

Senator Pryor. Mr. Chairman, I'm not going to take ten seconds, and I do not want to dilute what Senator Danforth has done. I support him. I do not want to anyway damage what Senator Roth and Baucus and others have done, and I will not entangle my issue in with this, but is it possible sometime in February that we might have a hearing one-half day on the issue of any new revenues going into or any revenues generated, not closing loopholes, it would be too hard to ascertain, any new revenues generated, any new taxes going into a trust fund. And we may all decide that is not the way for it to happen, but if that retirement fund, the deficit retirement fund, if we could have a half day hearing on that, I think it would be interesting and I hope you would grant that.

Senator Roth. Could I raise a couple of--I am satisfied as long as we have these other approaches, but let me just point out or--as the distinguished Chairman said this morning, you have a Constitutional problem of moving head.

1           Now, I would just point out that next year we might have  
2 the same kind of a Constitutional problem until the House acts.  
3 In addition, we are part of the Senate and the Senate will  
4 have to act on a Congressional budget resolution so it seems  
5 to me that in the orderly set of facts, we are going to have  
6 to make this fight in the Congressional budget resolution,  
7 whether it is one for one or two for one, or something else.

8           So I do not think any of us can foreclose what might  
9 happen next year. There will be a new ballgame, is what I am  
10 trying to say.

11           The Chairman. I think we can accommodate the desires of  
12 other Senators, and I am still optimistic. I mean, I think  
13 there is a glimmer of hope in the White House, and I think  
14 even on the--I had a chance to meet with some House members  
15 yesterday in both parties, and even--I do not think you could  
16 assign their efforts to failure because of the vote on the  
17 rule late yesterday.

18           There are a number of factors involved and that did not  
19 have anything to do with the deficit reduction.

20           I would like to at least include a statement in the  
21 record at this point concerning life insurance because I sin-  
22 cerely hope that we can enact legislation along the lines of  
23 the Bentsen-Chafee insurance bill early next year.

24           Since the reform of the life insurance company provisions  
25 will be--will not be enacted this year, however, companies will

1 not be certain what tax laws would apply to them and their  
2 products for 1984. I would expect that any legislation which  
3 may be enacted next year will be effective January 1, 1984.  
4 Some in the industry may remember this is similar to the  
5 situation which occurred the last time a major reform of the  
6 life insurance tax laws was undertaken.

7 The 1959 Tax Act was effective for 1958.

8 There is some question about the appropriate revenue level.  
9 I am not aware of any basic disagreement over the definition  
10 of life insurance contained in the Bentsen-Chafee bill, nor am  
11 I unaware of any basic disagreement over the treatment of  
12 policy or dividends, and so-called excess interests.

13 So I think what, in response to a question earlier, I  
14 think either Senator Bentsen or Senator Chafee or both, we will  
15 be directing a letter to Treasury.

16 Would that be helpful?

17 Mr. Chapaton. Yes, it would.

18 The Chairman. For myself, Senator Long, Chairman  
19 Rostenkowski, and there may be others, where we have expiring  
20 provisions.

21 Senator Roth. Could I ask the distinguished Committee  
22 Chairman? We have the same kind of problem on mortgage revenue  
23 bonds. The same kind of a letter be addressed there?

24 The Chairman. Let us take a look at mortgage revenue  
25 bonds. We had agreed to include that in the package with some

1 modification plus the MCC program which I think most--but,  
2 there are probably ten or twenty that are going to have some  
3 difficulty.

4 Senator Danforth, thank you very much for the resolution.  
5 Senator Danforth. Thank you, Mr. Chairman.

6 Mr. Chairman, as you know, Senator Percy and Senator  
7 Dixon have been attempting to get a vote on the question of  
8 the McArthur Foundation and they worked with Senator Bentsen  
9 on this with respect, as I understand it, they are going to  
10 vote a six-month moratorium.

11 It is going to be very difficult for the--I guess for  
12 the--Florida to have a vote on it over anybody's objection in  
13 the last day of the Senate, but I would hope that it be the  
14 consensus of the members of the Finance Committee that if  
15 nothing is done, at least we should move very early next year  
16 on the question of these foundations and if there is anyway  
17 that we could encourage the majority leader to bring the mat-  
18 ter up, between now and when we adjourn, I hope that the  
19 Chairman would do that.

20 The Chairman. Right.

21 I guess the one concern would be if there are other  
22 foundations that have a problem. Apparently this one founda-  
23 tion has a time problem and if other members were willing to  
24 forego adding other foundation amendments, we might be able to  
25 do that today on the tariff bill.

1 Senator Long. Mr. Chairman, as one of those who has deep  
2 interest in that particular type of legislation, I have agreed  
3 with Senator Dixon and Senator Percy that they limit that six  
4 months which gives time to have a breather and try to adjust  
5 the situation, that I would go along with it.

6 The Chairman. Senator Bradley.

7 Senator Bradley. Mr. Chairman, I would hope that we  
8 would be able to move that today, although all of us have our  
9 own separate little interests that deal with foundations, I  
10 think that would be an important one to move cleanly.

11 The Chairman. I might say while there are still some  
12 members here, that the tariff bill has 55 amendments that af-  
13 fect members. For some reason it is sort of like a floating  
14 crap game. Everytime somebody takes off a hold, somebody puts  
15 one on, and I have talked with Sam Gibbons as recently as last  
16 evening, the Chairman of the Trade Subcommittee on the Ways and  
17 Means Committee, and he said he is willing to--you know, any-  
18 time we can deliver the bill to go to conference immediately  
19 and resolve that issue.

20 So I would hope that maybe members of the Committee might  
21 encourage other Senators to let Senator Danforth and Senator  
22 Bentsen bring that bill up today because I think we could pass  
23 it in a matter of fifteen or twenty minutes and;

24 Finally, I would suggest that based on the motion that  
25 was adopted, that we do hope to try to--you know, see if we



1 cannot encourage those around the country to have an interest  
2 in deficit reduction, whatever the mix may be, to be heard over  
3 the next two or three months. We may have some hearings in  
4 Washington during that time and I will be advising members.  
5 I also think the suggestion of Senator Pryor is certainly  
6 worth taking a hard look at if we can find a way of getting it  
7 all together during the recess.

8 Rod?

9 Mr. DeArment. Yes, Mr. Chairman.

10 In order to allow members of the staff to consult with  
11 members of the Committee, and they may not be coming back un-  
12 til late January, could we change the date to February 15th,  
13 the reporting date?

14 The Chairman. Is there any objection to that?

15 Okay, then from February 1st to February 15th.

16 Senator Bradley. February 15th reporting of the bill?

17 The Chairman. Yes.

18 Senator Bradley. That is where in the budget cycle?

19 The Chairman. That is about a month ahead.

20 Mr. DeArment. It is about a month ahead of the normal  
21 schedule.

22 Senator Bradley. November 15th, the first day in the  
23 law for the Budget Act?

24 The Chairman. March 15th, is it not?

25 Mr. DeArment. It is for the staff--

1           The Chairman. I think the concern is, we do not get back  
2 until late January, and by the time we went around visiting  
3 with members, it would be a little late.

4           Again, I want to thank all the members of the staff, the  
5 personal staff, the Joint Committee, Treasury and wish all the  
6 lobbyists a Happy Thanksgiving.

7           (Whereupon, at 1:00 o'clock, p. m., the Committee was  
8 adjourned.)

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