

UNITED STATES SENATE

HEARINGS

BEFORE THE COMMITTEE

on

FINANCE

Executive Session

Tuesday, May 5, 1981

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1 Executive Session

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4 U. S. SENATE,
5 Committee on Finance,
6 Washington, D. C.
78 The committee met, pursuant to adjournment, at 10:15
9 a.m., in room 2221, Dirksen Senate Office Building, Hon.
10 Robert J. Dole, (Chairman of the Committee), presiding.11 Present: Senators Dole, Chafee, Heinz, Durenberger,
12 Symms, Grassley, Long, Byrd, Matsunaga, Baucus, Boren,
13 Bradley and Mitchell.14 The Chairman. There are a number of members I know
15 who have an interest in this, and who will be coming. So,
16 we are not going to protect every member's interest. If the
17 staff has any doubt about that, if you want to notify your
18 member that that will be the policy.19 Secondly, I have to leave at 11:30. So, we will do
20 as much as we can prior to 11:30. I hope we finish this
21 before 11:30. If not, I would like to convene again at 1:30
22 this afternoon.

23 Senator Long. Mr. Chairman.

24 The Chairman. Senator Long.

25 Senator Long. Mr. Chairman, I want to cooperate. I

1 think that we Democrats are scheduled to have a caucus some
2 time this afternoon. I think it will last until at least
3 2:00 o'clock.

4 The Chairman. Make it 2:30?

5 Senator Long. Well, we should not do it before 2:00
6 o'clock. Let's put it that way.

7 The Chairman. Let us make it at 2:00 o'clock. If it
8 should run over that time, hopefully we won't have to meet
9 this afternoon. I know there are differences. I certainly
10 want to say at the outset I know that as I looked over the
11 list, I don't think anybody relishes the thought of some of
12 the spending reductions. I am certain we all can find eight
13 or ten we think probably should be on this list.

14 I would again indicate that this is by and large the
15 President's proposal. We have gone up and down this hill
16 once on the Senate floor, in most every case. We have tried
17 to accommodate the interest of some that has been expressed
18 on both sides.

19 I would like now for Bob Lighthizer, chief counsel, to
20 indicate what few changes were made since the original
21 proposal was introduced in the Senate last Thursday.

22 Then, I would move that we adopt the modified proposal
23 and then amendment would be in order. If we do that very
24 quickly, then I will make the motion we adopt the proposal
25 and then those who have amendments or deletions will have

1 that opportunity.

2 Mr. Lighthizer. I am going down the document which
3 was just given out called the modified proposal of the
4 Chairman.

5 The first modification is under Medicaid. It is just
6 a numbers change. We included the Medicaid 40 percent
7 minimum match provision in with the 9 percent cap on Medicaid.

8 The reason we did that was, it was just the way the
9 numbers were run. It is not a substantive change.

10 The next change is on the second page, under public
11 assistance, about eight provisions down. This is the Chair-
12 man's modification incorporates the Grassley-Long --

13 The Chairman. Wait a minute. Let us identify that.
14 Senator Long. Where are you now? On page 2?

15 Mr. Lighthizer. On page 2, Senator. I am talking
16 about the required community work program.

17 Mr. DeArment. It is under public assistance.

18 Mr. Lighthizer. It is under public assistance. It is
19 about eight down.

20 Senator Long. Yes, public assistance.

21 Mr. Lighthizer. Public assistance. The ninth item
22 under public assistance is "Require community work programs."

23 Senator Long.

24 Mr. Lighthizer. We have incorporated the Long-Grassley
25 modification.

1 Senator Long. I have a copy of it. I have not had a
2 chance to study it. I will try to study it while this
3 meeting is going on.

4 Go ahead.

5 Mr. Lighthizer. The next change is on the next page,
6 page 3, under block grant consolidation. The social services
7 block grant.

8 In the previous proposal, adoption assistance, foster
9 care and child welfare services were left as independent
10 programs.

11 Under this proposal, they are included in the block
12 grant. However, language is included in the block grant
13 which does the following.

14 First, it makes the states, in order to receive any
15 social services block grant money have these three programs.

16 Second, it maintains that -- it requires that the
17 states maintain the same funding level, at least 75 percent
18 of the previous year's funding level so that they can't take
19 the money out of it.

20 Third, it requires tracking of the children and the
21 like that were included as provisions in the 96272 program
22 that we passed last year.

23 Finally, it also requires that the states not increase
24 disproportionately the amount of money spent on foster care
25 to the exclusion of adoption assistance and child welfare

1 services. So that is a change.

2 The Chairman. I think I might point out, the reason
3 for that change, it is not much of a change, we have the
4 three together at the request of the Secretary, Secretary
5 Schweiker, funds are essentially earmarked. There is not
6 much change. At least they are brought together.

7 Mr. Lighthizer. As a practical matter, there is no
8 difference from the point of view of recipients, of any of
9 those services and or funds. But that they are technically
10 now included in the block grant.

11 Senator Long. If I could just ask a question, Mr.
12 Chairman.

13 The Chairman. Senator Long.

14 Senator Long. Could we take those three programs
15 and keep them out of the -- keep those three programs
16 together. I don't like the idea of prejudicing the block
17 grant. If for some reason they have difficulty complying
18 with those requirements.

19 I don't like to have that cut off as a block grant.
20 It is all right with me to keep those three programs
21 together. Can we do that and keep it outside the block grant?

22 You want to keep the three programs together.

23 Could you just keep those three programs together, but
24 outside the block grant?

25 Mr. Lighthizer. You mean have a separate block grant

1 for those three programs?

2 Senator Long. For those three programs.

3 Mr. Lighthizer. I suspect that would have the same
4 effect as what we have proposed here.

5 The Chairman. In my visit with Secretary Schweiker,
6 we had them separate. Our action was in the last proposal
7 just to keep them separate. Everybody was satisfied with
8 that except the Secretary, who agreed with the thrust of what
9 we wanted to do. He said, "Okay. We will earmark the money.
10 The only thing blocked about it is that they are brought
11 together." Otherwise, they are pretty much separated within
12 the block grant.

13 Will it be difficult to meet those three requirements?

14 Mr. Lighthizer. Mr. Chairman, as a practical matter
15 I suspect both the proposal of Senator Long, what we did in
16 the last version and what we have done here are consistent
17 with the requests of Secretary Schweiker, will all be exactly
18 the same in terms of giving out the money, and taking care
19 of the children.

20 The Secretary's only point I believe was, if we start
21 breaking down these block grants now, the concept of block
22 grants, which you and Senator Long incorporated in the
23 Welfare Bill you put in in the last Congress, you are start-
24 ing to chip away at that very concept. If you chip away at
25 the concept, then someone else is going to come in and say

1 "We need this or that," maybe in the Labor Committee or
2 maybe in some of the other committees, and pretty soon, the
3 idea of returning to the states the power over the Federal
4 programs will be diminished.

5 Senator Long. Well, here is what I had in mind.
6 Under the block grants to the AFDC programs, as I understand
7 we are going to give states a great deal of latitude that
8 they have not heretofore had.

9 Now, under these three programs, as I understand it,
10 the requirements are going to be pretty much with what they
11 already are in the law; is that right?

12 Mr. Lighthizer. Yes, sir.

13 Senator Long. So, it seems to me, that it would be
14 inappropriate to cut off the block grant money to a state
15 because the state is having some difficulty in complying
16 with the details involved in these three programs.

17 In other words, under these three programs, even
18 though they don't involve a great deal of money, you are
19 still going to have quite a bit of Federal requirement and
20 Federal regulations to comply with, which you don't have under
21 the other block grants.

22 I would hope if the Secretary wants to keep them
23 together, that is all right, but make it just two block
24 grants, one block grant for the three programs, where you
25 have a lot of Federal regulations to comply with, and the

1 other block grant where you don't have all those regulations
2 to comply with.

3 So, the AFDC part of it, we hope to give the states
4 latitude to make their own decisions. In that area, they
5 could go ahead and run it that way without having all these
6 Federal regulations cut their money off because of failure to
7 dot an I or cross a T on something about the adoption program.

8 Mr. Lighthizer. Senator Long, in defense of the
9 Secretary, the requirement that all the states have these
10 programs was really added to his proposal, at our request.
11 Our fear was that if that language wasn't in there, that
12 some states might spend their social services money and not
13 spend it on adoption assistance and child welfare and foster
14 care.

15 It was at the insistence of the committee that that
16 language was really included. He would have been happy, and
17 indeed, his first proposal, his first attempted solution to
18 this problem was just to have that as a permissible use.

19 Our committee basically, informally with the staff
20 and with the members said that that is just not acceptable,
21 because some states may never, may not fully utilize these
22 programs.

23 So, he added that mandatory language at our request.

24 Senator Long. Well, my thought is that it is really a
25 matter of overkill, to cut off money for the whole social

1 welfare program, cut off the whole block grant because he
2 is not complying with some regulation in some program that
3 is a \$6 million program.

4 That being the case, my suggestion is, why don't we
5 just say, "All right. These three programs over here, you
6 can cut off, separate them from the rest of the block grant."
7 One of those programs, I think is a pretty substantial
8 program, involves a substantial amount of money, doesn't it?

9 Mr. Lighthizer. \$300 million.

10 Senator Long. How much?

11 Mr. Lighthizer. About \$300 million.

12 Senator Long. So, if you put the \$300 million
13 program in with the other two that are fairly small programs,
14 and that is in one block and you have these regulations to
15 comply with. Obviously, that is substantial enough so that
16 they aren't going to want to lose their part of that. They
17 will comply with what is expected of them to get that.

18 But, then, take that outside the rest of this AFDC
19 block grant, that being the case, the people handling the
20 AFDC program won't get their money cut off, will spend all
21 their time in Washington, pleading with the Secretary not to
22 cut them down, cut them off at the ankles because they are
23 failing to comply with some technical requirement on the
24 adoption program or the foster care programs.

25 Mr. Lighthizer. Senator Long, maybe I have -- I

1 ought to clarify one point. Rather than the AFDC block
2 grant, it is the social services block grant.

3 I suspect that Secretary Schweiker would find that
4 acceptable if what you are saying is that if the states do
5 not comply with some requirement under the AFDC -- I am
6 sorry, the child welfare, foster care or adoptive assistance
7 programs, they don't lose all the money, they just lost that
8 part of the block grant.

9 I think that Secretary Schweiker would find that
10 acceptable.

11 The Chairman. I don't see any problem with that.
12 I talked to Secretary Schweiker a couple of times. I think
13 he wants to preserve the concept. This would do that. I
14 don't think he would have any problem with that modification.

15 Mr. Lighthizer. The next change in this modified
16 list, Mr. Chairman, is under unemployment compensation. Rod
17 has a very brief explanation of that change.

18 Mr. DeArment. Yes. The proposal we discussed on
19 Thursday, we tightened up in several respects so that we
20 would preserve the revenue gain or the spending cut feature
21 we had indicated.

22 First, the revised proposal eliminates the feature
23 under which the states would have been allowed the option of
24 repaying outstanding loans directly out of state trust funds.

25 Originally, we had been informed this provision would

1 have had no 1982 or 1983 cost. Then, we were later informed
2 that that assumed that no states would take advantage of it
3 and the cost might be as high as \$270 million, wiping out any
4 savings from the loan reform package.

5 So, we decided to eliminate that from the package.

6 Secondly, we tightened up some of the description and
7 the operations of the interest provision to make certain that
8 we capture all of the estimated revenue gain.

9 We made it clear that interest would be charged on all
10 new borrowing after today.

11 We made it clear that interest could not be paid out
12 of the state trust fund or a state would not be permitted to
13 indirectly pay the money out of the state trust fund by
14 reducing the state tax effort with some kind of tax credit
15 scheme.

16 We added an explicit provision that I mentioned
17 orally when I presented the proposal last Thursday that would
18 prohibit states from, in order to avoid having to pay the
19 interest from borrowing some money from another source, pay-
20 ing off the Federal Unemployment Account, on Friday, and
21 borrowing the money back on Monday.

22 So, we gave the Secretary authority to make a
23 certification to prevent that kind of a procedure.

24 We also tightened the order of repayment under the
25 interest provision.

1 The estimated savings are \$265 million from the
2 package, in 1982, and \$446 million, in 1983.

3 The Chairman. Where are those figures in what we
4 have here?

5 Mr. Lighthizer. They are under unemployment
6 compensation, other alternatives, the first one.

7 Mr. DeArment. The unemployment compensation.

8 Mr. Lighthizer. Under page 3, other alternatives,
9 loan reform package, attachment E.

10 The Chairman. Oh. I see. Excuse me. Thank you.

11 Mr. Lighthizer. Mr. Chairman, there are two other
12 changes in your package.

13 Senator Bradley. Mr. Chairman, before you -- are you
14 going to move on?

15 The Chairman. What we are doing now, Senator Bradley
16 will point out some changes we made since last Thursday. When
17 he completes that, it would be the intention of the Chairman
18 to move to adopt the package which will open it up for amend-
19 ment.

20 Senator Bradley. Could I ask some questions about the
21 explanation he has just offered?

22 The Chairman. Yes.

23 Senator Bradley. Thank you, Mr. Chairman.

24 As I understand it, a state that is presently a
25 debtor state, if there is a recession and there is higher

1 unemployment, and that state therefore has to pay a greater
2 unemployment compensation, and therefore, further borrowing
3 is required, you say there will be no short term borrowing
4 available to that state, interest free?

5 Mr. DeArment. No. There will be short-term borrowing
6 within a fiscal year. So that, for example, if the state of
7 New Jersey, at the end of 1981, in December, 1981, has a
8 need to draw down some cash from the Federal Unemployment
9 Account and draws down \$100 million, and some time before
10 September 30, 1982, pays that money back, there will be no
11 interest due.

12 We preserve the feature of the short-term, seasonal
13 cash flow borrowing, without interest. It is only if a state
14 doesn't repay in advance before the end of the fiscal year,
15 would interest be due.

16 Senator Bradley. Oh. So you are saying that even if
17 the state does have outstanding debt, still borrow on a
18 short-term basis, that is being subject to a ten percent
19 interest?

20 The Chairman. Yes.

21 Mr. DeArment. By short-term, I mean within a fiscal
22 year; that's correct.

23 Senator Heinz. If I might just enlarge on that.

24 The Chairman. Senator Heinz.

25 Senator Heinz. Thank you, Mr. Chairman.

1 The new interest provision does not apply to existing
2 borrowing, and it does not apply to the seasonal borrowing.

3 Senator Bradley. I had different information about
4 what this --

5 The Chairman. No, we preserve that.

6 Senator Heinz. The reason it doesn't apply to the
7 first is that that would be quite unfair to do it retro-
8 actively.

9 The reason it doesn't apply to the second is that
10 when there is a balance in favor of the states, the states
11 do not charge the Federal Government interest. So, it is
12 thought unfair to charge interest on short-term borrowing.

13 Senator Boren. We do have protection against someone
14 -- a state manipulating this thing though by tying it off at
15 the end of the year --

16 Senator Heinz. Yes, sir.

17 Mr. DeArment. Yes, sir. We included that tightening.

18 Senator Boren. But that still would not prevent short-
19 term, legitimate short-term borrowing like Senator Bradley
20 says?

21 Mr. Lighthizer. Not at all.

22 Mr. DeArment. Not at all.

23 Senator Bradley. Did you also address the 150 percent
24 issue?

25 Mr. DeArment. The waiver? The recessionary waiver?

1 Senator Bradley. Right.

2 Mr. DeArment. Yes. That recessionary waiver provision
3 was unaltered from what we presented on Thursday.

4 Senator Bradley. What was the rationale for 150
5 percent instead of say 120 percent?

6 Mr. DeArment. You are talking about the 150 percent --

7 Senator Bradley. Of the taxes of the percent of the
8 wages?

9 Mr. DeArment. Well, the rationale for a greater than
10 100 percent is that this is an instance where a state is
11 making a legitimate tax effort to pay for its program. I
12 don't suggest that there is anything necessarily magic about
13 150 percent versus 140 percent.

14 It is a provision that we picked up from S. 507 star.

15 Senator Bradley. From S. 507 star.

16 Mr. DeArment. Print.

17 Senator Bradley. Is there any greater revenue impact
18 from 50 percent versus 120 percent?

19 Mr. DeArment. Let me ask the Department of Labor's
20 chief actuary to answer that question.

21 This is Jim Van Erden, from the Department of Labor.

22 Mr. Van Erden. Senator Bradley, we obviously would
23 get an increase in revenue if the state were to take action
24 to increase their state tax rate to meet that requirement.

25 We did not assume it in the particular estimates we

1 made. We assumed the state would keep whatever they had in
2 effect. If they were to make a change there would be an --

3 Senator Bradley. If there was a major recession, you
4 would obviously, that would probably trigger it, right?

5 Mr. Van Erden. If there were a drawdown in state
6 trust funds it would trigger higher rates in most states;
7 that is true.

8 Senator Bradley. But, under the Administration's
9 budget and its projected health of the economy, that seems
10 unlikely; right?

11 Mr. Van Erden. Well, even though the economy is
12 generally improving, we know that states are going to be
13 moving in various directions relative to that.

14 Senator Bradley. Mr. Chairman, the reason that I
15 raise it is that there presently is only roughly about ten
16 states that have effort that is greater than 1.5, 150 percent.

17 It seems to me there are another ten states, and
18 actually, my state happens to be in one of those states that
19 has the greater tax effort. But there seem to be another
20 ten states that are right on the brink at 1.4 and at 1.5
21 and at 1.3.

22 If it has no revenue effect, I don't see why we don't
23 just reduce it to 130 percent.

24 Senator Heinz. Senator Bradley, let me ask you a
25 question about those states.

1 Senator Bradley. Yes.

2 Senator Heinz. Are those states that are right at
3 the margin? States that anticipate going into that in the
4 near future, taking on additional debt?

5 Senator Bradley. Well, Pennsylvania is at 1.5, 150
6 percent. And, Massachusetts, which is at 150 percent. North
7 Dakota is at 150 percent.

8 Senator Heinz. No, I meant -- that is in that second
9 group?

10 Senator Bradley. Yes.

11 Those are the states that are --

12 Mr. DeArment. Those states would be covered because
13 the provision reads at least 150 percent.

14 Senator Bradley. So the ones that are at 1.5 or
15 above?

16 Mr. Van Erden. Yes.

17 Mr. DeArment. That would include Maine, Pennsylvania
18 --

19 Senator Bradley. Yes. I have Maine, Massachusetts,
20 North Dakota, Pennsylvania and Vermont all have 150 percent.

21 Senator Heinz. What group of states in the second
22 group?

23 Senator Bradley. That is it.

24 Senator Heinz. I suspect, for example, our state is
25 probably going to have to have a new unemployment compensation

1 bill to get itself whole.

2 Senator Bradley. Then take a state like Illinois. It
3 is at 1.3, 130 percent.

4 New York is at 120 percent.

5 I am suggesting that there is no magic number here.
6 Let us make it 130 percent, and then we will split the
7 difference.

8 The Chairman. Perhaps they can discuss that while
9 we are finishing our other discussion.

10 Senator Bradley. Yes.

11 The Chairman. Bob, if you will proceed.

12 Mr. DeArment. We will take a substantial revenue loss
13 if we were to --

14 The Chairman. Give us some numbers here after a while.

15 Mr. Van Erden. As you reduce that amount, more states
16 could take advantage of the waiver than we have in our
17 current projections. As we add more states to this waiver,
18 it would reduce the revenue estimates.

19 Senator Heinz. Let's take a look at the revenue, but
20 let's understand the reason that that number which is
21 admittedly arbitrary. I mean, there is no reason why it
22 couldn't have been 145 or 155.

23 Senator Bradley. Right.

24 Senator Heinz. Is that you do want to set a level of
25 performance for states that is reasonably high so that they

1 are not just getting by. It is obviously a question of
2 judgment as to what that ought to be.

3 The Chairman. We'll check the numbers, Senator
4 Bradley. See if you can give us some estimates.

5 Mr. Lighthizer. Mr. Chairman, there are two other
6 changes. One is the coordination of Medicare benefits. I
7 am down at the bottom of Medicare, on page 3. Those numbers
8 have changed. We just have reestimations of those.

9 The Chairman. The only thing that changed is the
10 numbers; is that correct?

11 Mr. Lighthizer. Yes, sir; that's correct.

12 The final item is in the next category and it is
13 Medicaid. There are two points that I would make there.

14 First of all, that under this provision as we have
15 it drafted, the maximum amount of money that is paid to
16 Puerto Rico, under the Medicaid Program would be increased
17 from \$30 million to \$45 million. This would be the first
18 increase since 1972. That is included in the way we have or
19 are drafting the 40 percent match change.

20 The other thing I should point out is that while there
21 are no numbers opposite there, that is merely because the way
22 we had it estimated, we had them estimated together.

23 In fact, a major part of the \$1.69 billion savings
24 under the Medicaid CAP on the first page is really attributable
25 to that provision. I think it is in the vicinity of \$600

1 million. But, when we had it estimated, they did it together.
2 So we put it together.

3 If we were assigning a number that would be in the
4 vicinity of \$600 million.

5 Those are all the changes in this proposal.

6 Senator Long. What is it with Puerto Rico?

7 The Chairman. As I understand the Administration's
8 proposal, if it is followed, it would be a block grant
9 approach. But, it would be a couple of hundred million. It
10 could be a couple of hundred million dollars. But they
11 receive over \$700 million. Sixty-three percent of the people
12 there are eligible.

13 I am not certain that Roth-Kemp would turn that place
14 around or food stamps.

15 Senator Long. Thank you, Mr. Chairman.

16 Mr. Lighthizer. Mr. Chairman, that is -- I might make
17 a few other points. But, I can make them at the end, if you
18 prefer.

19 The Chairman. I know there are some who want to offer
20 amendments.

21 I would move that we adopt the modified proposal that
22 I have distributed this morning. It would, as I view it,
23 after many hours of discussion with staff and others, carry
24 out the President's request, and in fact, give us some
25 additional money. Again, I hope it is additional money, but

1 sometimes numbers -- we had a change in numbers since
2 Thursday. I am certain there will be other changes between
3 now and this afternoon.

4 I would move that we approve the modified proposal
5 dated May 5, 1981, which we had before us.

6 Any amendment would now be in order.

7 Senator Boren.

8 Senator Boren. Mr. Chairman, I have an amendment which
9 I think is acceptable. I know it has been discussed with you
10 previously. It is an amendment which encompasses the
11 provisions of S. 986, which I introduced with Senator Moynihan.
12 It is very similar to the bill which I introduced with
13 Senator Long, last year, which allows demonstration projects
14 by states for the WIN program.

15 Senator Long and I had a bill which extended that
16 across the board to other programs as well, last year,
17 because we are putting some of the other programs in block
18 grant. This would apply to the WIN program.

19 It would allow states to set up their own administration
20 of this program, to submit a plan to the Secretary for
21 carrying it out. It is estimate it would save some \$15
22 million, based upon the fact you would end some of the
23 duplication between Federal administration and state admin-
24 istration of that program.

25 I would like to move the content of S. 986 as an

1 amendment to this package and leave it to staff to
2 appropriately fit that in to the proper place.

3 Senator Long. I believe in putting people to work.
4 It might authorize it anyhow, but in case it didn't, we
5 would have to go along with the Senator.

6 The Chairman. The staff will work with your staff.
7 Without objection, the amendment would be agreed to.

8 Senator Long. Thank you, Mr. Chairman.

9 The Chairman. And work with your staff, Senator Boren.
10 Senator Boren. Thank you very much.

11 The Chairman. Are there other amendments?

12 Senator Durenberger. Yes.

13 The Chairman. Senator Bradley I think --

14 Senator Bradley. I would be pleased to yield to
15 Senator Durenberger.

16 The Chairman. Senator Durenberger.

17 Senator Durenberger. Thank you, Mr. Chairman.

18 I just have one point that I indicated I think last
19 Thursday or Friday that I would insist on bringing up. At
20 that time, I think I went through all the effort we have
21 been going through here in trying to compromise principle for
22 the sake of political realities.

23 I think that I pointed out to everybody that most
24 expensive function here is by far the one that is taking by
25 far the biggest cuts. But, that is because we are starting

1 the process of I think changing our role and the role of
2 providers and beneficiaries in financing the health function.

3 But the one I think that bothers me the most is the
4 one that was probably best illustrated the morning after the
5 President's budget message, back in February.

6 I was sitting in my office with a couple people talk-
7 ing about health care. We were talking about the Today
8 Program, I think it was Today Program, that ran that morning
9 with five victims of the Reagan Budget.

10 One of those victims was an unemployed nurse. One of
11 the people in my office was a hospital administration who
12 said, "I'll bet you by the time she got off that program,
13 she had three dozen telephone calls offering her employment
14 in hospitals around the country."

15 I think the fact is for the last dozen years, we have
16 had a policy of an 8.5 nursing differential on Medicare. It
17 recognizes the unique nursing demands of the elderly. All
18 during that process, HEW, and now HHS, has bought this
19 process in one way or the other, but they never came up with
20 any demonstration that of the fact that there are extra
21 costs, particularly nursing costs, in caring for the elderly
22 who are the consumers of Medicare services.

23 Today, and I think we have to deal with the realities
24 of today and not some ideal health care market place out
25 there, today the fact is there is a substantial shortage of

1 nurses, particularly hospital nurses in this country.

2 If we don't continue the past practice of permitting
3 the differential, there is just no question but what the
4 burden either falls on the sick because of less adequate
5 care or it is going to fall on non-Medicare patients.

6 So, Mr. Chairman, I would move that we delete from
7 your package the provision which is a part of the President's
8 recommendation I believe, to eliminate the 8.5 percent
9 differential.

10 The Chairman. This is one we have discussed at some
11 length. Again, I think it is the only specific proposal
12 that would affect providers. There may be others because of
13 the CAP. But I think as we look through this package, and
14 I might say in the past I helped lead the effort to retain
15 the 8.5 percent cost differential.

16 But again, this is a different time and a different
17 period and a different climate.

18 My view has been, until I started counting, is that
19 we shouldn't do anything with this provision. The trouble
20 with the Medicare reimbursement, it doesn't go directly to
21 the nurses, it goes to the hospitals, and it pays all
22 hospitals indiscriminately whether they are efficient or
23 inefficient.

24 It is based on a study that was done in 1966, by the
25 American Hospital Association. It wasn't a totally objective

1 study. There they sort of split the difference between 7
2 and 10 percent, agreed there ought to be an 8.5 percent
3 differential.

4 The study also shows that more than half those
5 hospitals had extra nursing costs for older people at less
6 than 8.5 percent.

7 In fact, some of them, they had costs lower for the
8 older people than other patients.

9 So, a couple of high cost hospitals soon brought that
10 average up and resulted in seven to ten percent differential.

11 I think frankly, we hoped to have a study now by GAO.
12 There has been no evidence presented by hospitals demon-
13 strating hospitals of the same size and classification.
14 There are higher nursing costs in those hospitals which have
15 a higher proportion of Medicare patients.

16 As the hospitals come forward with suggestions for
17 reducing Medicare reimbursement in those cost areas, the
18 older people may have lower costs than average patients.

19 We can't have it both ways.

20 So, I just suggest, and I understand this amendment
21 has a great deal of support.

22 I also understand the House eliminated it. They are
23 going to continue the 8.5 percent differential.

24 Rather than -- yes.

25 Senator Heinz. Just a word. I think that Senator

1 Durenberger has a good point. I hope we can resolve this
2 issue.

3 The Chairman. Well, I will, in an effort to resolve
4 this, maybe not to my satisfaction, but to the satisfaction
5 of the majority of the committee, offer a substitute to
6 reduce that to 4.5 percent and tie it in with a request for
7 an immediate study. We will resolve the question.

8 The study must be objective and include all hospitals.
9 I hope that that substitute might be acceptable.

10 It reduces the savings, obviously. We are talking
11 about a program that costs the taxpayers \$40 billion a year.
12 So I think we have to be responsive to the demands of the
13 American taxpayer.

14 Again, I would hope we might meet half way the concerns
15 of many members of this committee expressed on both sides of
16 the aisle, if that is agreeable.

17 Senator Grassley.

18 Senator Grassley. Yes. I may have missed the point.
19 What is the plan then for making up this revenue or the
20 savings that will not be saved?

21 The Chairman. Well, I don't have any plan at the
22 moment. But if you think of one in the half hour we have.

23 (Laughter.)

24 Senator Grassley. Well, I guess maybe the bottom
25 line ought to be this. Is the amount of money that this

1 committee has to save of \$9. something going to be realized?

2 The Chairman. Yes. We will realize that amount.

3 Again, I have indicated we would hope to have some --
4 I don't say surplus, because I am not certain of the numbers.
5 You will note in our modified proposal, there is a substantial
6 surplus. In my view, we are going to have to continue to
7 cut spending in this committee. It seems to me we have an
8 opportunity to now take care of some of that. It might be
9 better now than later.

10 This will not violate the direction from the Senate.
11 We will meet that figure. We will lose about \$115 million.

12 On the other hand, I would rather lose \$115 than
13 \$250.

14 Senator Durenberger. Mr. Chairman.

15 The Chairman. Senator Durenberger.

16 Senator Durenberger. If my figures are correct, then
17 I think the Chairman is correct in pointing we aren't
18 perfect in that estimation. The Chairman's package now totals
19 about \$10.572 billion savings which is substantially over
20 the \$9.5 we were delegated to come up with.

21 That is why I had the confidence that we do something
22 realistic like preserving that differential which only lost
23 \$250 million and was not getting us anywhere near busting
24 the budget.

25 When you put it in the total perspective of the cuts

1 that are coming out of the health function, out of Medicare
2 and Medicaid, in particular.

3 There is still about \$600 million new savings beyond
4 the ~~\$2.3 billion~~ we were supposed to find in this function.

5 As a practical matter, I am probably going to end up
6 supporting the Chairman's substitute. I have the sense we
7 do not have the votes on the majority side to go all the way.
8 But I want you to be assured that there is plenty of money in
9 all the other savings to take care of the problem.

10 Senator Long. Mr. Chairman.

11 The Chairman. Senator Durenberger, you will go along
12 with it?

13 Senator Durenberger. I don't believe in it, but I
14 am going to go along with it.

15 The Chairman. Senator Boren.

16 Senator Boren. I am just going to say, given the
17 situation, I think it is a reasonable compromise. We give
18 some period for adjustment, and if we find from the study that
19 there is a pressing need to maintain it and justification for
20 it, it gives us some flexibility here.

21 I do think -- I would hate to see it ended all at
22 once. I think the kind of adjustment called for would be
23 more. I think this is fair.

24 Senator Durenberger. I am fairly hopeful that the
25 Chairman, who has led the charge on the differential over

1 the years will find a way in conference to offer a better
2 figure than the 4.5.

3 The Chairman. Go to 4.4.

4 Senator Heinz. Mr. Chairman, there is one thing I am
5 concerned about. We all agree that we want the study. As
6 you know, a year, year and a half ago, there was agreement we
7 wanted the study too and it never got done.

8 I would hope we can have some conference committee.
9 I think we ought to have the study regardless whether we come
10 out at 10.5 or 4.5 or 8.5. We ought to have the study.

11 I would hope we can find a way to write our legislation
12 so that the study this time gets done.

13 The Chairman. As you know, that was in the Senate
14 provision, last year. It got lost in the shuffle in the
15 last stage.

16 Well, is there any objection to the substitute
17 offered?

18 Senator Bradley. Mr. Chairman, I have four or five
19 matters.

20 The Chairman. Do you have any objection to the 4.5 to
21 complete a study?

22 Mr. Lighthizer. Mr. Chairman, the provision then is
23 for a 4.5 nursing differential, with a GAO study immediately
24 to be completed in six months. At the end of that time, the
25 4.5 percent would continue until Congress acted either to get

1 rid of it or to raise it. Is that the proposal?

2 The Chairman. That's correct.

3 Without objection, it is agreed to.

4 Senator Grassley. Mr. Chairman, I have an amendment.

5 Mr. Lighthizer. Mr. Chairman, pardon me. What is the
6 effective date of that, enactment of the reconciliation bill?

7 The Chairman. Yes.

8 Senator Grassley. Mr. Chairman.

9 The Chairman. Senator Grassley.

10 Senator Grassley. For the benefit of the members on
11 the other side of the aisle, this amendment I think is
12 relatively non-controversial. I discussed it in a meeting
13 that the chairman had of the members on this side of the
14 aisle. But, I didn't discuss it with anybody on that side.
15 I would like to. It is four lines long. I would like to
16 read the amendment.

17 It would add a new section to the block grant
18 provision and say:

19 "The Secretary shall develop criteria for assessing
20 the effectiveness of the various state programs carried out
21 under the block grant program established under section blank
22 in delivering services to those individuals in need of these
23 services.

24 "B. The Secretary shall develop a formula whereby
25 states meeting or exceeding the criteria established under

1 Section, Sub-Section A, may be awarded additional sums of
2 money.

3 "C. Within one year after the enactment of this Act,
4 the Secretary shall submit the Congress his recommendations
5 under sub-sections A and B, of this section."

6 The purpose of this amendment is to set the stage for
7 discussion as to whether financial incentives can be used
8 as a method to improve the delivery of social services.

9 It calls for the Secretary of HHS to establish
10 criteria for measuring the effectiveness with which states
11 deliver services under the block grant.

12 Two, develop a formula whereby states that do a good
13 job in delivering services under the block grants can be
14 rewarded for their efforts.

15 Then, three, submit his recommendations to the Congress
16 within one year for consideration and evaluation.

17 Senator Boren. Mr. Chairman, I would just have a
18 question of Senator Grassley about this. When you talk about
19 financial incentives, are you talking about more payments to
20 the states to carry on the same kinds of programs?

21 Are you talking about letting the states retain some
22 of the savings of Federal funds within the state treasury to
23 use as they see fit or are you talking about a sort of bonus
24 payments to the states. It would be unrestricted?

25 I would be opposed to it if it were just giving them

1 more money for the same things, If it were unrestricted
2 funds. I would prefer to see, instead of getting into
3 incentives, I would prefer to let them keep some of the
4 money they save, but not pour out more Federal money to them.

5 Senator Grassley. Well, Senator, in answer to your
6 question, I could be very flexible on any of those approaches.
7 But, it is to give additional incentives to states who do a
8 good job, for the Secretary to study and make a determination
9 what some of those criteria could be, and then make a report
10 back to us for us to decide to move ahead on those.

11 But, the most important thing to do is to set something
12 in stage for this initial legislation so that there is
13 somebody here in charge, working on those criteria, giving
14 some thought to that approach of rewarding the states who do
15 a good job of delivering services.

16 Senator Boren. Could you possibly modify your
17 language to just say to develop criteria and then for making
18 recommendations for providing financial incentives to the
19 states to do a good job?

20 The problem that I had was the payment of more Federal
21 money to the states. It sounded like an increase of expend-
22 itures.

23 Senator Grassley. We are running off copies of it. I
24 think I would like to have you wait until you get it in front
25 of you so you can look at it. I don't think it will cause

1 any problems for you.

2 The Chairman. Could I call on Ms. Burke or Linda to
3 discuss it? I haven't studied the written language carefully

4 Ms. McMahon. Yes, Senator.

5 The Administration has not seen the language. The
6 one comment that I would have at this point is that if the
7 Secretary of HHS is responsible for evaluating whether the
8 states have done a good job in order to give them incentive
9 payments,

10 What we are trying to do with the block grants is
11 allow the states to decide what is a good job. I have a
12 feeling that this evaluation completely negates what we try
13 to do in the block grant.

14 Senator Grassley. You know, you do a great injustice
15 making those comments without reading this. I would wish
16 you get it in front of you, because the whole purpose of it
17 is for the Secretary to have a great deal of discretion in
18 developing these criteria, and to make some determination of
19 whether or not, obviously there is a Federal interest, a
20 national concern here or we wouldn't have any Federal money
21 involved in the first place.

22 We ought to have an interest in whether or not the
23 states are carrying out these programs with some fairness,
24 and in an expeditious manner with the taxpayer's money being
25 well-used. For states that do an extra job, for that to be

1 recognized. basically.

2 The whole point is for the Secretary to have a
3 period of time to develop some criteria and then report
4 back to us so we can make a determination whether it is good
5 or bad.

6 The Chairman. Could I suggest that maybe Senator
7 Grassley and someone from the Administration might discuss
8 this proposal? I haven't seen it in writing. It is rather
9 a broad amendment insofar as the Secretary shall do.

10 I understand nothing would be done until that report
11 was submitted to Congress and we acted on it.

12 But, in any event, I think we may be able to resolve
13 it. If it is a study, I don't have any quarrel with it.
14 If it is in fact the setting in place of some policy down
15 the road, I would certainly want some comment from the
16 Secretary himself on it.

17 If that is all right with Senator Grassley, maybe we
18 could do that.

19 Senator Grassley. Yes.

20 The Chairman. Linda, can you take a look at it.

21 Senator Bradley.

22 Senator Bradley. Thank you, Mr. Chairman.

23 I have a couple of issues that I would like to raise
24 before the Committee.

25 One is the unemployment question which I hope they are

1 still working on. I would like to get back to it, but I
2 don't want to cover that right now.

3 What I would like to address is the savings embodied
4 in the section under Medicaid. It says \$1.69 billion. Is
5 that -- what is the source of that figure?

6 Ms. Burke. Senator Bradley, that number was provided
7 to us by the Office of Management and Budget.

8 Senator Bradley. What would be the CBO number?

9 Ms. Burke. The CBO estimate was approximately \$750
10 million, which assumed both a 9 percent CAP and a reduction
11 to 40 percent, in terms of the minimum match.

12 Senator Bradley. We have a rather sizeable dis-
13 crepancy in numbers.

14 Ms. Burke. Yes, Senator.

15 Senator Bradley. Between CBO and OMB.

16 We are dealing with OMB numbers. That includes both
17 the 9 percent CAP and the 40 percent minimum match?

18 Ms. Burke. Yes, Senator.

19 Senator Bradley. Mr. Chairman, I would like to propose
20 that in the 40 percent minimum match, there is a formula. In
21 the formula you measure fiscal capacity by per capita income.
22 What you do is you square per capita income. Supposedly that
23 is an adequate measure of fiscal capacity. People in your
24 state have a higher income than in other states.

25 But, I would make the argument that that doesn't

1 effectively represent fiscal capacity, because there are
2 varying inflation rates, there are varying labor costs, there
3 are varying energy costs.

4 I would also argue that the cost of health services
5 varies dramatically from state to state, and so does the
6 need for health services. Certain states have higher popul-
7 ation of elderly, higher populations of poor, even though
8 they may have per capita income that is significantly higher.

9 So, what I would ask the Committee to consider is
10 that for those states that will be directly affected by the
11 lowering of the states minimum to 40 percent, that we elimin-
12 ate the squaring of per capita income for those states, that
13 being consistent with the correct reflection of what is the
14 fiscal capacity of those states, per capita income not being
15 the best measure of that. When you square it, you simply
16 accentuate the false representation of fiscal capacity.

17 The Chairman. Do we have any estimates on what that
18 would do as far as savings are concerned?

19 Senator Bradley. It is my understanding that it would
20 reduce savings. I have a copy of this proposal that is
21 actually being Xeroxed right now and would be passed around.

22 I am not certain of the amount, the exact amount of
23 the reduction. I think that you assume from this -- what
24 was the 40 percent minimum match saving; \$410 million?

25 Ms. Burke. No. The actual savings is estimated by CBO

1 independently, was about \$600 million for simply the 40
2 percent minimum match.

3 Senator Bradley. What was OMB?

4 Ms. Burke. OMB did not have a separate number,
5 Senator.

6 Senator Bradley. I thought you said that the \$1.69
7 billion was an OMB figure?

8 Ms. Burke. That is correct, Senator. That number
9 assumes both a reduction in the minimum match and a 9 percent
10 CAP.

11 Senator Bradley. Right.

12 Ms. Burke. They did not split their estimates.

13 Senator Bradley. I see.

14 Ms. Burke. CBO had prepared an individual estimate of
15 simply the reduction to a 40 percent minimum match.

16 Senator Bradley. I don't have the specific reduction.
17 I am not certain. Does the staff know what the reduction might
18 be?

19 Ms. Burke. We haven't been provided with a copy of it,
20 Senator.

21 Senator Bradley. The number I had been playing with
22 had been a \$90 million, reduced down to \$90 million.

23 The Chairman. A reduction of \$90 million or reduced to
24 \$90 million?

25 Senator Bradley. It would produce a savings of \$90

1 million.

2 The Chairman. Can anyone from the Administration speak
3 to that?

4 Ms. Burke. Senator, we have not had an opportunity to
5 see the proposal. We have not been able to prepare estimates.

6 The Chairman. Let's take a look at the proposal and
7 see if we can quickly find some estimates. Maybe yours are
8 accurate. I don't quarrel with what you suggest.

9 Ms. Burke. Senator, is it my understanding you intend
10 to unsquare the match for those states who are affected by
11 the 40 percent minimum and not to unsquare the match for all
12 states?

13 Senator Bradley. Yes, that's correct. The reason is
14 because in the formula, per capita income is supposedly the
15 correct reflection of fiscal capacity. You lower the minimum
16 a lot, a number of states will receive less, down close to
17 the minimum.

18 Since personal income is not a correct reflection of
19 fiscal capacity, you should at least not accentuate that by
20 squaring that in the formula.

21 Ms. Burke. The formula is currently existing in law,
22 Senator, is based on a 1958 Social Security Act Amendment.
23 Basically it provides for a formula match based on the state
24 per capita income compared to the national per capita income
25 and squares both those numbers.

1 The intention originally was to accentuate those
2 low income states in terms of their match.

3 As Senator Bradley has pointed out, to unsquare would
4 basically bring those high income states up somewhat in their
5 match formula as I understand it.

6 The Chairman. The present match is 50 percent to
7 78 percent?

8 Ms. Burke. That's correct, Senator. In reality it
9 is basically up to 80. There are states within that boundary.
10 Fifty percent is the minimum, yes.

11 The Chairman. We would be happy to take a look at the
12 proposal. I am not suggesting I agree to it or not. Let's
13 take a look at it between now and 2:00 o'clock.

14 Ms. Burke. My understanding of Senator Bradley's
15 proposal is that he would only unsquare those states who
16 fall below the minimum. If you were to unsquare all states,
17 my guess would be you would reduce the match for those states
18 with lower per capita incomes, bring them down and bring
19 states with higher per capita incomes up.

20 My understanding is that only those 12 states and the
21 District of Columbia are affected by that proposal.

22 Senator Bradley. That is correct.

23 Senator Mitchell. So it would have no effect on the
24 other states?

25 Senator Bradley. No effect on Maine.

1 Senator Mitchell. It would simply produce a lower
2 savings.

3 The Chairman. No immediate effect.

4 Senator Bradley, do you have other amendments?

5 Senator Bradley. Yes, Mr. Chairman, I do.

6 I would like to raise the question of the unemployment
7 insurance. Do we have the answer yet on that?

8 The Chairman. We have the answer if we reduce the
9 150 to some lower --

10 Senator Bradley. Yes.

11 Mr. DeArment. They are still working on it.

12 Senator Bradley. I might point out to the committee
13 that the national average for a state tax effort is 100,
14 obviously. We are talking about 130 percent of the national
15 average versus 150 percent of the national average.

16 Let me move on --

17 Mr. Lighthizer. Mr. Chairman, could I ask Senator
18 Bradley one question about his Medicaid proposal?

19 Senator Bradley. Certainly.

20 The Chairman. Yes.

21 Mr. Lighthizer. You would not square the income if
22 you are below 50 percent; is that the proposal?

23 Senator Bradley. That is right.

24 Mr. Lighthizer. If in two years, when we recalculate
25 these, someone else falls below, would they then not be

1 unsquared? They would not be squared either?

2 Senator Bradley. I feel we can deal with that in the
3 reconciliation bill of 1983.

4 I have no problem if a state wanted -- one of the
5 12 states is below 50 now. If it ever got above 50, putting
6 it back in.

7 Mr. Lighthizer. How about going the other way, if a
8 state is above 50 now and went below? I just want to under-
9 stand it.

10 Senator Bradley. I would argue that to be consistent,
11 if a state, I would say you wouldn't have to if they went
12 under 50, because what we are dealing with is an existing
13 situation. A change in law now that adversely affects a
14 few states because of an incorrect measure of fiscal capacity.

15 Mr. Lighthizer. So, if you are above 50 now and you
16 drop below 50, you would still be squared just like you are
17 now?

18 Senator Bradley. Well, I am open to the committee on
19 that.

20 The Chairman. Let's find the numbers on it, a whole
21 range.

22 Senator Bradley. So, what about the question, Mr.
23 Chairman, of the pneumococcal vaccine? In the committee
24 document, we postponed the pneumonia vaccine funding by
25 Medicare until --

1 The Chairman. Until 1984.

2 Senator Bradley. Until 1984. It was due to go into
3 effect July, 81. We all know the elderly population gets
4 the greatest amount of pneumonia, that winter is the time
5 it is supposed to come and that the date that was scheduled
6 was July and we are not talking about a lot of money.

7 The Chairman. Well, again, as I understand the House
8 action, they have retained that provision. We would be in
9 conference on that.

10 Ms. Burke. We have an alternative.

11 The Chairman. We have an alternative which we think
12 might be of interest.

13 John, maybe you can explain that. If we are concerned
14 about those who really need --

15 Senator Bradley. Was this in the -- was the alternative?

16 The Chairman. We stayed with the 1984 postponement.

17 Mr. Kern. This is a proposal that Senator Dole asked
18 us to take a look at for him. Basically, it is concerned
19 with the present law provision. It is felt that wasn't
20 necessary to insure against the relatively low cost of items
21 such as vaccinations. Most routine -- most private health
22 insurers exclude routine immunizations as well.

23 Most elderly persons could afford the cost of
24 vaccinations inasmuch as a reasonable charge runs around
25 an average of \$13.00, when administered by a physician's

1 offices.

2 The alternative proposal would be rather than pay
3 for something under Medicare that many elderly consume on
4 their own, the more targeted approach would be to provide a
5 voucher to those 1.8 million persons that are on SSI, in one
6 of their monthly SSI checks.

7 This voucher would cover those non-institutionalized
8 elderly under Medicaid, under the Medicaid Program. The
9 voucher could be used to cover the payment of the vaccinations
10 from wherever the SSI recipient normally receives their
11 services under Medicaid, or if they are not eligible for
12 Medicaid, it could be received through their state or local
13 health department.

14 The Feds could then provide states with 100 percent
15 match for the services through the Medicaid program.

16 If a voucher would be so constructed to allow up to
17 \$10 for this service and it is given to 1.8 million people,
18 aged poor, the total cost would be \$18 million. This would
19 be offset with the reduced incidence of pneumonia.

20 We have asked CBO to prepare a cost estimate for
21 this approach. The person who is responsible for this area
22 is out ill, today. We have verified that it is not
23 pneumonia.

24 (Laughter.)

25 Mr. Kern. But, we believe this would be a more

1 targeted approach and would get at the force of the elderly
2 population.

3 We believe that most elderly persons, if they had the
4 information, would want to get this shot on their own.
5 Whether the Government pays for it or not is not the point.
6 I think it is a matter of a good public health program to
7 get the word out to the people. Certainly the drug companies
8 could assume that responsibility, not only to get the word
9 out to the elderly, but also out to the medical community
10 that this is a worthwhile thing to do.

11 One of the industry claims is that 5,000 people would
12 die if Medicare doesn't cover over the next five years, if
13 Medicare doesn't cover the cost of this vaccination.

14 Now, I think the staff would submit, that is a pretty
15 strong incentive for people to go out and get the shot if
16 they think they are going to die if they don't get it.

17 The Chairman. That is an alternative proposal we
18 have looked at. We didn't put it in the modified proposal
19 on the basis we would be in conference on this item in any
20 event.

21 Senator Bradley. Well, Mr. Chairman, frankly, I
22 would rather have nothing than to have the compromise and
23 deal with it in conference.

24 The Chairman. Well, we'll give you nothing then.

25 Senator Bradley. I think to argue, as it is now, SSI

1 benefits cover for most people, the shot, the inoculation.
2 So, I would just as soon pass on this.

3 The Chairman. Do you have other amendments?

4 Senator Bradley. Yes, but I would be pleased to yield
5 to anyone else.

6 The Chairman. As I indicated earlier, maybe before
7 some of the Senators arrived, I must leave at 11:30. We
8 hope to convene again at 2:00 o'clock. If there are other
9 numbers we need to find between now and 2:00 o'clock from
10 any of the members, maybe we can be doing that.

11 Senator Long. Mr. Chairman.

12 The Chairman. Senator Long.

13 Senator Long. Thank you, Mr. Chairman.

14 I have not seen the specific language, I would hope
15 I would have the opportunity to tell you to make suggestions
16 about the -- to study and make suggestions about the language
17 before this thing finally becomes law, if it is passed for
18 final action by the Senate.

19 But, off hand, I would like to make a couple of
20 suggestions about what I see here. For example, on page 1,
21 appears this language, "if a state elects to have different
22 grant levels for employable and unemployable households, the
23 employable category would at a minimum include those who
24 would be exempt from the Administration's proposed community
25 work experience program, but they could, at state option,

1 include other categories as well."

2 I would just as well leave that out. I just think
3 that is needless complexity. I just think let the state
4 decide that, how they want to handle that.

5 Then, on page 2, under sub -- part 4, it says, "as a
6 part of the proposal the state would undertake to use the
7 savings from reduced AFDC grant levels to underwrite job
8 opportunities."

9 I would simply like to say include the words, "to
10 provide or," so it would read, "To provide or underwrite
11 job opportunities for AFDC recipients."

12 It is a small change, but I think it would make it
13 clear that they have the right to provide a job opportunity.

14 Under sub-heading 5, if the state elects to utilize
15 this proposal, it would be required to achieve a reduction
16 in overall welfare.

17 I would suggest that said it would be contained
18 within the overall welfare cost. So it would make it clear
19 they have a given amount and then the block grant. So long
20 as they are within their block grant, they can have their
21 program.

22 Further, down at the bottom, under item 10, subsidize
23 wages under this proposal would not qualify for the earned
24 income tax credit.

25 Now, it is my impression that if we do not qualify

1 this for the earned income tax credit, it would be subject
2 to social security taxes; is that correct?

3 Mr. Stern. If they are employees of state and local
4 governments, they would be probably subject to social security
5 taxation; that is correct.

6 Senator Long. That is why I think that that ought to
7 be eliminated, that part. We are talking about jobs that are
8 not going to be high paying jobs.

9 Generally speaking, these people won't be making enough
10 money to pay us an income tax, considering the fact that they
11 have dependents.

12 If they are being required to pay the Social Security
13 Tax, that just reduces by that much, what is available to
14 help these people.

15 Therefore, I would just suggest that we drop that item
16 10 there.

17 Otherwise, they will have to pay the full social
18 security tax on what they would earn. That just reduces by
19 that much whatever is available to pay somebody to do some
20 work. These are going to be lower income jobs.

21 Mr. Stern. Senator Long, the only difference I would
22 have is this reconciliation bill does not itself contain a
23 block grant for aid to families with dependent children.

24 That is why this was phrased in terms of overall cost
25 of AFDC now, rather than contained within the block grants of

1 welfare. It is the same idea as what you are saying.

2 Senator Long. Well, I want to see the language. I
3 hope that maybe I can make a contribution to help improve on
4 it.

5 Off hand, my thought would be that what we are trying
6 to do here is to pay these people to do something, to pay
7 them to do some work. Some of it I would assume you would
8 pay to do right in their own home.

9 For example, I think in many cases, you would be
10 paying a mother with three children to look after a couple of
11 children of the neighbor's so that those neighbors could go
12 take a job.

13 For that type of a thing, I think we ought to make
14 them eligible for the earned income tax credit, because to
15 do so means you don't have to fool around with the social
16 security tax when you do it.

17 Look at the alternative. Here is Mama. She has three
18 children of her own. You are going to pay her to look after
19 a couple of the neighbor's children so those two neighbors
20 can go take a job. You don't want her to fill out these
21 social security forms, trying to figure this thing out.

22 She has enough to do looking after these five
23 children. That being the case, I think we ought to just
24 give, these are low income people, the work they do, I do
25 not think it achieves anything to charge them the social

1 security tax.

2 Therefore, they ought to get the same consideration
3 that anybody else gets. I would like to see that part of it
4 out.

5 The Chairman. Mike and staff can take a look at your
6 suggestions, Senator Long.

7 Senator Matsunaga.

8 Senator Matsunaga. Mr. Chairman, I have an amendment.
9 I will not be able to return at 2:00 o'clock. I have a funera
10 to attend. It is an uncontroversial one.

11 The Chairman. We have had some of those.

12 Senator Matsunaga. It would --

13 The Chairman. Restore money?

14 Senator Matsunaga. This is on page 8.

15 The Chairman. I think I know which one this is. It
16 is on freestanding --

17 Senator Matsunaga. Yes, freestanding outpatient
18 rehabilitation facility.

19 The Chairman. I might just say that I can't assure
20 the Senator, but we debated to some extent whether to take
21 everything out, since it would have pleased you. We decided
22 not to do that since the House had done that. It will be in
23 conference. Is that the one there may not be any cost
24 involved?

25 Senator Matsunaga. That's it. As a matter of fact,

1 savings would be realized.

2 The Chairman. This Senator is aware of that. I
3 guess what I am suggesting, I hope you let us take it to
4 conference. We might be able to trade it for something.

5 Senator Matsunaga. Is that in the House?

6 The Chairman. They did not adopt any of the repealers.
7 Is that accurate?

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

9 Senator Matsunaga. This is item 2, on page 8.

10 Ms. Burke. Yes, sir.

11 Senator Matsunaga. Is that in the House?

12 Ms. Burke. The House Ways and Means Health Subcommittee
13 did not accept the President's recommendations for repeal.
14 So all those provisions are retained in law is our under-
15 standing.

16 Senator Matsunaga. I believe we do have a vote in this
17 committee here. However, if the Chairman assures us.

18 Senator Heinz. Mr. Chairman, I have intended to have
19 a discussion on this. I know you have an 11:30 meeting.

20 Senator Matsunaga. Could we then come back? I won't
21 be able to be back at 2:00, because I have a funeral to
22 attend. We have a vote at 2:45.

23 How many other amendments are there?

24 The Chairman. I don't know how many more Senator
25 Bradley has. He has a couple, maybe not amendments, requests

1 pending and maybe they will lead to amendments.

2 I think the Senator from Maine was seeking recognition.

3 I think Senator Bradley may have additional amendments.

4 Senator Bradley. I have, in addition to the points I
5 have raised, I have two other points.

6 The Chairman. All right.

7 We will come back at 3:30.

8 Senator Bradley. All right.

9 Senator Matsunaga. Yes.

10 The Chairman. I think with a vote at 2:45, by the
11 time we started we would be leaving to vote. The Chairman
12 has an obligation after that.

13 So, we will come back at 3:30.

14 But, I think on that provision, maybe I can discuss
15 it with the Senator.

16 Is the Senator from Maine seeking recognition?

17 The Senator from New Jersey, do you want to wait and
18 bring the others?

19 Senator Bradley. Yes, sir. I will wait until 3:30.

20 The Chairman. Are there amendments we need to be
21 getting figures?

22 Senator Bradley. No. I don't think the -- let me just
23 understand. I don't think these will require any staff
24 analysis. They are rather straightforward.

25 The Chairman. Senator Chafee.

1 Senator Chafee. Thank you, Mr. Chairman.

2 Mr. Chairman, I know that you have to go. I wanted to
3 ask about the modification of that maternal and child health
4 care block grant, and create a free standing block grant.

5 Would somebody explain to me exactly what we have
6 done on that?

7 Ms. Burke. Senator, the Administration recommended
8 that Title 5, of the Social Security Act, which is the
9 Maternal and Child Health Program be repealed from its
10 present form and included in a broad health-block grant.

11 The staff have recommended that because of the special
12 nature of services to that population, that it not be in-
13 cluded in an overall health block grant, but be retained as
14 a title of the Social Security Act and that when we examine
15 the other programs that relate to maternal and child health
16 that they be included in the requirements under Title 5.

17 So, we would retain Title 5, as a title of the
18 Social Security Act, but examine it in the context of the
19 Administration's request for budget reduction of 25 percent,
20 and, in terms of the flexibility for the states, in terms of
21 spending dollars within that block grant.

22 Basically, it would be a focus on Maternal and Child
23 Health Services and retaining those services as a function
24 under the Social Security Act.

25 Senator Chafee. Now, what have you done on the

1 adoption matter? Where is that?

2 The Chairman. That has been modified, I might say to
3 the Senator, at the request of the Secretary of HHS. But,
4 still, for all practical purposes is very much earmarked,
5 targeted. The only thing block about it is they are all
6 together.

7 There have been suggestions made by the Chairman we
8 further identify the particular programs.

9 Senator Chafee. Well, go ahead.

10 Mr. Lighthizer. Senatot Chafee, the modification from
11 the Chairman's last package is that instead of these three
12 programs, child welfare assistance, adoptions and --

13 Senator Chafee. Would you pull the microphone a little
14 closer, Bob?

15 Mr. Lighthizer. Yes, sir.

16 And foster care being separate programs, they are now
17 included in the social services block grant, but the Secretary
18 agreed to language which not only says these three programs
19 are permissible uses for the social services money, but that
20 in fact every state has to have the three programs.

21 As originally, as this modification was originally
22 stated, we said that in order to get any social services
23 money you basically have to have an adoption assistance
24 program, a child welfare program and a foster care program.

25 Senator Long objected to that and basically modified

1 it so that -- I should say the teeth in that was that you
2 received no social services money at all if you did not have
3 those three programs.

4 Senator Long objected and the proposal was modified.
5 Senator Chafee. There is no Title XX money?

6 Mr. Lighthizer. You received no social services block
7 grant money at all if you didn't have those three programs.

8 Senator Long modified that so you just don't get any
9 of the money that is earmarked for these three programs if
10 you don't have the program.

11 Senator Chafee. I see.

12 Mr. Lighthizer. The language, the social services
13 language would -- block grant language would track the 96272
14 language which we had. It required the same basic require-
15 ments. It requires a maintenance of effort on the part of
16 the states, with the exception that they can cut spending by
17 25 percent, because the whole block is to be cut by 75
18 percent.

19 It also has a provision that they cannot increase
20 the proportion of money spent in this area that goes to
21 foster care to the exclusion of child welfare services and
22 adoption assistance.

23 So, it basically takes care of the requirements, we
24 think, that led to the passage of 96272, but it includes the
25 money in the form of a block grant.

1 Senator Chafee. So, it is a block grant in everything
2 but practice?

3 Mr. Lighthizer. That would be one way of phrasing it,
4 perhaps.

5 It is part of the block grant, but it is targeted and
6 it is required that the states have these programs, the same
7 as it is, or in a similar way under the current law.

8 Senator Chafee. Thank you.

9 Senator Moynihan. Mr. Chairman.

10 Senator Chafee. (acting chairman). The Senator from
11 New York.

12 Senator Moynihan. Could I ask, now what has happened to
13 our child adoption, child welfare adoption? It is one of the
14 few serious pieces of legislation and social policy to come
15 through this committee in a long time. We came out of the
16 committee unanimously or practically so. What have we done
17 to it here?

18 Mr. Lighthizer. Under this proposal, Senator, it would
19 be repealed.

20 Senator Moynihan. May I ask, Senator Chafee, my
21 friend from Rhode Island, if I could have him hear, this
22 repeals the H. R. 3434.

23 Senator Chafee. Why don't we ask Mr. Lighthizer. It
24 is my understanding it doesn't repeal it.

25 Mr. Lighthizer. As a technical matter, Senator, those

1 programs are repealed and replaced by this block grant.

2 Now the requirements and the services and the mainten-
3 ance of funds are -- maintenance funds are required under the
4 new block grant.

5 As a technical matter, that statute is repealed. But
6 the same services and the same programs would continue under
7 this social services block grant. In order to get the social
8 services block grant money, the states basically would have
9 to have the same kind of program and the language would track
10 language so that you have the same kind of requirements, and
11 there would be a maintenance of effort so that they couldn't
12 put less money into it, other than the 25 percent that we are
13 cutting all these programs, and there would be a provision
14 that they not increase disproportionately the amount of money
15 spent on foster care to the exclusion of adoption assistance
16 and child welfare services.

17 So that these programs, we believe will continue, but
18 that statute, as a technical matter will be repealed and the
19 programs will continue under the social services block grant.

20 Senator Moynihan. Well, now, could I ask you this.
21 These were programs that were based on eligibility. They were
22 in that sense entitlements. Are you now putting them into a
23 fixed amount of money so that they no longer are entitlements?

24 Mr. Lighthizer. They are not entitlements. They were
25 not entitlements, I should add, in the last version we put

1 out, also, Senator Moynihan.

2 We changed them to authorizations in the previous
3 version, where we kept them as independent programs, but we
4 had them as an authorization in appropriation at that time,
5 also.

6 Senator Moynihan. Well, sir, it seems to me that we
7 have taken one of the main achievements this committee made
8 over the last several years, a national program of adoption
9 assistance, foster care assistance, and we fundamentally
10 changed it from the program we have adopted. We are turning
11 it upside down. We are doing it very casually and we are
12 not hearing from the persons who think this would not be a
13 good thing to do.

14 Senator Chafee. We are hearing from them.

15 Senator Moynihan. We didn't hear in testimony, no.

16 Mr. Lighthizer. We had testimony.

17 Senator Moynihan. Well, the Junior League was here
18 and to their credit, the Junior League appeared. I didn't
19 see anyone else.

20 I think this has to be explained. I think we should
21 receive from the staff a specific statement of what we are
22 doing here and the changes we are making in this new
23 arrangement.

24 Can't we get that, Mr. Lighthizer?

25 Mr. Lighthizer. Certainly, Senator. It is attached to

1 -- the handout is attachment --

2 Senator Moynihan: In today's papers?

3 Mr. Lighthizer. Yes, sir.

4 The handout is attachment D.

5 Mr. Stern. That attachment, Senator, does not include
6 the modifications Senator Long has mentioned.

7 Mr. Lighthizer. It does not include Senator Long's
8 modification.

9 Senator Moynihan. What is Senator Long's modification?

10 Mr. Lighthizer. His modification is that if you don't
11 have these programs, you don't lose all the social services
12 money, you just lose the money that would go to foster care,
13 adoption assistance or child welfare services.

14 His problem was that if there is some technical
15 difficulty with one of those three programs it would be
16 unfair to not let the state -- to require the state to lose
17 all its ~~Title XX~~ money.

18 Senator Moynihan. Well, this certainly wouldn't come
19 under the heading of "underkill," Senator. We are undoing
20 some very fine work which this committee did. It is the only
21 thing we did do in the last four years. We did it for
22 children. I guess there aren't many children -- we did it
23 for poor children. Obviously, an interest group not much in
24 evidence around the Finance Committee.

25 I am discouraged. I won't press the matter until later.

1 Senator Long. Let me just raise the points that I
2 had something to do with, just so that you understand what
3 my position about the matter is.

4 Consistent with what is being suggested, I sent the
5 -- I would assume these programs, there are three programs;
6 right?

7 Mr. Lighthizer. Yes, sir.

8 Senator Long. How much do they gross out to?

9 Mr. Stern. In dollar amounts it is about \$500 million.

10 Senator Long. So, I would assume that these programs
11 involving \$500 million have enough in them for each one of
12 every state in the Union. I would hardly think that any
13 state would not have its share of that \$500 million.

14 Therefore, I go along with the idea of saying that
15 the law that Congress passed would apply, and I guess even
16 the regulations, the Federal regulations apply.

17 Mr. Stern. As they relate to the adoption assistance,
18 the child welfare services.

19 Senator Long. These programs. All I am saying is
20 that there is much more latitude would exist with regard to
21 the AFDC program. I just think it is a harsh enough penalty
22 to cut off the funds for these programs, because someone
23 failed to comply with one of the regulations or some
24 provision involving that program in law. It would be
25 altogether too severe to cut off all their funds because

1 somebody made -- was unable to comply with one of these
2 regulations, in one of these three programs.

3 Therefore, I say leave the Federal power and regul-
4 ations in effect with regard to these three programs. The
5 punishment for failing to comply with all that would be
6 limited to those three programs. It wouldn't go outside
7 the whole block grant and everything else.

8 I do not see any reason why it should.

9 Mr. Stern. A substantial portion of the text of the
10 law would be transferred from where it is now in Title 4, to
11 this new Title 20, as I understand Mr. Lighthizer's explan-
12 ation.

13 Senator Moynihan. I would like to say that I think
14 this committee is entitled to see the language and the
15 statute we propose to enact.

16 We are repealing one of the most important pieces of
17 social legislation in the last five years. We are funda-
18 mentally changing what were laws into what were entitlements,
19 into an appropriations process and cutting very sharply in
20 that process.

21 We are taking out of the committee -- may I ask this,
22 as we -- are we transferring the jurisdiction of these
23 programs to the Appropriations Committee?

24 Mr. Lighthizer. The Appropriation Committee would
25 have jurisdiction over the appropriation.

1 Senator Moynihan. Yes.

2 Mr. Lighthizer. We have jurisdiction over the
3 authorization.

4 Mr. Moynihan. Social Security used to be the
5 province of this committee. We are turning it over to
6 Appropriations Committee.

7 We used to be able, in this committee, to say what
8 children who are entitled to in our country and they would
9 get it, because we said it.

10 Now, we are saying, we can say what we think they
11 ought to have, but somebody else will decide whether they
12 will have it.

13 Senator Chafee. That wasn't true under this foster
14 care and adoption program.

15 Mr. Stern. That was not true in the past, but that
16 is the modification being suggested.

17 Mr. Lighthizer. Under yesterday's or under Thursday's
18 proposal it was also changed from an entitlement to an
19 authorization and appropriation.

20 Currently that is correct. I don't think any of the
21 three have to be --

22 Mr. Stern. The Child Welfare Services is an author-
23 ization of appropriations, but foster care and adoption
24 assistance are both entitlement programs, as is the social
25 services block grant.

1 Senator Moynihan. Foster care and adoption services
2 are an entitlement. We were very proud of making it such.
3 If you remember, it was the Vice-President himself, announced
4 it. Secretary Califano came up here four years ago. We
5 gave children who are singularly exposed children, children
6 who need to be adopted, who need foster care, we gave them
7 the right to the degree they could find foster homes, states
8 could find foster homes or adoptive parents. We gave them,
9 we guaranteed this financial support.

10 We say to the states, you find a family to adopt this
11 child, and you can be sure the Federal Government will help
12 to pay for it, or you find a foster home for this child, you
13 can be sure that you will get paid for it.

14 Now, we are saying, no, and this, you know, we are
15 not talking about a few people. If I may say, we did some
16 study last fall, which we published, which establishes that
17 the children born in 1980, it doesn't establish, it makes
18 it very strong, probably, 50 percent of them, roughly half
19 now, will live in a single-family -- single-parent family
20 before they are age 18. A third, 32 percent, will be on
21 public assistance before they are age 18.

22 The degree to which children are in situations where
23 adoption or foster care is needed is not nearly, is much
24 greater than we ever understood. The numbers are startling.

25 Here, we are taking a good -- I want to say to my

1 colleagues who were not perhaps in the first years consid-
2 eration. These are not expensive programs..That is their
3 problem you might say. How do you get adoptive homes? How
4 do you get foster care? It is not easy. The states have to
5 work at it.

6 Finally, we put a national program of any who
7 are successful, you know, you are entitled to Federal
8 support. Now we are taking it away, just like this.

9 Senator Baucus. I think the Senator makes a good
10 point. Obviously, if these are appropriation matters,
11 foster children are going to have a difficult time lobbying
12 to get their share of appropriations, compared with say the
13 Pentagon, these days and other interest groups who are much
14 better organized.

15 Senator Moynihan. You don't think they will come to
16 town in their tractors?

17 Senator Baucus. It is unlikely.

18 Senator Chafee. We will have an opportunity to
19 discuss this further at 3:30.

20 Senator Baucus. Fine.

21 Senator Chafee. We will adjourn until then.

22 (Whereupon, at 11:48 a.m., the Executive Session
23 recessed, to reconvene at 3:30 p.m., the same day.)

24
25

1 AFTERNOON SESSION (3:50 p.m.)

2 The Chairman. I am not certain how long the meeting
3 continued after my departure, but I understand that one of
4 the loose ends was to provide Senator Bradley with figures
5 on the question he raised with reference to the unemployment
6 reform, and figures with reference to minimum matching
7 requirements.

8 I wonder if those figures are now available to
9 Senator Bradley and the committee?

10 Mr. DeArment. Yes, Senator Dole.

11 With respect to the proposal to lower the standard
12 for the recessionary waiver in the unemployment compensation
13 from 150 to 130 percent. That would have, according to the
14 estimates, potentially affect six states and one state would
15 be able to utilize that waiver and that is the State of
16 Illinois. It was expected to have a zero revenue impact in
17 1982, approximately a \$76 million impact in fiscal year
18 1983.

19 Senator Bradley. In Illinois?

20 Mr. DeArment. Yes. Well, for the whole country.

21 Senator Bradley. But, basically, you are just talking
22 about Illinois?

23 Mr. DeArment. Illinois would be the only state that
24 we think that could qualify for the CAP because of this
25 watering down of the recessionary waiver.

1 Senator Bradley. Yes.

2 The Chairman. Do we want to proceed with that?

3 Do you have an amendment to offer?

4 Senator Bradley. Well, I wonder how did you get to the
5 \$76 million?

6 Mr. DeArment. The --

7 Senator Bradley. \$76 million, in '83. The argument
8 is that Illinois will have a higher unemployment rate, and
9 therefore --

10 Mr. DeArment. Well, it was assumed that this require-
11 ment that they have a substantially higher than 150 percent
12 of the national average tax rate is the one requirement that
13 is precluding Illinois from qualifying for the 6 percent CAP.
14 They are now at .3 percent.

15 So, it will be a year before they would qualify for
16 the 6 percent CAP. So, this would not CAP them in '82, it
17 would CAP them in '83. It was figuring --

18 Mr. Van Erden. That is the difference in revenue
19 between .9 and --.

20 Senator Heinz. Rod, if the Senator would yield.

21 Senator Bradley. Yes.

22 Senator Heinz. Rod, what is the tax rate they are at
23 right now?

24 Mr. DeArment. In terms of their comparison with the
25 national average tax rate on all wages, they are at 1.3

1 percent. The national average happens to be precisely one
2 percent in the most recent figures that we had available.

3 Now, of course, that changes year to year.

4 The Chair. Right.

5 Mr. DeArment. If you look at years prior to the
6 current administration, in Illinois, the tax rate was
7 substantially under the National average rate. Now it is
8 130 percent of the average rate.

9 So, depending on what other states do and what the
10 particular state in question do, that percentage of the
11 average goes up and down.

12 Senator Heinz. May I ask the Senator from New Jersey
13 why he feels it is a good idea to lower it as far as he has

14 Senator Bradley. It is a judgment call. Why 150
15 instead of 140? I mean, I think 130 is a reasonable effort
16 that one's state makes. I think that is clearly a good
17 indication that the state is not begging from the Federal
18 Government, that it is making an effort to replenish its
19 funds and repay with a tax effort that is significant.

20 So, I would move that we lower the tax effort
21 required for CAPPING to 130 percent instead of 150 percent.

22 The Chairman. The question is on lowering it to 130
23 percent, as opposed to 150 percent, which is contained in our
24 modified overall proposal.

25 Do you want a roll call?

1 Senator Bradley. I would be prepared on this one to
2 just have a raising of hands.

3 Senator Chafee. Mr. Chairman, may I ask one question?

4 The Chairman. Senator Chafee.

5 Senator Chafee. Do I understand from what you said
6 that the states that are in arrears now in debt, all of them
7 are doing 150 percent or better?

8 Mr. DeArment. Let me start from the beginning and
9 give you thing thing in context. The proposal that is
10 contained in the loan reform package, in the Chairman's
11 package here, would provide a freeze on states at a .6
12 percent, provided the states, in order to qualify for this
13 freeze of the penalty tax meet certainly solvency requirements.

14 Then, there is a recessionary waiver that says they
15 can still get the freeze even though they don't meet one of
16 the solvency requirements if two things occur. Essentially
17 that they have the extended benefit trigger on for six months,
18 and secondly, the state has a tax rate that is at least 150
19 percent of the national average tax rate.

20 The proposal that Senator Bradley is making is to
21 lower that 150 percent to 130. Therefore, if that is done,
22 it will effectively loosen the solvency standards needed to
23 qualify for the CAP, and make it easier to get this waiver
24 that qualifies you for the CAP.

25 ~~So~~ that then in terms of those states that meet

1 the 150 percent now, in terms of states, Rhode Island is the
2 top. It is 230 percent, Rhode Island is.

3 Senator Chafee. In its effort.

4 The Chairman. Right.

5 Mr. DeArment. Right. It is 230 percent, Rhode Island
6 is.

7 Alaska is 210 percent.

8 Oregon is 180 percent.

9 Michigan is 170 percent.

10 Washington is 170 percent.

11 Montana is 160 percent.

12 New Jersey is 160 percent.

13 Maine is 150 percent.

14 Massachusetts is 150 percent, as are North Dakota,
15 Pennsylvania and Vermont.

16 So, all of those states that I just read already meet
17 the most stringent 150 percent, they have their tax rates up
18 to 150 percent of the national average.

19 The Chairman. Do you have the effort the State of
20 Illinois has made in the past years? Some of the states, I
21 think Illinois is one that did not make particularly valiant
22 efforts in the past.

23 Mr. DeArment. I have a chart here that shows it in
24 a very complex way, since 1974.

25 In 1974, they had slightly less than the national

1 average. The tax rate was .81 percent. The national average
2 was .9 percent. So that they were under the national average
3 in 1974.

4 In 1975, they were considerably under. They lowered
5 their taxes that year in fact.

6 In 1976, they were still under.

7 In 1977 I believe they raised their taxes. So they
8 should be -- no, in '77 they still were under the national
9 average.

10 In 1978, they slightly exceeded the national average.

11 In 1979 they slightly exceeded the national average.

12 The Chairman. I think we worked out a fairly good
13 proposal. We did it in concert with members of staff and
14 had a lot of input with Senator Heinz. I would hope the
15 committee might leave it as it is.

16 Senator Bradley. Mr. Chairman.

17 The Chairman. Yes.

18 Senator Bradley. No one really offered a rationale
19 for 150 as opposed to 130.

20 Senator Heinz. No one offered a rationale for 130,
21 either.

22 The Chairman. Yes.

23 We have gone back and looked at their past efforts,
24 and in some cases --

25 Senator Bradley. Fine. I am prepared to move.

1 Senator Heinz. Yes.

2 The Chairman. All those in favor of the Bradley
3 amendment signify by saying aye.

4 (Aye's.)

5 The Chairman. Opposed, no.

6 (Chorus of noe's.)

7 The Chairman. It is the opinion of the Chair the
8 no votes have it.

9 Now, do you have another amendment, Senator Bradley?

10 (Laughter.)

11 Senator Bradley. Yes.

12 I have a number. I think the staff was supposed to
13 have taken a look at unsquaring the per capita income in the
14 formula for Medicaid.

15 Ms. Burke. Mr. Chairman, we contacted both the
16 Congressional Budget Office and the actuaries of the Depart-
17 ment of HHS. They have confirmed Senator Bradley's original
18 estimate of a savings if you were to unsquare the match for
19 those states which fall below the 50 percent minimum, to a
20 total savings of approximatly between \$90 and \$100 million.

21 That would in essence reduce the savings combining
22 both the CAP and the 40 percent minimum, but unsquaring, by
23 about \$500 million.

24 So, rather than a billion dollars in savings, as under
25 the Chairman's proposal, the estimated savings as suggested

1 by Senator Bradley are approximately \$500 million.

2 The Chairman. If we unsquare the match for these
3 states, what happens to the other states. Under current
4 law they are not affected. We have different treatment for
5 different states?

6 Ms. Burke. That is correct, Senator. My understanding
7 of the proposal was to unsquare the match of only those
8 states which fell below --

9 The Chairman. The 12 states and the District of
10 Columbia.

11 Senator Boren. And not unsquare the others?

12 Ms. Burke. That is my understanding, Senator.

13 Senator Bradley. Because it is a reaction to the
14 committee's proposal to lower the minimum to 40 percent from
15 50 percent to basically take care of those who are already in
16 the 40 to 50 percent range.

17 The Chairman. Is there further discussion?

18 Do you want a roll call on this?

19 Senator Bradley. Yes, I would like a roll call on
20 this.

21 Senator Roth. Mr. Chairman, I would just like to
22 point out that the Administration's original proposal was
23 of course, to CAP Medicaid expenditures at 5 percent above
24 the '81 funding level, for '82, while funding for further
25 years allowed to rise at the rate of inflation as measured

1 by the GNP deflator. There were savings of \$927 million
2 in '82.

3 Now, it is my understanding, I regret that I was not
4 here earlier, but unfortunately the committee of which I am
5 chairman was holding similar hearings.

6 So, if you would bear with me, I would just like to
7 make a few observations.

8 It is my understanding that the Chairman's modified
9 proposal would CAP Medicaid expenditures at 9 percent of the
10 FY-81 expenditures, the same deflator provision for future
11 funding.

12 Of course, it would also reduce the minimum match
13 from 50 to 40 percent.

14 So, the savings would be about a billion dollars or
15 substantially more than the Administration proposal. It would
16 not treat all the states the same. Twelve states, including
17 my own state of Delaware, D. C., would be disadvantaged in
18 order to provide a substantial advantage to the remaining
19 38 states.

20 While my own state would be adversely affected,
21 several other states would be hit even harder, particularly
22 in future years.

23 I have a copy of a letter I received from several
24 members expressing concern about the impact, reduction in
25 minimum match would have.

1 They state in their letter, "We realize sacrifices
2 will have to be made by states in the current attempt to
3 reduce the Federal deficit. It is particularly important
4 that these sacrifices be equitably apportioned.

5 "Removal of the minimum share fails that standard.
6 In fact, those few states which currently receive the least
7 from the Federal Government, take the substantial -- the
8 entire burden of substantial new sacrifices."

9 Since the Chairman's package does not include an
10 -- or does include an additional billion dollars beyond the
11 request of the Administration and the Budget Committee, I
12 believe we should accept the more equitable proposal of the
13 Administration's reduced savings of about \$150 million.

14 Thank you, Mr. Chairman.

15 Senator Heinz. Mr. Chairman, how much does this
16 proposed change reduce our savings by?

17 The Chairman. By a half billion dollars.

18 Ms. Burke. Yes.

19 Senator Heinz. By a half billion dollars.

20 Mr. Lighthizer. Yes, sir.

21 Ms. Burke. Yes, Senator.

22 Senator Heinz. One half billion dollars, \$500 million.
23 That is a huge amount.

24 Mr. Lighthizer. That's correct.

25 Senator Bradley. What a half billion was the last time.

1 Senator Heinz. You know, a half billion here and
2 a half billion there, pretty soon you are talking about real
3 money.

4 (Laughter.)

5 Senator Bradley. Somebody said, I think he was a
6 Republican from Illinois, this state, under the proposal
7 loses \$112 million.

8 The Chairman. They just lost \$76 on the last one.

9 Senator Bradley. That is right. The big losers if
10 the unsquaring doesn't take place, the big losers are
11 Illinois, Michigan and California..

12 The Chairman. But if the squaring does take place
13 the big losers are the taxpayers and the other states. I
14 don't have any easy answers.

15 I had an opportunity to name drop, to see the
16 President during the noon hour and told him we were making
17 great progress on his budget and mentioned Bill Roth several
18 times.

19 (Laughter.)

20 The Chairman. And, I couldn't remember the other
21 fellow's name.

22 (Laughter.)

23 The Chairman. But, --

24 Senator Bradley. I guess the question, Mr. Chairman,
25 is, did he mention Bill Roth's name.

1 The Chairman. Well, he brought it up.

2 (Laughter.)

3 The Chairman. I am ready to vote. I think if we
4 start cutting off a half billion dollars a whack, we will
5 have to go back to the drawing board and find some other
6 painful cuts. I don't know of any that are painless. If
7 anybody has any ideas in the audience, send them up.

8 I think the clerk will call the roll on this one.

9 Mr. Lighthizer. Mr. Packwood.

10 The Chairman. Mr. Packwood votes no.

11 Mr. Lighthizer. Mr. Roth.

12 Senator Roth. No.

13 Mr. Lighthizer. Mr. Danforth.

14 The Chairman. Mr. Danforth votes no.

15 Mr. Lighthizer. Mr. Chafee.

16 Senator Chafee. No.

17 Mr. Lighthizer. Mr. Heinz.

18 Senator Heinz. No.

19 Mr. Lighthizer. Mr. Wallop.

20 The Chairman. No.

21 Mr. Lighthizer. Mr. Durenberger.

22 Senator Durenberger. (No response)

23 Mr. Lighthizer. Mr. Armstrong.

24 The Chairman. No.

25 Mr. Lighthizer. Mr. Symms.

1 Senator Symms. No.
2 Mr. Lighthizer. Mr. Grassley.
3 (No response)
4 Mr. Lighthizer. Mr. Long.
5 Senator Long. Aye.
6 Mr. Lighthizer. Mr. Byrd.
7 Senator Byrd. No.
8 Mr. Lighthizer. Mr. Bentsen.
9 Senator Bentsen. Aye.
10 Mr. Lighthizer. Mr. Matsunaga.
11 Senator Matsunaga. No.
12 Mr. Lighthizer. Mr. Moynihan.
13 Senator Moynihan. Aye.
14 Mr. Lighthizer. Mr. Baucus.
15 Senator Baucus. Aye.
16 Mr. Lighthizer. Mr. Boren.
17 Senator Boren. No.
18 Mr. Lighthizer. Mr. Bradley.
19 Senator Bradley. Aye.
20 Mr. Lighthizer. Mr. Mitchell.
21 Senator Mitchell. No.
22 Mr. Lighthizer. Mr. Chairman.
23 The Chairman. No.
24 Mr. Grassley votes no.
25 The vote on this amendment is 12 nays, 2 yea's. The

1 amendment is not agreed to. We will follow the practice
2 which we have had in the past for absent members to record
3 their votes.

4 Senator Moynihan. Mr. Chairman, I appreciate, and
5 I am sure does Senator Bradley, we have -- I voted as I did
6 out of a principle that, the conviction that the squaring
7 mechanism which was taken over from the Hill-Burten program
8 is just basically inequitable to other parts of the country.

9 When this committee is in a calmer mood, and we have
10 more time, I am going to propose the square root as --

11 (Laughter)

12 Senator Moynihan. I am serious about that.

13 The Chairman. I think the record should indicate
14 that the Senator from New York has had an interest in this
15 for a number of years.

16 We appreciate his interest, not so much his vote, but
17 his interest.

18 (Laughter.)

19 Does the Senator from New Jersey have further amend-
20 ments?

21 Senator Bradley. Yes, I do, Mr. Chairman, but I
22 would be prepared to yield.

23 I think one of my concerns can be taken care of
24 simply by an inquiry and a question and answer. It concerns
25 the 9 percent Medicaid CAP.

1 The Chairman. Nine percent?

2 Senator Bradley. Yes. That is what was included in
3 the Chairman's mark. My question is, does this proposal
4 take into account and make adjustments for such things as
5 successful state cost containment programs, influx of
6 refugees, increases in elderly population or high unemploy-
7 ment levels. All of which go to the problem of what a
8 state has to pay for its Medicaid.

9 Senator Dole. I think in answer to that, and I will
10 have the staff elaborate. As it is now conceived, it does
11 not take into account the specifics you mentioned.

12 Ms. Burke. That is correct, Senator. The CAP is
13 based on estimates in terms of spending. It does not adjust
14 for population shifts in that sense.

15 Senator Bradley. It also does not adjust for state
16 efforts to contain cost; is that correct?

17 Ms. Burke. That is correct, Senator, other than the
18 fact, in terms of the base changing, but no, it does not
19 specifically address those states that have made efforts in
20 the past as a specific item.

21 Senator Bradley. The argument last year against cost
22 containment was that some states are doing better than others
23 and you are going to penalize them.

24 The argument this year, with the CAP, is the reverse
25 of that.

1 The Chairman. We don't reverse it, we just don't
2 reward, I guess.

3 Senator Bradley. Well, I regret that. I won't ask
4 for a vote on that issue, but the answer to the question is
5 not the one I hoped for.

6 The Chairman. Again, I might say to the Senator from
7 New Jersey, without any promise, if this eventually does pass
8 the Senate and go to conference, I assume that would be a
9 matter that could properly be raised in the conference.

10 Again, I don't have any dollar estimates. Maybe the
11 Senator has, if in fact those were taken into account.

12 Senator Bradley. Well, the point is, it seems
13 consistent with the idea of better management. If you have
14 a state that has already put in the cost saving mechanism,
15 you don't want to hurt that state further by keeping a CAP
16 on him, where a state next door that didn't do anything to
17 keep expenditures down has to deal with the same CAP.

18 Mr. Chairman, I have one additional amendment, but
19 I am prepared to yield to any other Senator who might want
20 to offer an amendment.

21 The Chairman. Do you want to offer your next amendment?

22 Senator Bradley. Yes.

23 The Chairman. I know Senator Moynihan has an amend-
24 ment. We are trying to check out some facts.

25 Senator Bradley. Fine. I am prepared to offer another

1 amendment.

2 Senator Heinz. Mr. Chairman, I have something that
3 is not an amendment. It is an item on our agenda.

4 The Chairman. I indicated to Senator Heinz, if it is
5 satisfactory to the other members of the committee, we could
6 take up a matter that is listed on the agenda to follow our
7 final action on this proposal.

8 But, it may be that Senator Heinz may have to leave
9 at some point in time. I am prepared that he bring it up
10 now.

11 Do you want to raise it now?

12 Any objections?

13 Senator Heinz. I don't believe it will be controversial
14 if the other members have no objection.

15 What it is is a resolution that some 34 of us
16 introduced some weeks ago to express the sense of the Senate
17 that we will not adopt in this Congress, any of the proposals
18 put forward by a variety of national commissions to tax social
19 security benefits.

20 Is there any objection, Mr. Chairman, to our just
21 taking this up?

22 The Chairman. Does anyone object to considering it
23 now?

24 Do you want the nays and yeas?

25 Senator Heinz. I imagine, unless there is debate about

1 it, it might pass by unanimous consent. I don't know that
2 we have to have it.

3 I would just take 30 seconds to explain it. I have
4 a statement I ask be a part of the record.

5 Basically, a couple of commissions, the '79 Commission
6 on Social Security, the '81, President's Commission on
7 Pension Policy suggested that social security benefits should
8 be subject to Federal income taxation.

9 It is perhaps something that other people will want
10 to consider in a context of a much more complicated frame-
11 work than we are doing right now, and an awful lot of senior
12 citizens who are really afraid today, that in the recon-
13 ciliation process, and all the things going on down here in
14 Washington, D. C., that somehow their social security
15 benefits are going to be taxed.

16 I think it is the sense of this committee, we want to
17 go on record, since we all recognize that taxes are high
18 already, way too high, and whether we are Republicans or
19 Democrats, everybody I have talked to on this committee is
20 talking about reducing taxes, not increasing them.

21 There are some differences among individual members
22 on exactly how we want to reduce taxes, but I haven't heard
23 anybody say that we shouldn't reduce taxes.

24 It would be a very cruel hoax indeed, if people
25 thought that as we were reducing taxes, we were also

1 countenancing somebody else's recommendation to increase
2 them on those people least able to pay; namely, people on
3 fixed incomes.

4 So, Mr. Chairman, if there is no objection, I would
5 ask unanimous consent that our resolution be taken up and
6 passed.

7 The Chairman. Well, is there further discussion of
8 the resolution?

9 Senator Chafee. Well, Mr. Chairman, first let me make
10 sure that I am not for taxing social security. How long
11 does this bind us for? For this Congress?

12 Senator Heinz. It only binds us in this Congress.
13 Of course, it can be superseded by an act of Congress, but
14 it certainly will straighten out a good deal of confusion
15 in the public mind right now.

16 Mr. Lighthizer. Senator Chafee, it is the sense of
17 the resolution --

18 The Chairman. The sense of the Senate Resolution.

19 Senator Byrd. I so move, Mr. Chairman.

20 The Chairman. The Senator from Virginia has moved
21 its adoption.

22 Unless there is further discussion, all in favor
23 signify by saying aye.

24 (Chorus of aye's.)

25 The Chairman. Opposed, no.

1 (No response)

2 The Chairman. The resolution is agreed to.

3 Senator Roth. Mr. Chairman.

4 The Chairman. The Senator from Delaware.

5 Senator Roth. Thank you, Mr. Chairman.

6 I have another matter I would like to raise. I know
7 there is probably not much sympathy for my point of view,
8 but I am very concerned about the proposal to make the
9 Federal Employees Health Plan be first payor, rather than
10 Medicare for Federal retirees eligible for Medicare.

11 I did notice that the projected net savings under
12 the proposal has been reduced from \$600 million to \$390
13 million. I would say that figure comes closer to the number
14 my staff came up with which was somewhere between \$300 and
15 \$400 million.

16 With the help of Blue Cross extrapolating, based on
17 their share of FEHB, we have estimated premiums for Federal
18 employees would increase in fiscal year '82, an additional
19 21 percent over the 17 percent increase which is now foreseen.

20 So that could mean a total increase in premiums of
21 at least 40 percent for all Federal Employees Health In-
22 surance. It would even be higher if it were limited to
23 only the retired sector of Federal Employees. Those affected
24 by the provision, obviously the premium increase would be
25 much higher, as retired employees constitute about one-third

1 of the people in FEHB.

2 Mr. Chairman, one question I would like to raise with
3 you. I am also concerned about the impact this savings for
4 the Finance Committee will have on the budget of the Govern-
5 mental Affairs Committee.

6 As I understand it, this action by the Finance
7 Committee will impose an additional \$1 billion in savings
8 for the Governmental Affairs Committee.

9 Our committee has already been asked to save \$5.2
10 billion, a considerable portion of which will be achieved by
11 limiting the COLA for retired Federal Employees to once a
12 year.

13 I would be concerned that this provision, which was
14 not part of the Administration's proposal, would place an
15 unfair burden on retired Federal Employees.

16 Mr. Chairman, I understand that it is your intent and
17 understanding that with respect to this burden, if there can
18 be a transfer of funds between the two committees.

19 Would you care to comment?

20 The Chairman. Yes. We have discussed at a staff
21 counsel, our chief counsel, Mr. Lighthizer, discussed with
22 Steve Bell, on the Budget Committee, how we may approach
23 this.

24 I would ask Mr. Lighthizer to explain that for the
25 record.

1 Mr. Lighthizer. Yes, sir.

2 Mr. Chairman, the proposal would be that you and the
3 Chairman of the Government Affairs Committee offer an
4 amendment to the first budget resolution for next year
5 which amendment would reduce the spending total of the
6 Finance Committee in the health function by \$960 million,
7 and at the same time, increase the spending functions of
8 the Government Affairs Committee. I am not sure which
9 function it is, but whichever function covers the payment
10 of the Government's share of premiums for Federal Employees
11 by about \$600 million.

12 The difference, the \$300 million difference is what
13 is the real savings.

14 So, basically, what you have done is transferred from
15 our committee to the Government Affairs Committee, the limit
16 on spending to pay for the additional Government Employee
17 premium.

18 The Budget Committee has agreed that that is an
19 appropriate way to approach this problem.

20 Senator Roth. So, if I understand you correctly,
21 the Government Affairs Committee would not be compelled to
22 find greater savings as a result of this action on the part
23 of the Finance Committee?

24 Mr. Lighthizer. Assuming that the amendment is
25 adopted, that's correct, Senator Roth.

1 Senator Roth. I would just like to make one or two
2 further comments why I am concerned about this proposal. I
3 do have a copy of a letter from Mr. Conery, who is the
4 National President of the National Treasury Employees Union.

5 He points out that implementation of this proposal,
6 in fiscal year 1982, would also have an adverse effect on
7 many retirees, because they count on the Medicare benefits
8 earned during their years in the private sector, many
9 retirees purchase only minimal FEHBA coverage.

10 If the effective date of this provision were to
11 precede the opportunity to upgrade their FEHBA coverage,
12 these annuitants would only be left with minimal protection
13 against a medical catastrophe.

14 Is there any answer to that problem?

15 Ms. Burke. My understanding, Senator, is those
16 members of the Federal Employees Health Benefits Plan, the
17 retirees have a choice between staying on their current
18 coverage which is what we assume many of them would do.
19 Over time, they could choose to go fully to Medicare.

20 As we have recommended the provision, Medicare would
21 become the secondary payer and would pick up those expenses
22 not picked up by the Federal Employees Health Benefit Plan,
23 whichever they might belong to, up to the limit that
24 Medicare would have payed.

25 So, they would substantially still get their services

1 as provided under their present insurance coverage.

2 Senator Roth. Are you saying there would be no
3 gap of time in which they would be left with only minimal
4 protection?

5 Ms. Burke. I don't know what the transfer time would
6 be between the two plans. That is something we would have
7 to ask.

8 Our understanding is that under the current program,
9 if there is a coordination of benefits, that lead time should
10 not cause them to be left without services.

11 We can certainly check with the insurance companies
12 to insure that.

13 Senator Roth. I would think it would be extraordinar-
14 ily important we do everything we can to protect those
15 individuals.

16 The Chairman. That would be the intention of the
17 committee, Senator Roth.

18 Senator Roth. In addition -- I would thank the
19 Chairman for that. In addition, those annuitants that spent
20 their entire careers with the Federal Government would be
21 forced to pay higher FEHBA premiums, but would not be
22 entitled to back-up Medicare Part A coverage.

23 Conversely, those who earn Medicare benefits would
24 receive little or nothing for their investment, while still
25 being forced to pay higher FEHBA premiums.

1 I understand a change like this, at this time, could
2 cause a problem regarding the current contract obligations.

3 I wonder if at this time we could call upon Mr. Curt
4 Smith, from the Office of Personnel Management who is here
5 to ask him to elaborate on it.

6 Mr. Smith. Yes, as best we have been able to
7 determine --

8 Ms. Burke. Senator, what we would have to do as
9 raised by your question, is ask them about the coordination
10 to make sure there is no drop in coverage. That certainly
11 was not the intention of the provision to leave them with
12 no coverage at all, but simply to make Medicare secondary.

13 Senator Roth. My concern here is can we insure that
14 can be done prior to adoption?

15 Ms. Burke. We will certainly talk with the insurance
16 carriers and make sure we can do it to the effective date.
17 I would assume if there is a question of contract coverage,
18 we would do it at the end point of those contract negotiations
19 in terms of current coverage.

20 We can certainly talk with the actuaries about that
21 and also to the insurance carriers themselves.

22 I would assume, if it is simply that case of the
23 time of contract of negotiated coverage, it would be an
24 effective date question.

25 We will certainly check that out. We would find that

1 out today.

2 The Chairman. When we draft the actual language, we
3 could obviously clear it with the Senator from Delaware.
4 Certainly he is satisfied, and he will be in touch with
5 Mr. Smith, and others.

6 Senator Roth. I would say, Mr. Chairman, I would be
7 more satisfied if we go back to the Reagan original proposal.

8 The Chairman. Right. Well, I understand that. We
9 have taken actions in the past to try to improve the
10 coordination of Medicare and the Federal Employees Program.
11 This action is an additional step in that direction.

12 The FEHBA does contract to private insurance
13 companies, and to the extent that the private sector can
14 meet the needs of the elderly, I think the Government should
15 rely on the private sector.

16 We don't claim the huge benefits claimed on the House
17 side. As I look back over the Ways and Means Subcommittee
18 action, the only two savers they had was this proposal,
19 which they listed at \$1.5 billion, and then they piped around
20 with PIP again for another half billion.

21 That was the extent of their savings.

22 I certainly share the concerns expressed by the
23 Senator from Delaware. I would hope we could accommodate
24 most every concern you have.

25 Ms. Burke. Senator Roth, one additional point. That's

1 is it is the intention of the provision, and certainly our
2 understanding, that Medicare would pick up where the Federal
3 Employees Plan did not.

4 So, there shouldn't be a gap in services or coverage.
5 But again, we will certainly check with the insurers today.

6 Senator Roth. I see.

7 The Chairman. Senator Bradley, do you have another
8 amendment?

9 Senator Bradley. Yes, I do, Mr. Chairman.

10 In your mark you have \$1.335 billion savings out of
11 trade adjustment assistance.

12 The Chairman. Right.

13 Senator Bradley. As I understand the purpose of the
14 President's Program, it is to put the economy back on a
15 growth path. Many economists and politicians alike agree
16 that a part of getting that economy back on that growth
17 path has to be increasing our exports and increasing our
18 comparative advantage generally in the world.

19 That is a function not just of private investment,
20 but also the development of our labor resources.

21 One of the problems we face is we have many workers
22 that are employed in industries that are far from competitive
23 with our allies.

24 What I am proposing here, Mr. Chairman, is to
25 recognize the problem. Indeed, in the last ten years we fell

1 from second in the world in skilled labor, to seventh in
2 the world.

3 Imports of skill intensive equipment is dramatically
4 on the increase in this country.

5 So, from a competitiveness standpoint, and a product-
6 ivity standpoint and economic growth standpoint, we have to
7 be able to get these workers retrained.

8 Now, this doesn't mean income supplements, but it
9 means retraining them from industries that have lost their
10 competitiveness, to industries that still have competitive-
11 ness or that are the new industries of the 1980's.

12 So, what I would propose, Mr. President --
13 The Chairman. I just saw the President today.

14 (Laughter)

15 Senator Bradley. Excuse me, Mr. Chairman. I would
16 propose to reduce that figure to \$1.35 billion. In other
17 words, take \$300 million and allocate it to an experienced
18 worker retraining program.

19 One of the things I am fearful of is that this budget
20 will make no room for it, in fact, it hasn't, even though I
21 am told the Administration is interested in the program.

22 So, what I am saying is, let's bite the bullet here.
23 We are \$1 billion more than what the President and Senate
24 asked the Budget Committee to report.

25 I would move that we reduce that amount by \$300 million

1 so that the Finance Committee reports out a figure only
2 \$700 million more than the Senate asked, instead of a \$1
3 billion more than the Senate asked.

4 Mr. Lighthizer. Senator, is this just in 1982 or
5 1982 and 1983?

6 Senator Bradley. In 1982.

7 We are looking at the fiscal year 1982 effect, \$300
8 million.

9 The Chairman. Mr. Gingrich, would you give us the
10 Administration's proposals, so the members of the committee
11 will understand what Senator Bradley proposes to do.

12 Mr. Gingrich. The Administration has basically
13 proposed equating TRA and UI payments, making the TRA
14 payments only after the UI payments have been exhausted and
15 making a change in the standard under which TRA payments
16 could be paid.

17 Those basic changes are expected to result in a
18 savings of \$1.335 billion, in FY-82.

19 Senator Chafee. In the original program it provided,
20 as I understand it, the additional 26 weeks would only be
21 paid to workers enrolled in training approved by the
22 Secretary of Labor; is that correct?

23 In the original program, that is, the one we have
24 now before this amendment, these amendments proposed by the
25 President go into effect, there is a provision for training

1 of the worker; is there not?

2 Mr. Gingrich. Yes, there is a provision in the
3 Administration's proposal for \$112 million, for training.

4 Senator Chafee. You mean in this proposal we have
5 before us?

6 President Reagan's Proposal?

7 Mr. Gingrich. Yes, sir.

8 Senator Chafee. \$112 million.

9 Mr. Gingrich. Yes. The Administration proposed
10 a \$350 million program, of which \$112 million would be for
11 training.

12 Senator Chafee. Well, I am not sure what the difference
13 is here.

14 Mr. Gingrich. The difference is that the Budget
15 Committee's numbers do not reflect the money that is in the
16 program for training.

17 Senator Chafee. I am not sure what you are saying.

18 Mr. Gingrich. The Administration's proposal was \$350
19 million for FY-1982, includes \$238 million for basic TRA
20 payments, and \$112 million for training.

21 The Budget Committee figure of \$165 million is their
22 estimate of what the cost of the TRA payment alone would be
23 and does not include any money for training.

24 Senator Chafee. Took it out? I see. Thank you.

25 The Chairman. What would be the difference in cost

1 of the Bradley proposal as compared to the proposal compared
2 in our modified Chairman's proposal?

3 Senator Bradley. \$300 million.

4 The Chairman. \$300 million?

5 Senator Bradley. \$300 million.

6 Mr. Gingrich. Yes, sir.

7 The Chairman. Is there any further discussion?

8 Do you want a roll call?

9 Senator Bradley. A roll call.

10 The Chairman. The clerk will call the roll.

11 Mr. Lighthizer. Mr. Packwood.

12 The Chairman. No.

13 Mr. Lighthizer. Mr. Roth.

14 Senator Roth. Pass.

15 Mr. Lighthizer. Mr. Danforth.

16 The Chairman. No.

17 Mr. Lighthizer. Mr. Chafee.

18 (No response)

19 Mr. Lighthizer. Mr. Heinz.

20 (No response)

21 Mr. Lighthizer. Mr. Wallop.

22 The Chairman. No.

23 Mr. Lighthizer. Mr. Durenberger.

24 Senator Durenberger. No.

25 Mr. Lighthizer. Mr. Armstrong.

1 The Chairman. No.
2 Mr. Lighthizer. Mr. Symms.
3 The Chairman. No.
4 Mr. Lighthizer. Mr. Grassley.
5 Senator Grassley. No.
6 Mr. Lighthizer. Mr. Long.
7 Senator Long. No.
8 Mr. Lighthizer. Mr. Byrd.
9 Senator Byrd. No.
10 Mr. Lighthizer. Mr. Bentsen.
11 Senator Bentsen. No.
12 Mr. Lighthizer. Mr. Matsunaga.
13 Senator Matsunaga. Aye.
14 Mr. Lighthizer. Mr. Moynihan.
15 Senator Moynihan. Aye.
16 Mr. Lighthizer. Mr. Baucus.
17 (No response)
18 Mr. Lighthizer. Mr. Boren.
19 Senator Byrd. No by proxy.
20 Mr. Lighthizer. Mr. Bradley.
21 Senator Bradley. Aye.
22 Mr. Lighthizer. Mr. Mitchell.
23 Senator Mitchell. Aye.
24 Mr. Lighthizer. Mr. Chairman.
25 The Chairman. No.

1 Could I, rather than voting Senator Packwood, no,
2 just pass until we double check.

3 Mr. Lighthizer. Yes, sir.

4 The Chairman. On this vote the nays are 12. The
5 aye's are 4. The amendment is not agree to.

6 As it is customary, for those not present, they will
7 be entitled to register their vote.

8 The Chair now recognizes the Senator from New York.
9 Senator Moynihan. Thank you, Mr. Chairman.

10 Mr. Chairman, I think there is an issue that we have
11 to address with respect to the proposed changes in the trade
12 adjustment assistance and the reconciliation bill.

13 The effect of these proposals is to abolish trade
14 adjustment.

15 The Congressional Budget Office estimates that the
16 reductions will not be down to \$235, but indeed, down to
17 \$165; that 89 percent of the program will disappear.

18 The training aspect of the program will disappear
19 also, because by requiring persons to go on unemployment
20 insurance first, at the end of 26 weeks, you kick into that
21 extended proposal, whereby any training worker is nonetheless
22 required to take a minimum wage job.

23 So, there will never be through to 39 to pick up any
24 of the training.

25 Now, I think the members of this committee know full

1 well that in the last Congress we did something we are
2 proud of, and ought to have been, and that is, we adopted
3 the multinational trade agreement.

4 Against all expectations, the country was shrinking
5 into a protectionist mode, and not going to trade any more
6 and would put up walls and do -- turn around 50 years of
7 foreign policy. We didn't. We got almost unanimous agreement
8 on that MTN, but we did so by making some understandings with
9 working people in this country, through their trade unions,
10 that if American foreign economic policy caused them to lose
11 their jobs, in the interest of the larger society, that they
12 would be looked after themselves. We would have special
13 adjustment arrangements with them.

14 Here we are without any consultations, with no
15 hearings, abolishing that program.

16 Now, Mr. Chairman, I have a proposal here which would
17 CAP the existing program at \$500 million. It is at \$1.5
18 billion, so there is a \$1 billion down.

19 It would not make the changes in substance of the
20 programs that are proposed here. The changes of for example,
21 the present contribute importantly standard to a standard
22 of substantial cause, but it would, and if we can reach
23 agreement in the committee on the principle, I can think
24 the details would be no difficulty, we could give to the
25 Secretary of Labor, the right to kick in such arrangements

1 if the CAP were being approached and looked like it would
2 be exceeded.

3 But this entitlement that we gave the American workers
4 affected by imports, it seems to me it would be a matter of
5 good faith, not on the members of this committee, but on the
6 members of the Executive Branch and the Legislative Branch.
7 I think we would be breaking an agreement.

8 I wonder if I could have some discussion on this.

9 Senator Heinz. Mr. Chairman.

10 The Chairman. Senator Heinz.

11 Senator Heinz. I, knowing the way the committee has
12 voted on this issue most recently, I am a little skeptical
13 about Senator Moynihan's -- the chances of Senator Moynihan's
14 amendment.

15 Nonetheless, I support it. I have been a strong
16 believer in the fact that if we are going to head off very
17 strong protectionist sentiment, you have to have a mechanism
18 for protecting people whose jobs are in the name of the best
19 allocation of resources efficiently in this country and in
20 the world, whose jobs are being threatened.

21 That is the purpose of the trade adjustment assistance
22 program.

23 Senator Moynihan is entirely correct that as part and
24 parcel of our enacting the Trade Agreements Act of two years
25 ago, which was a tremendously courageous effort on the part

1 of the United States to liberalize the terms of trade for
2 the benefit of everybody, Americans and other countries
3 alike, that there were very genuine and very specific
4 commitments made to the working people of this country,
5 that we would have a strong trade adjustment assistance
6 program.

7 I am the first to recognize that those commitments
8 were made before we got into a budget bind. So, it is not
9 the purpose of Senator Moynihan's amendment to try and have
10 a program that is as big as the present program. He proposes
11 to cut \$1 billion out of the program, as I understand. But,
12 admittedly, it is not as much. It is not as much of a cut
13 as the Administration has proposed, and I don't believe it
14 is as much of a cut as the Senate voted for when the item
15 was taken up on the Senate floor. I think it was Senator
16 Bradley's amendment, on trade adjustment.

17 Senator Bradley. Senator Heinz, the amendment that
18 I took up on the floor was the one that was just rejected by
19 the committee which went to the heart of the long-term
20 economic question which is restraining people from less
21 competitive industries to more competitive industries.

22 Senator Heinz. In any event, let me just wrap up
23 and say that I support Senator Moynihan's amendment. Based
24 on the vote on the last amendment, I don't have a great deal
25 of optimism for its fate, but I support him.

1 Senator Moynihan. Could I say to my friend from
2 Pennsylvania, I think it is a measure of the degree to which
3 people share the Chairman's concern about the budget, that
4 this is a two-thirds cut, and yet it is specifically support-
5 ed by the AFL-CIO and the United Automobile Workers which
6 were the institutions to which we gave our commitment.

7 They have not come in and said, "Don't cut a penny."
8 They have said, "You can cut two-thirds, but keep the
9 principle and keep the programs."

10 The Chairman. Could I just ask one question? What
11 will this add -- will reduce savings by how much?

12 Mr. Gingrich. \$335 million.

13 The Chairman. So, it is essentially the same amend-
14 ment we just had, only it cost more?

15 Mr. Gingrich. As I understand it, it has the same
16 budget effect as Senator Bradley's amendment.

17 The Chairman. Again, I have the greatest respect for
18 the Senator from New York. I assume if we could find other
19 ways, we might have other ways. But, I think this is a
20 program that just clearly got out of hand. I think the
21 present Administration discovered that very quickly. It
22 will exceed the Budget Committee's estimated savings by about
23 \$335 million.

24 If we do not make the changes suggested by the
25 Administration, we are going to have the same abuses we have

1 had in the program in the past.

2 I might add, maybe the relief prompted by the efforts
3 of Senator Bentsen and Senator Danforth may mitigate the
4 need for this additional money with the statement by the
5 Japanese as far as auto imports are concerned.

6 We had all kinds of abuses in the program. We had
7 payments made in lump sums to workers already back at work.

8 We had paying workers unemployment, by reason of
9 imports, much more than other unemployed workers.

10 This might also, if you CAP it, discriminate against
11 those who become unemployed and eligible late in the year,
12 when they are out of money.

13 I would again point to page 54, this small blue book
14 -- the Administration estimates in fiscal year 1982, the
15 \$350 million in total outlays, \$112 million will be used for
16 retraining and relocation and job search allowance.

17 So, there is that effort to be made by the Adminis-
18 tration.

19 I would hope the amendment would not be adopted.

20 Senator Bradley. Mr. Chairman, could you give the
21 rationale for why are we cutting \$1 billion more than the
22 Senate required the committee to cut? This is an effort to
23 restore \$300 million, in which case, we would be still
24 cutting \$700 million more than what the Senate required us
25 to do.

1 It seems to me that if there is an agreement on the
2 merits of this program, that this might be a good place to
3 kind of swallow and say, "Look. Maybe we will come in \$700
4 million, instead of \$1 billion more."

5 What is the rationale for \$1 billion more?

6 The Chairman. Well, I think in the first -- I think
7 initially, I don't see anything wrong with cutting \$1 billion
8 more. I think we have jurisdiction over \$375 billion. We
9 are talking about cuts in fiscal '82, of a magnitude of \$11
10 billion.

11 I do not think we have strained the committee.

12 Secondly, we are going to be asked to make additional
13 cuts very quickly.

14 Thirdly, we are going to go to conference, assuming
15 that everything stays intact, after Senate debate.

16 Customarily, we will have to negotiate at a lower
17 level with the House of Representatives.

18 Fourthly, I think this hasn't been a program. This
19 program has grown. It is one that I think needs to be
20 curtailed. Benefits were payable for a year and a half under
21 the program.

22 When first enacted, I assume all of us who voted for
23 it, including the Senator from Kansas, felt it was an
24 outstanding program.

25 I just suggest that the rationale is to try to cut

1 Federal spending as much as we can.

2 I would be glad to make an amendment that would cut
3 it another \$1 billion, if somebody would offer it.

4 I am ready to vote.

5 Do you want the yea's and nay's?

6 Senator Bradley. Yes.

7 Senator Moynihan. Yes.

8 The Chairman. The clerk will call the roll.

9 Mr. Lighthizer. Mr. Packwood.

10 The Chairman. No.

11 Mr. Lighthizer. Mr. Roth.

12 Senator Roth. Aye.

13 Mr. Lighthizer. Mr. Danforth.

14 The Chairman. No.

15 Mr. Lighthizer. Mr. Chafee.

16 Senator Chafee. No.

17 Mr. Lighthizer. Mr. Heinz.

18 Senator Heinz. Aye.

19 Mr. Lighthizer. Mr. Wallop.

20 The Chairman. No.

21 Mr. Lighthizer. Mr. Durenberger.

22 Senator Durenberger. No.

23 Mr. Lighthizer. Mr. Armstrong.

24 The Chairman. No.

25 Mr. Lighthizer. Mr. Symms.

1 The Chairman. No.
2 Mr. Lighthizer. Mr. Grassley.
3 Senator Grassley. No.
4 Mr. Lighthizer. Mr. Long.
5 Senator Long. Aye.
6 Mr. Lighthizer. Mr. Byrd.
7 Senator Byrd. No.
8 Mr. Lighthizer. Mr. Bentsen.
9 Senator Bentsen. No.
10 Mr. Lighthizer. Mr. Matsunaga.
11 Senator Matsunaga. Aye.
12 Mr. Lighthizer. Mr. Moynihan.
13 Senator Moynihan. Aye.
14 Mr. Lighthizer. Mr. Baucus.
15 (No response)
16 Mr. Lighthizer. Mr. Boren.
17 Senator Byrd. No by proxy.
18 Mr. Lighthizer. Mr. Bradley.
19 Senator Bradley. Aye
20 Mr. Lighthizer. Mr. Mitchell.
21 Senator Mitchell. Aye.
22 Mr. Lighthizer. Mr. Chairman:
23 The Chairman. No.
24 On this vote the nays are 12, and the yea's are 7.
25 The amendment is not agreed to. Again, absent

1 Senators will be permitted to record their vote.

2 The Senator from Hawaii.

3 Senator Matsunaga. Thank you, Mr. Chairman.

4 Mr. Chairman, this morning I had indicated I would
5 offer an amendment relative to retention of item 2, on page
6 8, of the Blue Book.

7 As I understand it, the House version has this
8 provision. I would --

9 The Chairman. What page is that?

10 Mr. Lighthizer. Page 8.

11 Senator Matsunaga. Page 8, item 2.

12 The Chairman. Yes. Right.

13 Senator Matsunaga. It is to provide a status for
14 freestanding outpatient rehabilitation.

15 The Administration's proposal to repeal Section 933
16 of the Budget Reconciliation Act of 1980, the section that
17 establishes comprehensive outpatient rehabilitation services
18 as a reimbursable component to the Medicare Program, if
19 anything, is misguided.

20 This statute, as currently on the books, does not
21 authorize any new Medicare benefits. It merely takes certain
22 benefits presently paid to hospital outpatient departments
23 and encourages the establishment of independent, freestanding
24 health care facilities, to deliver those same benefits
25 already being provided.

1 Section 933. is inherently cost effective and would
2 likely result in savings. Repeal would be a step backwards
3 for the Medicare Program.

4 The Administration's budget offers no apparent
5 justification for the proposal repeal, other than that
6 prepared by the Department of HHS which merely dismisses it
7 along with a variety of other provisions included in the
8 reconciliation act, as, and I quote, "low priority benefit
9 expansion."

10 Let's not forget that Congress enacted this legislation,
11 one, to eliminate a major inequity in the Medicare Program,
12 one that affected both comprehensive rehabilitation facilities
13 and beneficiaries, and two, to provide for the receipt of
14 outpatient services in less costly settings than is now the
15 case.

16 Section 933, is scheduled to become effective on
17 July 1, of this year. At that time, Medicare patients will
18 be able to receive rehabilitation services from outpatient
19 centers that will be covered under Part B.

20 If this provision is not implemented, Medicare
21 patients would still be able to receive the same services
22 in hospitals, but at a higher cost.

23 The effect would be to discriminate against competent,
24 fully accredited outpatient rehabilitation facilities, which
25 are frequently more accessible to patients.

1 More importantly, it would discriminate among
2 beneficiaries in terms of their access to hospital and
3 outpatient centers.

4 Mr. Chairman, the Administration's estimation is that
5 repeal of this provision will save \$13 million, in fiscal
6 year 1982. This estimate is in error and misleading for the
7 estimates are based on the assumption that the services are
8 not presently covered by Medicare.

9 It ignores the fact that patients can go to the
10 hospital for exactly the same services. The savings as
11 projected, therefore, are illusory.

12 In fact, Medicare costs will probably rise if this
13 provision is repealed, as proposed by the Administration.

14 Now, this is taking into consideration last year, if
15 the Chairman will recall, by Congress, when it passed public
16 law 96-499.

17 Now it is being proposed that this far sighted and
18 sensible action be reversed, not because of an analysis of
19 the costs and benefits associated with rehabilitation, but
20 rather because it is a small provision that is acceptable to
21 easy elimination.

22 Repeal of this provision will not result in savings.
23 Instead, it will impose a heavier burden on the Medicare
24 Trust Fund by promoting inpatient care and the use of
25 hospitals for outpatient services.

1 Accordingly, I urge this committee to -- well, I had
2 initially offered, proposed to offer an amendment. But, in
3 conference with the Chairman, I have agreed not to offer the
4 amendment, but to take this matter up in conference.

5 Senator Bentsen. Mr. Chairman.

6 The Chairman. Senator Bentsen.

7 Senator Bentsen. Thank you, Mr. Chairman.

8 May I just express my support for the Senator's view-
9 point. As I recall, I was a co-sponsor, last year on this.
10 Senator Matsunaga. Yes.

11 The Chairman. Yes.

12 Senator Bentsen. I do think it is cost effective.
13 I think the rejection of it is misguided. I think it denies
14 a convenience of service that I think is effective and a much
15 less expensive means of delivering that service.

16 So, I would strongly urge that we try to accomplish
17 this particular objective.

18 The Chairman. I might say to both Senators, as I
19 indicated earlier today, when we discuss all these provisions
20 a number of times and we had different points of view, but I
21 think essentially there is a feeling that nearly every one
22 was meritorious.

23 We did eliminate three provisions. I am aware of the
24 great interest in this particular provision.

25 I suggested to the Senator from Hawaii, this morning,

1 that I think perhaps his concern can be accommodated at some
2 later date, if that is satisfactory to the Senator from
3 Hawaii.

4 Senator Matsunaga. May I inquire as to how the
5 conferees will be selected?

6 (Laughter.)

7 The Chairman. Well, I assume there will be several
8 on each side.

9 (Laughter)

10 Senator Matsunaga. Under the leadership of Senator
11 Long, you recall, practically every one of us got on the
12 conference committees.

13 I was wondering whether the present Chairman intends
14 to follow the same procedure.

15 Senator Long. Senator, I have heard what you said
16 here. As far as I am concerned, I am one of the conferees.
17 I would certainly be sympathetic to the Senator's position.

18 The way that we selected our conferees previously was
19 that I would inform Mr. Dole how many Democrats we were going
20 to name. I would suggest, after discussing with my
21 colleagues, what the Democrats ought to be named to the
22 conference committee.

23 Senator Dole would suggest the Republicans who would
24 be named to the conference committee.

25 I would assume that Mr. Dole would defer to the

1 Democrats in terms of who we ought to name as conferees,
2 just as we deferred to the Republicans.

3 The Chairman: As I recall, on this particular
4 conference, there were probably about nine of us, four of
5 us last year, and five Democrats, I assume pretty much --
6 I know Senator Durenberger has an interest in being a
7 conferee, being Chairman of the Health Subcommittee, and
8 others have already expressed an interest, Senator Packwood.

9 Senator Matsunaga. Will there be a minimum of four
10 Democrats?

11 The Chairman. How far do we have to go to get to you?

12 (Laughter)

13 Senator Matsunaga. Four.

14 (Laughter.)

15 Senator Matsunaga. The Senator from Hawaii happens
16 to be number four, Senator.

17 Mr. Lighthizer. Mr. Chairman, I might just point out
18 that the last time this was to some extent negotiated with
19 the Budget Committee who is involved in all the conferees
20 for all of the different committees. So, it is impossible
21 to determine that.

22 The Chairman. I think we have an understanding.

23 Senator Durenberger and Senator Mitchell, I think,
24 wanted to comment on this same amendment or for different
25 amendments.

1 Senator Durenberger.

2 Senator Durenberger. I wanted to comment on something
3 else.

4 The Chairman. Oh, something else.

5 Senator Matsunaga. Well, I will abide by the
6 wishes of the Chairman in the hope that this matter will be
7 taken care of in conference.

8 I do not want the Chairman to be left without any
9 bargaining position, as he has indicated and as Senator Long
10 has indicated the chances of favorable adjustment.

11 The Chairman. Well, I appreciate that. I can assure
12 the Senator from Hawaii that we will be in close contact. I
13 assume you may be a conferee.

14 In any event, I have indicated previously my position.

15 Senator Matsunaga. I will not then offer my amendment.

16 The Chairman. The Senator from Maine.

17 Senator Mitchell. Thank you, Mr. Chairman.

18 Mr. Chairman, I would like to raise a separate
19 question and make an inquiry of the staff. This is the
20 question of the transition from categorical programs to
21 block grants.

22 I have been contacted by the Governor of my state,
23 and several officials in the state, and by the National
24 Governors Association posing a question as to how they will
25 be able to move from categorical programs to block grants,

1 particularly if action is not taken plainly by the Congress
2 until later this year.

3 Two specific problems arise, one dealing with the
4 process requirements. That may be imposed in the Federal
5 legislation. Many states have their own process requirements
6 as well. I know mine does.

7 Secondly, how they will handle setting up programs
8 that they will administer for the first time.

9 I think that this is a matter of concern to all of
10 us, although the states generally favor block grants. Making
11 a smooth transition I think is something I think that is
12 essential.

13 I would like to ask the staff, if possible, what if
14 any new process requirements are to be imposed in any of the
15 block grants under this committee's jurisdiction, and
16 secondly, within those block grants, what if any of those
17 programs are programs that will be administered by the states
18 for the first time.

19 Mr. Lighthizer. Let me say, first of all, Senator,
20 that person in the Administration who is working on this is
21 coming right now.

22 But, with respect to the social services block grant,
23 that is largely Title XX which is administered by the states
24 or state run programs at the present time.

25 The three programs which are not are adoption assistance,

1 foster care and child welfare services.

2 It is the intention of the committee that those
3 programs continue.

4 Shiela, on title 5.

5 Ms. Burke. On Title 5, Senator, it has been the
6 suggestion of the Chairman that we maintain that as a title
7 of the Social Security Act, rather than include it in the
8 general services health services block grant.

9 We would assume that it would maintain the structure
10 of a block in the sense of the states having flexibility, but
11 it would still retain its title in the Social Security Act.

12 But, the specifics in terms of how we would work out
13 exactly how the states would or would not be required to do
14 have not yet been determined.

15 Senator Mitchell. At what point would that be deter-
16 mined? This is a rather critical matter. Take my own state.
17 We have a state administrative procedures act which means
18 that there is a minimum delay of two to three months in
19 implementing a change.

20 The first part of my question which hasn't been
21 answered yet is, what new Federal process requirements may
22 accompany this legislation.

23 I think it is going to be very difficult for the
24 states to be able to deal with this problem unless they have
25 some clear indication of what -- when is this going to be

1 determined?

2 Ms. Burke. Senator, let me ask the Administration to
3 answer your question, if they can.

4 Mr. Donely. Senator, the answer to the question, I
5 am sorry I missed it, regarding any new requirements, we
6 are simply tracking those requirements, tracking what the
7 states are doing under Title XX at this point. There are
8 no new requirements that we are instituting as a result of
9 this process in moving over to the block grants.

10 Ms. Burke. I would assume that would hold true with
11 the Title 5 program, also, Senator, that would retain
12 substantially what they have and not add on by any sense.

13 Senator Bradley. Would the Senator yield on that?

14 Senator Mitchell. Yes.

15 Senator Bradley. Who is going to be responsible for
16 determining how like child and maternal health operates
17 within that block grant.

18 Would that be -- who will be determining how the
19 child and material health aspect of the block grant functions
20 within the block grant?

21 Ms. Burke. Senator, the child -- maternal and child
22 health block grant is envisioned by the Chairman, is sub-
23 stantially the Title 5 program and is not incorporated into
24 a general health services block grant. It would be focused
25 on maternal and child health services.

1 We do not anticipate adding Federal requirements by
2 any means, to the current Title 5 program.

3 Senator Bradley. So that it will be the same language
4 as Title 5? There won't be any drafting of new --

5 Ms. Burke. No, Senator, there will be new drafting.

6 Senator Bradley. That is my point. I was asking if
7 the Chairman, could those of us who have been interested in
8 this, have a role in thinking through what the language might
9 look like.

10 The Chairman. If you have some specific interest in
11 some specific draft language, will not only look at it, but
12 cooperate and try to put it together.

13 Senator Bradley. Could I request that the Chairman
14 allow those interested Senators to see the draft far enough
15 in advance to be able to contribute to the process and that
16 they be distributed to staff?

17 The Chairman. That will be done. In fact, we met at
18 1:30 today, and discussed that very point.

19 Senator Mitchell. Mr. Chairman, if I could inquire
20 further, it is my understanding that the committee which
21 has jurisdiction over the health services block grant where
22 the problem is admittedly broader because they have a lot of
23 new programs administered by the states, language has been
24 suggested that would give the states the option for fiscal
25 year 1982, to choose between continuing categorical programs

1 for that year, at the reduced level of funding for moving
2 into the block grant.

3 Do you have a reaction to that with respect to these
4 block grants?

5 Mr. Donely. Senator, I am not aware of those proposals
6 with respect to that committee. We do not have a position
7 that would favor continuation of any categorical programs
8 with respect to the social services block grant which is the
9 area of responsibility we are dealing with here.

10 Senator Mitchell. What would you propose that a
11 state do, if confronted with a situation where it cannot,
12 unless it violates its own law or be in a position to
13 proceed.

14 Mr. Donely. Yes, sir, I understand.

15 The Secretary has said that the Department will work
16 with those states that have difficulties complying at
17 precisely the point in time that the fiscal year or the
18 authorization of the block grant may take place, and that
19 appropriate phase-ins, as necessary, would take place.

20 But, if you ask the question, "Should they continue
21 for an entire fiscal year with categorical in one direction
22 and blocks in another direction;" that is not the desire of
23 the Administration. Hopefully a phase-in period would be
24 precisely that.

25 Certainly enough to enable the states to do the things

1 that it needed to do within its state legislature, within
2 the operation of the Governor's Office, whatever was
3 necessary and reasonable to be done, the Department would
4 work very close with them on that phase-in period.

5 But, as to try and say that that phase-in period is
6 a fiscal year in length or some other defined length; no sir.
7 That is not the position at this point.

8 Senator Mitchell. You have stated explicitly that one
9 year is too long. What is a reasonable time?

10 How can anybody tell in advance? How could the state
11 have any assurance?

12 Mr. Donely. That is precisely -- one year is too
13 definitive perhaps in either direction. The Secretary has
14 simply said that we will work with the state to move as
15 rapidly as is practical and possible to full implementation
16 of the block grants.

17 I can't speak for what was in his mind at the time
18 that he responded to that question, Senator. But, my instinct
19 would be that he was speaking in matters of months. So that
20 a reasonable, good faith effort would go forward from the
21 state to correct whatever needed to be corrected within their
22 own enabling legislation or whatever was necessary within the
23 operation of that state.

24 I think there are some of those things that just have
25 to be worked out in good faith.

1 The Chairman. Are there other amendments?

2 Senator Bradley.

3 Senator Bradley. Mr. Chairman, I will do a quick one.
4 that we mentioned earlier today on the pneumococcal vaccine,
5 the pneumonia vaccine. You proposed a compromise. I felt
6 that that compromise was not -- it was better to have nothing
7 than that compromise.

8 What I would to do now is to raise a little different
9 proposal. I will change my proposal and make it a 20 percent
10 co-payment under Medicare. That would reduce the cost in
11 each of the next three years with a total reduction of about
12 \$25 million over the next three years.

13 So, I would call for a vote on that, because I think
14 this is an issue in which we do have elderly citizens who
15 are vulnerable. This is a postponement until 1984. The law
16 was passed last year to go into effect this July. You know,
17 instead of having it fully covered by Medicare, let's have a
18 20 percent co-payment, but let's at least give the entire
19 Medicare population a chance to be covered in part, for these
20 inoculations.

21 The Chairman. As I understand, under your proposal,
22 a total savings through '84 would be what, \$25 million?

23 Senator Bradley. Yes.

24 The Chairman. Rather than our savings of \$160 million.

25 Senator Bradley. Well, your savings, roughly, yes.

1 Actually, the cost of the effective date..current law,
2 in '82 and '83, I don't get \$160 million.

3 The Chairman. Oh. Well, maybe I added wrong.

4 Shiela, what are -- \$160 million through fiscal year
5 '84.

6 Senator Bradley. I see. Well, this is a difference
7 between OMB figures and CBO figures. If you use CBO figures
8 it is a savings from postponing the effective date over a
9 three-year period is -- \$83 million.

10 So, it is roughly -- CBO says the savings are roughly
11 half of OMB. So, I mean, that is the discrepancy in figures.

12 The Chairman. Well, I would say, as I have indicated
13 before --

14 Senator Bradley. If we go with the OMB rationale,
15 maybe the savings would double.

16 The Chairman. We felt we had a proposal this morning.
17 If we are concerned about the poor receiving the pneumococcal
18 vaccine, then I think the proposal we outlined this morning
19 would provide free vaccine for 1.8 million poor, under SSI.

20 This would open it up to anyone eligible for Medicare,
21 regardless of their ability to pay.

22 Senator Bradley. With a 20 percent co-payment.

23 The Chairman. Right, with a \$25 million recoupment.

24 It just seems to me that this is just another one of
25 those areas -- what we have done, we haven't repealed the

1 provision, we have just changed the effective date.

2 Again, we will be, I assume, in conference on this
3 matter. I can't make any promises to the Senator from New
4 Jersey, but we are talking about a fairly substantial sum of
5 money in fiscal '82, a difference of \$48 million.

6 In fiscal '83, a difference of \$37 million, based on
7 these figures. I know they would be smaller using the other
8 estimates.

9 It just didn't seem necessary we insure against some
10 relatively low cost item, particularly in view of the effort
11 by some of us to meet the needs of the elderly. I would hope
12 that the amendment offered by the Senator from New Jersey
13 would be defeated.

14 We will go to conference and hopefully arrive at some
15 accommodation.

16 Again, I know there is a great deal of interest in
17 this amendment. I have had numerous phone calls, including
18 such distinguished former colleagues as Al Ullman, but I
19 don't know how we are going to save any money if we start
20 adding on.

21 I would -- do you want a roll call?

22 Senator Bradley. Yes.

23 Senator Byrd. Mr. Chairman.

24 The Chairman. The Senator from Virginia.

25 Senator Byrd. Let me ask this. This is a new

1 program, as I understand it.

2 The Chairman. Right.

3 Senator Byrd. No one is participating in it now. It
4 hasn't even become effective, yet.

5 The Chairman. No, but somebody has a lot of vaccine
6 on hand.

7 (Laughter.)

8 Senator Long. Let me ask this question. Someone
9 ought to be here to give it to us. Isn't pneumonia one of
10 the -- where does it rank, isn't it one of the principal
11 causes of death among these elderly people?

12 Senator Bradley. In 1977, 39,000 people died from
13 pneumonia.

14 Senator Long. Among the elderly population, what
15 percentage of them died of pneumonia the past year for which
16 you have figures?

17 Mr. Donely. Senator, we don't have those here. It
18 ranks 6th in terms of causes of hospitalization, under
19 Medicare.

20 Senator Long. It ranks sixth in terms of cost of
21 hospitalization?

22 Mr. Donely. Yes, sir.

23 Senator Long. I think as a cause of death it may rank
24 higher than that. Can't you get us that information?

25 How long is it going to take to get that information?

1 We ought to have that before we vote on the amendment.

2 Ms. Burke. Senator, the information we have available
3 is that pneumonia is the fifth leading cause of death in the
4 United States, and that approximately 54,000 people died in
5 1978, of pneumonia.

6 Our understanding is that the vaccine is targeted on
7 approximately 15 percent of the overall pneumonias, because
8 it is a pneumococcal vaccine and directly towards that kind
9 of pneumonia.

10 That information was given to us by the Department.

11 Senator Long. Let me get that straight. You say that
12 vaccine does not help in all cases of pneumonia. There will
13 be certain kinds of it?

14 Ms. Burke. That is my understanding, Senator.

15 Senator Long. Only 15 percent of the pneumonia cases
16 would be favorably affected?

17 Ms. Burke. That is the information we were provided,
18 yes sir.

19 Senator Long. That was different from what I have
20 anticipated. I was assuming that that vaccine would be
21 effective against all.

22 Ms. Burke. That is not my understanding.

23 Senator Bradley. What is the breakdown on other kinds
24 of pneumonia? What about all the others? How would they
25 break down?

1 Ms. Burke. The Administration indicates they don't
2 have that information.

3 Senator Bradley. How did they get the pneumococcal
4 then if they don't have the other 85 percent?

5 (Laughter.)

6 VOICE: Sir, it is broken down. We can supply that
7 information to the committee.

8 Senator Bradley. Fine.

9 Senator Durenberger. Mr. Chairman.

10 The Chairman. The Senator from Minnesota.

11 Senator Durenberger. Pneumococcal vaccine is a great
12 idea. So is vaccinating the other 85 percent, I presume, a
13 great idea.

14 The Senator from New Jersey said something this
15 morning, I could not agree with. That is that rather than
16 do -- rather than put -- if you are not going to put any
17 money in this thing at all, let's not do anything at all.
18 I don't agree with that at all. I think we have made great
19 strides forward by keeping the commitments to the vaccine in
20 this program.

21 Senator Bradley. That is why I returned this afternoon
22 with this proposal.

23 Senator Durenberger. Well, you are talking about 20
24 percent of \$13.00. I don't know what in the world you are
25 trying to achieve by doing it. I think the commitment is

1 there. Hopefully, in a conference committee, we can move
2 the date up or do something else.

3 I think what is important about what we have done
4 here is made the commitment to hang on to the concept of
5 covering pneumococcal vaccine under Medicare.

6 Senator Long. Well now, my impression is here that
7 the Chairman, Mr. Dole, was willing to offer in the way of
8 a compromise, something that would put an end for all the
9 SSI for the poor. I think that is estimated to cost some-
10 where around \$18 million.

11 I would ask the Senator, rather than get this thing
12 voted down for 35, don't you think it would be better off
13 to get it voted in for \$18 million?

14 Senator Bradley. Most of those people are covered
15 by Medicare, as it is now. That is my understanding, and
16 SSI.

17 The Chairman. Is that right, John?

18 Mr. Donely. Senator, it is a question of getting
19 people in to take the shot. CBO's estimate on the -- making
20 it a covered item under Medicare, they are only assuming that
21 15 percent of the elderly will receive the shot. We are
22 talking about 100 percent coverage to all the poor elderly
23 by getting information out to them that the shot is available.

24 The Chairman. Along with a voucher which they can take
25 to their physician or whoever.

1 Mr. Donely. Yes, sir.

2 Senator Long. Well, I think it would be a lot better
3 off taking care of the poor elderly, to the extent of \$18
4 million.

5 Senator Bradley. Eighteen million?

6 Senator Long. Than losing by an amendment where you
7 wind up taking care of none of them.

8 Senator Bradley. Well, we have had the assurances
9 that we are going to conference. My thought is let's try
10 to take care of as many of them as we can here, and if we
11 fail here, then we will depend on everyone in conference to
12 keep up their good work to get the vaccine.

13 I would suggest let's vote.

14 The Chairman. Vote on your amendment or the compromise?

15 Senator Bradley. Yes.

16 The Chairman. Your's is a compromise.

17 Senator Bradley. The co-payment compromise.

18 The Chairman. It strains the word, but the clerk will
19 call the roll.

20 Mr. Lighthizer. Mr. Packwood.

21 The Chairman. No.

22 Mr. Lighthizer. Mr. Roth.

23 (No response)

24 Mr. Lighthizer. Mr. Danforth.

25 The Chairman. No.

1 Mr. Lighthizer. Mr. Chafee.
2 The Chairman. No.
3 Mr. Lighthizer. Mr. Heinz.
4 The Chairman. No.
5 Mr. Lighthizer. Mr. Wallop.
6 The Chairman. No.
7 Mr. Lighthizer. Mr. Durenberger.
8 Senator Durenberger. No.
9 Mr. Lighthizer. Mr. Armstrong.
10 The Chairman. No.
11 Mr. Lighthizer. Mr. Symms.
12 The Chairman. No.
13 Mr. Lighthizer. Mr. Grassley.
14 Senator Grassley. No.
15 Mr. Lighthizer. Mr. Long.
16 Senator Long. No.
17 Mr. Lighthizer. Mr. Byrd.
18 Senator Byrd. No.
19 Mr. Lighthizer. Mr. Bentsen.
20 Senator Bentsen. No.
21 Mr. Lighthizer. Mr. Matsunaga.
22 Senator Matsunaga. Aye.
23 Mr. Lighthizer. Mr. Moynihan.
24 (No response)
25 Mr. Lighthizer. Mr. Baucus.

1 Senator Baucus. Aye.

2 Mr. Lighthizer. Mr. Boren.

3 Senator Boren. No.

4 Mr. Lighthizer. Mr. Bradley.

5 Senator Bradley. Aye.

6 Mr. Lighthizer. Mr. Mitchell.

7 (No response)

8 Mr. Lighthizer. Mr. Chairman.

9 The Chairman. No.

10 On this vote the nays are 14 and the yea's are 4.

11 The amendment is not agreed to. The absent Senators will be
12 entitled to record their vote.

13 I am willing, if the Senator from New Jersey doesn't
14 object, to put in the SSI provision which will pick up 1.8
15 million.

16 Do you prefer to --

17 Senator Long. I was going to suggest, if Mr. Cole,
18 can't compromise with Mr. Bradley, maybe he can compromise
19 with me. I will be glad to join in the compromise.

20 (Laughter)

21 The Chairman. That will give you some immunity.

22 Senator Long. That is \$18 million worth of shots.

23 Senator, up until you got up on this committee, I
24 be you \$18 million worth of shots were a lot of shots.

25 (Laughter)

1 The Chairman. Without objection, we will make that
2 change suggested -- it actually came from John Stern, on our
3 staff.

4 Mr. Lighthizer. Mr. Chairman, then we are removing
5 the effective date provision that was in there before, and
6 we are substituting this --

7 The Chairman. Right.

8 See, we are already making headway.

9 The Senator from New York I think had a couple of
10 losers.

11 Senator Moynihan. The hour is moving along. I don't
12 want to make a large proposition about this, but the fact is,
13 Mr. Chairman, when you get back to your office, if we ever
14 let you and you open your mail, get to your mail, you will
15 find there is on your desk today the social welfare amendments
16 of 1981, as proposed by the Administration and transmitted
17 today to the Senate, by the President.

18 This constitutes an enormous change in social policy,
19 certainly larger than any of the kind we have had before us
20 in some years.

21 On the very day we receive the proposal, it seems to
22 me bizarre that we, without hearings, without testimony, with
23 so little effort, we are enacting some of its major proposals.

24 I don't think -- I think we are going to want to take
25 a long look at this. I know you will, too. I will propose

1 two measures which would step back from a commitment by this
2 committee, at this time, to change this, which I don't think
3 this committee, save in the pressure of the budgetary
4 situation would ever make.

5 I will just mention both of them and we can then vote
6 on them as you will.

7 The first has to do with the proposal to put the
8 adoption assistance and the foster care provisions of the
9 Social Security Act into a block grant.

10 Now, Mr. Chairman, for 45 years this committee has
11 had the responsibility of providing social security assistance
12 to parentless children.

13 There are 100,000 such children in the country right
14 now who are receiving foster care, foster home payments which
15 enable them to, not to live in an orphanage. That was what we
16 did in 1935. That is an entitlement of the person, the child
17 just as the aid to families of dependent children was
18 originally just aid to dependent children, is an entitlement
19 where there is no parent.

20 Then, last year, in P. L. 96272, after three years of
21 consideration, we put together a program designed as much as
22 we could do, to shift persons away from the foster care and
23 encourage adoption. We established adoption aid as a national
24 program. Many states had it, but some states did not. The
25 State of Oklahoma did not. Texas did not. Some did.

1 It seems to me that these are entitlement programs
2 in the very best of the system and tradition of the social
3 security.

4 If we are now to put them into a block grant, we take
5 and we cut that total by 25 percent, we are going to put
6 these children in competition with the social welfare
7 professionals and the administrators and the bureaucracies
8 generally that will provide social services, good, useful
9 persons, but they are necessarily in a competition and
10 necessarily these children will lose out in this process.

11 It seems to me that the proposition is very clear.
12 I think your original intention, Mr. Chairman, was to
13 preserve the integrity of the foster care and adoption as
14 an entitlement program.

15 I would therefore make the simple proposal that that
16 is what we do. That we keep them as they now are. If we
17 want to change them, if it really comes to our mind that we
18 want to change them, then we have this huge proposal before
19 us and we will be spending about a month, but simply in the
20 pressures of this reconciliation measure, to take away from
21 children one of the entitlements they have had for 45 years,
22 seems to me a very doubtful thing to do.

23 I do not mean to be any more than accurate when I say
24 to you, we are taking away from children who have no parents.

25 As to move away from the measures which we incorporated

1 in our laws last year, that was probably the largest piece
2 of social legislation this Congress passed under the last
3 Administration.

4 The amounts being paid out in adoption assistance right
5 now are very small, and that is the problem. It is difficult
6 to find families to adopt children. The object of this
7 program is to encourage that, to make it possible, and to
8 pay for it.

9 This is such an important decision. I don't see how
10 we could make it in the interest of budgetary arrangement.
11 This is not a block grant. It is not appropriate as a block
12 grant. We don't have any questions. We are not arguing that
13 social services should be in a block grant, surely they could.

14 But, the entitlement of a dependent child with no
15 parents, these are orphans, is not to be made subject to a
16 block grant competition and to take away from this committee
17 a responsibility it has solemnly carried forward for almost
18 half a century and turn this over to the vagaries of the
19 appropriations process, they will appropriate X amount or
20 they will cut ten percent.

21 I mean, what happens when there is a ten percent cut
22 in foster care payments? Do they just -- just give ten
23 percent to those children? It is taken out of the families
24 they are in and put where? Where do they go? Are they to
25 -- they are 3 and 4 years old, most of them. Do they just go

1 to the streets and find a place for themselves and learn the
2 work ethic early?

3 (Laughter.)

4 Senator Moynihan. Yes, the work ethic, but it is hard
5 to explain it to a three year old.

6 (Laughter)

7 Senator Moynihan. I just don't think this committee
8 wants to let the Appropriations Committee take over this.
9 We will never get it back, Mr. Chairman.

10 The Chairman. Well, as I understand the Moynihan
11 proposal, and I am not certain I quarrel with what he has
12 said, but does it lose about \$75 million in savings?

13 Mr. Lighthizer. It loses about \$85 million, Mr.
14 Chairman, because it does not reduce by 25 percent when it
15 puts a CAP on foster care.

16 It also will lose some additional amount, although
17 probably not too much, because it has an open-ended adoption
18 assistance program. But that is such a small program, it is
19 our sense it will not amount to very much.

20 Senator Moynihan. It is very small.

21 Mr. Lighthizer. But it is open-ended.

22 Senator Moynihan. But it is our purpose that it should
23 grow. It is a good purpose.

24 Mr. Lighthizer. The third big difference is that, of
25 course, it keeps these two programs out of the block grant.

1 Senator Durenberger. Mr. Chairman.

2 The Chairman. Senator Durenberger.

3 Senator Durenberger. I can sit here with a great
4 deal of sympathy to what the Senator from New York has said.
5 It makes bite the bullet all day long, and when he talks, it
6 sounds like we are getting lead poisoning.

7 (Laughter)

8 The Chairman. We had a program for that.

9 (Laughter)

10 Senator Durenberger. Vaccinations.

11 The Chairman. In a block grant.

12 Senator Durenberger. The problem we have been
13 wrestling with with regard to all three of these is, you
14 know, you pretty well stated.

15 I talked to Dick Schweiker over the noon hour about
16 the concerns I think Senator Long expressed this morning and
17 the degree to which earmarking language in this title 20
18 block grant can solve some of the problems.

19 The heart of it gets back to the funding issue. You
20 know, if you follow Title XX, the social services part, from
21 1973 up to the present, our proposal will put \$100 million
22 less into social services, for the blind, the aged, the
23 disabled, then was in there in 1973.

24 To bring these three programs in, in competition for
25 that lesser amount of money, is in effect to start the work

1 ethic early or whatever else the Senator spoke to.

2 I am not as much concerned about the separateness of
3 the program, if I could see appropriate earmarking, as I am
4 for the fact that we have gone on the theory that you can
5 take 25 percent out of a program that it was capped and blocked
6 ten years ago, or eight years ago, and that you can allegedly
7 take 25 percent out of that program and deliver the same
8 amount of services, to me is basically ridiculous.

9 I am not going to propose a cut-back amendment, but
10 I just want to go on record as expressing a deep concern for
11 the fact that in all the other blocks, I have supported
12 everyone of them, everybody else has supported them, there
13 is a lot of areas where you consolidate grants, you get rid
14 of requirements and you save a lot of money.

15 But, it doesn't seem to me in the three areas the
16 Senator from New York has pointed out or in Title XX that is
17 the result.

18 The Chairman. Does the Administration wish to be
19 heard on the amendment?

20 We wish to hear the Administration on the amendment.

21 Mr. Donely. Mr. Chairman, as I understand the amend-
22 ments offered by Senator Moynihan, the Administration is not
23 in favor of those amendments, cannot support not keeping or
24 not allowing these programs to be included in the block grant.

25 Specifically, if my recollection of the legislative

1 history surrounding the public law 96272 which is at issue
2 here is that in that legislative history it showed very
3 clearly that great amount of these services were already
4 provided by state funds and by private funds, and the Federal
5 share, while not insignificant, was a share that was beginning
6 to be capped off, particularly the foster care maintenance
7 programs, had caps built in purposely by this Congress, because
8 of the burden that needed to be shifted more and more to the
9 states --

10 Senator Moynihan. No. No. No, sir, if I may. It was
11 not a question of burden. It was a question of what is good
12 for children. We came to the judgment that foster care was
13 easier to arrange than adoption. There was just more and
14 more of it, and undesirably so. We wanted to move and it
15 was very complex legislation, move to the adoption of
16 children. It has only been law for six months.

17 I said this morning, we worked out this last fall,
18 this data. Children born in the United States in 1980,
19 half can expect to live in a single parent family in their
20 lifetime. A third can expect to be supported by public
21 assistance.

22 Of those numbers, very -- will in effect have no
23 parent. We worked out this.

24 Now, it is not much money. You sent us a bill, sir,
25 not you, but you sent us a big piece of legislation. Must

1 we adopt it the day it arrives?

2 Mr. Donely. Senator, I certainly am not picking a
3 quarrel with you.

4 Senator Moynihan. No.

5 Mr. Donely. Your figures, and let me simply say it is
6 my understanding that this committee has before it a measure
7 of its own construct which closely parallels the initiatives
8 in that particular bill which --

9 Senator Moynihan. Not by accident.

10 Mr. Donely. Well, sir, this body has deliberated
11 significantly over these issues. We tried to work very
12 closely with you and provide responses when you requested
13 technical assistance, and particularly, Senator, in this
14 particular feature of the block grants, we have tried to
15 be responsive to the thrust of public law 96272.

16 We have no quarrel with the initiative of that piece
17 of legislation. We think it was one, as we have followed it,
18 worked out quite arduously over time through at least two
19 Congresses that I am aware of, and certainly have tried to
20 make every effort to assure that the specific parts that
21 that legislation addresses are to be inclusive in this
22 construct of the block grant.

23 We certainly hope that the states will take that
24 authority and move with it.

25 The Chairman. Senator Boren.

1 Senator Boren. I am confused. I thought this morning,
2 and I haven't followed this correctly, I guess, when we
3 talked about the adoption services, I thought that was taken
4 out of the block grant, this morning.

5 In our discussion this morning, after Senator Long
6 expressed the worry that if we had the block grant and we
7 tried to earmark within the block grant, that that can cause
8 problems and we cut off everything else in the block grant
9 if the state didn't do like we wanted on this, that wouldn't
10 be appropriate.

11 I thought it was put into a separate --

12 Mr. Lighthizer. It is part of the same block grant,
13 Senator Boren, but it has all the protections we were talking
14 about.

15 Basically, it requires that the states have the
16 program, that they maintain the same effort, that they had
17 the same general objectives that are contained in public
18 law 96272.

19 Senator Long added a provision which said that if they
20 don't meet the requirements they lose the funding level for
21 those programs.

22 As a technical matter, we kept it as part of the same
23 block grant.

24 Senator Boren. All right. We have reduced the funding.
25 What are the total funding for? We are talking about adoption

1 services. We are talking about foster care?

2 Senator Moynihan. Foster care and adoption, those
3 two.

4 Senator Boren. Those two.

5 Senator Moynihan. Yes.

6 Mr. Lighthizer. By \$500 million, in those three
7 programs.

8 Senator Boren. What is the third?

9 Mr. Lighthizer. Child welfare services.

10 Adoption assistance, foster care and child welfare
11 services.

12 Senator Moynihan. I am not proposing the child welfare
13 services be kept separate. It is not an entitlement program.

14 Senator Boren. You are only talking about the two.

15 How much money is in foster care and adoption services?

16 Mr. Lighthizer. About \$350 million.

17 Senator Boren. About \$350 million.

18 That is to be reduced by 25 percent?

19 Mr. Lighthizer. Yes, sir. All the title XX and
20 these three programs are all to be reduced by 25 percent,
21 and then, included in the same block grant.

22 Then the Administration proposed, pursuant to the
23 criticism or difficulty of several of the members, that there
24 be specifications in the block grant which say you have to
25 have these three programs, that you have to have the same

1 maintenance of effort with the exception of a reduction of
2 25 percent, since all the funds --

3 Senator Boren. How much does adoption services get out
4 of that figure?

5 Mr. Lighthizer. \$10 million, adoption assistance.

6 Senator Long. Well, it seems to me these two, what
7 was done here as far as these three programs say they are
8 not really block grant programs at all. That is the way
9 it works out. But, you put them inside the block grant,
10 it makes somebody happy. But, you still have all these
11 Federal requirements to comply with, as I understand it.

12 Is that right?

13 Mr. Lighthizer. Senator, they have the same general
14 requirements that were in the statute. In fact, the language
15 is taken out of the statute in terms of what the purpose of
16 the program has to be.

17 Senator Moynihan. But, is it not the case that the
18 foster care services are an entitlement, as many parentless
19 children who are placed in foster homes, the United States
20 Government will put up 50 percent of the cost, as in an AFDC
21 program, whatever it is. The program is defined by the
22 number of persons who need it, and the same as adoption.

23 Now we are taking away from children an entitlement
24 here, and we are doing it so quickly. If this committee
25 wants to do it six months from now, after you have heard

1 from your own adoption services, your own social welfare
2 departments, yes, go ahead and do it, we don't mind, or you
3 decide to do it any way, then we can. But should we do it
4 in one day?

5 We took three years to enact this legislation. One
6 part of it has been the law of the United States for almost
7 half a century and we are turning over to the Appropriations
8 Committee.

9 I do not want to filibuster, Mr. Chairman. We are
10 turning over to the Appropriations Committee the responsibil-
11 ity for these children. That is something we have never
12 done. I don't think we should do it.

13 Senator Bradley. I would just like to follow. Why
14 are we doing this. If I take what the Chairman has said,
15 we are doing it for some negotiating room with the House.

16 I think that frankly, for \$75 million, that is a little
17 less negotiating room, but it is a little better feeling
18 about what your job is as a Senator on the Finance Committee.

19 The Chairman. I am not certain I would make that
20 argument in this case. I think there is certainly a strong
21 case to be made, as Senator Moynihan has made, for these
22 provisions.

23 I think what bothers Senator Moynihan more than the
24 way it is done is the entitlement, the appropriations process.
25 I don't think he is concerned about how we constructed it, I

1 think you are concerned about -- where the money will come
2 from.

3 I understand the Administration opposes that position;
4 is that correct?

5 Mr. Donely. Well, sir, the Administration feels that
6 these objectives can be accomplished within the construct of
7 the block grant as you are now considering here today.

8 The Chairman. We could make it an appropriated
9 entitlement.

10 Mr. Lighthizer. That is correct, Mr. Chairman. Title
11 XX right now, as Senator Moynihan knows, being on the Budget
12 Committee, is a kind of a hybrid, called an appropriated
13 entitlement.

14 Basically, what this is, it is an entitlement program
15 and in this case, it is a capped entitlement program. It
16 is unlike social security where as long as you have an
17 entitlement, the funds are automatically come up and they
18 are unlimited.

19 But, in the case of Title XX, when we pass legislation
20 the appropriation is really a ministerial function on the
21 part of the Appropriation Committee.

22 That is the way Title XX is structured now. There are
23 some other appropriated entitlements in law.

24 This would not have the feature of increasing the
25 funding as soon as a child qualifies, but it would have the

1 function of removing the discretion from the Appropriation
2 Committee of being able to reduce the --

3 Senator Moynihan. Yes, but that -- I think our counsel
4 has made a very accurate, illuminating statement. The
5 difference here is, does the child who needs these services,
6 is he entitled to the support in the social security system.
7 I think they should be.

8 I would be prepared to vote, Mr. Chairman.

9 Senator Boren. Is it an estimate of \$75 million?

10 The Chairman. \$85 million.

11 Mr. Lighthizer. Plus some additional amount, Senator
12 Boren, from the fact that the adoption assistance is open
13 ended.

14 Senator Boren. I must say, Mr. Chairman, I think
15 Senator Moynihan has made a good point. I observed these
16 programs. Oklahoma is one of the states that did not have a
17 program for especially adoption services in the past. There
18 has been a great need for it. We have had a tremendous
19 problem in our state. I have been personally involved with
20 a number of families who attempted to give foster care and
21 supported the basic policy decision we made to move toward
22 adoption services as a permanent solution to this problem.

23 We are within, we are still well within the dollar
24 figures, are we not?

25 The Chairman. Yes.

1 Senator Boren. I just can't in all honesty say that
2 I have exercised independent judgment about what we ought
3 to do in conscience with my own familiarity with the problem
4 that exists and vote against Senator Moynihan's motion.

5 I really think we ought to seriously consider that.
6 I think we are all for savings. I have tended to vote down
7 the line for the substitute.

8 I must say that I really think that Senator Moynihan
9 has raised a point here that I think all of us really ought
10 to seriously consider this before we undo the good work we
11 have done in this committee, on this particular question.

12 Senator Bentsen. Mr. Chairman.

13 The Chairman. Senator Bentsen.

14 Senator Bentsen. Mr. Chairman, I share that viewpoint.
15 I was just attending a March of Dimes forum that they were
16 having here. One of the major subjects was teenage pregnancies
17 and the numbers you were giving earlier about the number of
18 children that would be born and really not have parents. We
19 have a situation of children having children is what is
20 happening today.

21 I get deeply concerned about trying to see that they
22 have some parental guidance and have a family atmosphere, if
23 they can.

24 Frankly, I am in support, even though it does not
25 apply to Texas, unfortunately. We are not doing some of the

1 things I think we should in Texas in this regard.

2 I am pleased to support your effort.

3 The Chairman. What would the difference be between
4 Senator Moynihan's proposal and the so-called hybrid, the
5 appropriated entitlement?

6 Is that the \$85 million one?

7 Mr. Lighthizer. Yes, sir, that would be \$85 million,
8 if we went with the Administration's proposal of reducing
9 the foster care amount by 25 percent.

10 When we suggested an ~~appropriated~~ appropriated entitlement, that
11 can be done at any level. It could be done at the higher
12 level, for that matter.

13 Senator Moynihan, and his proposal does propose capping
14 foster care at this year's level.

15 The Administration essentially would put it into the
16 block grant at 75 percent. That is the \$85 million.

17 The Chairman. You put only two programs into the
18 block, right?

19 Senator Moynihan. I would keep only two out.

20 Mr. Lighthizer. He would keep only one in.

21 The Chairman. One in.

22 Senator Long. I would hope that whatever we work out
23 here would be something where these children are going to
24 get whatever help we intend for them get year-by-year. That
25 is an advantage of an entitlement program. They do get it.

1 We have seen how in these appropriation areas,
2 Appropriation Committees can get at loggerheads for whatever
3 reason.

4 I recall one year, both of you weren't here at that
5 time, those fellows fell out, couldn't agree on what room
6 they were going to meet in. The Government almost had to
7 come to an end because those old gentlemen could not agree
8 where to meet.

9 They finally fixed up this room, EF-100, down beneath
10 the capitol steps, which was just midway between the Senate
11 and the House, and that way the Government was saved and
12 permitted to continue to operate for another year.

13 We almost had to just completely quit operating as a
14 Government at all. Every now and then these appropriation
15 bills can get involved in some sort of a controversy that
16 nobody can anticipate.

17 At that point, people can be hurt. I would hate to
18 see those children lose out and lose what support, meager
19 though it may be, because the people on the Appropriations
20 Committee get involved in some kind of a quarrel which none
21 of us can anticipate here.

22 I hope the Chairman would consider trying to work it
23 out so that in any event the money will be there, whatever
24 money that you want to make available to them.

25 The Chairman. That is why I was suggesting maybe a

1 mid-position between the Administration and Moynihan would
2 be the appropriated entitlement.

3 I think we ought to vote on Senator Moynihan's amend-
4 ment. If it carries, if it does not, I will be willing to
5 suggest we do that.

6 Are you ready to vote?

7 Senator Durenberger. Mr. Chairman, may I clarify what
8 it is we are voting on?

9 I have in front of me something called The Moynihan
10 Child Welfare Amendment, which in paragraph 1, includes child
11 welfare in the block grant, with an earmark stipulating that
12 not less than 75 percent of the amount spent on it in fiscal
13 '81, which is 75 percent of \$163 million which was supposed to
14 go up to \$220 million, to be spent in subsequent years and
15 retaining various protections.

16 That, it seems to me doesn't seem to be doing too
17 much for child welfare services.

18 The second one is exclude AFDC foster care maintenance
19 funding from the social services block grant, but CAP each
20 state's allotment at the 1981 level and permit any funds not
21 needed for foster care maintenance, abuse of a child, ,
22 child welfare which is your basic protect the states regard-
23 less of how much they charge for foster care from the ravages
24 of Federal budget cutting.

25 It does not subject 1981 spending on foster care,

1 \$349 million, to any cut, as I understand it.

2 The third point is to exclude adoption assistance
3 programs from the block grant, which I get the impression
4 somehow it escapes me, but I guess we have already done that
5 did somebody say?

6 The Chairman. No.

7 Mr. Lighthizer. No.

8 The Chairman. We haven't done that.

9 Senator Durenberger. That is basically what it does.

10 Mr. Lighthizer. Then it allows them, in point 4, to
11 use any of the social services block grant for child welfare
12 services, and adoption assistance.

13 Senator Moynihan, did you take out for foster care?

14 Senator Moynihan. Yes. I would like to take out
15 point 4. It is not necessary. Just the three things.

16 The Chairman. Are we ready?

17 Senator Chafee. Mr. Chairman.

18 The Chairman. Senator Chafee.

19 Senator Chafee. I would just like to comment on this.
20 This is an issue I have been involved in for some time. I
21 want to explain the situation I am in.

22 The Administration, of course, was very much opposed
23 to any form of block grant in this area. As a result of our
24 consultations and discussions I had with Senator -- Secretary
25 Schweiker, considerable changes were made.

1 As a result, it ended up with what the Chairman has
2 I think accurately called a "targeted block grant." It
3 didn't do everything we wanted, but it came a long ways.

4 The Administration was reluctant to accept that, but
5 it did; that is, the Secretary did.

6 Now, and I made a commitment, I went along and
7 negotiated with the Administration and got this far. So,
8 although I am in great sympathy with the -- with Senator
9 Moynihan's proposal, I for one feel committed to the
10 arrangements that previously have been worked out with the
11 Administration and not able to go back on those arrangements.

12 Senator Durenberger. Mr. Chairman, one other question
13 I did not get a chance to add on. I am left unclear about
14 this business of appropriated entitlement.

15 Were you suggesting, by your questions, that we might
16 convert the blocked title XX, including these three programs
17 as you propose them, into an appropriated entitlement program?

18 The Chairman. Yes.

19 Senator Durenberger. Are you willing to do that?

20 The Chairman. See how the vote comes out here.

21 Senator Durenberger. Well, it makes a big difference.
22 in my vote.

23 Would you be willing to do the same thing with regard
24 to Title 5 which is maternal and child health?

25 The Chairman. I am not certain about Title 5.

1 Ms. Burke. Senator, Title 5 is currently not an
2 entitlement. It is an appropriated authorization.

3 The Chairman. That would be a change in that.

4 Mr. Lighthizer. But, Title XX is an appropriated
5 entitlement.

6 Ms. Burke. Currently.

7 The Chairman. Title 5 is not?

8 Ms. Burke. Currently, that is correct.

9 The Chairman. I don't intend to change that.

10 Mr. Lighthizer. Mr. Packwood.

11 The Chairman. No.

12 Mr. Lighthizer. Mr. Roth.

13 The Chairman. No.

14 Mr. Lighthizer. Mr. Danforth.

15 The Chairman. No.

16 Mr. Lighthizer. Mr. Chafee.

17 Senator Chafee. No.

18 Mr. Lighthizer. Mr. Heinz.

19 The Chairman. No.

20 Mr. Lighthizer. Mr. Wallop.

21 The Chairman. No.

22 Mr. Lighthizer. Mr. Durenberger.

23 Senator Durenberger. No.

24 Mr. Lighthizer. Mr. Armstrong.

25 The Chairman. No.

1 Mr. Lighthizer. Mr. Symms.
2 The Chairman. No.
3 Mr. Lighthizer. Mr. Grassley.
4 Senator Grassley. No.
5 Mr. Lighthizer. Mr. Long.
6 Senator Long. Aye.
7 Mr. Lighthizer. Mr. Byrd.
8 Senator Byrd. No.
9 Mr. Lighthizer. Mr. Bentsen.
10 Senator Bentsen. Aye.
11 Mr. Lighthizer. Mr. Matsunaga.
12 Senator Matsunaga. Aye.
13 Mr. Lighthizer. Mr. Moynihan.
14 Senator Moynihan. Aye.
15 Mr. Lighthizer. Mr. Baucus.
16 Senator Baucus. Aye.
17 Mr. Lighthizer. Mr. Boren.
18 Senator Boren. Aye.
19 Mr. Lighthizer. Mr. Bradley.
20 Senator Bradley. Aye.
21 Mr. Lighthizer. Mr. Mitchell.
22 (No response.)
23 Mr. Lighthizer. Mr. Chairman.
24 The Chairman. No.
25 Senator Moynihan. Do I recall the Chairman having made

1 a compromise offer?

2 (Laughter.)

3 The Chairman. Yes.

4 I want to double check. I am not used to being in
5 this position and winning.

6 The vote is 12 nays and 7 yea's. The Amendment is
7 not agreed to.

8 The absent member may record his vote.

9 Yes, I am prepared to do as I indicated previously
10 which may not be a middle ground as perceived by the Senator
11 from New York, but would be some help.

12 Senator Moynihan. I appreciate that, Mr. Chairman.

13 Mr. Chairman, I said I had two amendments. I have one
14 more. Again, it is my concern about changes we are making
15 so quickly about areas that may have been for 12 years,
16 sometimes with too much energy, perhaps sometimes with too
17 little, we have been discussing ways to preform the welfare
18 system, and particularly to provide incentives for work in
19 the system.

20 Suddenly and unaccountably, as an economy measure,
21 we are taking out of the welfare system one of the things we
22 have thought to be successful, I have not understood it as
23 otherwise, the provision of a disregard of the 30 and a third
24 arrangements and the work:expense arrangement, and the child
25 care arrangements for welfare recipients to work.

1 We now permit them for four months and thereupon is
2 discontinued. I don't know what kind of message is this,
3 people working for four months and go back on welfare or
4 have your income sharply reduced.

5 It is a bizarre proposal coming from -- it just --
6 I can't explain. Does David Stockman really know that this
7 is in our amendment?

8 I have a very simple proposal, Mr. Chairman, which is
9 to keep your proposal for the first four months, and then,
10 drop back to a lesser work incentive, but nonetheless, we
11 keep it, which is after all, deductions. Instead of the
12 30 plus one third of remaining earnings, they keep 20 percent

13 The Chairman. Let us hear from the Administration.

14 Ms. Mahon. Yes, sir.

15 First of all, Senator Moynihan's proposal would reduce
16 the savings by \$85 million in benefits and \$12 million in
17 administrative savings, a total of a \$97 million reduction.

18 Senator Moynihan. Of this how much will it increase
19 welfare costs?

20 Ms. Mahon. Senator Moynihan, the reason that we have
21 made the proposal to cut off the 30 and a third disregard
22 after four months is that since the 1968 or '67 change in
23 the law, we find that the number of -- the percentage of
24 AFDC parents who work has not increased significantly, and
25 in fact, there has been a sharp decrease in the number of

1 case closings due to employment.

2 We find that the disregards have not acted as a work
3 incentive. They have acted to keep people on the rolls at
4 higher levels of earnings.

5 That is why we want to provide only a four-month
6 period, transition period, from welfare to work, to get
7 people a start-up cost to go to work, and then, at that
8 point, we feel they should rely on their earnings.

9 We do have work requirements in current law. The
10 Congress made a change last year to add additional sanctions
11 for people who do not -- who are required to work and do not
12 participate in work programs. There are sanctions now and
13 we do have our community work experience program which we
14 think will work as an additional work requirement.

15 Senator Moynihan. I know you have reasons. I know
16 they are legitimately arrived at, but I think that for us
17 at this point, suddenly to turn away from 15 years of trying
18 to build work and income incentives into the AFDC program,
19 I find it bizarre. I make this proposal. I don't know if I
20 lose support.

21 The Chairman. Do you want a record vote?

22 Senator Moynihan. Not unless there is some colleague
23 who would like.

24 Yes, Mr. Chairman; I do.

25 The Chairman. The clerk will call the roll.

1 Senator Long. It seems to me that while this may be
2 a fairly expeditious way to vote on it, this is a problem.
3 We have been discussing around here for years the fact that
4 the disregard went to the point we had all kind of people
5 who were in the middle income bracket and still on the
6 welfare rolls.

7 I might ask Mr. Stern or Mr. Lighthizer, either one,
8 haven't we been recommending legislation out of here down
9 through the years to say we wouldn't be as generous on those
10 disregards as we have been in the past?

11 Mr. Stern. Since 1970, to my recollection, Senator
12 Long, which is just a few years after the initial provision
13 was enacted.

14 In other words, within a few years of the provision
15 going in, the Finance Committee had recommended modifying
16 it basically because of a concern that persons with relative-
17 ly higher income, that is, low middle income people remained
18 on welfare as a result of the provision.

19 Senator Long. Well, didn't this -- did not this
20 committee recommend as late as last year we cease to be so
21 generous on the disregard?

22 Mr. Stern. That's correct.

23 Senator Long. Right.

24 Mr. Stern. It was included in the disability
25 insurance bill as a way of saving some funds or perhaps it

1 was a social services bill or perhaps it was a social
2 services bill. The House didn't want to consider it except
3 in the context of a major welfare bill.

4 Senator Long. Looking over these various saving
5 items, my impression is that most of these savings were
6 things we have been recommending around here for years.

7 In fact, I don't know whether we got these from Mr.
8 Reagan or Mr. Reagan got these from us, but it looks to me
9 as though a lot of them are things we have been recommending
10 around here for a long time. I think that this is one of
11 them. I am not saying this particular thing, but something
12 along this line.

13 Is that correct?

14 Mr. Stern. The four month limitation is a new
15 feature that the Finance Committee had not recommended
16 before, but the modification of the earned income disregard,
17 particularly to get at the question of people with relative-
18 ly higher levels of earnings remaining on welfare, that has
19 been a Finance Committee proposal for some time.

20 Senator Moynihan. I say to my friend from Louisiana,
21 that this does in fact significantly reduce the disregard.
22 The present arrangement continues for four years, and then,
23 instead of having sudden death, it drops sharply from 130
24 to 225.

25 The Chairman. The clerk will call the roll.

1 Mr. Lighthizer. Mr. Packwood.
2 The Chairman. No.
3 Mr. Lighthizer. Mr. Roth.
4 The Chairman. No.
5 Mr. Lighthizer. Mr. Danforth.
6 The Chairman. No.
7 Mr. Lighthizer. Mr. Chafee.
8 Senator Chafee. No.
9 Mr. Lighthizer. Mr. Heinz.
10 The Chairman. No.
11 Mr. Lighthizer. Mr. Wallop.
12 The Chairman. No.
13 Mr. Lighthizer. Mr. Durenberger.
14 Senator Durenberger. No.
15 Mr. Lighthizer. Mr. Armstrong.
16 The Chairman. No.
17 Mr. Lighthizer. Mr. Symms.
18 The Chairman. No.
19 Mr. Lighthizer. Mr. Grassley.
20 Senator Grassley. No.
21 Mr. Lighthizer. Mr. Long.
22 Senator Long. No.
23 Mr. Lighthizer. Mr. Byrd.
24 Senator Byrd. No.
25 Mr. Lighthizer. Mr. Bentsen.

1 Senator Bentsen. No.

2 Mr. Lighthizer. Mr. Matsunaga.

3 Senator Matsunaga. Aye.

4 Mr. Lighthizer. Mr. Moynihan.

5 Senator Moynihan. Aye.

6 Mr. Lighthizer. Mr. Baucus.

7 Senator Baucus. No.

8 Mr. Lighthizer. Mr. Boren.

9 Senator Boren. No.

10 Mr. Lighthizer. Mr. Bradley.

11 Senator Bradley. Aye.

12 Mr. Lighthizer. Mr. Mitchell.

13 ~~(No response)~~

14 Mr. Lighthizer. Mr. Chairman.

15 The Chairman. No.

16 This amendment, the nays are 16 and the aye's are
17 3. The amendment is not agreed to. Senator Mitchell will
18 be entitled to record his vote.

19 Senator Matsunaga.

20 Senator Matsunaga. Mr. Chairman, I had intended to
21 offer an amendment, but I don't have any Presidential cuff-
22 links to offer. So, I will not offer the amendment, but I
23 would like to make a statement relative to page 8, item 4,
24 occupational therapy.

25 Here again, I believe the Administration has erred in

1 the belief evidently, that this is a new service being
2 provided under Medicare, one which must be developed from
3 from scratch.

4 It is a recognized needed service, one that is often
5 essential to a patient recovery and recuperation.

6 The fact that this provision, that is, the occupational
7 therapy provision does not add an additional home health
8 benefit is a key point, one which the Administration budget
9 fails to take into account, for that document reflects a
10 funding level for this item that approximates in dollar terms
11 the implementation of an entirely new service.

12 Moreover, the Administration's cost estimates that
13 have been assigned to the occupational therapy home health
14 provision far exceeds the full capacity of the service which
15 the entire profession can provide.

16 In other words, there just aren't enough therapists
17 in the United States to provide services at a pace that
18 could match the Administration's projected estimates.

19 In fact, and I am told by experts, that if there were
20 to be a 50 percent increase in the use of home health occupa-
21 tional therapy next year, the increased cost would total
22 slightly --

23 The Chairman. Would the Senator yield there?

24 Senator Matsunaga. Yes.

25 The Chairman. This is another one of those very good

1 amendments of provisions that were adopted last year.

2 Senator Matsunaga. Yes.

3 The Chairman. I can't give you the same assurance in
4 conference, but I am aware of the amendment. We understand
5 it has great merit.

6 Senator Matsunaga. Well, I was hoping, Mr. Chairman,
7 that by my brief explanation of it, those of us who will be
8 on the conference committee --

9 (Laughter)

10 Senator Matsunaga. -- will be enlightened to the
11 point of acceding to the wishes of the House.

12 I will make it brief, Mr. Chairman.

13 The Chairman. Oh. Fine.

14 Senator Matsunaga. I will just make this point that
15 the Administration's estimate of \$35 million guesstimate
16 as to what it will cost next year is way off beat. Sometimes
17 I wonder how these estimates or guesstimates are made.

18 I ask unanimous consent that I may extend my remarks
19 in the record.

20 The Chairman. Right.

21 Do you want to offer the amendment?

22 Senator Matsunaga. No, I will not. I have been able
23 to count noses.

24 The Chairman. Right.

25 (Laughter.)

1 Senator Bradley. Mr. Chairman.

2 The Chairman. Senator Bradley.

3 Senator Bradley. Thank you, Mr. Chairman.

4 I just have two points. One, following up on what
5 Senator Durenberger said, this idea of block granting the
6 Title XX program is, I think a real illusion, if you think
7 you are going to be simply eliminating administrative costs.
8 The states have a significant role in Title XX, as it is
9 now. I think we shouldn't kid ourselves. We are basically
10 cutting some of the programs rather deeply.

11 So, for that reason, abbreviating the rest of my
12 presentation, I would simply like to move to restore ten
13 percent of the funds to Title XX, which amounts to roughly
14 \$320 million.

15 The Chairman. Do you want a vote on that?

16 Senator Bradley. Yes.

17 The Chairman. The clerk will call the roll.

18 Mr. Lighthizer. Mr. Packwood.

19 The Chairman. No.

20 Mr. Lighthizer. Mr. Roth.

21 The Chairman. No.

22 Mr. Lighthizer. Mr. Danforth.

23 The Chairman. No.

24 Mr. Lighthizer. Mr. Chafee.

25 Senator Chafee. No.

1 Mr. Lighthizer. Mr. Heinz.
2 (~~No~~ response.)
3 Mr. Lighthizer. Mr. Wallop.
4 The Chairman. No.
5 Mr. Lighthizer. Mr. Durenberger.
6 Senator Durenberger. Aye.
7 Mr. Lighthizer. Mr. Armstrong.
8 The Chairman. No.
9 Mr. Lighthizer. Mr. Symms.
10 The Chairman. No.
11 Mr. Lighthizer. Mr. Grassley.
12 Senator Grassley. No.
13 Mr. Lighthizer. Mr. Long.
14 Senator Long. No.
15 Mr. Lighthizer. Mr. Byrd.
16 Senator Byrd. No.
17 Mr. Lighthizer. Mr. Bentsen.
18 Senator Bentsen. No.
19 Mr. Lighthizer. Mr. Matsunaga.
20 Senator Matsunaga. Aye.
21 Mr. Lighthizer. Mr. Moynihan.
22 Senator Moynihan. Aye.
23 Mr. Lighthizer. Mr. Baucus.
24 Senator Baucus. Aye.
25 Mr. Lighthizer. Mr. Boren.

1 Senator Boren. No.

2 Mrs. Lighthizer. Mr. Bradley.

3 Senator Bradley. Aye.

4 Mr. Lighthizer. Mr. Mitchell.

5 (No response)

6 Mr. Lighthizer. Mr. Chairman.

7 The Chairman. No.

8 I will announce the vote, 13 nays, and 5 yea's. The
9 amendment is not agreed to. The absentees may record their
10 vote.

11 Senator Bradley. Mr. Chairman, I would like to make
12 one last point today.

13 I have made a number of suggestions for amendments
14 that would add money back to the budget. Some of my
15 colleagues have made their recommendations. The committee
16 is recommending a cut of about \$1 billion more than the
17 Senate asked the committee to make. That is extremely
18 difficult for me to go along with.

19 I voted for the \$9 billion cut, on the floor. I am
20 afraid I can't vote for a \$10 billion cut.

21 Also, I think it is important that we reflect, and
22 this was raised in the Budget Committee, because of the
23 nature of the parliamentary circumstance, it wasn't focused
24 on properly, you couldn't focus on it because of the nature
25 of the reconciliation bill on the floor. You couldn't get

1 at it.

2 I think it is important that it be raised, however,
3 at every forum where the issue of spending cuts is discussed.
4 We are about to approve \$10 billion in spending cuts. There
5 are various ways to reach a balanced budget. One of them
6 is through these dramatic slashes. Another is through off-
7 setting slashes with tax expenditures, elimination of tax
8 expenditures.

9 Now, this is something that is not altogether an easy
10 subject, and particularly it is not an easy subject in this
11 committee or in this particular forum of the committee.

12 But I would like to propose that the committee go on
13 record. I, as one Senator, believe that one of the ways that
14 you get to a balanced budget is through eliminating some tax
15 expenditures, as well as through cutting.

16 I would think it would be appropriate that as we
17 report out this reconciliation that we also adopt a resolution
18 saying that the committee would like to see the Budget
19 Committee come back with tax expenditures at least equal to
20 half of the amount we are now cutting, in other word, \$4.5
21 billion in tax expenditures.

22 I would so move.

23 The Chairman. Do you want to vote --

24 Senator Moynihan. Would the Senator yield for just
25 one comment?

1 Senator Bradley. Yes.

2 Senator Moynihan. He knows that I completely share
3 his agreement. It was, as a member of the Budget Committee,
4 it was a procedural problem that we tried to do it and we
5 were not successful. Now, we can try again.

6 I would like to note that one of these tax expenditures
7 that has been spoken of at some length is the legislation I
8 have on commodity tax straddles. There is \$1.3 billion waiting
9 there to be recouped in the most legitimate manner, and I am
10 happy to say, that Mr. Chapoton, the Assistant Secretary for
11 Tax Policy, in testimony before the Ways and Means Committee,
12 just last week, said that the Administration would support
13 such a measure and gave the same estimate of \$1.3 billion,
14 a slightly different version than the one we have in legis-
15 lation.

16 It can be done. I think it ought to be done. I
17 support Senator Bradley and appreciate his making the motion.

18 The Chairman. I might just say, as a matter of
19 procedure, I don't have any quarrel with voting on it now,
20 but I think probably it was not on the agenda, but that is
21 a minor matter, as long as we have enough votes to defeat it.

22 (Laughter.)

23 The Chairman. But, I would also suggest that I know
24 the Administration is looking at the tax expenditure. That
25 may come as a surprise to some, but I think as Senator

1 Moynihan has indicated, I know the Secretary is taking a
2 look at tax expenditures or whatever they may be called. I
3 am not certain that is the right, correct way to describe
4 letting some people keep some of their money.

5 But, in any event, I could not support the resolution.

6 If you want to proceed. Do you want to vote on it?

7 Senator Bradley. Yes, I would like a vote.

8 Senator Long. Mr. Chairman.

9 The Chairman. Senator Long.

10 Senator Long. I just think that eventually people
11 are going to come to understand what you mean when you talk
12 about repealing tax expenditures. You are talking about
13 raising taxes. You ought to say that.

14 Senator Bradley. On some people.

15 Senator Long. Right. Well, it always gets back to
16 this thing. I know usually what you mean when you say repeal
17 tax expenditures, you hope the guys who are on the listening
18 end thinks you mean this old thing about don't tax you and
19 don't tax me, tax that fellow behind the tree. I understand
20 that.

21 (Laughter.)

22 Senator Long. But I know the kind of things we are
23 going to be involved in when you start to talk about repeal-
24 ing tax expenditures. You are talking about raising people's
25 taxes, at least as far as the great number of tax payers are

1 concerned.

2 So, until you specify who it is you are going to tax,
3 you better keep in mind they are voting to raise one
4 person's taxes and in order to reduce somebody else's taxes,
5 when they talk about that proposal.

6 Now, I have been around here long time, and have been
7 involved in some of these bills where we tried to pay for
8 one tax cut by raising somebody else's taxes. Invariably,
9 in short order, we always run out of bounds because it is
10 so easy to vote for more tax cuts and so difficult to get
11 the Senate to vote to raise taxes on people, it always winds
12 up being the great big revenue loser, these bills where you
13 want to loosen up on the tight ends and tighten up on the
14 loose ends.

15 I just tell the Senators, if you haven't been involved
16 in one of those bills, just wait until we try it. You find
17 it is very easy to get folks to vote to cut taxes. It is
18 very difficult to get them to vote to raise taxes.

19 So, it always winds up being the great big revenue
20 losing exercise when you get in this thing of saying we are
21 not going to raise taxes, we are just going to tighten up
22 on this group and loosen up on that group.

23 But, invariably it winds up being a big revenue loser
24 and the fellow who gets his taxes increased usually bellows
25 about ten times as loud as the guy who gets the tax cut.

1 So, it doesn't really wind up being as popular as it
2 sounds in the beginning.

3 I expect to vote, in due course, for Senator Moynihan's
4 idea about the butterflies. There are a lot of things we will
5 be talking about when we get started on tax expenditures.
6 They are not all that popular down my way, anyway.

7 I think I know where we are going to wind up when we
8 get started down that road. That being the case, my serving
9 on this committee, my experience usually is that the best
10 way to get out of a trap is not getting into it to begin
11 with.

12 The Chairman. The Senator from New Jersey.

13 Senator Bradley. All I am saying, Mr. Chairman, is
14 that we have spent a great deal of time debating spending
15 and the Budget Committee has asked us to cut a certain
16 amount which we are about to do.

17 I think we could profit from an equal debate on the
18 spending exceptions and why and how and the merits of each.
19 I would hope that the Budget Committee would do that and
20 this resolution would be the start of that process.

21 Senator Chafee. Mr. Chairman.

22 The Chairman. The Senator from Rhode Island.

23 Senator Chafee. Parliamentary inquiry here. If we
24 want to get into eliminating these so-called tax expenditures,
25 it doesn't have to go through the Budget Committee, does it.

1 When we take up the tax bill here, aren't we perfectly free
2 to get into that whole area?

3 Mr. Lighthizer. That is correct.

4 The Chairman. That is my understanding.

5 Senator Chafee. So, I don't see why -- I think the
6 Budget Committee is exercising enough influence around here
7 without the Finance Committee going to implore them to permit
8 us to go ahead and eliminate, if we so choose, these so-called
9 tax expenditures. I don't get the rationale.

10 Senator Bradley. The rationale is to link very
11 directly cutting of spending with tax expenditures. Sure,
12 we could do it, when we get to the tax bill or get to the
13 tax bill or we could do it three years from now.

14 The point is here we have a vehicle and we want to
15 link this resolution of that to make the point that there
16 are various ways to balance the budget. They vary in
17 efficiency and equity.

18 Let's deal with those by admitting that and passing
19 this resolution.

20 The Chairman. Well, I agree with Senator Chafee. I
21 didn't think I would live long enough to become a chairman,
22 and then you are made a subcommittee chairman by the Budget
23 Committee, almost at the same time.

24 But, in any event, I am prepared to vote. I think we
25 have the votes. The clerk will call the roll.

1 Mr. Lighthizer. Mr. Packwood.
2 ~~(No response)~~
3 Mr. Lighthizer. Mr. Roth.
4 The Chairman. No.
5 Mr. Lighthizer. Mr. Danforth.
6 The Chairman. No.
7 Mr. Lighthizer. Mr. Chafee.
8 Senator Chafee. No.
9 Mr. Lighthizer. Mr. Heinz.
10 The Chairman. No.
11 Mr. Lighthizer. Mr. Wallop.
12 The Chairman. No.
13 Mr. Lighthizer. Mr. Durenberger.
14 Senator Durenberger. No.
15 Mr. Lighthizer. Mr. Armstrong.
16 The Chairman. No.
17 Mr. Lighthizer. Mr. Symms.
18 The Chairman. No.
19 Mr. Lighthizer. Mr. Grassley.
20 Senator Grassley. No.
21 Mr. Lighthizer. Mr. Long.
22 Senator Long. No.
23 Mr. Lighthizer. Mr. Byrd.
24 Senator Byrd. No.
25 Mr. Lighthizer. Mr. Bentsen.

1 Senator Rentsen. No.

2 Mr. Lighthizer. Mr. Matsunaga.

3 Senator Matsunaga. No.

4 Mr. Lighthizer. Mr. Moynihan.

5 Senator Moynihan. Aye.

6 Mr. Lighthizer. Mr. Baucus.

7 Senator Baucus. No.

8 Mr. Lighthizer. Mr. Boren.

9 Senator Boren. No.

10 Mr. Lighthizer. Mr. Bradley.

11 Senator Bradley. Aye.

12 Mr. Lighthizer. Mr. Mitchell.

13 (No response)

14 Mr. Lighthizer. Mr. Chairman.

15 The Chairman. No.

16 On this vote the nays are 16, the yea's are 2. The
17 amendment is not agreed to.

18 Are there other amendments? I know Senator Grassley
19 has an amendment.

20 Senator Grassley. Mr. Chairman, I worked out with the
21 Administration their concerns about my amendment and have
22 come up with some language that effectively tells the
23 Secretary to conduct a study on the points I raised about
24 criteria and mechanism to determine the effectiveness and
25 efficiency of state administration of block grants.

1 This study would be submitted to Congress within one
2 year after the enactment of this Act. I am satisfied with
3 this language. Probably my original language was a little
4 more definite than it need be because I never had any doubt
5 but what the Congress would have to act upon what the
6 recommendations were anyway.

7 So, I would like to move ahead with this because I
8 do think that when we are going into a new area, as members
9 of Congress, responsible for how the taxpayers' money is
10 expended, that we have some measure and guidelines as to
11 how that is being expended, and particularly as we have
12 done in the case of Title XX, or as in the case of the
13 vocational rehabilitation services in social security. We
14 recognize that states ought to be rewarded for doing a good
15 job, so that has been done accordingly.

16 I move the adoption of my amendment.

17 The Chairman. Is there objection?

18 (No response)

19 The Chairman. Without objection, the amendment is
20 agreed to.

21 Are there other amendments?

22 I think, if it is all right with the Senator from
23 Hawaii, we will just adopt that amendment on freestanding
24 outpatient rehab facilities. Then you won't have to worry
25 about it.

1 (Laughter)

2 Senator Matsunaga. Please.

3 The Chairman. Is it all right if we adopt your
4 amendment?

5 Senator Matsunaga. I would -- if -- yes.

6 (Laughter)

7 Senator Matsunaga. If the Chairman is prepared to
8 adopt it, I'll offer it.

9 (Laughter)

10 The Chairman. I will be a co-sponsor.

11 I do think that is one of those you have indicated
12 and we have had a lot of interest expressed in that. I
13 would be prepared to adopt the amendment, if it is all right
14 with the Senator from Hawaii.

15 Senator Matsunaga. I will offer it as an amendment.

16 The Chairman. Is there objection?

17 (No response.)

18 The Chairman. So ordered.

19 Are there other --

20 Mr. Lighthizer. Mr. Chairman, there are a couple of
21 things that I wanted to make clear. One is in the amendment
22 for the -- in the minimum benefit, when we set up the
23 special provision for SSR recipients, for the qualified
24 SSI recipients, for people who are over 60, those people do
25 not become qualified for Medicaid, and they do not get their

1 earned benefit in addition to the minimum benefit. They
2 just replace the offset.

3 The Chairman. Right.

4 Mr. Lighthizer. The reconciliation provisions that
5 we are repealing, from last year, are repealed effective
6 July 1.

7 The Title 5 proposal, or the Title 5 section of
8 what we report to the Budget Committee should be reported
9 also individually as a new authorization bill, because it
10 has a May 15 date. It is possible the Budget Committee won't
11 meet that.

12 Finally, there are reports annually by recipient
13 states under the social services block grant and that will
14 be an authorized and appropriated entitlement.

15 The Chairman. An appropriated entitlement.

16 Mr. Lighthizer. Yes.

17 The Chairman. That is in accordance with the wishes
18 of the Senator from New York and the Senator from Minnesota.

19 I might just, for the record, that is number 2, on
20 page 8, Senator Matsunaga, the amendment we just adopted.

21 Senator Matsunaga. Item 2.

22 The Chairman. Right.

23 Senator Long. Could I just raise one little question?

24 The Chairman. Yes.

25 Senator Long. Under the work program, when these

1 people are provided an opportunity to work for 20 hours a
2 week or something like that, would they lose their entitle-
3 ment to Medicaid?

4 Mr. Stern. In the description that we have we allow
5 states, if they wish, to continue people on the Medicaid
6 Program.

7 Senator Long. It is purely up to the state to
8 continue them or not continue them?

9 Mr. Stern. That's correct.

10 Senator Long. Thank you.

11 Mr. Lighthizer. Mr. Chairman, the Trade Adjustment
12 Assistance Program would also be reported out individually
13 so that we meet the May 15 deadline with respect to authori-
14 zations that is in the Budget Act.

15 The Chairman. Are there other amendments?

16 Senator Durenberger. Mr. Chairman.

17 The Chairman. Senator Durenberger.

18 Senator Durenberger. Mr. Chairman, not amendment, just
19 a question of clarification. We talked a lot about the
20 flexibility that is going to the states, along with the
21 Medicaid CAP. I wonder if it wouldn't be helpful for us to
22 briefly have Shiela review her understanding of the kinds of
23 flexibility we are giving the states so we all understand
24 it, also.

25 Ms. Burke. Mr. Chairman, in conversations with the

1 Administration our initial understanding of what they had
2 intended under the Administration's block grant in terms of
3 flexibility, was to provide the states with increased
4 flexibility with respect to services and eligibility under
5 Medicaid.

6 There were three provisions which we had initially
7 considered separately from the Administration's block grant
8 which we assume would go in.

9 One was freedom of choice with respect to providers.

10 The second was with respect to competitive bidding
11 for services for Medicaid recipients.

12 The third was to eliminate requirements with respect
13 to the method of reimbursement for hospitals.

14 In addition to those, there have been a number of
15 items that have been suggested, again in conversations with
16 the Administration and with the Governors.

17 One of those items would allow the Secretary to
18 waive the limit on participation of HMO's with respect to
19 Medicaid. There is currently a limit. If you have any more
20 than 50 percent of the population in those HMO's of Medicare-
21 Medicaid.

22 That would allow the Secretary to waive that in those
23 states that wish to negotiate with HMO's.

24 Also, to provide flexibility with respect to services
25 for the medically needy. Flexibility with respect to

1 services within the medically needy population, to eliminate
2 eligibility for 18 to 20 year olds, if they are excluded from
3 AFDC because they are in school.

4 The last one was a suggestion of co-pays on all
5 services for all populations by diognostically settings.

6 Those were the initial suggestions that we had again,
7 from the Administration and in conversation with the
8 Governors.

9 The Chairman. Are there other amendments?

10 I would say, before we vote, we will, of course,
11 as we put together the draft language, be consulting with
12 staff and the Senators who have an interest. We will not
13 fail to do that. It will be an area we need to address.
14 I trust you will call it to the attention of the staff.

15 I would then move that we --

16 Senator Baucus. Mr. Chairman.

17 The Chairman. Excuse me.

18 Senator Baucus. I just wanted to clarify this dis-
19 position on the so-called compromise after the vote on the
20 Moynihan proposal to not agree to the block grant approach
21 for foster care and adoptive child care.

22 Is the rest of Title XX now an appropriated entitle-
23 ment or is it --

24 The Chairman. It is not.

25 Mr. Lighthizer. The whole thing.

1 Senator Baucus. Thank you.

2 The Chairman. I think we ought to have nays and
3 yeas.

4 I want to thank the staff and members of the committee
5 and their staffs for their cooperation.

6 Any other discussion?

7 (No response)

8 The Chairman. If not, the clerk will call the roll.

9 Mr. Lighthizer. Mr. Packwood.

10 The Chairman. Aye.

11 Mr. Lighthizer. Mr. Roth.

12 (No response)

13 Mr. Lighthizer. Mr. Danforth.

14 The Chairman. Aye.

15 Mr. Lighthizer. Mr. Chafee.

16 Senator Chafee. Aye.

17 Mr. Lighthizer. Mr. Heinz.

18 The Chairman. Aye.

19 Mr. Lighthizer. Mr. Wallop.

20 The Chairman. Aye.

21 Mr. Lighthizer. Mr. Durenberger.

22 Senator Durenberger. Aye.

23 Mr. Lighthizer. Mr. Armstrong.

24 The Chairman. Aye.

25 Mr. Lighthizer. Mr. Symms.

1 The Chairman. Aye.
2 Mr. Lighthizer. Mr. Grassley.
3 Senator Grassley. Aye.
4 Mr. Lighthizer. Mr. Long.
5 Senator Long. Aye.
6 Mr. Lighthizer. Mr. Byrd.
7 Senator Byrd. Aye.
8 Mr. Lighthizer. Mr. Bentsen.
9 Senator Bentsen. Aye.
10 Mr. Lighthizer. Mr. Matsunaga.
11 Senator Matsunaga. Aye.
12 Mr. Lighthizer. Mr. Moynihan.
13 Senator Moynihan. No.
14 Mr. Lighthizer. Mr. Baucus.
15 Senator Baucus. Aye.
16 Mr. Lighthizer. Mr. Boren.
17 Senator Boren. Aye.
18 Mr. Lighthizer. Mr. Bradley.
19 Senator Bradley. No.
20 Mr. Lighthizer. Mr. Mitchell.
21 (No response)
22 Mr. Lighthizer. Mr. Chairman.
23 The Chairman. Mr. Roth votes aye. I vote aye.
24 We have one other very short piece of business. I
25 don't think it would take one minute. It is on the

1 authorization for the special trade --

2 Senator Chafee. How did that vote come out, Mr.
3 Chairman?

4 Mr. Lighthizer. It is 17 to 1, Mr. Chairman.

5 The Chairman. Excuse me. It is 17 yeas, 2 nays,
6 one missing in action.

7 I appreciate very much -- may we take up the Special
8 Trade Representative authorization.

9 Mr. Lighthizer. Mr. Chairman, the next item on the
10 agenda is the authorization for the coming fiscal year for
11 the ITT and USTR.

12 The Chairman. Order please. Order.

13 Why don't we withhold for a minute and give people
14 an opportunity to leave.

15 Go ahead.

16 Mr. Gingrich. Mr. Chairman, if I may, I will
17 summarize the staff memo which I believe you have.

18 Hearings were held with respect to these authorizations
19 by the Subcommittee on International Trade on April 3, which
20 the agencies appeared.

21 USTR is requesting authorization of appropriation for
22 the next five fiscal years. Last year the committee recommend-
23 ed a three-year authorization of appropriations.

24 The appropriation amount requested for FY-82 is
25 \$10 million, an increase of \$633,000, from FY-81. Authorized

1 permanent positions would remain at \$113,000.

2 USTR is also requesting certain housekeeping
3 authorities which would enable the USTR to delegate its
4 functions to other USTR employees, to accept gifts,
5 including reimbursement for travel.

6 The Chairman. Were there any amendments that any
7 member of the committee --

8 Mr. Gingrich. No.

9 The Chairman. That has been called to your attention?

10 Mr. Gingrich. No, sir.

11 Senator Long. Let me just raise one. Between
12 Senator Danforth and myself, we became interested in the
13 subject of having adequate training for our negotiators,
14 adequate education and training.

15 Trade is something that these American colleges and
16 professional schools have treated as a separate discipline,
17 even though it is very different from other international
18 affairs subjects.

19 The lack of educational programs is probably due to
20 the fact that in the past international trade was not as
21 important to our economy as it is today.

22 Merchandise trade is now nearly 20 percent of our
23 gross national product, about \$470 billion last year and
24 growing.

25 If our educational programs in the trade area are not

1 as good as our trading partners and competitors, then we
2 ought to be getting programs that are.

3 In the meanwhile, we ought to have our young people
4 and our career people seeking the advantage of the best
5 foreign trade program to qualify themselves.

6 I would hope we would have language in our committee
7 report indicating that the special trade representatives
8 should undertake to determine how we measure up, how we
9 compare with other nations, worse than others, and what
10 they have to offer in the way of education and preparation
11 in the trade area with the purpose of seeing to it that in
12 the future, as soon as it can be achieved, that we have to
13 do whatever is necessary to have educational opportunity for
14 young people interested in the trade area, on a par with what
15 might be available over in Switzerland and elsewhere.

16 This is such a big item, it already is. There is
17 going to be such an overwhelming and compelling area of
18 knowledge and expertise that we ought to be at least the
19 equal of anybody in the world.

20 I would like to urge that we have language in the
21 committee report to call upon our Special Trade Representative
22 and the Administration generally to look into this subject
23 and try to see to it if we don't have the best, we try to
24 see to it in the future that we will.

25 The Chairman. I think it is an excellent idea. I

1 know of no objection.

2 Without objection, it will be included in the report.

3 You can work with Senator Long's staff.

4 Are there other discussion or other amendments?

5 Any committee amendments?

6 Mr. Gingrich. No, sir, there are no other committee
7 amendments.

8 There are two other provisions that USTR would like,
9 One would be to pay travel expenses approved by the USTR
10 above Federal limits.

11 The second would be to include a provision to
12 authorize additional non-controlled sums for salary increases.

13 The second one is, if there are salary increases --
14 if there are increases during the year, mandatory increases
15 -- non-controlled increases, that USTR would be able to
16 have an authorization.

17 The Chairman. Mandatory, non-controlled?

18 Mr. Gingrich. Yes.

19 Senator Long. The point is, if other people get a
20 pay raise, you hope to get in on it?

21 Mr. Gingrich. Right.

22 The Chairman. Is there objection to reporting the
23 bill?

24 Senator Chafee. Don't they get travel expenses?

25 Mr. Gingrich. Yes, sir. In certain circumstances

1 the USTR, for instance may be in Europe and may need to
2 take a room above the Federal limit of \$50 a day.

3 Senator Chafee. Just he, himself?

4 Mr. Gingrich. Yes, sir.

5 Anything approved by him. He may approve it for
6 someone else. Obviously, he would have to use the provision
7 judiciously.

8 The Chairman. Any objection to reporting the
9 authorization?

10 (No response)

11 The Chairman. All in favor say aye.

12 (Chorus of ayes.)

13 The Chairman. Opposed, no.

14 (No response)

15 The Chairman. The ayes have it.

16 Mr. Gingrich. We also have the USITC, if we can do
17 that.

18 The Chairman. If Senator Long will stay, we can do
19 that.

20 Mr. Gingrich. There are no amendments to the material
21 we gave out. There have been no amendments offered by any
22 Senator.

23 The Chairman. What is the increase over last year?

24 Mr. Gingrich. \$790,000. The permanent authorized
25 positions would remain at the same level.

1 The Chairman. Has the staff on each side had a
2 chance to examine it? There is no objection on either side?

3 Mr. Lang. We heard no objection.

4 Mr. Gingrich. Mr. Chairman, we are also recommending
5 that if USTR be given the authority to accept gifts,
6 including reimbursement for travel, that the USITC also be
7 given that authority.

8 The Chairman. Both be given that authority?

9 Mr. Gingrich. Yes, sir.

10 The Chairman. Gifts of what now?

11 Mr. Gingrich. Gifts, including reimbursement for
12 travel. When these organizations are invited to speak
13 before organizations, they can't have their expenses paid
14 by the organizations now. They would like that authority.

15 The Chairman. Does it save the Government money?

16 Mr. Gingrich. Yes, sir.

17 The Chairman. It shouldn't be hard to authorize
18 that. I understand the problem. I think it is a question
19 of ethics or something.

20 Mr. Gingrich. They would still be subject to the
21 Ethics in Government Act conflicts of interest requirements.

22 Senator Long. It is all right with me, Mr. Chairman.

23 My only thought is I would think the Government ought
24 to pay it for them.

25 Mr. Gingrich. USTR has a number of requests which

1 they are not able to accept because of restrictions on
2 travel funds. That is the only reason they are asking for
3 the authority.

4 The Chairman. If there is no objection the author-
5 ization will be reported, without objection.

6 That concludes the business.

7 When is the next meeting; just for the record?

8 Mr. Lighthizer. The 13th of May, if we do the
9 Moynihan provision before Mr. Regan testifies on the tax
10 proposal. If not, it would be the 12th.

11 The Chairman. Are there any other proposals we need
12 to report out before the May 15 deadline?

13 Customs authorization?

14 Mr. Lighthizer. Customs is the only one.

15 The Chairman. That is not controversial, is it?

16 Mr. Lighthizer. I believe there is at least one
17 member who has interest in that.

18 Senator Long. Is it suggested we take that up now?

19 The Chairman. No. We can do it on the 13th.

20 We will stand in recess.

21 (Whereupon, at 6:31 p.m., the Executive Session
22 adjourned, subject to the Call of the Chair.)

23

24

25

COMMITTEE ON FINANCE

May 5, 1981

VOTE ON

Moynihan - Reduce savings by \$335 M in 1982 by putting a cap on the program TAA in FY 1982.

YEAS		NAYS
	Mr. PACKWOOD	
X	Mr. ROTH	
	Mr. DANFORTH	
	Mr. CHAFEE	X
X	Mr. HEINZ	
	Mr. WALLOP	
	Mr. DURENBERGER	X
	Mr. ARMSTRONG	
	Mr. SYMMS	
	Mr. GRASSLEY	X
X	Mr. LONG	
	Mr. BYRD	X
	Mr. BENTSEN	X
X	Mr. MATSUNAGA	
X	Mr. MOYNIHAN	
	Mr. BAUCUS	
	Mr. BOREN	
X	Mr. BRADLEY	
X	Mr. MITCHELL	
	Mr. CHAIRMAN	X
8		11

Pass ✓

X ✓

X ✓

X ✓

X ✓

X ✓

1 Pass

X

May 5, 1981

COMMITTEE ON FINANCE

MODIFIED PROPOSAL OF CHAIRMAN DOLE
(outlay reductions: in millions of dollars)

President's Proposals

	Fiscal Year		
	<u>81</u>	<u>82</u>	<u>83</u>
Social Security:			
Eliminate student benefits (33% cut, i.e. no checks in summer months, include college freshman, otherwise similar to President's proposal (Attachment A)	-	600	1400
Eliminate minimum benefit (with limited expansion of SSI coverage) (pp. 18-19, Attachment B)	50	980	1080
Restrict payment of lump-sum benefit (p. 20)	35	200	210
Tighten recency of work test for disability benefits (pp. 20-21)	-	124	350
Disability megacap (pp. 21-22)	5	50	75
Other change in disability (pp. 21-22)	-	37	47
Discontinue trust fund financing of vocational rehabilitation services (p. 23)	-	87	87
Other (rounding benefits; pension reform) (pp. 23-24)	-	9	40
Subtotal - social security	<u>90</u>	<u>2087</u>	<u>3289</u>
Medicare:			
Elimination of 8 1/2 percent routine salary cost differential (p. 7)	35	250	285
Repeal of certain coverage provisions enacted in 1980 (except: removal of limitation on home health visits, the dentist equity provision, pneumococcal vaccine (delay effective date to January, 1984) retain increased limit on outpatient physical therapy benefit) (pp. 8-9)	48	201	222
Repeal of temporary delay in the periodic interim payment (pp. 9-10)	(515)	522	-
Provide authority for the Secretary to impose civil money penalties (pp. 10-11)	-	9	9
Less frequent surveys of skilled nursing facilities (p. 12)	-	1	4
Subtotal - medicare	<u>(432)</u>	<u>983</u>	<u>520</u>
Medicaid:			
Modify proposal to cap at 9% first year and then increase by GNP deflator (1)	-	1069	1916
Allow accelerated collection of unapproved State Medicaid expenditures (p. 14)	122	(2)	(2)
Subtotal - medicaid	<u>122</u>	<u>1069</u>	<u>1916</u>
Modify Maternal and Child Health Care Block Grant to create freestanding block grant. (pp. 15 and 69)	-	96	96
Subtotal	<u>-</u>	<u>96</u>	<u>96</u>

(1) Estimate assumes 40% minimum match
(2) Assumed under Medicaid cap

President's Proposals (continued)

	<u>Fiscal Year</u>		
	<u>81</u>	<u>82</u>	<u>83</u>
Unemployment Compensation:			
Repeal National trigger (p. 25)	297	657	-
Exclude extended benefit claimants from State trigger calculation (p. 26)	208	561	380
Raise State triggers to 5 percent plus 120 percent, or 6 percent (pp. 26-27)	-	-	92
Require 20 weeks of work for extended benefits (pp. 27-28)	-	-	11
Eliminate benefits for those who voluntarily quit military service (pp. 29-30)	36	265	254
Subtotal - unemployment compensation	541	1483	737
Public assistance - Aid to families with dependent children (AFDC):			
Limit earnings disregards (Modify to raise child care deduction to \$160 per child per month(pp. 30-31)	-	169	174
Limit current \$30 + 1/3 disregard to 4 months (p. 31)	-	145	149
Limit allowable resources to \$1,000 (p. 32)	-	16	17
Permit offset for food stamps - Housing subsidies (p. 32)	-	100	103
Limit eligibility to 150 percent State needs standards (p. 33)	-	(*)	(*)
Count lump sum payments (p. 33)	-	5	5
Assume advance payment of EITC (pp. 33-34)	-	44	42
Count stepparents' income (modify to limit to stepparents only: see Attachment C) (pp. 34-35)	-	108	111
Require community work programs (as modified by Senators Long and Grassley) (pp. 36-37)	-	0	20
Prohibit payments to strikers (p. 37)	-	5	5
Eliminate payments to children 18 and over (p. 37)	-	100	104
Eliminate payments for pregnant women before 6th month (Medicaid coverage, but no cash payments)(p. 38)	-	(*)	(*)
Change unemployed parent to primary wage earner (p. 38)	(*)	(*)	(*)
Require AFDC parent attending college to meet work requirements (p. 39)	(*)	(*)	(*)
Require retrospective accounting and monthly reporting (p. 39)	-	(*)	187
Eliminate payments less than \$10 (p. 40)	(*)	(*)	(*)
Remove 20 percent limit on vendor payments (p. 40)	(*)	(*)	(*)
Recover overpayments/pay underpayments (pp. 40-41)	-	115	110
Reduce Federal match for training (pp. 41-42)	-	16	17
Administrative savings (p. 42)	-	105	111
Subtotal - AFDC	-	928	1155
Child Support enforcement:			
Enforce collection of child support and alimony (p. 43)	-	27	30
Collection of support for adults (pp. 43-44)	-	23	23
Modify collection fee for non-AFDC cases (only absent spouse pays) (p. 44)	-	45	49
Prohibit discharge of child support in bankruptcy (p. 45)	-	17	21
Subtotal - child support enforcement	-	112	123

(*) Less than \$1 million.

President's Proposals (continued)

	<u>Fiscal Year</u>		
	<u>81</u>	<u>82</u>	<u>83</u>
Supplemental security income (SSI):			
Change to retrospective accounting (pp. 45-46)	-	30	60
Eliminate rehabilitation funding of SSI recipients (p. 46)	-	20	20
Subtotal-supplemental security income (SSI)	-	50	80
Block grant consolidation:			
Social services block grant (just Finance Committee programs - require States to have programs for adoption assistance, foster care and child welfare services and to maintain present effort in these areas.) (pp. 47-50 and Attachment D)	-	976	1165
Subtotal - block grant consolidation	-	976	1165
Trade adjustment assistance:			
Integrate State unemployment compensation program, limit allowances, strengthen administration (pp. 53-55)	-	1335	840
Subtotal - President's Proposals	321	9119	9921
<u>Other Alternatives:</u>			
Unemployment compensation:			
Loan reform package (Attachment E)	-	265	446
Subtotal - Unemployment compensation	-	265	446
Social Security:			
Round social security benefits to next lower dollar (p. 75)	-	47	190
Subtotal - social security	-	47	190
Medicare:			
Provide payment for closure of underutilized hospital facilities (pp. 57-58)	-	2	9
Limit physician charges (p. 58)	-	13	20
Limit on reasonable charge for outpatient services (p. 59)	17	26	31
Coordinate ESRD benefit with private health insurance (pp. 59-60)	-	110	250
Non-payment for inappropriate hospital care (p. 61)	-	115	130
Raise Part B deductible to \$75 (p. 62)	-	120	210
Delete Part B carryover provision (p. 63)	-	55	55
Maintain Part B at constant percent of total program costs (pp. 63-64)	-	190	380
Coordination of medicare benefits for FEHBP (p. 60)	-	390(1)	440(1)
Subtotal - medicare	17	1021	1525
Medicaid:			
Reduce Federal minimum match to 40% (pp. 67-68) (assumes 9% Cap)	-	(2)	(2)
Subtotal - other alternatives	17	1333	2161
GRAND TOTAL	338	10452	12082

(1) Estimated net savings to Government (estimated savings to medicare (not included) are 960 in FY82 and 1120 in FY83)

(2) Savings assumed under Medicaid Cap

ELIMINATE SOCIAL SECURITY STUDENT BENEFIT
FOR POST-SECONDARY STUDENTS
(WITH PROTECTION FOR HIGH SCHOOL SENIORS)

Present Law. - (p. 17)

Proposed Change. - Eliminate the social security student benefit for post-secondary students age 18-22 who first enroll in post-secondary school after the 1981-1982 school year. For currently enrolled full-time students in post-secondary schools and those who enter post-secondary schools on a full-time basis during the 1981-1982 school year, pay monthly benefits for 8 months each year. Summer benefits for this group would be eliminated for the 4 months May through August, beginning in 1982. Similar to the Administration's proposal, reduce monthly benefits for these students 25 percent each year, beginning September 1982. No further cost-of-living adjustments would be paid to these students after July 1981.

High School students would continue to receive child's benefits as under current law except that effective August 1982, no high school student could receive child's benefits after his 19th birthday.

This proposal differs from the Administration's in three ways: (1) current high school seniors would receive student benefits this coming year; (2) benefits would be paid for just 8 months each year; and (3) the 25 percent benefit reduction would be delayed one year.

Estimated Savings

	Fiscal Year		
	(millions of dollars)		
	<u>1981</u>	<u>1982</u>	<u>1983</u>
Net Savings	-	600	1400

ELIMINATE THE SOCIAL SECURITY MINIMUM BENEFIT
(WITH PROTECTION FOR THE ELDERLY POOR)

Present Law. - (p. 18)

Proposed Change. - As proposed by the Administration, eliminate the minimum benefit for both current and newly-entitled beneficiaries. As of August 1981, no new beneficiaries would receive the minimum benefit and all beneficiaries who had been receiving benefits based on the minimum primary insurance amount would have their benefits recalculated. Benefit amounts for those persons who would have received the minimum under prior law would be recomputed to reflect the regular benefit formula which underlies the benefit table.

The needy elderly (age 65 and older) and disabled persons who qualify for the minimum benefit under present law could receive SSI benefits if the minimum social security benefit were eliminated. Of the approximately 3 million persons now receiving the minimum about 500,000 also receive some SSI benefits. If the minimum benefit were eliminated, SSI benefits to those 500,000 persons would be increased dollar for dollar. SSA estimates that another 580,000 minimum beneficiaries are, or would be, eligible to receive SSI so they need not experience a net reduction in income.

To ensure that any poor persons in the age group 60-64 do not suffer a decline in income, this proposal would modify the Administration's proposal and permit current minimum benefit recipients age 60-64 who meet the SSI eligibility conditions (regarding income and assets, for example) to receive a monthly SSI cash payment. This payment would be limited to an amount equal to the difference between the minimum benefit the individual previously received and his or her recalculated social security benefit. This SSI payment would not be adjusted annually for changes in the cost-of-living. (People age 60-64 newly eligible for an SSI payment because of this provision would not be eligible for any other SSI-related benefits such as Medicaid).

This proposal would not change the overall eligibility age for SSI, or SSI payments to non-minimum benefit recipients. It would apply only to those currently receiving the minimum benefit.

Estimated Savings

	Fiscal Year		
	(millions of dollars)		
	<u>1981</u>	<u>1982</u>	<u>1983</u>
Net Savings	50	980	1,080

ALTERNATIVE

COUNTING STEPPARENTS INCOME

PROPOSED CHANGE

Accept Administration proposal for counting the income of stepparents but limit the provision to only stepparent income, regardless of applicable State laws.

ESTIMATED SAVINGS

FY 82 - \$108 million

FY 83 - \$111 million

The Administration, in providing its estimate for this proposal, assumed no savings in counting the income of non-related individuals because no data exists on which to base an estimate. Therefore, restricting the scope of the proposal to stepparents would not result in a decrease in the savings figure.

UNEMPLOYMENT COMPENSATION LOAN REFORM MECHANISM

Justification

Some believe that the Federal-State extended benefit reforms proposed by the President should be augmented with cost-saving reforms to the mechanism by which State UC funds now borrow from the Federal Unemployment Account. Advances to States from the Federal account totaled \$5.9 billion as of March 31, 1981. While avoiding Federal mandates on the State-administered regular benefits programs, it seems desirable to provide a mechanism by which States would be encouraged to maintain solvent UC systems, borrowing only for cash-flow purposes.

Current Law

Employers in all States currently pay the tax levied under the Federal Unemployment Tax Act (FUTA) at a rate of 3.4 percent on a taxable wage base of \$6,000. However, employers in States generally receive a FUTA tax credit of 2.7 percent, resulting in a net Federal tax rate of 0.7 percent. State UC programs currently can borrow on an interest-free basis from the Federal Unemployment Account. However, once a State is in default on its loans from the Federal account, employers in the State begin to lose the FUTA tax credit at the rate of .3 percent per year.

Specifically, if an advance is not entirely repaid by the State by the second January 1 after the State receives the loan and remains unpaid on the following November 10 of that year, the FUTA tax credit applicable for that year for the State's employers is reduced by .3 percent. For each succeeding year in which the loan remains outstanding, the reduction is an additional .3 percent (i.e., .6, .9, 1.2 percent, etc.) After the third year, the credit may be reduced even further by a formula based on the State's UC benefit/cost ratio.

The table contained on pp. 68-69 in the April 1981 spending background bluebook shows the fund balance for States whose UC funds have borrowed over the past decade. As the table demonstrates, in many instances new advances to States exceed the repayments made by the loss of FUTA tax credit for employers in States in default. For taxable year 1981, employers in the following States made repayments through the loss of FUTA tax credits: Connecticut, Delaware, District of Columbia, Illinois, Maine, New Jersey, Pennsylvania, Puerto Rico, Rhode Island, Vermont, and the Virgin Islands.

Finance Committee Staff Proposal

The proposed loan reform mechanism would no longer allow States to borrow for other than cash-flow purposes on an interest-free basis while providing incentives for States to maintain solvent UC systems. These incentives do not include direct Federal mandates on State-administered UC programs but do include the following:

1. charging 10 percent interest, payable directly to the Federal account, on any new advances to States not repaid by September 30 of the year in which the borrowing was incurred;
2. providing a further incentive for State UC fund solvency by allowing employers in debtor States whose UC funds are restored to solvency, which do not relax tax effort, and which do not liberalize benefits to receive a "freeze" on the loss of the FUTA tax credit at .6 percent or higher.

3. All of the provisions of the loan reform mechanism would expire October 1, 1984.

An expanded description of each of the components of the loan reform mechanism follows:

Interest on New Borrowing

To reduce the attractiveness of advances from the Federal account relative to increased employer contribution or reduced benefit payments, interest would be charged on all new borrowing other than that required to meet seasonal, cash-flow needs. Interest at the rate of 10 percent compounded quarterly would be paid on any new advances after May 5, 1981 unless (1) those advances were repaid by September 30 of the fiscal year in which the borrowing was incurred and (2) the Secretary of Labor certifies that the State Unemployment fund's reserves and income will be adequate to meet its benefit payment obligations without additional advances during a 6-month period beginning September 30 of the fiscal year in which the determination is made. Other than fiscal year 1981, interest would be paid directly to the Federal account on the last day of the quarter for which the Treasury Department determined it was due. Interest could not be paid from the State Unemployment Trust Fund. States would be precluded, as a condition of continuing approval of their State program, from taking any action which would have the effect of indirectly achieving the objective of paying interest out of their trust funds (for example, by giving employers a credit against State unemployment taxes to offset the interest liability). For purposes of computing loan principal, any repayments made by the State (or resulting from the increased FUTA tax) would first be applied to reducing that part of the loan principal which has been longest outstanding.

"Freeze" on Loss of the FUTA Tax Credit

As a further incentive for State UC fund solvency, employers would be eligible for a "freeze" on the loss of FUTA tax credit during any taxable year during which the State fund met the solvency test contained in the loan reform mechanism. This solvency test mandates that a State engage in no new net borrowing and that it take no action the net effect of which represents a relaxation of its tax effort or a liberalization of benefits. The "freeze" would be set at .6 percent or the level of credit reduction applicable for the taxable year during which the State met the solvency test, whichever was higher. Despite the "freeze", employers located in States whose economies improved markedly, as measured by an insured unemployment rate equal to 80 percent of its level for the preceding two years, would be liable for an additional .3 percent loss of FUTA tax credit. Conversely, employers in States whose economies experienced an unanticipated recession, as reflected by extended benefit payments of at least six months and a tax rate as a percentage of total wages equal to at least 150 percent of the national average, could still qualify for the penalty tax freeze under a temporary waiver of the solvency test for up to two years. If the solvency conditions are waived, the States are, nevertheless required to repay a new net borrowing within two years after recession ends. Moreover, in no instance could a State qualify for a recessionary waiver for more than two consecutive years.

Sunset

In order to provide Congress with an opportunity to review the effectiveness of the loan reform package in restoring State U.C. funds, all of the provisions of the loan reform mechanism would expire on October 1, 1984.

President's Proposals (continued)

	<u>Fiscal Year</u>		
	<u>81</u>	<u>82</u>	<u>83</u>
Supplemental security income (SSI):			
Change to retrospective accounting (pp. 45-46)	-	30	60
Eliminate rehabilitation funding of SSI recipients (p. 46)	-	20	20
Subtotal-supplemental security income (SSI)	-	50	80
Block grant consolidation:			
Social services block grant (just Finance Committee programs - require States to have programs for adoption assistance, foster care and child welfare services and to maintain present effort in these areas.) (pp. 47-50 and Attachment D)	-	976	1165
Subtotal - block grant consolidation	-	976	1165
Trade adjustment assistance:			
Integrate State unemployment compensation program, limit allowances, strengthen administration (pp. 53-55)	-	1335	840
Subtotal - President's Proposals	321	9119	9921
<u>Other Alternatives:</u>			
Unemployment compensation:			
Loan reform package (Attachment E)	-	265	446
Subtotal - Unemployment compensation	-	265	446
Social Security:			
Round social security benefits to next lower dollar (p. 75)	-	47	190
Subtotal - social security	-	47	190
Medicare:			
Provide payment for closure of underutilized hospital facilities (pp. 57-58)	-	2	9
Limit physician charges (p. 58)	-	13	20
Limit on reasonable charge for outpatient services (p. 59)	17	26	31
Coordinate ESRD benefit with private health insurance (pp. 59-60)	-	110	250
Non-payment for inappropriate hospital care (p. 61)	-	115	130
Raise Part B deductible to \$75 (p. 62)	-	120	210
Delete Part B carryover provision (p. 63)	-	55	55
Maintain Part B at constant percent of total program costs (pp. 63-64)	-	190	380
Coordination of medicare benefits for FEHBP (p. 60)	-	390(1)	440(1)
Subtotal - medicare	17	1021	1525
Medicaid:			
Reduce Federal minimum match to 40% (pp. 67-68) (assumes 9% Cap)	-	(2)	(2)
Subtotal - other alternatives	17	1333	2161
GRAND TOTAL	338	10452	12082

(1) Estimated net savings to Government (estimated savings to medicare (not included) are 960 in FY82 and 1120 in FY83)

(2) Savings assumed under Medicaid Cap

ELIMINATE SOCIAL SECURITY STUDENT BENEFIT
FOR POST-SECONDARY STUDENTS
(WITH PROTECTION FOR HIGH SCHOOL SENIORS)

Present Law. - (p. 17)

Proposed Change. - Eliminate the social security student benefit for post-secondary students age 18-22 who first enroll in post-secondary school after the 1981-1982 school year. For currently enrolled full-time students in post-secondary schools and those who enter post-secondary schools on a full-time basis during the 1981-1982 school year, pay monthly benefits for 8 months each year. Summer benefits for this group would be eliminated for the 4 months May through August, beginning in 1982. Similar to the Administration's proposal, reduce monthly benefits for these students 25 percent each year, beginning September 1982. No further cost-of-living adjustments would be paid to these students after July 1981.

High School students would continue to receive child's benefits as under current law except that effective August 1982, no high school student could receive child's benefits after his 19th birthday.

This proposal differs from the Administration's in three ways: (1) current high school seniors would receive student benefits this coming year; (2) benefits would be paid for just 8 months each year; and (3) the 25 percent benefit reduction would be delayed one year.

Estimated Savings

	Fiscal Year		
	(millions of dollars)		
	<u>1981</u>	<u>1982</u>	<u>1983</u>
Net Savings	-	600	1400

President's Proposals (continued)

Fiscal Year

Unemployment Compensation:

	<u>81</u>	<u>82</u>	<u>83</u>
Repeal National trigger (p. 25)	297	657	-
Exclude extended benefit claimants from State trigger calculation (p. 26)	208	561	380
Raise State triggers to 5 percent plus 120 percent, or 6 percent (pp. 26-27)	-	-	92
Require 20 weeks of work for extended benefits (pp. 27-28)	-	-	11
Eliminate benefits for those who voluntarily quit military service (pp. 29-30)	36	265	254
Subtotal - unemployment compensation	<u>541</u>	<u>1483</u>	<u>737</u>

Public assistance - Aid to families with dependent children (AFDC):

Limit earnings disregards (Modify to raise child care deduction to \$160 per child per month(pp. 30-31)	-	169	174
Limit current \$30 + 1/3 disregard to 4 months (p. 31)	-	145	149
Limit allowable resources to \$1,000 (p. 32)	-	16	17
Permit offset for food stamps - Housing subsidies (p. 32)	-	100	103
Limit eligibility to 150 percent State needs standards (p. 33)	-	(*)	(*)
Count lump sum payments (p. 33)	-	5	5
Assume advance payment of EITC (pp. 33-34)	-	44	42
Count stepparents' income (modify to limit to stepparents only: see Attachment C) (pp. 34-35)	-	108	111
Require community work programs (as modified by Senators Long and Grassley) (pp. 36-37)	-	0	20
Prohibit payments to strikers (p. 37)	-	5	5
Eliminate payments to children 18 and over (p. 37)	-	100	104
Eliminate payments for pregnant women before 6th month (Medicaid coverage, but no cash payments)(p. 38)	-	(*)	(*)
Change unemployed parent to primary wage earner (p. 38)	(*)	(*)	(*)
Require AFDC parent attending college to meet work requirements (p. 39)	(*)	(*)	(*)
Require retrospective accounting and monthly reporting (p. 39)	-	(*)	187
Eliminate payments less than \$10 (p. 40)	(*)	(*)	(*)
Remove 20 percent limit on vendor payments (p. 40)	(*)	(*)	(*)
Recover overpayments/pay underpayments (pp. 40-41)	-	115	110
Reduce Federal match for training (pp. 41-42)	-	16	17
Administrative savings (p. 42)	-	105	111
Subtotal - AFDC	<u>-</u>	<u>928</u>	<u>1155</u>

Child Support enforcement:

Enforce collection of child support and alimony (p. 43)	-	27	30
Collection of support for adults (pp. 43-44)	-	23	23
Modify collection fee for non-AFDC cases (only absent spouse pays) (p. 44)	-	45	49
Prohibit discharge of child support in bankruptcy (p. 45)	-	17	21
Subtotal - child support enforcement	<u>-</u>	<u>112</u>	<u>123</u>

(*) Less than \$1 million.

ALTERNATIVE

COUNTING STEPPARENTS INCOME

PROPOSED CHANGE

Accept Administration proposal for counting the income of stepparents but limit the provision to only stepparent income, regardless of applicable State laws.

ESTIMATED SAVINGS

FY 82 - \$108 million

FY 83 - \$111 million

The Administration, in providing its estimate for this proposal, assumed no savings in counting the income of non-related individuals because no data exists on which to base an estimate. Therefore, restricting the scope of the proposal to stepparents would not result in a decrease in the savings figure.

UNEMPLOYMENT COMPENSATION LOAN REFORM MECHANISM

Justification

Some believe that the Federal-State extended benefit reforms proposed by the President should be augmented with cost-saving reforms to the mechanism by which State UC funds now borrow from the Federal Unemployment Account. Advances to States from the Federal account totaled \$5.9 billion as of March 31, 1981. While avoiding Federal mandates on the State-administered regular benefits programs, it seems desirable to provide a mechanism by which States would be encouraged to maintain solvent UC systems, borrowing only for cash-flow purposes.

Current Law

Employers in all States currently pay the tax levied under the Federal Unemployment Tax Act (FUTA) at a rate of 3.4 percent on a taxable wage base of \$6,000. However, employers in States generally receive a FUTA tax credit of 2.7 percent, resulting in a net Federal tax rate of 0.7 percent. State UC programs currently can borrow on an interest-free basis from the Federal Unemployment Account. However, once a State is in default on its loans from the Federal account, employers in the State begin to lose the FUTA tax credit at the rate of .3 percent per year.

Specifically, if an advance is not entirely repaid by the State by the second January 1 after the State receives the loan and remains unpaid on the following November 10 of that year, the FUTA tax credit applicable for that year for the State's employers is reduced by .3 percent. For each succeeding year in which the loan remains outstanding, the reduction is an additional .3 percent (i.e., .6, .9, 1.2 percent, etc.) After the third year, the credit may be reduced even further by a formula based on the State's UC benefit/cost ratio.

The table contained on pp. 68-69 in the April 1981 spending background bluebook shows the fund balance for States whose UC funds have borrowed over the past decade. As the table demonstrates, in many instances new advances to States exceed the repayments made by the loss of FUTA tax credit for employers in States in default. For taxable year 1981, employers in the following States made repayments through the loss of FUTA tax credits: Connecticut, Delaware, District of Columbia, Illinois, Maine, New Jersey, Pennsylvania, Puerto Rico, Rhode Island, Vermont, and the Virgin Islands.

Finance Committee Staff Proposal

The proposed loan reform mechanism would no longer allow States to borrow for other than cash-flow purposes on an interest-free basis while providing incentives for States to maintain solvent UC systems. These incentives do not include direct Federal mandates on State-administered UC programs but do include the following:

1. charging 10 percent interest, payable directly to the Federal account, on any new advances to States not repaid by September 30 of the year in which the borrowing was incurred;
2. providing a further incentive for State UC fund solvency by allowing employers in debtor States whose UC funds are restored to solvency, which do not relax tax effort, and which do not liberalize benefits to receive a "freeze" on the loss of the FUTA tax credit at .6 percent or higher.

Attachment

SOCIAL SERVICES BLOCK GRANT
(Prepared by the staff of the Committee on Finance)

The Committee may wish to consider adopting the Administration's proposal for a Social Services Block Grant which would consolidate the programs under the jurisdiction of the Finance Committee with a 25 percent reduction in funding below fiscal year 1981 levels. The Block Grant would include the following programs:

	Fiscal Year
	(millions of dollars)
	<u>1981</u>
(1) Title XX-Social Services	\$ 2,716
(2) Title XX-Day Care	200
(3) Title XX-State & Local Training	75
(4) Child Welfare Services	163
(5) Child Welfare Training	6
(6) Foster Care	349
(7) Adoption Assistance	10
	<hr/>
TOTAL	\$ 3,519

The appropriation authorization for fiscal year 1982 would be \$2.639 billion. It should be noted that this block grant would be subject to the appropriation process and would not be an entitlement. Day care offered under the social services block grant would be subject to applicable State and local standards but not to Federal standards (as is the case under present law until July 1981). Funds for training would be included within the total amount available for social services (rather than being in addition to the social services grant as under present law).

To ensure that States implement the initiatives contained in Public Law 96-272, language would be added to the Administration proposal listing as a purpose of the Act the assurance that children removed from their homes would receive proper care and that every effort would be made to either return the child to its natural home or find a permanent adoptive family.

Additionally, the State report must contain a child welfare, foster care, and adoption assistance program which tracks the requirements of Public Law 96-272.

The draft language also requires a State to maintain its expenditures for child welfare, foster care and adoption assistance at an amount not less than 75 percent of the amount expended by that State in fiscal year 1981. The proportion of such sums expended for foster care may not exceed the proportion that State expended for foster care in fiscal year 1981.

Before expending any of the funds contained in the State's block grant, the Governor must issue a report on the intended use of the payments the State is to receive by a State unless the safeguards for the child welfare, foster care, and adoption assistance program are followed:

Estimated Savings

(dollars in millions)

<u>1981</u>	<u>1982</u>	<u>1983</u>
--	976	1,165