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Stenographic Transcript Of

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HEARINGS

Before The

COMMITTEE ON FINANCE

UNITED STATES SENATE

EXECUTIVE SESSION

Washington, D. C.

February 27, 1980

Alderson Reporting Company, Inc.

*Official Reporter*

300 Seventh St., S. W. Washington, D. C.

554-2345

## 1 EXECUTIVE SESSION

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WEDNESDAY, FEBRUARY 27, 1980

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United States Senate,

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Committee on Finance,

7

Washington, D. C.

8 The Committee met, pursuant to notice, at 10:25 a.m. in  
9 room 2221, Dirksen Senate Office building, Hon. Russell B. Long  
10 (Chairman of the Subcommittee) presiding.

11 Present: Senators Long, Ribicoff, Byrd, Nelson, Bentsen,  
12 Baucus, Bradley Dole, Roth, Chafee and Wallop.

13 The Chairman: The Committee will come to order.

14 Let us now see if we can move on here. I think we are a  
15 little bit behind speed here. Maybe we can get this spending  
16 thing behind us and get onto the tax part of it.

17 Mr. Stern: Mr. Chairman, there are two areas in spending  
18 that you did not complete yesterday. The first one is in the  
19 area of health which begins on page 50 of the blue book.

20 Mr. Constantine: Mr. Chairman, on the health budget, it  
21 is rather self-explanatory on page 50. We would call the  
22 committee's attention to two points, actually.

23 One is in the case of Medicare you already have \$9.6  
24 billion at least in the '81 budget of general revenues going  
25 into Medicare to pay for the matching under Part B in Medicare

1 and, to some extent, for uninsured people and to the Hospital  
2 Insurance program.

3       Additionally, the rise in Medicaid from \$14.1 billion to  
4 \$15.5 billion in Federal is an actual change. The \$14.1  
5 billion for fiscal '80 includes about \$2 billion in the  
6 supplemental budget request. So the increase in Medicaid is  
7 significantly different from budget to budget than is shown in  
8 the actual, the current estimates.

9       We also should point out that in the case of Medicaid, the  
10 states will be putting up about an additional \$12 billion so  
11 the Medicaid total cost in fiscal '81 is estimated at \$27.5  
12 billion.

13       Chart 11 on page 52 --

14       The Chairman: Let me just ask you about that. That looks  
15 as though we are going to be in pretty good shape, does it not?  
16 Based on the projection, we will have an increase in the fund  
17 for Medicare and an increase in the supplemental medical.

18       I would hope that we would be able to move forward with  
19 the getting started on health insurance and showing a surplus  
20 over there.

21       Mr. Constantine: Mr. Chairman, the surplus is an  
22 intermediate term surplus according to the actuaries. In fact,  
23 there is a significant actuarial deficit in Medicare of over 1  
24 percent of payroll over the 25-year period.

25       In other words, of the short run five or ten year period

3  
1 there is an increase in the balance of the Medicare trust fund.  
2 However, by 1992 the actuaries say the fund will be exhausted.

3 The Chairman: In the long run we are all going to be  
4 dead, but it sounds to me for the next few years in that area,  
5 we are doing pretty good taking in more money than we are  
6 spending. If that is the case, I think that is a good sign.  
7 Maybe we could do a little more. Maybe we could use a little  
8 of that money to help get started on the health insurance.

9 Mr. Constantine: Yes, sir, that is one possibility. The  
10 other possibility is the proposal of the administration to  
11 transfer some of the cash surplus or the income, the short-term  
12 income gain from the Medicare trust fund to the cash funds. I  
13 believe that is one of the matters that you will be considering  
14 later.

15 The Chairman: That is fine, if we have got to do it. I  
16 just wonder, can we set aside a little something to get  
17 started on the health insurance?

18 Mr. Constantine: Yes, sir.

19 You actually have in part in your earlier decision on the  
20 catastrophic health insurance plan, the committee voted to put  
21 a ceiling of \$1,000, tentatively approved a ceiling of \$1,000  
22 for coinsurance and deductibles under Medicare.

23 There is some dispute as to how much that will cost, but  
24 it will be another \$1 billion to \$2 billion a year. No older  
25 person would have to pay more than \$1,000 in any year in

1 coinsurance and deductibles. That would take some of whatever  
2 immediate cash balance there is.

3 The Chairman: I do not want to be precluded from doing  
4 something with health insurance by this Budget Resolution.  
5 That is what I am thinking about.

6 Mr. Constantine: Yes, sir.

7 Senator Ribicoff: On that, I do not know what the  
8 Chairman's intentions are. We did hold some sessions and some  
9 tentative decisions were made. To my knowledge, we have never  
10 had any cost estimates about those tentative decisions.

11 Before we get started, somewhere along the line, you ought  
12 to tell us.

13 Mr. Constantine: Yes sir. We have those prepared. We  
14 anticipate that will go out to the Committee on Monday. We are  
15 getting revised estimates from both the administration and CBO  
16 which we have everything except CBO's estimates on the  
17 committee's tentative decisions and various alternatives in the  
18 low-income area. We have the paper being drafted today, being  
19 finished up today. That will go out to you on Monday.

20 Senator Ribicoff: My understanding one, as far as the  
21 administration is concerned, they do not contemplate that  
22 anything we do on health insurance, catastrophic or otherwise,  
23 has any impact on the 1981 budget.

24 Mr. Constantine: That is correct, Senator.

25 Senator Ribicoff: I gather, as far as the Chairman is

1 concerned he would like to get started on that. As I  
2 understand the Chairman's thinking, it is a question.

3 The Chairman: Of course.

4 If we had to do it and could not do any better, we could  
5 pass the bill and then people wait until the following year,  
6 until after fiscal 1981 in order to have any benefit of it.

7 It seems to me if we pass a bill this year, we ought to  
8 have something going. If not, in the fourth quarter of this  
9 year, by January of 1981 you would think we would have  
10 something going by that time.

11 Mr. Constantine: Mr. Chairman, obviously there are  
12 several things you could get started in fiscal '81. For  
13 example, the limitations on the deductibles and coinsurance on  
14 Medicare could go in pretty quickly. It just costs a lot of  
15 money.

16 The Chairman: How much does it cost?

17 Mr. Constantine: We are arguing with the administration.  
18 We are waiting for CBO's estimates. They now have that number  
19 up to \$2.4 billion a year, which we believe is high, but we  
20 would rather not try to reduce an estimate unless we can back  
21 it up.

22 But we are waiting for CBO's estimate.

23 The Chairman: I think you ought to try to show us what we  
24 can do. What can we get started that could kick in either the  
25 third -- hopefully the fourth quarter, by the fourth quarter of

1 this year so it is in effect so at least we are in business?  
2 When we go back and talk to people about what we have done and  
3 what we have not done, point to something that is in place and  
4 then tell them in January something else triggers in and so  
5 forth so they can say we are moving with the program.

6 There has been so much conversation for so long. I think  
7 it is time we put something in place so people can see all  
8 right, now we are in business.

9 Mr. Constantine: Yes, sir. We will put that together as  
10 to what might be done.

11 The Chairman: It should be inside this resolution.

12 Senator Ribicoff: Let me ask, the thought occurs to me,  
13 you are going to be caught under great pressures here. First,  
14 the inflationary pressure and I think there will be justifiably  
15 great pressure in Congress and the Budget Committee to cut your  
16 budget even more, to try to avoid a deficit.

17 You have the desire of the Chairman to do something on  
18 health insurance. You have the administration's wanting to put  
19 everything over until 1981.

20 Is it possible to have some sort of a pilot program on  
21 this health insurance to take a first step? Do a pilot program  
22 and justify and while you are waiting for that other year or  
23 two to get an idea how it is working before you go full out.

24 I am just curious if you have ever given any thought to  
25 that?

1 Mr. Constantine: Senator, I hate to back off but we would  
2 like to think about that and we can get back to you either late  
3 this afternoon --

4 Senator Ribicoff: No, no. I am not going to force you to  
5 make a decision that fast. This is tough. When you start  
6 thinking about this, you are going to have so many pressures.

7 Again, the great problem in all of these social programs  
8 is that they do not work out the way you anticipate they will.  
9 On paper, they all just look great, but then when they come and  
10 try to bring them to fruition, they do not work out.  
11 Especially if you do have budgetary pressures and there is a  
12 desire to put it off, then you have the counter desire to get  
13 it started.

14 Is this not the greatest opportunity to try to pilot  
15 something out? These are the circumstances.

16 Maybe you cannot. I do not know.

17 There are many ways. I think the Chairman's and my  
18 approach on health insurance is an incremental approach which,  
19 in a sense, is piloting out and you start with catastrophic to  
20 see if it works.

21 Now what worries me is that even that program will be so  
22 costly that you will be up against pressures not to do  
23 anything.

24 Under those circumstances, is this not the best  
25 opportunity and the best circumstance to try to pilot something



1 out?

2 Mr. Constantine: Well, there are a couple of ways. One  
3 way, Senator, might be to phase in at a somewhat higher level  
4 than you would ultimately come down to, that is less in the way  
5 of benefits, less in the way of costs initially than you would  
6 incur later but to get started at an earlier point. We have a  
7 couple of approaches we are exploring that are less costly and  
8 are incremental. It is a very tough thing.

9 The key thing we would have to know is how much the  
10 committee wants to include in the 1981 budget for initial  
11 health insurance.

12 The Chairman: I think that it might really be worthwhile  
13 to actually put into effect a pilot. Connecticut might not be  
14 a bad place to pilot it either, Senator, because you have the  
15 headquarters of the insurance industry up there.

16 Senator Ribicoff: I am not asking for the state. That  
17 means nothing to me. These companies can do it anywhere.

18 You are going backwards as far as the committee is  
19 concerned.

20 I think before you ask the Committee how much they want to  
21 spend, you ought to come back to the committee with  
22 alternatives and then let the committee make the decision  
23 whether they would be willing to try a program that cost X  
24 amount because of the other pressures.

25 I think it would be better for alternatives to be

1. presented, Mr. Chairman, instead of our telling them how much.

2       The Chairman: There are some things, for example, I  
3 really do not see why anybody would want to vote against  
4 something that starts out, for example, by doing more for the  
5 aged on their health problems, you know?

6       We do not take care of the aged, disabled by just doing  
7 more for them than we are doing now. We do not pay for all  
8 medical expenses under Medicare.

9       One of the things we are going to do under that, under  
10 that program, it is proposed, is it not, that we do more for  
11 the aged than under Medicare? That is one aspect of our  
12 catastrophic program.

13       We just do not do enough. We do quite a bit. We do a  
14 lot, but it is not enough.

15       I think we could expend it some, to give them more  
16 hospital days. That would help. Even if you did not go all  
17 the way with it, say well, as a first step, we will increase  
18 hospital days.

19       Mr. Constantine: That could be implemented. Assuming the  
20 funding were there, that could be implemented rather quickly.

21       Another approach that we discussed was with respect to the  
22 employers who do not have catastrophic health insurance today,  
23 essentially the small business and so on, that while not making  
24 it mandatory initially, encourage them through tax credits.  
25 Those who do not have the coverage today to purchase the

1 improved coverage. That would be another approach, to start  
2 covering people who do not have coverage in a hurry.

3 The Chairman: Or you could just apply it to cancer, or  
4 just apply it to cancer and stroke. Of course, cancer -- is  
5 not cancer going to be your largest catastrophic illness?

6 Mr. Constantine: Not necessarily, Mr. Chairman. We run  
7 into the hemophiliacs who have enormous expenses, the heart  
8 cases. There are all sorts. Medicare is now paying for heart  
9 transplants.

10 Senator Bentsen: You must have some numbers on that.

11 Mr. Constantine: Yes, sir.

12 It is the frequency by diagnosis.

13 The Chairman: Why do you not try to give us tomorrow some  
14 alternatives of what could we do, what could we put in here --  
15 say all right, here is about what we would like to start with,  
16 just to get into business so people know we are coming with  
17 health insurance.

18 In other words, I would like to make a down payment on it.  
19 If it is only -- it is what we call "earnest money" that you  
20 are sincere about this, that we mean business.

21 Mr. Constantine: We will come back with possibilities  
22 tomorrow morning.

23 The Chairman: All right.

24 Mr. Constantine: On page 54, we listed the proposed  
25 changes in the Medicare and Medicaid programs which appear in

1 the President's budget. The net effect of the proposed changes  
2 in the budget by the President is \$716 million reduction in  
3 present projected expenditures, present law expenditures.

4 That includes the administration's hospital cost  
5 containment proposal, savings from that; the nursing cost  
6 differential change which the committee hs already approved,  
7 and cost-sharing for the working aged.

8 Both the hospital cost containment and savings from the  
9 working aged was in the bill and in the committee's  
10 consideration they did not believe either one of those  
11 proposals were likely of enactment.

12 In the case of the working aged, what the administration  
13 proposed is if someone continues working over 65, continues  
14 working, that the employer must insure him and the private  
15 insurance pays first.

16 That, as we pointed out last year, is a disincentive to  
17 hire older workers and the older worker may be, in fact, paying  
18 three times -- once on his Medicare taxes before he is 65; the  
19 taxes that he continus to pay on Medicare after he is 65; and  
20 then paying towards the cost of his employer's private  
21 insurance.

22 The Ways and Means Committee rejected that proposal and  
23 the committee last year did not indicate that it thought it was  
24 likely of enactment either.

25 We believe that is kind of an unrealistic proposal.

1 On the hospital cost containment --

2 The Chairman: If you do not think it is a realistic  
3 proposal -- what line is that?

4 Mr. Constantine: On line 3 of the top item, President's  
5 budget, Medicare.

6 The Chairman: You do not think it is a realistic  
7 proposal?

8 Mr. Constantine: No, sir.

9 The Chairman: Why do we not drop it off, then?

10 Mr. Constantine: Yes, sir.

11 Senator Chafee: I do not even see the rationale for the  
12 proposal. Usually when the administration sends up a proposal,  
13 there is some kind of sense to it. It may be a politically  
14 difficult choice. I do not get the rationale.

15 If somebody is over 65 and continuing to work, then, of  
16 course, they must continue to pay Social Security and when they  
17 were paying Social Security, a part of that payment is going  
18 into the Medicare trust fund.

19 I do not get the rationale that in addition they should  
20 have to pay part of some health plan that the employer must  
21 have for them?

22 Mr. Constantine: Not just for them, but his regular  
23 health plan and he must include them. The older people are a  
24 higher cost, obviously. If they have to pay first, it inflates  
25 the employer's cost and he will not hire older people.

1 It is really just a budget saver, that is all. There is  
2 no real rationale.

3 Senator Bentsen: If you will yield, as I understand it,  
4 you are talking about cost sharing for working-aged. Is that  
5 it, approximatley \$200 million?

6 Mr. Constantine: \$200 million.

7 Senator Bentsen: There is no question it is prejudicial  
8 to older people working.

9 The Chairman: There is no one here who favors it, but  
10 let's drop it. I completey agree with you, Senator. That is  
11 why I think we should drop it. Let's drop it.

12 Mr. Constantine: The next major item there which, based  
13 upon the history in the first session of the Congress, we  
14 believe is unrealistic. It is the \$700 million actually on  
15 hospital cost containment which is in the administration  
16 budget.

17 The House rejected a mandatory program and the committee  
18 also agreed not to consider a mandatory hospital insurance  
19 proposal last year.

20 The Chairman: Mike Stern, how do we get out of this trap?  
21 They send this thing down here to save all of this money with  
22 hospital cost containment and we voted to save as much as we  
23 think can be saved. Now they send this thing down here as  
24 though we ought to save another \$700 million.

25 We do not think it is fair. How do we handle that?

1 Mr. Stern: In fact, the Committee has approved some  
2 provisions which the Administration did not propose. You might  
3 want, instead of using the number in the President's budget, to  
4 use the number that is associated with the legislation you  
5 actually reported out.

6 The Chairman: What is that? What would that be?

7 Mr. Stern: \$621 million instead of \$760 million. In  
8 effect, there would be a difference of \$140 million.

9 The Chairman: Why do we not do that?

10 Mr. Stern: That, at least, is something you have  
11 delivered on as a committee because you report out legislation.

12 Senator Bentsen: That figure, that does make allowance  
13 for the Child Health Assurance Program as a plus cost plus the  
14 savings that you have made? That at least is what you have  
15 already reported out.

16 Then if you want to, in addition, make an allowance of  
17 some amount for the first part of the National Health Insurance  
18 Program then you would reduce the savings by that amount.

19 For example, if you agree with the goal of the \$621  
20 million now and then tomorrow you decide you wanted to add in  
21 \$200 million or so, that would reduce the savings by that much  
22 amount.

23 The Chairman: All right.

24 Mr. Constantine: The savings are in the bill, H.R. 934,  
25 which the committee has pointed out.

1       The Chairman: It seems to me, if we are going to start  
2 National Health Insurance, if there is going to be any money in  
3 there, we need to put it on that bill. Otherwise, we are going  
4 to be in a budget crunch.

5       Mr. Constantine: When you next have executive sessions  
6 after you finish the budget work you will be back into health  
7 insurance. Our thought was when you actually complete your  
8 work, you would probably want to combine all three things in  
9 one bill. The savings you would report out, the Child Health  
10 Assurance, and what you do in the National Health Insurance  
11 area.

12       The Chairman: All right.

13       Mr. Constantine: That winds up the health side, Mr.  
14 Chairman. I also should point out to the committee that the  
15 President's budget includes \$700 million in savings that the  
16 committee had approved legislatively, that the administration  
17 is now doing administratively, so the Finance Committee loses  
18 there since it is being done administratively.

19       Senator Chafee: On the \$621 million out there on the  
20 Floor, could you review briefly what they were so I can refresh  
21 my memory?

22       Do they have much of a chance of surviving?

23       Mr. Stern, do you remember the jist?

24       Mr. Stern: The major single one was a revision of Senator  
25 Talmadge's proposal which was an alternative to the



1 administration's hospital cost containment.

2 Mr. Constantine: For example, in the reform of Medicare  
3 and Medicaid hospital reimbursement, we had \$200 million. The  
4 administration now proposes to do part of that.

5 Their estimate is \$120 million, so we netted \$80 million  
6 on that. It goes down the last. Apportionment of provided  
7 costs, that essentially is the nursing differential, \$200  
8 million. Reimbursement of inappropriate hospital services for  
9 the patient should be in longterm care facilities, the  
10 committee would save \$150 million under that. There is another  
11 review of hospital admissions, routine testing and pre-op  
12 stays, \$150 million. It goes on.

13 Those are the major savings. Medicare liability, payment  
14 for accidents, and so on.

15 Medicare beneficiaries in an automobile accident, for  
16 example, the auto insurer pays for such stays, is \$145 million  
17 in '81 and so on.

18 The net of all of that is \$621 million, allowing for CHAP.  
19 The savings are greater by subtracting the cost of the CHAP  
20 proposal.

21 Senator Chafee: When are we going to take those up on the  
22 Floor?

23 Mr. Stern: Actually, we had thought you would want to  
24 wait until you had completed your action in the health  
25 insurance area and probably combine both these savings, plus

1 the child health program, plus what you do in the health  
2 insurance area in one bill and take that up at the same time.

3 Senator Chafee: At the same time.

4 Mr. Stern: The decision is tentatively to stick with the  
5 \$621 million subject to whatever net you are going to want to  
6 put in for the first part of health insurance, which you will  
7 consider tomorrow.

8 The final item then in the spending area is the first item  
9 on page 56, chart 13, revenue sharing.

10 Present law expires at the end of fiscal year 1980. It  
11 provides \$6.9 billion. The administration has proposed  
12 extending that at the same level, \$6.9 billion.

13 We should point out, as a part of the savings that were  
14 required under the Budget Resolution to be achieved in fiscal  
15 year 1980, the Committee will be offering an amendment for  
16 fiscal year 1980 which cuts the state share of revenue sharing  
17 by \$220 million.

18 So that if that were accepted and went to the President  
19 and were signed into law, the level for fiscal year 1980 would  
20 wind up being \$6.7 billion rather than \$6.9 billion.

21 The question here deals with what you are going to do in  
22 fiscal year 1981. We should point out that change that is in  
23 the works for 1980.

24 The Chairman: If we are forced to make some more  
25 reductions in 1981, that is going to be one of them that we are

1 going to make. I would suggest, for the time being, that we not  
2 recommend it. We just say, you know, if it has got to be done,  
3 we will do it.

4 Senator Wallop: Mr. Chairman, I think one of the problems  
5 with 1980, that money has already been spent.

6 I had breakfast with Western Governors this morning and  
7 that has already been put into their mechanism and out the  
8 other end in '80.

9 They have suggested a number of other ways, specific  
10 programs that have been made. It is one thing to offer it with  
11 this hand and get through one year and then take it away at the  
12 end of the year.

13 The Chairman: Well, what I am suggesting is that we  
14 proceed on the assumption that they are going to get the money  
15 in 1981. If we do not have to cut it, we will not.

16 If we are put under pressure like we are going to have to  
17 cut it, that is one item where we could cut a little bit.

18 Generally our thought was last time that, forced to make  
19 some reductions that a lot of us did not want to make, we would  
20 cut there if we had to. We would rather not do it in the main,  
21 but if we had to we would.

22 Senator Bentsen: Mr. Chairman?

23 The Chairman: Yes, sir.

24 Senator Bentsen: I feel very strongly on this issue we do  
25 not have any revenue to share with the states. Every one of

1 the states has themselves a surplus and many of them have given  
2 themselves tax cuts while we are seeing a deficit here for the  
3 Federal government and we are seeing the dollar going downhill  
4 and we have inflation on our hands.

5 Of all the places that we could cut, I think that is the  
6 place that we should.

7 I get awfully tired of these governors, you know, railing  
8 at the deficit in the Federal budget and then turning around  
9 here like they were his week, campaigning for Federal revenue  
10 sharing and how much they needed.

11 It is awfully easy to spend money. You do not have to  
12 raise -- you stand in front of the television cameras, cut the  
13 ribbons, get the gold keys, and get the credits for it.

14 When I had them up before the Joint Economic Committee I  
15 asked them. I said where do you think that we should make the  
16 cuts, then? They said, make it in the categorical grants.

17 I said, all right. You are talking about aid to the poor,  
18 you are talkinga about aid to the aged. Tell me specifically  
19 what you want?

20 They said we have already written you a letter on that.

21 I said, I understand that letter. I read it. It says you  
22 are against waste. Cut out waste. I said, that is a very  
23 gutsy stand. Very brave. I think we are all for that. Give  
24 me the categorical grants.

25 I had them in front of me for two hours, three of them

1 representing the Governor's Conference. Not one Governor gave  
2 me one categorical grant.

3 I said, all right. Will you write me a letter on it?

4 They said we will write you a letter on it.

5 Mr. Chairman, that was a year ago almost and I still have  
6 not received that letter. This is the place that we can do it.  
7 I know some people think this is an article of faith at the  
8 time it was put in, but circumstances and conditions have  
9 changed since Revenue Sharing started for the states.

10 The states have done much better than has the Federal  
11 government.

12 The Federal government is in trouble. It is time that we  
13 make some bold moves and we take some of these steps that I  
14 think are necessary to try to save the dollar and try to turn  
15 inflation around.

16 Senator Ribicoff: Mr. Chairman, I can go along completely  
17 with what Senator Bentsen has said. The public perception, the  
18 world perception, the economic perception of what to do about  
19 the galloping inflation, I have not seen a single series of  
20 proposals that does not definitely include on a substantial cut  
21 in federal expenditures.

22 The Chairman: Why do we not recommend, then, a \$200  
23 million cut in revenue sharing at the state level? It is all  
24 right with me.

25 Senator Wallop: Mr. Chairman, I think that would be

1 something more appropriate for more committee members than we  
2 have present now to debate that.

3 I respect Senator Bentsen but I happen to disagree with  
4 him on this issue.

5 The Chairman: Why do you not poll the committee on it,  
6 Mr. Stern, just poll them? As far as I am concerned, I am  
7 willing to go along with them.

8 Senator Chafee: We are talking about '81, Senator Wallop  
9 talking about it in the budget. We are talking '81 now, are we  
10 not?

11 Mr. Stern: The committee has already approved an amendment  
12 that will be offered in the near future on the countercyclical  
13 revenue sharing bill to cut \$220 million in 1980, the current  
14 fiscal year, I believe. That is what Senator Wallop was  
15 referring to.

16 The question now is for 1981. The whole program will  
17 expire at the end of the current fiscal year.

18 How much do you want to allow for 1981? The  
19 administration's budget is \$6.9 billion, the same as present  
20 level.

21 I take it that Senator Bentsen is suggesting \$6.7 billion.

22 The Chairman: Let me ure a more prudent course. The more  
23 I think about it, if we should decide to do this now, the  
24 Budget Committee would just take that and cut us more. Why do  
25 we not just let them.

1 If they want to say we have to cut, leave us the option at  
2 that point to say, well, all right. That has to be. We will  
3 do it.

4 Senator Bentsen: I will be very candid with you, Mr.  
5 Chairman. If I thought we had the votes for it here I would  
6 move it now.

7 Senator Ribicoff: The thought occurs, Mr. Chairman, you  
8 are a firm advocate of getting something started on  
9 catastrophic. Honestly, looking at this document, I do not  
10 know where you are going to find that money.

11 If you want to look at the raw politics, you will get a  
12 hell of a lot further with catastrophic than you will revenue  
13 sharing to the states. The only ones that care about revenue  
14 sharing to the states happen to be the 50 Governors. The  
15 public is not aware of it at all.

16 The public is always aroused on Federal expenditures and  
17 cut the Federal budget. Everything you have on the Floor is  
18 cut the Federal budget.

19 If you are going to find money for catastrophic to help  
20 the people, you are going to get a lot further and a lot more  
21 meaningful by taking out of revenue sharing and putting it in  
22 the catastrophic.

23 Senator Bentsen: Mr. Chairman, I am going to propose it  
24 whether I win or not. I just want to make the point again  
25 that of all the places to cut I think this is the most logical

1 and to answer my friend, Senator Wallop, we are now talking  
2 about '81.

3 Senator Bradley: Mr. Chairman, I just came in. I  
4 understand you are proposing to cut the state's share of  
5 revenue sharing?

6 Senator Bentsen: In '81.

7 Mr. Stern: \$6.7 billion in '81.

8 Senator Bentsen: Cut it back to the same.

9 Senator Bradley: It seems to me that there is a  
10 legitimate case that can be made why the state share can  
11 remain, even to the possibility that that increases a little  
12 bit more the deficit because there are, indeed, states that do  
13 not have the power. They have the power, but do not have the  
14 capacity to raise significantly additional dollars from their  
15 state tax base.

16 And they are faced with the prospect that no revenue  
17 sharing funds come into the state of raising a sales tax,  
18 raising an income tax, or increasing property taxes. Those are  
19 the exact states, and there are many, that are on the brink of  
20 an economic decline now.

21 I would argue that revenue sharing is the one program that  
22 gives them some dollars, that allows them to handle it flexibly  
23 in any way they perceive that is their way to do it.

24 The rationale that was established in 1972 is still valid.  
25 It should be reauthorized.



1 Senator Bentsen: Mr. Chairman, if I may speak to that, I  
2 am talking about \$200 million for 1981 and the respective  
3 fiscal positions of the Federal governments and the state  
4 governments has dramatically changed since revenue sharing was  
5 put in for the states.

6 This government of ours is in real trouble. We have  
7 ourselves almost an economic crisis and the state governors are  
8 going to have to share a part of the cuts.

9 They are not inviolate. They are not in a position where  
10 they are sacrosanct.

11 I think when we are talking about a lot of very worthwhile  
12 categorical programs that certainly they can bear their share  
13 of it. I am not talking about a lot. Frankly, I would like to  
14 cut it all out, to be quite candid with you, for all the share  
15 for the states.

16 But I am talking about a very modest cut. I am talking  
17 about '81. I am talking about \$200 million.

18 That is what this committee has already agreed to, that we  
19 are going to offer it in the Floor.

20 The Chairman: Let's poll the committee and see what they  
21 want to recommend either way.

22 Senator Nelson: I would like to say a word of endorsement  
23 to what Senator Bentsen has just said.

24 Back in 1972 I voted against the general revenue sharing  
25 on the Floor of the Senate. There were nine votes against it

1 and I voted against it and stated at the time that we had a  
2 horrendous deficit and we could not afford to share any  
3 revenue.

4 Our deficit then was \$15 billion.

5 Last year my state had \$940 million in surplus. They had  
6 20 years of revenue sharing in their hands, and the Governor  
7 made a great grandstand play to give it all back and was on the  
8 phone within a week to Congressman Obey saying, for heavens  
9 sake, do not cut the revenue sharing -- at the same time,  
10 denouncing the Congress for wasteful spending.

11 At some stage, this nonsense has got to stop. There is  
12 not state in the union without the capacity to raise money,  
13 contrary from what I gather Senator Bradley is saying. If they  
14 do not have income taxes, they have sales taxes.

15 If they are going to spend it, they ought to have to raise  
16 it.

17 Last year when we had the chance to do it, we had the roll  
18 call in the committee. Senator Roth, who was leading the fight  
19 to balance the budget and cut it, voted for an across-the-board  
20 cut, just so long as you never identified where it comes from.

21 I made the proposal, let's identify where we can cut.  
22 Senator Roth, and a majority on both sides, I guess, voted  
23 against it.

24 I want a roll call. Let's find out who really stands for  
25 cutting the budget.

1 Senator Bradley: Could I just respond to one point that  
2 Senator Bentsen made?

3 This is a cut you are recommending of 10 percent in 1981?

4 Senator Bentsen: \$200 million.

5 Mr. Stern: It amounts to 10 percent of the state's share.

6 Senator Bradley: The purpose of this is to send a message  
7 to the state, or to force them to raise revenues, if they have  
8 the capacity to raise revenues.

9 Senator Bentsen: To share in the problems that we have.

10 Senator Bradley: Let me suggest, with inflation at its  
11 present rate and a reauthorization of the past level of \$6.9  
12 billion, you are in effect penalizing them already in real  
13 terms. So we are not talking about a 10 percent cut, but with  
14 an inflation rate, you are talking about a real cut of much  
15 more than 10 percent.

16 Senator Bentsen: Let me say to my friend from New Jersey  
17 that we have a \$40 billion deficit we are looking at this year  
18 with a projection for '81 of a \$60 billion deficit. That is as  
19 illusory as it can be. That is not the way it is going to be.  
20 We are going to have to make some cuts. We ought to face up to  
21 it.

22 Senator Nelson: I will wager -- I do not know, Mr.  
23 Chairman. I do not have the roll call. But we mandated last  
24 year in the resolution on the Floor of the Senate that the  
25 budget committee come in with a balanced budget and I bet

1 everybody in this room voted for it.

2 The Chairman: Look, gentlemen. These are great speeches.

3 I would be willing to be you \$5 to \$1 you are not going to  
4 change one vote, so let's hear a couple of more statements.

5 Everybody knows how you are going to vote.

6 Senator Wallop: I am not trying to change one vote. I  
7 take great and personal offense at what Senator Nelson said  
8 about people who are not willing to cut the budget.

9 I had a proposal in here, if you recall, last year which  
10 would eliminate double benefits for black lung, double benefits  
11 for veterans and double benefits for other people under Social  
12 Security which would have cut far more than what this \$200  
13 million is all about.

14 All the great courageous folks fled out the window on that  
15 thing. All these groups came out of the woodwork. It would  
16 have done it and would have been responsible. It is just as  
17 responsible as this proposal.

18 I do not think that it is right to posture over there and  
19 say we are somehow or another unwilling to find places to cut.

20 That was a \$2.9 billion savings, not \$200 million.

21 The Chairman: Mr. Chafee?

22 Senator Chafee: Mr. Chairman, I am sympathetic to Senator  
23 Bentsen's proposal. I am not sure we are doing it at the right  
24 time here. Also, I wanted to get a better feel of our own  
25 situation at home.

1       There is something about revenue sharing. The money does  
2 come to them to use in the best fashion that they choose so  
3 there is a lot of merit to revenue sharing.

4       Just at this particular time, we are going to have plenty  
5 of other chances to cut this budget. This is not the last shot  
6 out of the gun.

7       So I am not going to vote for Senator Bentsen at this  
8 time. That does not mean that I would not as we get further  
9 down the road.

10       The Chairman: Call the roll.

11       Mr. Stern: Mr. Talmadge?

12       (No response)

13       Mr. Stern: Mr. Ribicoff?

14       Senator Ribicoff: Aye.

15       Mr. Stern: Mr. Byrd?

16       (No response)

17       Mr. Stern: Mr. Nelson?

18       Senator Nelson: Aye.

19       Mr. Stern: Mr. Bentsen?

20       Senator Bentsen: Aye.

21       Mr. Stern: Mr. Matsunaga?

22       (No response)

23       Mr. Stern: Mr. Moynihan?

24       Senator Bradley: No, by proxy.

25       Mr. Stern: Mr. Baucus?

1 (No response)  
2 Mr. Stern: Mr. Boren?  
3 Senator Bentsen: Aye by proxy.  
4 Mr. Stern: Mr. Bradley?  
5 Senator Bradley: No.  
6 Mr. Stern: Mr. Dole?  
7 (No response)  
8 Mr. Stern: Mr. Packwood?  
9 (No response)  
10 Mr. Stern: Mr. Roth?  
11 (No response)  
12 Mr. Stern: Mr. Danforth?  
13 (No response)  
14 Mr. Stern: Mr. Chafee?  
15 Senator Chafee?  
16 Mr. Stern: Mr. Heinz?  
17 (No response)  
18 Mr. Stern: Mr. Wallop?  
19 Senator Wallop: No.  
20 Mr. Stern: Mr. Durenberger?  
21 (No response)  
22 Mr. Stern: Mr. Chairman?  
23 The Chairman: No.  
24 (Pause)  
25 We are four yeas and five nays and we will poll the

1 absentees.

2 All right. Let's go on to the next thing.

3 Mr. Stern: May we assume, if the motion passes, then the  
4 amount is \$6.7 billion; if the motion fails, it is \$6.9  
5 billion?

6 The Chairman: Yes, that is fair.

7 Mr. Stern: All right.

8 There is one more item under revenue sharing, namely  
9 countercyclical revenue sharing.

10 Mr. Morris: Countercyclical assistance was approved by  
11 the Committee earlier this year in 1979 and under the bill as  
12 approved by the Committee, \$340 million would be distributed,  
13 would be authorized to be distributed, in 1980. The House has  
14 amended this measure and it has authorized the distribution of  
15 \$200 million of targetted fiscal assistance in 1980.

16 Both the Senate and the House have approved a  
17 countercyclical anti-recession, fiscal assistance program,  
18 triggered in two different manners, but both would authorize up  
19 to \$1 billion for 1981.

20 The Chairman: Let us assume that we will do business that  
21 way, unless anyone objects.

22 What is the next item?

23 Mr. Stern: That concludes the spending side, Mr.  
24 Chairman, except that we will come back tomorrow for the  
25 committee's instructions on health.

1 The Chairman: That concludes the spending side?

2 Mr. Stern: That concludes the spending side with the  
3 exception of allowance for beginning health insurance.

4 The Chairman: All right.

5 Mr. Stern: On the revenue side, Mr. Chairman, when the  
6 blue book was prepared, the conferees had not completed their  
7 work on the windfall profits tax bill so we are passing out a  
8 revised table of revenues under new legislation.

9 The Chairman: All right.

10 Mr. Shapiro: The sheet you will have is the  
11 administration's budget that lists the receipts and proposed  
12 changes for fiscal year 1981 that is in the administration  
13 budget. At the top of the sheet is the windfall profits tax.  
14 That is complete since the conference has concluded.

15 On the righthand side of that column, you will see the  
16 first set of numbers as the administration's proposed windfall  
17 profits tax provisions. In the column next to it, in  
18 parentheses, is the conference agreement.

19 As you will note, the administration recommended in the  
20 first fiscal year \$13.9 billion.

21 The Chairman: Wait just a minute. Let us suspend until  
22 we are ready to focus on this.

23 Senator Byrd: I was detained. I understand there was a  
24 vote on reducing the revenue sharing. I would like to be  
25 recorded as in favor of reducing revenue sharing.



1 Mr. Stern: Mr. Chairman, I might say there was one vote  
2 that had not been determined yesterday, Senator Moynihan's  
3 motion to include \$500 million more than the budget for new  
4 legislation for income security. The vote is now final, five  
5 yeas and ten nays. The amount would then be, I assume, as in  
6 the President's budget.

7 The Chairman: Five yeas, ten nays.

8 Mr. Stern: Yes, sir.

9 Senator Nelson: You recorded my vote as nay?

10 Mr. Stern: Yes, sir.

11 Senator Byrd: The Moynihan proposal failed?

12 Mr. Stern: That is correct.

13 Senator Bentsen: I vote nay.

14 Mr. Stern: You vote nay?

15 Senator Bentsen: Ye.

16 Mr. Stern: Yes, sir.

17 Mr. Shapiro: It might be helpful if I started an overall  
18 projection before going to the sheet in general.

19 The administration's revenue totals are \$600 billion.

20 Senator Nelson: Where are you?

21 Mr. Shapiro: I am making a general observation before  
22 going to this sheet on the budget. That \$600 billion would  
23 account for a deficit of \$15.4 billion, so in the  
24 administration's budget they sent to Congress had spending of  
25 \$615.8 billion, revenues of \$600 billion and a deficit of \$15.8

1 billion for fiscal year '81.

2 On the revenue side, what they have is present law would  
3 be \$578.1 billion. They have two proposed changes to present  
4 law. These are the legislative changes which include windfall  
5 profit tax of \$18.8 billion and their administrative proposals,  
6 their so-called cash management proposals, \$3.1 billion, which  
7 is \$600 billion.

8 On the sheet you have in front of you headed  
9 "Administration Budget," that includes the legislative and  
10 administrative changes. As indicated, present law has \$578.1  
11 billion and what the administration has proposed is the  
12 windfall profit tax, which is \$13.6 billion.

13 The total of all elements of the windfall profits tax bill  
14 in the administration's budget, plus a total of \$5.2 billion  
15 which is a legislative proposal, the middle column in your  
16 hand-out sheet. Your legislative proposal is \$5.2 billion plus  
17 the \$13.6 billion, that is \$18.8 billion.

18 In the legislative proposals at the bottom of the page you  
19 see administrative proposals. Those are cash management  
20 changes which do not require legislation. That totals \$3.1  
21 billion. You will see at the bottom there, the total of the  
22 legislative and the administrative proposals are \$21.9 billion.

23 When you add \$21.9 billion, proposed changes in revenues  
24 to the \$578.1 billion which is present law, that gives a total  
25 revenue projection of \$600 billion.

1       What you have before you, from a budgetary point of view,  
2 are the legislative proposals. On the top of the page, once  
3 again, the windfall profits tax. They propose \$13.9 billion in  
4 the tax itself. The conference agreement is \$13.4 billion in  
5 the first fiscal year, 1981.

6       In the residential credits they propose, revenue  
7 reductions of \$100 million, your changes which were, in effect,  
8 to move the effective date and not accept some of their  
9 proposals is less than \$15 million in the first fiscal year.

10       In the business energy credits, although you revise some  
11 of this, there significantly the revenue is the same. That  
12 minus \$200 million as a result, and the effective dates.

13       The Chairman: Go ahead.

14       Mr. Shapiro: The interest and dividend exclusion was not  
15 recommended by the administration. You agreed to it and the  
16 fiscal year effect was \$300 million because that is, although  
17 it does not take effect until calendar year 1981, that  
18 represents the effect in the estimated withholding, estimated  
19 payments.

20       Repeal of carryover basis was not recommended by the  
21 administration. The revenue cost in the first year is  
22 negligible, less than \$50 million in the first year.

23       Whereas the administration was to raise \$13.6 billion in  
24 the windfall profits tax bill, the conference agreement is  
25 \$12.9 billion. That is a reduction of \$700 million.

1 I should point out that this is all based on \$30 oil with  
2 regard to the net windfall profits tax. In the first fiscal  
3 year, it is quite likely that that amount will go up.

4 The present levels are close to \$35 oil. At \$35 oil, that  
5 is approximately \$4.4 billion in the first fiscal year that the  
6 revenues would exceed even the conference agreement. The  
7 conference agreement was based on \$30 oil.

8 The Chairman: Let me ask you this. It seems to me that  
9 they have on this legislative proposal \$5.2 billion. Most of  
10 it doesn't have a prayer, you know?

11 Larry Woodworth, when he had Lubick's job down there  
12 showed me a whole bunch of these tax reform ideas that the  
13 administration had up there and he had some symbols alongside.  
14 I cannot recall what all the symbols were. I think he put a  
15 circle around one of them and the circle meant that this one  
16 has no chance at all. And then he put a little cross, you  
17 know, alongside some of them, and I said what does that mean?  
18 That means that this one has a prayer.

19 Looking at what they have got down there, foreign tax  
20 credit on oil extraction. That is illusory at best, is it not?

21 Mr. Shapiro: It would appear, even if you were to agree  
22 to that proposal, we feel it is doubtful that you would raise  
23 \$700 million. They would just change the way they do business.

24 For example, instead of paying the tax, paying the money  
25 back home and taking the tax credit, they would just use

1 deferral, keep the money abroad. If they keep the money  
2 abroad, they do not have to worry about the foreign tax credit.  
3 They just defer taxes on it.

4 Our staff assumption, even if you were to agree to the  
5 administration proposal is this: you would not raise \$700  
6 million.

7 The Chairman: All right.

8 Take that tax-exempt bond thing. The House has not been  
9 able to get that thing over to us. They tried to wish that  
10 thing over on us in conference. I said, I am sorry. We  
11 started hearing from Senators right off. They said, "Don't you  
12 bring that thing back here. We will fight you if you bring it  
13 back in."

14 So we knew right off that we were in trouble if we even  
15 thought about bringing that thing back into conference with the  
16 House, so we said, "I'm sorry, we cannot do business with you."

17 If they cannot get it through the House after they have  
18 been working on it for a year, how do they expect to get it  
19 through the Senate in what remains of this Congress?

20 Then independent contractors, that has all kinds of  
21 objections to it, does it not?

22 Mr. Shapiro: Yes.

23 The main factor that raises revenue in contractors is  
24 raising withholding. There is a proposal that we just provide  
25 "safe harbor" rules that Congress could agree to this year.

1 The Chairman: How much does that raise?

2 Mr. Shapiro: That does not raise the revenue. Just "safe  
3 harbor" rules -- if you meet these criteria you are treated  
4 as independent contractors and you do not have to have  
5 withholding and a lot of aspects.

6 The Chairman: That does not raise any revenue?

7 Mr. Shapiro: The administration proposal that raises  
8 revenue provides 10 percent withholding across the board to  
9 independent contractors. That is, you know, very  
10 controversial. It is only marginal that it would even be  
11 passed by the House right now.

12 That is the big revenue item. It is a very controversial  
13 aspect.

14 The one that provides safe harbor rules, that proposal  
15 introduced in the House and in the Senate by Senator Dole and  
16 has broad support dealing with the whole independent contractor  
17 issue by way of safe harbor rules.

18 I do not know if the House will deal with this issue this  
19 year. The subcommittee in the House which deals with taxes has  
20 taken it up. It is not clear they would even get to this issue  
21 or they would agree to the 10 percent withholding.

22 The Chairman: What about Social Security and tips? Is  
23 that the same thing that has been turned down over here several  
24 times before?

25 Mr. Shapiro: It has come up in the past under difference

1 circumstances. You have had income tax withholding on tips.  
2 This is Social Security withholding.

3 Every time you have tried to do with tips by income tax  
4 withholding or Social Security you have had strong controversy  
5 in regard to those who are affected and it is a very difficult  
6 item to deal with.

7 The Chairman: The reason they are still asking for it is  
8 they have not been able to get it. Is that not the size of it?

9 Mr. Shapiro: That is right.

10 The Chairman: What is this hazardous substances, \$100  
11 million?

12 Mr. Shapiro: Yes.

13 The Chairman: What is that?

14 Mr. Shapiro: In a sense, that is a set-aside into a fund  
15 for oil spills, cleaning up oil spills, although there probably  
16 would be some support for having set-asides to clean up oil  
17 spills. The procedure, as I understand it, has presented  
18 problems in the House and Senate.

19 It is proceeding as a fee rather than as a tax in some  
20 communities. Maybe this Committee and the Ways and Means  
21 Committee may want to look at that as a tax where you have  
22 control. Other committees are looking at it as a fee. They  
23 want to control the money being set aside.

24 Instead of calling it a tax for set-aside, they are  
25 calling it a fee. A jurisdictional procedural problem may

1 develop.

2 I think you will probably have some interest in the  
3 Congress to having a set-aside if it is just for oil spills  
4 offshore rather than all the things they want.

5 The Chairman: It seems to me that I think this committee  
6 ought to strongly assert -- I want Senator Wallop to hear this  
7 -- I think this committee ought to strongly assert that a  
8 revenue bill does not cease to become a revenue bill just  
9 because you call a tax a fee.

10 If you are going to make somebody pay, that makes it a  
11 tax. It seems to me that though that comes to this committee  
12 it must originate in the House. It is a revenue bill.

13 As far as revenue is concerned, something that raises  
14 money from the government has to originate in the House of  
15 Representatives no matter what you call it. Is that not right?

16 Mr. Shapiro: That is right.

17 As you recall, we had problems with that with the waterway  
18 user charge which was a good example. That started in the  
19 Senate as a fee and toll charges. You sent it to the House and  
20 they would not accept it because it did not originate in the  
21 House.

22 We went back through the whole process of calling it a tax  
23 and it went through the tax-writing committees with the  
24 coordination of other committees affected.

25 Senator Chafee: Do they not always use the coal thing as



1 an example?

2 Mr. Shapiro: That was an example used in the black lung.

3 Senator Chafee: That did not come through here, did it?

4 The Chairman: They had to come to terms with us, they had  
5 to come to terms with us.

6 Mr. Shapiro: The problem that happens, this committee and  
7 the Ways and Means Committee has so much legislation before it,  
8 and especially at the end of a session when you have  
9 conferences going on on major items, such as in '78 we had an  
10 energy bill and a big tax bill, other committees are handling  
11 things and things happen quickly and you do not have a chance  
12 to focus on it while they are acting and their dockets are  
13 clear.

14 You have some members in conference, some members  
15 following other legislation. Sometimes these things happen  
16 without this committee concurring in it.

17 It is just you have not had the time to deal with it.

18 Senator Chafee: That is a precedent that is used.

19 The Chairman: I was on the black lung conference. I do  
20 not think I was on there as a member of the Commerce Committee.  
21 I was on there as a member of this committee.

22 Mr. Shapiro: That is correct.

23 There is another provision that Senator Chafee has  
24 reference to that was dealt with as a fee. I think the reason  
25 is that the Ways and Means and Finance committees were tied up

1 in energy and tax bills in the last Congress. They did it fast  
2 enough.

3 I do not think these committees -- the two tax-writing  
4 committees ---had an opportunity to deal with it.

5 The Chairman: I was on the black lung conference.

6 Mr. Shapiro: Subsequent to that.

7 Mr. Stern: Black lung was handled by the Human Resources  
8 Committee and the Finance Committee as a tax measure. In the  
9 House, it was handled only by the Education and Labor  
10 Committee, I believe, initially and the provision was called  
11 some kind of fee. In fact, it was a tax.

12 The Chairman: As I recall it, I do not know who and where  
13 these other people were, I believe when the conference met I  
14 was the only Senator who showed up. At least I did what I  
15 could to defend the Senate's position at the time we had the  
16 conference.

17 It gives one a position of power, having one Senator  
18 representing the Senate. Since you are a majority of one at  
19 that point whoever was supposed to be there did not show up.

20 Anyway, our position was protected.

21 I think Senator Chafee, we did wind up successfully  
22 defending the position of our committee by the time it was all  
23 over.

24 They tried to say it was a fee, not a tax. We made them  
25 agree it was a revenue measure. As far as we were concerned,

1 it was a tax.

2 We made some input in that bill.

3 Let me see what else. Oil and hazardous substances, I  
4 assume we will recommend that.

5 The cash management. What is that about?

6 Mr. Shapiro: There are two types of cash management  
7 proposals they have. First, there are legislative proposals  
8 which provide for speed-up and collection of withholding in the  
9 case of individuals and corporations. That is \$100 million for  
10 individuals, \$1.4 billion for corporations. This legislation  
11 requires them to speed up in the collection of estimated oil  
12 withholding taxes.

13 The administration proposals below that are also cash  
14 management type proposals. They do not require legislation.

15 I should point out, however, they are equally as  
16 controversial. They are to speed up in these collections of  
17 state and local deposits, Social Security taxes, employer  
18 deposits of withholding, and certain deposits of Customs duties  
19 and tobacco taxes.

20 It is quite probable when you deal with cash management  
21 you will have these groups coming in and asking you to  
22 forestall these administration proposals by regulations, so  
23 even though they can do it without legislation, I think there  
24 will be a strong controversy presented this year in preventing  
25 them to do this.

1           The Chairman: I do not think they can cut them back. I  
2 think we ought to so inform them.

3           On the other hand, it would seem to me that we can tell  
4 them that oil is not above \$30 so that the administration, you  
5 might say, gets a windfall in their budget. How much of that  
6 shortfall, it seems to me that 5.2 they have here, they cannot  
7 count on more than 1.5 out of that at best.

8           On the other hand, how much of it do you think we could  
9 hope to get for them, Mr. Shapiro, as a result of the fact --  
10 it is a fact of life that oil is selling above \$30. How much  
11 would that bring in?

12          Mr. Shapiro: Let me give you a table you could use.

13          You could actually come up with the \$600 billion  
14 essentially by using the \$35 oil which will be the case this  
15 year.

16          For example, if you start out with \$578.1 billion, the  
17 present law, that is what they have, you add the \$12.9 billion,  
18 the conference agreement on the windfall profits tax, plus \$4.4  
19 billion, the difference between \$35 oil and \$30 oil, that gets  
20 you to \$595.4 billion.

21          All that is is present law plus windfall profits taxes at  
22 \$35.

23          You can assume you may get \$1.5 of the additional  
24 revenues. That 1.5 is essentially -- we are working on 1.1 for  
25 the airway trust fund.

1 Senator Bentsen: I lost you there. Where is 1.5?

2 Mr. Shapiro: I am adding that up for you. The 1.1 for  
3 airway trust fund, \$200 million for your hazardous substances.  
4 Then we are assuming that you will probably get \$300 million  
5 from your housing bonds, not because you are acting on  
6 legislation but by not acting.

7 As long as you do not act, bond counsels are not giving  
8 opinions on any new issues that are not in the transitional  
9 rule. That means there are no new bonds coming out.

10 Even if the bill becomes bill later in the summer and  
11 affirms that, you would have had a certain period of time with  
12 no additional bonds coming out so probably there will be a  
13 reduced lost for that amount of money.

14 Then you have to subtract \$100 million for miscellaneous  
15 bills. You would like to have that in reserve for tax and  
16 tariff bills, for these small, minor bills.

17 That is the reason. \$1.6 billion minus \$100 million for  
18 your tax bills. That gives you a plus \$1.5 billion.

19 I will add that again. \$1.1 billion for airway; \$200  
20 million for the oil spill fund; \$300 million for the housing  
21 bonds. \$1.6 billion minus \$100 million for your miscellaneous  
22 tax bills. Amount, that gives you plus \$1.5 billion.

23 That equals \$596.9 million.

24 If you want to take the approach that there is \$3.1  
25 billion and the administration proposals in the cash management

1 you can say that is assumed -- that is present law. That is  
2 not legislation. That is what the administration says they are  
3 going to do.

4 If you add 3.1, you get to their \$600 billion which they  
5 are suggesting.

6 It may be there is pressure put on the Committee or on the  
7 Senate Floor when you take a bill out. Someone will ask to  
8 reduce this.

9 They are not asking for legislation of the \$3.1 billion.  
10 They are saying that will be present law because they are  
11 saying they do that anyway.

12 If you add the \$3.1 billion -- not saying you approve it  
13 -- just assuming they are going to do it anyway unless some  
14 future legislation rolls it back, that \$3.1 billion plus the  
15 \$596.9 billion will get you to the \$600 billion they are  
16 estimating for revenues for this year for the fiscal year.

17 Senator Bentsen: If I may ask a question, if we do it  
18 that way, and they come up with 3.1 in proposals that they can  
19 do under present law, would any legislation to countermand that  
20 then be subject to a point of order?

21 Mr. Shapiro: It would after the Budget Resolution is in  
22 effect. After the Second Budget Resolution which means if you  
23 were to do that without a point of order, you would have to do  
24 it before September 15.

25 The Chairman: Senator Byrd?

1 Senator Byrd: As I understand it, the Federal government  
2 will be taking from the American people in fiscal year 1981  
3 \$600 billion. Is that correct?

4 Mr. Shapiro: That is correct.

5 Senator Byrd: How much will the Federal government be  
6 taking from the American people for fiscal year 1980?

7 Mr. Shapiro: It is approximately \$524 billion.

8 Senator Byrd: How much did the Federal government take  
9 from the American people in FY 1979?

10 Mr. Shapiro: \$466 billion.

11 Senator Byrd: \$466 billion.

12 In the two year period, the Federal government will take  
13 from the American people an additional \$134 billion. Is that  
14 correct?

15 Mr. Shapiro: That is correct.

16 Senator byrd: They will still be running a smashing  
17 deficit. Is that correct?

18 Mr. Shapiro: Under this projection, the deficit will be  
19 \$15.8 billion.

20 Senator Byrd: On a unified basis?

21 Mr. Shapiro: Yes.

22 Senator Byrd: What will it be on a Federal funds basis?

23 Mr. Shapiro: We will have to try to get that.

24 Senator Byrd: So despite the fact that the Federal  
25 government is taking in --

1 Mr. Shapiro: Senator Byrd, the figure just handed to us  
2 is in the Federal funds deficit for '81, \$46.5 billion.

3 Senator Byrd: For '81, \$46.5 billion. It will be more  
4 than that for '80, will it not?

5 Mr. Shapiro: Yes, it would.

6 Senator Byrd: What will it be?

7 Mr. Shapiro: We will have to try to get that. It will be  
8 more than that.

9 Senator Byrd: If you would get that and let me know.  
10 Here is the point. It seems to me that it is important.

11 The Federal government will be taking \$76 billion more  
12 from the American people in 1981 than in 1980 and yet we will  
13 be running a smashing deficit in the Federal government.

14 Something is happening in this country. The New York  
15 Times today came out for a substantial reduction in Federal  
16 spending. I never heard the New York Times doing something  
17 like that before.

18 The Washington Post on Sunday in its lead editorial said,  
19 the only lever that President Carter has to combat inflation is  
20 a severe reduction in Federal spending.

21 Senator Roth: If the Senator would yield, I might say 42  
22 Senators ---and we are still going around trying to get  
23 additional copsonors -- are putting in a resolution today  
24 urging or instructing the Budget Committee to limit Federal  
25 spending in '81 to 21 percent. That would be a reduction of



1 roughly \$25 billion to \$30 billion.

2 The Chairman: I have to step out for a minute. Harry,  
3 take charge.

4 Do not repeal the Internal Revenue Code until I get back.

5 Senator Byrd: We will repeal part of it.

6 Senator Roth: I just point that out. I think that is the  
7 most critical problem we face and we have to do something about  
8 that.

9 Senator Byrd: I think you are right. I think that is the  
10 most critical problem we face and people are beginning to  
11 realize it, even if Congress does not.

12 Here is the New York Times Monday. It quotes Joseph  
13 Peckman, who all of us know, probably the most liberal  
14 economist in the whole United States.

15 What does he say? Joseph Peckman, who directs economic  
16 studies at Brookings Institute, calls the Carter proposals  
17 fiscally irresponsible. I do think they are fiscally  
18 irresponsible.

19 Arthur Ockman, never considered a conservative economist,  
20 said, there is no evidence of a serious effort to trim  
21 spending.

22 I think it is very significant what is happening here.  
23 The Congress is far behind these people. Peckman and Ockman  
24 have been the leaders of the deficit financing program, going  
25 back years.

1 They are no longer living in the past. They have caught  
2 up with the 20th century -- or the 21st century. This Congress  
3 has not caught up with the 20th century yet. This Congress is  
4 still living in the past when it comes to spending.

5 I do not know about the 21 percent but I am willing to  
6 sign any proposal that will bring about a balanced budget.

7 I think that it is essential that this country, this year,  
8 balance its budget.

9 A group of outstanding people, some previously in  
10 government, others in business -- all of them in business now,  
11 but some previously in government, came to see me two weeks  
12 ago. They say from their experience ---and they are highly  
13 experienced businessmen in New York -- the value of the dollar  
14 will continue to decrease until the Federal government balances  
15 its budget.

16 There will be a symbol to the rest of the world that we  
17 are serious about trying to control inflation.

18 Until we do that, they say -- and I think they are right  
19 --

20 Senator Roth: Would the Senator yield?

21 Senator Byrd: Yes.

22 Senator Roth: Because I share the concerns he is  
23 expressing.

24 I would point out also that the Chairman of the Federal  
25 Reserve, the appointee of the President, has also said that the

1 most important thing we can do is put a lid on Federal  
2 spending.

3       What worries me, when some of these people talk about  
4 balancing that budget, as you pointed out, there is additional  
5 revenue and they are talking about balancing the budget on the  
6 backs of the American taxpayer.

7       I think it is important that as we consider these matters  
8 that we recognize that the average or typical American family  
9 of four will be paying something like \$533 additional taxes. In  
10 two years it will be roughly \$1,000. It is interesting to me  
11 that a number of these same economists, including Greenspan,  
12 including the Chairman of the Federal Reserve, as well as some  
13 of the liberal ones referred to by Senator Byrd, have said if  
14 we show restraint on spending that there should be some kind of  
15 tax relief.

16       I think that is something we have to consider,  
17 Mr. Chairman.

18       The Chairman: Let me make this point, though. How are we  
19 going to balance the budget if we find a situation where you  
20 can manage to persuade the Finance Committee to muster up the  
21 courage to go in there and recommend some tightening up in  
22 areas where we think they can tighten up.

23       You want to talk about a program that has exceeded the  
24 estimates consistently, take the disability program. Mr.  
25 Califano tried to do something to tighten it up a little bit.

1 That program is exceeding the estimates four to one. That is  
2 in terms of constant dollars. It is exceeding the estimates  
3 four to one.

4 So after adjusting for inflation, we reported out  
5 something to recommend making some savings and we would have a  
6 lot more savings the second year when we can fully implement  
7 it. We went on the Floor to save money.

8 How much did we save in the first year by the time the  
9 Senate got through with us, Mr. Stern?

10 Mr. Stern: The bill wound up costing money in the first  
11 year.

12 The Chairman: It wound up costing the Treasury money. So  
13 we were going to save money for the Treasury.

14 We did acts of courage and statesmanship here devoted to  
15 saving the Treasury some money and to take it out of a program  
16 that is under control and cut down to save the public some  
17 money.

18 And we got overruled on the Senate Floor. To take a bill  
19 that is supposed to save money and it cost the government  
20 money, and got added, and then it was added that it would only  
21 cost \$120 million the first year.

22 But in justice and fairness, if you are going to waive the  
23 waiting period for people who have cancer, you ought to waive  
24 it for all of these people who are totally and permanently  
25 disabled. That would cost us another \$3 billion.

1 We go out there with something that is suppose to save us  
2 money, try and help get the spending under control. By the  
3 time we got through, they made the breakthrough to take this  
4 program, four to one out of control and they made it five to  
5 one out of control.

6 How are we going to have control when everybody wants a  
7 balanced budget? Come up here. Now is the time. You have to  
8 have the guts and courage. You have to vote now against this  
9 amendment. I know this is popular but vote this way, and look  
10 what happens.

11 Senator Chafee: It was not even close, was it?

12 The Chairman: No.

13 Senator Chafee: Twenty-three votes.

14 The Chairman: By the time it was over with, only twelve  
15 courageous soldiers were left out there as corpses on that  
16 battlefield.

17 Senator Roth: Mr. Chairman, I recognize that is the  
18 problem. I would just say this, that if this 18 percent  
19 inflation continues, which means a typical American family is  
20 losing something like \$300 in purchasing power every single  
21 month, as long as that rate of inflation continues -- if this  
22 group does not have the courage to do something, I think that  
23 we are going to find that the American people are going to have  
24 their say, maybe this year.

25 The Chairman: I could be wrong. I think the Finance

1 Committee has been more responsible than the Budget Committee.

2 Senator Roth: I agree with you. I am not talking about  
3 that. I agree with you.

4 We reported that out. I think most of us supported you on  
5 the Floor.

6 The Chairman: The Committee has to take a debt limit bill  
7 out there and I think we have been very fiscally responsible  
8 here.

9 Senator Roth: May I make a point on this whole package?

10 One of the things going again that disturbs me very much,  
11 you go down through the year, you start with certain revenues  
12 then, because of inflation, these revenues increase and they  
13 increase spending.

14 I think one of the things we ought to make it very clear  
15 -- whatever figure we agree to today or this committee, that  
16 anything in excess of that should not be available for  
17 additional spending. I think we ought to use that, frankly,  
18 for tax reliance in the alternative.

19 Reducing the deficit. I think we ought to make it very  
20 clear that that additional revenue resulting from inflation  
21 should not be used to increase spending later in the year.  
22 Last year the budget recommendation from the Finance Committee  
23 was \$502.6 billion. The final revenues were \$524 billion, an  
24 increase of \$21.4 billion.

25 I want to make certain that we set that aside for other

1 purposes beyond additional spending.

2       The Chairman: Senator, my thought is we ought to try to  
3 make a start on the catastrophic health insurance problem. I  
4 am perfectly willing to either pay for it or to cut something  
5 that is in our jurisdiction in order to cushion it.

6       I am willing to keep that inside our area of the budget,  
7 to say that we will cut something to pay for it.

8       Senator Byrd: Along the lines of Senator Roth's  
9 suggestion, which I agree with, can that be done? What are the  
10 mechanics for doing that?

11       The Chairman: Maybe we had better ask Mr. Stern about  
12 that.

13       Mr. Stern: How can you do that in the case of the health?

14       Senator Byrd: Not about the health. Any funds coming  
15 into the Federal Treasury in excess of \$600 billion, if that is  
16 the figure that is agreed on, how can that be circumscribed in  
17 a way that it cannot be used for more spending?

18       Mr. Stern: If you wanted to do that in the context of  
19 your report to the Budget Committee you would say in your  
20 letter something to the effect, "The Finance Committee  
21 recommends a level of \$600 billion for revenues of which \$578.1  
22 billion is under existing law, the rest under new; and the  
23 Committee strongly feels, to the extent that revenues may  
24 exceed \$600 billion, that none of that should be used for  
25 additional spending," something like that.

1 Senator Byrd: Does that tie it up legally,  
2 Congressionally?

3 Mr. Stern: At this point you are only talking about  
4 writing a report to the Budget Committee with your  
5 recommendation.

6 Senator Byrd: How can you tie up that money? Suppose  
7 they take in another \$20 billion over and above what was  
8 anticipated as was done last year?

9 Mr. Stern: The Budget Resolution itself is not binding in  
10 the First Budget Resolution, but you could put language in the  
11 Budget Resolution, too, if the Budget Committee has not done  
12 that.

13 For example, the Budget Resolution comes out with revenues  
14 of \$600 billion and spending of \$615 billion.

15 Senator Byrd: Most people do not realize it, but  
16 President Carter in this past month on January 28th in his  
17 budget message to the Congress advocated an increase in  
18 spending of \$68 billion, a \$68 billion increase in spending in  
19 the January 28th budget message.

20 Mr. Stern: There is a good deal of spending that is  
21 under programs that are indexed.

22 Senator Byrd: Whatever it is, the fact is that he has  
23 advocated an increase of \$68 billion.

24 Mr. Stern: What I was suggesting, when you put money into  
25 a Budget Resolution, that does not have the legal force of



1 stopping some of the indexed programs from going up, so you  
2 would have to, in some way, direct the Budget Committee to come  
3 up with equivalent cuts, so that, to the extent that some of  
4 those uncontrollable programs rise, they would make cuts in  
5 other programs.

6 Even so, it would have to actually occur in the course of  
7 the appropriations process, it would seem to me, or in the  
8 context of legislating some of these entitlement programs for  
9 it to actually happen.

10 If you only pass a Budget Resolution that has spending at  
11 a certain level and, so to speak, go away and leave that alone,  
12 to the extent that inflation is higher than the President's  
13 budget assumes, many programs will simply increase in cost and  
14 there will not be any offset to it.

15 Senator Byrd: Under the Budget situation we have been  
16 working under since the new Budget Committee was formed, it  
17 changes all the time. They bring in new budget resolutions or  
18 new spending proposals.

19 Really, there is no lid on it. It is a little bit better,  
20 I think, than what we had before, because you have all the  
21 figures in one package but it sure has not helped holding down  
22 spending compared to the increases that were made before the  
23 new budget procedure went into effect.

24 Mr. Stern: As the Chairman was mentioning, in order to  
25 cut a program, you literally have to cut a program at that

1 point. If the Senate will not vote to do it, then the spending  
2 goes up.

3 Senator Byrd: That is right. It is the Congress and the  
4 President's acting together. That is the only way this thing  
5 is going to be controlled. The President cannot do it alone,  
6 and he is not even trying, in my judgment.

7 The Congress cannot do it alone and it is not even trying.  
8 They have to do it together. Both of them have to try and  
9 there is no painless way of doing it. There is going to be  
10 discomfort on the part of all of us in the Congress if we are  
11 going to get this accomplished.

12 Senator Chafee: I would like to ask Mr. Stern and Mr.  
13 Shapiro a question. As I understand the procedure here, we are  
14 coming up with suggestions with a budget. If you want to call  
15 it -- or our recommendations to the Budget Committee and these  
16 have to be in by March 15th. That is a process that takes time  
17 to assemble all of this.

18 Is our last meeting on this going to be tomorrow?

19 Mr. Stern: Yes, sir.

20 Senator Chafee: Then they will go forward. Then they  
21 will come back to us with a figure of what we can spend on the  
22 programs that we deal with. Is that right?

23 Mr. Stern: That particular process takes about two  
24 months. That is what the result is.

25 Senator Chafee: If we go above the figure that they come

1 up with, it is subject to a point of order on the Floor.

2 Mr. Stern: Not for the First Budget Resolution. The  
3 First Budget Resolution is set as targets.

4 The actual force of the Budget Resolution has tended to be  
5 the opposition of the Budget Committee on the Floor. It has  
6 tended to be a political one, or moral suasion, rather than a  
7 Parliamentary restriction.

8 Senator Chafee: Under the legislative proposals that Mr.  
9 Shapiro went over here, there is one I am intensively  
10 interested in which I believe will produce more revenue in the  
11 end. You have heard that song before, but I suspect the  
12 changes we made in the capital gains produced more revenue when  
13 we cut the rate than we lost. Is that true or false?

14 Mr. Shapiro: We are still getting the data on that  
15 information. Since you did that at the end of 1978, all the  
16 returns show capital gains for that year -- it is not clear how  
17 much was before '78 or afterward, although that year was not a  
18 good economic year. It indicated there was some selling.

19 The 1979 returns are not in yet. We do not have the data  
20 on a full-year basis yet.

21 Mr. Stern: What actually gets submitted to the Budget  
22 Committee is two numbers, one number associated with present  
23 law and one number that lumps in all the new legislation. You  
24 do not wind up specifying different tax proposals.

25 Senator Chafee: I am presenting tax legislation dealing

1 with Americans abroad which has been very counterproductive,  
2 for not only hiring Americans but orders for American industry.

3 Our estimates are it would cost in the neighborhood of  
4 \$300 million. Do I have to move to include that now, to put  
5 that into the legislative proposals?

6 Mr. Shapiro: It is up to the Committee procedure. You do  
7 not have to move to put it in. You are not agreeing on line  
8 items now. You are not saying that you are going to agree to  
9 do a series of things. You have a revenue total.

10 I should say, however, you might want to serve the  
11 Committee notice that you intend to bring it up and you would  
12 hope that that would be accommodated in the Committee's revenue  
13 projections.

14 However, I do not want to give the impression if you put  
15 it in here and reduce the revenues \$300 million, that does not  
16 assume necessarily the Committee will do it. It just means  
17 there is revenue, if the Committee wants to do it.

18 If you do not put it in here, that does not mean you  
19 cannot do it. It just means --

20 Senator Chafee: I do not want to be stopped by some point  
21 of order somewhere along the line.

22 Mr. Stern: There would not be a point of order  
23 considering the way Mr. Shapiro arrived at this number. That  
24 would more or less assume if you wanted to have a bill to  
25 reduce revenues \$300 million you would have to find the \$300

1 million in some increase that was not included in this list.

2 At least that would be the implication.

3 It would not be a point of order question.

4 Senator Chafee: I would have to find the revenues. I  
5 would have to raise revenues.

6 Mr. Shapiro: Also, if your proposal were to take effect  
7 in calendar year '81 it would not have the full \$300 effect.  
8 That is a full-year effect. In fact, the fiscal year effect  
9 would be much smaller than that.

10 Senator Wallop: There is only one danger with that. The  
11 more you build in these things that are going to take place in  
12 '81, '82 and '83 and the lack of flexibility you provide  
13 yourselves in ultimately dealing with them, you are still  
14 creating a problem down the road which you are suffering from  
15 today.

16 Mr. Shapiro: That is right. That does happen.

17 Senator Roth: Mr. Chairman, if I could go back, I do not  
18 know if this is the appropriate time or not --

19 The Chairman: Incidentally, I believe -- and I, while we  
20 are mentioning this subject -- I believe that if we recommend  
21 the same thing that we recommended out previously, we on this  
22 committee recommended a reduction in capital gains and we  
23 proceeded on the theory that it was not going to cost the  
24 Treasury anything. We did reduce capital gains and we had to  
25 compromise for less than we wanted.

1 We split the difference in conference with the House.

2 So far, I believe the evidence would tend to indicate we  
3 were right in assuming it was not going to cost the Treasury  
4 anything to reduce the tax on capital gains.

5 Now the scorekeeping, of course, by the time they get  
6 through -- I do not know whether Treasury will confirm that or  
7 not and I do not think they do right now. If we are still of  
8 the opinion that reducing capital gains as we were last time,  
9 we believed and we contended and we presented evidence to show  
10 that a reduction in the capital gains tax to 21 percent maximum  
11 would actually have a positive impact on the Treasury. And if  
12 we think that, then I think we ought to be able to recommend  
13 that out and we should not have to carry the brunt of that as  
14 being a revenue loser.

15 I think it would make money for the Treasury and I believe  
16 the evidence would tend to confirm that.

17 Of course, people tend to judge that the way they want to  
18 judge it. If they can find any excuse at all to say it is  
19 costing the Treasury money, they have to support it, but the  
20 indications are so far that it has stirred a lot more  
21 transactions than you would have had otherwise, and it has  
22 tended to stimulate the economy.

23 By doing so, it has made money for us.

24 So far, I believe, the advice -- it is not a proven factor  
25 yet. They cannot prove it is not, can they, Mr. Shapiro?

1 Mr. Shapiro: The fact that it took effect at the end of  
2 1978 does not tell you when people -- the capital gains changes  
3 took effect in the last several months. You cannot tell the  
4 transactions after the effective date.

5 Indications are the year '78 was not one of the better  
6 economic years, hence you had a number of transactions with  
7 significant amounts of capital gains. It does indicate that  
8 there was significant interest in transactions.

9 The 1979 data is not available yet since people have not  
10 filed their tax returns, which would give you an indicate on a  
11 full-year basis.

12 The Chairman: Yes, sir?

13 Senator Roth: Mr. Chairman, I would like to follow  
14 through on the discussion that I raised earlier and which  
15 Senator Byrd commented on.

16 I wonder if we could reach agreement on whatever figure we  
17 set for revenue, that any additional revenue that may develop  
18 later in the year be set aside, not for increased spending, but  
19 either for tax relief or retiring the debt?

20 Mr. Stern: Senator Roth, I should mention to the extent  
21 that increase comes about because of the rise in th oil price,  
22 your conference agreement tends to assume that 25 percent will  
23 go -- I am sorry, that 33 percent will go for aid to the poor.  
24 So the conference agreement, at least if the reason for  
25 increased revenue is due to a higher oil price, the conference

1 agreement --

2 Senator Roth: I was thinking about across the board, not  
3 only with respect to the windfall profits tax, that we ought to  
4 set that guideline.

5 I would think that it would be at least my understanding,  
6 once you have the Second Resolution, just like spending, it  
7 would be subject to a point of order. If it were earmarked  
8 that it could not be used for additional spending, we would be  
9 in violation of the Second Resolution. That would be subject  
10 to a point of order, at least at that stage.

11 It would have the same restraint as the other items of the  
12 budget.

13 The Chairman: I just want to protect the areas where we  
14 expect to act.

15 You are talking about additional spending?

16 Senator Roth: Yes, sir.

17 The Chairman: We are planning to do something in that  
18 catastrophic health area. We do not need much, but we need a  
19 little in that area.

20 As I say I am willing, if we need something in that area,  
21 I am willing to trim something somewhere else in order to do  
22 it.

23 Senator Roth: I would be pleased to work with you in that  
24 approach.

25 The Chairman: Really, I think the best way to handle this



1 budget thing is that each committee within their area of  
2 jurisdiction ought to try to live within part of that budget.  
3 We have a big part of the budget and there are areas where you  
4 can economize. They are not always popular. There are places  
5 where we can economize, if we have to do it. It is one thing  
6 to say, "I don't want to cut this." It is another thing to  
7 say, "Between this and that, would you be willing to reduce  
8 that in order to do that."

9 I think we can get people to vote for things on that  
10 basis. I believe that we could find ways to do some of what  
11 you are talking about here.

12 Senator Roth: Could I raise a further question? Under  
13 our conference report, we agreed -- I want to address this to  
14 the staff.

15 The Chairman: It seems to me, in view of the fact that  
16 that conference report on the windfall profit tax bill says  
17 that one-third of the amount over the \$30 would go to aid to  
18 the low-income people.

19 That we ought to respect that. What we say about that  
20 ought to be respected. That is in the conference report.

21 We are going to ask for the Senate and the House to vote  
22 for it.

23 Senator Roth: The same thing is true for the 60 percent  
24 set-aside for tax relief.

25 The Chairman: Yes.

1 Mr. Stern: Actually 67 percent of the excess.

2 The Chairman: Yes.

3 Senator Roth: That is even better.

4 The Chairman: Fine.

5 I am just trying to protect both ends of it.

6 Senator Roth: I agree.

7 The Chairman: Mr. Dole?

8 Senator Dole: I was not here when bill discussed his  
9 earlier proposal. You are talking about tax relief in the  
10 broad sense. That could include indexing or at least a  
11 phased-in approach to that or any other form of tax relief.

12 Senator Roth: That is correct.

13 Senator Dole: You do not have anything in mind?

14 Senator Roth: I have a few proposals.

15 The Chairman: Let us not try to cut the melon before we  
16 have the melon here.

17 Senator Chafee: Mr. Chairman, if I might, to return to  
18 Section 911 here, taxation of Americans abroad, the maximum  
19 would cost us \$300 million. To protect ourselves, should I  
20 move to include that under the legislative proposals?

21 Mr. Stern: In any case, you do not need the full \$300  
22 million.

23 Senator Chafee: Whatever it is.

24 At what point does it become de minimis that you do not  
25 include it?

1 Mr. Wetzler: Senator Chafee, the Section 911 is not  
2 reflected in withholding. It is reflectd, to some extent, in  
3 estimated tax payments.

4 Most of it -- if you start January 1, 1981, your proposal  
5 would have a very small effect in fiscal '81. Most of the  
6 impact would start in fiscal '82.

7 Your \$300 million estimate is probably for a starting date  
8 of January 1, 1980.

9 The Chairman: Could we not put that under miscellaneous?  
10 That could come out to be \$100 million.

11 Mr. Wetzler: If you start in 1981, fit it under \$100  
12 million in miscellaneous.

13 In practice, you probably could not get your bill enacted  
14 until quite a bit later on in the year. You might as well  
15 start in '81, prospectively.

16 Senator Chafee: All right.

17 Senator Roth: Could I still go back and see whether we  
18 are in agreement, whatever the ultimate revenue figure is, \$600  
19 million or something less or something more, that any increased  
20 revenue subsequent to that would only be available for either  
21 tax relief or to reduce the deficit, so that we put it beyond  
22 spending by the other committees?

23 Senator Byrd: Not be available for spending?

24 Senator Roth: That is correct.

25 The Chairman: That sounds good to me.

1 If, at some point, someone shows me some reason why it is  
2 not such a good idea, as it seems at the moment, I would  
3 like to reconsider. But at the moment, it sounds like a good  
4 idea.

5 May I point out that the liberal part of the Committee is  
6 not very well represented here at the moment.

7 Senator Roth: Could we complete our workings here today.

8 The Chairman: Do we have anything else in this area here  
9 at this moment, at this time?

10 Mr. Stern: Does that mean the Committee accepts the  
11 estimate of \$600 billion the way Mr. Shapiro arrived at it?

12 The Chairman: Yes.

13 Without objection.

14 Senator Roth: Before we do that, let me ask a question.

15 Am I clear in understanding that under the windfall  
16 profits, those funds in 67 percent, whatever the figure is, are  
17 set aside for some form of tax relief?

18 Mr. Shapiro: We are not doing that by this Budget  
19 Resolution. We are coming to a figure of \$600 billion  
20 according to the windfall profits tax compromise, once that is  
21 enacted into law. There will be a set-aside for those funds.

22 Senator Roth: That will prevail.

23 Mr. Shapiro: It requires legislation to implement it.

24 Senator Roth: I realize that. I do not want to be met  
25 with some point of order at some later time because we did not

1 include it in the budget that the windfall profits legislation  
2 would not?

3 Mr. Shapiro: It should be fairly pointed out, we are  
4 saying \$600 billion here that is going to be raised. If you  
5 have a set-aside based on \$35 oil, it would be \$11 billion.

6 In your letter, you might want to note that you have \$600  
7 billion, but according to the provisions of the windfall  
8 profits tax, \$11 billion is set aside, which is allocated for  
9 tax cuts.

10 Senator Roth: That would be fine.

11 Mr. Stern: If you use the number \$600 billion, it does  
12 not assume you make the tax cuts within the fiscal year 1981.  
13 It may be set aside for tax cuts, but not in fiscal '81.

14 Senator Roth: The main thing that I want to make certain  
15 it is clear the status of that money, that it is available for  
16 that purpose.

17 You are absolutely right. The tax writing committees have  
18 to take whatever action that they choose. I just want to make  
19 certain under the budgetary process we do not negate what we  
20 did in the windfall profits conference.

21 The Chairman: Well, then. If there is no objection, we  
22 will agree to the \$600 billion subject to the explanatory  
23 material we agreed to today.

24 We have not finally decided, but we will let it go. Let  
25 the chips fall. By the time we have talked to the absentees

1 with regard to that one vote ---that is a tie vote now.

2 Mr. Stern: Revenue sharing? Yes, sir.

3 Senator Dole: What was it?

4 Mr. Stern: The vote at the moment is six to six on  
5 Senator Bentsen's proposal to reduce the amount for the states  
6 by 10 percent. That is to say to provide \$6.7 billion instead  
7 of \$6.9 billion.

8 The vote is now six to seven.

9 If the vote carries, if the motion carries, the amount  
10 would be \$6.7 billion; if it fails, the amount would be \$6.9  
11 billion.

12 The only item left --

13 The Chairman: I have Senator Talmadge's proxy. I will  
14 vote him no. You could check with him and see. He gave me a  
15 written proxy while the meeting was going on. That would be  
16 eight to six.

17 Mr. Stern: Do you want to vote on revenue sharing?

18 Senator Roth: I am not sure. But if I could make one  
19 observation, as I understand it on interest, we show for fiscal  
20 year \$67.2 billion.

21 The Chairman: What page?

22 Senator Roth: Page 66. \$67.2 billion.

23 Whereas the outlays shown by CBO is \$65.6 billion.

24 I was wondering if there might be a savings there on that.

25 Mr. Wetzler: Senator Roth, both those estimates are

1 probably going to be low because they do not take into account  
2 the recent big jump in interest rates that occurred in the last  
3 couple of weeks since these estimates have been made. I do not  
4 think you are going to save any money on interest.

5 Senator Byrd: It is likely to go up, not down.

6 Incidentally, this is not the interest on the debt. The  
7 interest on the debt is \$80 billion.

8 Mr. Wetzler: This is net interest. Since the government  
9 holds its own debt, it is netted out.

10 Senator Byrd: The actual interest on the debt itself  
11 before you take the interest the government receives, what it  
12 pays out on the debt itself is \$80 billion.

13 Mr. Wetzler: The problem arises because the government  
14 owns a lot of its own debt. The Federal Reserve holds a lot of  
15 its own bonds. That interest does not include that that  
16 Treasury pays to the Federal Reserve.

17 That is the difference.

18 Senator Byrd: That is right, but the interest on the debt  
19 itself is not \$67 billion. It is \$80 billion.

20 Mr. Wetzler: That is right.

21 Senator Roth: I withdraw my proposal.

22 The Chairman: All right.

23 Without objection, then, we will agree on that level of  
24 figure that we discussed here.

25 Thank you very much, gentlemen.

1 Mr. Stern: The only thing you have left, Mr. Chairman, is  
2 the health matter. How much of a down payment you want for  
3 health insurance, how much you want to allow.

4 If you just want to pick a number now, \$200 million or  
5 \$300 million --

6 The Chairman: Pick a number. \$300 million.

7 Mr. Stern: All right.

8 There was one other item.

9 Senator Pckwood had raised the question about including in  
10 the Committee's letter reference to the fact that the committee  
11 has no plans to tax Social Security benefits, a sentence like  
12 that, and there has been no Senator who has -- if it is all  
13 right, we would include that in the letter.

14 The Chairman: By all means.

15 Mr. Stern: In that case, there would be no reason why the  
16 Committee should meet tomorrow.

17 The Chairman: All right.

18 Thank you.

19 (Thereupon, at 12:10 p.m. the Committee recessed to  
20 reconvene at the call of the Chair.

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