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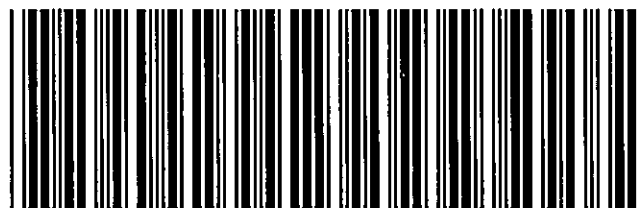
Hearing Title\*: Budget Report

(select subject from controlled vocabulary, if your office has one)

Category (1)\*: ~~Miscellaneous~~ Budget

Category (2)\*: none

\* "required information"



FINANCECMTE

## 1 Executive Session

2  
3 Monday, March 16, 19814  
5 U. S. Senate,  
6 Committee on Finance,  
7 Washington, D. C.8 The committee met, pursuant to notice, at 2:10 pm.,  
9 in room 2221, Dirksen Senate Office Building, Hon. Robert J.  
10 Dole, (Chairman of the Committee), presiding.11 Present: Senators Dole, Packwood, Chafee, Heinz,  
12 Durenberger, Grassley, Long, Byrd, Bentsen, Matsunaga,  
13 Monihan, Baucus and Bradley.~~(The Committee Press Release and Bill Follow.)~~14 *Chairman* Senator Dole. I think we have at least two members on  
15 this side who also have a Budget Committee meeting at 2:00  
16 o'clock. So, they may not be with us, three members may not  
17 be with us too long.18 First, I want to thank my colleagues for all their  
19 kindness, while I have been temporarily absent. Had I known  
20 the Chairmanship would bring about the problem I have had, I  
21 might have declined, in January.22 But, it is good to be back. I will be trying to do a  
23 few hours listening to my doctor, which I think probably is  
24 good advice. When anything tough comes up, I will probably  
25 have to be absent. But, I will be hear for the easy

1 confirmation hearings and things of that kind.

2 I would like to thank Bob Packwood and other members  
3 of the Committee, for keeping things moving while I have been  
4 gone.

5 Now, as I understand it, the only item, I say the only  
6 item, it is a rather important item of business scheduled  
7 for this afternoon is the consideration of the Finance  
8 Committee Report to the Budget Committee for the fiscal year  
9 1982 budget.

10 And, as we have in the past, we must tell the Budget  
11 Committee by letter, signed by the Chairman, what we  
12 estimate the levels of the spending will be in our expendi-  
13 ture programs, as well as the level of Federal revenues,  
14 tax expenditures and the public debt.

15 Of course, then they use this information somehow in  
16 the Budget Committee and prepare their first concurrent  
17 budget resolution for fiscal year 1982.

18 They are required to report the first budget resolution  
19 by April 15.

20 I think perhaps everybody understands, on this Committee,  
21 we are not being asked to make legislative decisions. We  
22 are not being asked to indicate at this point which of the  
23 areas of expenditure reductions, all of us or part of us will  
24 support, and others we will not support.

25 We are not being asked to set forth, as far as the tax

1 reduction is concerned, any specifics. But we make room, at  
2 least we hope we will, in the letter to the Budget Committee,  
3 proposed reductions recommended to the President, as well as  
4 the tax figures and then we can proceed, as I assume we will  
5 at the appropriate time, figure out just what kind of a tax  
6 bill we should have.

7 Unless there is some objection, I would like to  
8 proceed by having the staff rather briefly go through the  
9 various charts to give us some background information. If  
10 there are questions, of course, we can interrupt at any time.

11 Before that, Senator Long, do you have any questions?

12 Senator Long. Well, let me just welcome you back, Mr.  
13 Chairman. Speaking for the loyal opposition, we are delight-  
14 ed to see you back here. We hope you won't have to depart  
15 from us again, at any time soon. We think you are doing a  
16 fine job.

17 I think that I speak for the opposition over here  
18 when I say, it must be a Republican that is Chairman of the  
19 Committee, we don't think they could devise a nicer guy than  
20 Bob Dole.

21 So, we don't have anything against the other members  
22 there, but we are glad to see you back.

23 (Laughter.)

24 Senator Dole. Thank you very much.

25 If there are no other questions or objections, I will

1 just have Bob Lighthizer, the Chief Counsel proceed.

2 Mr. Lighthizer. Mr. Chairman, I suggest that the  
3 members use his blow-up of the various charts which correspond  
4 with the charts in the Blue Book.

5 Senator Dole. Do we have those?

6 Mr. Lighthizer. Yes.

7 Also, we passed out sort of a summary on the spending  
8 side of what the committee is being asked to save than the  
9 Reagan package which is \$9.3 billion.

10 Chart 1, merely states the objectives of the March 15  
11 letter.

12 I might just say that the March 15 letter is designed,  
13 as I am sure you all know, to give information to the Budget  
14 Committee, for the FY-'82 first concurrent budget resolution.  
15 It is unrelated directly to the reconciliation mark-up which  
16 the Budget Committee in the Senate commenced at 2:00 o'clock  
17 today.

18 Senator Long. Mr. Chairman, if I might just interrupt  
19 you for just one moment. I would like to raise one point.  
20 Senator Moynihan told me that he was going to go to the  
21 Budget Committee meeting for the purpose of -- he was going  
22 to start over there, he is a member of both Committees, for  
23 the purpose of suggesting that they withhold action on the  
24 Finance Committee part of the budget until the Finance  
25 Committee could communicate its recommendations to the Budget

1 Committee.

2 Now, I have never served on that Committee. I am not  
3 familiar with the procedures. But I do think, and as I  
4 understand, he was told they had no precedent one way or the  
5 other about waiting to hear from a Committee.

6 Senator Moynihan. I was told that informally, Mr.  
7 Chairman. I have not raised it formally to the Committee  
8 which has not yet convened.

9 Senator Long. Oh, I see.

10 Senator Moynihan. I would be happy to do so if the  
11 Chairman and the Committee thought I should.

12 Senator Long. Here is what I was going to suggest.  
13 I think at least two members of this committee serve on that  
14 committee.

15 I would suggest that we ask the Budget Committee to  
16 at least withhold judgment until the Finance Committee can  
17 communicate its views on this subject. Otherwise, it seems  
18 to me that that Committee leaves itself in the position of  
19 either assuming it has all knowledge, or assuming that they  
20 don't need our suggestions in order to provide a conclusion  
21 and they might have both those assumptions in mind.

22 But, I think it appropriate that we at least suggest  
23 to them we are working on it and we will have a recommendation  
24 down to them some time by the end of today or tomorrow at  
25 the latest.

1 Senator Dole. I have no objection to that. In fact,  
2 we hope, if we can't conclude today, we will meet again  
3 Wednesday.

4 Mr. Lighthizer. At 2:00 o'clock.

5 Senator Dole. At 2:00 o'clock, Wednesday afternoon.

6 We have three of our members who had to leave for the  
7 same reason.

8 Senator Moynihan. Shall I make that proposal? May I  
9 do it, on behalf of the Committee?

10 Senator Dole. I have no objection to that. Having  
11 served on the Budget Committee, I think both the assumptions  
12 are correct, that Senator Long referred to.

13 They will probably go ahead with their numbers, in any  
14 event. I think perhaps what we will do, maybe not today,  
15 but by Wednesday, we will send them a letter with numbers  
16 which will be properly noted, and then filed.

17 Go ahead.

18 Mr. Lighthizer. Chart 2 gives the economic assumptions.  
19 These are the Reagan economic assumptions. While the  
20 economic assumptions greatly affect the cost of our programs,  
21 in the past we have tended to tell the Budget Committee that  
22 if they use alternative economic assumptions, just to make  
23 adjustments in our numbers, so we don't get into the business  
24 of dictating what the economic assumptions should be.

25 Chart 3, is the --

1 Senator Bradley. Mr. Chairman, could we pause there?

2 Senator Dole. Sure.

3 Senator Bradley. Could you go over the economic  
4 assumptions?

5 Mr. Lighthizer. I am reading from Chart 2, which you  
6 have in front of you.

7 The 1981, do you want me to just read across the lines  
8 on CPI and unemployment, Senator?

9 Senator Bradley. Why don't you cover growth, unemploy-  
10 ment and inflation.

11 Mr. Lighthizer. Very well.

12 Percent change in constant dollars for the GNP.

13 Senator Bradley. That is right, in '81 and '82.

14 Mr. Lighthizer. In '81, the Reagan Administration is  
15 predicting 1.1 percent. In '82, they are predicting 4.2  
16 percent.

17 The consumer price index, in '81, they are predicting  
18 11.1 percent. In '82, they are predicting 8.3 percent.

19 In unemployment they are predicting 7.8 percent, in  
20 '81. In '82, 7.2 percent.

21 Senator Bradley. What is the rough rule of thumb on  
22 the cost in budgetary terms of say another percent of un-  
23 employment? If, instead of 7.2 percent, in 1982, say it was  
24 8.2 percent, what would that cost in budgetary terms?

25 (Pause)



1 Mr. Lighthizer. Senator, why don't I have someone go  
2 and get that information for you?

3 Senator Bradley. Well, the reason I ask is that I  
4 think that this relates very directly to our considerations,  
5 these economic assumptions are fundamental to this whole  
6 process.

7 The rough rule of thumb on unemployment, as I under-  
8 stand it, the Budget Committee uses, if it is one percent  
9 more unemployment, it is \$20 billion in lost revenue, and  
10 about \$7 to \$9 billion, in increased transfer payments.

11 So, if that assumption is wrong by a percent, you are  
12 faced with a budget deficit in 1982 of not \$45 billion but  
13 \$75 billion.

14 Senator Packwood. Bill, I wonder is someone from the  
15 Joint Committee knows that is a figure we have often bandied  
16 about. Is \$30 billion a rough net figure?

17 Mr. McConaghy. Senator Packwood, I haven't looked at  
18 these recently, but there was in the budget that was submitted  
19 by the Carter Administration table that they gave. I am not  
20 sure how it would translate from Senator Bradley's question  
21 into what effect a point lower or higher on inflation has on  
22 the deficits.

23 Especially, they show that one percentage point higher  
24 on the --

25 Senator Bradley. Unemployment I am talking about, Mark.

1 Not inflation.

2 Senator Packwood. While they are looking, Bill, the  
3 figure I used during the campaign was 16 and 7.

4 But that figure probably a year to a year and a half  
5 behind at the time I was using it. So, the ratios are  
6 roughly what you are saying, and it may be up as high as  
7 around \$30 billion.

8 Senator Bradley. \$30 billion. Okay, \$30 billion on  
9 unemployment. What about on inflation, I mean such things  
10 as what Social Security costs we are going to be talking  
11 about is directly tied to what your assumption is about  
12 inflation.

13 Let's assume it is not 7.2 percent, but assume it is a  
14 percent higher. How much more in inflation is that?

15 Mr. Wexler. Inflation tends to help the budget because  
16 receipts go up and outlays go down. It will go up by more  
17 than outlays go up.

18 Senator Bradley. Unless you have a tax cut, dramatic  
19 tax cut; right?

20 Mr. Wexler. Well, at any given level of taxes, accord-  
21 ing to these figures in the Carter budget, a one percent  
22 inflation will reduce the deficit by about \$5 billion, which  
23 is composed of an increase of revenue bigger than the increase  
24 in outlays.

25 Senator Bradley. That assumes the present tax

1 structure, right?

2 Mr. Wexler. Yes.

3 Senator Bradley. So that if you cut taxes, you  
4 wouldn't be pushing people into the higher bracket that the  
5 \$5 billion figure assumes.

6 Mr. Wexler. Yes, the sensitivity of taxes to inflation  
7 would go down under certain tax proposals, not all. Some of  
8 them -- if you index the tax system for inflation, then it  
9 would go down quite a bit.

10 Senator Bradley. So that both unemployment and inflation  
11 are highly volatile and have real budget consequences.

12 What about the interest rates that the Government is  
13 going to pay on its debt? What does this budget assume?

14 Mr. Lighthizer. \$4.2 billion, I am told, Senator,  
15 from the Carter Budget. A one percent increase in interest,  
16 they increase fiscal '81 outlays, interest on the public  
17 debt by \$4.2 billion.

18 Senator Bradley. But the question is, what is the  
19 interest rate that the Reagan budget assumes that the  
20 Government will have to pay to finance its deficit?

21 Mr. Lighthizer. 8.9 percent.

22 Senator Bradley. 8.9 percent.

23 Mr. Wexler. In 1982, it would be 8.9 percent.

24 Senator Bradley. What is the present interest rate?

25 Mr. Wexler. It is about 14 percent now on Treasury

1 Bills.

2 Senator Bradley. 14 percent.

3 Let's say -- and what then did the Carter Budget  
4 assume?

5 Mr. McConaghy. 11.0

6 Senator Bradley. 11 percent.

7 Well, I don't want to belabor the issue, because I am  
8 sure that all of my colleagues are aware that if unemployment  
9 is a percent more, instead of the assumption of 7.2, if it  
10 is 8.2, that is \$30 billion more on the deficit.

11 If inflation is higher than expected that is a much  
12 higher deficit.

13 If the interest rate is not 8.9 percent, but say 11  
14 percent, that is about another \$8 billion.

15 So that the assumptions that we make about this budget  
16 are fairly critical to the question of what is the size of  
17 the deficit.

18 I think we should consider that as we begin this process,  
19 Mr. Chairman, of deciding what we will recommend to the  
20 Budget Committee.

21 Senator Dole. Excuse me.

22 Senator Packwood. Bill, aren't you posing this question  
23 though. We go through this problem every year, whether or not  
24 we have a Budget Committee, whether or not we try to estimate  
25 revenue lost to us, and all we have done is been off for the

1 12 years I have been here, sometimes up, sometimes down. I  
2 don't know any better process than to take roughly the best  
3 estimates we can get, realizing that they are wrong.

4 Senator Bradley. Well, I am glad you raised that.  
5 Because the reason that I raised the issue was that the  
6 budget assumptions are quite different than any other model  
7 that is in the economy now.

8 For example, if you plug in the Administration program  
9 into the Wharton Computer, it comes out with the interest  
10 rate that the Government pays for its money at 11.5 percent.

11 Senator Packwood. What do you get out of the Clairmont  
12 computer?

13 Senator Bradley. Well, that is not available. I have  
14 Wharton at 11.5 percent. Data resources at 13.8 percent.  
15 Chase at 11.2 percent.

16 Senator Packwood. Is this CPI you are giving or is  
17 this interest rates or what?

18 Senator Bradley. No, this is the interest rate.

19 If you want the CPI, the Wharton has ten percent  
20 inflation rate.

21 Senator Packwood. Which year?

22 Senator Bradley. 1982.

23 Senator Packwood. Well, that is below the Administration.

24 Senator Bradley. No, the Administration is 8.3.

25 Senator Packwood. Oh, '82, yes. Excuse me. You are

1 right.

2 Senator Bradley. Chase has 9.7. DRI has 9.7 inflation  
3 rate. In fact, if you look at the outside modeling companies  
4 only Merrill Lynch comes in around the Administration's  
5 level.

6 (Laughter.)

7 Senator Chafee. Well, I would be disappointed if it  
8 didn't.

9 (Laughter.)

10 Senator Bradley. So, the reason I raise this issue is  
11 that these economic assumptions are not held by many other  
12 respected modeling firms in this country. The ramifications  
13 of a mistake are enormous in budgetary consequences, \$30  
14 billion, if, for example, interest rates go up, instead of  
15 down and we move into a slump, \$30 billion.

16 Senator Packwood. Let me ask you another question.

17 Senator Bradley. The reason I raise it is because I  
18 think the Committee and the Congress generally should focus  
19 on what these assumptions are because this is indeed what we  
20 are basing all our action and the budget upon.

21 Senator Packwood. I want to ask a question, if there  
22 is anybody out there from the Budget Committee. They started  
23 having an informer in our meetings last year. I just want to  
24 know if there is anybody here today from Budget?

25 Senator Dole. You call them liaison.

1 Senator Packwood. Oh.

2 (Laughter.)

3 Senator Packwood. The Administration is using this  
4 Clairmont Computer Center which comes in with figures  
5 significantly lower than anything else.

6 Senator Bradley. Well, the curious thing is that when  
7 we had Mr. Roberts up here, last week, and you were chairing  
8 the meeting, we asked him is there a supply side model and  
9 he said, "No, there is no supply side model anywhere."

10 So, I mean there are probably other models in addition  
11 to the Clairmont model somewhere in the country. But I  
12 think we should proceed in deciding what we are going to cut  
13 and how much we are going to cut with the knowledge that we  
14 might end up cutting the budget \$1 billion here or a half  
15 billion there and find a \$30 billion increase in the budget  
16 because of the wrong economic assumption.

17 Senator Bentsen. I don't know why he says, if I may  
18 interrupt, I don't know why he says there is no supply side  
19 models, because this Committee commissioned one. The Joint  
20 Economic Committee commissioned one. We certainly have had  
21 them in operation. We did the first ones last year. They  
22 give you the feedback.

23 Senator Long. Let me just discuss this a little bit  
24 with the staff.

25 I believe we have discussed these sorts of things

1 before and I was trying to recall, I may direct this to Mr.  
2 Stern, haven't we previously been up hill and down dale with  
3 this thing and finally conclude that we had to have something  
4 to go by and for lack of anything better we just finally  
5 concluded we would take the Administration's estimates?

6 Mr. Stern. That is correct. As Mr. Lighthizer  
7 mentioned, you usually have included a paragraph in your  
8 letter to the Budget Committee which says that the estimates  
9 under existing law are those of the Administration and to the  
10 extent that you yourself decide on different economic  
11 estimates, you will have to simply change the Social Security  
12 unemployment and revenue figures to conform to whatever  
13 different economic assumptions that you want to make.

14 Because the Budget Committee has in the past has indeed  
15 had different economic assumptions than the Administrations  
16 have.

17 Senator Long. Let me ask the Joint Tax Committee, the  
18 staff over there, what kind of advice can you give us about  
19 this particular thing?

20 Do you have some estimates that are at variance with  
21 what the Administration's estimates are?

22 That is some Joint Committee estimates that are at  
23 odds with the Administration estimates?

24 Mr. McConaghy. I think that on revenues, everyone is  
25 pretty much the same, Senator Long, which is really kind of



1 what we are focusing on.

2 Senator Long. On revenue you think you are kind of the  
3 same, but on spending, how would that go?

4 Mr. McConaghy. On the outlay side, we really don't get  
5 into the outlay side.

6 Senator Long. So that basically, on the revenue side,  
7 on the cash intake part of it, your thought would be that  
8 we ought to just accept the Administration estimate on that  
9 part of it, if I understand it, because you feel that is  
10 pretty much in accord with what your estimates are as well?

11 Mr. McConaghy. There are some specific differences,  
12 but overall, I think they are essentially the same. And,  
13 obviously anything here is highly susceptible to slight  
14 changes in economic conditions.

15 So, I think we would suggest that on the revenue side.

16 Senator Dole. As I understand, we are not endorsing  
17 the assumptions we are going to accept. We have to accept  
18 something. I don't quarrel with Senator Bradley. I think  
19 he makes a good point.

20 We will have that proviso in the letter that goes to  
21 the Budget Committee.

22 Senator Bradley. Mr. Chairman, would it be possible  
23 for a separate statement on behalf of some members of the  
24 committee who have a very real concern about the economic  
25 assumptions in the letter to the Budget Committee?

1 Senator Dole. I don't know of any prohibition.

2 Senator Bradley. Thank you.

3 Senator Dole. I would be happy.

4 Senator Bradley. Thank you.

5 Senator Long. My thought -- my thought about this is  
6 from having been here before, that it is enough of a job for  
7 the Budget Committee to try to get together on what the  
8 assumptions are. We need to have some basis from which to  
9 estimate what we think.

10 My guess is that if we challenge the Administration's  
11 estimates, we are going to be showing a bigger deficit. If  
12 we show a bigger deficit, the burden will be on us to either  
13 recommend a lesser tax cut or to recommend a bigger spending  
14 cut. Off hand, I don't know who wants to do that. I don't  
15 want to recommend it. I don't want to recommend reducing a  
16 spending cut or the tax cut at the moment, that is, raising  
17 the spending cut or reducing the tax cut.

18 I think that is what we are going to have to do if we  
19 challenge those estimates and then conclude, as I suspect the  
20 Senate is getting ready to conclude, that they are wrong  
21 because there is going to be a bigger deficit than they are  
22 anticipating.

23 Senator Bradley. Mr. Chairman, I won't make any  
24 conclusions. I will just have some misgivings.

25 (Laughter.)

1 Senator Long. Well, they are probably well taken, too.  
2 Senator Dole. We'll be happy to forward those on with  
3 our letter.

4 Mr. Lighthizer. Chart number 3 gives the major expen-  
5 diture programs under the Finance Committee jurisdiction. It  
6 is sort of the master chart on the spending side to which  
7 all the other charts are tied.

8 Chart number 4 is the status of the Social Security  
9 Cash Benefit Trust Funds.

10 I might point out that in the Carter less optimistic  
11 economic forecast, the trust funds run into trouble in 1982.  
12 In Reagan, they run into trouble in 1983, at some point.

13 Chart number 5 is the Social Security Cash Benefits  
14 Proposals.

15 Basically, the Administration is proposing \$2.4 billion  
16 in savings in Social Security Cash Benefit Programs.

17 Chart number 6 is the supplemental security income  
18 chart. It gives the present law, numbers for payments from  
19 general revenue into the Social Security Trust Fund, as well  
20 as for SSI, and a small proposed change in the law, \$ .1  
21 billion

22 Senator Dole. \$ .1 for '82?

23 Mr. Lighthizer. Yes, sir.

24 Chart number 7 gives the present law and the proposed  
25 legislative changes in the welfare programs, the AFDC program

1 as well as child support, low income energy assistance and  
2 the work incentive program.

3 In chart 7, the savings total up to about \$1.3 billion.

4 Chart number 8 --

5 Senator Dole. If there are any questions on any specific  
6 as we go through, feel free to interrupt.

7 Mr. Lighthizer. The back-up chart to chart 7 lists  
8 individually all, each individually of the proposals in the  
9 both budgets and in the Reagan budget.

10 Chart number 8 is the Social Services Chart. The  
11 principal proposal here is the block granting of social  
12 services, which we estimate to save about \$ .8 billion. We  
13 do not have all the details on that yet. But we assume it  
14 to be a 25 percent reduction in spending in each of the  
15 programs that are block granted.

16 Chart number 9 is the unemployment compensation chart.

17 The savings here are \$2.7 billion. The chart gives the  
18 current law numbers as well as the proposed legislative  
19 changes.

20 Senator Chafee. Bob, don't go too fact, if you could.

21 The savings, when you eliminate the national trigger  
22 you save \$700 million?

23 Mr. Lighthizer. Yes, sir, in '82.

24 Sen. Chafee. This is the first chart I have seen that  
25 rounds off in billions.

1 (Laughter)

2 Senator Chafee. Thank you.

3 Mr. Lighthizer. Chart number 10, gives the Medicare  
4 Trust Funds Under Present Law. This is comparable to I guess  
5 it was chart number 4, in Social Security, just to sort of  
6 show the direction that the program is going in.

7 The bottom line is it appears to be in fairly good  
8 shape for the near term.

9 The present law of all the health programs is given in  
10 chart number 11.

11 On chart number 12, we have the proposed changes.

12 Chart number 12 indicates a \$1.1 billion savings.

13 The first page is the Carter proposals and then the  
14 Reagan proposals.

15 Chart number 13 gives interest on the public debt.  
16 This, like the economic assumptions is basically something  
17 we give the President's number and then tell the Budget  
18 Committee that if they make up other assumptions, they can  
19 calculate their own new number.

20 Senator Bradley. I understand what is in the Blue  
21 Book is not the number that was in the budget?

22 Mr. Lighthizer. There is an errata sheet that was  
23 given out.

24 Senator Bradley. An errata sheet?

25 Mr. Lighthizer. Yes. Basically, the total number is

1 \$98.1 billion, in FY-82, under the Reagan proposal.

2 If you take the offset for the interest that we pay to  
3 ourselves, it comes out to I guess \$82.5 billion.

4 It is \$98.7, as opposed to \$98.1, if you add the .6 we  
5 have to pay in tax refunds, interest on tax refunds.

6 Senator Bradley. That is if the interest rate is 8.9  
7 percent?

8 Mr. Lighthizer. That's correct.

9 Senator Byrd. That \$82.5 figure is the net interest,  
10 the actual gross interest on the debt itself is \$106 billion;  
11 isn't it?

12 Mr. Lighthizer. Yes.

13 Our figures under the Reagan budget are \$98.7 billion.

14 Senator Byrd. The Carter budget, did it not use a  
15 figure of \$106 billion interest?

16 Mr. Lighthizer. That's correct.

17 He assumed a higher interest rate.

18 Senator Byrd. The Reagan budget is now in round  
19 figures, \$99 billion for the gross debt, gross interest, I  
20 mean?

21 Mr. Lighthizer. Yes, sir.

22 Senator Byrd. Thank you.

23 Mr. Lighthizer. Chart number 14 gives revenues, present  
24 law.

25 Chart number 15 gives the proposed revenue changes

1 under President Reagan and President Carter. The bottom  
2 line is \$51.4 billion reduction in revenues under Reagan,  
3 plus \$5.1 under Carter.

4 Senator Dole. Just as a matter of information, how  
5 does that \$51.4 billion compare with the bill we passed out  
6 of the Senate Committee last year?

7 Mr. Lighthizer. That bill was, and the Joint Committee  
8 can give more information on that, \$47.5 billion, as calcul-  
9 ated last year.

10 So, if you recalculate it the assumption is it would  
11 be probably close to \$50 billion or fairly close to the  
12 number \$51.4.

13 Senator Dole. Is that about what you get, Mark?

14 Mr. McConaghy. About right, yes, Mr. Chairman.

15 Senator Dole. So there is not that much difference in  
16 the legislation. The figures are about the same.

17 Mr. Lighthizer. On chart 16 we have the tax expendi-  
18 tures. We are required to send the Budget Committee a list  
19 of tax expenditures. The Finance Committee has tended not  
20 to be sympathetic to the tax expenditure concept but what  
21 they have done in the past is to send to the Budget Committee  
22 the list out of the President's budget of tax expenditures  
23 and what he identifies as tax expenditures and the amount of  
24 money that is used, according to the President's estimates,  
25 for each of these tax provisions.

1           Senator Dole. That is what you hope to do this year;  
2 right?

3           Mr. Lighthizer. Yes, sir.

4           Chart number 17 there is another modification in the  
5 chart, Senator Bradley, that should be in the packet that  
6 you have in front of you.

7           We have the Reagan's Administration's projection from  
8 the National Debt, and this is another case where the --  
9 the public debt, I should say. This is another case where  
10 the committee has in the past tended to make its recommendation  
11 based on what the President has in his budget, and then told  
12 the Budget Committee that if they make other assumptions  
13 about the economics or if they get reports from other  
14 committees that indicate a greater or lesser debt, to make  
15 their own adjustment in our figures.

16           The bottom line on the spending side is \$9.3 billion  
17 below current law. On the revenue side it is a \$51.4 billion  
18 reduction in revenue.

19           Senator Dole. Now, there has been some indication  
20 there might be a second tax bill which would include such  
21 things as a marriage penalty and maybe something for royalty  
22 owners, other matters that somehow escaped the attention of  
23 the Administration early on.

24           Does that figure accommodate a second tax proposal?

25           Mr. Lighthizer. The kinds of provisions sort of second



1 tax bill provisions that you are referring to, Mr. Chairman,  
2 could be accommodated in a number of ways.

3 Senator Dole. Charitable deductions, marriage penalty,  
4 there were a number of things.

5 Mr. Lighthizer. Right, 911.

6 Senator Dole. Yes.

7 Mr. Lighthizer. The unemployment compensation cap is  
8 another revenue measure that some of the members of the  
9 Committee are interested in.

10 Reporting some of these second bill items and reducing  
11 the revenue loss associated with them could be done by  
12 phasing them in, by having tax increases to offset the tax  
13 losses in FY-'82.

14 We could incorporate in a tax bill, these kinds of  
15 changes and reduce the revenue associated with the indivi-  
16 dual rate reductions.

17 We could notify the Budget Committee at a later time  
18 that our revenue number is going to be lower, that we are  
19 going to have greater tax cuts than we had anticipated at  
20 this time.

21 These are some of the ways we can handle it.

22 There is fairly general agreement that \$51.4 is  
23 sufficiently low to accommodate most of the things we want  
24 to do.

25 But, if we pass the President's whole package, we would

1 then have to phase in these other items or offset them with  
2 more spending cuts or tax increases.

3       Senator Dole. But if the letter we send to the Budget  
4 Committee has the figure \$51.4 billion, are we bound by that  
5 number?

6       Can we go above it?

7       Mr. Lighthizer. We don't have to cut taxes as much  
8 as we say. That is a floor on revenue. So, we could cut  
9 taxes any amount less than that. That is the first answer  
10 to your question, Mr. Chairman.

11       The second answer is that you are not bound in any  
12 event, because you are not bound by what is in the budget  
13 resolution until the second budget resolution passes and that  
14 day is way in the future.

15       So, we are not bound in any event. But this is just  
16 a revenue floor that we are recommending. It does not mean  
17 that we are going to have to cut taxes by \$51.4 billion.

18       Indeed, the language which we would propose to put in  
19 the letter would say that if the spending cuts are not met  
20 it might be advisable that the Finance Committee might  
21 decide not to cut taxes by the full \$51.4 billion.

22       Senator Dole. By simply including one year, you in no  
23 way jeopardize the President's request for a three year tax  
24 reduction?

25       Mr. Lighthizer. That's correct. The Budget Committee

1 has recommended, or requested in the past that we give great  
2 detail on programs going out for five years. The Finance  
3 Committee finds that very difficult to do.

4 So, we have tended to give 1982 numbers and then allow  
5 them to -- and then just say that out years are basically  
6 subject to too much question to give any detail on right now.

7 Senator Dole. Do you have other charts there?

8 Mr. Lighthizer. Basically, Mr. Chairman, we have the  
9 charts and the bottom line figure and in the Blue Book which  
10 supplies the information, the back-up information.

11 Senator Dole. Any questions?

12 Senator Bradley. Mr. Chairman.

13 Senator Long. I am concerned about one of these  
14 recommendations that I don't think I could vote for. I think  
15 most of it I could go along. But I think this item that has  
16 to do with the reduction of the minimum Social Security  
17 benefit, what page is that on?

18 Ms. McMahon. It is on page 24.

19 Senator Long. Page 24?

20 Ms. McMahon. Page 24, in the Blue Book, chart 5.

21 Senator Long. Will someone explain what the rationale  
22 is about cutting this particular thing down?

23 What I have in mind is, those -- this reduction in  
24 payments for those who are already on the rolls. What is the  
25 rationale for cutting it?

1 Ms. McMahon. The rationale offered by the Administration  
2 is that the minimum benefit is a benefit which an individual  
3 has not earned. We provide an increment over and above the  
4 actual benefit an individual has earned, if his earned bene-  
5 fit is not as high as that minimum.

6 The Administration considers that this is something  
7 over and above the basic Social Security Retirement Program  
8 and it is a windfall, and therefore should be cut out since  
9 we are looking for areas to make cuts in the budget.

10 Senator Long. How much will the average check be cut  
11 under that proposal? The people drawing it.

12 Ms. McMahon. I have seen a figure of \$50.00, but I am  
13 not sure. Maybe the Administration is here and can speak to  
14 that.

15 Senator Dole. Would some of those be eligible for SSI  
16 payments?

17 Ms. McMahon. Yes, sir. Approximately half of the  
18 people, about three million beneficiaries of the minimum  
19 benefit, and approximately half of those will either have  
20 the difference made up by SSI or in fact will not have a  
21 reduction because their earned benefit is the same as the  
22 minimum.

23 Although it looks as if they are getting the minimum  
24 they are included in the three million who we say are getting  
25 the minimum. In fact, those people will get that amount

1 anyway, because it is their earned benefit.

2           There are some people who have dual entitlement. They  
3 are eligible for not only Social Security, in their own right  
4 but also as the dependent of someone else, like their  
5 dependent spouse.

6           So, it is considered that about one and a half million  
7 of the three million will not lose anything.

8           Of the other one and a half million, some of those are  
9 Federal retirees who have other annuities. But I don't have  
10 -- again, maybe the Administration has some specifics on  
11 those people.

12           Mr. Lighthizer. The GAO recommended, Senator Long, on  
13 December 10, 1979, to eliminate the minimum benefit.

14           Ms. McMahon. According to the GAO, the minimum benefit  
15 provision intended to help the poor has in recent years  
16 mainly benefits retired Government workers with pensions and  
17 home makers supported by their spouses' incomes.

18           Our study of beneficiaries who are awarded minimum  
19 benefits during 1977, showed approximately 44 percent of  
20 sampled beneficiaries received no additional income from the  
21 minimum provision because of offsets required in other Federal  
22 programs.

23           More than half of the remaining 56 percent had income  
24 or support from other sources.

25           So, as I said, about one and a half of the three million

1 will not really be affected. And of the others, some do have  
2 outside support.

3         Senator Long. Well, my reaction to all that is that I  
4 don't want the burden going to these people who are going to  
5 have their check cut, even though some of them will get it  
6 back. Say some, half of them do get it back from some other  
7 source, SSI, somewhere, I don't want the burden of going to  
8 those people and explaining to them that we reduced their  
9 check, cut them by \$50 or \$55, whatever the amount is.

10         I would just like the opportunity to vote to say that  
11 that part of it shouldn't be in here. When you talk about  
12 the savings which you hope to achieve with this, and so far  
13 as you are paying it back to them through SSI, that is no  
14 saving, is it. The Government is paying it. I guess we pay  
15 half of it.

16         Ms. McMahon. This is a net figure.

17         Mr. Lighthizer. This is a net. The \$1.1 billion  
18 savings is a net.

19         Senator Long. Well, my thought would be, and I would  
20 like to propose that we simply go on record that we don't  
21 stay with that proposal.

22         Ms. McMahon. Senator Long, there are other options  
23 that the Committee might want to consider. Rather than go  
24 on record for or against anything here, I believe the under-  
25 standing is that the Committee is not going on record for

1 anything, that we might consider whether or not there are  
2 enough options to make up the difference if the Committee  
3 didn't want to specify we are for or against any particular  
4 thing.

5 Mr. Lighthizer. I should say the way this letter will  
6 be drafted and the way it has been drafted in the past it  
7 will not indicate that the Committee necessarily supports  
8 any of the President's proposals. It will just endorse the  
9 bottom line number, not any specific proposals.

10 Senator Dole. We will have to fight that out later.

11 Mr. Lighthizer. That will be something that you will  
12 have to deal with when you deal with legislation.

13 Senator Dole. If we find some alternatives they could  
14 be substituted.

15 Senator Bradley. Well, I would like to follow on to  
16 what Senator Long says. I think he has a good point. I have  
17 a couple of areas myself where I do not think that we should  
18 reduce expenditures much. Low income energy assistance is  
19 one of those areas. The budget, according to this document,  
20 cuts about \$400 million out of that.

21 I would not like to see that happen and would like to  
22 see our recommendation to the Budget Committee reflect that  
23 we do not want it to happen.

24 Mr. Lighthizer. On that point, Senator Bradley, the  
25 Administration proposal is to include \$1.8 billion for low

1 income energy assistance. That is a plus figure because it  
2 is a program that expires at the end of this year and will  
3 not be in existence otherwise.

4 We have to basically add \$1.4 billion. The Reagan  
5 Administration recommended \$1.8 billion, and the .4 reduction  
6 is from the Carter number rather than --

7 Senator Bradley. That's right. I would like to  
8 reinstate it at \$1.8 billion.

9 Mr. Lighthizer. That .4 does not affect our total,  
10 because that is an appropriation number.

11 Senator Bradley. If the legislation expires this year,  
12 who reauthorizes the legislation?

13 Mr. Lighthizer. Presumably the -- well, the Finance  
14 Committee. We would put that on our letter one way or the  
15 other.

16 Senator Bradley. If the Finance Committee is reauthor-  
17 izing the legislation, we have to have in mind a number at  
18 which we want to reauthorize the legislation at.

19 Mr. Lighthizer. That's correct.

20 Senator Bradley. And, a 1.4 number, in my view, is not  
21 what I would like. I would like the 1.8. I would like a  
22 chance to go on the record on that.

23 Senator Long. Well, my thought is, I would just like  
24 for us -- I don't know whether we are going to get a chance  
25 to go on record when the Budget Committee Report is out. It



1 may be all inside one figure.

2 Are we assured we will have an opportunity to vote on  
3 this item when that resolution comes out?

4 Mr. Stern. The Budget Committee in the Senate is  
5 contemplating doing two things, two different things.

6 First, to come out with a reconciliation instruction  
7 which would be one lump sum number for the Finance Committee.  
8 The number that Mr. Lighthizer as being President Reagan's  
9 number for the Finance Committee is \$9.3 billion, in the  
10 fiscal year 1982.

11 I understand that they want to have instructions for  
12 fiscal year 1981, 1982 and 1983, and also, authorization  
13 instructions for fiscal year '81, '82 and '83, and to direct  
14 the committees to report out legislation by May 31.

15 If you accept a number of \$9.3 billion now, and make  
16 that recommendation to the Budget Committee and they turn  
17 around and instruct you to save \$9.3 billion, you really will  
18 be directed by the Senate to come up with that degree of  
19 savings.

20 If you don't want to do it by reducing the minimum  
21 benefits, then you have to come up with something the President  
22 didn't come up with that would save you the \$900 million  
23 that goes to present beneficiaries.

24 So, if --

25 Senator Bradley. Mr. Chairman, that is why I would

1 argue that we send our letter to the Budget Committee with  
2 a lower figure than the \$9.3 billion. If they choose to  
3 instruct us to find more, then that is what we will have to  
4 do. But, as it is now, I think that we should go for a  
5 lower number than the \$9.3 billion savings in 1982.

6 The low income energy assistance is one of the areas  
7 where I had a question.

8 There is another areas where I have a question as well,  
9 but maybe we ought to resolve the procedural question here  
10 how you want to proceed and handle this.

11 Senator Dole. It would be my intent, at the appropriate  
12 time, when everyone has had all the discussion and any  
13 questions they may have answered, to offer a motion that we  
14 will tell the Budget Committee that we will report legis-  
15 lation which will reduce expenditures by \$9.3 billion, in  
16 fiscal '82, and that we will report legislation that will  
17 cut taxes by no more than \$51.4 billion in fiscal year '82.

18 It seems to me that there is precedent for that in  
19 this committee. We will have the opportunity, if we are not  
20 satisfied with the specifics recommended, we can -- we still  
21 need to come up with that number but we can maybe do it in  
22 some other program.

23 I have some ideas myself that may or may not be  
24 meritorious, but they are somewhat different from what the  
25 Administration proposes.

1           Senator Long. Well, my thought about it is that at  
2 some point I want to vote against that particular recommend-  
3 ation to which I made reference, and just go on record  
4 against that.

5           Senator Dole. Right.

6           Senator Long. The Committee can do whatever it wants  
7 to do. And, of course, the Budget Committee will do whatever  
8 the Budget Committee wants to do about it.

9           There may very well be some suggestions here that I  
10 can vote for that will save some additional money. I am not  
11 in a position to pass judgment on them sight unseen, but off  
12 hand, I think if I put my mind to it, I can think of some  
13 things where I would like to see some money saved.

14           But this thought does occur to me, even if we can't  
15 agree on something to save some additional funds, we could  
16 still help achieve the balanced budget by just not cutting  
17 taxes quite that much.

18           I can see about \$2 billion in our area of jurisdiction  
19 where it will be difficult to make those particular savings  
20 because it involves cutting back on something that people  
21 are getting right now.

22           It is a lot easier to cut situations before people  
23 come on the rolls and say that these people will not be  
24 eligible to go on the rolls in the future, tighten up on  
25 eligibility for disability and things like that, than it is

1 to take people off the rolls who are presently on there,  
2 even though some of them may have too good a case for it.

3 But, at the appropriate point, I would like to vote on  
4 this matter, on that particular item. I just think we ought  
5 to recommend against it.

6 Senator Dole. As Mike Stern indicated earlier, we  
7 will have that opportunity to do that.

8 Mr. Lighthizer. When we mark up this legislation,  
9 substantive legislation, Senator Long, you will have an  
10 opportunity to vote for or against that provision if it is  
11 even recommended at that time.

12 In other words, assuming that the Budget Committee and  
13 the United States Senate force us to come up with a savings  
14 bill, you will then have an opportunity when we are carrying  
15 out that instruction or filling that instruction, to vote for  
16 or against this provision.

17 Senator Long. But the heck of it is that they don't  
18 get the option. Let me ask Mr. Stern. We don't get the  
19 option of saying that we can vote to balance off a reduction  
20 -- suppose we can't recommend a spending cut as much as they  
21 would like us to do.

22 We don't get the option, do we, to propose that we cut  
23 spending by a lesser amount and therefore, do not cut taxes  
24 by as much. We don't get that option, do we?

25 Mr. Stern. Once you have a binding budget resolution,

1 you don't have that option at all. After the first budget  
2 resolution, these are supposedly targets and you presumably  
3 would have that option if you were only talking about a first  
4 budget resolution.

5       When you are talking about reconciliation instructions,  
6 they will presumably have nothing to do with revenues at all,  
7 they will simply direct the Finance Committee to save \$9.3  
8 billion, to use the Reagan Budget number. At that point, you  
9 can no longer say, "We promised not to cut taxes by as much  
10 as we otherwise would, and we would rather report out less  
11 legislation."

12       So, if you do agree on a \$9.3 billion figure now, but  
13 there is some part of that that you think you don't want to  
14 vote for, I think you should have in mind something else to  
15 replace it.

16       You probably should agree on a lower number.

17       Senator Long. Well, that is what I am thinking about.  
18 Part of my thought is that if I don't know of some place  
19 where I think I can persuade the Senate to go for the  
20 alternative cut, then if we are going to go say to reduce  
21 the deficit by any given figure as is being suggested, then  
22 it would be easier, I should think, to simply say we won't  
23 cut taxes by quite that much, just move up about \$900 million  
24 on the tax cut.

25       MR. Lighthizer. Senator Long, we could put that in the

1 the letter, and indeed, we propose to put it in the letter,  
2 that the Finance Committee, if it doesn't find the savings  
3 or a savings generally aren't made, not just within the area  
4 of our jurisdiction, but within the area of every Committee's  
5 jurisdiction, that we may want to shrink the size of the tax  
6 cut.

7 That is language that we would propose to put in there.

8 Now that language wouldn't help you for purposes of  
9 reconciliation, but it would satisfy that point that is  
10 troubling you. We would put in there that we might decide  
11 to, you might not decide to have the full \$51.4 billion tax  
12 cut if we don't have spending deductions.

13 Senator Long. Well, you gave me an answer, and then  
14 you took it right back away from me, when you said you could  
15 put this in, but that wouldn't help with the reconciliation  
16 resolution.

17 What we are talking about here is for the reconcilia-  
18 tion resolution, isn't it?

19 Mr. Lighthizer. This letter, Senator Long, is a  
20 letter to the Budget Committee, on the FY-82 budget that is  
21 technically not related to reconciliation.

22 Now, it may be that the Budget Committee will sit  
23 down and look at this, and if they get it before they have  
24 gotten to our point in their reconciliation mark-up, then  
25 they make a decision that this is some indication of where

1 the Finance Committee is coming out on these issues.

2 But this letter that we are sending is part of the  
3 preparation for the first concurrent budget resolution for  
4 FY-82, which will not be reported out by the Budget Committee  
5 until April 15. They are required by April 15, to report  
6 it out of the Budget Committee, the first resolution, and  
7 then it has to go to the Senate Floor, by May 15. It is part  
8 of that process.

9 Now, the Budget Committee may read this as some  
10 indication of where we would come out, but it is technically  
11 for for the reconciliation process.

12 Senator Long. Well, I don't want to be in a position  
13 where I have to speak now or forever hold my peace, and then  
14 hold my peace.

15 Now, tell me, Mr. Stern, you have been around here  
16 for quite a while, about this matter. Am I going to be  
17 left in that situation if I don't ask for a vote on this  
18 matter now?

19 Mr. Stern. Well, Mr. Lighthizer's answer is essentially  
20 correct, but that reconciliation motion is going to be acted  
21 on by the Budget Committee this week; in fact, they are  
22 doing it while you are sitting here right now.

23 My own interpretation is that their action on the  
24 first budget resolution for 1982 will simply conform to the  
25 decisions that they are really making right now. Since, in

1 the context of reconciliation resolution, you don't have  
2 the option of reducing taxes by less.

3 This is a significant number that you are coming up  
4 with now. It is not merely a recommendation for a target  
5 figure for the first resolution for 1982. It is a number  
6 that you may be binding yourself on legislatively, according  
7 to the schedule of the Budget Committee, before May 31st.

8 It is quite an immediate number.

9 Senator Long. Well then, what I would like to  
10 suggest is that we instruct or at least inform the Budget  
11 Committee that we do not, that we cannot recommend this  
12 item, that we don't think the Senate will recommend the  
13 item, and that they can either suggest we cut taxes less or  
14 they can find some other economy that they would like to  
15 recommend to us in lieu of this, but that we don't think that  
16 item can be sustained.

17 I don't think you can get the Senate to vote for that.

18 Senator Dole. Well, at any point we think we have  
19 discussed it enough, I will make the motion.

20 Senator Bradley. Mr. Chairman, I would also like --  
21 I have not been around here as long as most people, so I  
22 don't understand that we will get another shot down the road  
23 somewhere, and I figure you want to take your shot when you  
24 have it..

25 Right now we have a letter we are sending to the



1 Budget Committee, and frankly, I would not like to recommend  
2 \$9.3 billion in cuts. I would like to recommend \$8.9, with  
3 a \$400 million increase in low income energy assistance,  
4 which is within the jurisdiction of the Committee.

5 I would be prepared to offer that as an amendment to  
6 this letter and that we state that and that we get a roll  
7 call vote on it.

8 Senator Matsunaga. Mr. Chairman, may I ask the staff  
9 a question relative to the estimated increase in the interest  
10 rate on public debts?

11 As I understand it now, the Reagan Administration  
12 estimates outlays for interest on the public debt will be  
13 \$77.2 billion, in '81, and fiscal '82, \$82.5 billion, an  
14 increase of \$5.3 billion.

15 The estimate of the interest on the public debt will  
16 rise from \$90.6 billion, in '81, to \$98.1 billion, in fiscal  
17 '82.

18 This means an increase of \$7.5 billion.

19 Now, has this been taken into consideration in  
20 formulating the reduction in the tax rate or total tax?

21 What will happen to the \$7.5 billion increase of  
22 interest on the public debt? Will that be taken care of  
23 despite the proposed cut for '82?

24 Mr. Lighthizer. It is included in the deficit figure.

25 Senator Matsunaga. It is included in the total deficit?

1 Mr. Lighthizer. Yes, sir.

2 Senator Matsunaga. Well, that is --

3 Mr. Lighthizer. On the spending side.

4 Senator Matsunaga. It seems to me at least the public  
5 -- the interest on the public debt ought to be taken care of  
6 that the decrease in taxes ought to be reduced to the extent  
7 of at least taking care of the increase in the interest rate  
8 on the debt.

9 Mr. Lighthizer. Oh, I see. You are asking whether the  
10 tax cut has been reduced by the amount of the increase in  
11 the public debt, increase on interest on the public debt?

12 Senator Matsunaga. Yes.

13 Mr. Lighthizer. The answer to that is no.

14 Senator Matsunaga. No, it has not been.

15 Mr. Lighthizer. There is a \$51.4 billion tax reduction  
16 and on the revenue side, the spending is increased by the  
17 amount of the increase on interest on the public debt.

18 I mean, the debt is taken care of, but we did not  
19 reduce the size of the tax cut to offset that increase.

20 Senator Matsunaga. I am inclined to agree with Senator  
21 Long that we ought to take care of some of these necessary  
22 items and not reduce the tax as much as we would normally do.  
23 And, interest on the public debt is something which we  
24 ought to take care of, I feel.

25 Mr. Lighthizer. It would be paid under this proposal.

1 It is just that we did not reduce the size of the tax cut to  
2 correspond with it.

3 Ms. McMahon. Mr. Chairman, in reference to the earlier  
4 question about rationale on the minimum benefit and some  
5 other issues, I might point out that Secretary Schweiker will  
6 be appearing before the Committee, tomorrow to testify on  
7 the Administration's package.

8 You might want to get some further clarification for  
9 rationale from the Administration before you vote.

10 Senator Dole. I think Senator Chafee had a question.

11 Senator Chafee. Linda, on the point that was discussed  
12 by Senator Long on that minimum, how are they ever going to  
13 figure out who's getting the minimum if the figure was  
14 locked in 1977, as I understand it. Some people might well  
15 have been getting the minimum prior to that, and thus, would  
16 be way up beyond the 122. Would you ever be able to locate  
17 those people?

18 Ms. McMahon. That will be a difficult administrative  
19 problem. I believe Mr. Stockman, and in fact, Secretary  
20 Schweiker have mentioned it will take something like 8,000  
21 to 10,000 man years, because they will have to go into the  
22 files, on a hand-by-hand basis, and pull out -- they will  
23 have to figure out what is the most that anybody could be  
24 getting.

25 Because, if you started getting the minimum 20 years

1 ago, it would have been indexed over the last eight years.

2 Senator Chafee. Have they figured that 8,000 to 10,000  
3 man or woman years in this saving?

4 Ms. McMahon. Yes, sir, I believe they have taken  
5 account of administrative cost.

6 Senator Chafee. Now, the other question is of Mr.  
7 Lighthizer. I have a matter that is concerning me, and that  
8 is a reduction in revenue proposal I have which deals with  
9 placing a cap on the states' unemployment compensation which  
10 perhaps you are familiar with now.

11 I don't know what that would cost the revenues if we  
12 managed to get that passed. I think something like \$800  
13 million. Would it be that much?

14 Mr. Lighthizer. I think we had .1, it is both in the  
15 revenue section and --

16 Senator Chafee. That is right. It was way lower than  
17 \$800 million.

18 Mr. Lighthizer. Yes, .1 the first year.

19 Senator Chafee. I am not excluding myself from dealing  
20 with that matter later on, am I?

21 Mr. Lighthizer. Senator, you are going to have to, if  
22 this revenue floor is put in that we have voted here, you  
23 will have to have one of the other tax cuts be reduced by  
24 .1

25 So, if you pass the full Reagan package, then you

1 would have to increase taxing some way or another to offset  
2 that loss or in our opinion, cut spending by an equivalent  
3 amount.

4 Senator Chafee. I see.

5 Mr. Lighthizer. But your third option is just to have  
6 .1 less in tax cuts, in other areas. In other words, it is  
7 only a problem if we pass the entire Reagan package. Even  
8 in that case, you could still pass this if you offset it  
9 with some revenue increase or with spending decreases.

10 So you have those range of options to accommodate  
11 that .1.

12 Senator Chafee. Now the only way that we would get  
13 locked in on the matters that Senator Long and Senator  
14 Bradley were discussing is if we went to a reconciliation;  
15 is that correct?

16 Mr. Lighthizer. If the Budget Committee required us  
17 to reconcile, through a reconciliation instruction, to find  
18 a certain amount of savings, then we would have to come back  
19 here and find those savings.

20 Indeed, there is some evidence that the Budget  
21 Committee may ask us to save more than the President. That  
22 is a possibility.

23 Senator Chafee. Thank you, Mr. Chairman.

24 Senator Dole. If there are not other questions, I  
25 would be very happy to vote. I think Senator Bradley wanted

1 to vote. Senator Long wants to vote on his proposal.

2 Senator Long. Yes, sir.

3 I am willing.

4 Senator Dole. I am willing to proceed to vote on those  
5 at this time. We can come back on Wednesday afternoon at  
6 2:00 o'clock and find out very quickly whether we want to  
7 change the figures. I would hope we would not.

8 It is going to be very difficult process all year  
9 long. I hope we don't start by reducing the numbers our  
10 first meeting.

11 I certainly believe that Senator Long, Senator Bradley  
12 are entitled to votes on theirs. I hope as far as this  
13 Senator is concerned, I may not agree with every item  
14 either on this list. I may be joining the Senator from  
15 New Jersey later on his proposal or maybe even Senator Long,  
16 on some modification.

17 I would hope we could report the Budget Committee  
18 reduction number \$9.3 billion, and the other tax figure not  
19 to exceed \$51.4 billion.

20 I will yield to Senator Long for his proposal.

21 Senator Moynihan. Would you yield just one moment?

22 Senator Long. Yes.

23 Senator Moynihan. I would like to tell the Chairman,  
24 I know we share his views on this. We are going to make some  
25 proposals on the revenue side with respect to tax expenditures

1 that might well wash out any adjustments we make. We have  
2 commodity tax we talked about which could bring in \$1.3  
3 billion in revenue and would be quite consistent with the  
4 Administration's economic philosophy.

5 I would hope you would not feel a vote to keep a  
6 certain cut down say is a vote to go below \$9.3 billion. It  
7 may not work out that way at all.

8 Senator Long. Let me just make this point clear.  
9 Usually the way we have done this is to go through this book  
10 and we would look at the totals in each of these broad  
11 categories, and then we would vote on these figures. Often  
12 times, many times it would just be an informal voice vote  
13 or without objection, we would accept this figure and go on  
14 to the next one.

15 These figures, as I understand it, in these broad  
16 categories of figures in the break down will be in the  
17 Chairman's letter to the Budget Committee, in any event.

18 Now, I want to make it clear that as far as the  
19 Senator from Louisiana is concerned, I am willing to buy  
20 the President's figure for the deficit that he is recommend-  
21 ing, which I think is about \$45 billion, about that.

22 Mr. Lighthizer. Yes, sir.

23 Senator Long. I am willing to live with that. As far  
24 as I am personally concerned, I would have no objection  
25 whatever if we can't find a way to make it up. Say this

1 particular item that I don't think should be a part of the  
2 program, would be taken out, but we would make it up one of  
3 two ways.

4         Either we would make it up by finding some economies  
5 or else we would make it up by not cutting taxes as much, or  
6 even in the alternative, we could do what Senator Moynihan  
7 is suggesting, and saying we could find us some items such  
8 as the tax straddle that we think ought to be repealed and  
9 make it up there.

10         So, it gives me no problem as far as living with the  
11 President's figure. I simply, it simply gives me a problem  
12 to vote for this. I think when you have to explain this to  
13 these dear old people who have been receiving this check,  
14 you are going to find that that explanation is not adequate.  
15 You are going to find a lot of dear old people who have been  
16 getting this minimum Social Security benefit for years, and  
17 many of them were surprised to find they were getting it.  
18 They didn't know they were entitled to it at all.

19         But by this time, they are thoroughly persuaded that  
20 God meant them to have that check. When you cut it at this  
21 point, you are not going to be able to persuade them that  
22 you are well advised in taking it back away from them.

23         So I really believe that I am advising everybody that  
24 this is a very wise vote, under the circumstances, and saying  
25 that this particular item here I think is the most vulnerable



1 one in this book.

2 I think we would be well advised to make that change.  
3 Otherwise, what are we doing here. I don't think we came  
4 here just to rubber stamp something. I think we came here  
5 to give it our best judgment.

6 In my judgment, that is the most vulnerable item in  
7 the book. I think anybody that does not agree with that will  
8 have a chance to find out.

9 It seems to me that we would be well advised to say,  
10 well, this was something of a contract with these people.  
11 They came into the program. They paid their part, meager  
12 though it may have been in some cases, and they are getting  
13 this minimum benefit.

14 I just think it would be well to leave it that way  
15 as far as those people are concerned.

16 Most of these other economies I can go along with.

17 Senator Dole. Do you have -- did I make my motion  
18 and you amend it?

19 Senator Long. I think that our traditional way of  
20 doing business is, we would vote on the items that make up  
21 these figures, and then, having done so, we would vote on  
22 the total figure.

23 That is why I would propose we simply eliminate, vote  
24 this item be stricken from it. If we want to try to find  
25 some way to make it up elsewhere, we can. Otherwise, if it

1 can't be made up, I personally would be willing to make a  
2 suggestion, if we can't find some way to make it up otherwise  
3 we just reduce the tax cut by whatever it takes to do that.

4 Mr. Lighthizer. This is then a motion to reduce the  
5 \$9.3 billion in savings by .9 billion in FY-82?

6 Senator Long. No. I -- what page is this item on?

7 Mr. Lighthizer. Page 22. Chart 5.

8 Senator Long. Where is that item?

9 Mr. Stern. It is the first item under -- in Reagan  
10 Budget, the \$1.0 billion, for fiscal '82, includes \$ .1  
11 billion for prospective and \$ .9 billion, for people who are  
12 now receiving the minimum benefits.

13 So, if you were to make it prospective only, that  
14 would be \$.9 billion less reduction on the President's  
15 budget.

16 Senator Long. I will move that be reduced from --  
17 for these purposes, from \$1.0 billion down to \$ .1 billion.  
18 That would take care of it, wouldn't it?

19 Mr. Stern. Yes, sir.

20 Senator Long. Reduce that particular figure.

21 Make it prospective. That would mean those coming on  
22 the roll in the future, would not get the minimum, they would  
23 get the new minimum that is being suggested. But those who  
24 are presently on would not have their Social Security checks  
25 cut.

1           Senator Chafee. Are we going to have a little discussion  
2 on this, Mr. Chairman?

3           Senator Dole. Yes.

4           Senator Chafee. Mr. Chairman, I am anxious to support  
5 the President's overall figures. Each of these matters that  
6 are brought up have a lot of appeal. But in this present  
7 one we are voting now, Senator Long said he may have ways  
8 to make up this loss.

9           If he has, I would find it helpful to know what they  
10 might be, because we could take them into consideration.

11           Would that come later? Do you have any specific  
12 suggestions now or would we just vote alone on this?

13           Senator Long. Well, I don't have a specific spending  
14 cut to recommend to cover it.

15           The Chairman indicated he had some ideas how we could  
16 cut spending over and above this.

17           Senator Moynihan indicated that he wanted to suggest  
18 we eliminate the tax straddle. If that were the case, that  
19 would more than cover the cost of this.

20           But, if we can't find some item to cover it, I would  
21 propose that we simply reduce the tax cut by .9. So, in  
22 any event, I would propose we stay with the Administration's  
23 figure, the bottom line, based on their assumption of a  
24 \$45 billion deficit.

25           I just simply think this particular item here should

1 not be a part of how we arrive at it.

2           Senator Byrd. If the Senator would yield, Senator  
3 Chafee. You can eliminate the entire \$9.3 billion reduction  
4 by increasing taxes if that is what you want to do.

5           I thought what we were trying to do is to tackle  
6 spending. I admit this is a very difficult item in some  
7 respects, as Senator Long pointed out.

8           We are not going to reduce spending by increasing  
9 taxes. That doesn't get spending under control.

10           Senator Dole. I am prepared to vote. It seems to me  
11 what we are doing in effect is we would be not accepting the  
12 Administration's number of \$9.3 billion. I think that is a  
13 matter of some concern.

14           I still believe we will have an opportunity to address  
15 the very question raised by Senator Long. On that basis, I  
16 would just as soon vote and see what happens.

17           Mr. Lighthizer. This is a motion by Senator Long to  
18 reduce the spending reduction by \$ .9 billion in the income  
19 security category. Mr. Packwood.

20           Senator Dole. No, by proxy.

21           Mr. Lighthizer. Mr. Roth.

22           Senator Dole. No, by proxy.

23           Mr. Lighthizer. Mr. Danforth.

24           Senator Dole. No, by proxy.

25           Mr. Lighthizer. Mr. Chafee.

1 Senator Chafee. No.  
2 Mr. Lighthizer. Mr. Heinz.  
3 Senator Heinz. No.  
4 Mr. Lighthizer. Mr. Wallop.  
5 Senator Dole. No, by proxy.  
6 Mr. Lighthizer. Mr. Durenberger.  
7 Senator Durenberger. No.  
8 Mr. Lighthizer. Mr. Armstrong.  
9 Senator Dole. No, by proxy.  
10 Mr. Lighthizer. Mr. Symms.  
11 Senator Dole. No, by proxy.  
12 Mr. Lighthizer. Mr. Grassley.  
13 Senator Dole. He is on his way. He has his proxy in  
14 his pocket.  
15 Mr. Lighthizer. Mr. Long.  
16 Senator Long. Aye.  
17 Mr. Lighthizer. Mr. Byrd.  
18 Senator Byrd. No.  
19 Mr. Lighthizer. Mr. Bentsen.  
20 Senator Bentsen. Aye.  
21 Mr. Lighthizer. Mr. Matsunaga.  
22 Senator Matsunaga. Aye.  
23 Mr. Lighthizer. Mr. Moynihan.  
24 Senator Moynihan. Aye.  
25 Mr. Lighthizer. Mr. Baucus.

1 Senator Baucus. Aye.

2 Mr. Lighthizer. Mr. Boren.

3 (No response.)

4 Mr. Lighthizer. Mr. Bradley.

5 Senator Bradley. Aye.

6 Mr. Lighthizer. Mr. Mitchell.

7 (No response)

8 Mr. Lighthizer. Mr. Chairman.

9 Senator Dole. No.

10 Senator Long. I might ask the absentees have the  
11 opportunity to vote, Mr. Chairman.

12 Senator Dole. Yes.

13 On this vote the nay's are 11, and the yea's are 6.

14 The Motion is not agreed to.

15 The absentees will be permitted to record their votes.

16 Senator Bradley. Mr. Chairman, I would like to then  
17 move we reduce the amount of cuts from \$9.3 billion to \$8.9  
18 billion, and that the \$400 million that we are adding back  
19 into the budget go to increase low income energy assistance  
20 for all the reasons the Congress intended energy assistance  
21 to be used for, funded out of the windfall profits tax, help  
22 people pay the increased costs of energy and that this is  
23 particularly accentuated in wake of the action of the last  
24 several months on the decontrol issue.

25 So, I would move that we reduce the amount we report

1 from \$9.3 to \$8.9 billion, and that be designated to be an  
2 increase in low income energy assistance.

3 Mr. Lighthizer. Mr. Chairman, may I just point out  
4 that the \$9.3 are savings within the -- from current law.  
5 This is going to be an item of new spending. So, instead  
6 of it being a reduction of the \$9.3 to \$8.9, I would suggest  
7 that the motion be in the form we would recommend to the  
8 -- that the Finance Committee would recommend to the Budget  
9 Committee that \$1.8, rather than \$1.4 be included for low  
10 income energy.

11 Senator Bradley. Fine.

12 Mr. Lighthizer. It accomplishes the same thing.

13 Senator Bradley. Fine.

14 Senator Dole. Any discussion?

15 Senator Chafee. At the proper time, I might well  
16 support this, probably would. I don't want to change the  
17 basic figures in the President's program at this time.

18 We will have an other opportunity, as I understand it,  
19 to deal with this matter.

20 Senator Dole. The clerk will call the roll.

21 Mr. Lighthizer. Mr. Packwood.

22 Senator Dole. No.

23 Mr. Lighthizer. Mr. Roth.

24 Senator Dole. No.

25 Mr. Lighthizer. Mr. Danforth.

1 Senator Dole. No.  
2 Mr. Lighthizer. Mr. Chafee.  
3 Senator Chafee. No.  
4 Mr. Lighthizer. Mr. Heinz.  
5 Senator Heinz. No.  
6 Mr. Lighthizer. Mr. Wallop.  
7 Senator Dole. No.  
8 Mr. Lighthizer. Mr. Durenberger.  
9 Senator Durenberger. No.  
10 Mr. Lighthizer. Mr. Armstrong.  
11 Senator Dole. No, by proxy.  
12 Mr. Lighthizer. Mr. Symms.  
13 Senator Dole. No, by proxy.  
14 Mr. Lighthizer. Mr. Grassley.  
15 Senator Grassley. No.  
16 Mr. Lighthizer. Mr. Long.  
17 Senator Long. Aye.  
18 Mr. Lighthizer. Mr. Byrd.  
19 Senator Byrd. No.  
20 Mr. Lighthizer. Mr. Bentsen.  
21 Senator Bentsen. No.  
22 Mr. Lighthizer. Mr. Matsunaga.  
23 Senator Matsunaga. Aye.  
24 Mr Lighthizer. Mr. Moynihan.  
25 Senator Bradley. Aye, by proxy.



1 Mr. Lighthizer. Mr. Baucus.

2 Senator Baucus. No.

3 Mr. Lighthizer. Mr. Boren.

4 (No response)

5 Mr. Lighthizer. Mr. Bradley.

6 Senator Bradley. Aye.

7 Mr. Lighthizer. Mr. Mitchell.

8 (No response.)

9 Mr. Lighthizer. Mr. Chairman.

10 Senator Dole. No.

11 I also ask Mr. Grassley be recorded no on that last  
12 one.

13 On this vote there are 4 yea's and 14 nays. The motion  
14 is not agreed to.

15 Senator Bradley. Mr. Chairman, I would like to offer  
16 another amendment to add \$100 million to the trade adjustment  
17 assistance category that has been cut from \$2.7 million to  
18 \$1.5 million.

19 The purpose of this \$100 million addition is to  
20 develop a training program and not simply an income subsidy  
21 program.

22 As you know, under the Trade Act of '74, there are  
23 provisions for training, as well as for job relocation aid.

24 Under the budget that was sent up, it mentions that  
25 we need to have more funds for training, but it does not

1 include any funds for training in the budget.

2 I think that it would be appropriate, therefore, to  
3 add \$100 million to the Trade Adjustment Assistance category  
4 for FY-1982.

5 I so move.

6 Thereby, reducing the amount we would report from  
7 9.3 to 9.2.

8 Senator Matsunaga. What page is that?

9 Senator Bradley. Page 46.

10 Mr. Lighthizer. Chart number 9.

11 Senator Bradley. Mr. Chairman, this gets at the  
12 general question of if the economy is going to compete in  
13 a world economy, one of the important aspects of the social  
14 contract is to allow workers to have a chance, not the  
15 workers under-employed, but workers who are now employed in  
16 industries but lose out because the job moves to another  
17 country, because of competition from abroad or from another  
18 section of the country.

19 What this amendment says is that there should be an  
20 emphasis on retraining experienced workers from those in-  
21 dustries under which we are having very severe competition  
22 from abroad, to those industries where we can be competitive  
23 in the international economy.

24 Senator Dole. Any further discussion?

25 (No response.)

1 Senator Dole. Do you want a roll call vote?  
2 Senator Bradley. Yes.  
3 Senator Dole. The clerk will call the roll.  
4 Mr. Lighthizer. Mr. Packwood.  
5 Senator Dole. No.  
6 Mr. Lighthizer. Mr. Roth.  
7 Senator Dole. No.  
8 Mr. Lighthizer. Mr. Danforth.  
9 Senator Dole. No.  
10 Mr. Lighthizer. Mr. Chafee.  
11 Senator Chafee. No.  
12 Mr. Lighthizer. Mr. Heinz.  
13 Senator Dole. No.  
14 Mr. Lighthizer. Mr. Wallop.  
15 Senator Dole. No.  
16 Mr. Lighthizer. Mr. Durenberger.  
17 Mr. Durenberger. No.  
18 Mr. Lighthizer. Mr. Armstrong.  
19 Senator Dole. No, by proxy.  
20 Mr. Lighthizer. Mr. Symms.  
21 Senator Dole. No.  
22 Mr. Lighthizer. Mr. Grassley.  
23 Senator Grassley. No.  
24 Mr. Lighthizer. Mr. Long.  
25 Senator Long. Aye.

1 Mr. Lighthizer. Mr. Byrd.  
2 Senator Byrd. No.  
3 Mr. Lighthizer. Mr. Bentsen.  
4 Senator Bentsen. No.  
5 Mr. Lighthizer. Mr. Matsunaga.  
6 Senator Matsunaga. No.  
7 Mr. Lighthizer. Mr. Moynihan.  
8 Senator Bradley. Aye, by proxy.  
9 Mr. Lighthizer. Mr. Baucus.  
10 Senator Baucus. Aye.  
11 Mr. Lighthizer. Mr. Boren.  
12 (No response)  
13 Mr. Lighthizer. Mr. Bradley.  
14 Senator Bradley. Aye.  
15 Mr. Lighthizer. Mr. Mitchell.  
16 (No response)  
17 Mr. Lighthizer. Mr. Chairman.  
18 Senator Dole. No. Do you have another one?  
19 Senator Bradley. Mr. Chairman, I have one more.  
20 Senator Dole. Couldn't we add that to the last one?  
21 (Laughter.)  
22 Senator Bradley. No.  
23 I offer this not on behalf of my colleague from Oregon,  
24 Senator Packwood, but I think he would appreciate it. I  
25 don't know if he supports it, he would support it at this

1 time. He and I have introduced a bill to establish a new  
2 title to the Social Security System that would provide for  
3 home health care, Title 21.

4 The purpose of the bill would be to establish ten  
5 demonstration projects in ten states of the Union, ten  
6 different regions, to test whether we can actually save money  
7 in the long run by providing home health care to elderly  
8 people, instead of forcing them into institutions and into  
9 hospitals.

10 I offer this amendment, knowing that this is the time  
11 when our budget categories are going to be set. If, indeed,  
12 it is not passed, I still want to make the record clear that  
13 when we consider those categories, even if there is a  
14 reduction of \$9.3 billion, this is still a cost effective  
15 program.

16 CBO estimates that this program, ten demonstration  
17 projects would cost \$175 million.

18 So, I am moving that for FY-82, that the budget  
19 reflect, under the Medicare portion, an additional \$175  
20 million to provide room for the Senate to pass this Home  
21 Health Care Bill.

22 Mr. Lighthizer. You want to reduce the savings in the  
23 health function by \$175 million?

24 Senator Bradley. That's correct.

25 Senator Byrd. Is this a new program?

1 Senator Bradley. Yes, it is.

2 Senator Dole. I might say, Senator Bradley, it is  
3 one I have an interest in. We have some Medicare cuts we  
4 may want to suggest later on. Maybe that will accommodate,  
5 there would be enough cuts to accommodate this.

6 Again, I would hope the present procedure, we can stick  
7 with the numbers. I will vote against you, without prejudice.

8 Senator Bradley. Mr. Chairman, I wondered if you --  
9 I didn't know of your interest in this particular program.  
10 That might change whether I want to call for a vote.

11 You think we could achieve savings in other areas  
12 so we might not have to -- so we could get this passed?

13 Senator Dole. Well, I wouldn't want to underwrite that,  
14 but I do think there is a lot of interest in home health  
15 care, including the present secretary and a number of members  
16 of this committee, to endorse a new spending proposal.

17 In this process, I am not certain it would be the best  
18 way to proceed.

19 Senator Bentsen. Mr. Chairman, I would just like to  
20 endorse what you said. It is of tremendous interest to me,  
21 too. If we can find a way to effect a savings elsewhere  
22 that is satisfactory, I would be quite interested in seeing  
23 that we do that. But, at the present I would have to vote  
24 no.

25 Senator Bradley. Well, Mr. Chairman, if there is a

1 general feeling on the committee that this is something they  
2 would like to do and find a way to do, under whatever is our  
3 budget total from the Budget Committee, I would consider  
4 withdrawing that amendment, and working with you to achieve  
5 that end.

6 Senator Matsunaga. Mr. Chairman, I would strongly urge  
7 the Senator from New Jersey to withdraw, if we can work up  
8 something. I too, am very much interested in this, as a  
9 co-sponsor, as a matter of fact, of the measure.

10 I strongly believe like the prepaid health program in  
11 Hawaii, where we have by keeping people out of the hospital,  
12 and caring for them at home, we have managed to carry on  
13 a practically 100 percent prepaid health insurance program  
14 at 60 percent of the national average.

15 I think this is a step in the right direction. I hate  
16 to have it defeated here by a vote.

17 Senator Bradley. Senator, because of the wise counsel  
18 I have received from all of my votes --

19 (Laughter.)

20 Senator Bradley. -- I will withdraw the amendment.

21 Senator Dole. The amendment is withdrawn.

22 Again, I am serious about having an interest in it.

23 Senator Bradley. Mr. Chairman, could I just raise one  
24 last matter. I did want to perhaps have the staff explain  
25 chart 16, the tax expenditure chart.

1 Do you include an increase in the earned income tax  
2 credit there?

3 Mr. Lighthizer. I am told it is included in that.

4 Senator Bradley. It is included?

5 Mr. McConaghy. That would be an outlay, Senator Bradley.

6 If you wanted a cut like the Finance Committee cut, there  
7 would be a need for an outlay.

8 It is included.

9 Senator Bradley. It is included in the numbers we  
10 have?

11 Mr. McConaghy. Senator Bradley, as an item of the  
12 tax expenditure it is included, but not any increase in the  
13 earned income credit. The present law, earned income credit  
14 is included in the tax expenditure.

15 Mr. Stern. It is included in two places. That part  
16 that reduces people's taxes is considered a tax expenditure  
17 in the Treasury table. That part of it that does not reduce  
18 the taxes, because it goes out in the form of a check, is  
19 considered an outlay.

20 So, the earned income credit is split between those  
21 two categories now.

22 Senator Bradley. All right.

23 Mr. Chairman, in that chart there is also, as I under-  
24 stand it, if there was going to be a tax credit to offset  
25 the increase in social security costs. That would have to



1 occur as an outlay in budgetary terms; is that correct?

2 Mr. McConaghy. If it were a refundable credit, Senator  
3 Bradley, it would. If it were not a refundable credit, then  
4 it certainly would not.

5 Senator Bradley. How much would a refundable tax  
6 credit, sufficient to offset the social security increases  
7 that went into effect in January be?

8 I have some numbers here. In 1982, it would be a  
9 \$3.6 billion figure; is that correct?

10 Mr. McConaghy. On a ten percent credit, which I think  
11 is about \$9 billion, the outlay portion would be somewhere  
12 around \$3.5 billion.

13 Senator Bradley. Mr. Chairman, I would like to move  
14 to have that reflected in our report to the committee, that  
15 an outlay figure of an additional \$3.6 billion be included.

16 That would give us the flexibility in say the tax  
17 area to move to provide a tax credit to offset the increased  
18 social security costs due to the higher taxes.

19 Senator Long. Might I just suggest that there are  
20 other ways to do the same thing. For example, we could have  
21 a reduction and a refund if we wanted to, even a retroactive  
22 reduction of social security tax and a refund to get the  
23 same thing back, if we want to.

24 We don't have to do it by way of a refundable tax  
25 credit, I don't think. It seems to me there are other ways

1 we could do it. We are not limited to this way.

2 Who could advise me about that?

3 Mr. McConaghy. I didn't hear your question, Senator  
4 Long.

5 Senator Long. Assuming you wanted to give people some  
6 relief from the increase in the social security tax. May we  
7 not do that by way of a tax cut and a refund of that portion  
8 of a social security tax, which we wanted to give them some  
9 relief?

10 Mr. McConaghy. You would really have to cut the tax  
11 directly, Senator Long, to do that, the Social Security Tax.

12 Senator Long. Yes, but you could cut it retroactively.  
13 You could cut it for a period of six months or three months  
14 or whatever you wanted to, couldn't you?

15 You could also refund something out of it.

16 Mr. McConaghy. That's right.

17 Senator Long. The point I have in mind is there are  
18 more ways to do this than earned income credit, and an  
19 appropriation.

20 Mr. McConaghy. The earned income credit was contained  
21 in the Senate Finance Committee bill last year as one of the  
22 items to try to do that.

23 That, again, would require a request on the outlay  
24 side.

25 Senator Bradley. I think he is saying if the Finance

1 Committee decided to do what it did last year, that our  
2 outlay figure would have to reflect a change in the earned  
3 income tax credit, if that is the way we were going to do it.

4 Senator Long. If you did it that way, but there are  
5 other ways you could do it. That is the point I was making.

6 Mr. McConaghy. Yes, on the social security there are,  
7 not on the earned income credit.

8 Senator Long. You wouldn't have to have an earned  
9 income credit if you wanted to provide a credit against the  
10 social security tax and a refund for social security tax.

11 Mr. McConaghy. That's correct. But if the social  
12 security credit were refundable, that itself would be an  
13 outlay which would require --

14 Mr. Stern. Assuming that you don't actually don't want  
15 to reduce the funds going into the social security trust  
16 fund, I believe the way things are measured now a days, you  
17 would have an outlay one way or another, whether you do it  
18 specifically through that technique or some similar technique  
19 unless you actually reduce the amount of money going into the  
20 trust fund, it would involve some kind of outlay.

21 Senator Long. A refund of a tax a taxpayer has actually  
22 has paid --

23 Mr. Stern. That is called an outlay. There is a  
24 specific appropriation for that.

25 Senator Dole. You are talking about changing our 9.3

1 figure, right?

2 Senator Long. But on the other hand, if you do it  
3 by cutting it in the future, that doesn't require a tax  
4 credit.

5 Mr. McConaghy. That is correct.

6 Senator Dole. What would that change the 9.3 figure to?

7 Mr. Lighthizer. It would reduce it by \$3.5 billion,  
8 according to Senator Bradley's proposal.

9 Senator Dole. Are we ready to vote?

10 Senator Bradley. Yes, I am ready to vote on it.

11 Senator Dole. That would reduce the \$9.3 to \$3.4  
12 billion?

13 Mr. Lighthizer. It would reduce it by \$3.5 billion,  
14 but which I just make it \$5.8 billion from \$9.3 billion.

15 Senator Bradley. Let me -- my concern is this, if you  
16 block with the income tax credit, refundable tax credit, and  
17 then we try to do what we tried to do last year which is the  
18 earned income tax credit, we are blocked there, too, because  
19 of the problem with outlays.

20 I would have no problem if we simply did the earned  
21 income tax credit which would be less in budgetary terms,  
22 that is \$500 million.

23 Maybe that is what we should do instead of the social  
24 security tax credit which is \$3.5 billion.

25 So, why don't you let me modify that and suggest that

1 the \$9.3 be reduced to \$8.8 billion, to reflect what the  
2 Finance Committee did last year with the earned income tax  
3 credit.

4 So, we would have the flexibility to do that again  
5 this year, if we chose to modify the tax proposals of the  
6 Administration.

7 Mr. Lighthizer. The motion this is to reduce the  
8 income security savings by \$ .5 billion.

9 Senator Bradley. Correct.

10 Senator Dole. Let's vote.

11 Mr. Lighthizer. Senator Packwood.

12 Senator Dole. No.

13 Mr. Lighthizer. Mr. Roth.

14 Senator Dole. No.

15 Mr. Lighthizer. Mr. Danforth.

16 Senator Dole. No.

17 Mr. Lighthizer. Mr. Chafee.

18 Senator Chafee. No.

19 Mr. Lighthizer. Mr. Heinz.

20 Senator Dole. No.

21 Mr. Lighthizer. Mr. Wallop.

22 Senator Dole. No.

23 Mr. Lighthizer. Mr. Durenberger.

24 Senator Durenberger. No.

25 Mr. Lighthizer. Mr. Armstrong.

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

1 Senator Dole. No.

2 The yeas are two and the nays are 15. The motion is  
3 not agreed to. Absentees will be permitted to record their  
4 votes.

5 Senator Bradley. Thank you, Mr. Chairman.

6 Senator Dole. If there are no other motions, the Chairman  
7 would like to make a motion that we report to the Budget  
8 Committee that we will report legislation which will reduce  
9 expenditures in our programs by a total of \$9.3 billion in  
10 fiscal year 1982.

11 And, that we will report legislation that will cut  
12 taxes by no more than \$51.4 billion.

13 Spending cuts will be appropriately allocated to the  
14 health and income security functions.

15 I might say, if this motion is agreed to, we will tell  
16 the Budget Committee that we are making our spending cuts  
17 in different functions. If spending cuts are not made we  
18 may not cut taxes the full \$51.4 billion.

19 The latter instruction, as I understand it, is pretty  
20 much what we said in our report to the Budget Committee last  
21 year.

22 For those, certainly everybody has this chart before  
23 them, it adds up to the \$9.3 billion.

24 If there are no questions, I am prepared to vote on that  
25 motion.

1           Senator Baucus. Mr. Chairman, I just have a question  
2 about one phrase. You said spending cuts will be allocated  
3 according to appropriate categories.

4           Mr. Lighthizer. They will be allocated as they are in  
5 this summary sheet, by function. In other words, if you  
6 look on this summary request --

7           Senator Baucus. That was my problem.

8           Mr. Lighthizer. Pardon me.

9           Senator Baucus. That was my problem.

10          As allocated according to the suggestions on that  
11 sheet.

12          Mr. Lighthizer. Correct.

13          Senator Baucus. Even though we are not bound by it.

14          Mr. Lighthizer. Correct.

15          Senator Baucus. We are indicating that is where we  
16 going to cut them.

17          Mr. Lighthizer. What we will say is that --

18          Senator Baucus. That is inconsistent with the later  
19 phrase in the letter.

20          Mr. Lighthizer. There is a certain cloudiness there,  
21 Senator. We have to indicate by function where our savings  
22 are going to be and then we say in our letter that we may  
23 very well make savings in functions in other than where we  
24 indicated, that we may want to make it in one function than  
25 another.



1 Senator Dole. So we are not bound by the allocation.

2 Senator Baucus. In the one phrase we say we are going  
3 to make it. Why don't we just omit that phrase?

4 Mr. Lighthizer. We have to put down on the letter a  
5 function you are going to take it from. The function 600  
6 will have a certain amount and the function 500 will have a  
7 certain amount. They will all add up to \$9.3 billion.

8 But then we will put in we may make it in other functions.  
9 We are required by the Budget Act to give our savings by  
10 functions.

11 Senator Dole. We are also permitted to change that at  
12 a later date.

13 Mr. Lighthizer. We have in our budget letters  
14 traditionally put that in that we may make it it other.  
15 It can't really be enforced at this time, in any event.  
16 The purpose for which we are reporting this is to make, help  
17 them come up with a first concurrent budget resolution.

18 So, there is no real way for them to enforce that part  
19 of it in any event. They can't even enforce the functional  
20 breakdown in reconciliation, because they will just give us  
21 a Committee number in reconciliation.

22 Senator Baucus. I am not so much concerned what they  
23 can enforce. I am more concerned in what we are saying,  
24 where we say we are going to cut. I just think it is an  
25 obviously ambiguous letter.

1           Senator Long. Let's see if I can understand it. I  
2 think the Senator would be better satisfied if he understands  
3 it.

4           This is the way that I understand it. That is, for  
5 purposes of what we are doing here has to do with the re-  
6 conciliation resolution; is that correct?

7           Mr. Stern. It literally has to do with the recommenda-  
8 tions to the Budget Committee. However, this year they are  
9 coming out with a reconciliation resolution. That is the  
10 most important immediate thing you face.

11          So, while it serves both purposes, I think you really  
12 have to be aware of that reconciliation resolution coming.

13          Senator Long. As far as the budget resolutions are  
14 concerned, we aren't, for -- if you leave the reconciliation  
15 out of it and look at the future budget resolutions, it will  
16 be some time off into October before we are bound by what  
17 they are recommending on these budget resolutions; isn't  
18 that right?

19          Mr. Stern. That is correct. You should be aware that  
20 you will indeed be bound quite shortly by that reconciliation  
21 resolution.

22          Senator Long. That is what I had in mind. So, in  
23 terms of where the teeth are, the teeth are in the re-  
24 conciliation resolution.

25          Mr Stern. That is correct.

1 Senator Dole. Whether we do anything or not.

2 Senator Long. That being the case, the reconciliation  
3 resolution will give us a single figure. It will not give us  
4 a category figure?

5 Mr. Stern. Correct.

6 Mr. Lighthizer. That is correct.

7 Mr. Stern. In fact, it will give you three figures,  
8 one for fiscal year '81, one for '82 and one for '83.

9 Senator Long. In doing our part of the reconciliation  
10 resolution, we will have the opportunity to shift around as  
11 between categories; isn't that right?

12 Mr. Stern. That's right.

13 Senator Baucus. As a point of further clarification,  
14 the exercise today, as I understand it, technically is only  
15 with regard to the '82 budget resolution.

16 Senator Dole. Right.

17 Mr. Stern. Correct.

18 Senator Baucus. This is the letter that goes to the  
19 Budget Committee only with regard to the '82 proposed budget.

20 Senator Dole. Correct, but that is not directly  
21 related to reconciliation.

22 Senator Chafee. Did I understand that last phrase  
23 gave us an escape hatch in which it said if we don't make the  
24 savings then we will reduce the tax cuts commensurately?

25 Mr. Lighthizer. The way the letter is phrased or the

1 motion was phrased we said we may do that.

2 Mr. Stern. That won't help you are far as the  
3 reconciliation conception is concerned.

4 Senator Matsunaga. For clarification now, to make sure,  
5 we will still reserve the right to reduce the tax deduction  
6 by this?

7 Mr. Lighthizer. There is no requirement that we cut  
8 taxes by \$51.4 billion. We just can't cut them by more than  
9 that when this thing finally becomes binding some time which  
10 could be as Senator Long says, off in October.

11 Even at that time, it is just that we can't cut taxes  
12 by more than \$51.4 billion, not that we are required to cut  
13 them by that amount.

14 Senator Byrd. What you are saying is there can be a  
15 maximum reduction of \$51, it can't go above \$51 billion.

16 Mr. Lighthizer. That's correct.

17 Senator Byrd. But it does not necessarily have to be  
18 \$51 billion. It could be zero.

19 Mr. Lighthizer. That is correct.

20 Senator Bradley. Is it correct also to say that if it  
21 was less, some of those revenues would be available for  
22 balancing the budget?

23 Mr. Lighthizer. If we didn't cut taxes, that would be  
24 revenue that could be used to balance the budget.

25 Senator Bradley. Thank you.

1           Senator Byrd. As I understand the upcoming vote,  
2 Mr. Chairman, it is to reduce current spending by \$9.3  
3 billion.

4           Senator Dole. In fiscal '82.

5           Senator Byrd. For fiscal '82, yes.

6           Mr. Lighthizer. And to recommend to the Budget  
7 Committee that revenues be reduced by \$51.4 billion, and  
8 then there is an allocation by function.

9           Senator Byrd. But on the spending side, it would be  
10 a vote to reduce spending below the current rate of spending  
11 by \$9.3 billion.

12          Mr. Lighthizer. Yes, sir.

13          Senator Byrd. Which would be a historic vote, if that  
14 carries.

15          Senator Dole. Is there any other discussion?

16          (No response)

17          Senator Dole. The clerk will call the roll.

18          Mr. Lighthizer. Mr. Packwood.

19          Senator Dole. Aye.

20          Mr. Lighthizer. Mr. Roth.

21          Mr. Dole. Aye.

22          Mr. Lighthizer. Mr. Danforth.

23          Senator Dole. Aye.

24          Mr. Lighthizer. Mr. Chafee.

25          Senator Chafee. Aye

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

1 (No response)

2 Mr. Lighthizer. Mr. Bradley.

3 Senator Bradley. Aye.

4 Mr. Lighthizer. Mr. Mitchell.

5 (No response)

6 Mr. Lighthizer. Mr. Chairman.

7 Senator Dole. Aye.

8 Any further business?

9 The absentees will have a chance to record themselves.

10 As I listened, I think it is 17 yeas and no nays.

11 Any other business?

12 Mr. Lighthizer. No, sir.

13 Senator Dole. We need tomorrow morning at 10:00 o'clock  
14 to hear Secretary Schweiker.

15 (Whereupon, at 4:02 p.m., the Executive Session  
16 adjourned, subject to the Call of the Chair.)

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