

1 EXECUTIVE SESSION
2 THURSDAY, FEBRUARY 20, 1986
3 U.S. Senate
4 Committee on Finance
5 Washington, D.C.

ORIGINAL

6 The committee met, pursuant to notice, at 9:35 a.m. in
7 room SD-215, Dirksen Senate Office Building, the Honorable
8 Bob Packwood (chairman) presiding.

9 Present: Senators Packwood, Long, Bentsen, Moynihan, and
10 Baucus.

11 Also present: Bill Diefenderfer, Chief of Staff; Anne
12 G. Cantrel, Administrative Director; John Colvin, Chief
13 Counsel; Bill Wilkins, Minority Chief Counsel; Ed Mihalski,
14 Deputy Staff Director; Frank Cantrel, Tax Counsel; Mary
15 Frances Pearson, Tax Counsel; Richard Ruge, Legislation
16 Counsel; and Joe Humphreys, Professional Staff Member.

17 (The press release announcing the hearing follows:)

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1 The Chairman. The hearing will come to order, please.

2 I am going to ask the staff today to explain the
3 request of the President in his budget of this committee,
4 and then we have to send a letter to the Budget Committee.
5 And I have talked with many of the members. I am hoping we
6 can send the normal letter that we have sent before
7 indicating that we will do our part to help meet the totals
8 that the other committees to, but we ask that we not be
9 specifically pinned down to any methods or means, and that
10 the options be left open to us as to how we get there.

11 Ed, do you want to start?

12 We will, by the way, have the nomination of Michael
13 Samuels for Deputy United States Trade Representative, and
14 when we have a quorum here I will put his name forth. I
15 don't know of any objection.

16 Ed, do you want to start?

17 Mr. Mihalski. Yes, sir.

18 In preparation for today's meeting, the committee staff
19 prepared the bluebook background book which details the
20 programs within our jurisdiction, provides a little background
21 on each of those programs and then outlines the President's
22 budget proposals within each of those programs.

23 In addition, for today's meeting we have prepared a
24 handout which is a 3-page document which summarizes the
25 numbers. And I could start through that.

1 On the first page we see item A, which is the total
2 deficit reduction requested by the President, and in that
3 deficit reduction it is made of outlay reductions, certain
4 revenue increases, asset sales, and, of course, reduction in
5 interest.

6 The outlay reduction is, in the whole budget, about
7 \$126.8 billion, and the revenues are \$19.1 billion. Of
8 that \$126 billion, about 27 percent of that would be in the
9 Finance Committee's jurisdiction, and of the \$19 billion --

10 Senator Moynihan. Would you say that again, please?
11 Twenty-seven percent?

12 Mr. Mihalski. Approximately 27 percent of those
13 outlay reductions are in our jurisdiction. And of the
14 \$19 billion, approximately 90 percent are in our
15 jurisdiction.

16 Going down to item B --

17 Senator Moyniah. I'm sorry. I just didn't hear that
18 last remark. What is 90 percent?

19 Mr. Mihalski. Ninety percent of that revenue number,
20 the revenue increase of \$19 billion, is in our jurisdiction.

21 The Chairman. Let me ask a question. Next year,
22 fiscal year 1987, you have a list for revenues of ours of
23 \$4.6 billion and roughly at 90 percent. That means in the
24 President's budget request next year in which he indicates
25 there are no tax increases, he still has about \$5 billion in

1 revenues, however.

2 Mr. Mihalski. That is correct, sir.

3 The Chairman. New revenues.

4 Mr. Mihalski. Yes, sir.

5 In item B it shows the breakdown for the committee
6 itself of the outlay reductions by year and the revenue
7 increases by year that are proposed in the President's
8 budget, and those total of outlay reductions is about
9 \$35 billion over the 3 years and \$17 billion over the 3
10 years in revenue increases. That is about then a total
11 mark of \$52 billion over the three years for the committee
12 and the President's budget.

13 The breakdown, or ratio, there is about two-thirds out
14 of outlays and one-third in new revenues. And you can see
15 that that total of \$52 billion is in effect 31 percent of
16 the entire amount of deficit reduction requested by the
17 President.

18 Page 2 then provides some summary details by program
19 of the outlay proposals within the committee's jurisdiction.
20 And going down that list you can see there is nothing in
21 social security. There is a small --

22 Senator Moynihan. Now just one second, sir.

23 Mr. Mihalski. Excuse me, sir.

24 Senator Moynihan. There is nothing in social security?

25 Mr. Mihalski. No, sir, there are no --

1 Senator Moynihan. What do you suppose the age of the
2 families with dependent children is?

3 Mr. Mihalski. I'm sorry.

4 Senator Moynihan. A defense program?

5 Mr. Mihalski. When we talk about social security in
6 this context you see AFDC is --

7 Senator Moynihan. Sir, with great respect--and,
8 Mr. Chairman, I don't mean to be picky--AFDC is Title IV in
9 the Social Security Act. And please don't let -- I am
10 objecting to that distinction as making its way into our
11 political -- if it is for children, it is something you can
12 do without. Social Security is for both. Is that not in
13 this committee?

14 The Chairman. I think he meant, Senator, just to
15 simply break it down, you are referring to social security
16 as the public commonly used as the term, aren't's you, in
17 this budget?

18 Senator Moynihan. That's my complaint.

19 Mr. Mihalski. Well, Senator, you are right. That is
20 really then the Old Age Survivors and Disability Insurance
21 section of the Social Security, and there are no proposals
22 in OASDI.

23 Railroad employment -- unemployment --

24 Senator Moynihan. Would you mind saying that there is
25 a proposal to cut the social security benefits under Title IV?

1 Mr. Mihalski. Yes, sir.

2 Senator Moynihan. Loosen up. You can say it.

3 Mr. Mihalski. All right.

4 We go down the list. The railroad unemployment
5 insurance program, which is a \$20 million benefit increased
6 spending, that is really coupled, however, with a revenue
7 item that will be discussed on the next page.

8 In the aid to families with dependent children program
9 we are talking about \$555 million over three years. The
10 work incentive program of \$648 million. Child support
11 enforcement, almost \$100 million, 95. Title XX, which is a
12 social services, there are no proposals in that area.

13 Supplemental security income, there are proposals in
14 that area which would reduce spending by about \$100 million.

15 In the foster care and adoption assistance proposals,
16 to reduce spending by \$184 million.

17 Item number 9, which is the Medicare program, over three
18 years the proposals in that area total about \$23.3 billion.
19 And in Medicaid, the proposals over three years total about
20 \$7.8 billion.

21 General revenue sharing is shown as a zero because in
22 the President's budget he does not show extending the
23 general revenue sharing program. And the same is true for the
24 trade adjustment assistance program.

25 In the area of the Customs Service, the item that has

1 been posed is Customs' user fees, which would create
2 additional income which is treated as offsetting receipts of
3 about \$1.5 billion over three years.

4 And the Pension Benefit Guaranty Corporation, which is
5 the last item on that list, is also an offsetting receipt,
6 and that would have the effect of reducing outlays by
7 \$640 million over three years. That is essentially through
8 a premium increase.

9 So the total then for the committee on outlay
10 reductions is the \$34.8 billion over the three years.

11 On the third and last page then of the handout the
12 revenue proposals are set out. You can see that in the
13 first -- by the way, this chart really replaces the chart
14 that is in the blue book. The blue book was done with
15 preliminary information and this chart is much more current.

16 The first and second item are tuition tax credits of
17 higher savings accounts have negative numbers in front of
18 them because they are in effect tax expenditure type items.

19 The Superfund taxes, the next item,--and these are all
20 rounded out to the hundred million dollars--and that has
21 \$300 million revenues over three years.

22 The proposal for additional IRS agents, which would have
23 the effect of increasing compliance, increasing collections,
24 of \$4.7 billion over three years.

25 The IRS cost of collection charges would increase

1 revenues of \$1.1 billion.

2 Computerization of IRS audits, which would also
3 increase revenues by \$2.3 billion over the time period.

4 And the increase in black lung taxes, which is item
5 number 7, which would produce approximately \$600 million
6 over the 3-year period.

7 Number 8 is the faster payment of the social security
8 taxes that are paid by state and local governments. This
9 is the accelerated payment. This is a proposal we saw last
10 year. It would raise \$1.9 billion over three years.

11 Number 9 is the item I alluded to earlier, and that is
12 coupled with the railroad benefits, a small increase of
13 \$20 million over three years. This is the tax portion of
14 that which would increase revenues by approximately \$300
15 million over that period.

16 There is also expanded taxation for railroad pension
17 worth \$200 million.

18 A railroad windfall subsidy financing proposal which
19 also raises about \$300 million over that 3-year period.

20 And item 12 now is the cigarette excise tax, which
21 would produce revenues of about \$5.1 billion over the 3-year
22 period.

23 Number 13 is a proposal which would repeal gasohol and
24 the bus exemption, saving 600 -- excuse me, an income of
25 \$600 million over three years.

1 The Inland Waterway Trust Fund are of minor amounts.
2 Those are less than \$500,000 over the period.

3 Harbor port fees are \$600 million over the 3-year
4 period.

5 And there are some miscellaneous compliance proposals,
6 some of which are specified, some which are not, are worth
7 \$1.6 billion over the three years.

8 That concludes the summary of the President's budget
9 proposed in dollar terms for the Committee on Finance,
10 Mr. Chairman.

11 Senator Moynihan. Mr. Chairman?

12 The Chairman. Senator Moynihan.

13 Senator Moynihan. Could I just say that, as you would
14 know, many of these proposed outlay reductions are wholly --
15 are just unacceptable to some of us at least, and they range
16 from the outrageous as the case of taking half a billion
17 dollars out of Title IV of Social Security of the aid to
18 families with dependent children, to the, just simply
19 offensive, cutting the foster care, adoption assistance,
20 child support assistance, all this from an Administration
21 which gives us a weekly pomalee on family values, family
22 policy. And then there are some things I know many of us
23 are going to be very resistive to if we can effectively be,
24 which is to lose revenue sharing altogether on this
25 committee.

1 So I take it that your purpose is to send a very
2 general statement that does not acknowledge -- it acknowledges
3 the totals but does not say anything more than --

4 The Chairman. It doesn't admit to any specifics that
5 we will meet the total, and it doesn't say that we will
6 necessarily meet the totals, or the reductions, or revenues.
7 We just will meet the totals.

8 Senator Bentsen. The net.

9 The Chairman. The net totals. You are right.

10 Senator Moynihan. I guess we have to do that.

11 The Chairman. And we have always succeeded in doing
12 that before. But there was a big caveat in the letter that
13 I put in capitals, "IF THE OTHER COMMITTEES DO THEIR PART."
14 I am not going to have us get into this and going through
15 it, even, no matter what. If we have to meet these totals,
16 we will have to make some tough decisions that are not
17 necessarily popular. But we will meet them.

18 But then to have a variety of other committees come up
19 with some hodge-podge savings that do not amount to anything
20 or are illusory, and have us hang out to dry is not something
21 I am going to put this committee through.

22 Senator Moynihan. Good.

23 Senator Bentsen. I must say that I share very much the
24 concern of the Senator from New York when we get into
25 situations like foster care, adoption assistance. I think

1 that is really outrageous. And I think we can put the
2 staff and the Administration on notice that we are going to
3 be paying some attention to this.

4 The Chairman. Well as in the past we have met the
5 totals in a way that was often significantly different from
6 the President's budget, and I would expect we might do that
7 again.

8 Senator Long. What percentage cut is the AFDC matter?
9 What percentage cut is that?

10 The Chairman. You mean of the total AFDC expenses?

11 Senator Long. It is item 3, outlay and finances in
12 the jurisdiction, outlay proposals. Aid to families with
13 dependent children is a minus 188 in 1987, and so forth.
14 Over three years it is \$555 million. Now how much is that --
15 what percent cut is that?

16 Mr. Mihalski. As a percent of the cuts in our
17 jurisdiction of that \$34.8 billion in deficit reduction,
18 that represents --

19 Senator Long. No. I don't mean what part of the
20 deficit.

21 Mr. Mihalski. You are talking in terms of the program?

22 Senator Long. What percent of the program is it, of
23 the AFDC program? Is that 5 percent?

24 Senator Moynihan. It is not a lot, Russell. It would
25 probably run about \$8.5 million.

1 Mr. Mihalski. That is about 2 percent, sir.

2 Senator Long. About a 2 percent cut?

3 Mr. Mihalski. Yes, sir.

4 Senator Long. Because I have oftentimes thought you
5 could take more than a lower cut than that and still have a
6 better program. If you had to take all of these federal
7 regulations and controls off that, let would run the
8 program the way they want to run it. So many things that
9 you are barred from doing or that you have to go to court
10 and spend a year in court arguing about it, if you do it
11 with all these regulations that they have got down there.

12 One thought occurred to me, Senator. For example, I
13 would like to see it have a better work incentive program.
14 With that one, I don't like the idea of cutting that at all.

15 Senator Moynihan. Child support enforcement, should we
16 cut that?

17 Senator Long. Pardon me.

18 Senator Moynihan. Should we cut child support
19 enforcement?

20 Senator Long. Well I didn't say that.

21 Senator Moynihan. No, I don't think you said it. I
22 don't think you would.

23 The Chairman. Other comments?

24 Senator Long. No. I think that one needs a little
25 more.

1 The Chairman. Any other comments?

2 (No response)

3 The Chairman. Is there any objection --

4 Senator Moynihan. Mr. Chairman, is it possible that we
5 get just a look at the letter?

6 The Chairman. Oh, sure. I will read the whole thing.

7 Senator Long. My impression is that for every dollar
8 we spend on child support we have made about three for those
9 families that are involved.

10 The Chairman. While you are reading it, let me read
11 it so that the press and the audience can hear it too. This
12 is to Pete Domenici.

13 "Dear Mr. Chairman: This letter responds to your letter
14 of February 13, 1986, and transmits the views of the Committee
15 on Finance on how much deficit reduction can be achieved in
16 fiscal years 1987, 1988 and 1989 in programs within the
17 Committee's jurisdiction. This communication constitutes the
18 report required under section 301(d) of the Congressional
19 Budget Act.

20 "For fiscal years 1987, 1988 and 1989, according to the
21 President's budget for fiscal year 1987, the Finance
22 Committee would need to achieve a deficit reduction amounting
23 to \$52 billion (based on estimates made by the Administration).

24 "The Finance Committee will meet its responsibility for
25 achieving a deficit reduction of \$52.0 billion over the three

1 fiscal years in question"-- and then in capitals and
2 underlined--"IF ALL OTHER MAJOR COMMITTEES MEET THE SPENDING
3 CUT TOTALS REQUIRED OF THEM AND IF THE CURRENT
4 ADMINISTRATION ESTIMATES HOLD."

5 And as a caveat there, we have had a difficulty in
6 the past. We would meet our totals and suddenly we would
7 get new budget estimates. And then we would meet those and
8 then we would get new budget estimates.

9 "The Committee wishes to express its concern over the
10 valuation of the President's proposals. While we have
11 indicated our intent to reduce the deficit by \$52.0 billion,
12 you should know that the Committee feels its only
13 responsibility is to reduce the deficit in an amount
14 equivalent to that which would be achieved by the President's
15 proposals.

16 "If the President's proposals are re-estimated, whether
17 by the Congressional Budget Office or the Budget Committee,
18 the Committee's responsibility to reduce the deficit only
19 extends to the deficit reduction expected to be achieved by
20 the entirety of the President's proposals after the
21 re-estimation.

22 "To the extent that CBO changes baseline projections
23 or re-estimates proposals for any programs within the Finance
24 Committee's jurisdiction and to the extent of the Budget
25 Committee decides to adopt a different set of economic

1 assumptions, an appropriate adjustment must be made in our
2 deficit reduction goal."

3 And I will indicate here that they may be assuming
4 revenues based upon a 4 percent increase, and suddenly they
5 change it to a 3 percent. I am not going to have us hold
6 them to a 4 percent assumption when they change their
7 assumptions.

8 "You should know, however, that once our deficit
9 reduction goal is established by the budget resolution, the
10 Committee is disturbed about the way further re-estimates
11 have the effect of creating a moving target for the
12 Committee. We ask that action be taken to address this
13 concern.

14 "The Finance Committee has not agreed to any specific
15 list of deficit reduction proposals and reserves the right
16 to achieve deficit reduction for programs within its
17 jurisdiction in such amounts and in any manner it determines
18 is necessary and appropriate.

19 "We hope that this information is helpful to the
20 Budget Committee in its deliberations on the concurrent
21 resolution of the budget for fiscal year 1987. The Finance
22 Committee staff is available to answer any questions."

23 Is there any objection to sending the letter?

24 Senator Long. Could I ask one question?

25 The Chairman. Senator Long.

1 Senator Long. I did not get a chance to hear it this
2 closely. Do you have any language in there that would
3 suggest that the committee might want to vote a tax to pay
4 for some of this?

5 The Chairman. The letter is broad enough to allow us
6 to meet the totals in any way we choose to do it.

7 Senator Long. Including a tax to pay for it?

8 The Chairman. That is correct.

9 Senator Moynihan. I would like to point out for my
10 friend from Louisiana that even as is the President
11 contemplates in increased revenues of \$19 billion over this
12 3-year period, of which \$17 billion is in the Finance
13 Committee --

14 The Chairman. \$4.6 billion this first year of
15 increased revenues. So when the President indicates that
16 the budget has no new taxes--a rose is a rose--he is
17 expecting us, in his budget, to produce \$4.6 billion of the
18 total this coming year by revenue enhancements.

19 Senator Long. Not taxes?

20 The Chairman. Not taxes, no.

21 Is there any objection to sending the letter?

22 Senator Long. You know, Mr. Chairman, when a tax is not
23 a tax is when you call it something else.

24 (Laughter)

25 The Chairman. Is there any objection to sending out for

1 Mr. Samuels to be Deputy United States Trade Representative?

2 Senator Moynihan. I move we do.

3 The Chairman. Without objection. And we stand in
4 adjournment.

5 (Whereupon, at 9:53 a.m., the Executive Session was
6 concluded.)

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C E R T I F I C A T E

This is to certify that the foregoing proceedings of an Executive Session before the United States Senate Finance Committee, held on February 20, 1986, were transcribed as herein appears and that this is the original transcript thereof.


WILLIAM J. MOFFITT
Official Court Reporter

My Commission expires April 14, 1989.

EXECUTIVE SESSION
99th Congress, 2nd Session
February 20, 1986

SENATE COMMITTEE ON FINANCE

EXECUTIVE SESSION

Thursday, February 20, 1986; 9:30 a.m.; Room SD-215

1. Consideration of the Finance Committee's report pursuant to Section 301(d) of the Congressional Budget Act
2. Nomination of Michael A. Samuels to be Deputy United States Trade Representative

A. BIOGRAPHICAL

1. NAME:

Michael A. Samuels

2. ADDRESS:

2713 Woodley Place, N.W.
Washington, D.C. 20008

3. DATE AND PLACE OF BIRTH:

April 4, 1939 in Youngstown, Ohio

4. MARITAL STATUS:

Married, one child; Wife - Susan Hassman Samuels

5. NAMES AND AGES OF CHILDREN:

Joel Hassman Samuels - 13 years old

6. EDUCATION:

Teachers College, Columbia University

1961-62, M.A., 1962
1964-68, Ph.D., 1969

London (England) University
Institute of Education

1962
1957-61, A.B., 1961
1953-1957

Yale College, New Haven, Connecticut
Rayen High School, Youngstown, Ohio

7. EMPLOYMENT RECORD:

Present Positions:

Vice President, International
Chamber of Commerce of the United States
1615 H Street, N.W.
Washington, D.C. 20062
(from May 1981 to present)

Vice President and Executive Director
Center for International Private Enterprise
1511 K Street, N.W.
Washington, D.C. 20005
(from April 1984 to present)

Previous Positions:

<u>6/77-4/81</u>	Executive Director for Third World Studies Center for Strategic and International Studies (CSIS) Georgetown University 1800 K Street, N.W. Washington, D.C.
<u>11/80-12/80</u>	Team Leader, International Trade Commission, for the Transition of President-Elect Ronald Reagan.
<u>1/75-6/77</u>	U.S. Ambassador to Sierra Leone c/o State Department
<u>10/74-12/74</u>	Staff Member, Policy Planning Staff, State Department
<u>7/74-10/74</u>	Executive Assistant to Deputy Secretary of State Robert Ingersoll.
<u>5/74-7/74</u>	Staff Assistant to the President, serving as Executive Assistant to Counsellor to the President for Economic Policy, Kenneth Rush. The White House.
<u>1/73-5/74</u>	Executive Assistant to Deputy Secretary of State Kenneth Rush.
<u>10/70-1/73</u>	Legislative Management Officer, State Department.
<u>6/68-10/70</u>	Senior Staff Member, CSIS, Georgetown University
<u>Fall 1965- Spring 1966</u>	Research Assistant, English Department, Teachers College, Columbia University, New York, New York
<u>Summer 1963- Fall 1964</u>	Teacher and Supervisor, Peace Corps Training for Nigeria, New York, New York
<u>June 1962- June 1964</u>	High School English Teacher, Northern Nigeria

8. GOVERNMENT EXPERIENCE:

Other than that listed under my employment record are the following:
Member, Carlucci Commission on Security and Economic Assistance.

9. MEMBERSHIPS:

Center for Strategic and International Studies, Georgetown University,
Member of Advisory Board.

Council on Foreign Relations.

Karl F. Landegger Program in Business Diplomacy, School of Foreign
Service, Georgetown University, Member of Board of Advisors.

Peace Corps' Twenty-Fifth Anniversary Foundation, Member Board of
Directors

International Club of Washington, Member

OEF International, Member of Board of Directors.

National Chamber Foundation, Member of the Board of Directors.

St. Patrick's Episcopal Elementary School,
Member of the Board of Trustees,

Youth for Understanding, Member of Board of Directors
and Executive Committee.

10. POLITICAL AFFILIATIONS AND ACTIVITIES:

Services: Member: International Trade Advisory Committee,
Reagan-for-President Campaign

Financial contributions:
1979 - Emerson for Congress Committee-\$20.

11. HONORS AND AWARDS:

Afro-Anglo-American Fellowship - 1961-1962
Institute for International Studies (Teacher College, Columbia
University) Fellowship - 1966-1967

12. PUBLISHED WRITINGS:

Books and Monographs

World Trade Competition: Western Countries and Third World Markets,
co-editor (New York: Praeger, 1981)

Africa and the West, editor. (Boulder: Westview Press, 1980).

Decline of U.S. Export Competitiveness, co-author
(Washington: Center for Strategic and International Studies, 1979
FOB Series No. 13.

Implications of Soviet and Cuban Activities in Africa for U.S. Policy,
co-author. (Washington: Center for Strategic and International
Studies, 1979).

The Horn of Africa, Editor. Special Supplement to The Washington Review
of Strategic and International Studies, 1978.

Reports on Nigeria, Zaire, Egypt, Morocco and Algeria,
either author or co-author. (Washington: Center for Strategic and
International Studies, 1978).

Education in Angola, 1978-1914: A History of Culture Transfer and
Administration (New York: Teachers College Press, 1970)
[Revised Ph.D. dissertation].

The Nigeria-Biafra Conflict, editor. (Washington: Center for Strategic
and International Studies, 1969).

Portuguese Africa: A Handbook, co-editor and co-author
with David Abshire. (New York: Frederick A. Praeger, 1969)

Articles and Chapters

"A National Coalition for Trade," Business America, March 19, 1984

"The Role of Business in Political-Economic Development Abroad," Commonsense,
Volume VI, No. 1, 1983

"Promoting Democracy Abroad," The Washington Quarterly, Spring 1981.

"Lisbon: Shifting Coalitions," The Washington Quarterly, Summer 1980

"Why America Loses Business," Leaders, July, August, September, 1980,
Volume 3, Number 3.

"The Anderson Plan: An American Attempt to Seduce Portugal out of Africa,"
Orbis, Fall 1979.

"Nigeria," Washington Review of Strategic and International Studies, Volume 1,
Number 2, Spring 1978.

"A Failure of Hope: Education and Changing Opportunities in Angola under the Portuguese Republic," in Ronald H. Chilcote, ed., Protest and Resistance in Angola and Brazil: Comparative Essays (Berkeley: University of California Press, 1971) "The FRELIMO School System," Africa Today, Volume 18, Number 3, July 1971.

"Facing Some Southern African Realities," Interplay, Volume 3, Number 13, November 1970.

"Early M.E.C. Missionaries to Angola: Educational Theory and Practice," Luso-Brazilian Review, VII, Number 1, Spring 1970.

"Angola," Encyclopedia Britannica, Revised Edition, 1969.

"Cape Verde Islands," Encyclopedia Britannica, Revised Edition 1969.

"Portuguese Africa," Encyclopedia of Education, MacMillan Company, 1969.

February 19, 1986
5:30pm

PRESIDENT'S FY 1987 BUDGET

(Administration estimates in millions of dollars)

A. TOTAL DEFICIT REDUCTION REQUESTED BY PRESIDENT

	<u>FY 87</u>	<u>FY 88</u>	<u>FY 89</u>	<u>Total</u>
Outlay Reduction	27487	42299	57040	126826
Revenue Increase	6300	5900	6900	19100
Net Asset Sales	3200	4600	700	8500
Net Interest	1200	3600	6800	11600
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Total	38187	56399	71440	166026
	=====	=====	=====	=====

B. DEFICIT REDUCTION REQUESTED BY PRESIDENT FROM FINANCE COMMITTEE

	<u>FY 87</u>	<u>FY 88</u>	<u>FY 89</u>	<u>Total</u>
Outlay Reduction	7311	11823	15716	34850
Revenue Increase	4600	5400	7200	17200
	-----	-----	-----	-----
Total	11911	17223	22916	52050
	=====	=====	=====	=====
Finance as a percent of President's request	31%	31%	32%	31%
	=====	=====	=====	=====

C. OUTLAY PROPOSALS IN FINANCE COMMITTEE JURISDICTION

	<u>FY 87</u>	<u>FY 88</u>	<u>FY 89</u>	<u>Total</u>
1. Social Security	0	0	0	0
2. Railroad Unemployment Insurance Program (RRUI)	1	7	12	20
3. Aid to Families with Dependent Children (AFDC)	-188	-183	-184	-555
4. Work Incentive Program (WIN)	-191	-222	-235	-648
5. Child Support Enforcement (CSE)	-41	-27	-27	-95
6. Social Services (Title XX)	0	0	0	0
7. Supplemental Security Income (SSI)	-34	-34	-34	-102
8. Foster Care/ Adoption Assistance	-39	-61	-84	-184
9. Medicare	-4740	-7773	-10749	-23262
10. Medicaid	-1360	-2791	-3658	-7809
11. General Revenue Sharing (GRS)	0	0	0	0
12. Trade Adjustment Assistance (TAA)	0	0	0	0
13. Customs user fees	-520	-525	-530	-1575
14. Pension Benefit Guaranty Corporation (PBGC)	-199	-214	-227	-640
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Total	-7311	-11823	-15716	-34850
	=====	=====	=====	=====

D. REVENUE PROPOSALS

	<u>FY 87</u>	<u>FY 88</u>	<u>FY 89</u>	<u>Total</u>
1. Tuition tax credits	-400	-600	-900	-1900
2. Higher education savings accounts	*	-200	-300	-500
3. Extend and increase Superfund taxes	100	100	100	300
4. Additional IRS agents	600	1500	2600	4700
5. IRS cost of collection charge	300	400	400	1100
6. Computerization of IRS audits	300	800	1200	2300
7. Increase Black Lung taxes	200	200	200	600
8. Faster payment of Social Security tax by State and local governments	400	300	1200	1900
9. Extend unemployment tax coverage to railroad workers	100	100	100	300
10. Expand taxation of some railroad pensions	*	100	100	200
11. Railroad windfall subsidy financing	100	100	100	300
12. Cigarette excise tax	1700	1700	1700	5100
13. Repeal gasohol and bus exemption	200	200	200	600
14. Inland waterway trust fund	0	*	*	*
15. Harbor port fees	200	200	200	600
16. Miscellaneous compliance proposals	800	500	300	1600
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Total	4600	5400	7200	17200
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*: Less than \$500,000

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United States Senate

COMMITTEE ON FINANCE
WASHINGTON, DC 20510

WILLIAM DIEFENDERFER, CHIEF OF STAFF
WILLIAM J. WILKINS, MINORITY CHIEF COUNSEL

DRAFT

February 18, 1986

The Honorable Pete V. Domenici
Chairman
Committee on the Budget
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

This letter responds to your letter of February 13, 1986, and transmits the view of the Committee on Finance on how much deficit reduction can be achieved in fiscal years 1987, 1988, and 1989 in programs within the Committee's jurisdiction. This communication constitutes the report required under section 301(d) of the Congressional Budget Act.

For fiscal years 1987, 1988, and 1989, according to the President's Budget for FY 1987, the Finance Committee would need to achieve a deficit reduction amounting to \$52.0 billion (based on estimates made by the Administration).

The Finance Committee will meet its responsibility for achieving a deficit reduction of \$52.0 billion over

the three fiscal years in question IF ALL OTHER MAJOR COMMITTEES MEET THE SPENDING CUTS TOTALS REQUIRED OF THEM and IF THE CURRENT ADMINISTRATION ESTIMATES HOLD.

The Committee wishes to express its concern over the valuation of the President's proposals. While we have indicated our intent to reduce the deficit by \$52.0 billion you should know that the Committee feels its only responsibility is to reduce the deficit in an amount equivalent to that which would be achieved by the President's proposals. If the President's proposals are re-estimated, whether by the Congressional Budget Office or the Budget Committee, the Committee's responsibility to reduce the deficit only extends to the deficit reduction expected to be achieved by the entirety of the President's proposals after the re-estimation.

The Honorable Pete V. Domenici

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February 18, 1986

To the extent that CBO changes baseline projections or re-estimates proposals for any programs within the Finance Committee's jurisdiction and to the extent the Budget Committee decides to adopt a different set of economic assumptions, an appropriate adjustment must be made in our deficit reduction goal. You should know, however, that once our deficit reduction goal is established by the budget resolution, the Committee is disturbed about the way further re-estimates have the effect of creating a moving target for the Committee. We ask that action be taken to address this concern.

The Finance Committee has not agreed to any specific list of deficit reduction proposals and reserves the right to achieve deficit reduction for programs within its jurisdiction in such amounts and in any manner it determines is necessary and appropriate.

We hope that this information is helpful to the Budget Committee in its deliberations on the concurrent resolution on the budget for fiscal year 1987. The

Finance Committee staff is available to answer any questions you may have.

Sincerely,

BOB PACKWOOD

Chairman

DEPRECIATION PROPOSAL

Cosponsors: Senators Roth, Heinz, Dole, Baucus

Proposal on Depreciation

The Chairman's Proposal on Accelerated Cost Recovery would be retained with the following modifications:

1. Computers and telephone central office switching equipment would be moved to 3 years straight-line from 3 years 150 percent declining balance.
2. Rental automobiles and all light trucks would be moved to 3 years straight-line from 5 years 150 percent declining balance.
3. Property qualifying as semi-conductor manufacturing equipment would be moved to 3 years straight-line from 5 years 150 percent declining balance.
4. Property qualifying as "productivity property" would receive 200 percent declining balance depreciation. Productivity property would generally be defined as section 1245 tangible property used as an integral part of manufacturing, production, or extraction, or of furnishing transportation or telephone communications services. Productivity property would not include property in a 3-year class, buildings and their structural components (other than single purpose agricultural structures or facilities for the bulk storage of fungible commodities), utility property, office furniture, fixtures and equipment, information systems, and data handling equipment. A list of qualifying property is attached.
5. The level of expensing available to small business would be reduced to \$40,000. In addition, expensing would only be available if the assets were used in an active trade or business and would be limited to taxable income derived from the trade or business in which the assets were used. An unlimited carryover would be permitted.
6. Current law recapture rules (1245 and 1250) would be retained.
7. ACRS deductions would be increased for the full amount of inflation since the second year an asset is placed in service; capped for inflation in excess of 8 percent.

PRODUCTIVITY PROPERTY BY ADR CLASS

**I. Section 1245 Property Included in
Productivity Property Class**

<u>Asset Guideline Class Number</u>	<u>Description or Title of Class or Classes</u>
00.21	Airplanes
00.3	Land improvements (sec. 1245 property only)
01.1 - 01.3	Agriculture
10.0	Mining
13.0 - 13.3	Drilling, petroleum refining
15.0	Construction
20.1 - 20.5	Manufacture of food products
21.0	Manufacture of tobacco and tobacco products
22.1 - 22.5	Manufacture of knitted goods, yarn, fabric, carpets, and medical and dental supplies
23.0	Manufacture of apparel and other finished products
24.1 - 24.4	Timber and manufactured wood products
26.1 & 26.2	Manufacture of pulp, paper, and pulp and paper products
27.0	Printing, publishing, and allied industries
28.0	Manufacture of chemicals and allied products
30.1 - 30.21	Manufacture of rubber products and finished plastic products
31.0	Manufacture of leather and leather products
32.1 - 32.3	Manufacture of glass products, cement, and other stone and clay products
33.2 - 33.4	Manufacture of primary nonferrous metals, foundry products, and steel mill products
34.0 & 34.01	Manufacture of fabricated metal products
35.0	Manufacture of electrical and nonelectrical machinery and other mechanical products
36.0	Manufacture of electronic components, products, and systems
37.11 - 37.42	Manufacture of transportation equipment (motor vehicles, aerospace products, ships and boats, locomotives, and railroad cars)

39.0	Manufacture of athletic, jewelry, and other goods
40.1 - 40.54	Railroad transportation
41.0	Motor transport - passengers
42.0	Motor transport - freight
44.0	Water transportation
45.0	Air transport - commercial and contract
48.11 - 48.14	Telephone communications

II. Section 1245 Property Included in Productivity
Property Class If Used in Productive Property
"Activity" Classes Described in I, Above

<u>Asset Guideline Class Number</u>	<u>Description or Title of Class or Classes</u>
00.22	Automobiles, taxis (nonrental)
00.23	Buses
00.242	Heavy general purpose trucks
00.25	Railroad cars and locomotives (except those owned by railroad transportation companies)
00.26	Tractor units for use over-the-road
00.27	Trailers and trailer-mounted containers
00.28	Vessels, barges, tugs and similar water transportation equipment