EXECUTIVE SESSION

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Thursday, March 3, 1977

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United States Senate,

Committee on Finance,

Washington, D. C.

The Committee met, pursuant to notice, at 11:08 o'clock a.m., in Room 2221 Dirksen Senate Office Building, the Honorable Russell B. Long (Chairman of the Committee) presiding.

Present: Senators Long (Chairman), Byrd of Virginia, Ribicoff, Gravel, Bentsen, Hathaway, Matsunaga, Moynihan, Curtis, Dole, Roth, Laxalt, and Danforth.

Also present: Michael Stern, Staff Director; Gordon S. Gilman, Chief Minority Counsel; Joseph Humphreys, Professional Staff Member; Al Buckberg, Staff, Joint Committee on Taxation.

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The Chairman. The meeting will come to order.

I'am going to suggest, if I may, and we might try it a time or two, and see if it works, I'am going to suggest that in addition to using that early bird rule for people asking the first question, that we do the same thing with regard to seating so that when we come here, if you are

the first in the room, just move your sign up here, move your tag up to the nearest table, and that way those of us who are here working will be placed together in a tight knit group where we can talk to one another more conveniently and we won't leave all of those gaps in between for those who are not on the scene.

For example, Senator, I would suggest you move up. Senator Hansen is in the hospital, so why don't you move to this place, so we are in a closer group and I can demonstrate visually, Senator, what I have in mind.

Let me tell you what is wrong about what we did yesterday.

This is one of the little embarrassments about these open sessions, when we talk these things over and we then run a scorecard and do a tally sheet on where we wound up, I think we want to reconsider and say, Well, now, is that how we want to do it?

For example, Mike Stern gave me a copy -- did you send a copy to every Senator of this tally sheet, Mike?

Mr. Stern. Yes, sir.

The Chairman. Now the way this tally sheet reads, it looks as though we are recommending an increase of $9.5 billion in the budget deficit recommended by President Carter.

Now there are some things that I think we ought to

reconsider our approach on because a lot of this is not so much what you do as the way you do it, whether you look good or you look bad.

Just for starters, the President has recommended that some savings be made in some unintended benefits in the Social Security program where we have some doubts that Congress is going to go along with it, so we take it out.

But looking back on it, if we took a less pessimistic view or took the attitude that there is merit to recommend it, and it would be nice if it could be done, that if we can't do this, perhaps we could do something of equal merit that would save some money in the way of curtailling some of these windfall benefits that we never really intended, then we could make the same saving.

Now if we make that estimate, as the President has done in his budget, it makes us look. Now if we want to, and I have no objection to putting an asterisk alongside some of these things to say that we query whether that can be done. But if the President thinks that he can do it, if he think that that is sufficiently within the realm of the possible, that he thinks it's worth putting in his budget, we say, all right, we're willing to go along with that assumption, but you understand that we have our doubts about it.

So I'd be perfectly content to put an asterisk alongside

that type of budget item. Then by doing so, if it proves to be an unrealistic estimate, when we come down to the end of the line and end up with a bigger deficit than we had estimated, not because of something we did, but because he had an unrealistic estimate to begin with. He was overly optimistic about something that we put a question mark alongside of that we didn't take out because he thought he could do it.

Now if you look at it on that basis, and also I think on these tax increases, I think we ought to consider that on a somewhat different basis.

For example, some of these things that we think -- our Republican friends would recommend that there be some further tax cuts, but they want to accompany that with spending cuts and I don't think they would be urging a further tax cut beyond what is being recommended by the Administration. Basically, their position would be that if you cut, you should cut spending. And when you cut spending, you ought to further cut taxes. But they are not recommending that you have some of these tax cuts unless you can have the spending cuts.

Now suppose you go through this thing and show us, Mr. Stern, where some changes could be made that would at least keep us from looking as though we were being fiscally irresponsible.

Mr. Stern. If you want to take this sheet of paper that is in front of you called, "Fiscal Year 1978 Budget Recommendations," and flip it over to the backside, where it says, "3. Expenditure Programs: Committee Recommendations by Program," the first item is Social Security.

If you look at the legislative program under Social Security, the President had recommended that about $800 million be saved by legislative changes to eliminate or modify low priority Social Security benefits. And yesterday or the day before, you had thought that it was unrealistic to achieve savings of that magnitude.

The Chairman. What page is that?

Mr. Stern. This is on page 22 of the blue book, Chart 7.

The Chairman. All right.

Mr. Stern. For example, both the Ford and Carter budgets recommended saving $400 million by abolishing certain retroactive payments for people who can now get up to a year's worth of retroactive payments. Second, applying the earnings limit on an annual basis only to cut out the situation where a person who simply doesn't earn during one month of the year even though he's not retired, he's eligible for benefits during that month. That would save another $200 million. Another one, to lower the automatic increase amounts for persons with reduced benefits. That

would save another $200 million. Placing a limitation on student benefits would have saved another $100 million.

So all told, that was a program which together with some other benefit changes netted out at about $800 million worth of savings.

You had decided two things. Number one, that it was unrealistic to assume enactment of this, and also, you wanted to allow $500 million for possible other new legislation. If instead, you simply start with a net savings of $800 million that's in the budget, that would reduce the increase in your deficit by $1.3 billion. In other words, $9.5 billion that the Committee decisions up till now have increased the Carter deficit, you would save $1.3 billion that way. Namely, you would indeed assume that $800 million savings and also not be providing $500 million. The assumption there would be that if you want to do something like Senator Laxalt proposed, you would make it effective beginning Fiscal Year 1979, rather than Fiscal '78. You would phase it in one year later, beginning one year later.

The Chairman. Well, first let's take the items that President Carter has there. If we simply take the attitude that all these suggestions by way of economy have merit to recommend them and the President thinks that they are feasible and thinks that they can be done -- he

thinks enough of them to put them in his budget -- if we simply leave them there and if we want to, put an asterisk alongside them, say that this may prove to be a very optimistic estimate, but the President seemed to think so, and unless and until it has been tried, we are in no position to say it can't be done.

Then on that basis we avoid putting ourselves in a position of sending a report over there that says the Senate Finance Committee is recommending a $9.5 billion increase in this deficit. That would reduce it down by about $1.4 billion.

Furthermore, it may be that you can't make these savings but that there are some other savings that our staff could recommend to us and maybe other Senators might have in mind that you might be able to make in lieu of some of those, and if so, that would save in the same general area and you might make it up that way.

So that if we simply said, all right, now we have a query about this; a lot of this has merit to recommend it but we have our doubts that it can be done. Then if it proves to be in error, that is their error; that if it comes down to the end of the road and this was not possible, nobody thought enough of it to move it, or else when it came to a vote it failed to pass, then they just made an assumption that could not be sold.

But it doesn't leave us in a position that we are the ones that ran this deficit up by this particular amount.

Now in thinking about this I've seen some of these things that the President sent down that the Congress wasn't going to buy that we wound up looking like we were the ones that wouldn't balance the budget, because he sent down an unrealistic assumption and we are the ones that said, No, we don't think it is realistic.

I think that we would do better just to say, Well, it would be nice if you could do all of that. But if he thinks enough of it to recommend it, let's just leave it there and see what happens.

And if we can't save in that area, maybe you can save on some things along this line. I personally could vote for some of these. But I am not in a position to say that the Senate will not do it. And the fact that we do not say that the Senate will not do it puts us in a better position as far as bookkeeping is concerned.

I would make that recommendation with regard to the Carter items. I think we just make ourselves look bad by saying it cannot be done.

Senator Hathaway. In other words, we are not locking ourselves in.

The Chairman. No.

Senator Hathaway. There may be some items there that

we wouldn't go along with.

The Chairman. Let's take an illustration. Far beyond this, some years ago President Ford sent us a recommendation that said that he would suggest that we not have the cost of living increase that would automatically go into effect under existing law.

He had no more chance of passing that than I have of making a quick trip to Mars and back today. But at the same time, when we knocked it out, it looked as though we were a bunch of budget busters. The President recommended a balanced budget by making some economies and we are the ones that said, no, it can't be done, and knocked it out.

If we just let the thing sit there and it didn't happen, if at the end of the year we had a deficit by that item and we said, all right, now he thought it could be done. It looked to us like that was a very doubtful assumption, but he thought he could put it over. Okay, let him try it and see what happens. And on that basis, when you come down to the end of the road, it's not us who was the budget buster. He just made a very bad assumption that he could not deliver on.

Yes?

Senator Moynihan. If I add up the column on page 22, chart 7, it comes to $2.5 billion. And are we picking among these items that we think will be --

Mr. Stern. Yes, just only those that are associated with the Carter budget, which is roughly the top half. It's the first item, "Bar Certain Retroactive Payments," -$0.4; "Apply Earnings Limit on Annual Basis Only," -$0.2; Lower Automatic Increase Amounts for Persons with Reduced Benefits," -$0.2. Skip the next item -- that is the Ford budget, not the Carter budget. "Reduce Student Benefits" is in the Carter budget, -$0.1. Then "The Other Benefic Changes," +$0.1.

So that whole program is a gross decrease of -$0.9 and a gross increase of +$0.1, for a net of -$0.8.

Those were done only so that you could see that there are other kinds of low priority benefits you might want to look at. If you don't like those, you might still be able to achieve savings in some other way.

The Chairman. The point is if we take a less negative attitude about these on the basis that it is not necessarily something I am going to vote for but it is something that the President wants to recommend and it would be nice if you could make these economies, or if not, you might be able to substitute something for it that our staff could recommend, then it puts us in a far better image than it does by taking a negative attitude about these savings. It makes us look like a bunch of budget busters, and I think it would be wiser to take the attitude that if the President

thinks enough of it to recommend it, we will pass it along to the Budget Committee or something, but that we have some doubts about it but that we did not take it out.

If he thinks he can do it, we are willing to give him the benefit of the doubt.

Senator Hathaway. We are going to put that explanation in our report?

The Chairman. That is what I would suggest if you would like to.

In other words, each one of these things that we think has some doubt about it, flag it, and then at the end of the year, Senator Moynihan, we would just run a check out and see how they came out on those asterisks and see what actually happened on those items later on.

But now it would be a lot better, if these estimates are not realistic, it would be a lot better for the White House to change it as an adjustment of their budget rather than us to change something that didn't look realistic and look like we aretthe ones that busted the budget by refusing to go along with something that couldn't be sold.

So we simply flag these items and say that there is merit to recommend these suggestions, and perhaps they can be done, that we have our doubts but if it can be done, fine. Otherwise, maybe someone can think of some other

economies that would involve some unintended windfall benefits in the Social Security program or similar expenditures to help to balance this budget. And if so, fine; we would expect to support them.

Now that just makes us look a great deal better than it does for us to take a negative attitude that it can't be done.

Senator Curtis. Mr. Chairman, I got here late and I apologize. But I have given some thought to this and I concur with your theory on this, that we need to protect ourselves from points of order later on. But we cannot at the same time lead the charge as budget busters because these recommendations of the Administration no doubt will be started out in the House. If they have the votes to pass it over there and they do come over here, with a strong vote in the House and a strong endorsement of the President, some of them may be sustained. That is what we do not know.

While I think that this procedure of looking at the budget and having the whole Congress look at the budget at the beginning of the year is a wholesome thing, I think some of the mechanics that we are laboring under, that the appropriate committee ought to take a look at that. It just seems to me that it is pretty awkward.

There may be an item in here calling for an expenditure

that I do not approve of but my better judgment tells me that the Senate will pass it. Well, what do I do? Do I vote to put that in this early budget or become a budget buster or do I vote no, realizing it is going to be an unrealistic figure?

So I think that your approach is justifiable, but I also think that we ought to make an expression that some of the mechanics of this ought to be looked at.

The Chairman. If we do these proposed savings in the Carter budget that way, we will be in a far better position and frankly, it will be less subject to challenge when it goes to the Budget Committee than it would if we sent a $9.5 billion item over there. If we sent over a recommended $9.5 billion increase in the deficit, they are going to chop that thing all to pieces and the changes we have recommended will not mean much.

Those who are in favor then of just leaving these items in, let's say with an asterisk alongside them to indicate that these are items that are speculative at best, say aye.

(A chorus of ayes)

The Chairman. Opposed, no?

(No response)

The Chairman. The ayes have it.

Senator Bentsen. Let me check. I came in late. We

are in effect rescinding some of the things we talked about yesterday and we will not be in a position of busting this budget.

Is that correct, from what you have said?

But in the report you will cite the problems that they will be confronted with. Is that right?

The Chairman. That's right, that's right.

Senator Bentsen. That is fine.

The Chairman. Now we will take your item, Senator Laxalt.

Mr. Stern, you suggested $500 million on this item that you wanted with regard to that earnings test.

Mr. Stern. Actually, Senator Laxalt's item itself, in his phase, has only $100 million in Fiscal Year 1978.

Senator Laxalt. It's only $100 million in Fiscal '78.

Mr. Stern. It is actually only $100 million in Fiscal Year 1978. $500 million was to accommodate other things, including the Laxalt amendment.

The Chairman. You say this only required about $100 million in '78?

Mr. Stern. Under the phasing proposal that Senator Laxalt suggested be phased in quite gradually, in the first year it would only cost $0.1 billion in Fiscal Year 1978.

The Chairman. All right, well, if you do it that way,

then the net increase on this page is $100 million.

Senator Laxalt. Right.

Mr. Stern. That is correct.

The Chairman. Okay. Then without objection, then, we will recommend the phase-in of that Laxalt amendment.

Now let's take the next item then where we can take a little more optimistic view and hand in a better report card.

Mr. Stern. The next thing we want to look at is on page 30, Chart 9, Social Services.

The Carter budget proposed a $200 million increase in social services and the Committee had tentatively agreed on a $1 billion increase.

You might, instead of going from $200 million to $1 billion in one year, you might do it over two years. In other words, you might have a $600 million increase.

The Chairman. It cuts the increase in half.

Mr. Stern. Yes, sir.

The Chairman. That was my suggestion at the time and I would suggest that we just cut it in half.

Senator Curtis. Refresh my memory as to what that billion dollars was about.

Mr. Stern. Well, you had tentatively agreed to look at the possibility of consolidating several social service programs and increasing the authorization in total by a

billion dollars. And that compares with an increase of $200 million in the Carter budget, although the Carter budget doesn't do it by consolidation; it just provides additional money for child care.

So under this proposal, instead of going right to $3.5 billion, you would go to $3.1 billion in Fiscal '78 and then contemplate going to $3.5 billion beginning in Fiscal Year 1979.

Senator Bentsen. It ends up in an increase over the Carter budget of how much?

Mr. Stern. $400 million instead of $800 million in Fiscal Year 1978.

The Chairman. If there is no objection then, we will make that change.

Senator Bentsen. Mr. Chairman, I will vote against it. I am going to vote against the increases beyond the Carter budget in general.

Senator Hathaway. Any of them?

Senator Bentsen. Any of them.

Senator Byrd. I voted against it yesterday and I want to vote against it again today, if it is an increase increase that you are proposing.

The Chairman. I am talking about a proposal to cut the increase in half.

Senator Byrd. Well, I will vote for that.

The Chairman. Then I take it that is agreed to. What is the next item?

Mr. Stern. The next legislative item is on page 34, "Unemployment Compensation." The Carter budget proposes an additional $400 million for extending emergency benefits. These are benefits which up until March 31st of this year pay up to 65 weeks of benefits and recommending an extension. The President is recommending up to 52 weeks of benefits rather than up to 65 weeks of benefits.

We had mentioned earlier that a study of the beneficiaries shows that the average family income is $10,000 for persons receiving emergency benefits and that the Committee might want to consider some kind of needs test, and if you did, you could save some of those funds, particularly for people who have incomes of $10,000. And if you did that, you could save $200 or $300 million.

Just for budgetary purposes, you might want to provide $0.2 billion instead of $0.4 billion, just half the amount.

The Chairman. And frankly, to me that makes all the sense in the world because I think we ought to do that. People making $10,000 a year, by my lights, should not be drawing unemployment benefits. But that doesn't mean that you have got to agree that you are going to vote for it. It is just that I think that that is an assumption that I think we could afford to make. And by doing that,

we would better our position by about $200 million on this item.

Mr. Stern. This is not family income before they get the unemployment benefits. This is family income while they are getting the unemployment benefits.

Senator Byrd. This is the income over and beyond the unemployment benefits?

Mr. Stern. It is about $8,000 and $2,000. That is, a typical case is a wife whose husband makes $8,000 and she gets $2,000 worth of unemployment benefits.

Senator Hathaway. What does that actually come to, the reduction?

Mr. Stern. The actual amounts of money?

Senator Hathaway. How much would we actually save if we eliminate all of the $10,000?

Mr. Stern. Since that is the average amount, our guess would be, eliminate anywhere from half to three-quarters of the benefit payments.

Senator Hathaway. At least half.

Mr. Stern. Yes.

Senator Hathaway. Where were the others that you mentioned the other day that we could save on?

Mr. Stern. In unemployment?

Senator Hathaway. Yes.

Mr. Stern. Well, our suggestion would be instead of

having a program phase out after nine months, as the President recommends, have it phase out after six months because after six months it will be September, which is a period of relatively higher employment on the unemployment cycle.

And it seemed to make more sense to us to phase the program out at that point rather than phasing it out while unemployment is on the rise again.

Senator Hathaway. How much would that save?

Mr. Stern. Probably $100 million.

Senator Hathaway. So that would wipe out the whole thing?

Mr. Stern. No. Our assumption in this pamphlet, you are going from $400 million down to $100 million was probably that you would save about $100 million by needs testing and about another $100 million by having the program go for nine months rather than twelve months more.

One reason for that is that needs testing will take a little bit of preparation by the employment offices so we assume that you couldn't do it for about three months.

The Chairman. We would just assume we could save that money, about half this $400 million.

Senator Hathaway. That is based on the current unemployment rate?

Mr. Stern. It is based on the economic assumptions

in the Carter budget which projected a declining unemployment rate over the course of the year.

The Chairman. We will just assume that while we are extending benefits at a cost of $400 million, we could find some ways to save some money in connection with that program of a couple hundred million dollars. That's a big program and a lot of things are subject to criticism and involve a lot of potential savings, I think you could save about $200 million in connection with that. That makes us look $200 million better off.

Senator Hathaway. That is projecting a declining unemployment rate. We are not sure of that at the present time because we have not had the economic stimulus.

The Chairman. Please understand that this is only a first budget recommendation we are recommending. Bill, we could come along with a second budget resolution and say, "Well, it doesn't look as good now as it did then."

Yes, Senator Dole?

Senator Dole. Mr. Chairman, I am sorry to be late and absent. We are having Ag hearings and we are talking to Louisiana rice growers this morning.

The Chairman. You had better get back over there.

End 1A

I think that maybe Senator Bentsen has this same idea, Maybe somewhere along the line we hope to have some flexibility on the exployment tax credit, and if I am not

here I hope that Lloyd will raise that issue.

We will try to get to that as soon as we can. And I am sympathetic to that. But if there is no objection then, let us recommend a saving of $200 million here.

Now what is the next item?

Mr. Stern. The next item of legislation is Health. On page 42 of the blue book, Chart 13, the legislative changes in health proposed by the Carter budget are $800 million in savings and $400 million in increased benefits. And you have accepted the $800 million in savings. The staff feels that the legislative proposals here are probably not the best way to spend an additional $400 million. If you want to, you could cut back to say $200 million. In other words, just allow $200 million for benefit increases of one sort or another, rather than $400 million during the coming Fiscal Year.

The Chairman. Meanwhile, our staff has some ideas, how, administratively, if we could make them do it, that they ought to be able to save a lot more than that.

So I really think in this area that on the overall that is a safe estimate. If we could just make them do some of the things they are talking about.

I think we ought to put an asterisk alongside that $700 million at the top, that limitation on reimbursement expenses because so far they have not even worked up a

proposal. They are just talking. That is just conversation. And they have not even gotten down to concrete proposals. But we ought to try to control those reimbursement rates, but I think we ought to make it clear that so far this is just in the conversation stage. It is not even a concrete proposal, so far as we know. But they just say that it ought to be done, and they are going to try to do it.

But I would not take it out. I would just leave it there but I would flag it, so that they know and we know what this is.

Then without objection, we will make that modification.

Senator Hathaway. We are also putting a notation in there, too, about what Mr. Constantine said the other day, that even if we eliminated that $800 million, that they could save that much on the current law, which would give us some money if we felt that the cut from four to two was too great to go back up to four.

The Chairman. Administratively, yes, They think that they should be able to save about $700 million over there just by doing the administrative changes that ought to be done. That is what Constantine thinks. And some of it can be done there. I am sure that there are some that they cannot do, but that is a safe estimate.

All in favor of that, say aye.

(A chorus of ayes)

The Chairman. Opposed, no?

(No response).

The Chairman. The ayes have it. What is the next item?

Mr. Stern. What overall figure do you want to have as the revenue cuts?

Yesterday, you agreed at $22 billion.

Senator Ribicoff. What page are you on?

Mr. Stern. If you look at page 50, Chart 16, you can see that the Carter budget for tax cuts in 1978 was about $16 billion, Ways and Means bill is about $17 billion, and the figure you had agreed to yesterday was $22 billion, which is $6.1 billion higher than the amount in the President's budget.

So you had not taken into account the possibility of maybe having a net figure where you would add some tax increases.

So you might want to pick a figure lower than $22 billion and assume that to the extent that you go above whatever figure you choose, you will have offsetting tax increases.

The Chairman. Let me tell those of you here a thought that occurred to me overnight.

Now we arrive at that $22 billion figure by working on a two-track basis. We try to arrive at a figure that one would assume that the Republican alternative might be

successful over on the floor, and also that they might not be successful.

So by going on a two-track basis, one, that the Administration's program might prevail with a few Democratic add-ons, and another, that it might be defeated in favor of a Republican alternative.

By moving on a two-track basis we arrived at a $22 billion figure. That makes us look bad, as though we were recommending a great big tax cut to increase the deficit beyond the budget and I think we ought to go on just a one-track basis and do it this way.

We ought to say with regard to what the Republicans are going to suggest on behalf of their leadership, that they are going to suggest an even larger tax cut than we are recommending here, and they are going to suggest that this be accompanied by a cut in spending, and that if the spending cut and the tax cut go into effect, that they would wind up, I assume, with no bigger budget deficit than the Administration is recommending.

Is that correct? That is about what you had in mind, I believe. Or at least no bigger budget deficit than we Democrats in this Committee are recommending.

Senator Danforth. Yes, I think it is just sort of a question of the terminology that we are using. I am not sure that I would necessarily tie a tax cut to a spending

cut on a one-to-one basis. I do think that it is kind of an unreal situation when you are dealing with this budget recommendation because you put something in Area A and you leave it in Area B because you do not know whether or not it is going to come out of there.

I mean if I had to write this letter by myself, I would, for example, delete the $1.6 billion increase in counter-cyclical revenue sharing and put that money in the $22 billion.

So it would be a subtraction. But what you are dealing with here is just trying to keep your options open so you end up pushing it up more than it would otherwise be.

I am not sure that this is a deficit-increasing proposal because I guess Senator Curtis has pointed out, and he has got the figures to back him up, when you reduce tax rates, historically, that is, over the last 15 years or so, every reduction of tax rates has been accompanied at the time that the rates have been reduced by speculations as to loss of revenue; whereas, in fact, revenues have been increased because of the stimulative effect to the economy of the reduction.

So I am not sure that this is really a budget busting operation. But I would not say that necessarily I would tie every dollar of tax reduction to a dollar of cutting some on the other end.

The Chairman. All I am saying is that we should not present something in here that on behalf of the Committee looks like a big budget busting operation when that is not what it is at all. Actually, we are trying to accommodate two points of view, one point of view being that we would reduce taxes and reduce it by perhaps a little more than, perhaps a billion dollars more than the Carter Administration, another item being that we would reduce taxes more than that, but that we would reduce spending to offset it.

One of them is a Democratic suggestion and the other is a Republican suggestion. And I think that what we ought to do is just make it clear that we have these two approaches.

Now we will be in a position to decide, to know before the second budget resolution which approach is more likely to happen. When the President's tax package comes up out there, I will assume that on behalf of the minority, there will be an amendment offered that would substitute for the Carter tax program an alternative that moves you in the direction that you are suggesting here.

Isn't that right?

Senator Roth. Well, may I make this observation, Mr. Chairman?

There is a Republican alternative. In all candor, I don't think the Republican alternative is much better ...

than the Carter package and I intend to offer a permanent tax reduction across the board at an appropriate time.

So I think that the decision we came at yesterday, the language, I might read that again, might solve the problem: "In recommending these amounts for revenue reduction and outlays, the Committee recognizes that the Senate will be considering alternate proposals to stimulate the economy and that these proposals, while keeping within the same overall budgetary impact, may well involve larger revenue reductions and smaller outlays than have been included within the various budgetary categories."

That certainly covers what Senator Danforth was talking about. It covers what I am. But I think the point that Pat made yesterday is very important, that we retain the flexibility to consider these alternate approaches. The Senate can work its will. And I think this language, which Mike really developed, at least keeps the door open.

The Chairman. Right. Well, and I think we ought to do that but I don't think that we ought to put that in the figure to increase the tax cut figure over on the other end.

Now if your proposal succeeds, if you have a big tax cut and you are able to accompany that with a spending cut and move us in that direction, then a second budget resolution will have to be drafted on a different basis. And that is

fine. Whichever way the Congress wants to go is the way that the second budget resolution ought to go.

But basically, I think that you are protected and it makes clear what you have in mind and it protects also your fiscal integrity, when you simply put the language in here and put an asterisk at the appropriate point and say, now there is going to be an alternative offered to this.

Yes, sir?

Senator Laxalt. One of the problems we have here is, in connection with what Senator Danforth indicated, is the treatment of revenues.

Now our theory, as propounded by our economists, is that historically a tax cut will result in the generation of new revenues. But the Master Chart submitted here today does not provide for that kind of alternative.

Now we are told that we can have additional revenues by virtue of our tax cut approach of up to $15 billion.

My question is, recognizing it is all speculation and we are going to know a lot more in four or five months, what provision is there, Mike, in our responsibility here for taking care of the alternatives that the Chairman has suggested?

Do we have any flexibility in having different approaches depending on the type of program that we eventually settle upon?

Mr. Stern. The figure that appears both in the letter that you submit to the Budget Committee and the budget resolution that is approved by the Congress is simply one overall net number for revenues.

So if that number is $22 billion, that means that you can come up with any program that you want to that has $22 billion.

For example, it could be a $30 billion program with tax increases of $8 billion or it could be $22 billion of tax cuts or anything.

Last year, for example, that issue was resolved by having some tax increases and some tax cuts, which netted out at a figure, I believe it was $15 billion that was provided in the budget resolution.

So whatever number you agree on, it is an overall number and that is a number that you can work within. It doesn't represent any one proposal. You can scrap any proposal, just so that whatever the Committee comes up with --

Senator Bentsen. Mr. Chairman, if I may just for a moment.

I do not want to be voting for something that results in a net substantial increase in this deficit. I want to stay with the President on that. And I am not going to go on record voting for something that does.

One of Paul's problems is the argument by economists

does this kind of tax cut actually increase revenues enough?

I have found in the short time that I have been here it depends on who does the figuring and I found that if Treasury was for it, it would be something that would generate a lot of revenue, and if they were not for it, it would not generate a lot of revenue.

That has been my experience. If I offered a tax cut that they were not agreeable to, it just did not seem to cause much in the way of revenue generation.

So I do not know who is making the projection. I keep remember that old slogan on computers, you know, that word "gar-go," garbage in, garbage out.

So it depends on what assumption you put in that computer. I don't know what you are putting in.

The Chairman. Here is what you are stuck with whether you like it or not. You are going to have an estimate that is prepared by the Treasury, an estimate that is prepared by that joint committee staff, and if you push them hard enough, you might be able to get them to consult some outside advisers like the Wharton School of Business or the Chase Econometric Center, or something as that, to look at what those people think also. But they have some procedures, I regret to say, that I do not understand to this day, that they call standard procedures.

What do you call them over there, those procedures that

you use to decide how much feedback there is on one of these?--

Mr. Buckberg. Well, it is a fairly complicated relationship. The econometric models are a collection of --

The Chairman. When you call it standard procedure, what kind of procedure do you use to estimate how much feedback there is in one of these tax proposals?

Mr. Buckberg. Well, there is really no standard procedure. The idea is simply you try to estimate how the benefits would go from, who would get the income benefit from reduced taxation and how that would change their income and what the tax receipts would be from the increase.

This is standard.

The Chairman. All I know is that on certain measures such as the investment tax credit, I have felt for many years that there was more feedback in that measure and I thought the facts proved it. To me, I am positive in my mind that there is more feedback on the investment tax credit than the joint committee staff comes up with or the Treasury comes up with.

And I have pushed them on that to where they finally have modified their position somewhat.

But I would just say that there's about a 30 percent feedback factor in that item. All I can tell you is that

when you suggest that you have got more feedback than the Treasury says you have or that the joint committee is willing to give you credit for, you are just sort of stuck with what the Master said to Pontius Pilate. He said, "Thou sayest," which I always took to mean that is what you said, but you are the only authority for that statement.

Senator Bentsen. Let me say, Mr. Chairman, that I have found from personal experience that I have proposed a tax cut two years ago and the Treasury gave me an estimate on what the losses were and they were opposed to that tax cut at that time. Then the Secretary of the Treasury came out for it and all of a sudden, the losses from it were cut substantially in the computer projections.

So I get a little concerned about the input.

The Chairman. If you think that that is something, you ought to see the way they do it down at HEW.

Mr. Matsungaga has something.

Senator Matsunaga. Mr. Chairman, the projected deficit, of course, depends on what we project as the estimated revenues, and according to the chart on page 48, we have an estimated Ford budget deficit of $414.3 billion, whereas, the Carter estimate is only $2 billion in excess; and yet, by reliable figures, we have been using, both in the House and in the Senate, a percentage decrease in

unemployment would increase revenues by as much as $16 billion and the Carter budget proposes a decrease of unemployment by as much as 3 percent by 1980, possibly, 1 percent. So that if we decrease the unemployment rate by 1 percent, there ought to be an increase of $16 billion, and yet, it shows only an increase of $2 billion.

So why could we not increase the estimated revenues so that we do not have that $6 billion deficit which we are proposing over and above the Carter budget?

The Chairman. Is that in your estimate? Is that in the estimate, the possibility of some reduction in unemployment?

Mr. Buckberg. Yes, Mr. Chairman. The very beginning on page 12, Chart 2, "Reduced Unemployment." The unemployment rate will go down and the assumption is the Carter program will be more of a stimulus.

The Chairman. But the Administration is taking credit for some improvement in the economy in this budget?

Mr. Buckberg. Yes.

The Chairman. With regard to this revenue figure, here is what I would suggest we do.

I would suggest that we proceed on the basis that we simply have language to indicate that this alternative is going to be offered, more than one alternative, perhaps, and that if they do, that is a new ballgame, that you would

expect to make reductions in spending, as well as a further reduction in taxes, as an alternative to what the Administration is recommending.

But assuming that the alternative is not agreed to, I still think that if Senator Roth offered his tax credit,-- Senator Ribicoff has left, but he is a co-sponsor on this thing, this tax credit for young people to go to college or we have a vote on day care for working mothers that, as we had discussed in yesterday's meeting, that those proposals would still be agreed to and that they ought to be in the budget because I think the Senate would vote for them and I think the House is likely to agree to them when they are proposed.

So whether you are for it or not, I just think in terms of a realistic estimate, we ought to put at least about a billion dollars in here to cover such items as that with regard to the further tax reductions.

Now to fail to do that means that at some point you have got to get it in that budget resolution if you want to vote for some additional tax cut.

So I think we ought to have a billion dollars in there for that figure. What figure would you suggest, Mr. Stern?

Mr. Stern. Well, with a billion dollars, that would mean about $18 billion instead of $22 billion. That is, you would assume that to the extent that you wanted to cut

taxes more than $18 billion, you would find some way of raising taxes to bring the net effect down to $18 billion.

The Chairman. We would have about a billion dollars in there so that if the Senate votes for some of these things, that we know it will vote for if it has an opportunity either on the Tax Reform Act or on this Carter economic package, that we have anticipated that and that we are not told that it cannot be done because it is not in the budget and nothing was considered and it is therefore out.

Now I think you are going to need that to get it agreed to in conference if you put something like that on there.

Senator Roth. The bill that Abe Ribicoff and I are sponsoring would cost a billion.

The Chairman. As you know, there are some suggestions, I have suggested in addition to yours in the child care area that would cost at least that much. But I would suggest that we settle for the billion dollars additional tax cut with the understanding that if we go beyond that, we would expect to find a way to pay for it.

For example, I fully intend to vote for an energy bill that is going at least as far as we did last year when we passed it but the House would not accept it. And they said if we could find a way to pay for it, they would take it.

But time ran out on us so we did not get a chance to do it. But we ought to go back to them and we ought to measure up and we ought to put a tax on to pay for it.

The Administration is going to make a recommendation that probably goes far beyond what we were trying to do last year. I hear by the grapevine that the President is thinking about recommending a tax increase far beyond anything we have suggested to pay for some of those things.

Yes, in the energy area -- all I am saying is, I think that we ought to say all right, we expect to recommend at least a billion dollars of tax reductions which would have to be covered out of the deficit, but make it clear that we expect to recommend a lot more tax cut than that. But the rest of it we hope to pay for by tax increases on something else.

For example, you could put it on tobacco, you could put it on whiskey, you could put it on energy, you could put it on whatever you wanted to put it on. But we ought to take the view that we will plan to pay for the rest of it.

End 1B

Senator Danforth?

Senator Danforth. I would like to --

Mr. Stern. You are talking about $1 billion more than the Ways and Means bill and $2 billion more than the President's bill in fiscal '78, so the savings would be $4 billion, compared to what --

Senator Danforth. It seems to me that the sole point of picking one figure versus another is to provide ourselves with a maximum amount of flexibility to propose tax cuts for 1978.

Now the problem, as I understand it, with what you are talking about is you are saying that we should simply flag in this letter the fact that if we propose further tax cuts over and above, what is it, $18 billion?

Mr. Stern. $18 billion.

Senator Danforth. Over and above $18 billion, we will make up for that by tax increases somewhere else.

The Chairman. Or cuts in spending.

Senator Danforth. That is right. That is what I want to point out, that there are at least four ways that occur to me that we could make it up. One is by tax increases on some other item for some other people. The second is by spending cuts. A third is by increased revenue. And granted, there is no way to absolutely prove in advance what the increased revenue is going to be. But what we are dealing with here is projections. And I think that that is a third way that we should recognize.

And a fourth way is to, I think that it is not entirely fair to talk only about deficits in one year, in 1978, and our alternative is and will be that instead of rebates this year we have permanent tax reductions which would begin this

year, that we would have less of a deficit in the present Fiscal Year 1977, and somewhat more tax reductions for next year. So there are at least four ways that the aggregate deficit would be reduced or at least offset.

So my problem in drafting this letter is that I am concerned that however we do it, it is going to come back to haunt us at some future date, unless we provide expressly for tax reductions of, say, $22 billion.

The Chairman. Well, if you are going to have to provide for a tax reduction of $22 billion, you are going to have an indication that that is realistic, long before the second budget resolution comes before the Senate.

In other words, when the Senate starts voting on this economic stimulus package, I would assume at that point that involves a lot of revenue, and at that point, we are going to be able to detect what philosophy a majority of that Senate is going to reflect.

Now when you go to conference with the House and when you pass a bill, you will know about which direction that you are going to move in.

Now you indicate that there are four different ways you might finance it. That is right. In other words, you might manage to, if there is something you might want to do, you might manage to fit it in one way, you might manage another. You might find a third alternative. But if all

that fails and you think as much of your proposal as Senator Roth does, of his suggestion of a tax cut, so young people can go to college on that college tuition tax credit, you had better have something in here so you can budget it, because if you do not, the whole thing is likely to go down the drain because of it. Or you go to conference with the House and you have got a proposal that would go to a vote if you get there. But those conferees would never let you get to a vote on the House side because they said it is not budgeted. Or they make a point of order from the Budget Committee over there; it is not in the budget, and therefore, it cannot be done.

So here you are fighting for something and you have got the majority of the Senate, maybe it is a 90 percent majority with you but you cannot get it to a vote on the House side because they stick you with a point of order and then they refuse to agree to it because it is not budgeted.

That is why there ought to be something in here to cover the proposals that Senators are going to make.

Now what I am suggesting from my point of view is less tax cuts than I am planning to vote for. I am willing to take the burden of trying to raise some money to pay for some of this. But I personally do not enjoy all of this charade of pretending out here that we have done all

of these things for all of these people, go out there on that floor and vote for $50 billion of tax cuts and come back from conference with 15 cents of tax cuts left because there was nothing in the budget to cover all of that.

And that being the case, I think that we ought to put about a billion dollars in here so that we can at least do some of the things we are talking about; otherwise, I think that when we say, well, we want to cut all of this spending and it does not work out that way, then you will want to do this other thing and it does not work out that way, you want to put this big tax increase in and that gets knocked out on you, as has happened to us on the floor last time. You recall, we were going to take away some of these deductions for gasoline. Well, they knocked it out on the floor by a close vote.

So when all of that goes down the drain, if you want to do something about this, you still had better have your final fallback position, that you have at least some room in the budget for some of this.

Yes, sir.

Senator Laxalt. Well, the basic problem is here that we are dealing in projections and the projections were based upon assumptions, and we are hung on the assumptions. And I do not know how you overcome that.

Senator Matsunaga. If the gentleman will yield, I

would like to come back to the earlier point I made and ask Mike this question.

This projection of total revenues of $416.3 billion for '78 and $14.4 billion by the Ford Administration, now are these realistic figures or has the Committee itself projected its own estimate and found it to be different?

Mr. Stern. I will let Mr. Buckberg of the Joint Committee answer it.

Mr. Buckberg. These are the joint committee estimates, but you will note that the titles and revenue is on the present law. So it is before any, what the revenues would be before a tax change, including the effects of the President's recommendations for the stimulus program or what the Ways and Means Committee has reported to the House.

These are the results if you did nothing.

Senator Matsunaga. And these estimates come from the Administration?

Mr. Buckberg. Well, they are -- yes, these are the Administration estimates.

Senator Matsunaga. So that you have not come out with your own estimate as to the total revenues?

Mr. Buckberg. We have not, but our estimators have gone over the way these estimates have been made, particularly the components of them, and I don't think we would have very great -- we would have no difference of opinion using

the same economic estimates if the question is whether we might change the economic estimate.

Senator Matsunaga. What has the experience been, especially the immediate past, let's say the last five years? Has the Administration's estimates been below or above the actual revenues?

Mr. Buckberg. Well, in recent years, I think the last several years, I think they have tended to be generally a little bit above, although last year, I think at least for Fiscal '76, they came above. Several years before that they were below, or rather the estimate overestimated what actually turned out to be because the economy didn't perform as well as they thought it might.

Senator Matsunaga. Well, I believe, Mr. Chairman, that if the staff can come up and perhaps recheck the figures, and if the staff can come up with a figure which shows the projected revenues to be even a billion dollars more, then we could have that billion dollars in the budget without increasing the projected deficit and appearing to be budget busters.

The Chairman. Well, but they cannot do that today. How soon do we have to send that letter over to them, Mike??

Mr. Stern. Well, it is due by March 15th. The question is whether a re-estimate at this point would

actually wind up with a higher figure because the estimates in both the Ford and Carter budget did not take into account the severe snow in the Northeast.

So it might well be that you would actually have a lower estimate if you --

The Chairman. I think we had better go ahead with what we have here.

Mr. Roth?

Senator Roth. I was just going to urge that we accept the Chairman's proposal. I think it makes good sense that we are putting in this language to protect the rights. And as I understand the Finance Committee and the Chairman, we are all going to speak up and try to protect that right, even though we may not support the specific proposal.

But I would like to suggest, Mr. Chairman, that it does bother me, going back to what Lloyd said, that you have these proposals and they have no feedback written into them. The Treasury can play with it if they are for it or against it.

I would like to go back and show what happened in the days of President Kennedy. The Treasury estimated that the tax cuts were going to result in an $89 billion loss of income and in fact, it was a plus $54 billion. That is a pretty major error.

And I think we ought to have some means in this Committee

of dealing with revenue and expenditures to better estimate what the impact of these are, and I would urge that this Committee consider some.

Mr. Buckberg. Senator, this is partly coming back to Senator Long's earlier statement. When we make a revenue estimate, that is the estimated effect on receipts of a particular tax change, we usually estimate if there is going to be an increase in the tax what the immediate effect is on those taxpayers or the reverse if there is a decrease in tax.

We do not try to build into the estimates any subsequent economic benefits or losses from that particular proposal. It is too difficult to trace any one through the economy. It is possible, when you get the full size of a package, to take that sort of a change and say, this will be distributed into the economy in one or two ways, and build that into the overall economic performance.

But then if you try and re-estimate the subsequent effect on revenue, you really have a very small change beyond that, and there are always matters of timing that affect these things.

Senator Roth. To re-emphasize the point I am making, I am not an economist, but I understand that there are projects to try to feed in the back play of revenue for these various proposals, and I just think that this Committee

ought to have the best information, the best projection available, and I suggestion that the Committee might consider this problem.

The Chairman. Thank you.

Senator Bentsen. Mr. Chairman, I would have to stay with the deficit more closely as proposed by the Carter Administration. I agree with the Chairman that we ought to have some changes in the tax mix. But I do not want to be in a position of saying that I am going to vote for an additional billion dollars in cuts above what has already been proposed without the increases from other sources of tax collections being shown at the same time.

So, therefore, I would have to vote against it.

The Chairman. Well, let's vote on it.

Those in favor, say aye.

(A chorus of ayes)

The Chairman. Opposed, no?

(A chorus of noes)

The Chairman. The ayes have it.

Senator Danforth. I just want to point out, Mr. Chairman, that my reason, I think, is the opposite of Mr. Bentsen's.

The Chairman. I suspected that. Now how much of an increased deficit do we recommend when we make all these changes that were suggested here?

Mr. Stern. The way we stand right now is a deficit that would be $3.3 billion higher rather than the $9.5 billion higher in the President's budget, and that would be $2.1 billion on the revenue side and $1.2 billion on the outlay side.

The Chairman. I think that that is a wise recommendation on the whole. Frankly, if we send it over much higher than that, they are going to take out the difference anyway and it would be better for us to recommend what we think it ought to be rather than have them do it for us.

Senator Hathaway. We are going to flag all the changes that we made today?

The Chairman. Right, with the appropriate explanations.

Senator Bentsen. Mr. Chairman, as Senator Dole said, I will be proposing when that tax package comes over, some change in the employment tax credit. I am going to try to find a way to stay within that ceiling in the process, and that is not going to be easy.

I am not sure whether Senator Dole, what he is proposing in that regard.

We may need a tax cut in addition.

The Chairman. No further business.

(Whereupon, at 12:15 o'clock p.m., the Committee recessed, to reconvene subject to the call of the Chair.)