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## United States Senate

COMMITTEE ON FINANCE  
WASHINGTON, D.C. 20510

RODERICK A. DEARMENT, CHIEF COUNSEL AND STAFF DIRECTOR  
MICHAEL STERN, MINORITY STAFF DIRECTOR

January 9, 1984

TO: Senator Dole

FROM: Finance Committee Staff

SUBJECT: Talk with Charls Walker Associates Tax Group

Attached are materials for your noontime discussion with the Tax Group. This will be an informal meeting with about 35 people, and primary focus is likely to be on the deficit, what the Administration is likely to propose in its budget for FY 1985, and some questions about the specific items in the Finance Committee deficit package.

Attachments



Talking Points--Charles Walker Assoc. Tax Group

January 9, 1984 12:00 1730 Pennsylvania Ave.

What is the Federal deficit likely to be?

- o The estimates of future Federal deficits are quite sensitive to one's economic assumptions. Yet even under the most optimistic of economic assumptions, the deficit will remain at historically high \$200 billion levels over the foreseeable future, unless drastic action is taken.
- o Assuming an extremely strong recovery (4% real growth of GNP) is sustained over the next years and all of the Administration's proposal spending cuts are made, the deficits are still projected to be:

<u>FY 1985</u>	<u>FY 1986</u>	<u>FY 1987</u>	<u>FY 1988</u>
\$185 billion	\$195 billion	\$199 billion	\$179 billion

- o If economic growth is not so strong (3% real GNP growth) and interest rates are slightly higher (9% T-bill rate), and Administration's spending cuts are not enacted, the projects deficits would be:

<u>FY 1985</u>	<u>FY 1986</u>	<u>FY 1987</u>	<u>FY 1988</u>
\$202.6 billion	\$236.7 billion	\$270 billion	\$290.1 billion

- o If we have an economic downturn during this period, we may be facing \$300 plus billion deficits.

Why worry about the deficit--What does it mean to the average American?

- o If nothing is done to reduce deficit spending over the next five years, the total Federal debt will nearly double to over \$10,000 for every man, woman and child in America.
- o At this level, by 1989 it will take one-half of all Americans' personal income tax payments just to pay the Federal Government's interest bill.



- o By 1989 the annual Federal interest cost will amount to \$250 billion--about \$1,100 for every American.
- o That \$1,100 per person interest cost is equal to 40% of each person's annual expenditure for food.
- o Virtually all economists agree that the sustained enormous deficits that we are facing will be economically harmful.
- o Many Americans will find home-buying more difficult with higher deficits. Consider a family purchasing a home at today's current interest rate, averaging about 12-1/2%, with a \$55,000 mortgage. If the deficits push interest rates up, total interest costs over the 30 year term will be \$15,500 more for each one percentage point increase.
- o All Americans will directly feel the results of high deficits if they lose jobs as a result of a business slowdown resulting from a crowding out of private investment, or if they lose jobs to imported products made more competitive because of an abnormally strong dollar or if they end up paying higher prices because inflation is rekindled.

What do you think the Administration will propose  
in its FY 1985 budget to deal the with deficits?

- o Clearly the Administration will repropose many of the domestic spending cuts from its 1984 budget that have not been acted upon.
- o Based on the figures I have seen, the Administration will propose only about \$6 billion in net domestic cuts for FY 1985, but that figure is larger in the out years:

<u>FY 1985</u>	<u>FY 1986</u>	<u>FY 1987</u>	<u>FY 1988</u>
\$5.6 billion	\$13.7 billion	\$17.0 billion	\$22.1 billion

- o Unfortunately, I am afraid that the effect on these domestic spending cuts will be undercut by proposed increases in defense spending.
- o On the tax side, I do not think the Administration has decided whether to propose some form of contingency tax increase like that included in last year's budget.
- o Thus, at this point I do not see very much in the way of deficit reduction included in the FY 1985 budget Administration submission.



What do you propose to do  
to trim the deficit?

- o The Senate Finance Committee has been working on a deficit reduction package that I hope will gain bipartisan support.
- o The Finance Committee has aimed for \$150 billion in total deficit reduction over the next 4 fiscal years, with most of the savings coming in fiscal years 1985 through 1987.
- o The package will have a least one dollar in guaranteed spending cuts for each dollar of revenue increases.
- o The Finance Committee will undertake to provide one-half of the spending reductions, and look to the other Senate Committees to produce an equivalent amount of savings.
- o Any new revenue increases (other than pure loophole closers) will be expressly contingent on certification that spending cuts have been achieved and will be triggered off in Congress later reneges on these spending cuts.
- o As now constituted, this package would involve more in spending cuts than the Administration may propose, but perhaps somewhat less in taxes than if the Administration were to simply extend its 1984 contingency tax proposal.
- o The Senate Finance Committee deficit reduction package would reduce the deficit by the following amounts:

	<u>FY 84</u>	<u>85</u>	<u>86</u>	<u>87</u>	<u>Total</u>
Revenue Increase	3.0	16.6	24.8	28.5	72.8
Finance Committee Spending Reductions	1.0	6.2	11.9	19.0	38.1
Other Committee Spending Reductions	<u>1.0</u>	<u>6.0</u>	<u>11.0</u>	<u>19.0</u>	<u>37.0</u>
Total	5.0	28.8	47.7	66.5	147.7

What about defense spending?

- o It is expected the Administration will recommend \$305 billion in defense spending for FY 1985--a 13% real increase over the 1984 defense spending level.



- o This sharp increase in defense spending is \$16 billion over the substantial increase provided for FY 1985 in the most recent Congressional budget resolution.
- o Over the period FY 1985-1987, the Administration's defense recommendation is about \$65 billion higher than the 5% real growth path that Congress last year set as adequate for a strong defense.
- o The Administration's defense recommendation is a first offer that sets its opening bargaining position. I believe that the final defense number for FY 1985 will be close to the \$289 billion figure contained in last year's budget resolution.
- o Even at a \$289 billion level, defense spending will have increased 91% since 1981, the first year of the Reagan Presidency.

#### What about Medicare Cuts?

- o From the preliminary information I have seen about the Administration's budget plans, I expect to include many of the same Medicare recommendations that they proposed last year.
- o The Senate Finance Committee has reviewed these recommendations and included modified versions of a number of them in its tentative package.
- o We should be closely examining Medicare whether or not we have a deficit.
- o The most recent Trustees report on the hospital insurance program concluded that under mid-range economic assumption, the HI fund is barely adequate to ensure the payment of Medicare benefits through the end of the decade.
- o Under pessimistic assumptions the Medicare fund will be exhausted in 1988.
- o The Medicare trustees concluded in order to bring the Medicare system into actuarial balance, expenditures will have to be reduced by 30 percent or revenues into the fund need to be increased by 43 percent.
- o Thus, we need to act responsibly to insure the continued viability of the Medicare program.



Note: Trent Lott late this week condemned any Medicare cuts and predicted they would not even be included in the Administration's budget submission.



November 29, 1983

**BASIC COMPONENTS OF PROPOSED FINANCE COMMITTEE  
DEFICIT REDUCTION PACKAGE**

Overview

- The Finance Committee has aimed for \$150 billion in total deficit reduction over the next 4 fiscal years, with most of the savings coming in fiscal years 1985 through 1987.
- The package will have at least one dollar in guaranteed spending cuts for each dollar of revenue increases.
- The Finance Committee will undertake to enact one-half of the spending reductions, and look to the other Senate Committees to produce an equivalent amount of savings.
- Any new revenue increases (other than pure loophole closers) will be expressly contingent on a certification that spending cuts have been achieved and will be triggered off if Congress later reneges on these spending cuts.

**I. Spending Reduction Proposals Within the Jurisdiction of the Senate Finance Committee**

The total package, including provisions totalling \$5.3 billion in savings incorporated in the Reconciliation Act of 1983 as reported by the Budget Committee, would result in a savings of \$38 billion over 4 years. The majority of the proposals would have an effective date of January 1, 1985.

- Rounding of Social Security COLA. Proposal modifies the COLA paid in 1985, 1986 and 1987 by rounding the increase to the next lower whole percentage amount.

FY 1984-87: \$5.1 billion

- Modify timing and rate of increase in Part B Premium. The premium would be permitted to increase each year until it reached 35% by 1990. (Modification of 1983 Administration proposal)

FY 1984-87: \$2.9 billion

- Delay In Initial Eligibility for Medicare Entitlements. Delays eligibility for both Parts A and B of Medicare to the



first day of the month following the month of the individual's 65th birthday. (1983 Administration proposal)

FY 1984-87: \$1.0 billion

- Restructure Medicare Cost Sharing/Apply Co-Pays to Hospital Days and Provide Unlimited Hospital Days. Modifies cost sharing on hospital stays and nursing home stays and provides catastrophic protection under Part A of Medicare. (Modification of 1983 Administration proposal)

FY 1984-87: \$1.6 billion

- Modification of Working Aged Provision. Modifies 1982 provision which made Medicare benefits secondary to benefits under employer group health plans. (Strongly supported by OMB and HHS)

FY 1984-87: \$1.2 billion

- Participating Physician Program. Freezes certain physician fees for 2 years and creates incentives for physicians to take assignment. (Modification of 1983 Administration proposal)

FY 1984-87: \$2.2 billion

- Limit Increase in Hospital Costs Per Case. Limits increases in hospital costs per case to the increase in the hospital market basket price index. (Modification of 1983 Administration proposal)

FY 1984-87: \$2.9 billion

- Fee Schedule for Clinical Laboratory Services. Establishes fee schedule for payment to all laboratories for services provided to Medicare patients.

FY 1984-87: \$0.9 billion

- Extend Reduction in Federal Payments. Extends the existing reduction in Federal Medicaid payments to States for 2 years. (Modification of 1983 Administration proposal)

FY 1984-87: \$1.0 billion

- Debt Service. The reduced outlays and increased revenues would decrease interest on the Federal debt by \$13.9 billion over FY 1984-87.



## II. Revenue Provisions

The total package, including provisions totalling \$21.1 billion incorporated in the Omnibus Reconciliation Act of 1983 as reported by the Budget Committee, would increase revenues by \$72.8 billion over 4 years.

### A. Contingent Revenue Increases

The following revenue provisions, totalling \$59.8 billion over 4 years, would take effect on January 1, 1985 only upon verification that the required reductions in Federal outlays have, in fact, been achieved:

- Energy Tax. A two and one-half percent tax would be imposed on the sale of sources of energy consumed in the United States.

The President's 1984 budget included a \$5 per barrel excise tax on domestic and imported oil.

FY 1984-87: \$20.9 billion

- High Income Individual Surcharge. A surcharge of two and one-half percent would be imposed on income above approximately \$60,000 for joint returns (\$42,000 for single returns).

The President's 1984 budget included a surcharge on individuals approximately equivalent to one percent of taxable income.

FY 1984-87: \$5.1 billion

- Tax on Corporate Economic Income. A two and one-half percent tax would be imposed on the economic income (over \$100,000) of corporations.

The President's 1984 budget included a surcharge on corporations of approximately one percent of taxable income.

FY 1984-87: \$14.5 billion

- Rounding Down of Indexing. Indexing of brackets, exemptions, and the zero bracket amount would be computed with reference to the Consumer Price Index rounded down to the next lower full percentage point. This proposal would be consistent with the modification of Social Security COLA's.

FY 1984-87: \$5.6 billion

- Zero-Bracket Amount (ZBA) Increased. The ZBA (formerly the "standard deduction") would be increased by \$100 (\$200 for



joint returns) in 1985. Heads of households would be given a ZBA halfway between simple and married taxpayers, with a new rate schedule.

FY 1984-87: \$7.4 billion

**B. Treasury-Supported Revenue Reforms.**

The deficit reduction package would include proposals, totalling \$13 billion, supported by Treasury testimony to the Finance Committee limiting tax shelters and accounting abuses and reforming the taxation of corporations.

FY 1984-87: \$13.0 billion

**III. Summary**

	<u>Fiscal Years 1984-1987</u>
Spending Restraint Already Agreed to by the Finance Committee	5.3
Spending Restraint Proposals Within Finance Committee Jurisdiction Contained in Proposed Package	32.7
Spending Restraint Requirements Within the Jurisdiction of Other Committees	37.5
Revenue Increase Already Agreed to by the Finance Committee	21.1
Revenue Increase Proposals in Proposed Package	<u>51.7</u>
TOTAL	148.3