EXTENSIONS OF REMARKS

A DEFENSE AGAINST IRS EXCESSES

HON. HOWARD W. CANNON

OF NEVADA

IN THE SENATE OF THE UNITED STATES

Thursday, December 13, 1979

• Mr. CANNON. Mr. President, it has become increasingly frequent over the last several years to hear numerous complaints about the operations and attitudes conveyed to taxpayers by officials of the Internal Revenue Service.

The problem has been particularly vexing in the State of Nevada where the taxpaying public frequently feels victimized by arbitrary and capricious edicts handed down by the IRS. Altogether too frequently these disputes end in a less than equitable manner, too often with the taxpayer not having adequate hearing or opportunity to rebut financial allegations put forth by the Service.

A good deal of this public ire is finding its way into the public prints and I ask to have printed in the extensions of remarks the editorial and opening article of a Las Vegas Sun series dealing with the IRS operations in my State.

The material follows:

A DEFENSE AGAINST IRS EXCESSES

Freedom of the press is the first and foremost of cherished fundamental rights guaranteed by the Constitution of the United States. This right, however, has a concomitant obligation requiring that the press be vigilant and alert to protect and defend our citizens from the excesses of over-zealous governmental action. In this context, it has been well said that the press occupies an "adversary" relationship to governmental authority and actions.

And it is in this spirit that the Las Vegas SUN has launched a program whereby all of its subscribers shall be protected from the excesses of the Internal Revenue Service. In any instance where a subscriber to the SUN feels that he or she has been unfairly or improperly treated at the hands of the IRS, the SUN stands ready to aid the subscriber and to insure that injustice is not done.

Doing battle with the IRS to right a wrong is an enormously expensive undertaking. No one knows this better than the SUN itself. The burden and expense bears most heavily upon those of limited means who not infrequently must bear in silence the excesses and harassments of the IRS. The SUN proposes in all proper instances to become the Champion of every taxpayer who has suffered unjustly at the hands of IRS.

Collection of the revenues to support proper and legitimate ends of government is of course required in any civilized society. Where it is right, the arm of the IRS must be upheld. On the other hand, when the IRS becomes overreaching and oppressive, it must be exposed and its abuses thwarted.

In this spirit, the Las Vegas SUN proposes to be the Friend and Champion of all persons unjustly victimized by the IRS, particularly little people who are unable to vindicate their rights at the hands of a "Bureaucratic Goliath."

The program to protect and defend all SUN subscribers will be detailed at the close of this series.

Let us hear from you. We will not be found wanting.

HANK GREENSPUN,
Publisher.

LAS VEGAS PRIME TARGET OF IRS ATTACK

(By James Phelan, John Peer Nugent, and Gary Thompson)

There is a tax rebellion spreading throughout the United States and it poses a massive threat to the Internal Revenue Service. The rebellion could destroy the autocratic, top-heavy, jerry-built system whereby the IRS annually siphons out of our pockets the billions that keep the federal government running.

The IRS is responding to this threat—not by reform of the abuses that fuel the rebellion—but by a counter-attack against the citizens who pay the nation's bills.

As a result, the state of Nevada, and especially Las Vegas, have become prime targets of the IRS. If you have been squeezed, bruised or harassed by the IRS in the past, things are going to get worse. The IRS is angry at the taxpayers of this country, and it intends to use Nevada to teach them a lesson.

The IRS piously denies that it has singled out Nevada for special attention. Some cold statistics contradict the agency.

The IRS has assigned 170 full-time employees to its Las Vegas office. They include 56 revenue agents and 26 special agents.

In Bakersfield, Calif., which is slightly larger than Las Vegas, the IRS has 46 employees, of which only four are special agents.

The key to what is going on is the high number of special agents assigned here. Special agents work only on criminal fraud cases. They spell Trouble with a capital T. There are six-and-one-half times as many of them here as there are in Bakersfield. They are here to build fraud cases against Las Vegans, and to put them in jail.

They are not necessarily after any major, high-income tax dodgers. If you are a waitress or a casino worker, you're in for special attention. Your chances of getting hauled in by the IRS are more than double your chances if you lived in any other city in the U.S. selected at random.

Behind this hostile focusing on Las Vegas is a major IRS problem of national proportions. The traditional voluntray tax-paying system, which kept this country running for years, is breaking down. And it gets worse each year.

These are not scare words. According to the conservative U.S. News and World Report, as many as 20 million Americans have defected from our system and work in "a vast underground economy, rivaling the entire output of Canada." They deal in barter, or in cash, keep no records and pay no taxes.

"Squeezed by inflation and angered by rising taxes and bureaucratic waste," says U.S. News, "more and more workers are cutting the government out of its share."

LAS VEGAS TARGET FOR IRS ATTACK

The more people who escape the IRS clutch, the harder the IRS squeezes those it can reach. It needs to produce more money from those who dutifuly file their annual returns. The IRS clings to the notion that if it catches and punishes enough people—and publicizes these "victories"—it will deter tax evasion and quell tax rebellion. It intends to make an example out of Nevada to whip the rest of the country into line.

The IRS doesn't say this publicly. It has refused to grant a news conference to Las Vegas SUN reporters. Unlike other federal agencies, which are daily and openly accessible to the press, the IRS in Nevada says that it wants questions submitted in writing—a restriction identical to that which the Ayatollah Khomeini recently imposed on U.S. television interviewers in Iran. When the SUN pointed out that even the President of the United States undergoes the give-and-take of regular press conferences, the IRS was unmoved.

"We don't think it would be appropriate to grant a news interview to the SUN," said Nevada IRS public information officer Martin Bibb. "We feel it is best to analyze individual requests and determine whether the nature of a news interview would be effective."

The IRS insistence that it is not openly accountable to the press is not new. It is part of an IRS syndrome whereby it has exempted itself from the normal checks and balances that prevail elsewhere in a democratic government.

You cannot, for example, invoke the help of your elected representative in Congress if you are unfairly dealt with by the IRS. Your Congressman or Senator can help you if you have trouble with the Justice Department, the FBI, the Bureau of Indian Affairs, the U.S. Customs Service, or any other branch of the government. But not the IRS. It is a crime for any member of Congress to intercede on your behalf with the IRS.

The IRS has exempted itself from responsibility for its own mistakes. It provides taxpayers with IRS "experts" to help them make out their tax returns, because the returns are so densely complicated the average citizen cannot understand them. But if the "expert" makes a mistake on the return, that is your responsibility. When you sign the return—as required by law—you accept the onus for any mistakes on it.

These hundreds of similar IRS abuses propel the spreading U.S. tax rebellion. Six years ago, the Las Vegas SUN spent months compiling tax "horror" stories, instances of IRS arrogance, contradictions in the tax code, and flaws in the system that imposed injustices on taxpayers. It spelled them out in a 21-part series. The SUN editorially called for tax reform, and the SUN's publisher summarized the abuses this newspaper had compiled in testimony before a U.S. Senate tax hearing.

The abuses continue, the tax rebellion spreads, and the IRS now has targeted the state of Nevada for special punishment.

The IRS can ignore the SUN, but the SUN does not propose to ignore the IRS.

In the upcoming series, the SUN will relate the impact the IRS "Target Nevada" program has had on two ordinary Las Vegas taxpayers.

It will detail the ordeal of a well-known Las Vegan, whom the IRS has hung on its audit hook for nine years. At one point the IRS claimed he owed $3.2 million in taxes, then $912,000. In pursuing these wildly disparate claims, the IRS finally wound up attaching the taxpayer's final bank balance of $9.75.

It will also spell out what you can do—and what you should not do—when the IRS auditor comes calling. It will tell you what your rights are—not what the IRS says they are.

It will outline a simple tax reform and tell you what you can do to help push its passage.

And finally, it will offer you some concrete help if the IRS insists on making a national example of you.•

• This "bullet" symbol identifies statements or insertions which are not spoken by the Member on the floor.

THE HISTORY OF THE BUFFALO-ERIE COUNTY LABOR-MANAGEMENT COUNCIL

HON. JOHN J. LaFALCE

OF NEW YORK

IN THE HOUSE OF REPRESENTATIVES

Thursday, December 13, 1979

• Mr. LAFALCE. Mr. Speaker, one of the most encouraging developments of the 1970's has been the spread of area-wide labor-management committees. These unheralded committees have made significant contributions to increased labor-management peace, and have tried to help stem the decline in our productivity rate.

Through a wide range of activities, labor-management committees have worked to improve the labor relations climate and the basic economic health of their communities. Improved communications between employers and unions, cooperative efforts to create jobs, and assistance to individual plant labor-management committees are among the many benefits from the creation of area-wide labor-management committees. There are presently 28 area-wide labor-management committees in the entire country, and that number will surely grow, as the concept becomes better understood, and as the Federal Government provides assistance for the formation of these invaluable committees.

After extensive discussions among area business, labor, and political leaders, the Buffalo-Erie County Labor-Management Council was founded on February 12, 1976. Robert W. Ahern, executive director of the council, has prepared a very informative study, entitled "The Area-Wide Labor-Management Committee: The Buffalo Experience." I want to share with my colleagues that section of the study, which chronicles the history of the council, because it will help create an improved understanding of the role of these innovative committees.

The history follows:

HISTORY

In 1975, Buffalo reached the bottom. Between 1970 and 1975, 30,000 manufacturing jobs, twenty percent of the total, had been lost. Unemployment was approaching 11%. The City teetered on the brink of bankruptcy. The County was hurrying toward its own severe financial problems which would result in a crisis a year and a half later. Buffalo ranked among the top three cities in the nation in working time lost due to strikes in 1970, 1971, 1972 and 1975. Construction had virtually ground to a halt. The downtown was dotted with patches of blight. The once thriving port was moribund. It was the worst of times.

It was in the fact of these conditions that labor and management leaders reached out to each other to determine what had to be done to reverse the situation. At a series of quiet and private meetings a small group chosen by George L. Wessel, President of the Buffalo AFL-CIO Council, and Daniel A. Roblin, Jr., President of Roblin Industries, discussed the problem with the Congressional delegation, the County Executive, and the Mayor of Buffalo. From these meetings emerged two clear problems which could be handled relatively quickly by joint union-management effort. First, the various economic development agencies, which had been factionalized and warring bureaucracies, could be brought together under one coordinating agency headed by labor, management and local government. Second, the area's labor relations climate could be improved. This would be necessary to reverse the City's longstanding image of being a "bad labor town".

In the early seventies a small city about seventy miles south of Buffalo, Jamestown, New York, had developed an areawide labor management committee which by 1975 had made major strides in reversing that city's poor reputation in labor relations. There had been community wide efforts in other cities such as South Bend and Toledo, but Jamestown was the first to involve itself in day-to-day labor relations on a plant by plant basis. Naturally, Buffalo leaders looked to this successful effort as a model.

However, the problems of scaling up the model to fit an area the size of the Buffalo area appeared formidable. Indeed, the wisdom prevailing at the time, even among some of the people working with the Jamestown LMC, was that the concept could not work in a large city. The argument was that the success of Jamestown rested on the following unique set of factors:

1. The small size of the area (40,000).
2. A well developed sense of community.
3. A strong, charismatic mayor who furthered the sense of community.
4. The concentration of manufacturing in a few industries.
5. Small plants, many without professional industrial relations staff.

In the case of Buffalo:

1. The area had a 1,400,000 population.

(2. There was no comprehensive sense of community—rather, there were a large number of "communities" many of whom warred one with the other: City vs. suburbs, a large county government sitting in the middle of a large city government, a severe inner city problem, etc.

3. A Democratic Mayor and city administration; a Republican County Executive, with the Democrats controlling the County Legislature.

4. Buffalo has a wide mix of industries.

5. Buffalo has a wide range of plant size and most plants above 200 employees have one or more industrial relations professionals.

Despite these differing factors and the pessimism raised, the Council was formed and began its operations on February 12, 1976. The membership of the Council, which contains the leaders of all the major unions and a strong cross-section of management leaders is presented as Appendix I. The Council through its management and union leaders represents more than 200,000 salaried and hourly workers.

The Council, early on, made several decisions which proved to be significant. First, it decided to make the Council purely a private sector organization. Political leaders and public sector administrators were not included mainly because it was feared the Council might become another political football to be kicked around in the Buffalo community. However, all the political leaders were involved in the planning for the Council and were and continue to be among its strong supporters.

Second, although the County, the City or the Chamber of Commerce could have provided office space, the Council was housed first with the overall economic development agency and now has its own office. The Council felt that if it were housed in government it would inevitably be perceived as a governmental agency. If it were in with the Chamber, it would be viewed as a management operation. The independent identity of the Council has been one of the keys to its success.

Third, the Council decided to keep a low profile. There were several reasons; many prior organizations had been launched flying the banner of "Save Buffalo" only to fade out six months later leaving the media and the public more and more skeptical; the Council didn't want to raise expectations it could not meet; it didn't want to create a strong demand for services which it could not meet.

Fourth, it was decided that the Council would concentrate solely on labor relations problems—specifically, it would not get involved in human resources efforts, i.e. government manpower programs and training. The feeling was that something could be done about labor relations, but it was unlikely that much could be done about unemployment. Again, the Council felt this would involve it with "government", an involvement which was unanimously rejected by the members.

The first problem to be addressed was the obvious lack of a unified approach to the area's economic development. There were numerous agencies working on the problem, but each was going its own way. There was considerable bickering and a series of jurisdictional struggles. Although several attempts had been made to unify these efforts, none had succeeded. The Economic Development Administration was painfully aware of this problem and pressured the Council and other economic development agencies by restricting funding until the long standing fragmentation was ended. Therefore, the Council's Co-Chairmen, with an Advisory Council member, Harlan Swift, Chairman of the Board of a local bank, suggested to the Mayor and County Executive an organizational structure which could bring all economic development agencies under one umbrella. There followed an eighteen month turmoil in which the recommendation went through a negotiations process which involved not only the agencies concerned, but all local political leaders. When the State legislature finally approved the legislation enabling the community to broaden the board of the Industrial Development Agency to include all necessary parties, the Governor's legal staff recommended a veto. The Governor rejected the veto in the face of what he called an unprecedented outpouring of bi-partisan support for the bill.

The Co-Chairmen of the Labor-Management Council serve as Chairman and Vice President of the Erie County Industrial Development Agency and also headed the selection committee which recruited the first Executive Director of the E.C.I.D.A. The problem of the labor relations climate and image was the assignment of the Labor-Management Council.

This report looks back over three and one half years in which the Council took the model developed in Jamestown and Chautauqua County and made it a viable and useful tool for economic development in a large urban area. Along the way the model had to be enlarged and refined, and as the detail below will amply illustrate, has remained dynamic and in need of continual refinement.

Since early 1976 the economic situation has been reversed. Total employment has increased 10%, almost 50,000 jobs have been added. About 10,000 of those jobs are in manufacturing, and some 8,000 jobs have been added in construction. The unemployment rate is the lowest it has been in the decade. Working time lost due to strikes has fallen in each of the three years of the Council's existence and instead of ranking first, the City now ranks below the median of a sample of thirty-three major cities.

County government is stable, the City has a surplus. The Port of Buffalo has had more traffic this year than the last six years put together. The downtown area is crawling with construction sites. A new convention center, new hotels, a rapid transit system, new arterial roads, industrial parks and a growing sense of regeneration and pride have developed. The Labor-Management Council is happy to have played a part in this effort.●

KENTUCKY SHOWS ITS LOVE FOR HORSES

HON. LARRY J. HOPKINS

OF KENTUCKY

IN THE HOUSE OF REPRESENTATIVES

Thursday, December 13, 1979

● Mr. HOPKINS. Mr. Speaker, I am proud to have recently joined with a number of my colleagues in forming a Congressional Tourism Caucus to focus attention on, and to improve, national policies which impact on the tourism industry. In my own State of Kentucky, and in my district, tourism ranks as a leading contributor to the economy. It is ironic, however, that one of the outstanding tourist attractions in the 6th Congressional District, which I represent, is better known to European and other foreign travelers than it is to the American public. Kentucky's unique international drawing card is the Kentucky Horse Park, located in Lexington, Ky., in the heart of the famed Bluegrass country.

In addition to a museum, an active working horse farm, and facilities for staging major equestrian events, the Kentucky Horse Park boasts what may be the finest cross-country course in the world. In fact, it was the site for the 1978 World Championship Three-Day Event, the most prestigious equestrian event in the world, which had never before been held in the United States.

At this point, I would like to insert in the RECORD a recent article entitled "Kentucky Shows Its Love for Horses," describing the Kentucky Horse Park and the many recreational and educational opportunities it offers the American touring public:

KENTUCKY SHOWS ITS LOVE FOR HORSES

(By Kermit Holt)

LEXINGTON, KY.—Kentucky's storied Bluegrass Country, the rolling countryside of plank-fenced pastures dotted with mares and foals chewing the famed grass—where thoroughbred yearlings gambol across the landscape—has always been a prime tourist destination.

Now there's a stunning new attraction.

Although easily accessible—near the crossing of two major interstate highways, 64 and 75, just north of Lexington, and on the way for midwesterners traveling almost any place in the South—Kentucky Horse Park is better known to Europeans and other foreigners than to Americans.

Foreign languages and English accents of all varieties have been heard at the vast $27 million complex of Kentucky Horse Park since it opened a little less than a year ago.

It's well known in Europe, of course, because Kentucky Horse Park was the scene of the 1978 World Championship Three-Day Event.

To most Americans the reaction to that is, "Well, well, well, hooray, hooray, and what the heck, may I ask, is that?"

It is, as any certified horse person knows, the world's most prestigious equestrian competition, said to be even more demanding than the similar Olympic event. The next comparable equestrian event will be that in the 1980 Olympics in Moscow.

Both are grueling three-day competitions that test the horse and rider—dressage (exercises in the art of training a horse in obedience and precision of movement), a 17-mile test of endurance in a cross-country race against the clock over rugged terrain and jumps, and additional jumping over 12 obstacles in a tight and twisting course in the main arena.

In Europe the Three-Day Event doesn't have to be explained. Its competition is followed avidly in Britain, Ireland, Sweden, France, Italy, West Germany, as well as in the sports pages of newspapers in countries throughout the world where horsemen do well in equestrian events—Argentina, Mexico, Australia, Japan.

A year ago 12 nations sent teams to the world class equestrian championship in Kentucky Horse Park, the first time the Three-Day Event has been held in the United States.

More than 170,000 persons attended, thousands of them Europeans, including Britain's Prince Phillip who called the Horse Park's cross-country course the finest in the world.

Newspaper and magazine writers from throughout the world came, too, and sent back reports not only on the equestrian championship results but on the unique park. There's nothing like it anywhere in the world, they wrote, and within weeks the flood of foreign visitors began.

Thus, foreigners know about Kentucky Horse Park, but most American tourists do not.

They should.

Visiting the vast, multimillion-dollar Kentucky Horse Park is a delightful excursion for everybody—not just the wealthy and aristocratic few who breed, train, race, buy, and sell thoroughbreds and standardbreds (the latter trotters and pacers) and other breeds; not just for those who ride horses, drive them, bet on them, bid on them.

This educational and recreational complex is entertaining and fascinating for all age groups, even for people who think (before their visit) that they couldn't care less about "man's noblest animal."

Honoring the state's principal product (breeding top race and show horses is a definite winner over the growing of burley tobacco and the making of bourbon whisky), the Commonwealth of Kentucky spent $26,953,750 to buy the property, build Kentucky Horse Park, and dedicate it to man's love for horses. The park honors every breed of equines from thoroughbreds to draft horses.

This unique park is much more than a collection of superb facilities for the staging of major equestrian events, of which it has a complete list in addition to the cross-country course, dressage areas, and the stadium jumping ring used during the 1978 Three-Day Event.

Also on the grounds: A half-mile track with a quarter-mile chute and an infield for rodeo and saddle horse exhibitions (and for the exercising of thoroughbreds); a regulation polo field; a mile-long, 600-foot steeplechase course and a 22-stall steeplechase barn; picnic areas in pastoral settings; horseback riding trails; and a 260-site, fully equipped campground where a recreational vehicle or a tent accommodating up to six persons can be parked for $6 a night.

But all these facilities for horse shows, steeplechases, cross-country competitions, rodeos, and polo matches that are scheduled throughout the year are only a very minor part of the many attractions.

Inside the 27 miles of white plank fence that surrounds and partitions the park's 1,032 lush acres are 47 buildings and exhibit areas, accessible by foot, horseback, and horse-drawn wagons and buggies, that show the horse at ease, at play, at exercise, in training and in action.

Just one of the fascinating attractions is a huge operating horse farm that is staffed by teachers and students from the Central Kentucky State Vocational-Technical School, who are planning careers in the horse industry and are taking a six-month course, the Kentucky Equine Education Program (KEEP), unavailable elsewhere in the country.

Visitors can see horses in their stalls and paddocks being fed, groomed, trained and exercised and watch them grazing and frolicking in the nearby bluegrass meadows.

Fourteen structures, all renovated since purchase, came with the land, site of the former Walnut Hall Stud. Twenty-three new buildings were constructed, including a magnificent museum; what is said to be the world's longest horse barn (at 463 feet it is longer than 1½ football fields); an attractive visitors' center with two theaters; a restaurant building; and a memorial to the champion thoroughbred, Man o'War, generally considered to be the greatest race horse of all time.

Even when there are no special events, there is enough to see and do to keep visitors in the park a minimum of half a day.

Entering the park and driving down the tree-laned drive toward the parking lot, the visitor is greeted by Herbert Haseltine's larger-than-life (1½ times larger) bronze statue of Man o'War, personifying Kentucky's tribute to all horses and marking the new gravesite of the horse whose name was a household word during his lifetime (1917–1947) and whose triumphs and personality thrilled millions of horse lovers.

Man o'War won 20 of 21 races, coming in second to the appropriately named Upset in his only loss. As a 3-year-old he competed in and won 11 races. In eight of those he set or equaled track record time, in five he set new American records, and in three he set new world records.

During his years of stud at Faraway Farm near Lexington, the big, beautiful chestnut horse, who came to be known as Big Red was Kentucky's No. 1 tourist attraction. More than a million persons signed the visitors' register at his stall in the days when bad roads made it difficult to get to Lexington.

Even death didn't diminish Big Red's regality. The first horse to be embalmed, Man o'War was buried in an oak casket lined with the yellow and black fabric of his racing silks. More than 2,500 paid their respects before the funeral, and some even stroked Big Red as he lay in state amid banks of flowers. The ceremony was broadcast by radio and recorded by newsreel cameramen.

A few years later the bronze statue was erected in a small memorial park on Huffman Mill Pike and thousands of visitors continued to pay homage to Big Red every year.

Just before the new Horse Park opened, Man o'War's bones were moved to the site of the new memorial area, as were those of his two male offspring, War Relic and War Admiral (a winner of the Triple Crown); two female offspring, War Kilt and War Hazard, and Brush Up, the dam of War Admiral.

Nearby is the grave of one of the great jockeys of history, black, 5-foot Isaac Burns Murphy who won 44 percent of all the races he rode in, including the Kentucky Derbies of 1884, 1890 and 1891), the Saratoga Cup, five Latonia Derbies, and four of the first five American Derbies in Chicago.

Murphy died of pneumonia in 1896 at the age of 35 and was buried in a Lexington cemetery, which through the years became so neglected that his grave was lost for decades. Recently found and their identity confirmed, Murphy's remains were removed to the new horse park and placed next to those of Man o' War.

Starting point of a tour of the park is the Visitor's Information Center. There an elaborate, computerized, electronic board displays slides of the park's attractions as an audio tape explains them and a map is backlit to point out the location of each. Flashing letters and numbers on the big board inform visitors of special events, ticket prices and waiting times.

Beneath the big board, ticket sellers dressed as jockeys dispense general admission books ($3.25; children 7 to 12, $2; those 6 and under, free) which provide entrance to the park's attractions. (Aside from a nominal charge for horse, pony and carriage rides, the rest of the park is free.)

A variety of breeds are displayed in the flesh in the spotless stalls of the Big Barn the year around, each with a plaque showing the horse's name, breed, classification, brief description, and historical background.

Thirteen breeds are on display, always eight of the country's most popular breeds plus five more breeds changed from time to time to provide variety and new attractions.

Walking through the great barn (463 by 60 feet) and adjacent buildings, visitors get close to the horses and talk with the people who care for them.

They watch blacksmiths making horseshoes and then shoeing the animals, watch harness makers fashioning saddles, bridles, stirrups, straps, inspect tack rooms containing horse paraphernalia; view a collection of 30 antique carriages.

Demonstrations show tourists how to saddle and mount a horse, how to hitch a horse to a wagon, illustrate the various gaits—walk, trot, lope, gallop and the stride of the Tennessee Walking Horse.

Even though there may not be a horse show in progress that day on the park grounds, often there are demonstrations of required performances for shows: the three-gaited division requirements (the three natural gaits—walk, trot, and canter); the 5-gaited division (the same three gaits plus two manmade gaits, slow gait and rack); and the fine harness division in which the horse, hitched to a four-wheeled vehicle, performs the walk and park trot.

Visitors also can go horseback riding, take guided trail rides with choice of saddle ($6 an hour, $3.75 for a half hour), or tour the park in wagons drawn by teams of horses ($1.50, $1 for children).

A gift shop features quality gifts and books about horses.●

GOOD INTENTIONS, BAD RESULTS

HON. ROBERT H. MICHEL

OF ILLINOIS

IN THE HOUSE OF REPRESENTATIVES

Thursday, December 13, 1979

● Mr. MICHEL. Mr. Speaker, evidence shows that it is not only the road to hell, but the road to poverty, despair, and unemployment that is paved with good intentions. A minimum wage for workers is a good idea, and those who propose it no doubt have good intentions. But the result of current minimum-wage laws is high minority youth unemployment. The Davis-Bacon law also can be traced to good intentions, but its effect is devastating to contractors, consumers, and those seeking work.

Prof. Walter E. Williams, distinguished scholar and teacher of economics at Temple University, has written an article demonstrating with facts and figures why we have such an alarming minority unemployment rate, and how it can be traced to the Federal Government's programs, usually begun with the best of intentions.

At this point I wish to insert in the RECORD, "The Shameful Roots of Minority Unemployment," from the Readers Digest, October 1979:

THE SHAMEFUL ROOTS OF MINORITY UNEMPLOYMENT

(By Walter E. Williams)

A black teen-ager applied for a job at a carwash where his buddy had worked last year. The black owner shook his head. "I'd like to help," he said, "but I can't afford you kids anymore."

A young Indian watched roofers working on a new house. He wanted to become a carpenter. What better place to get his training than this Indian Housing Authority project on his own reservation? But he had already been turned down. Most of the construction workers were from a city miles away.

A Puerto Rican youth had waited outside the contractor's trailer for hours, hoping to get hired as a laborer on the new construction site. "Sorry, kid, you gotta be in the union," the foreman told him. "I'll join," said the youth. "You don't understand," said the foreman. "You gotta be in the union already."

What keeps these minority teenagers out of the productive mainstream of the economy? What makes it impossible for them to get that first job—the important first step on the ladder to self-sufficiency?

Sociologists posit theories about "poor role models," "disenchantment" and racial prejudice. But I am convinced that the source of most problems facing minorities in the American marketplace today is the federal government, acting in behalf of powerful interest groups, particularly organized labor. The brutal fact is that government, through supposedly "progressive" laws, has written the rules of the game against minorities. Day in, day out, these laws keep many minorities from making progress in employment and, worst of all, prevent them from even getting into the job market.

MINIMUM WAGE—MINIMUM EMPLOYMENT

One great handicap to the young worker, especially the young minority worker, is the federal minimum-wage law. Originally enacted by Congress in 1938, it has been extolled as a "moral" effort to assure every worker a "decent wage." In reality, it prices many low-skilled workers out of the labor market.

All the egalitarian rhetoric will not change the simple fact that some workers are less experienced, less productive—and therefore worth less (in wages) than others. This is especially true of the new worker. Forced by law to pay a wage that may be more than the new worker is worth, the druggist hires one stockboy instead of two; the garage owner hires two workers, not four—and hires the highest-skilled ones he can find.

Following the minimum-wage increase to $2.90 per hour in January 1978, the National Restaurant Association surveyed 2000 member businesses and found that, as a result of the new wage, 78 percent reduced worker hours, 63 percent laid off workers and more than 50 percent resorted to the use of mechanical devices as a substitute for labor. What these statistics do not show are the numbers of minority young people who hoped to get jobs at those restaurants—as busboy, waitress, dishwasher—that would have started them on their way.

Still, politicians, including minority politicians, push for higher minimum wages while decrying minority unemployment. They may try to explain the high rate of minority-youth unemployment (40 percent) relative to that of white-youth (16 percent) by claiming racial bias. But until 1954, employment of minority youths exceeded that of white youths. Have employers become more racist since the early 1950s? No. The culprit is the minimum wage. Minority youth bear a greater burden of the minimum-wage law. Because of poor schooling and other factors, they are disproportionately represented among the low skilled. Instead of being employed at $2 an hour, many get to be unemployed at $2.90 an hour.

Finis Welch, economics professor at U.C.L.A. and leading authority on minimum wage and its effects says, "The law that employment reductions accompany mandated wage increases is as basic as the law of gravity." Then why the persistent upgrading of the law over the years? Who supports minimum wage so indefatigably? The answer is the labor unions. Because the higher the minimum wage, the higher the "floor" from which unions can bargain for their members' wages.

And there is another aspect: job security. Suppose a fence can be built either by a high-skilled worker or by two low-skilled workers. If the wage of the high-skilled worker is $29 per day and that of the low-skilled worker is $15, an employer would hire the high-skilled worker because the cost would be less ($29 versus $30). The high-skilled worker soon realizes that one way to protect his job and increase his income is to advocate a minimum wage of, say, $20 per day. His arguments to gain political support deal with "raising the standard of living, preventing "worker exploitation," etc. His real motives are probably less altruistic: if the $20 minimum is enacted, he can then demand $39 and still retain his job.

DAVIS-BACON BARRIER

After years of lobbying by organized labor, the Davis-Bacon Act became law in 1931. Its purpose was supposedly to prevent itinerant labor from undercutting local wage rates on federally funded construction projects. The act simply says that, on any federal construction project, contractors and subcontractors must pay a "prevailing wage" calculated by the Department of Labor. Almost invariably this wage level turns out to be the union scale, even in areas where most construction work is non-union.

In Vermont, for instance, where a public-housing development was planned, roofers were making about $4 an hour and electricians $6. But the Labor Department set Davis-$9.25 an hour for roofers and $8.25 an hour for electricians. The basis for these inflated "prevailing" rates? Wage scales in highly unionized Albany, N.Y., 125 miles away. Similar procedures for determining rates are used on federal projects all over the country. The General Accounting Office estimates that they add about $700 million to federal construction costs annually.

Equally important, Davis-Bacon means that the lion's share of federal construction goes to unionized construction firms, where minority workers are often excluded. Nonunion contractors who hire many minority workers are reluctant to bid on jobs where they will be forced to pay wage rates far above the norm.

Those who do bid tend to handle the contract by hiring only the highest-skilled people they can find. This is because, under Davis-Bacon, the training of new workers is discouraged since they must be paid at the full union apprentice rate. A roofing contractor on a government job near Leavenworth, Kan., says, "We can't be competitive and pay a green kid full roofer's wages. This tends to limit our growth ability, since we are discouraged from hiring new young men willing to learn the trade."

A further quirk of the Davis-Bacon Act mandates that when union rates are paid on a job, union work rules must also prevail. When a group of young Puerto Ricans sought to rehabilitate a tenement in Manhattan with the help of federal money, they were stunned by the work rules springing from the powerful New York construction unions. If one of them worked as an apprentice plumber, they were told they had to hire 12 union plumbers; for each additional apprentice plumber, they were required to hire 14 union plumbers!

It has been estimated that Davis-Bacon restrictions have led to the abandonment of more than 5,000 self-help projects all over the United States. These generally involved minority-group job training. The unseen result: thousands of people with potentially marketable skills are never able to develop them.

PRIVATE CLUB

Organized labor's unhealthy sway in the economic affairs of minority groups results from the National Labor Relations Act of 1935, and from a maze of federally sanctioned work rules—hiring-hall arrangements, union "referrals," union training programs, etc. These all give labor power to choose who will gain entry into the high-wage union "club." Thus, the minority member seeking a job in a specific industry may find that the union has the first opportunity to fill any vacancies. In addition, he may find that union membership is granted only to workers employed in that industry before a certain date. Or he may find that job preference is given to graduates of union-controlled training programs.

For years now, the government has been wasting money and time trying to "solve" minority unemployment with one hand while causing it with the other. What minorities need are not additional handouts but bold legislative changes that will improve their economic opportunity. The improvement will come not through more laws but through fewer.

"All good intent aside," says Sen. JAKE GARN (R., Utah), "the patent failure of much so-called 'progressive legislation' makes it imperative that we seek useful changes to these laws." We might begin with excepting youth from the full requirements of the minimum-wage law. Congress in 1977 fell one vote short of doing just this. Then get rid of Davis-Bacon, and strike down the provisions of the National Labor Relations Act which give organized labor the power to determine who can and who cannot work in many fields.

Clear away such barriers to opportunity and we will see that the "minority problem" is, in fact, largely an economic problem. And the solution will come when we peel away the thick layers of anti-competitive law in which government and the special interests—particularly organized labor—have so securely and smugly wrapped themselves.●

TAXES ON OIL

HON. JAMES M. COLLINS

OF TEXAS

IN THE HOUSE OF REPRESENTATIVES

Thursday, December 13, 1979

● Mr. COLLINS of Texas. Mr. Speaker, taxes included in the price of oil, gasoline, and other oil products in this country are staggering. They are estimated at $64.3 billion for the year 1978. And every dollar of this, as well as the future windfall profit taxes, comes from the pocket of the consumer.

This $64.3 billion is 13 times as much money as was paid to shareholders. It is more than 4 times as much as was paid in salaries to the hundreds of thousands of employees of the oil companies.

The basic fact is that Federal, State, local, and foreign governments together took, by taxes, over 70 percent of the combined incomes generated for the oil companies, the shareholders, and the employees. And this does not count the huge tax bite that governments took out of oil industry purchases of equipment, supplies, and services.

Americans must learn that they are the ones who end up paying every tax dollar collected from the oil industry. And in return for higher taxes, the consumer gets more of what he does not want—too much government.

The oil business needs more capital for drilling oil and gas wells. Members should invest your savings in oil and gas drilling by going into joint ventures as partners. If you are afraid of the loss that is possible in drilling dry holes, you can go into the oil business by simply buying oil company stock on the New York Stock Exchange. However, the great need is for new added capital from joint-venture partners to go out and take their chances on drilling for more oil and gas. After nine dry holes, you should average out one producing well.●

IMPACT OF FEDERAL RESERVE BOARD

HON. THOMAS J. DOWNEY

OF NEW YORK

IN THE HOUSE OF REPRESENTATIVES

Thursday, December 13, 1979

● Mr. DOWNEY. Mr. Speaker, the recent actions taken by the Federal Reserve Board may have been necessary to help get inflation under control, but they could also be disastrous for small business. My staff has put together an analysis which, if true, indicates that the coming months may be very difficult for this vitally important sector of our economy. Frankly, I am worried that this will be the case.

In order to assess the possible impact in my own district, I asked my Small Business Advisory Committee to comment on the Fed's actions. I believe their responses accurately reflect the problems and fears small businessmen are facing all over the Nation. For this reason, I am including in the RECORD five of the letters I received from members of my Small Business Committee along with a copy of the analysis I provided to them. The text follows:

IMPACT OF RECENT FEDERAL RESERVE BOARD ACTIONS ON SMALL BUSINESS

The Federal Reserve Board's anti-inflation monetary policy enacted over the October 6-7 weekend should have the following impacts on small business:

1. As a result of the Fed's actions to raise interest rates (prime rate at 14.5 percent) banks will pass along higher rates to customers, money will become tighter and high interest charges will keep many out of the loan market. Banks will enact stricter lending policies and it will be more difficult to qualify for a loan.

Struggling, small businesses may be hardest hit. Loan money to keep marginal operations afloat will not be available on the open market. Expect increases in small business failures. The most immediate impact may be on small retailers.

2. Stricter loan qualifications requirements will be imposed on consumer loans and home mortgages. Expect a slowdown in consumer demand. Loans for new construction will be tight. Despite reassurances to the contrary, the housing industry could be hard hit, especially small, marginal builders.

3. There has been a strong business inventory buildup in recent weeks. A large decrease in credit purchases may severely impact small businesses with large inventories. Expect the recession to be somewhat deeper than previously predicted.

4. Expect increased unemployment as small businesses attempt to cut costs wherever possible.

5. Smaller banks may be squeezed worse than larger banks if high interest rates on short term instruments, such as treasury bills, drain off savings deposits. Problems at small banks could ripple back to exaggerate small business credit problems in general.

6. The initial reaction in futures markets was lower prices (especially for grains, livestock, copper and wood products) reflecting the anti-inflationary aspects of the Fed's action.

7. Internationally, the dollar seemed to gain fundamental strength as short term money moved into U.S. markets to take advantage of the high interest rates. A stronger dollar will reduce demand for U.S. grain and other exports.

In summary, small businesses with limited resources, limited credit alternatives, limited access to investment capital, and with limited flexibility face more difficult times and can be expected to face reductions in credit sales leading to reduced production levels. There will be a substantial increase in the demand for government direct and subsidized loan programs.

AEROSPACE AVIONICS INC.,
Bohemia, N.Y., November 5, 1979.

Hon. THOMAS J. DOWNEY,
Congress of the United States, House of Representatives, Washington, D.C.

DEAR TOM: In reply to your letter of October 22nd regarding the recent actions taken by the Federal Reserve to help get inflation under control and related changes in the economy and the business environment, I would offer the following comments regarding the impact on small business in the Second Congressional District.

1. The net effect so far of the Fed's actions to raise interest rates has been to feed the inflationary process. As money costs move ahead of prices, up go the price levels as long as there is no resistance. Money has not yet become "tight" and until is does, the Fed's anti-inflation monetary policy will not be effective.

2. When money does become "tight", a reduced interest rate should be made available to small business by both commercial banks and the SBA as there will be a substantial need for government direct and subsidized loan programs.

3. Based on the solid backlog that many Long Island producers now enjoy, it looks as though a real business down turn has been somewhat delayed in terms of earlier expectations. However, in order to satisfy these business opportunities, we are having difficulty employing "technical" personnel because of the high area taxes. While Long Island is perceived as very positive with regards to the quality of life, it is also perceived as negative with regards to taxation which

has resulted in a severe shortage of technical personnel. Just ask someone who has tried to recruit an engineer, technician or competent manager. This is one particular way where your office can be of great assistance that is with some form of tax relief for this area vis-a-vis many of the other areas of the country in which I travel (e.g. South, South-West and West). We have definitely lost our competitive edge in this region and will force many business relocations if we are not able to achieve parity with the rest of the nation.

4. In addition to tax relief, my three favorite goals to continue to keep the economy healthy would be to work in the Congress for:

(a) Balanced Budget.

(b) Positive Trade Status.

(c) Roll Back Social Security Payroll Tax.

5. As a country involved with technological innovations, we need to develop changes in the tax structure to provide more incentives for innovators in order to off-set the U.S. lag in the development of new ideas and products. Nations such as Japan and West Germany, which provide generous rewards for innovators, are moving into the space we once dominated. R. & D. is a key to growth and jobs and should be encouraged.

6. A recent newspaper ad stated that on the average, Americans save only 4.1 percent of their disposable income compared to 13 percent for the British, 15 percent for the West Germans and 25 percent for the Japanese. It follows that without savings, there can be no investment and without investment, there can be no new jobs created. This is another area where we need tax incentives to help stabilize our economy and off-set inflation.

I appreciate your invitation to forward the comments contained herein and upon reflection I see that they will form the good basis for a future "business platform". We on your "Business Advisory Committee" have enjoyed working with you and hope we will be able to continue to serve your future needs in an effective and positive manner.

With warm personal regards,

Very truly yours,

JAMES P. DUNN, Jr.,
President and Chief Executive Officer.

VIEWLEX AUDIO-VISUAL, INC.,
Holbrook, N.Y., October 29, 1979.

Hon. THOMAS J. DOWNEY,
Member of Congress, 2d District,
West Islip, N.Y.

DEAR TOM: I appreciate your requesting my comments on your analysis of the effects of the recent Federal Reserve Board's actions.

I believe your analysis is thorough and accurate. The only input I can provide is the experience of Viewlex. We have been effected directly and adversely by the rapid increase of interest rates due to our heavy debt load but, more importantly, our sales in October have dropped off sharply. Our audio visual dealers throughout the United States are unwilling to take in inventory as they normally did in the past. These are basically small businessmen who have become afraid and uncertain about the future and are taking steps to reduce their inventory even though their actual sales may not be declining. They now want the manufacturer to be their warehouse. Since we finance receivables, the immediate cash loss from such a reduction is substantial.

This is a case of the aura of panic created by the Federal Reserve being transmitted to the small businessman who, in turn, is reacting negatively as much for psychological reasons (because his government appears to be acting in panic) as for real reasons; i.e., interest rate increase and reduction of availability of money. For example, even when we offer these small businessmen special credit terms, where Viewlex absorbs the cost of money, we are unable to get an order as they fear that business is going to decline with the Fed taking such dramatic steps to achieve a business slowdown.

Best regards.

Sincerely,

HARRY G. CHARLSTON,
President.

CIANCIOTTI PLANNING &
SERVICE CORP.,
November 9, 1979.

Hon. THOMAS J. DOWNEY,
Congress of the U.S., House of Representatives, Longworth House Office Building, Washington, D.C.

DEAR TOM: Because I travel the entire Island performing my normal business activities I have quizzed my clients, both large and small, as to their opinions and assessment of the situation and in direct response to the analysis I submit the following.

1. Many businessmen have dropped out of the loan market refusing to pay the exorbitant interest charges which will not only prevent growth and expansion but, in many instances, because of their inability to pass on the higher costs of operating, may be forced to cut back and even fight for very survival to remain in business.

2. Obtaining a home mortgage on Long Island is almost a joke. Builders have cut back, home purchases have dropped off and the building industry which has had its problems over the last few years, truly has an uphill battle.

3–4. My clients agree practically on a verbatim basis.

5. Over the last few years small banks on Long Island have had their problems with "city banks" moving in. I think the present situation will emphasize the problem and we will either have additional mergers and acquisitions and, possibly, even bank failures.

As for 6, there seems to be little concern with regard to the people I have polled. Possibly it could be summed up by saying "the operation was a success, but the patient dies during the process".

Of course, none of the above offers a solution but if a program such as the one mentioned in the summary of the analysis is instituted, one in which subsidized loan programs could be made available, this may be the answer to the small businessman's prayer.

In short, can we get some low-cost money back to Long Island so we can survive?

Best regards.

Cordially,

DOMINICK V. CIANCIOTTI,
President.

POSITIVE CONSULTANTS INC.,
Bellmore, N.Y., October 29, 1979.

Hon. TOM J. DOWNEY,
Congress of the United States,
House of Representatives,
Washington, D.C.

DEAR TOM: Thanks for your letter of October 23 regarding the tight money effect on small business.

I do have some suggestions which could be handled administratively rather than legislatively.

Before this, I do want to assert my long time gripe that the Government stop this roller coaster toying with the economy.

If, however, they can't keep their hands off, at least have a computer analysis of the immediate and long range potential effect. Then ask the computer to figure out the best mean approach and use it as a guide. With the technology in programming, this should be a snap.

Now to the problem at hand.

For commercial businesses SBA would have to cut red tape and make immediate loans available to these firms, possible at SBA rates with direct loans.

For defense and other Government contractors advance payments should be a standard item in each contract to pay for materials and direct costs. Progress payments should be increased from 85 percent to 90 percent for small business with minimum red tape.

In addition the "V" loan program should be reactivated by the Federal Reserve Banks. Although it really has not been deactivated, very few know of its existence.

Unfortunately, this will probably not sit well with the administration. However, it will dampen the immediate disasterous problems that the tight money situation is causing.

Best regards.

MANNY GOLDSTEIN,
President.

KELLY, LUGLIO & MAZZOL,
Deer Park, N.Y., November 8, 1979.

Hon. THOMAS J. DOWNEY,
Longworth House Office Building,
Washington, D.C.

DEAR TOM: This will acknowledge receipt of your letter of October 23, 1979 and its attached Impact of Recent Federal Reserve Board Actions on Small Business.

I agree with your general analysis and assume others on the Committee will respond directly to you.

Paragraph 2 of your Impact statement particularly concerns me.

The conventional home mortgage market is practically coming to a stop. Only certain nationally chartered commercial banks, which can lend at higher rates than the 10¼ now permitted by the N.Y. State law, are making loans. Citibank and National Bank of North America has been active in this market. Almost all Savings and Loan Associations are out of the market, as are almost all Savings Banks. Special exceptions do exist.

Young families have been forced to seek FHA and VA financing. That too is becoming impossible.

Before HUD raised the rate to 11½, points charged on these loans by Lending Institutions were out of sight—as high as 14 to 17 points. After the rate was raised to 11½ percent the points lowered to 7 or 8, but are now up to 10 or 11. A mortgage lender's attorney told me yesterday that the situation will get worse. They cannot warehouse these FHA and VA loans because banks are not interested in them at 11½ percent, even with the points.

The result will be one or more of the following:

(1) Sellers will take their houses off the market, or pay the points and accept a lower net return. Where the seller's equity is not large, there may be no room to lower the price or the net.

(2) Purchasers will withdraw from the market, and stay where they are. The higher rates and prices caused by the recent events are pricing one family homes out of the reach of most young people. Yesterday, for example, a young couple purchased a home in Babylon for $42,300 with an FHA mortgage of $37,300. Their monthly payments will be $525.00. In this case their taxes were only $1,235, a little less than usual.

(3) Builders, who have had trouble getting financing will have additional problems getting buyers. Those who would have sold their homes to "buy up" will be out of the market. Most marginal builders already have been put out of business. The new strain will hit the successful builders hard.

Most of the Country has been living with a housing boom for the last five years. Long Island, however, has been in a housing slump, even prior to the recent mortgage problems.

If we're building Long Island industry, and we are, the people who live here or move here are going to be hard pressed to obtain decent housing accommodations.

I assume many builders, brokers and lenders will offer suggestions as to what action should be taken, if asked. Some suggestions may even be constructive.

Best regards.

Sincerely,

ALBERT J. LUGLIO.

SUGAR STABILIZATION

HON. DAN MICA

OF FLORIDA

IN THE HOUSE OF REPRESENTATIVES

Thursday, December 13, 1979

Mr. MICA. Mr. Speaker, I insert a newspaper article commenting on the recent defeat of the Sugar Stabilization Act of 1979 and the effect on the consumers as a result, as written in a weekly newspaper, the Glades Trend:

AMERICANS CAN THANK THE U.S. CONGRESS, SAYS KNIGHT

American consumers can thank the United States Congress for sugar price increases about to come their way, according to S. N. Knight, Sr., president of the Florida Sugar Cane League.

Since the Sugar Stabilization Act of 1979 was defeated by Congress October 23, domestic spot market prices have increased to slightly over 16 cents per pound, a higher price than the 15.8 cents called for the legislation backed by the sugar industry.

"We may be about to witness a situation similar to the one in 1974 which also occurred when Congress failed to enact legislation to stabilize the price of sugar, said Knight in his address during the Florida Sugar Cane Leagues 16th Annual Meeting held November 26.

"In 1974, the sugar industry was unjustly accused of raising sugar prices to the detriment of American consumers. Let the record stand clear now. The United States Congress and the office of the President must shoulder most of the responsibility for the tremendous instability in today's sugar market, continued Knight.

According to the League president, Congress was fooled in the name of consumers. Some sugar refiners and industrial users used the consumer movement to kill the sugar bill, saying the legislation would be inflationary.

"It's unfortunate consumer groups didn't take time to really learn what was at stake for the American public," said Knight. "By stabilizing the price of sugar, legislation would have protected producers and consumers. Now, however, if prices continue to escalate as they have since the defeat of the bill, costs will surely be passed on to consumers."

Knight asked the media present to make note of sugar prices and prices of sugar-containing products, and to again check the products' prices when the sugar market comes down.

"Industrial users usually do not lower their prices when the price of sugar falls. They continue to make even greater profits, and yet, the sugar producer is blamed for the high prices," said Knight.

"We farmers don't like the wide fluctuations of the sugar market, it hurts us. But, it hurts the American consumer even more." Knight continued. "Our industry would rather see stable prices with modest increases based on increased operating costs."

"Price stability benefits everyone, producers and consumers alike. Instability hurts consumers more in the long run," concluded Knight. "Perhaps the next time we go to Washington, we can make this point understood."

THE GOVERNOR WHO KEPT HIS WORD

HON. RON PAUL

OF TEXAS

IN THE HOUSE OF REPRESENTATIVES

Thursday, December 13, 1979

Mr. PAUL. Mr. Speaker, the Hon. Jim Longley, Independent Governor of Maine set a magnificent example for politicians at all levels.

He kept his word, believed in limited terms, held down the cost of government, and served the people of his State.

I would like to call the following article to my colleagues attention. It is no wonder that some people are urging Governor Longley to run for President.

THE GOVERNOR WHO KEPT HIS WORD

(By Eugene H. Methvin)

Last January 5, 54-year-old James B. Longley walked into the office of his insurance company in Lewiston, Maine, sat down at his desk and grinned broadly at reporters. A private citizen once again, he had fulfilled the last of his campaign promises—to serve his four-year term as Maine's governor without seeking re-election.

Jim Longley had long since kept his other promises. Foremost among them: to erase the highest deficit in Maine's history without raising taxes and to balance fiscal responsibility with humanitarianism. In fulfilling his campaign slogans, he proved to Maine's voters that both skyrocketing spending and burgeoning bureaucracy can be curbed.

Early in life, Longley demonstrated his enthusiastic, rambunctious independence. He zipped through Bowdoin College in 27 months on the GI bill after World War II. He quarterbacked the football team, was student-government president and held enough outside jobs to send home more than $2000 in one year to his widowed mother and family. When his fraternity refused initiation privileges to one of Bowdoin's few minority students, Longley forced a re-vote. The vote didn't change, but the student later became one of Longley's roommates.

UPHILL CAMPAIGNER

By 1972 Longley had added a law degree to his accomplishments and built a prosperous insurance business. He was asked by the Democratic governor to direct a group of business executives looking for ways to streamline state government. Longley's team came up with 807 recommendations to save taxpayers $28 million a year. Because many of the economies were bitterly opposed by special interests, the governor and the legislature dropped them like hot potatoes.

Shocked and angered, Longley made throbbing speeches for government efficiency. Questioners began asking, "Why don't you run for governor?" In June 1974, Longley, a lifelong Democrat, announced as an independent. One of his first promises: "I'm going to make a $250-million difference in the cost of state government during the next four years."

At first Longley's race looked ridiculous. His headquarters was a converted garage. His campaign manager in the state's most populous county was a high-school senior who worked part time in a supermarket. His only paid staffer was a young reporter with whom he crisscrossed Maine in a rented camper.

Longley operated on three hours' sleep. Where other candidates might shake factory workers' hands for one shift, Longley would meet all three shifts and canvass nearby towns in between. Everywhere, Longley asked, "Do you want better management of your hard-earned tax dollars? If so, vote for me."

Late in October the polls showed Longley running a poor third, but he stepped up his campaign and won with almost 40 percent of the votes. He thus became the only independent candidate elected governor of any state in nearly four decades.

CONSTANT CRUSADE

As governor, Longley found himself facing a Democratic house, a Republican senate and a skeptical press. With no party or organization of his own for support, he fell back on his inexhaustible energy, idealism and feistiness. The morning after his inauguration, he called a 7 a.m. cabinet meeting and told the 18 department heads to quit lobbying legislators for their own pet programs. He clamped down on out-of-state travel, slapped a freeze on hiring and announced there would be no general pay raises for state employees until the budget was in balance.

To avoid a tax hike, Longley ordered all agencies to cut spending seven percent below budget. To set the example, he drew only $20,000 of his $35,000 salary and lopped $13,-853 off spending for the governor's mansion in the first six months. He cut state grants to towns for road improvements, snow removal and welfare programs. By squeezing dollars, the state's welfare commissioner was able to fund a catastrophic-illness program without new appropriations. And over four years Longley cut the number of state employees by 15 percent, from 14,000 to 12,000.

Longley insisted on personally examining every application for federal funds, and stopped many. He was the nation's only governor to reject federal money to help disabled Vietnam veterans find jobs; instead, he organized a volunteer program to handle the task.

"We must stop misleading people into believing that government can give more than it takes," Longley told the legislature. He innocently thought that as an independent with a mandate to cut spending he would have both parties' help. He was soon to proclaim ruefully, "I was naive." Partisans obstructed his appointments and gleefully tore into his first budget, a hurried patchwork effort to control the state's runaway finances.

Within weeks, Longley and the legislators were fighting bitterly. Democrats, pushing secretly for a tax increase, started false rumors that Longley had suffered nervous breakdowns and was destined for an early crackup. Reporters began calling him "El Wacko."

UNFLINCHING IN FLAK

Indeed, by conventional political standards Longley did seem mad. He refused to compromise. He took on virtually every organized pressure group—from the State employes' union to the legislature's women's caucus, from the National Education Assn. to road contractors. He vetoed a record 109 bills, and 53 of the vetoes were upheld. He killed a bill to create a University of Maine medical school, despite laments Maine would lose $7 million in federal help. Instead Longley persuaded the Tufts and University of Vermont medical schools, which admit Maine students under interstate compacts, to more than double Maine's quotas.

Through it all, he dominated the headlines and hammered home his point: every hard-earned tax dollar had to go to the neediest, not to the bureaucrats or special interests. Explained Jim MacGregor, Longley's closest aide, "His top priority is always some imaginary millworkers who works hard, pays his taxes and counts on Jim Longley to see that he gets honest, frugal government."

Finding the state's economic-development agency politically overstaffed, Longley cut it from nine offices and 53 staffers to one office of nine people. He drafted summer residents and concerned citizens to serve as "Friends of Maine" and cadged introductions to corporate executives throughout the nation. Result: 86 companies expanded Maine facilities during his term, and 74 opened plants, creating 11,300 jobs.

Like most states in 1975, Maine faced a runaway welfare program, one that was eating up a third of the state's budget. Food-stamp recipients hid sources of income, and the welfare bureaucracy's checkups were few. Fathers abandoned families, and little effort was made to collect child support from them. Aid to families with dependent children (AFDC) had swelled to 25,000 families, and experts predicted the load would double in Longley's term, costing the state $130 million a year. Families with incomes as high as $18,000 a year were getting state aid.

To curb the "welfare monster," Longley picked David E. Smith, a young management specialist who had come up through the welfare bureaucracy's ranks. When Smith was done, instead of the predicted $130 million a year, Maine was spending $50 million on its AFDC program. Smith cut food-stamp rolls by 45 percent, saving $26 million yearly, and rolled back AFDC families from 25,000 to 18,000. But he increased the maximum grants by nearly half for those on the low end. A new program to crack down runaway fathers increased child-support collections eightfold, to $4 million yearly.

The flak was heavy: lawsuits, mothers marching in protest and fiery legislative denunciations. Longley never flinched. When welfare clients complained, he personally visited their homes, and made sure there were no bureaucratic snarls for the truly down-and-out. Even protesting groups gave Longley high marks for improving the efficiency of agencies dealing with low-income people. Moreover, he poured $6 million into building a model program for retarded children and installed free medicine for the elderly.

CLEAR DEMONSTRATION

The "bottom line" on Longley's cost-cutting: in two of his four years in office, Maine was the only state in the nation to decrease the per-person state-tax burden. Spending increased about ten percent a year, moderately ahead of inflation. "But under anyone else, it would have gone up twice that fast," declares the Republican senate president, Joe Sewall. And Longley last year became the first governor in Maine's history to sign major tax cuts and rebates.

Another Longley promise was to be "the hardest-working governor Maine ever had." Indeed, by working 18-to-20-hour days, he left a legend akin to Superman around the state. Out for his 5 a.m. run one morning, he stopped to change a tire for an older man who turned out to be a State House janitor. When the deputy commisioner of mental health sought permission to force-feed a depressed patient, Longley went to see the patient himself and was able to coax her to eat on her own. Longley also interviewed privately every prison inmate whose application for clemency or pardon he had to act upon.

As the 1978 election approached, polls indicated that Longley would beat any challenger by at least two to one. Although countless editorials and letters urged him to reconsider, Longley announced firmly he would not run: "Nothing we might accomplish in a second term would be as important as a clear demonstration that this governor continues to keep his word."

One civic leader summed up Longley's achievements: "The people have seen a man fight for what he believes—and demonstrate it can be done. Any future governor will be measured by that standard."

But perhaps the highest tribute came from John Martin, the Democratic speaker of the house of representatives and Longley's most frequent opponent in the legislature: "He finally made people realize that whatever they get from government they have to pay for."

EDITORS' NOTE: Today Longley is happily back running his insurance business. His only political activity is to serve as co-chairman of the National Taxpayers Union's drive for a Constitutional amendment compelling Congress to balance the federal budget. He has said he might run for governor again in three years, and he hears from many who urge him to jump into the Presidential primaries as an independent. But, says Longley, "what I'd really like is for somebody to run whom I could wholeheartedly support, somebody who would change the politics-as-usual game in Washington."●

RECOGNITION OF RICHARD BIONDI'S CONTRIBUTIONS

HON. RICHARD L. OTTINGER

OF NEW YORK

IN THE HOUSE OF REPRESENTATIVES

Thursday, December 13, 1979

● Mr. OTTINGER. Mr. Speaker, on December 18, the Iona College community will bid farewell to one of their faculty members, Richard Biondi. I am pleased to share with my colleagues at this time a brief recognition of Mr. Biondi's numerous accomplishments and contributions to the college, the New Rochelle community, Westchester County, New York State, and the Nation.

Richard Biondi has been a member of the administration and faculty of Iona College since July of 1967. As director of financial aid, association director of admissions, and as executive director of college advancement, he has distinguished himself on local, State, and national levels in the service of students and institutions of higher education.

Mr. Biondi has worked closely with my staff in the development and implementation of financial aid forums for the constituents of my district. For the past several years, this event has afforded students and their parents the opportunity of learning the details and approaches of financial aid programs from experts in the field representing governmental and private agencies.

As president of the New York State Financial Aid Administrators Association and as an elected official of the Eastern Association and National Association of Student Financial Aid Administrators, Mr. Biondi labored for legislation, policy, and procedures which would make financial aid programs more responsive to the needs of students who want to engage in post-secondary education.

He was a charter member of the communty leadership consortium, an advisory board which involved five metropolitan area colleges' higher education opportunity programs. He has had direct input into the revision of State regulations governing opportunity programs.

Mr. Biondi has been an elected trustee of the Westchester-Rockland-Putnam Guidance Counselors Association for several years. He has worked closely to develop more effective levels of communication between private and governmental agencies and organizations and the secondary school student for the enlightenment and benefit of the latter. His presence and participation in high schools and community-organized forums throughout Metropolitan New York City and the State have been numerous during the years. He has been called upon to present testimony before congressional committees, hearings sponsored by the Office of Education, and before committees of the New York State Legislature. He has been a presenter at professional association conventions held throughout the country.

Through Mr. Biondi's efforts, public employees have been provided with increased funding opportunities in order to pursue higher education. For example, he brought the law enforcement education program to Iona College. Through him, Iona College became the first 4-year college in Westchester County to be selected as a participating institution in the Intergovernmental Personnel Act education program.

His work with neighborhood associations and with the city of New Rochelle and the Westchester County government with regard to better articulation and interaction has brought about a better rapport among all parties concerned. He has been a moving force behind the progress achieved by the North Avenue revitalization project and several other community-based activities as well.

Mr. Biondi resides in White Plains with his wife, Maureen, and two children.

Richard Biondi has made an extraordinary contribution to his community, State, and Nation and to all students that deserves our recognition and commendation.●

SPECIAL OCCASION

HON. DOUGLAS APPLEGATE

OF OHIO

IN THE HOUSE OF REPRESENTATIVES

Thursday, December 13, 1979

● Mr. APPLEGATE. Mr. Speaker, it is indeed an honor for me to bring to the attention of my colleagues in the House of Representatives a very special occasion in the life of a constituent of mine who is truly a leader in the church community of the 18th Congressional District of Ohio.

Just recently, the Rev. Chester Szymanski, pastor of St. Stanislaus Catholic Church, Steubenville, Ohio, was presented with an inscribed plaque commemorating his 25th anniversary as the administrator, and then pastor, of the church. The plaque was awarded him by the Our Lady of Steubenville Rosary Making Guild.

Since first being ordained as a priest in Steubenville on May 31, 1947, Father Szymanski has had total involvement with the church and all of its activities. He has held a whole host of positions within St. Stanislaus, most significant of which was that of administrator from November 23, 1954, until March 28, 1958, when he was named pastor of the church. He has held that position ever since.

Father Szymanski is to be commended for his many contributions to both the church and the community. We in Steubenville are indeed privileged to have Father Szymanski in our area, and extend our congratulations and thanks to him at this time.●

GOVERNMENT BRAINWASHING

HON. ROBERT E. BADHAM

OF CALIFORNIA

IN THE HOUSE OF REPRESENTATIVES

Thursday, December 13, 1979

● Mr. BADHAM. Mr. Speaker, as our colleagues in the Senate continue their debate on the proposed windfall profits tax bill, I would like to bring to your attention a "letter to the editor" written by one of my constituents, Mr. Paul Raabe. Thus far, the debate in the Congress has been conducted in a haze of misinformation and emotionalism. Mr. Raabe has succinctly articulated that what this country needs is not more taxes on petroleum products, but less. He said:

They pay (oil companies), on an average, 43 percent of their profits in income taxes. They are also taxed on their payroll for social security and unemployment insurance—federal and state. This would have the effect of increasing the tax bite to around 50 percent of their profits. In most states the tax at the pump includes federal and state assessments totaling 11 cents per gallon, almost twice as much as the profit realized by the oil companies.

The oil producers in this country are already overtaxed. We do not need a windfall profits tax, we need immediate deregulation of the domestic oil industry. I request that Mr. Raabe's letter to the editor be inserted at this point into the RECORD.

GOVERNMENT BRAINWASHING

EDITOR: I am sure that you, just as I, are very dissatisfied with the rising cost of gasoline and other products of the oil industry. In the future we can expect still further price increases.

According to the politicians, the blame can be placed with the oil companies, Mr. Carter has been ranting against their third quarter profits. House Speaker Tip O'Neill called them "an absolute and utter disgrace." Well, let us examine the real reason for the high cost of gasoline.

The oil companies, according to the Chicago Tribune-New York News Syndicate, realizes 6 cents profit on each dollar in sales. They pay, on an average, 43 percent of their profits in income taxes. They also are taxed on their payroll for social security and unemployment insurance, federal and state. This would have the effect of increasing the tax bite to around 50 percent of their profits. In most states the tax at the pump includes federal and state assessments totalling 11 cents per gallon, almost twice as much as the profit realized by the oil companies.

There are other items of cost that we must also pay indirectly. The regulations imposed by the Department of Energy (DOE) require reports that must cost millions of dollars each year to prepare. Also, the DOE has an allotment of $11 billion this year, which is more than the combined earnings of the 10 largest oil companies in the USA. Yet the DOE has not produced any oil. In fact, they are more of a handicap than they are useful.

Now our government wants an additional so-called windfall profits tax, and who will pay that? We will—you and I, because as the expenses rise, the price will, of necessity, also rise.

It is very apparent to me that our government, with assistance from the news media, is trying to brainwash the people to the extent that they will accept nationalization of the oil industry. I am sure that you do not want this to happen. So I urge you to do what you can to inform people of who really is responsible for the high cost of gasoline and other products of the oil industry.

PAUL H. RAABE,
Oceanside.●

WHAT IS THE BASIS OF LEARNING?

HON. ROBERT H. MICHEL

OF ILLINOIS

IN THE HOUSE OF REPRESENTATIVES

Thursday, December 13, 1979

● Mr. MICHEL. Mr. Speaker, we have heard much in recent years about the back-to-basics movement in education. Usually when this term is used, it refers to a desire to have grammar, mathematics, spelling, and other "basic" material taught to children instead of giving them "how-to-adjust" courses.

A recent column by William Raspberry of the Washington Post suggests that what is needed in education is something even more basic than traditional subject matter. There must be proper motivation and a belief in those "middle-class values" that have been the subject of so much abuse in recent years. Raspberry, quoting famed educator and psychologist Bruno Bettelheim, writes that "education requires a middle-class orientation."

I urge all those interested in education—and that should include just about everyone and especially those in Congress with direct responsibility for spending tax dollars on education—to read Raspberry's article.

At this time I wish to insert in the RECORD, "Fear and Learning in the Public Schools," by William Raspberry, the Washington Post, December 10, 1979.

FEAR AND LEARNING IN THE PUBLIC SCHOOLS

One frequent criticism of public education is that it is too middle-class oriented to be effective with non-middle-class children. Not just textbooks and tests, but also curricula and even educational goals, we are told, are tainted by this middle-class bias.

Now comes Bruno Bettelheim, the celebrated educator and psychologist, with a different perspective: that education requires a middle-class orientation.

"In the recent controversy about whether our schools serve the underprivileged well, it has been pointed out again and again that current methods and procedures, including our teaching materials, are geared to the middle-class child," he says in an article in the winter issue of American Educator magazine.

"In fact, none of the learning our present schools expect to instill in their students can take place without what has been described as a puritanical, or a specifically middle-class, morality."

The essence of middle-class morality, as it relates to education, is, Bettelheim contends, "the conviction that postponing immediate pleasure in order to gain more lasting satisfactions in the future is the most effective way to reach one's goals." In other words, the "pleasure principle" must give way to the "reality principle"—the principle of deferred satisfaction.

"It is this morality alone that makes serious and consistent learning over long periods of time possible," Bettelheim believes.

If his notion squarely contradicts the recent idea that "learning must be fun," Bettelheim embraces the contradiction.

"Those who live by the pleasure principle can and do make good use of educational experiences which are made truly enjoyable to them," he concedes. "In this manner they may acquire bits of knowledge and skills.

"But despite it they remain essentially uneducable and uneducated because solid knowledge requires that such isolated pieces of information become systematically woven into a consistent whole, and this demands prolonged hard work for a distant purpose. It is beyond those who cannot give up the pleasure principle for the reality principle."

Bettelheim expresses in impressive psychological terms what many of us, including a number of teachers, have believed instinctively all along: that reliance on pleasure alone is of limited educational value.

Some things—simple scientific experiments, for instance—can be made fun. Others—multiplication tables, long division, trigonometric functions and much of history—cannot be.

So where do we turn for motivation?

Comes Bettelheim's surprising answer: to fear—fear of hell, fear of parental displeasure, fear of not making it, fear of something.

"The child must fear something if he is to apply himself to the arduous task of learning," says the distinguished professor emeritus at the University of Chicago. "My contention is that for education to proceed, children must have learned to fear something before they come to school. If it is not the fear of damnation and the woodshed, then in our more enlightened days it must be at least the fear of losing parental love and respect (or later, by proxy, the teacher's) and eventually, the fear of losing self-respect."

But we no longer want our children to be afraid. We want them to act on the basis of reason and objectivity and sound judgment, not out of some learned sense of absolute right and wrong. That may be fine for adults with well-developed consciences, Bettelheim says, but to an immature child, it is likely to translate into: I can act as I please.

The reality principle is not learned on a rational basis, Bettelheim believes, but through two sets of experiences: anxiety instilled by parents and the example of parental behavior. The latter experience, naturally, is more likely to be available to the middle-class youngster than to the child from a low-income family.

But the reality principle can be taught, he believes, if teachers are aware of the necessity of teaching it.

"Our ability to postpone must be based on the repeated experience that it pays off in the future. The injunction not to grab and eat a cookie right now will be effective only if the child gets a good deal of praise and affection for the postponement, if he is not too desperately hungary at the moment, if his hunger has always been satiated pleasantly and fully in the past, and if he fears that by grabbing he will lose the source of this very certain satisfaction.

"No praise will work with the hunger unstilled; no demand will be effective without the conviction that postponement will achieve greater gains but certainly no loss. No postponement is possible if all one's experience says, 'What I don't grab now I'll never get.' "●

WHY THE HOSTAGES WERE SEIZED

HON. JOHN J. LaFALCE

OF NEW YORK

IN THE HOUSE OF REPRESENTATIVES

Thursday, December 13, 1979

● Mr. LAFALCE. Mr. Speaker, while the Ayatollah Khomeini was delivering another one of his incendiary and lie-ridden addresses, a prominent Iranian leader revealed the real motivation for the seizure of the U.S. hostages in Tehran.

Ibrahim Yazdi, who has the dubious distinction of being one of the Ayatollah Khomeini's former foreign ministers, explained that the seizure had nothing to do with the crimes of the Shah or the identity of the U.S. President, which confirms the suspicions of many U.S. commentators. The hostages are being used to mobilize the masses, whose support for the Ayatollah Khomeini had been lagging before November 4 because of Iran's many internal problems and the blatant excesses of the revolutionary courts. As the country was collapsing around him, which was largely due to the gross ineptitude of his followers, the Ayatollah Khomeini seized upon the concept of the "foreign devils" as the explanation for all of Iran's problems.

Mr. Yazdi may have performed an inadvertent service by admitting the real motivation for this immoral and illegal action. I want to direct my colleagues' attention to a story in today's Washington Post, which contained Mr. Yazdi's remarks, because they are so very revealing.

The story follows:

KHOMEINI AIDE SAYS EMBASSY TAKEN TO "MOBILE MASSES"

TEHRAN, December 12.—Ayatollah Ruhlolah Khomeini accused the United States today of trying to distract world attention from its "crimes against Iran" but a Khomeini aide and former foreign minister said the real reason for seizure of the U.S. embassy was a move to "mobilize the masses" to improve the country's economy.

Khomeini, speaking in the holy city of Qom, said the United States was "trying to create amusements" to "prevent us from bringing to the notice of the world the documents and evidence of crimes and plunder of the presidents of the United States and, in particular, the present one."

The remarks, published by the official Pars news agency, did not explain what Khomeini meant by "amusements" but he apparently was referring to U.S. moves to put the dispute before the United Nations and the International Court of Justice.

In an interview published by the English-language weekly The Iranian, former foreign minister Ibrahim Yazdi gave an explanation for the seizure of the U.S. embassy and the continued holding of 50 hostages that coincided with the suspicions of many Western observers.

"In order to rally the masses, this kind of thing should continue," Yazdi was quoted as saying.

"If this campaign against the Americans ends just by a trial of these Americans and their deportation, it will be a disaster. It has to go further. We have to divert this to the reconstruction of the country. When the masses are completely mobilized against the Americans, it is easier to tell them to go to the fields and do this and that," he said.

He added, "If one is to mobilize the masses and to correct their attitudes toward a consumer society, you have to have a very strong motivating force."

Yazdi, who lived in exile in the United States for 14 years, resigned as foreign minister two days after the American embassy was seized Nov. 4 but he is still an aide of Khomeini and has been named to head an investigation of problems in Iran's provinces.

Iran's leading revolutionary judge, Avatollah Sadegh Khalkhali, who has sentenced hundreds of supporters of the deposed shah to death by firing squad, told reporters in Qom that none of the American hostages will be sentenced to death if they are tried as spies.

It was unclear what authority Khalkhali's remarks had. In the past, declarations about the hostages by various officials have often been rejected by the militant students holding the embassy or by Khomeini.

Meanwhile, the Foreign Ministry said that a letter purportedly written by Sen. Edward M. Kennedy (D-Mass.) asking to visit Khomeini and pledging support for him apparently was a hoax.

Kennedy's office in Washington said that Kennedy had had no contact whatsoever with anyone in the Iranian government, especially a letter being sent to the ayatollah.

Before the Foreign Ministry's denial of the letter's authenticity, official Radio Tehran had broadcast its contents several times, including a purported Kennedy pledge that I will give my blood for you." There was no indication where the letter originated.

Kennedy, a Democratic presidential candidate, recently stirred controversy in the United States and received front-page press coverage in Iran for remarks condemning the shah as a dictator.●

THE QUIET SUBSIDY

HON. RON PAUL

OF TEXAS

IN THE HOUSE OF REPRESENTATIVES

Thursday, December 13, 1979

● Mr. PAUL. Mr. Speaker, the Federal Government, that reverse Robin Hood, often takes from the poor and working people and gives to the rich. One of the most flagrant examples of this is the Export-Import Bank.

This institution subsidizes big business and penalizes every ordinary American with more inflation and capital misallocation.

A recent issue of Inquiry magazine had an excellent article on the subject, and I would like to call excerpts from it to my colleagues' attention:

THE QUIET SUBSIDY

(By Nicholas Burnett)

The Carter administration proposes federal loan guarantees of $1.5 billion for the Chrysler Corporation, which is set to lose over a billion dollars in 1979. The National Association of Manufacturers objects to the interference in the workings of the free market that the guarantees would represent. The NAM argues that public subsidies should not be granted to a firm that deserves to die.

But NAM spokesmen are careful to add that the association does not object to assistance to Chrysler "under legislation of general applicability." The commitment to the free market turns out to mean not an objection to subsidies per se; only a demand that all corporations should have equal access to government assistance. And in fact, Chrysler has long received huge subsidies from one of Washington's more obscure agencies, the Export-Import Bank of the United States.

Eximbank, as it is generally known, supports U.S. exports in a variety of ways, largely by making direct loans to enable foreigners to purchase U.S. products and by guaranteeing and insuring loans for this purpose extended by private American banks. As of March 31, 1979, Chrysler had been the beneficiary of $0.5 billion of Exim's credit. The total for General Motors, whose chairman Thomas Murphy vociferously opposed loan guarantees for Chrysler, was $0.9 billion.

Eximbank does not use taxpayers' money directly. It prides itself on not taking appropriations from Congress; its latest annual report notes prominently that it has paid more than one billion dollars to the United States Treasury since the bank was established by Executive Order in 1934. What Eximbank does is to borrow from the Treasury and then to repay to the Treasury the principal together with an annual "dividend." This subsidy to the private sector is discussed in a 1976 Congressional Budget Office (CBO) study as follows:

"A subsidy arises because Eximbank can borrow, mostly from the government at government bond rates, and lend at a rate lower than the going rate in the export finance market. . . . The size of the subsidy is not under the control of the Eximbank. The subsidy decreases when the market rate falls, or Eximbank starts disbursing loans which were authorized at a higher interest rate, or when Eximbank disbursements decline. For fiscal year 1975 over 50 percent of the subsidy went to support the sales of aircraft and other transportation equipment, nuclear power plants and equipment, and other special industrial machines."

Exim lends money to foreign purchasers of U.S. goods at rates below those they could obtain on the private market. So one might expect foreigners to be the subsidy's beneficiaries: They are, but they are not the only ones. Research by Professor Janos Horvath of Butler University in Indianapolis demonstrates that "Eximbank does not favor foreigners at the expense of Americans, but, rather, its subsidies end up within this country." And, "the grant equivalent [i.e., subsidy] accrues to the exporter, or in a broad sense to the export sector of the national economy." About two hundred large U.S. exports. So the subsidy ends up with firms account for over 85 percent of all big business.

Despite the massive credits in favor of GM and Chrysler, these vehicle manufacturing giants rank but sixth and eighth among the corporations benefiting from Eximbank finance. The list of those each having more than half a billion dollars of credit authorizations this March confirms the pattern the CBO identified in 1976: Boeing ($3.0 billion), Westinghouse ($2.6 billion), General Electric ($2.0 billion), McDonnell Douglas ($1.8 billion), Caterpillar ($1.1 billion), General Motors ($0.9 billion), Allis-Chalmers ($0.6 billion), Chrysler ($0.5 billion).

Since these data were compiled, Westinghouse has shot to the top of the list. In August Eximbank approved the largest credit it has ever authorized, $1.2 billion, to support Westinghouse's sale of two nuclear power plants to South Korea. Nuclear power exports now use more of Exim's funds than anything else. "Twenty-five to thirty percent of our annual budget for direct credits is accounted for by nuclear exports," says Jim Cruse, Exim's acting vice-president for policy analysis. Exim has financed fortyseven of the fifty-nine nuclear plants that have been exported from the United States to date.

The bank justifies its support for nuclear and other exports in terms of the need to meet foreign competition, arguing, for example, that if the U.S. did not sell those power plants to Korea, then Germany or France or Sweden would. The governments of these countries provide export finance to help their manufacturers obtain orders, and the U.S. government must do the same if American firms are to compete successfully in the world marketplace. This argument received a further boost this year when President Carter committed the government to all-out support of exports in order to combat the growing trade deficit. The chairman of Eximbank, John Moore, has become a veritable missionary in his devotion to this goal, traveling the world to promote U.S. products and Eximbank's financing of them.

The scramble for world trade set off by the industrial countries' desire to restore their external payments balances after the shocks administered by OPEC in 1973–74 has led to a revival of mercantilism, one symptom of which is keen competition among national export credit agencies. Meeting this competition has caused Exim to lower its interest rates wherever possible. Its average rate in 1978 was 8.25 percent, down from 8.53 in 1977, and well below the prime rate.

The argument that the United States should subsidize exports because other countries do so is not without superficial appeal. Yet it does not stand up under deeper examination. If the problem is the trade deficit, then the solution lies in the value of the dollar. Let it float downward until payments equilibrium is achieved.

Furthermore, it is by no means obvious that there is a correlation between a country's export performance and the proportion of its exports that government credits assist. Japan, an outstandingly successful exporter, supports some 39 percent of all its exports with government credit; the comparable figure for Germany, another successful exporter, is only 11 percent. U.S. Treasury econometricians have attempted to calculate the "additionality" of Eximbank programs. For the fiscal year 1976 they claim that "about two-thirds of the total U.S. exports which the bank financed directly represent additional sales which might not have been made if Exim finance had not been available."

The analytical problem with such a claim is that it is not possible to compare what happened with Eximbank financing to what happened without. Assumptions must be made about what would have happened without bank support of exports. In addition, the study extrapolates from only one year's figures. It is notable, moreover, that the Treasury study maintained that only Eximbank's direct loan program was particularly effective; the econometricians estimated that only "about 30 percent of the guarantee program produced additional sales, as did about 27 percent of the insurance program."

The Treasury study says that one-third of the exports Eximbank supported would have been sent abroad in any case. Jet aircraft must surely be one of these inevitable export items. Eximbank financing here is, in Senator William Proxmire's words, "utterly ridiculous, because there is no competitive reason for it." A press release announcing a credit of $151 million in October 1978 to permit British Airways to purchase nineteen Boeing 737s proudly observed that the loan "continues a long history of Eximbank's financing support for exports of U.S. aircraft. The bank has assisted U.S. manufacturers in obtaining approximately 80 percent of the world market." This gets things the wrong way round. There is some foreign competition, notably from European Airbus, which challenges the American jumbo jets, but many U.S. planes have no overseas challengers at all. Yet, after the nuclear industry, aircraft manufacturers have benefitted most from Eximbank finance. About 60 percent of all U.S. jetliner exports receive Eximbank support, according to the Aerospace Industries Association. It is difficult to understand the justification for this, particularly for such credits as one in 1977 permitting the Japanese domestic airline All Nippon to purchase three Boeing 737s or one earlier this year for a similar purchase by the Canadian company Nordair. There is no non-American challenger for the 737.

Power plants, aircraft, transportation equipment. They're all manufactured by major corporations, and it's major corporations that benefit from Eximbank's programs. The bank has been pressed to do something for small business and, together with the Small Business Administration and the Department of Commerce, Exim introduced a nationwide series of conferences on exporting for small and minority enterprises. "No segment of the economy is being given more attention and encouragement by the Export-Import Bank than the small business concerns of this country," chairman Moore told a congressional committee in April. The bank considers the conference program a success.

"At the end of the fiscal year," states its report for 1978, "there were more than 3,000 exporters actively using Exim's programs, of which more than 1,100, or 37.7 percent, could be considered small business." However it is impossible to find anyone in the bank who will say how many of these businesses are using Exim programs because of the conferences. And it is deceptive to bandy around figures like 37.7 percent when nothing like that proportion of the bank's total export finance—in dollars, as opposed to number of firms helped—goes to small business.

Apparently big business isn't satisfied with the present level of Eximbank subsidies. The Carter administration has asked Congress to authorize the bank to lend $4.1 billion in direct credits in the current (1980) fiscal year, up dramatically from $2.9 billion in fiscal 1977. Business groups, however, under the aegis of the "Export Policy Task Force" of the U.S. Chamber of Commerce, want even more. An internal document of this group, which includes executives of General Electric and Catepillar as well as bankers and other industrialists, describes its intention to lobby for an immediate increase in Eximbank's financing from $4.1 billion to "between $6 and $9 billion."

That's not all: Also proposed are two special funds, each an additional one billion dollars, one to support exports to "higher risk developing countries" and the other to meet foreign "mixed credit" competition. (Mixed credit is a blend of aid and export credit funds.) Both funds would support increased U.S. exports to the developing countries.

It's not as if Eximbank hasn't been lending to the Third World. "About two-thirds of Exim's activity between 1970 and 1978 was in the developing countries, though two-thirds of U.S. exports went to the industrialized nations," observed chairman Moore in a recent speech. The bulk of these loans were to the so-called upper-tier developing nations, especially Brazil, Korea, and Mexico. Indeed the flow of Eximbank loans to the Third World, now around $2.7 billion a year, exceeds the total disbursements of the Agency for International Development by almost half a billion dollars—when the very special cases of Egypt and Israel are excluded.

The bank was first established in 1934 to facilitate trade with the Soviet Union, political accord with the country then being a major foreign policy objective. Today the provisions of the Jackson-Vanik Amendment preclude Eximbank from extending credits to Russia. China is also excluded, though it is expected that the explosion in Sino-American trade will soon lead the administration to propose legislation permitting Exim credits for the People's Republic.

Exim's aggressive lending elsewhere in the world may lead it into financal difficulties. At present the bank earns more than it has to pay out because some three billion dollars of its outstanding loans is financed from funds on which it need pay no interest: about two-thirds in accumulated earnings and one-third in original capitalization. This situation may not continue. Chairman Moore's pushing of U.S. exports has involved a considerable shaving of Eximbank's interest rates and a decline in the bank's "dividend" payments to the Treasury relative to the size of its business. In 1978 this dividend was only $35 million, the same as in 1977, despite a 26 percent increase in the volume of export sales supported.

Since 1975 the comptroller general's annual examinations of Exim's financial statements have been qualified, at first because the reserve available to meet potential losses could not be precisely determined but had clearly failed to keep pace with the rapid expansion of programs in the 1970s, and in more recent years, because of an increase in the amount at risk on delinquent and rescheduled loans to financially precarious Third World nations. In commenting on last year's statements the comptroller general observed: "Although the reserve increased in fiscal year 1978, the risk of incurring possible future losses increased to a larger extent. . . . We are unable to express an opinion on the adequacy of the reserve . . ."

Nobody thinks Eximbank is about to go bust. That would take a worldwide financial collapse. Rather there is a possibility—denied by Exim officials—that the banks could find itself suffering losses large enough to require coverage by federal budget appropriations. Despite Exim's never having received an appropriation, there is nothing in the 1945 and 1978 laws incorporating the bank that obliges it to be financially self-sufficient, though it is expected to obtain reasonable assurances of repayment.

The key determinant of Eximbank's financial health is the interest rate it charges to foreign borrowers. The lower the interest charged, of course, the less income Exim can put into its reserve to cover defaults and other contingencies. Should that reserve prove inadequate, the federal purse—ultimately the taxpayer—will have to bail out the bank. The interest rate it establishes is therefore a matter of public policy.

Yet the public cannot attend the board meetings at which Eximbank sets its interest rates, both in general and for specific loans. While the bank is required by the Sunshine Act to hold all its board meetings in public, it has not yet held an open meeting. It is extraordinarily difficult for the public to find out what is going on inside. Board minutes are extremely brief and the staff is hostile to public scrutiny. . . .

Thus far, the bank's refusal of appropriations and its relative obscurity have protected it from criticism. But Chamber of Commerce proposals for two new Eximbank funds for assisting exports to the Third World will, if adopted, require the direct financial support of the taxpayer.

The business group's document does not explain how a mixed credit fund is to be financed, but as its interest rate will be lower than that for straightforward export credits, it will surely run at a loss. The proposal on credits for higher-risk developing countries is more explicit: "Because of the requirement of reasonable assurances of repayment in its charter, Eximbank has in the past been reluctant to extend foreign credits for transactions with higher risk developing countries." If legislators can be persuaded to enact such a fund, the group suggests that the congressional mandate "include language to the effect that losses are expected."

This is worth closer examination. There are certain developing countries where the political instability or level of external debt is such that neither private banks nor even Eximbank is prepared to lend much. Yet our captains of industry want Exim to make loans to such countries, fully expecting that the bank will suffer losses. By then the corporations, however, will have made their sales and gotten their profits, thank you very much. And these extraordinary financial demands on federal agencies like the Export-Import Bank are made in the same breath with outright opposition to subsidies to Chrysler and vocal support for the free market. If the corporations were at all sincere, they would call for the abolition of the Export-Import Bank.●

THE LIMITATIONS OF TV JOURNALISM

HON. JOHN J. LaFALCE

OF NEW YORK

IN THE HOUSE OF REPRESENTATIVES

Thursday, December 13, 1979

● Mr. LAFALCE. Mr. Speaker, TV's coverage of events within Iran in general and NBC's "interview" with the young Marine corporal at the U.S. Embassy in Tehran, in particular, have raised some serious questions about TV journalism.

During the Vietnam war, television helped to bring home some of the reality of that unfortunate conflict; and during the Watergate crisis, television informed millions of Americans about most of the details of that sorbid episode. As the state of the art progressed in terms of advanced telecommunications and the increased skill of correspondents, some commentators, like Marshall McLuhan, predicted that television and other electronic media would soon replace the printed media.

However, the crisis in Iran has revealed some of the problems inherent in television journalism, which are to some extent unique to television. From the very beginning, the networks have been somewhat at the service of the Ayatollah Khomeini and the so-called students at the U.S. Embassy, as both have employed the new technique of television diplomacy. NBC's decision to interview the Marine corporal hostage demonstrated a marked lack of sensitivity and a failure to consider the very probable possibility of brainwashing by the terrorists at the U.S. Embassy. Most importantly, the networks' fixation on the contrived mob scenes outside the Embassy, which have approximately the same importance as a pep rally, are conveying a rather selective reality, and a small slice at that, of what is happening in Iran at the present time. The carefully orchestrated mob reacts to television cameras in much the same way as a high school crowd at a football game reacts to its team's cheerleaders.

In the future, there will be a need to reexamine television journalism; and that reexamination must find an appropriate balance between absolute apologists for NBC and those who want no television coverage of events in Iran. I want to share with my colleagues a very thoughtful editorial from yesterday's Wall Street Journal, which examines the role of the electronic and printed media in Iran.

The editorial follows:

CAMERAS AND CAPTIVES

CBS and ABC refused to air an Iranian-filmed interview with a Marine hostage, bridling at such conditions as it be run in full in prime time. NBC did run the interview, adding the pointed perspective that its subject had been held captive and his remarks must be seen in that light. The networks are showing some sensitivity to what has become a nightly propaganda barrage from Tehran.

Events like the taking of the hostages pose a dilemma for all newsmen, and most especially for the television networks. American television reporters are conditioned to cover wars, rebellions and civil uprisings in much the same way they cover fires. You get your camera and soundman on the scene and stick a microphone in front of anyone you can find, the more important the better. The reporter asks questions and the subject gains access to a vast world-wide audience. If the latter has the argumentative skills of, say, a Persian rug dealer, he might be able to persuade the audience that he has hurts and grievances that would make men shudder when in fact what interests him most is the excitement of violence and unaccustomed power.

This kind of coverage, indeed the television medium itself, has some fairly serious limitations, most of which have been debated ever since political and social activists first learned, some 25 to 30 years ago, that they could get the attention of the TV cameras if they could stir up a big enough ruckus. The media event being staged by the Iranians at the U.S. embassy in Tehran is not so different from thousands that have been staged on college campuses and city squares in the U.S. The yelling and waving of fists is a familiar sight. No doubt some of the Iranians running the Tehran show even learned their business on U.S. campuses.

The fundamental problem here is that mass media, television and the printed press as well, impart credibility to the thinnest of causes. TV is particularly vulnerable to this risk because of its attraction to visual excitement, the severe limits available air time places on explanation and elucidation and the massive and not always fully attentive audience.

The upshot is that Americans have been bombarded with a vast amount of anti-Shah and anti-American propaganda in the five weeks since the embassy was captured—and very little in defense of the Shah's successful efforts for so many years to modernize Iran and prevent it from exploding in an inferno of religious hatred, as it now seems to be doing. There has been very little on the tube to convey to American audiences that what now is happening is not a progressive movement but a reactionary retreat towards a more primitive and savage society.

The Ayatollah Khomeini and his followers have achieved much of what they sought in seizing American hostages. They have used American television to persuade Americans, a high percentage of whom have only a superficial knowledge of the history of Iran, that the Shah must have been a pretty bad person to arouse all that hostility. By association, at least in some minds, the U.S. must be pretty bad in having allied itself with him.

The Carter administration is understandably annoyed with this "TV diplomacy." It encourages Iranian leaders to become overcommitted to extreme positions and could weaken the administration's domestic political base for military action, should that become necessary. By now all American newsmen are justifiably hardened to the slings and arrows of American administrations, of course, but we would urge the TV networks not to treat the current administration's annoyance too lightly.

We certainly would not want to see the networks retreat from their aggressive efforts to cover the news where it happens; and we are second to no one in admiring the courage and initiative of individual reporters and crewmen. Yet for all its virtues, television is still a long way from providing the kind of depth and balance in news that a liberal and open society, with vast international responsibilities, needs and deserves.●

DOMESTIC VIOLENCE PREVENTION AND SERVICES ACT

HON. SHIRLEY CHISHOLM

OF NEW YORK

IN THE HOUSE OF REPRESENTATIVES

Wednesday, December 13, 1979

● Mrs. CHISHOLM. Mr. Speaker, yesterday, the House passed H.R. 2977, the Domestic Violence Prevention and Services Act. This bill creates a modest effort toward alleviating the problem of domestic violence. State and local governments can now become more involved with this problem. H.R. 2816 provides that 75 percent of the $65 million authorized over the next 3 fiscal years is distributed to the States to go directly to community-based programs that give direct assistance to the victims of domestic violence. Throughout the Nation—and probably in many of our own districts—small community-based volunteer groups have been trying to help the men, women, and children caught in the web of domestic violence. Insufficient funding has been the major obstacle to the establishment and maintenance of programs necessary to serve the estimated one out of six families affected by family violence. The passage of H.R. 2977 has removed this obstacle.

In proclaiming the week of November 18, 1979, as National Family Week, President Carter stated:

> Families are the most universal and enduring element in human existence. A family is a reservoir of shared experiences, shared joys and sorrows and, most of all, shared love that spans generations and distances.

He further stated:

> We must nurture the family as it has nurtured us.

Nothing can be more threatening to the existence of the American family than family violence. I am pleased that the House has made this modest but essential effort toward stemming the tide of domestic violence.●

SOVIET PROVOCATION ON IRANIAN CRISIS

HON. PAUL FINDLEY

OF ILLINOIS

IN THE HOUSE OF REPRESENTATIVES

Thursday, December 13, 1979

• Mr. FINDLEY. Mr. Speaker, the Soviet Union is deliberately attempting to inflame anti-U.S. sentiments in Iran in a way that could jeopardize the lives of the hostages and U.S. interests in the area. For example, on December 6, Moscow domestic radio cited a report in a French newspaper that alleged that American commandos were arriving in the Saudi port of Dhahran. The radio report noted that they were dressed in civilian clothing and were attempting to pass themselves off as technical specialists.

This is only one of many Soviet radio and press reports that are intended to increase tension in the gulf. The following New York Times article by Craig Whitney gives details on another Soviet commentary that makes it clear that the Soviet Union is backing Iran in the current crisis.

I would also like to call to the attention of my colleagues the anger and frustration within the U.S. Embassy in Moscow over the Soviet role in this crisis. The frustration felt by American officials is, however, only partially directed at Moscow. It is also aimed at the U.S. Department of State which has issued only a few tepid comments on the Soviet statements and position.

Now that it is clear that the U.S. Senate will not be voting on the SALT II treaty this year, I would hope that the administration will no longer let the treaty ratification process hold hostage an appropriate U.S. response to the deliberate Soviet provocation.

The articles follow:

MOSCOW BACKS IRAN ON HOSTAGES WHILE CONCEDING BREACH OF RULES

(By Craig R. Whitney)

MOSCOW, December 5.—The Soviet Union made it clear in an authoritative commentary today that it was backing Iran in the crisis over the American hostages while recognizing that they were being held in violation of international law.

The commentary in Pravda, the Communist Party daily, said the United States was trying to "blackmail Iran by massing forces on its frontiers" instead of extraditing the deposed Shah, Mohammed Riza Pahlevi, as Iran demands.

The article, which was the first full statement of the Soviet view since the embassy was seized Nov. 4, was taken as an indication that the Kremlin believes its strategic and ideological interests in the Middle East depend more on keeping on the good side of the Iranians than on identifying with the American position on the legality of an embassy takeover.

Pravda called United States naval maneuvers in the Arabian Sea "a gross violation of international legal norms."

"International law does not recognize a double standard," the newspaper said.

It did not allude to yesterday's resolution, supported by all 15 members of the United Nations Security Council, including the Soviet Union, calling on Iran to release the hostages immediately and urging "utmost restraint" on both Teheran and Washington.

The commentary was signed by Aleksei Petrov, a pseudonym used to signal a high-level policy statement. It acknowledged that "the seizure of the American Embassy undoubtedly is not in keeping with the international convention on respect of diplomatic privileges and immunity." But it asserted that "this act cannot be taken out of the overall context of American-Iranian relations."

"Does the stand of those in Washington who reject the demand of the Iranian people for the extradition of the Shah and the return to Iran of his plundered wealth have much in common with international law?" the commentary went on.

The article was viewed by some diplomats as a blow to prospects for Senate approval of the Soviet-American treaty on nuclear arms. To some extent, the Soviet stand on Iran reflects the present state of relations with the United States, strained by American plans to increase military spending and to deploy new nuclear missile systems in the United States and in Western Europe.

INTEREST IN AN ADJOINING NATION

Moscow evidently feels that it cannot afford to antagonize Ayatollah Ruhollah Khomeini, the Iranian leader, as long as he remains in charge in a strategically vital country stretching along 1,200 miles of the Soviet Union's southern frontier. As it did last winter with the Shah, Moscow could drop support for the Ayatollah if he lost control to left-wing forces, but at the moment the pro-Soviet Tudeh Party pays allegiance to the Ayatollah.

"It is logical that the Iranian people should demand the extradition of the Shah to Iran so that he can be put on trial for his crimes," Pravda said. "Nonextradition of the Shah is proclaimed by certain people in the United States as all but 'a matter of national honor,' but concealing a criminal does nothing to enhance a country's prestige and honor."

The article quoted statements critical of the Shah made by Senator Edward M. Kennedy of Massachusetts, who is seeking the Democratic nomination for the presidency, and by Andrew Young, the former delegate to the United Nations.

The Soviet stand has caused embarrassment among some Soviet intellectuals who are aware that this is the 150th anniversary of the death of Aleksandr S. Griboyedov, a playwright who lost his life when a mob sacked the Czarist Embassy in Teheran in 1829.

Mr. Griboyedov was serving as ambassador at the time. The mob decapitated and dismembered his body. As a sign of official regret, the Persians presented an 88-carat diamond to Czar Nicholas I. It is on display in the Kremlin Armory and it is called the "Shah."

U.S. IS IRRITATED BY ARTICLE

WASHINGTON, December 5.—The United States was irritated today by the article in Pravda, the Soviet party daily, which also said that, instead of showing restraint in the current crisis, "certain circles in the United States are putting their bets more and more on force."

The article suggested that the embassy takeover might be "a prologue to a military provocation."

Hodding Carter 3d, the State Department spokesman, said Secretary of State Cyrus R. Vance had told Ambassador Anatoly F. Dobrynin that the Soviet Union should do more to insure the hostages' release and that the Pravda article was "deplorable."

The comments were made in a meeting requested by Mr. Dobrynin, who is returning to Moscow for consultations.

U.S. AIDES IN SOVIET ANGERED OVER IRAN—SOME IN EMBASSY SAID TO DEMAND PRESSURE ON KREMLIN TO HELP

(By Craig R. Whitney)

MOSCOW, December 6.—Anger and frustration over a lack of Soviet cooperation in the crisis over the hostages in Iran have led to unrest among some of their colleagues in the American Embassy here. They feel that the United States has not pressed the Russians hard enough to help.

More than a score of embassy staff members met yesterday with the chargé d'affaires, Mark J. Garrison, for an unusual discussion that one participant described as very tense. An embassy spokesman declined to confirm that the meeting had taken place.

Participants said Mr. Garrison was asked, at times heatedly, to explain the mildness of the American response to Soviet statements that the seizure of the embassy in Teheran was justified because it was "a nest of spies."

STAFF REACTION TO PRAVDA ARTICLE

The focus of the hour-long meeting, according to participants, was a commentary published yesterday in the Communist Party newspaper, Pravda. Apparently reflecting high-level Kremlin views, it said the United States was violating international law by trying to "blackmail" Iran with threats of a military strike unless the hostages were released.

Mr. Garrison has been in charge since Nov. 14, when Ambassador Thomas J. Watson Jr. flew to the United States for a gallbladder operation. Mr. Watson, who is expected back in mid-December, is a former chairman of International Business Machines Corporation and succeeded Malcolm Toon, a career diplomat with a reputation for outspokenness.

Mr. Garrison has spoken more softly, believing that critical public statements about the Soviet Union's attitude on the hostage situation could discourage whatever constructive actions it might take.

The Russians have assented to three resolutions in the United Nations Security Council calling on Iran to release the diplomats immediately. But publicly they have taken Iran's side, and Pravda said yesterday that it was understandable for Iran to demand the extradition of the deposed Shah, Mohammed Riza Pahlevi.

The embassy meeting yesterday was held before Secretary of State Cyrus R. Vance told the Soviet Ambassador, Anatoly F. Dobrynin, that the Pravda commentary was "deplorable." According to some of those who met with Mr. Garrison, several staff members said they thought the United States needed a better way to express its indignation over what they see as cynical Soviet propaganda.

On Nov. 23, in another outburst of frustration after the attack on the United States Embassy in Islamabad, Pakistan, staff members here canceled invitations to a group of Soviet officials to come to the ambassadorial residence, Spaso House, for a showing of the film "Goodbye Girl." The invitations were withdrawn, a note sent to the guests said, "because of the tragic events at our embassy in Islamabad and in view of the continuing danger faced by our colleagues in Teheran."

SOVIETS ASSAIL U.S. FOR POLITICAL, MILITARY "BLACKMAIL" OF IRAN

(By Kevin Klose)

MOSCOW, Dec. 5.—The Soviet Union denounced the United States today for employing "crude military and political blackmail" against Iran. The attack came one day after the Russians endorsed the U.N. Security Council call that Tehran free its American hostages.

A strongly-worded attack in the authoritative Communist Party newspaper Pravda implied that the United States took the hostage case before the United Nations and the World Court only as a cover for a military assault on Iran. It did not mention Moscow's vote supporting yesterday's U.N. call for immediate release of the hostages.

The Pravda article drew immediate fire in Washington, where State Department spokesman Hodding Carter called it "deplorable" and indicated that Secretary of State Cyrus R. Vance took it up personally with Soviet Ambassador Anatoly F. Dobrynin.

(Carter said Vance and Dobrynin met to discuss Iran and other issues as the Soviet envoy prepared to return to Moscow for consultation. The spokesman called the Soviet position on the Iranian crisis "ambiguous" and declared that "the Soviets can and should do more" to obtain the release of the U.S. hostages.)

While the seizure of the U.S. embassy "is not in keeping" with international law, Pravda said, the Tehran incident "cannot serve as a justification, much less a pretext for violation of sovereignty of an independent state."

Citing a report it attributed to the Washington Post that U.S. fighter bombers in the Persian Gulf "can strike with atomic bombs" at Iran's oilfield, Pravda also implied that Washington may be preparing a nuclear strike against Iran.

The Washington Post never mentioned any atomic or nuclear capability of U.S. forces in the Middle East.

The thrust of Pravda's comments, while obliquely justifying Moscow's support for diplomatic immunity in international forums, appears to be laying the framework for a more aggressively anti-American stance designed to curry favor with Iran's revolutionary rulers.

Never mentioning President Carter, Pravda pointed out that both Sen. Edward M. Kennedy (D-Mass.) and former UN Ambassador Andrew Young in recent interviews had called the deposed shah of Iran a violent despot who had stolen billions from his country. Using their statements to bolster its own pro-Tehran rhetoric, Pravda asserted, "Therefore it is logical that the Iranian people demand the extradition of the shah to Iran so that he should be put on trial for his crimes."

While referring to "the white house" just once and avoiding more specific references, the newspaper aimed its charges at the administration.

Pravda alleged that the "U.S. itself admits" that American diplomatic initiatives "are aimed at convincing the U.S. and international public that the U.S. allegedly exhausted peaceful means of settling the conflict and has no other way out but to use force."

"Instead of showing an example of restraint, responsibility, and composure in the situation, instead of redoubling efforts to find a reasonable way out without giving rein to emotions, certain circles of the U.S. are making an ever greater stake on force."

While declaring it "inadmissable" that the embassy takeover should bring American military counteraction, Pravda did not make any threats of Soviet counter-moves.●

TRADE PROBLEMS: RECOMMENDATIONS FOR ACTION (PART 5)

HON. JOHN H. ROUSSELOT

OF CALIFORNIA

IN THE HOUSE OF REPRESENTATIVES

Thursday, December 13, 1979

● Mr. ROUSSELOT. Mr. Speaker, today I will conclude this series on the Trade Subcommittee hearing held in San Jose on November 30. As my colleagues know, this hearing dealt with the competitive factors facing the semiconductor industry and the difficulties of trying to compete with the Japanese industry, which is government-subsidized. The final half of Mr. George Scalise's statement will appear today, along with the recommendations of the Semiconductor Industry Association for improving the competitive posture of the American integrated circuits industry. It is my hope that this series has helped the Members of the House understand the effect that other countries' economic and trade policies have on our hard-pressed domestic industries.

It should be our goal, as the Nation's legislators, to eliminate Federal regulations and laws which put our industries in less than competitive positions. The last half of Mr. Scalise's testimony follows:

STATEMENT OF MR. GEORGE M. SCALISE

Of all the foreign governments financing semiconductor enterprises to date, the Japanese effort has been the most effective. Their so-called VLSI subsidy program of at least $360 million over four years (Report, p. 77) is aimed at the commercial development of semiconductors and the manufacture of such products for export—with the goal of acquiring major market shares for the Japanese companies in both semiconductors and computers. The total amount of the state aid is probably even higher, due to unpublished subsidies and assistance from state-owned research facilities.

The Japanese acknowledge the commercial significance of their VLSI program, but counter with the defense that U.S. government practices are identical. The facts are as follows:

Unlike the Japanese, the U.S. government has never financed commercially-oriented research and development of semiconductor products (Noyce Testimony before the ITC, p. 16);

Defense-related U.S. semiconductor research funding ended ten years ago, before many of the present U.S. semiconductor firms were formed, and all commerical byproduct technology has been shared with our trading partners (Noyce Testimony before the ITC, pp. 16–17);

Present U.S. government R&D support for the semiconductor industry is virtually nonexistent and is certainly insignificant (ITC Report, p. 26); and

Even if they exist, any advantages from U.S. government procurement of semiconductor products can be shared by the Japanese if they adopt the "Agreement on Government Procurement" negotiated as part of the Tokyo Round.

Of the foreign semiconductor enterprises, the Japanese are unquestionably the most technologically advanced. The evidence which the SIA presented to the ITC strongly suggests that the Japanese semiconductor industry has plans to exploit its technological advances with a two-pronged strategy:

First, to capture a significant share of the U.S. market as a necessary proving ground for the most advanced products; and

Second and more perniciously, to deny the U.S. semiconductor industry the cash flow required for the capital expansion, research and development which is essential to continue its technological leadership.

This strategy reflects a further refinement of the *modus operandi* used so successfully by the Japanese in the television, steel and other industries: Underprice the U.S. producers for as long as necessary to buy a share of the market. Put another way, an all-out price war, with the financial backing of the Bank of Japan.

John Nesheim testified before the International Trade Commission that there are significant differences between the capital formation processes in the United States and in foreign countries. For some unexplained reason, this very important issue was not discussed in the ITC Report. I will summarize Mr. Nesheim's analysis very briefly.

On the one hand, U.S. semiconductor companies are privately owned and financed. They depend on earnings to generate internal funds which in turn constitute an equity foundation for debt capital raised in the competitive money markets. There is a practical limit, however, to the amount of debt that the free capital markets will allocate to the U.S. firms—the borrowings must be repaid and the market evaluates the risk of possible default. Even with their low debt/equity ratios (compared to Japanese enterprises), both medium companies such as mine and large U.S. companies like Mr. Nasheim's National Semiconductor have, as Mr. Nesheim testified before the ITC, "a bloody battle" borrowing capital in the free markets. Because free market forces determine the allocation of capital in the United States, our firms simply cannot borrow large proportions of money.

We know that the return on sales of the Japanese semiconductor firms average only 1.9% compared to 6% or more for the U.S. firms. Yet semiconductors is a growth industry in Japan. How does a "growth industry" grow when it doesn't make money? The answer is that they "borrow" money in vast amounts, as shown in the following table. This government-directed borrowing is the key to the Japanese advantage in international semiconductor trade:

[In percent]

	Capital structure	
	U.S. semiconductor firms [1]	Japanese semiconductor firms [2]
Short-term debt	5	38.4
Long-term debt	10	25.1
Total debt	15	63.5
Equity	85	36.5
Total	100	100.0

[1] Source: Table, p. 34, ITC report.
[2] Source: Moody's (NEC, Fujitsu, Hitachi).

Rather than make loans on the basis of business risk, Japanese banks apparently receive indirect or informal assurances from the Japanese government that it stands behind preferred borrowers, such as the Japanese semiconductor enterprises. As Mr. Nesheim testified before the ITC, only a government guarantee can explain the very high amounts of debt, particularly short-term debt, advanced by the Japanese banks to the Japanese semiconductor firms. An export-generating target industry such as electronics is so important to the Japanese economy that the government simply will not let it fail. Without Japanese government support, the risk of default would be too great to justify such enormous debts on a limited equity foundation and Japanese banks would not make the loans. Without government backing, these Japanese firms would be bankrupt under our standards.

You may ask, Mr. Chairman, why we are concerned about loan guarantees by the Japanese government. When government loan guarantees release a foreign enterprise from dependence on free capital markets, the beneficiary firm can reorient its market strategies. It need not worry about current earnings to finance growth or to support repayment of principal and interest on loans. It can underwrite massive research projects and fund long-term operating losses necessary to capture market share. In a competitive sense, its hand is strengthened in ways which cannot be matched by U.S. firms.

Once the Japaneese government is committed to an industry, the flow of capital appears endless. However, without the earnings "carrot," inefficiencies arise which must be masked by more and more subsidized capital, resulting in the phenomenally high debt ratios which exist in the Japanese firms. In his testimony before the ITC, Mr. Nesheim demonstrated that the capital utilization efficiency of U.S. semiconductor firms is much higher than that of the Japanese. Thus, by avoiding free capital market incentives, the Japanese system does not benefit consumers by greater efficiencies. It is designed principally to benefit the Japanese by providing jobs and by creating exports—the obvious goals of the Japanese capital formation system.

Let me return to my specific concerns about the ITC Report. The ITC Report ignores Mr. Nesheim's careful analysis and substitutes a questionable calculation at page 73, which the ITC suggests shows that the Japanese firms are more capital efficient than U.S. firms. We disagree with this analysis. The ITC relates annual shipments to new plant investment in the same year. By this test, a firm could claim infinite efficiency by having zero investment in one year, while shipping from plants built in prior years. Obviously, the ITC analysis is faulty.

Mr. Chairman, I am particularly concerned about the erroneous conclusion by the ITC that the U.S. industry fell behind in its investment in the mid-1970's, and that the Japanese have taken up the slack. There are three reasons why the ITC conclusion is wrong:

The ITC conclusion, based on table A-38 in the Report, considers plant additions alone, not plant and equipment. The aggregate statistical data clearly show that U.S. total investment in plant and equipment, as set forth in the following table, exceeded that of the Japanese by a multiple of ten in 1974 and a multiple of five in 1975;

The ITC data, Table A-38, shows a minor decline in new U.S. plant in 1975, but U.S. investment was still $100,000,000 higher than the new Japanese plant built in 1975. However, the Japanese investment in new plant declined about the same percentage, from 1974 to 1975, $41 million in 1974 to $34 million in 1975, and was very small—about 6% of the new U.S. investment in plants.

U.S. equipment investment has increased steadily in each of the past five years; obviously, U.S. producers were upgrading existing plant facilities to produce more sophisticated integrated circuits. Indeed, the Japanese investment in equipment declined in 1975 while the U.S. investment increased in that year over 1974 levels.

Consider the following table:

COMBINED ADDITIONS TO PLANT AND EQUIPMENT—UNITED STATES AND JAPAN

	1974	1975	1976	1977	1978
U.S. firms investment in United States	$411,352	$399,505	$476,983	$510,225	$678,202
U.S. firms investment throughout the world	544,215	542,598	625,795	667,114	897,053
Japanese firms investment throughout the world	41,155	33,714	115,371	96,615	172,131

Source: Computed from tables A-38, A-39, A-63, A-64, ITC report.

There is clearly added capacity in the United States. The problem is that it may not be as profitable to use that capacity in competition with the artificially low Japanese prices.

In 1974 and 1975, Japan's aggregate investment in new plants was only 7.6 percent and 6.2 percent of the U.S. investment, respectively. It is difficult to accept the Japanese argument that their marginal additions to world capacity account for the surge of low-priced imports from Japan which have flooded the United States. The Japanese investment in 1974–75 simply does not explain the surge of low-priced Japanese imports in 1978 and 1979.

During the past five years, the U.S. industry has continued its research and development and has introduced virtually every new process and product in the leading edge technologies of memory and microprocessor products. The Japanese have copied these new U.S. products.

The ITC Report refers to the fact that SIA has recommended improved incentives for capital investment in the United States by amending our tax laws. The ITC refers to tax relief as a partial solution. Report, p. 34. However, given the magnitude of the threat from Japanese government supported enterprises, I want to emphasize that fine tuning of the U.S. tax laws will not sufficiently enhance capital formation by U.S. firms to offset in full the Japanese competitive advantages based on its governmental support. As Mr. Nesheim explained in his ITC testimony, even under the most favorable U.S. tax system imaginable for high-technology industries, incentives such as R&D subsidies and cutting U.S. tax rates would still give the Japanese debt/equity ratios averaging seven times larger than those of U.S. firms. (Table 3 to Mr. Nesheim's Statement.) Perhaps most importantly, the Japanese will still enjoy freedom from the rigors of raising funds in competitive capital markets.

As a final point, Mr. Chairman, the Japanese have argued that they solve trade problems by their investments in the United States. From purely a trade statistics viewpoint, this argument perhaps has limited merit. This Committee might study whether U.S. investments by the Japanese undermine the earning power of U.S.-owned firms, making them less competitive both in the United States and in world markets. For example, the return on color television operations for U.S. producers dropped steadily from 8.7 percent of sales in 1971 to 3.7 percent, 2.8 percent and 1.5 percent, respectively, in 1976, 1977 and 1978. This was the period when Japanese firms shifted from imports of Japanese to U.S. assembly of color televisions. A return of 1.5 percent on sales is hardly conducive to capital formation in free capital markets and the U.S. television firms are not prospering. Television is no longer a growth industry.

1.5 percent also approximates the average return by Japanese semiconductor firms. If Japanese firms, selling from their U.S.-based plants, force such low returns on the U.S. semiconductor companies, the U.S. industry will lose its growth potential and its ability to raise capital, all during a period when the Japanese banks stand ready to supply capital funds for more Japanese-owned plants.

In closing, Mr. Chairman, we hope that our cooperation with the ITC in generating this Report will attract the attention of Congress to our unprecedented problems and will provide the background for an effective solution, including legislation, if appropriate.

RECOMMENDATIONS

Our suggested remedies for the trade problems outlined here today fall into four basic categories:

(1) Meaningful remedies for disruptive imports and artificial pricing by the Japanese.

(2) Tax and financial incentives designed to keep the U.S. industry on a parity with the Japanese firms.

(3) Improved access to the Japanese market.

(4) Guidelines for investments by the Japanese firms in the United States.

(1) Japanese Imports. The key issue is artificial pricing. If the Japanese firms persist in disrupting free market forces in the U.S. market, our government must take steps to resolve the artificial pricing effects which will injure the U.S. industry by diluting our capital formation potential and learning curve benefits.

(2) Tax Incentives. Congress should establish a policy for the United States which provides incentives and other stimuli for those industrial sectors which we can reasonably expect to contribute disproportionately to the productivity, research strength, and trade strength of the national economy. Integrated circuits and computers would place high in this list. The incentives would relate to such parameters as innovation, exports, value added, employment (both qualitative and quantitative) and would stimulate intensified R&D and capital investment in the leading industries.

Specifically, we recommend the following:

Tax credits for year-to-year increases in research expenditures by fast growth, high technology firms;

Rollover provisions—capital gains tax deferral for reinvestment in new securities issues;

Liberalized depreciation, the net effect of which would be a three year write-off of equipment with a commensurate investment tax credit period;

Jointly funded cooperative research on university campuses in high technology areas; and

Tax credits for corporate contributions to universities, not to exceed 10 percent of total R&D expenditures by the corporation.

(3) Access to Japanese Market. Our government should negotiate with Japan for immediate implementation of the MTN tariff cuts, inclusion of Nippon Telephone and Telegraph under the Government Procurement Code, and strict enforcement of the other non-tariff barrier codes.

Japan must immediately eliminate all discrimination against foreign-owned companies with respect to equal access to financing, research and customers.

The Japanese government must also cease all restrictive patent practices and allow foreign-owned companies to acquire Japanese semiconductor patents as freely and openly as the Japanese firms acquire American patents.

(4) Japanese investments in the U.S. Congress should consider legislation which would tax U.S. operations of foreign-owned firms in an amount necessary to offset the structural advantages which they derive from foreign government target industry programs. If Japanese trade practices conducted from plants within our borders disrupt our markets or threaten the U.S.-based industry, appropriate steps must be taken to correct the situation.●

PERSONAL EXPLANATION

HON. MICKEY LELAND

OF TEXAS

IN THE HOUSE OF REPRESENTATIVES

Thursday, December 13, 1979

● Mr. LELAND. Mr. Speaker, on December 11, 1979, I was unable to be present on the floor for rollcall vote No. 716, an amendment to S. 423 that sought to strike language establishing a Dispute Resolution Advisory Board. Had I been present, I would have voted "nay."●

PERSONAL EXPLANATION

HON. TOBY ROTH

OF WISCONSIN

IN THE HOUSE OF REPRESENTATIVES

Thursday, December 13, 1979

● Mr. ROTH. Mr. Speaker, due to my absence on December 6, I missed a number of votes. Had I been in attendance I would have cast the following votes:

Rollcall 705: Domestic violence: Passage of House Resolution 498 providing for the consideration of H.R. 2977. "Aye."

Rollcall 706: Child Health Assurance Act: Motion to resolve in the Committee of the Whole. "Aye."

Rollcall 708: Amendment to permit medical assistance for abortions resulting from rape or incest. "No."

Rollcall 709: Substitute amendments that prohibit funding for medical assistance for abortions except when the life of the mother is endangered. "Aye."

Rollcall 710: Amendment which sought to convert financing mechanism for CHAP from an entitlement to a fixed authorization. "Aye."●

SENATE—*Friday, December 14, 1979*

(Legislative day of Thursday, November 29, 1979)

The Senate met at 12 meridian, on the expiration of the recess, and was called to order by Hon. MAX BAUCUS, a Senator from the State of Montana.

PRAYER

The Chaplain, the Reverend Edward L. R. Elson, D.D., offered the following prayer:

Let us pray.

Eternal Father, help us to love the Lord our God with all our hearts, to love our neighbor as ourselves and to love our colleagues better than we sometimes do. Grant to us clean hands, pure hearts and worthy motives. Since Thou has given us the gift of a new day help us to make it a new beginning with a new spirit. Lead us in sorting alternatives, evaluating options, reconciling differences, overcoming intransigency until we are able to concert a national purpose in accord with Thy will. Keep us from wasting time on the wrong things or on things that do not matter. From the beginning to the end of this day help us fervently to do justly, to love mercy and to walk humbly with our God. Amen.

APPOINTMENT OF ACTING PRESIDENT PRO TEMPORE

The PRESIDING OFFICER. The clerk will please read a communication to the Senate from the President pro tempore (Mr. MAGNUSON).

The legislative clerk read the following letter:

U.S. SENATE,
PRESIDENT PRO TEMPORE,
Washington, D.C., December 14, 1979.

To the Senate:

Under the provisions of rule I, section 3, of the Standing Rules of the Senate, I hereby appoint the Honorable MAX BAUCUS, a Senator from the State of Montana, to perform the duties of the Chair.

WARREN G. MAGNUSON,
President pro tempore.

Mr. BAUCUS thereupon assumed the chair as Acting President pro tempore.

RECOGNITION OF THE MAJORITY LEADER

The ACTING PRESIDENT pro tempore. The Senator from West Virginia.

THE JOURNAL

Mr. ROBERT C. BYRD. Mr. President, I ask unanimous consent that the Journal of the proceedings be approved to date.

Mr. WEICKER. I object.

RECOGNITION OF THE ACTING MINORITY LEADER

The ACTING PRESIDENT pro tempore. The Senator from Alaska is recognized.

Mr. STEVENS. Mr. President, I yield 3 minutes of this time to the Senator from Minnesota (Mr. DURENBERGER) and the remainder of the time will be under the control of the Senator from Kansas (Mr. DOLE).

The ACTING PRESIDENT pro tempore. The Senator from Minnesota is recognized.

(The remarks of Mr. DURENBERGER in connection with the introduction of legislation, are printed in the RECORD under Statements on Amendments Submitted to Printing.)

U.S. DISASTER RELIEF WORK IN JAMAICA AND DOMINICA

Mr. PACKWOOD. Mr. President, just a few weeks ago a special group of Americans returned to the United States after several months of disaster recovery work for two Caribbean island neighbors of ours, the nations of Jamaica and Dominica. For the most part, these men worked under adverse conditions, many living for 3 months in tent camps, eating C and K rations. Their workday was 11 to 12 hours, except on Sunday when they put down their tools for half a day of rest and recreation. For a few of the 150 men, serious illness required emergency evacuations by helicopter and plane to U.S. Navy hospitals.

And yet, Mr. President, this humanitarian effort by the United States has gone largely unheralded. I am particularly pleased to rise at this time, when Americans are held hostage in another part of the world, to pay special tribute to this Caribbean humanitarian undertaking by making this statement for the CONGRESSIONAL RECORD.

The men involved in this effort are Seabees of Naval Mobile Construction Battalion 40 from Port Hueneme, Calif.; NMCB 1 from Gulfport, Miss.; and the 8th Engineer Support Battalion, 2d Force Service Support Group and the Fleet Marine Force, stationed at Camp Lejeune, N.C. The project was under the operational control of the headquarters for Atlantic Fleet Seabees in Norfolk, Va., the Commandant of which is Capt. John Cameron Fraser.

Mr. President, some background is in order. In June of this year Jamaica suffered under 21 straight days of torrential rains. Fifty inches fell on the last 2 days alone and dozens of Jamaicans were killed. Houses and bridges were tossed about like toys and canyonlike gullies were gouged from mountainsides. Roads simply disappeared. One entire town was submerged under a new lake more than 100 feet deep.

The devastation on Dominica occurred in August when Hurricanes David and Frederic struck with full force. Winds from David were clocked at 225 knots. The storms left about 40 people dead and an estimated 60,000 Dominicans out of a total population of 80,000 were left homeless. The island's only hospital, in the capital city of Roseau, lost the roofs on most of its buildings; 80 percent of the island's commercial coconut and banana trees either were toppled or stripped of bark and foliage. Roads were made impassible by mudslides and walls of fallen timber. Wind-driven ocean waters blasted cavernous holes into the roadbed of one coastal road to Roseau, severing it completely in some places and isolating large portions of the island from the capital.

Mr. President, I have received a firsthand report of the work of our U.S. servicemen on the islands and wish to share with my colleagues in the Senate the news of the successful completion of this recovery operation, and the gratitude of the governments involved.

The Jamaican relief effort was the first to get underway. On August 28, the U.S.S. *Portland*, a dock landing ship, arrived in Montego Bay and unloaded 150 Seabees and Marine Corps Engineers and more than 100 pieces of construction equipment, including bulldozers, rock dumps, trucks and a mobile con-