

## SENATE—Wednesday, July 22, 1981

(Legislative day of Wednesday, July 8, 1981)

The Senate met at 10 a.m., on the expiration of the recess, and was called to order by the President pro tempore (Mr. THURMOND).

## PRAYER

The Chaplain, the Reverend Richard C. Halverson, LL.D., D.D., offered the following prayer:

Let us pray.

Loving Father in Heaven, we regret that so often it takes a tragedy to draw us together and make us aware of each other. How often we have been indifferent to someone, have failed to express to him our appreciation, respect and affection, then tragedy overtakes and we remember with regret our negligence.

Forgive us for taking each other for granted, for failing to show honor, gratitude and love. Dear God, do not let us wait until someone dies to appreciate him, do not allow us to have to lose privilege to appreciate it. Keep us from treating people in ways we will regret if they are taken away from us; help us to treat others in ways we will wish we had. We pray this in the name of Him who loved to His death even those who opposed Him. Amen.

## RECOGNITION OF THE MAJORITY LEADER

The PRESIDENT pro tempore. The majority leader is recognized.

Mr. BAKER. Mr. President, I thank the Chair.

## THE JOURNAL

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

The PRESIDENT pro tempore. Without objection, it is so ordered.

## LEGISLATIVE PROGRESS REPORT

## ECONOMIC RECOVERY TAX ACT OF 1981

Mr. BAKER. Mr. President, I am pleased to note that the Committee on Ways and Means of the House of Representatives met until the early hours of this morning to complete action on a tax bill in the House of Representatives.

I believe that is a hopeful sign that may indeed reignite the flicker of hope that we can finish this session by the first of the month and keep the schedule adopted earlier in the year for the statutory August recess.

In that connection, Mr. President, there will be a vote at 11 a.m. today on a Dole tabling motion against the Dole amendment (No. 509) in the first degree.

I hope that when this issue is acted

upon we can get on with the business at hand and complete action on the tax joint resolution here as it will be necessary, of course, to meet with the House of Representatives in conference on this joint resolution.

As I indicated yesterday, Mr. President, it is my hope that the distinguished minority leader and I, as well as other Senators who are interested, could today actively explore the possibility of one of several possible unanimous-consent agreements to expedite the passage of this measure.

I especially wish to examine the possibility of establishing by unanimous consent the number of amendments yet to be dealt with and the sequence. I have such a list on this side of the aisle, and I hope we will have an opportunity to explore that possibility this morning.

I hope, in the same connection, that we may be able to establish time limitations on the amendments remaining to be disposed of. I optimistically express the hope that they will be very short-time limitations except in the few instances where major issues are yet to be resolved by this body.

So, Mr. President, I think that by the action of the House of Representatives last evening and this morning in ordering the bill reported or at least completing work in order to prepare for that final vote today and by good progress, that I hope and trust the Senate will make on the tax joint resolution here, with our efforts to design unanimous-consent agreements in respect to the amendments to be dealt with, the manner in which they are dealt with, and the time in which they are dealt with, that the Senate can complete action on the tax joint resolution by Friday.

While there is an order for the convening of the Senate on Saturday at 10 a.m., it is my intention to vitiate that order or attempt to do so in the event we can finish this joint resolution on Friday.

If we do that, Mr. President, I think there is some chance, at least perhaps even a good chance, that the House of Representatives and the Senate could complete action on the tax bill and complete the conference process in time for the August recess to begin late on the evening of July 31 or the early morning of August 1.

## CONFERENCE ON BUDGET RECONCILIATION ACT

Mr. President, I report as well on the reconciliation conference. This morning I met with Members from the House of Representatives and the Senate in that respect, and I believe very good progress is being made on the budget reconciliation conference.

I think it is fair to say that fully half of the subconferences have completed or virtually completed their work. Of those

remaining, some have not completed their work simply because Members have been engaged in other matters, such as debate on the tax joint resolution in this Chamber, or in the Ways and Means Committee, and have not been able to attend the conferences.

I predict that a significant number of subconferences will complete their work today and that it is possible to complete work on the conference between the House of Representatives and Senate on the disagreeing votes on the budget reconciliation bill by Friday of this week as well.

So, Mr. President, it appears that Friday is not only a target day for the House of Representatives and Senate, most especially for the Senate, but of extraordinary import because it offers the promise, at least the potential, for the completion of the budget reconciliation conference and the completion of the tax joint resolution in the Senate.

Mr. President, I have no further need for my time under the standing order.

Mr. President, if any time remains to me under the standing order I am prepared to yield it back or to yield it to the distinguished minority leader or to a Senator.

## RECOGNITION OF THE MINORITY LEADER

The PRESIDING OFFICER (Mr. GORTON). The minority leader is recognized.

## SOCIAL SECURITY

Mr. ROBERT C. BYRD. Mr. President, I was amazed by President Reagan's letter of July 18 to me and other congressional leaders. I am dismayed that the President of the United States would accuse Members of Congress of "opportunistic political maneuvering, cynically designed to play on the fears of many Americans \* \* \*." I regret that legitimate and strongly held policy disagreements could be characterized in such a political and partisan fashion.

Five months ago, when the President came before the Congress to argue the merits of his budget plan, he said that no budget savings would be made by cutting the social security retirement program. He said:

The full retirement benefits of the more than 31 million Social Security recipients will be continued along with an annual cost-of-living increase.

These benefits were to be preserved as part of the Nation's safety net.

The checks for some current beneficiaries will soon be cut substantially, not

by any piece of legislation dealing specifically with social security, but through the budget process, and as a result of administration budget proposals.

The depth of benefit cuts in the administration's social security reform plan goes well beyond what might be necessary to insure adequate future financing of retirement benefits. The plan calls for \$88 billion in cuts over the next 5 years which grow into a 23-percent cut in total benefit protection, and more than a 40-percent slash in retirement income for people who must retire at age 62. After examining the plan, one can only reasonably conclude that it is part of a larger Federal budget-cutting strategy.

According to the administration's own economic forecasts, upon which their budget plan and tax cut are premised, about \$80 billion of the proposed savings would not be needed to pay for benefits during the next 5 years. The administration's program is clearly structured in a suspicious fashion. The administration has steadfastly defended a 3-year tax cut on the grounds of very optimistic assumptions regarding the Nation's future economic performance. In sharp contradiction, it has used extremely pessimistic economic assumptions about our future to evaluate the economic health of the social security system.

The short-term cash flow problems of the retirement trust fund are problems of the economy—high interest rates, unemployment, and low-growth—rather than of demography. The administration has painted a bleak economic future as its basis for justifying immediate, major, and permanent reductions in social security protection. The administration's plan is cruel and inhumane; it is unfair and it is unnecessary.

The nonpartisan, professional Congressional Budget Office has predicted that the short-term cash flow difficulties of the retirement trust fund can be solved by a simple, noncontroversial bookkeeping change: interfund borrowing among the social security system's three separate trust funds.

Health and Human Services Secretary Schweiker recently supported such an accounting change in testimony before the Senate Finance Committee. The Congressional Budget Office has supported this short-range solution, based on economic conditions more pessimistic than the administration's own forecasts, and assuming the benefit cuts which will soon be enacted as part of the President's reconciliation bill.

Last week, when Senate Democrats, under the leadership of Senator MOYNIHAN, attempted to resolve the short-term financing problems of the social security retirement trust fund through interfund borrowing, we were defeated on a party line vote.

The purpose of our action was to find a solution for the immediate, 5-year financing problems of the social security retirement fund, so that any other proposed changes in the social security benefit structure might be considered in a calm, realistic, and moderate manner—

with time to examine the implications and reasons for such actions.

The purpose of our action was also to resolve the crisis of confidence, among the American people, regarding the fiscal integrity of the social security system. We welcomed Republican votes in attempting to resolve this crisis. Unfortunately, only one Republican voted with us.

In his letter to me, the President said that:

The highest priority of my administration is restoring the integrity of the social security system.

His claim rings hollow when measured against his proposal to slash immediately the benefits of millions of Americans who were planning to retire at age 62 next year. The integrity of the social security system is based on confidence and predictability. This administration has intentionally undermined confidence in the system. Its hastily conceived cuts have seriously eroded the system's predictability.

Mr. President, I shall read the letter of the President addressed to me into the RECORD. Then I shall read my response to the President into the RECORD. The letter from the President is dated July 18, 1981:

DEAR SENATOR BYRD: The highest priority of my Administration is restoring the integrity of the Social Security System. Those 35 million Americans who depend on Social Security expect and are entitled to prompt bipartisan action to resolve the current financial problem.

At the same time, I deplore the opportunistic political maneuvering, cynically designed to play on the fears of many Americans, that some in the Congress are initiating at this time.

It is true, Mr. President, as the President suggests in his letter, that the American people are frightened and concerned. Several thousands of our citizens expressed that fear and concern on yesterday when they braved the 94-degree heat and traveled long distances to petition their Congress and their Government on the west front of the Capitol in the hope of salvaging their dignity and their livelihood. They came because millions of them are suddenly faced with the real possibility of losing their minimum monthly benefits. They came because they are confronted with living out their retirement years in poverty.

Of course, they can always turn to welfare. That is the cynicism with which this administration apparently views the matter.

They came because, for those who are retiring at age 62 because of ill health or other factors, the administration plans to reduce their benefits by 40 percent—40 percent, Mr. President, at a time when inflation makes affording the bare essentials a tough proposition.

The President writes of "opportunistic political maneuvering, cynically designed to play on the fears of many Americans." Mr. President, those several thousands of our senior citizens who gathered here yesterday on the Capitol lawn came because they are frightened, their "fears" created by the White House and Mr. David Stockman.

They came because David Stockman

has told them that the Social Security Fund will be bankrupt in November of 1982.

Yes, they are frightened. They are frightened because the administration has deliberately whipped up anxiety, deliberately exaggerated the direness of the financial situation of the Social Security Fund so that the administration's harsh and unfair proposals will be accepted.

The letter continues:

These efforts appear designed to exploit an issue rather than find a solution to the urgent Social Security problem. They would also have the unfortunate effect of disrupting the budget conference and reversing the actions of a majority of both Houses of the Congress. Such a result would jeopardize our economic recovery program so vital to the well-being of the Nation.

In order to tell the American people the facts, and to let them know that I shall fight to preserve the Social Security System and protect their benefits, I will ask for time on television to address the Nation as soon as possible.

During this address, I will call on the Congress to lay aside partisan politics, and join me in a constructive effort to put Social Security on a permanently sound financial basis as soon as the 97th Congress returns in September.

Sincerely,

RONALD REAGAN.

Mr. President, I responded to the President on yesterday as follows:

DEAR MR. PRESIDENT: This will acknowledge receipt of your July 18 letter, expressing your concern for the 35 million Americans who depend on Social Security for their livelihood. I regret that you suggest in your letter that any deviation from the Administration's proposals on Social Security is "opportunistic political maneuvering, cynically designed to play on the fears of many Americans. . . ."

Your Administration's proposed Social Security cuts are a breach of faith with the American people. Gloom and doom predictions for the financial solvency of the system are severe distortions of the problems faced by the Social Security trust funds.

Since the inception of the Social Security program, no Administration has done more to shake the confidence of the American people in the security of the Social Security system. No Administration has ever before attempted to balance the budget by reducing Social Security benefits.

The "facts" are that the draconian solutions proposed by the Administration simply are not necessary to keep the system solvent in the short run. On July 15, Senator MOYNIHAN offered an amendment which would have solved the foreseeable short-run problems of the system, and allowed for a dispassionate analysis of the long-term problems which the system may face in the next century. But the amendment which provided for borrowing among the three Social Security trust funds was defeated on July 16 by a party-line vote.

We did not wish to make this a partisan issue. We have welcomed Republican votes in support of our efforts. But partisan politics, directed from the White House and the OMB, have time and again resulted in a partisan vote on the Social Security issue.

I would respectfully suggest that your Administration's rhetoric is responsible for much of the fear and panic being experienced by the elderly. In recent testimony, David Stockman, Director of the Office of Management and Budget, stated that "The most devastating bankruptcy in history will occur on or about November 3, 1982." Such fear tactics certainly do not contribute to



the calm and reasoned atmosphere needed to fashion a bipartisan solution to the problems of the system.

I would also suggest, Mr. President, that our elderly citizens were misled by campaign promises to leave the Social Security retirement benefits unscathed by budget cuts. The frustration, anger, and fear we are witnessing now from our senior citizens is a result of those broken promises, and of the exaggeration of the system's problems in order to stamper the American people into support for unfair and ill-reasoned cuts. Balancing the budget is something that we must do, but not on the backs of Social Security beneficiaries.

Democrats stand ready to work for a resolution of the long-range problems of the Social Security system, while protecting the financial security of our elderly in the short run. I believe that such a solution can be found, and that the American people expect us to find it.

Sincerely,

ROBERT C. BYRD.

Mr. President, I ask unanimous consent to have printed in the RECORD the President's letter addressed to me and a resolution which was adopted yesterday by the Democratic Conference.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

THE WHITE HOUSE,  
Washington, July 18, 1981.

Hon. ROBERT C. BYRD,  
Minority Leader, U.S. Senate,  
Washington, D.C.

DEAR SENATOR BYRD: The highest priority of my Administration is restoring the integrity of the Social Security System. Those 35 million Americans who depend on Social Security expect and are entitled to prompt bipartisan action to resolve the current financial problem.

At the same time, I deplore the opportunistic political maneuvering, cynically designed to play on the fears of many Americans, that some in the Congress are initiating at this time. These efforts appear designed to exploit an issue rather than find a solution to the urgent Social Security problem. They would also have the unfortunate effect of disrupting the budget conference and reversing the actions of a majority of both Houses of the Congress. Such a result would jeopardize our economic recovery program so vital to the well-being of the Nation.

In order to tell the American people the facts, and to let them know that I shall fight to preserve the Social Security System and protect their benefits, I will ask for time on television to address the Nation as soon as possible.

During this address, I will call on the Congress to lay aside partisan politics, and join me in a constructive effort to put Social Security on a permanently sound financial basis as soon as the 97th Congress returns in September.

Sincerely,

RONALD REAGAN.

#### RESOLUTION

Resolved by the Senate Democratic Conference:

Whereas on May 12, 1981, the President proposed precipitous, severe, unnecessary, unfair, and permanent reductions in Social Security benefits; and

Whereas the President's plan strikes at nearly every American who is employed, or has been employed, under the Social Security System; and

Whereas Social Security is the principal pension for most Americans and most private pensions are built on the expectation

that employees will also receive social security benefits; and

Whereas the President's plan constitutes a serious breach of faith with Americans currently approaching retirement age, who have contributed to the Social Security System and have planned for their retirement upon the promise of a specific level of Social Security income; and

Whereas for many Americans retirement at age 62 is not a voluntary choice; and

Whereas ill health, unemployment, obsolescent skills, and discrimination force many people into early retirement; and

Whereas trust, confidence, and predictability are basic and essential qualities of the Social Security System; and

Whereas the President promised the American people that no budget savings would be made by reducing basic Social Security retirement benefits and that these benefits would be preserved as part of the Nation's "safety net"; and

Whereas the President's benefit cuts go well beyond what savings might be necessary to insure the future solvency of the Social Security System; and

Whereas on May 20, 1981, the Senate unanimously rejected the President's social security plan by a bipartisan vote of 96 to 0; and

Whereas on March 27, 1981, and June 23, 1981, and July 21, 1981, Democrats in the Senate supported action to preserve basic social security retirement payments to current beneficiaries; and

Whereas on July 16, 1981, Democrats in the Senate attempted to resolve the short-term financing problems of the social security retirement trust fund through interfund borrowing; and

Whereas the Congress would never renege on its commitment to the Nation's retirees, workers, and employers, by allowing the social security trust funds to become insolvent; and

Whereas on July 18, 1981, the President accused Members of the Congress of "opportunistic political maneuvering" regarding social security financing issues, "cynically designed to play on the fears of many Americans"; Now, therefore, be it

#### Resolved

(1) That the Senate Democratic Conference rejects the characterization of legitimate and constructive legislative actions to preserve social security retirement income for current beneficiaries as "opportunistic political maneuvering"; and

(2) That it is the sense of the Senate Democratic Conference that no change in the social security benefit structure shall be made which is designed to balance the Federal budget rather than insure the financial solvency of the social security system; and

(3) That Democrats in the Senate will continue to fight to defend social security benefits to which the elderly of this country are entitled, to reassure the American people who have been stunned by the President's plan, and to resolve the immediate and long-term financing difficulties of the social security trust funds.

#### RECOGNITION OF SENATOR THURMOND

The PRESIDING OFFICER. The Senator from South Carolina is recognized for not to exceed 15 minutes.

#### THE DAVIS-BACON ACT, PART IV, IMPACT ON FEDERAL CONSTRUCTION PROGRAMS

Mr. THURMOND. Mr. President, on Monday I began a discussion on the impact that the Davis-Bacon Act has on

Federal construction programs. Today I want to continue that discussion, concentrating on recent findings of several revealing studies.

#### PART IV—DAVIS-BACON ACT IMPACT ON FEDERAL CONSTRUCTION PROGRAMS GAO STUDIES

In the past 2 years there have been a number of studies reported to the Congress calling for the repeal of the Davis-Bacon Act and reporting that substantial cost savings to the Federal budget could be realized by repeal of the act. In the most comprehensive analysis of the Davis-Bacon Act to date, the General Accounting Office, GAO, recommended in their April 1979 report that the Davis-Bacon Act is no longer needed and should be repealed.

The GAO estimated that the act added over \$700 million to the cost of Federal or federally assisted construction in 1977, and that Department of Labor determined prevailing wage rates ranged from 5 to 15 percent higher than the actually prevailing construction wage rates.

In addition, GAO criticized the DOL's administration of the act and blamed the Department for disrupting local work practices and wage structures nationwide. GAO concluded that Davis-Bacon was incapable of practical administration.

Mr. President, that April 27, 1979, GAO study is an exposé on bad legislation. I urge all my colleagues to get that study and read it. Let me quote from the digest of that report:

The Davis-Bacon Act is no longer needed. Other wage legislation and changes in economic conditions and in the construction industry since the law was passed make the law obsolete; and, the law is inflationary. GAO believes it should be repealed.

Since the act was passed, the Congress has enacted a number of other laws to protect the wages of construction workers, including laws requiring that minimum and overtime rates be paid and laws prohibiting contractors from requesting kickbacks of wages.

After nearly 50 years of administering the Davis-Bacon Act, the Department of Labor has not developed an effective system to plan, control, or manage the data collection, compilation, and wage determination functions. GAO's review of the wage determination activities in five regions and headquarters showed continued inadequacies, problems, and obstacles in Labor's attempt to develop and issue wage rates based on prevailing rates.

In GAO's opinion, Labor's procedures for developing and issuing wage rate determinations provide no assurance that the rates stipulated actually prevail for corresponding classes of workers on similar private construction projects in the locality.

The act results in unnecessary construction costs of several hundred million dollars annually.

I ask unanimous consent that the complete digest of that report be included in the RECORD at the conclusion of my remarks.

The PRESIDING OFFICER. Without objection, it is so ordered.

(See exhibit 1.)

Mr. THURMOND. The GAO did not end its criticism of Davis-Bacon in 1979. A more recent GAO report focusing on the construction of Washington, D.C.

Metro system concluded that the Davis-Bacon requirements will add approximately \$150 million, or a 6.8 percent increase, in unnecessary construction costs. And most recently, in his last appearance before the House Budget Committee, retiring Comptroller General Elmer Staats, a man whom we all respect and admire, recommended the repeal of Davis-Bacon as one way to reduce the budget, which would not result in any program reduction.

#### CONGRESSIONAL BUDGET OFFICE STUDIES

GAO is not alone in recognizing the urgent need for the repeal of the Davis-Bacon Act. In its February 1981 edition of "Reducing the Federal Budget: Strategies and Examples," the Congressional Budget Office, CBO, stated that the repeal of the Davis-Bacon Act would have significant cost-saving benefits.

In that report, CBO examined the cost impact of Davis-Bacon on three programs: Ground transportation, military construction; and EPA construction grants, which when considered together account for about one-half of the Federal construction program.

Based on a conservative estimate of the wage differential between the Labor Department specified Davis-Bacon prevailing wages and actual local prevailing wages of 2.1 percent, CBO calculated savings to the Federal budget over the 1982-86 period to be approximately \$780 million from just those three programs.

Moreover, at the request of the House and Senate Budget Committees, CBO calculated that by using President Reagan's budget authority figures and an estimated 4.2 percent wage differential, \$2.4 billion in outlays could be saved in the budget over the next 5 years by repealing the Davis-Bacon Act.

#### REPORT OF THE CARTER FORCE

Two years ago, on May 28, 1979, the Carter administration completed a study aimed at addressing the controversy surrounding the Davis-Bacon Act. This study was not immediately released to the public. The Chamber of Commerce of the United States had to file a Freedom of Information suit in order to get a copy. Fortunately, with a change in administration, the Office of Management and Budget readily released the findings last March at the request of Senator HATCH and Senator NICKLES.

This study was summarized in a document entitled "The Options Paper: Interagency Review of Contract Wage Laws." It was compiled by a special OMB task force comprised of Labor Department officials and procurement officials from various agencies including the Defense and Energy Departments, the General Services Administration, and the National Aeronautics and Space Administration.

This report is important because it involves candid and open Cabinet debate on Davis-Bacon by the previous administration. The report took a highly critical view of the act. It said that admin-

istrative changes alone could reduce Federal expenditures by about \$1 billion. This condemnation was made by officials who oversee the daily administration of the law. The statements tend to confirm what the business community has been saying about Davis-Bacon. It is even more important because the procuring officers now think that the act is highly inflationary, whereas when the act was passed in 1931, procuring officers were among the leading supporters of Davis-Bacon.

Since this study a candid discussion by high-level Carter Cabinet officials, their comments are most helpful in understanding the effects of the act. These officers contend that:

The way the Labor Department has administered Davis-Bacon disrupts the contract process, bloats their budgets, and contributes to unwarranted inflationary pressures.

They further maintain that:

The implementation of Davis-Bacon by the Labor Department is inflationary and that procedures followed result in minimum wage determinations that are higher than the actual prevailing wage rates in the locality.

Their final observation is that Davis-Bacon "serves to reduce competition for Federal construction needs."

As part of this study, the interagency task force had a confidential report from President Carter's Council on Economic Advisors. With regard to Davis-Bacon, the study made the following points:

In 13 States for which wage data are available, Davis-Bacon minimum wages are significantly above those in the local labor market for similar types of construction, this despite the fact that the sample was much more heavily unionized than the industry as a whole. The cost-increasing impact of the act was found to be greater, as a rule, in areas of lower unionization, as one would expect.

Minimum fringe benefits on Davis-Bacon projects tend to be set at levels comparable to those mandated by collective bargaining agreements, despite the presence of significant nonunion employment and the generally lower levels of fringe benefits paid to nonunion workers.

Setting Davis-Bacon minimum wages at the local mean wage within each occupation category would reduce the wage premium on Davis-Bacon projects, but, because there is significant dispersion in wage distribution, it would not eliminate that premium for workers. The law would still have the effect of raising many workers' wage above their free-market equilibrium levels.

Employment of helpers is a widespread practice in construction not covered by the act but it is usually not allowed in Davis-Bacon construction. This makes it very likely that comparisons of journeyman-person wage rates to Davis-Bacon minimums understate the cost increasing effect of the law as presently administered.

The staff report concluded that through administrative changes alone, the Government could save over \$1 bil-

lion and reduce the aggregate rate of inflation by 0.225 percent.

Mr. President, this study performed by the Carter White House needs serious consideration. I want to share key portions of this document with my colleagues. I ask unanimous consent that they be printed in the RECORD at the conclusion of my remarks.

The PRESIDING OFFICER. Without objection, it is so ordered.  
(See exhibit 2.)

#### OTHER STUDIES

Mr. THURMOND. An influential group of House Democrats, the Conservative Democratic Forum, in March 1981 recommended the repeal of the Davis-Bacon Act in a package of further budget cuts which they presented to President Reagan. The Conservative Democratic Forum estimated outlay savings of \$560 million in fiscal year 1982 alone, from the repeal of Davis-Bacon.

The Associated Builders and Contractors, using OMB and GAO calculations, has estimated that repeal of the Davis-Bacon Act would result in savings to the Federal budget of approximately \$5.4 billion in budget authority and \$3.9 billion in outlays over the next 5 years. I ask unanimous consent that the figures prepared by the Associated Builders be included in the RECORD following the GAO report digest at the conclusion of my remarks.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. THURMOND. Mr. President, from the facts I have presented in my last two discussions, it can only be concluded that Davis-Bacon costs the taxpayer money. I want to repeat—this is the GAO speaking and these other groups that have made these studies and it is clear that the Davis-Bacon Act costs the taxpayers money. Tomorrow I will present several case studies with specific examples to demonstrate the impact that Davis-Bacon has on some specific projects.

Mr. President, I yield the floor.

EXHIBIT 1  
COMPTROLLER GENERAL  
OF THE UNITED STATES,  
Washington, D.C.

To the President of the Senate and the Speaker of the House of Representatives:  
This is our report to the Congress, "The Davis-Bacon Act Should Be Repealed."

We are recommending that the Congress repeal the Davis-Bacon Act because (1) there have been significant changes in the economy since 1931 which we believe make continuation of the act unnecessary, (2) after nearly 50 years, the Department of Labor has yet to develop an effective program to issue and maintain accurate wage determinations, and it may be impractical to ever do so, and (3) the act is inflationary, and results in unnecessary construction and administrative costs of several hundred million dollars annually.

We are sending copies of this report to the Secretaries of Labor; Commerce; Defense; Health, Education, and Welfare; Housing and Urban Development; Transportation; and the Treasury; the Administrator, Environmental Protection Agency; the Postmaster General; and the Director, Office of Management and Budget.

ELMER B. STAATS.



Digest  
COMPTROLLER GENERAL'S REPORT TO  
CONGRESS

The Davis-Bacon Act should be repealed. The Davis-Bacon Act is no longer needed. Other wage legislation and changes in economic conditions and in the construction industry since the law was passed make the law obsolete; and, the law is inflationary. GAO believes it should be repealed.

The Davis-Bacon Act requires that each contract for the construction, alteration, or repair of public buildings or works in excess of \$2,000 to which the United States is a party—or, under 77 related laws, in which the United States shares the financing—state the minimum wages to be paid to various classes of laborers and mechanics. The minimum wages (including fringe benefits) are those determined by the Secretary of Labor to be prevailing for the laborers and mechanics employed on projects of a similar character in the area in the work is to be performed.

The act was intended to discourage non-local contractors from successfully bidding on Government projects by hiring cheap labor from outside the project area, thus disrupting the prevailing local wage structure.

GAO believes that the Davis-Bacon Act should be repealed for the following reasons.

SIGNIFICANT CHANGES IN ECONOMIC CONDITIONS  
AND WORKER PROTECTION LAWS SINCE THE  
1930'S

When the act was passed in 1931, the United States was rapidly sliding into the great depression. Construction, which was about \$10.8 billion in 1929, fell to \$2.9 billion by 1933, and most of that was Government financed.

During the same period, employment in the construction industry declined from 1.5 million in 1929 to about 800,000 in 1933. Competition for contracts and for jobs was great—especially for Government construction. There were no minimum wage laws and no unemployment compensation programs or other laws to protect the wages of workers.

Since the act was passed, the Congress has enacted a number of other laws to protect the wages of construction workers, including laws requiring that minimum and overtime rates be paid and laws prohibiting contractors from requesting kickbacks of wages. (See ch. 3.)

In 1977 about \$172.5 billion was spent on new public and private construction projects. About 78.1 percent (\$134.7 billion) was for privately financed projects without the prevailing wage protection of the Davis-Bacon Act. The remaining of \$37.8 billion was for direct Federal or federally assisted construction spent by State and local agencies and involved an estimated 600 000 prime and subcontracts and an estimated 22 percent of the Nation's 3.8 million construction workers. (See ch. 1.)

THE ACT HAS BEEN AND CONTINUES TO BE  
IMPRACTICAL TO ADMINISTER

After nearly 50 years of administering the Davis-Bacon Act, the Department of Labor has not developed an effective system to plan, control, or manage the data collection, compilation, and wage determination functions. GAO's review of the wage determination activities in five regions and headquarters showed continued inadequacies, problems, and obstacles in Labor's attempt to develop and issue wage rates based on prevailing rates.

Evaluation of the wage determination files and inquiries regarding 73 wage determinations at five regions and headquarters showed that, in many instances, wage rates

were not adequately or accurately determined.

About one-half of the area and project determinations reviewed were not based on surveys of wages paid to workers in the locality, but on union-negotiated rates.

When surveys were made, the data collection and compilation practices were varied and inconsistent within and among regions, and at the headquarters level. There were also problems in identifying similar projects and collecting data from contractors on a voluntary basis.

Further, Labor deleted, added, and changed the wage data received without adequate reason or rationale. As a result, many of the worker classifications and rates issued did not represent the prevailing wages paid in the locality.

In GAO's opinion, Labor's procedures for developing and issuing wage rate determinations provide no assurance that the rates stipulated actually prevail for corresponding classes of workers on similar private construction projects in the locality. (See ch. 4.)

INCORRECT RATES ARE INFLATIONARY ON THE  
LOCAL AND NATIONAL ECONOMY

GAO's review of 30 Federal or federally assisted projects, costing an estimated \$25.9 million, showed that the majority of the rates issued by Labor were higher than the prevailing rates in 12 of the localities and lower in the other 18. In the 12 determinations where Labor's rates were higher, wage costs paid on the projects averaged 37 percent more than the comparable wage costs at rates prevailing in the localities. The higher wage costs ranged from a low of 5 percent to a high of 123 percent. As a result, Federal construction costs may have been inflated by an average of 3.4 percent. The increases ranged from 1 to nearly 9 percent. (See ch. 5.)

While GAO's selection of the 30 projects was made on a random sample basis, the sample size was insufficient for projecting the results to all Federal or federally assisted construction costs during the year with statistical validity. However, even in the absence of statistical certainty, the random nature of GAO's sample leads it to believe that, if these projects are representative (and GAO has no reason to believe they are not), the act results in unnecessary construction costs of several hundred million dollars annually. (See pp. 77 and 78.)

The inflated wage costs may have had the most adverse effect on the local contractors and their workers—those the act was intended to protect—by promoting the use of nonlocal contractors on Federal projects. Nonlocal contractors worked on the majority of these projects, indicating that the higher rates may have discouraged local contractors from bidding.

In the 18 projects where Labor's rates were lower than those prevailing locally, local contractors were generally awarded the contracts. They generally paid workers the prevailing rates in the community—higher rates than those stipulated by Labor. Thus, the act's intent—to maintain the local prevailing wage structure—is carried out only when the administration of the act has no effect.

In addition, the act and a related weekly payroll reporting requirement of the Copeland Anti-Kickback Act result in unnecessary contractor costs—which are passed on to the Government—estimated at almost \$191.6 million for 1976 and \$189.1 million for 1977. In addition, estimated unnecessary costs of \$10.9 million in 1976 and \$12.4 million in 1977 were incurred by Federal agencies to attempt to administer and enforce the act. (See ch. 6.)

The excessive wage determinations have an inflationary effect on areas covered and,

because of the large volume of covered construction (about \$37.8 billion in 1977), on the construction industry and the national economy as a whole.

CONCLUSION

GAO believes that Davis-Bacon Act wage determinations could be eliminated with the same success achieved by eliminating wage determinations for workers on Federal contracts for supplies and materials under the Walsh-Healey Public Contracts Act. For the past 14 years Labor has issued no determinations under that act for the largest segment of Federal contractor employees, and apparently no adverse effect on wage rates of the workers involved has been evident. (See pp. 25 to 27.)

GAO believes that the significant changes in the Nation's economic conditions and the economic character of the construction industry since 1931, plus the passage of other wage laws, make the Davis-Bacon Act unnecessary. Moreover, the legislative intent—not to disturb local wage standards—is often not met; it is met only when Labor's wage determinations are lower than the wages prevailing in the project area.

RECOMMENDATIONS TO THE CONGRESS

The Congress should repeal the Davis-Bacon Act. GAO also recommends that the Congress rescind the weekly payroll reporting requirement of the Copeland Anti-Kickback Act.

In addition, the Congress should repeal the provisions in 77 related statutes which involve federally assisted construction projects and which require that wages paid to contractor employees be not lower than those determined by the Secretary of Labor to prevail in the locality, in accordance with the Davis-Bacon Act.

AGENCY COMMENTS

Officials of the Office of Management and Budget disagreed with GAO's recommendations and said that problems in implementing the Davis-Bacon Act could be resolved where appropriate, modification of Labor's through administrative action including, implementing regulations.

GAO disagrees. It believes the problems and inadequacies it has identified—over almost 20 years of reviews—cannot be corrected or improved significantly by any administrative action, regulation modification, or application of additional resources to program administration. (See p. 13.)

Labor officials also disagreed with GAO's recommendations, and in many cases they questioned GAO's findings and conclusions. The Secretary of Labor stated that he was satisfied that, on balance, the Davis-Bacon Act was being competently and effectively administered.

GAO believes that Labor was less than objective in its comments. GAO's analysis showed that Labor's comments for the most part were misleading, inaccurate, taken out of context, unsupported, and often did not reflect the information in its files.

As a result of Labor's voluminous comments, GAO had to make an extraordinary effort to review and evaluate Labor's comments and claims. GAO believes that its findings are accurate and representative of Labor's administration of the Davis-Bacon Act. GAO believes also that, in administering the act, Labor has been consistently inconsistent.

Indeed, in GAO's opinion, its analysis of Labor's largely unsupported comments further supports GAO's view that the act is not susceptible to practical and effective administration. Therefore, the results of GAO's analysis are included in the report in some detail. (See the end of chs. 3, 4, 5, and 6 and apps. IV through XII.)

## SAVINGS FROM REPEAL OF THE DAVIS-BACON ACT—BY FUNCTION

Budget function	1982	1983	1984	1985	1986	5-yr savings	Budget function	1982	1983	1984	1985	1986	5-yr savings
Transportation:							Energy:						
Budget authority.....	-356	-389	-421	-454	-605	-2,225	Budget authority.....	-73	-13	-86	-14	-110	-286
Outlays.....	-107	-259	-326	-376	-461	-1,529	Outlays.....	-70	-12	-79	-13	-92	-266
Defense:							Veterans:						
Budget authority.....	-194	-212	-229	-247	-265	-1,147	Budget authority.....	-19	-20	-23	-24	-25	-111
Outlays.....	-56	-118	-169	-207	-240	-790	Outlays.....	-5	-8	-17	-22	-23	-75
Community and Regional Development:							Fiscal assistance:						
Budget authority.....	-134	-147	-158	-170	-184	-793	Budget authority.....	-19	-19	-19	-19	-19	-95
Outlays.....	-27	-69	-136	-154	-160	-546	Outlays.....	-5	-8	-14	-17	-19	-63
Natural resources and environment:							Other:						
Budget authority.....	-98	-106	-114	-124	-132	-574	Budget authority.....	-20	-22	-24	-25	-28	-119
Outlays.....	-67	-95	-111	-120	-129	-522	Outlays.....	-5	-9	-17	-22	-25	-78
							Total:						
							Budget authority.....	-913	-928	-1,074	-1,077	-1,358	-5,350
							Outlays.....	-342	-578	-869	-931	-1,149	-3,869

## REPEAL OF THE DAVIS-BACON ACT—OUTLAY SAVINGS

(In millions of dollars)

Budget function	1982	1983	1984	1985	1986	5-yr savings	Budget function	1982	1983	1984	1985	1986	5-yr savings
Transportation:							Energy:						
Wage.....	-48	-194	-256	-300	-360	-1,158	Wage.....	-58	-10	-65	-11	-75	-219
Administrative.....	-59	-65	-70	-76	-101	-371	Administrative.....	-12	-2	-14	-2	-17	-47
Subtotal.....	-107	-259	-326	-376	-461	-1,529	Subtotal.....	-70	-12	-79	-13	-92	-266
Defense:							Veterans:						
Wage.....	-24	-83	-131	-166	-196	-600	Wage.....	-2	-5	-13	-18	-19	-56
Administrative.....	-32	-35	-38	-41	-44	-190	Administrative.....	-3	-3	-4	-4	-4	-18
Subtotal.....	-56	-118	-169	-207	-240	-790	Subtotal.....	-5	-8	-17	-22	-23	-75
Community and regional development:							Revenue sharing:						
Wage.....	-5	-45	-110	-126	-129	-415	Wage.....	-2	-5	-13	-18	-20	-48
Administrative.....	-22	-24	-26	-28	-31	-131	Administrative.....	-3	-3	-3	-3	-3	-15
Subtotal.....	-27	-69	-136	-154	-160	-546	Subtotal.....	-5	-8	-14	-17	-19	-63
Natural resources and environment (no EPA construction included):							Other:						
Wage.....	-55	-82	-97	-105	-113	-452	Wage.....	-2	-5	-13	-18	-20	-57
Administrative.....	-12	-13	-14	-15	-16	-70	Administrative.....	-3	-4	-4	-4	-5	-20
Subtotal.....	-67	-95	-111	-120	-129	-522	Subtotal.....	-5	-9	-17	-22	-25	-78
							Housing and credit:						
							Total.....	-342	-578	-869	-931	-1,149	-3,869

<sup>1</sup> Excludes outlay savings from sec. 8, public housing, and housing for elderly and handicapped programs due to lack of construction costs estimates.

Assumptions used: 10 percent wage differential between Davis-Bacon prevailing wage and the comparable local wage rate, OMB spend-out rates for appropriate functions (see attachment), 0.5 percent of budget authority is attributable to administrative costs.

## ASSUMPTIONS USED IN COST-SAVINGS ESTIMATES

## I. BUDGET AUTHORITY

Used OMB computer run which shows funding for construction and rehabilitation.

Attempted to obtain construction costs associated with housing programs (Section 8, Public Housing, Housing for the Elderly and Handicapped, and FHA). However, no construction costs estimate is calculated separate from finance and operating costs (verified by OMB and HUD). These programs are subject to Davis-Bacon requirements but no savings could be calculated.

To determine the amount of general revenue sharing used for construction is somewhat difficult. Department of Treasury's State reports for FY 1978 estimates that \$1.5 billion or 22.4% of the total \$6.7 billion was spent for capital expenditures. Both OMB and Treasury stated that this statistic is very unreliable and should not be used. Instead, an official in Treasury's Office of State and Local Finance stated that the following statistics are available and more reliable:

## Fiscal year 1979

(Bureau of Census data)

State and local direct expenditures, \$380.4 billion.

Amount for construction, \$53.2 billion.

Percentage of total for construction, 14 percent.

Assumptions used:

(a) 15 percent of revenue sharing for construction.

(b) 90 percent of construction for actual construction costs (10 percent for land and equipment).

## II. ECONOMIC ASSUMPTIONS

Used CBO assumptions for CPI in 1983 through 1986.

## CBO-CPI assumptions

(In percent)

1981	11.3
1982	9.5
1983	9.0
1984	8.3
1985	7.7
1986	7.2

## III. SAVINGS

A. Budget Authority. 25 percent for labor costs X 10 percent wage differential (difference between Davis-Bacon prevailing wage and local wage rate) = Savings

## B. Outlays:

1. OMB Spend-out percentage is multiplied to the Budget Authority saved for 1982-86 to obtain savings from wage differential. Examples: Defense—BA savings in 1982 is 162 million.

Outlay spend-out first year is 15 percent or \$24 million = Savings.

2. Administrative savings is based on a calculation of 0.5 percent of total budget authority, used by both OMB and GAO in their estimates.

We are showing separate line items for savings calculated for wage differentials and for administrative savings for each function listed.

## EXHIBIT 2

CARTER WHITE HOUSE OPTIONS PAPER: INTER-AGENCY REVIEW OF CONTRACT WAGE LAWS THE ISSUE

What administrative changes, if any, should be made in the way contract wage rates are set under the Davis-Bacon and Service Contract Acts in order to:

- (1) Improve administration of these contract wage laws; and
- (2) Minimize unwarranted inflationary pressures.

## BACKGROUND

Federal procurement statutes mandate competition. For labor-intensive contracts, such as construction and services, Congress has attempted to insulate labor from competitive pressure by enacting laws which mandate payment of locally "prevailing" wage rates. The Secretary of Labor is required to determine prevailing wage rates for hundreds of occupations and thousands of local areas.

The Davis-Bacon Act (1931) covers construction wages. Department of Labor issues 18,000 wage determinations annually covering \$40 billion worth of contracts and 1 million workers, about one-fourth of all U.S. construction activity. The Act covers



both direct Federal contracts (\$11 billion) and Federal assistance monies.

The Walsh-Healey Act (1936) covers manufacturing or furnishing of materials. This law has become a dead letter, however. Legal barriers have prevented DOL from obtaining sufficient private wage data upon which to base wage determinations and none have been issued since 1964.

The Service Contract Act (1965 and amendments in 1972, 1976) covers both blue and white collar service wages for direct Federal contracts but not Federal assistance monies. In addition to the prevailing wage determination, it also requires any successor contractor to pay not less than the prior wages and fringe benefits paid in a prior collective bargaining agreement. DOL issues 36,000 wage determinations annually covering \$5 billion worth of contracts and 350,000 workers. Recent DOL rulings have tended to expand the coverage of the SCA to more types of contract activity to compensate for the defunct Walsh-Healey Act.

#### PROBLEM AREAS

Significant administrative issues fall into four broad categories:

(1) Wage Rate Calculations: With a range of wages being paid, what is the minimum "prevailing" rate: the average, the mode, the rate paid to at least 30 percent of the workers?

What data should be used, collected from whom, and how frequently?

How are job categories defined for comparability to setting wages?

(2) Definition of Locality:

How are "localities" defined and bounded, especially when heavy concentrations of Federal workers (and Federal wage rates) in the vicinity, such as the Cape Canaveral area in Florida, may severely skew the results?

Which wage rates should be used when the place of performance is unknown until a winning contractor is selected?

Under the Service Contract Act, how should the "successorship" requirements be applied when the new contractor is geographically far removed from the prior place of performance?

(3) Collective Bargaining Conflicts:

How should wages set under collective bargaining agreements be treated when contract wage determinations by DOL are different?

How should new wage determinations issued by DOL be allowed to affect ongoing negotiations?

(4) Interagency Procedures:

How can the Labor Department enforce the laws when procuring agencies neglect to request wage determinations or ignore rulings?

How can procuring agencies get timely determinations to support contract actions or appeal apparent discrepancies?

#### INTEREST GROUP POSITIONS

These contract wage laws have a long-standing history of controversy, challenges, court rulings, and interagency conflict. They rank high on the agenda of issues on industry, labor and procuring agencies.

Industry sees these laws as prime examples of Federal interference in the economy and business practices. They contend that:

Wage rates set under these acts are highly inflated and inflationary, and do not reflect "prevailing" rates.

These laws infringe on business management prerogatives, including choice of job categories and associated pay, preventing the most efficient business operations.

Internal operations and labor stability are upset by driving up wages for some workers on Federal contracts above other workers doing identical work in the private sector.

Collective bargaining agreements are nullified by higher wage requirements and specially-requested variance rulings from

DOL are used by labor as self-serving floors for their demands during negotiations.

The mass of paperwork and reporting requirements, especially under Davis-Bacon procedures, substantially adds to nonproductive overhead.

Homogenized wage rates deaden the beneficial effects of competition, leaving little opportunity, if any, for new contractors to displace incumbents who then retain contract work literally for over a decade at a time.

Wage rate determinations require companies to import big city wage rates into other localities.

The labor community is incensed over the fact that a Democratic Administration could undertake such a review of basic labor protection laws. They contend that

Applications of these laws is not inflationary: the whole underlying statutory concept of "prevailing wages" is, by definition, not inflationary but rather a protection against workers wages being deflated below industry and local norms.

With wages representing such a large fraction of total contract costs (25 percent in construction, up to 95 percent in service contracts), cut throat competition makes workers the pawns while profits remain high without the protection of Labor Department wage rulings.

Without these protections, especially the Service Contract Act "successorship" provision, the local labor force is periodically cast off, wages cut and fringes lost with each new contractor who wins the next competition.

These laws do not export high wages; they prevent the disruptive export of jobs to areas of the country where workers cannot follow.

Procuring agencies have systematically ignored and subverted DOL rulings by not requesting wage determinations and by inserting protective clauses in contracts in lieu of the required wage rates.

Procuring agency interests will always be inimical to wage protection laws. Their narrow budget interests always seek to squeeze labor costs.

Labor should not have to keep fighting this issue, year after year, through both Republican and Democratic Administrations, just because procuring agencies are never satisfied and can take a never ending series of bites of this apple.

DOL's current administration of the laws falls short owing to poor wage surveys which do not take into account the latest collective bargaining agreements.

The procuring agencies have for years contended that the way the Labor Department has administered these laws disrupts the contract process, bloats their budgets, and contributes to unwarranted inflationary pressures. They contend that—

Implementation of these laws by DOL is inflationary: procedures followed by DOL result in minimum wage determinations that are higher than the actual prevailing rates in the locality;

Procedures and regulations carried out by DOL serve to reduce competition for both Federal construction and Federal service needs, with its attendant increase in costs and subsequent budgetary impact;

Service contract procedures employed by DOL under locality, successorship, and use of labor management agreement issues, represent an intrusion in and disruption of nationally and historically recognized principles of collective bargaining;

DOL has systematically expanded coverage of the Service Contract Act to more and more non-service contract activity, not to fulfill statutory intent but to compensate for the weakened Walsh-Healey Act coverage of manufacturing activity;

DOL rulings have been historically inconsistent, changing which Acts should apply and giving different wage rates for the identical jobs in identical locations for different

contracts during the same year. Even DOL's administrative law judges have overruled the Department owing to these reversals and discrepancies.

OMB's Office of Federal Procurement Policy convened an interagency task force to address these issues last August. DOL, DOD, DOE, NASA, and GSA were participants. This latest review follows earlier efforts which led to the issuance and then retraction of changes to Service Contract Act regulations during the early months of this Administration.

GAO Review: The General Accounting Office recently circulated a draft report calling for outright repeal of the Davis-Bacon Act. They reasoned that significant changes in economic conditions and the economic character of the construction industry, since 1931, plus the subsequent passage of other wage protection statutes makes the Act unnecessary. The report also finds that after nearly 50 years, DOL has not developed an effective program to issue and maintain current and accurate wage determinations and it may be impractical to ever do so. The legislative intent of the Act is seldom achieved, in GAO's view, and the Act itself results in unnecessary annual construction costs of \$715 including \$215 million for administrative costs. At least eight bills with over fifty sponsors for repeal have already been introduced in the 96th Congress. Special interest in this review was also stimulated by the President's Special Advisor on Inflation.

CEA Review: CEA has completed a confidential-staff paper on the effects of these laws which it released to the members of the interagency review group. With regard to Davis-Bacon, the study makes the following points:

In 13 cities for which wage data are available, Davis-Bacon minimum wages are significantly above those in the local labor market for similar types of construction, this despite the fact that the sample was much more heavily unionized than the industry as a whole. The cost-increasing impact of the Act was found to be greater, as a rule, in areas of lower unionization, as you would expect.

Minimum fringe benefits on Davis-Bacon projects tend to be set at levels comparable to those mandated by collective bargaining agreements, despite the presence of significant nonunion employment and the generally lower levels of fringe benefits paid to nonunion workers.

Setting Davis-Bacon minimum wages at the local mean wage within each occupation category would reduce the wage premium on Davis-Bacon projects, but, because there is significant dispersion in the wage distribution, it would not eliminate that premium for all workers. The law would still have the effect of raising many workers' wages above their free-market equilibrium levels.

Employment of helpers is a widespread practice in construction not covered by the Act but is usually not allowed in Davis-Bacon construction. This makes it very likely that comparison of journey-person wage rates to Davis-Bacon minimums understate the cost-increasing effect of the law as presently administered.

With regard to the Service Contract Act, the CEA study asserts that Service Contract minimum wage rates for at least some DOD and NASA installations tend to be higher and increasing faster than local private sector wages.

It is virtually impossible to attach specific dollar savings or inflationary impact estimates to each of the specific administrative changes to be proposed here. However, the CEA staff study provides some estimates on which to base decisions. Davis-Bacon covered employment represents about 2.25 percent of the Nation's total private nonagri-

cultural wage bill for production and non-supervisory employees. Wages of Service contract covered employees are 0.6 percent of the private nonfarm wage bill for production and non-supervisory employees.

If the proposed changes resulted in 10 percent lower "prevailing" rate determinations, a reasonable expectation, then total Federal dollar savings under the Davis-Bacon Act would be \$1 billion (\$40 billion total, of which 25 percent is wages, times 10 percent reduction). The aggregate rate of inflation would be reduced by 0.225 percentage points.

A similar 10 percent reduction in Service Contract Act prevailing wage determinations would result in a total Federal dollar savings of \$900 million (\$10 billion total, of which 90 percent is wages, times 10 percent reduction) and a 0.06 percentage point reduction in the inflation rate.

In rough terms, then, proposed administrative changes which could result in 10 percent reductions in wages paid under both Davis-Bacon and Service Contract Acts could reduce Federal expenditures on the order of \$1.9 billion and the inflation rate by 0.285 percentage point. In addition, there would be indirect inflation-reducing effects of unknown magnitude operating through wage-price-wage feedbacks.

The PRESIDING OFFICER. Who seeks recognition?

Mr. THURMOND. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The bill clerk proceeded to call the roll.

Mr. BAKER. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER (Mr. DANFORTH). Without objection, it is so ordered.

#### BUDGET RECONCILIATION CONFEREES—H.R. 3982

Mr. BAKER. Mr. President, before the distinguished minority leader is recognized under the special order granted to him on last evening, I ask his indulgence long enough to put this unanimous-consent request.

Mr. President, I ask unanimous consent that Senator MATSUNAGA replace Senator RANDOLPH as a conferee on the reconciliation conference strictly for the class II dental benefits, section 1302 in the Senate amendment and section 14003 in H.R. 3982.

#### REPEALING THE WINDFALL PROFIT TAX

Mr. ROBERT C. BYRD. Mr. President, we should have no pretense about the consequences of the amendment proposed by the distinguished Senator from Kansas (Mr. DOLE) and the distinguished Senator from New Mexico (Mr. DOMENICI).

This combined measure will effectively repeal the windfall profit tax. By 1985, the overwhelming proportion of domestic oil production will fall within the classification of new oil and, under these amendments, would no longer be subject to taxation. The addition of the Domenici amendment, which would provide similar treatment for heavy oil and oil recovered by tertiary methods, would leave the windfall tax an empty shell.

Through fiscal year 1986, almost \$11 billion in revenue would be lost to the Federal Treasury. Wrapped in the flag of supply-side rhetoric and free market forces, this amendment would do nothing other than send an \$11 billion windfall to the oil companies. In the meantime, the Republican majority in the Senate, following the directives of the Reagan administration, has voted to strip the elderly of their social security benefits, to cut health care for veterans and the poor, and to deny schoolchildren the right to a hot lunch. This is a message the American people should hear—and hear well.

There is much talk of unleashing the oil companies to explore and develop new energy reserves. But instead, the major oil companies seem intent on acquiring each other. Just last week, it was unveiled that Mobil Oil has offered \$7.8 billion in an attempt to take over Conoco. Today, the news indicates that Gulf Oil is raising \$5 billion in preparation for a takeover bid of another U.S. oil company, perhaps Cities Service. This is hardly the kind of investment in new energy resources which was promised as a consequence of decontrol. This is hardly the kind of economic activity which will fuel a resurgence of American productive capacity.

The windfall profit tax was the negotiated price for decontrol. The revenues from this tax were originally pledged to finance the creation of a viable synthetic fuels industry, to enhance mass transit systems, and to protect the poor and elderly from skyrocketing energy prices. But the Reagan budget has dispensed with those programs with the wave of a hand. Synfuels are now to be developed by private industry, mass transit construction has been curtailed, and the poor and the elderly are left to their own devices. The promise to the American people—who have borne the backbreaking burden of higher oil prices—has already been broken. And now, instead of investing the profits of decontrol for the common good, we are told we must return them to the oil companies for the benefit of the rich.

Mr. President, let us be clear as to what is behind this measure. The Republican platform pronounced that party's support for the repeal of the windfall profit tax. President Reagan advocated the repeal of the tax during his campaign. This amendment represents the essence of Reaganomics. It should affirm the growing public suspicion that the Republican administration is not committed to equity and fairness, but instead is committed to helping those who need help the least.

I intend to vote against this amendment. There is no economic justification for it, and there is no argument based on equity which can sustain support of it. I shall vote to table it, and I hope that other Senators will do likewise. The repeal of the windfall profit tax, in any form, would be a perversion of our national priorities and would only accentuate the budget deficits which threaten any program of economic recovery. It also would be a breaking of the promise that Congress made to the American people on the enactment of the tax as a quid pro quo for decontrol.

Mr. President, I yield the remainder of my time to Mr. DOLE and Mr. METZENBAUM.

Mr. METZENBAUM. Mr. President, I just wish to commend the excellent statement of the Senator from West Virginia, who has very appropriately and accurately and totally enunciated the issue as it is. For those of us who feel strong concerns about this matter, I wish to express our gratitude to the Senator from West Virginia for his continued leadership in matters of this nature.

Mr. ROBERT C. BYRD. I thank the Senator.

#### DOLE AMENDMENT NO. 509 PROVIDING TAX RATES ON NEWLY DISCOVERED OIL

Mr. DOLE. Mr. President, as I understand it, without debate, there will be a vote on the motion to table the amendment I have offered. I wish to make it clear that I hope everybody will vote for that motion, because it will give us some idea of how much support there is for this approach to bring about a production response which I believe has much more merit than the amendment we discussed yesterday, the so-called 1,000-barrel exemption.

If, in fact, we want to provide some incentive in an appropriate way, it is by phasing down the tax. I find great support for this concept. In fact, I included in the Record yesterday a letter from the domestic producers, made up of 20 different independent oil companies, indicating their support for this concept rather than the so-called exemption in the amendment yesterday, under which only approximately 50 percent would be returned to the producers. So we would not have the same incentive for more production.

Beyond that, I believe it is fair to state that this amendment is less expensive than the amendment which was offered yesterday. I hope that will be kept in mind.

No one really knows what the House did by 2:30 this morning, but apparently there is a 500-barrel exemption for new oil, a 100-barrel exemption for old oil, and tax cut up to \$4,300. That is a rather rich package, and I think the computers are still trying to add up the total cost of that Democratic package, so far as big oil is concerned, on the House side. It may dwarf this little attempt by the Senator from Kansas, on the Senate side.

I hope that those Democrats who are against any private sector improvements or any incentive for the oil industry will take a look at what their colleagues may have done on the House side, before we pass judgment on the final version of what we are doing here.

I thank the distinguished Senator from West Virginia for permitting me to speak briefly on this motion.

It is just about 11 o'clock.

(By request of Mr. ROBERT C. BYRD the following statement was ordered to be printed in the RECORD.)

Mr. BENTSEN. Mr. President, I rise in support of the Dole-Domenici substitute to provide for a phase-out of the so-called windfall profits tax on newly dis-



covered, incremental tertiary, and heavy oil. Although I would have preferred that my 1,000 barrel exemption amendment would have been adopted, I strongly believe that we need to provide some kind of substantial relief to our domestic oil industry in order to ease the oppressive burdens place on them by the so-called windfall profits tax.

I am convinced that we need to give additional incentives to our domestic oil industry in order to insure that we will be able to reduce America's dependence on unstable foreign petroleum supplies. We can no longer afford to drain the American economy of billions of dollars each year to buy foreign oil when we are failing to provide the necessary incentives for the production of our domestic energy resources.

I urge my colleagues to join me in support of the Dole-Domenici substitute, and I am hopeful for its early adoption. ●

#### ECONOMIC RECOVERY TAX ACT OF 1981

The PRESIDING OFFICER. The pending business will be stated.

The legislative clerk read as follows:

A joint resolution (H.J. Res. 286) to provide for a temporary increase in the public debt limit.

#### MOTION TO TABLE AMENDMENT NO. 509

The PRESIDING OFFICER. Under the previous order, the hour of 11 a.m. having arrived, the Senate will now proceed to vote on the motion to table amendment No. 509, offered by the Senator from Kansas.

Mr. KENNEDY. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. BAKER. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER (Mr. SPECTER). Without objection, it is so ordered.

The question is on agreeing to the motion to lay on the table the amendment of the Senator from Kansas.

On this question the yeas and nays have been ordered and the clerk will call the roll.

The legislative clerk called the roll.

Mr. STEVENS. I announce that the Senator from Alabama (Mr. DENTON) and the Senator from Maryland (Mr. MATHIAS) are necessarily absent.

I further announce that, if present and voting, the Senator from Alabama (Mr. DENTON) would vote "nay."

Mr. CRANSTON. I announce that the Senator from Texas (Mr. BENTSEN) is necessarily absent.

I also announce that the Senator from Nevada (Mr. CANNON) is absent attending a funeral.

On this vote, the Senator from Nevada (Mr. CANNON) is paired with the Senator from Texas (Mr. BENTSEN).

If present and voting, the Senator from Nevada would vote "yea" and the Senator from Texas would vote "nay."

The PRESIDING OFFICER. Is there any other Senator in the Chamber wishing to vote?

The result was announced—yeas 47, nays 49, as follows:

[Rollcall Vote No. 210 Leg.]

#### YEAS—47

Baucus	Eagleton	Nunn
Biden	Exon	Packwood
Bradley	Ford	Pell
Bumpers	Glenn	Proxmire
Byrd	Gorton	Randolph
Harry F., Jr.	Hatfield	Riegle
Byrd, Robert C.	Hollings	Roth
Chafee	Huddleston	Rudman
Chiles	Inouye	Sarbanes
Cohen	Jackson	Sasser
Cranston	Kennedy	Specter
Danforth	Leahy	Stafford
DeConcini	Levin	Stennis
Dixon	Metzenbaum	Tsongas
Dodd	Mitchell	Welcker
Durenberger	Moynihan	Williams

#### NAYS—49

Aldnor	Hawkins	Murkowski
Andrews	Hayakawa	Nickles
Armstrong	Heflin	Percy
Baker	Heinz	Pressler
Boren	Helms	Pryor
Boschwitz	Humphrey	Quayle
Burick	Jepsen	Schmitt
Cochran	Johnston	Simpson
D'Amato	Kassebaum	Stevens
Dole	Kasten	Symms
Domenici	LaRait	Thurmond
East	Long	Tower
Garn	Lugar	Wallop
Goldwater	Matsunaga	Warner
Grassley	Mattingly	Zorinsky
Hart	McClure	
Hatch	Melcher	

#### NOT VOTING—4

Bentsen	Denton	Mathias
Cannon		

So the motion to lay on the table Mr. DOLE's amendment (No. 509) was rejected.

Mr. BAKER addressed the Chair.

The PRESIDING OFFICER. The Senator from Tennessee.

Mr. BAKER. Mr. President, will the Chair state the result of the vote once more?

The PRESIDING OFFICER. Forty-seven yeas and forty-nine nays. The motion to table is not agreed to.

Mr. BAKER. Mr. President, as I understand it—

Mr. ROBERT C. BYRD. Mr. President, may we have order in the Senate so we may hear the majority leader?

The PRESIDING OFFICER. The Senate will be in order. The Senate will be in order. Will the Senators clear the well so the majority leader may address the Senate?

Mr. ROBERT C. BYRD. Mr. President, Senators are not listening to the Chair. Could the Chair get order in the Senate?

The PRESIDING OFFICER. Will the Senators clear the well?

The Chair recognizes the majority leader. I think we now have order.

Mr. BAKER. Mr. President, I thank the Chair. I think the Chair acted very efficiently.

#### REMAINING AMENDMENTS

Mr. BAKER. Mr. President, the Senate was closely divided on this issue. I would not presume to advise the adversaries on this measure how they should proceed next. I simply reiterate what I have said before: We have to finish this bill and we have to find a way to do it.

Mr. President, I assume for the moment that debate will continue on the second-degree Domenici amendment to the Dole amendment. I would urge that Senators consider every hour that goes by and every day that goes by reduces the prospect that we can finish this bill in time to get it through conference and to obtain our recess goal of July 31.

I wish to repeat to the Members of the Senate that, notwithstanding statements from the White House and the Speaker of the House, I have never subscribed to the idea that we must go until August 7. I continue to believe we can finish our work by August 1, or by the evening of July 31.

Unless we get on with the business of the Senate—and the business of the Senate at the moment is the completion of the tax bill—then I have to confess that commitment is receding in prospect.

Mr. President, what I hope we can do at this point is to continue the debate, if that is the wish of Senators, on the pending question. I would like to explore with my counterpart, the distinguished minority leader, the prospect for ordering and arranging amendments in time for the consideration of the remaining amendments on this bill. If we do that, then I think we will make good progress. If we cannot, we will be stuck on this for the moment.

So, I shall not make any further effort at this time to end debate on this amendment. I would expect that, within the next little while, we could have some further statements made, or at least I hope so. But, for the moment, Mr. President, I have no further recommendation to make.

Mr. ROBERT C. BYRD addressed the Chair.

The PRESIDING OFFICER. The minority leader, the Senator from West Virginia.

Mr. ROBERT C. BYRD. Mr. President, I join with the majority leader in stating the belief, the hope, and the determination that this debate can be completed and the tax bill can be enacted by August 1. I believe that can be done. It will depend, in considerable measure, on what the other body does. I think this matter is being expedited there.

I would hope that we here would continue toward our goal of enacting the measure and allowing Senators to go back and listen to the people in our respective States. But first let me say, Mr. President, that, with all due respect to the majority leader and those who are supporting this amendment, we will not finish our work on this tax bill by August 1, or even by August 15, if the pending amendment stays before the Senate.

I will not argue the merits or demerits of the amendment at this point. But I hope that the proponents of the amendment will decide to take it down, because this is not the way to expedite the work of the Senate on this tax bill.

There will be a prolonged debate on this amendment. And if, perchance, we were to come to a vote on the amendment after several days of debate, there would also be a considerable debate on the House bill when the opportunity

comes later to substitute the Senate bill for the House language, and there would be further extended debate on the conference report when it comes to the Senate.

So I suggest that this battle be delayed until another time and that we get on with action on the tax bill and forget about this amendment for the time being.

Mr. President, it is my intention to submit to the majority leader the amendments that Senators have on this side of the aisle. I am going to propose—and I want my colleagues on this side of the aisle to hear this: the distinguished majority leader and I have discussed this, so I think we pretty well agree that this might be a good approach—I am going to propose to my colleagues here that I give to the majority leader a list of our amendments. He will then indicate the identity of the amendments and the authors of such amendments on that side of the aisle so that there will be no surprises. We will say that those are all of the amendments that will be voted on, no second-degree amendments, so that everybody knows what is coming. We will vote up or down or on tabling motions.

Then, knowing what each side has, knowing there will be no surprises, no second-degree amendments, we then could say that a final vote on advancing the bill to third reading will occur at, say, the close of business on Wednesday next, or some such date.

This will enable the Senate to complete its action before the House measure gets over to the Senate, and the majority leader will be assured of our completing our business. He is entitled to that assurance. I, for one, want to see action completed on this bill.

It seems to me if we do that, we can, I hope, avoid a Saturday session and be assured that the bill will be acted upon. With everybody knowing what is coming by way of amendments, everybody will be prepared. We can sequence the amendments, and we will then proceed in an orderly way.

If I do not hear objection from my side of the aisle, this will be my proposal to the majority leader.

I yield the floor.

The PRESIDING OFFICER. The majority leader is recognized.

Mr. BAKER. Mr. President, there are a number of items now to be considered by the minority leader and by me, such as the limitation of the number of amendments to be proposed, such as an agreement that there will be no second-degree amendments, such as the possibility of a time certain to finish this bill. I am willing to engage in good faith negotiations with the minority leader on all of those items. I will say now that I favor each one of those proposals and I hope that our mutual effort in this respect will produce an agreement that can be cleared by the Senate within a short time. I am sure the minority leader will enter into those negotiations with the same spirit of optimism as I would.

Mr. President, I cannot say that I am put off with the idea that we may have a filibuster on this amendment or that

passage of this amendment may jeopardize our recess time. I am not so wedded to July 31 or August 1 that I would not stand here as a matter of principle. I am prepared to say that if that has to be, that has to be. But I do not wish it.

In the meantime, Mr. President, we will continue with the debate on this amendment. I will retire now with the minority leader, if he will agree, and we will consider these several elements of the matters we have discussed. Perhaps we can even find a way to liquidate the pending amendment while we agree on the other issues as part of that larger package.

Mr. President, if we cannot, we may be here witnessing the termination of our expectation of a recess after July 31.

The PRESIDING OFFICER. The Senator from Ohio.

Mr. METZENBAUM. Mr. President, the Senate should understand full well what the situation is. The Finance Committee came before this body with amendments having to do with the windfall profit tax amounting to about \$20 billion in cuts over the next 10 years.

The Senator from Kansas, the chairman of the Finance Committee, then came before the Senate with an additional amendment to immediately phase out, within the next 4 years, the windfall profit tax with respect to new oil.

The next thing that occurred was that the Senator from New Mexico brought to the Senate an amendment which would phase out the windfall profit tax entirely within 4 years in connection with new oil, secondary oil, and tertiary oil as well.

So what we have before us is an effort on the part of the majority party to totally reverse the clock in connection with the matter of the windfall profit tax that in and of itself was negotiated ad infinitum this past session. It was not a victory for those who took the administration's position as to the amount of the windfall profit tax.

Quite the contrary, those who were opposed to it pretty much had their own way. The windfall profit tax that was finally enacted was a very cut back version of the original proposal of the Carter administration.

But some people are never satisfied. What we have here is an effort to take \$40 billion in cuts and put them directly into the pockets of the oil companies at this time.

The real question is, How much? How far do we go? Just yesterday Members of the majority party refused to go along with the Members of the minority in indicating that we wanted to provide minimums for social security benefits.

How can you be so heartless, cruel, inhumane, and unfair to be willing to give the oil companies another \$40 billion and turn your backs upon the senior citizens of this country, turn your backs upon the kids who want to go to college, turn your backs upon people who are in food stamp programs and school lunch programs, turn your backs on Vietnam veterans who have counseling services, and the host of other cutbacks that have occurred in the past several weeks in the budget process, and then have the audacity to come to

the U.S. Senate and say you want to cut back \$40 million within the next 10 years for the oil companies of this country?

I yield to the Senator from Delaware.

The PRESIDING OFFICER. Does the Senator yield for a question?

Mr. BIDEN. I seek recognition.

The PRESIDING OFFICER. The Senator from Delaware.

Mr. BIDEN. I will be very brief, Mr. President. Without arguing the merits of this bill, I think we should put one thing squarely before the body and before the American people through the press. That is that we Democrats have been listening for the past month to the President of the United States telling us that we are holding up the critical business of the Nation by worrying about whether we are going to get the tax package through by the beginning of the August recess.

The President told us the budget cuts are essential, that we have to move on the total package, that the Democrats have to move. He spent a good deal of time castigating, I believe unfairly, the Speaker of the House of Representatives. All the press have been asking us for the last month, "Are you fellows going to slow up the President's tax bill?"

We have been told that America had a referendum on this issue in the last election and, therefore, we, the Democrats, on this side, even though we objected to much of what the President was doing, were expected to not stand in the way.

We have all on this side caucused in a Democratic caucus and talked and talked about that problem and concluded that the President has the chance and should be given the opportunity to have his tax bill and we should vote up or down on it. We would take exception where we would, but not attempt to slow it up.

Now here we are on the floor of the United States Senate with the prospect that the President will not get his bill on August 1, which was the time he needed. We were told, and every press report in America talked about, the critical date of August 1. "I have to have that on my desk." He beat the political life out of us over August 1.

Now we have the Republicans keeping the President from getting his bill. The President has not asked for the Dole amendment. He has not asked for the Domenici amendment. That was not part of the package.

Now we have a strange occurrence of the Republican Party, the Republican leadership, stopping the Republican President from having what the Republican President said is in the national interest, and in an immediate sense, of the United States of America.

So, Mr. President, I hope that no one in the press, no one in the public, and no one in this body makes any mistake about what we are debating. The Senator from Ohio and the Senator from Massachusetts are not going after the President's program. They are not going into the tax bill and saying, "Mr. President, what you said you need, you cannot have."

We are talking about the people. It is



a strange anomaly. The Senator from Ohio and the Senator from Massachusetts and others are here on this floor keeping out of the bill something the President says he does not want.

Mr. TSONGAS. Mr. President, will the Senator yield?

Mr. BIDEN. I will yield the floor after this point.

Mr. DOLE. What was the first point, Mr. President? I missed the first point.

Mr. BIDEN. The point is that "you-all" are doing your President a bad service. That is the point.

The point of the matter, Mr. President, is that Senators DOLE, DOMENICI, and others, are here on the floor of the U.S. Senate asking for something the President has not asked for, the result of which will be, I suspect, if I sense the resolve on this side of the aisle, that the President will not get what he says he needs as a matter of life and death; that is, his bill on August 1.

We want to give the President his shot. We will give him his tax bill. We will vote the portions we agree with and the portions we disagree with, and we will get it to him on August 1. But let it be known that it is the Republican Party that is keeping the President from having what he says he needs badly. He is not asking for Dole and Domenici. It is not part of his package. So it is the Republicans who are holding it up. I want that, as another famous Republican President said, made perfectly clear to everybody in this body. [Laughter.]

Mr. TSONGAS. Will the Senator yield for a question?

Mr. BIDEN. I yield.

Mr. DOLE. Mr. President.

The PRESIDING OFFICER. The Senator from Kansas has the floor.

Mr. TSONGAS. I thought the Senator from Delaware yielded to me, Mr. President.

Mr. DOLE. I will be glad to yield for a question, Mr. President. I am going to enjoy this, anyway. They can go ahead.

The PRESIDING OFFICER. Did the Senator from Delaware yield for a question?

Mr. TSONGAS. Yes, Mr. President.

The PRESIDING OFFICER. The Senator from Massachusetts.

Mr. TSONGAS. Mr. President, I wonder if the Senator from Delaware would join me in calling upon the President to take a position on this amendment. Obviously, it was not part of the package he requested. Obviously, it flies in the face of the statement that we do not have the money for all these programs. Since this issue is going to be a bottleneck, I think it would be quite appropriate for the President, given his statements of the past couple of weeks, to take a stand and let us see what his position is on this amendment.

Mr. BIDEN. I would be delighted to join the Senator, Mr. President, and I think the President could bring this to a screeching halt and get the bill by letting us know one way or another what he wants. My impression is that he does not want this, but I shall join and do join with the Senator from Massachusetts or anybody else in asking the President what his position is.

Mr. TSONGAS. Mr. President, I formally request of the President that he let this body know what his position is on the pending amendment.

I thank the Senator.

Mr. KENNEDY. Mr. President.

The PRESIDING OFFICER. The Senator from Massachusetts.

Mr. KENNEDY. Mr. President, we have had an opportunity to debate and discuss this issue briefly, but I think, after the vote of the United States Senate, we ought to call this amendment what it is. It is basically an example of the greed of the major oil companies in this country.

If we look at the vote yesterday afternoon, when the distinguished Senator from Texas (Mr. BENTSEN) put out a proposal, one that I did not support for the reasons that I referred to yesterday—because all the indications are that the independents have had an extremely profitable year and the oil business is the most lucrative and successful business in the United States of America at this time—that amendment was hammered down. It was hammered down by many of those who are supporting this amendment. They knocked down the amendment which was even for the independents of the industry in order to come up with this amendment that is going to help the big boys, the major elements in the oil industry. There is only one word for it, and that is greed.

The major oil companies must have understood that there is something left in the Federal Treasury which they can get a handle on and they are trying to get a handle on it with this particular amendment. That is what we are faced with here on the floor of the U.S. Senate today. Mr. President, they must have understood that somewhere in this tax bill, there are some \$40 billion left which they can get a handle on.

It is amazing to me, as has been pointed out by my colleagues this morning and again as we all pointed out yesterday at the start of this debate and discussion, that we find ourselves in this position at a time when we are in the process of reconciliation. I have been sitting in on the committees that have been meeting with the House of Representatives on some very basic and fundamental questions and issues.

Granted, we were defeated on the Riegle amendment yesterday, which would have cost somewhat in excess of \$1 billion a year, because there was not money in the Federal Treasury; it was not sound economics; we would not be able to balance the budget; it was going to add to inflation. The President, in his letter to the Members of the Congress, said that such a result would jeopardize our economic recovery program so vital to the well-being of the Nation—on social security. Then we find that those who have been pointing that out to us in the Senate of the United States are prepared to support an amendment of \$40 billion for the major oil companies in this country.

This, Mr. President, at a time during the reconciliation process when we are cutting back on the education of young people in the student loan program; we are cutting back on assisting those young

people in this country who have felt the scourge of addiction to drugs or alcohol; we are cutting back on legal services to bring the Constitution of the United States to people who have been denied it because of limited financial resources; we are cutting back on programs for the young and for the old alike—but we are prepared to provide \$40 billion to the major oil companies.

Mr. President, this is going to be an issue which will be debated and, clearly, from the vote on the tabling motion, it is the will of the Senate to debate this further, and we shall have an opportunity to do so. It does seem to me, Mr. President, that those who support this amendment would be wise to heed the advice of the minority leader and say that this debate on this issue ought to be resolved on another day.

Much has been spoken about whether we are going to meet the President's time schedule. I think it is important to point out at this time that those who are risking the delay are those who are the proponents of this amendment, not those who will be speaking on it and debating it over a period of time.

Mr. President, I commend the advice of the Democratic leader (Mr. ROBERT C. BYRD) to our colleagues, and hope that we can see this amendment withdrawn so that we can move expeditiously onto the others matters that remain before the Senate on the tax bill. That seems to be the wisest course. It is obviously the fairest and the most just course, and that way the President will be able to get his tax measure.

Mr. DOLE. Mr. President, I appreciate the willingness of the Senator from Massachusetts to hasten the passage of the bill after 6 days here. That is welcome news from that side of the aisle. We have spent most of our time debating issues that come from that side, amendments that have come from that side. The Senator from Kansas is certainly in no hurry on this amendment. I just checked. Fourteen Democrats voted one way yesterday, another way today. They prefer the more expensive oil amendment. Maybe ours is too small.

Perhaps we should beef ours up a little, add \$2 or \$3 billion a year. We could encourage those 14 Senators who supported the big oil amendment yesterday to vote for the responsible, moderate amendment today. We are going to look at that possibility.

Maybe we should have done more. Maybe we should have gone far enough to satisfy those 14 Senators on that side. We will take a look at it. Maybe we should go as far as the Senators did on the House Ways and Means Committee—a 500-barrel exemption for new oil, a 100-barrel exemption for old oil, and four or five other things that they have not figured out yet what they did at 2:30 this morning.

It seems to me that when we get back to reality, we realize we are talking about tax policy and energy policy. If you view it in that light rather than listen to the tired rhetoric we have heard here for years and years, which has the country on the verge of bankruptcy, we should know which option we should follow.

Should we follow the old, tired slogans and programs of all those who have been sitting on that side, that brought us the highest inflation in history, the highest interest rates in history, almost the highest unemployment rates in history, and more regulations than ever known in this country? I hope not. This Senator is concerned about that kind of leadership, because that is what we have had for too long.

Now, for 6 months, we have had a new President and, thankfully, a Republican majority in the Senate for the first time in 26 years, and we are going in a different direction. Obviously, those who do not want to go in a different direction, who want to hew to the left and stay on the left, are somewhat troubled by the change. I believe that, given an opportunity, they will find that the President of the United States, with his economic recovery package, has a proposal that will benefit all Americans.

If we could focus on that aspect of debate, I believe that those 14 Democrats who suddenly decided that this amendment, apparently, was not big enough or did not do enough for their special interests might be supporting what I consider to be a very reasonable amendment.

So I assume those on the other side will want to talk at length about this matter. We are prepared to debate or to let those on that side talk about the amendment.

Do you want to accept the amendment?

Mr. KENNEDY. I have a little speech I want to make.

Mr. DOLE. I have heard that. It was very good.

Is the Senator from Ohio ready to move forward?

Mr. METZENBAUM. I am. I suggest the absence of a quorum.

Mr. DOLE. That is not moving forward. [Laughter.]

The PRESIDING OFFICER. The clerk will call the roll.

The bill clerk proceeded to call the roll.

Mr. BAKER. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER (Mr. GRASSLEY). Without objection, it is so ordered.

Mr. BAKER. I understand, Mr. President, after consulting with the distinguished managers of the bill on both sides and the minority leader that it is agreed that the best course to pursue at this moment would be to temporarily lay aside the pending amendment and proceed to the consideration of the so-called Hollings-Bradley amendment.

I ask unanimous consent, Mr. President, that the pending amendment be temporarily laid aside and that the Senator from South Carolina be recognized to call up his amendment.

The PRESIDING OFFICER. Without objection, it is so ordered.

The Senator from South Carolina is recognized.

# UP AMENDMENT NO. 259

(Purpose: Providing a 1-year targeted rate cut, and for other purposes)

Mr. HOLLINGS. Mr. President, I thank the distinguished majority leader.

I call up my amendment and ask the clerk to report it.

The PRESIDING OFFICER. The clerk will report.

The legislative clerk read as follows:

The Senator from South Carolina (Mr. HOLLINGS), for himself, Mr. BRADLEY, Mr. DODD, Mr. LEAHY, Mr. FORD, Mr. BIDEN, Mr. BUMPERS, Mr. KENNEDY, Mr. HART, Mr. CRANSTON, and Mr. GLENN proposes an unprinted amendment numbered 259.

Mr. HOLLINGS. Mr. President, I ask unanimous consent that further reading of the amendment be dispensed with.

The PRESIDING OFFICER. Without objection, it is so ordered.

The amendment is as follows:

On page 4, beginning with line 10, strike out all through page 29, line 20, and insert in lieu thereof the following:

## SEC. 101. DECREASE IN MAXIMUM RATE TO 50 PERCENT IN 1982.

(a) IN GENERAL.—Section 1 (relating to tax imposed) is amended—

(1) by striking out in the table in subsection (a) all that follows the item relating to taxable income in excess of \$47,200 but less than \$55,200 and inserting in lieu thereof the following:

"Over \$47,200..... \$14,060, Plus 50% of excess over \$47,200.";

(2) by striking out in the table in subsection (b) all that follows the item relating to taxable income in excess of \$40,200 but less than \$42,200 and inserting in lieu thereof the following:

"Over \$40,200..... \$12,240, Plus 50% of excess over \$40,200.";

(3) by striking out in the table in subsection (c) all that follows the item relating to taxable income in excess of \$34,200 but not over \$40,200 and inserting in lieu thereof the following:

"Over \$34,200..... \$10,290, Plus 50% of excess over \$34,200.";

(4) by striking out in the table in subsection (d) all that follows the item relating to taxable income in excess of \$23,600 but less than \$27,600 and inserting in lieu thereof the following:

"Over \$23,600..... \$7,030, Plus 50% of excess over \$23,600."; and

(5) by striking out in the table in subsection (e) all that follows the item relating to taxable income in excess of \$22,000 but less than \$26,000 and inserting in lieu thereof the following:

"Over \$22,000..... \$7,030, Plus 50% of excess over \$22,000.";

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to taxable years beginning in 1982.

## SEC. 102. RATE CUTS FOR 1983 AND AFTER; INCREASE IN ZERO BRACKET AMOUNTS.

(a) RATE REDUCTION.—Section 1 (relating to tax imposed) is amended to read as follows:

## "SECTION 1. TAX IMPOSED.

"(a) MARRIED INDIVIDUALS FILING JOINT RETURNS AND SURVIVING SPOUSES.—There is hereby imposed on the taxable income of—

"(1) every married individual (as defined in section 143) who makes a single return jointly with his spouse under section 6013, and

"(2) every surviving spouse (as defined in section 2(a)),

a tax determined in accordance with the following table:

"If taxable income is:	The tax is:
Not over \$3,800	No tax.
Over \$3,800 but not over \$5,900	13% of excess over \$3,800.
Over \$5,900 but not over \$8,000	\$273, plus 14% of excess over \$5,900.
Over \$8,000 but not over \$12,300	\$567, plus 15% of excess over \$8,000.
Over \$12,300 but not over \$16,400	\$1,212, plus 19% of excess over \$12,300.
Over \$16,400 but not over \$20,600	\$1,991, plus 21% of excess over \$16,400.
Over \$20,600 but not over \$25,000	\$2,873, plus 22% of excess over \$20,600.
Over \$25,000 but not over \$30,300	\$3,841, plus 30% of excess over \$25,000.
Over \$30,300 but not over \$35,600	\$5,431, plus 35% of excess over \$30,300.
Over \$35,600 but not over \$46,200	\$7,286, plus 42% of excess over \$35,600.
Over \$46,200 but not over \$60,400	\$11,738, plus 48% of excess over \$46,200.
Over \$60,400	\$18,554, plus 50% of excess over \$60,400.

"(b) HEADS OF HOUSEHOLDS.—There is hereby imposed on the taxable income of every individual who is the head of a household (as defined in section 2 (b)) a tax determined in accordance with the following table:

"If taxable income is:	The tax is:
Not over \$2,500	No tax.
Over \$2,500 but not over \$4,600	13% of excess over \$2,500.
Over \$4,600 but not over \$6,700	\$273, plus 14% of excess over \$4,600.
Over \$6,700 but not over \$8,900	\$567, plus 15% of excess over \$6,700.
Over \$8,900 but not over \$15,200	\$887, plus 21% of excess over \$8,900.
Over \$15,200 but not over \$18,400	\$2,220, plus 22% of excess over \$15,200.
Over \$18,400 but not over \$23,700	\$2,924, plus 29% of excess over \$18,400.
Over \$23,700 but not over \$29,000	\$4,461, plus 34% of excess over \$23,700.
Over \$29,000 but not over \$34,300	\$6,263, plus 40% of excess over \$29,000.
Over \$34,300 but not over \$44,900	\$8,383, plus 45% of excess over \$34,300.
Over \$44,900	\$13,153, plus 50% of excess over \$44,900.

"(c) UNMARRIED INDIVIDUALS (OTHER THAN SURVIVING SPOUSES AND HEADS OF HOUSEHOLDS).—There is hereby imposed on the taxable income of every individual (other than a surviving spouse as defined in section 2(a) or the head of a household as defined in section 2(b)) who is not a married individual (as defined in section 143) a tax determined in accordance with the following table:

"If taxable income is:	The tax is:
Not over \$2,500	No tax.
Over \$2,500 but not over \$3,600	13% of excess over \$2,500.
Over \$3,600 but not over \$4,600	\$143, plus 14% of excess over \$3,600.
Over \$4,600 but not over \$6,700	\$283, plus 15% of excess over \$4,600.
Over \$6,700 but not over \$8,700	\$598, plus 18% of excess over \$6,700.
Over \$8,700 but not over \$11,000	\$958, plus 19% of excess over \$8,700.
Over \$11,000 but not over \$15,200	\$1,395, plus 21% of excess over \$11,000.
Over \$15,200 but not over \$19,000	\$2,277, plus 26% of excess over \$15,200.
Over \$19,000 but not over \$23,700	\$3,265, plus 32% of excess over \$19,000.
Over \$23,700 but not over \$29,000	\$4,769, plus 37% of excess over \$23,700.
Over \$29,000 but not over \$34,300	\$6,730, plus 42% of excess over \$29,000.
Over \$34,300 but not over \$41,700	\$8,956, plus 48% of excess over \$34,300.
Over \$41,700	\$12,508, plus 50% of excess over \$41,700.



"(d) **MARRIED INDIVIDUALS FILING SEPARATE RETURNS.**—There is hereby imposed on the taxable income of every married individual (as defined in section 143) who does not make a single return jointly with his spouse under section 6013 a tax determined in accordance with the following table:

"If taxable income is:	The tax is:
Not over \$1,900.....	No tax.
Over \$1,900 but not over \$2,950.....	13% of excess over \$1,900
Over \$2,950 but not over \$4,000.....	\$136, plus 14% of excess over \$2,950.
Over \$4,000 but not over \$6,150.....	\$283, plus 15% of excess over \$4,000.
Over \$6,150 but not over \$8,200.....	\$606, plus 19% of excess over \$6,150.
Over \$8,200 but not over \$10,300.....	\$995, plus 21% of excess over \$8,200.
Over \$10,300 but not over \$12,500.....	\$1,436, plus 22% of excess over \$10,300.
Over \$12,500 but not over \$15,150.....	\$1,920, plus 30% of excess over \$12,500.
Over \$15,150 but not over \$17,800.....	\$2,715, plus 35% of excess over \$15,150.
Over \$17,800 but not over \$23,100.....	\$3,643, plus 42% of excess over \$17,800.
Over \$23,100 but not over \$30,200.....	\$5,869, plus 48% of excess over \$23,100.
Over \$30,200.....	\$9,277, plus 50% of excess over \$30,200.

"(e) **ESTATES AND TRUSTS.**—There is hereby imposed on the taxable income of every estate and trust taxable under this subsection a tax determined in accordance with the following table:

"If taxable income is:	The tax is:
Not over \$1,050.....	13% of taxable income.
Over \$1,050 but not over \$2,100.....	\$136, plus 14% of excess over \$1,050.
Over \$2,100 but not over \$4,250.....	\$283, plus 15% of excess over \$2,100.
Over \$4,250 but not over \$6,300.....	\$606, plus 19% of excess over \$4,250.
Over \$6,300 but not over \$8,400.....	\$995, plus 21% of excess over \$6,300.
Over \$8,400 but not over \$10,600.....	\$1,436, plus 22% of excess over \$8,400.
Over \$10,600 but not over \$13,250.....	\$1,920, plus 30% of excess over \$10,600.
Over \$13,250 but not over \$15,900.....	\$2,715, plus 35% of excess over \$13,250.
Over \$15,900 but not over \$21,200.....	\$3,643, plus 42% of excess over \$15,900.
Over \$21,200 but not over \$28,300.....	\$5,869, plus 48% of excess over \$21,200.
Over \$28,300.....	\$9,277, plus 50% of excess over \$28,300."

(b) **INCREASE IN ZERO BRACKET AMOUNT.**—Subsection (d) of section 63 (defining zero bracket amount) is amended—

(1) by striking out "\$3,400" and inserting in lieu thereof "\$3,800",

(2) by striking out "\$2,300" and inserting in lieu thereof "\$2,500", and

(3) by striking out "\$1,700" and inserting in lieu thereof "\$1,900".

(c) **FILING REQUIREMENTS.**—Paragraph (1) of section 6012(a) (relating to person required to make returns of income) is amended—

(1) by striking out "\$3,300" and inserting in lieu thereof "\$3,500",

(2) by striking out "\$4,400" and inserting in lieu thereof "\$4,800", and

(3) by striking out "\$5,400" and inserting in lieu thereof "\$5,800".

(d) **CONFORMING AMENDMENTS.**—

(1) **LUMP SUM DISTRIBUTIONS TAX.**—Subparagraph (C) of section 402(e) (1) (relating to tax on lump sum distributions) is amended by striking out "\$2,300" and inserting in lieu thereof "\$2,500".

(2) **PERSONAL HOLDING COMPANY TAX.**—Section 541 (relating to personal holding company tax) is amended by striking out "70 percent" and inserting in lieu thereof "50 percent".

(e) **WITHHOLDING TABLES.**—

(1) **DETERMINATION OF WITHHOLDING.**—Section 3402(a) (relating to requirement of withholding income tax at source) is amended to read as follows:

"(a) **REQUIREMENT OF WITHHOLDING.**—

"(1) **IN GENERAL.**—Except as otherwise provided in this section, every employer making payment of wages shall deduct and withhold upon such wages a tax determined in accordance with tables of computational procedures prescribed by the Secretary. Any tables or procedures prescribed under this paragraph shall—

"(A) apply with respect to the amount of wages paid during such periods as the Secretary may prescribe, and

"(B) be in such form, and provide for such amounts to be deducted and withheld, as the Secretary determines to be most appropriate to carry out the purposes of this chapter and to reflect the provisions of chapter 1 applicable to such periods.

"(2) **AMOUNT OF WAGES.**—For purposes of applying tables or procedures prescribed under paragraph (1), the term 'the amount of wages' means the amount by which the wages exceed the number of withholding exemptions claimed multiplied by the amount of one such exemption. The amount of each withholding exemption shall be equal to the amount of one personal exemption provided in section 151(b), prorated to the payroll period. The maximum number of withholding exemptions permitted shall be calculated in accordance with regulations prescribed by the Secretary under this section, taking into account any reduction in withholding to which an employee is entitled under this section."

(2) **WAGES PAID FOR PERIOD LESS THAN 1 WEEK.**—Section 3402(b) (relating to the percentage method of withholding) is amended—

(A) by striking out paragraph (1), and redesignating paragraphs (2) through (5) as paragraphs (1) through (4), respectively; and

(B) by striking out paragraph (3), as redesignated by subparagraph (A), and inserting in lieu thereof the following:

"(3) In any case in which the period, or the time described in paragraph (2), in respect of any wages is less than one week, the Secretary, under regulations prescribed by him, may authorize an employer to compute the tax to be deducted and withheld as if the aggregate of the wages paid to the employee during the calendar week were paid for a weekly payroll period."

(3) **ZERO BRACKET AMOUNT.**—Paragraph (1) (G) of section 3402(f) (relating to withholding exemptions) is amended by inserting "(or more than one exemption if so prescribed by the Secretary)" after "one exemption".

(4) **CHANGES IN WITHHOLDING.**—Section 3402(1) (relating to additional withholding) is amended to read as follows:

"(1) **CHANGES IN WITHHOLDING.**—

"(1) **IN GENERAL.**—The Secretary may by regulations provide for increases or decreases in the amount of withholding otherwise required under this section in cases where the employee requests such changes.

"(2) **TREATMENT AS TAX.**—Any increased withholding under paragraph (1) shall for all purposes be considered tax required to be deducted and withheld under this chapter."

(5) **WITHHOLDING ALLOWANCES.**—

(A) **IN GENERAL.**—Paragraph (1) of section 3402(m) (relating to withholding allowances based on itemized deductions) is amended to read as follows:

"(1) **GENERAL RULE.**—Under regulations prescribed by the Secretary, an employee shall be entitled to additional withholding allowances or additional reductions in withholding under this subsection. In determining the number of additional withholding

allowances or the amount of additional reductions in withholding under this subsection, the employee may take into account—

"(A) the excess of his estimated itemized deductions or other estimated deductions (as prescribed by the Secretary) over his zero bracket amount (as defined in section 63(d)),

"(B) such tax credits to which he is entitled as specified in the regulations prescribed by the Secretary, and

"(C) such additional items as specified in the regulations prescribed by the Secretary."

(B) **TABLES.**—Paragraph (4) of section 3402(m) is amended to read as follows:

"(4) **AUTHORITY TO PRESCRIBE TABLES.**—The Secretary may prescribe tables or computational procedures pursuant to which employees shall determine the number of withholding allowances or the amount of reduced withholding to which the employees are entitled under this subsection."

(f) **REPEAL OF MAXIMUM TAX.**—

(1) **IN GENERAL.**—Part VI of subchapter Q of chapter 1 (relating to maximum rate on personal service income) is repealed.

(2) **CONFORMING AMENDMENTS.**—

(A) Paragraph (1) of section 3 (b) (relating to tax tables for individuals) is amended to read as follows:

"(1) an individual to whom section 1301 (relating to income averaging) applies for the taxable year,"

(B) Subsection (b) of section 1304 (relating to special rules for income averaging) is amended—

(i) by inserting "and" at the end of paragraph (1),

(ii) by striking out "and" at the end of paragraph (2) and inserting in lieu thereof a period, and

(iii) by striking out paragraph (3).

(C) The table of parts for subchapter Q of chapter 1 is amended by striking out the item relating to part VI.

(g) **ALTERNATIVE MINIMUM TAX.**—Paragraph (1) of section 55 (a) (relating to alternative minimum tax) is amended—

(1) by striking out all that follows "\$60,000" in subparagraph (B) and inserting in lieu thereof "exceeds", and

(2) by striking out subparagraph (C).

(h) **EFFECTIVE DATES.**—

(1) **IN GENERAL.**—The amendments made by subsections (a), (b), (c), and (d) (1) shall apply to taxable years beginning after December 31, 1982.

(2) **AMENDMENTS RELATING TO 50 PERCENT MAXIMUM TAX.**—The amendments made by subsections (d) (2), (f), and (g) shall apply to taxable years beginning after December 31, 1981.

(3) **WITHHOLDING AMENDMENTS.**—The amendments made by subsection (e) shall apply to remuneration paid after December 31, 1981.

**SEC. 103. 20-PERCENT MAXIMUM RATE ON NET CAPITAL GAIN FOR PORTION OF 1981.**

(a) **IN GENERAL.**—If for any taxable year ending after June 10, 1981, and beginning before January 1, 1982, a taxpayer other than a corporation has qualified net capital gain, then the tax imposed under section 1 of the Internal Revenue Code of 1954 for such taxable year shall be equal to the lesser of—

(1) the tax imposed under such section determined without regard to this subsection, or

(2) the sum of—

(A) the tax imposed under such section on the excess of—

(i) the taxable income of the taxpayer, over

(ii) 40 percent of the qualified net capital gain of the taxpayer, and

(B) 20 percent of the qualified net capital gain.

(b) APPLICATION WITH ALTERNATIVE MINIMUM TAX.—

(1) IN GENERAL.—If subsection (a) applies to any taxpayer for any taxable year, then the amount determined under section 55(a) (1) of the Internal Revenue Code of 1954 for such taxable year shall be equal to the lesser of—

(A) the amount determined under such section 55(a) (1) determined without regard to this subsection, or

(B) the sum of—

(i) the amount which would be determined under such section 55(a) (1) if the alternative minimum taxable income was the excess of—

(I) the alternative minimum taxable income (within the meaning of section 55(b) (1) of such Code) of the taxpayer, over

(II) the qualified net capital gain of the taxpayer, and

(ii) 20 percent of the qualified net capital gain.

(2) NO CREDITS ALLOWABLE.—For purposes of section 55(c) of such Code, no credit allowable under subpart A of part IV of subchapter A of chapter 1 of such Code (other than section 33(a) of such Code) shall be allowable against the amount described in paragraph (1) (B) (ii).

(c) QUALIFIED NET CAPITAL GAIN.—

(1) IN GENERAL.—For purposes of this section, the term "qualified net capital gain" means the lesser of—

(A) the net capital gain for the taxable year, or

(B) the net capital gain for the taxable year taking into account only gain or loss from sales or exchanges occurring after June 10, 1981

(2) NET CAPITAL GAIN.—For purposes of this subsection, the term "net capital gain" has the meaning given such term by section 1222(11) of the Internal Revenue Code of 1954.

SEC. 104. INCREASE IN THE EARNED INCOME TAX CREDIT.

(a) INCREASE IN CREDIT.—Subsection (a) of section 43 (relating to earned income credit) is amended by striking out "10 percent" and inserting in lieu thereof "11 percent".

(b) REVISION OF LIMITATION.—Subsection (b) of section 43 (relating to limitation) is amended to read as follows:

"(b) LIMITATION.—The amount of the credit allowable to a taxpayer under subsection (a) for any taxable year shall not exceed the excess (if any) of—

"(1) \$550, over

"(2) 13.75 percent of so much of the adjusted gross income (or, if greater, the earned income) of the taxpayer for the taxable year as exceeds \$8,000."

(c) CONFORMING AMENDMENTS.—

(1) Subsection (f) (2) of section 43 is amended—

(A) by striking out "\$10,000" each place it appears and inserting in lieu thereof "\$12,000", and

(B) by striking out "\$6,000" and inserting in lieu thereof "\$8,000".

(2) Paragraph (2) of section 3507 (c) (relating to earned income advance amount tables) is amended—

(A) by striking out "10 percent" each place it appears and inserting in lieu thereof "11 percent",

(B) by striking out "\$6,000 and \$10,000" and inserting in lieu thereof "\$8,000 and \$12,000", and

(C) by striking out "\$3,000 and \$5,000" and inserting in lieu thereof "\$4,000 and \$6,000".

(d) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in

paragraph (2), the amendments made by this section shall apply to taxable years beginning after December 31, 1981.

(2) AMENDMENTS OF SECTION 3507.—The amendments made by subsection (c) (2) shall apply to remuneration paid after December 31, 1981.

SEC. 105. DEDUCTION FOR TWO-EARNER MARRIED COUPLES.

(a) IN GENERAL.—Part VII of subchapter B of chapter 1 (relating to additional itemized deductions for individuals) is amended by redesignating section 221 as section 222 and by inserting after section 220 the following new section:

"SEC. 221. DEDUCTION FOR TWO-EARNER MARRIED COUPLES.

"(a) DEDUCTION ALLOWED.—

"(1) IN GENERAL.—In the case of a joint return under section 6013 for the taxable year, there shall be allowed as a deduction an amount equal to 10 percent of the lesser of—

"(A) \$30,000, or

"(B) the qualified earned income of the spouse with the lower qualified earned income for such taxable year.

"(2) SPECIAL RULE FOR 1982.—In the case of a taxable year beginning during 1982, paragraph (1) shall be applied by substituting '5 percent' for '10 percent'.

"(b) QUALIFIED EARNED INCOME DEFINED.—

"(1) IN GENERAL.—For purposes of this section, the term 'qualified earned income' means an amount equal to the excess of—

"(A) the earned income of the spouse for the taxable year, over

"(B) an amount equal to the sum of the deductions described in paragraphs (1), (2), (7), (9), (10), and (15) of section 62 to the extent such deductions are properly allocable to or chargeable against earned income described in subparagraph (A). The amount of qualified earned income shall be determined without regard to any community property laws.

"(2) EARNED INCOME.—For purposes of paragraph (1), the term 'earned income' means income which is earned income within the meaning of section 911(d) (2) or 401(c) (2) (C), except that—

"(A) such term shall not include any amount—

"(i) not includible in gross income,

"(ii) received as a pension or annuity,

"(iii) paid or distributed out of an individual retirement plan (within the meaning of section 7701(a) (37)),

"(iv) received as deferred compensation, or

"(v) received for services performed by an individual in the employ of his spouse (within the meaning of section 3121(b) (3) (A)), and

"(B) section 911(d) (2) (B) shall be applied without regard to the phrase 'not in excess of 30 percent of his share of net profits of such trade or business'.

"(c) DEDUCTION DISALLOWED FOR INDIVIDUAL CLAIMING BENEFITS OF SECTION 911 OR 931.—No deduction shall be allowed under this section for any taxable year if either spouse claims the benefits of section 911 or 931 for such taxable year."

(b) DEDUCTION ALLOWED IN COMPUTING ADJUSTED GROSS INCOME.—Section 62 (defining adjusted gross income), as amended by section 112(b) (2) of this Act, is amended by inserting after paragraph (15) the following new paragraph:

"(16) DEDUCTION FOR TWO-EARNER MARRIED COUPLES.—The deduction allowed by section 221."

(c) CONFORMING AMENDMENT TO WITHHOLDING.—Subparagraph (A) of section 3402 (m) (2) (defining estimated itemized deductions) is amended by striking out "paragraph (13)" and inserting in lieu thereof "paragraphs (13) and (16)".

(d) OTHER CONFORMING AMENDMENTS.—

(1) Subsection (a) of section 85 (relating to unemployment compensation) is amended by striking out "and without regard to section 103(d)" and inserting in lieu thereof "section 105(d) and section 221".

(2) Subsection (d) (3) of section 105 (relating to amounts received under accident and health plans) is amended by inserting "and section 221" after "subsection" the first place it appears.

(3) The table of sections for such part VII is amended by striking out the item relating to section 221 and inserting in lieu thereof the following new items:

"Sec. 221. Deduction for two-earner married couples.

"Sec. 222. Cross references."

(e) EFFECTIVE DATES.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to taxable years beginning after December 31, 1981.

(2) WITHHOLDING.—The amendment made by subsection (c) shall apply to remuneration paid after December 31, 1981.

SEC. 106. REPEAL OF WINDFALL PROFIT PROVISIONS.

(a) ROYALTY CREDIT.—Notwithstanding the provisions of section 6429 of the Internal Revenue Code of 1954, as amended by section 241, the amount which may be treated as an overpayment of tax under such section for calendar years 1982 and following is zero.

(b) RATE OF TAX ON NEWLY DISCOVERED OIL.—Notwithstanding the provisions of section 4987(b) (3) (B) of such Code, as added by section 242(a), the applicable percentage for newly discovered oil for purposes of determining the amount of tax imposed by section 4986 of such Code for periods after December 31, 1981, shall be 30 percent.

Mr. HOLLINGS. Mr. President, the tax bill that is before us is a watershed. It is as crucial to our economic recovery as are the spending cuts contained in the reconciliation bill now in conference with the House.

It should not be hard to understand why this is so. Federal fiscal policy is the lynchpin in our efforts to improve our economic plight. The spending and taxing policies of the Federal Government affect inflation, interest rates, growth, unemployment, productivity, and a host of other factors. None of these indicators is in great shape today and some look downright dismal.

Inflation is running at near double digit levels. Interest rates have been hovering at such high levels, around 20 percent, for so long that hundreds of savings and loans are in severe danger of failing. Our productivity has declined for 3 consecutive years and our growth rate is now among the lowest in the industrialized world.

And if these ills were not enough, our national debt will soon reach the astronomical figure of \$1 trillion. That is a 1 followed by 12 zeroes. It is an amount of money so large that a stack of 1 trillion \$1 bills would reach nearly 68,000 miles high.

Despite our efforts, we have been unsuccessful in getting our economy out of the doldrums. There are many causes but one is certainly that the Federal Government has not set a good economic example. We could take no single more



powerful action than to set in place a responsible fiscal policy in which spending and revenues work in concert to produce a balanced budget.

A balanced budget is the key that can help make our economic recovery a reality. Without it, we can only continue the ruinous stagflation, with all its attendant evils, that is sapping the country's economic vitality.

Achieving a balanced budget is not an easy task, nor can it be done overnight. When I was chairman of the Budget Committee last year, we produced a balanced budget in the spring only to see it disappear in a worsening economy. In fact, in the past 30 years, we have succeeded only five times in actually reaching that goal, the last time being in 1969.

Mr. President, I ask unanimous consent that a table showing the revenues, outlays and deficits of the Federal budget since 1951 be printed in the Record at this point.

There being no objection, the table was ordered to be printed in the Record, as follows:

BUDGET RECEIPTS AND OUTLAYS, 1951-80  
(In millions of dollars)

Fiscal year	Budget receipts	Budget outlays	Budget surplus or deficit (—)
1951	51,646	45,546	+6,100
1952	66,204	67,721	-1,517
1953	69,574	76,107	-6,533
1954	69,719	70,890	-1,170
1955	65,469	68,509	-3,041
1956	74,547	70,460	+4,087
1957	79,990	76,741	+3,249
1958	79,636	82,575	-2,939
1959	79,249	92,104	-12,855
1960	92,492	92,223	+269
1961	94,389	97,795	-3,406
1962	99,667	106,813	-7,137
1963	106,560	111,311	-4,751
1964	112,662	118,584	-5,922
1965	116,833	118,430	-1,596
1966	130,856	134,652	-3,796
1967	149,552	158,254	-8,702
1968	153,671	178,833	-25,161
1969	187,784	184,548	+3,236
1970	193,743	196,588	-2,845
1971	188,392	211,425	-23,033
1972	208,649	232,021	-23,373
1973	232,225	247,074	-14,849
1974	264,932	269,620	-4,688
1975	280,997	326,151	-45,154
1976	300,005	366,418	-66,413
TO	81,773	94,728	-12,955
1977	357,762	402,710	-44,948
1978	401,997	450,804	-48,807
1979	465,940	493,635	-27,694
1980	520,050	579,613	-59,563

Mr. HOLLINGS. As this table shows, a deficit or surplus is the result of two factors—outlays and receipts. Each is equally important in attaining a budget that is in balance.

On the spending side, we have already made outstanding progress. On May 21, the Congress adopted a budget resolution, House Concurrent Resolution 115, that significantly changed our spending priorities. It limited the increase in overall spending for fiscal year 1982 to 5.2 percent above the projected level for fiscal year 1981.

But more importantly, the resolution required 14 committees of the Senate and 15 committees of the House to report legislation that would cut spending by \$36.5 billion in fiscal year 1982 and by a total of \$141.6 billion through fiscal year 1984.

I ask unanimous consent to submit for the Record a table showing the instructions to each Senate committee.

There being no objection, the table was ordered to be printed in the Record, as follows:

SUMMARY OF RECONCILIATION INSTRUCTIONS BY SENATE COMMITTEE

(In millions of dollars)

Senate committee	Fiscal year 1981		Fiscal year 1982		Fiscal year 1983		Fiscal year 1984	
	Budget authority	Outlay	Budget authority	Outlay	Budget authority	Outlay	Budget authority	Outlay
Agriculture, Nutrition, and Forestry:								
Reductions in direct spending		-163	-474	-928	-659	-618	-854	-795
Reductions in authorizations	-140		-3,193	-3,096	-3,961	-3,825	-4,551	-4,451
Armed Services: Reductions in direct spending	-233	-233	-966	-966	-899	-899	-511	-511
Banking, Housing, and Urban Affairs: Reductions in authorizations	-5,846	-133	-14,478	-840	-17,450	-2,133	-20,341	-3,779
Commerce, Science, and Transportation:								
Reductions in direct spending			-100	-100	-200	-200	-300	-300
Reductions in authorizations			-1,558	-884	-1,598	-1,328	-1,465	-1,337
Energy and Natural Resources: Reductions in authorizations	-1,331	-94	-3,714	-3,398	-3,660	-3,627	-3,604	-3,711
Environment and Public Works:								
Reductions in direct spending				-185		-900		-1,365
Reductions in authorizations	-2,350	-68	-4,835	-793	-3,035	-1,840	-3,500	-2,800
Finance:								
Reductions in direct spending	-212	-286	-4,394	-9,218	-4,563	-10,744	-4,675	-11,589
Reductions in authorizations			-96	-112	-114	-132	-149	-177
Foreign Relations: Reductions in authorizations			-250	-130	-275	-200	-300	-300
Governmental Affairs:								
Reductions in direct spending				-513		-414		-357
Reductions in authorizations			-4,776	-4,690	6,300	-6,388	-7,462	-7,440
Judiciary: Reductions in authorizations			-116	-13	-133	-81	-144	-124
Labor and Human Resources:								
Reductions in direct spending	-39	-49	-596	-575	-1,481	-1,395	-2,452	-2,311
Reductions in authorizations	-2,388	-414	-10,492	-8,225	-12,539	-11,069	-15,048	-13,746
Small Business: Reductions in authorizations	-97	-67	-526	-390	-564	-541	-554	-533
Veterans' Affairs: Reductions in direct spending	-14	-14	-110	-110	-108	-108	-106	-106
Total, reductions in direct spending	-498	-745	-6,640	-12,595	-7,910	-15,278	-8,898	-17,334
Total reductions in authorizations	-12,152	-776	-44,054	-22,571	-49,689	-31,164	-57,118	-39,398
Appropriations Committee	-13,300	-1,500		-3,200		-1,800		-1,100
Total, instructions to all committees	-25,950	-3,021	-50,674	-38,366	-57,599	-48,242	-66,016	-56,832
Eliminate double counting between appropriations and authorizing committees	+11,283	+677		+1,865		+1,263		+1,034
Total, net savings	-14,667	-2,344	-50,694	-36,501	-57,599	-46,979	-66,016	-55,798

Mr. HOLLINGS. Mr. President, I am especially heartened to see Republicans following in the Democratic footsteps by endorsing the reconciliation process. This year's reconciliation bill, while unprecedented in magnitude, builds on the pioneering action last year when 9 Senate and 10 House committees were instructed to report savings of \$6.4 billion in fiscal year 1981 outlays. Eventually, after a conference of over 100 Members, the reconciliation bill and related spend-

ing reduction measures cut outlays by a total of \$4.6 billion.

Let there be no doubt that reconciliation is a bipartisan effort, one that Democrats as well as Republicans support. Last year's precedent-setting action was initiated by Democrats and supported by Republicans. This year, a bipartisan group of Senators started the ball rolling on reconciliation with the introduction of Senate Concurrent Resolution 9, which I cosponsored. When

the final results were in, 28 Democrats voted in favor of the spending cuts contained in the reconciliation bill that passed the Senate on June 25.

I ask unanimous consent that a summary of the spending reductions achieved by each committee in the Senate-passed reconciliation, S. 1377, be included in the Record at this point.

There being no objection, the summary was ordered to be printed in the Record, as follows:

## SENATE PASSED RECONCILIATION SAVINGS (S. 1377)

[In millions of dollars]

	Fiscal year 1981		Fiscal year 1982		Fiscal year 1983		Fiscal year 1984	
	Budget authority	Outlay	Budget authority	Outlay	Budget authority	Outlay	Budget authority	Outlay
Agriculture, Nutrition and Forestry:								
Reductions in direct spending.....	-10	-163	-481	-945	-669	-628	-869	-810
Reductions in authorizations.....	-130		-3,369	-3,222	-4,051	-3,932	-4,532	-4,444
Armed Services:								
Reductions in direct spending.....	-233	-233	-966	-966	-899	-899	-511	-511
Banking, Housing and Urban Affairs:								
Reductions in authorizations.....	-5,991	-133	-13,779	-917	-18,883	-2,111	-22,774	-3,968
Commerce, Science and Transportation:								
Reductions in direct spending.....	+255	-25	-490	-340	-590	-398	-673	-496
Reductions in authorizations.....			-943	-789	-1,171	-729	-1,283	-1,144
Energy and Natural Resources:								
Reductions in authorizations.....	-2,627	-98	-6,055	-5,483	-5,958	-5,890	-5,419	-5,254
Environment and Public Works:								
Reductions in direct spending.....				-185		-900		-1,365
Reductions in authorizations.....	-2,351	-71	-5,001	-878	-3,069	-1,924	-3,710	-2,976
Finance:								
Reductions in direct spending.....	-174	-282	-5,900	-9,452	-6,792	-10,838	-7,508	-12,156
Reductions in authorizations.....			-54	-54	-65	-65	-71	-71
Foreign Relations:								
Reductions in authorizations.....			-268	-167	-340	-289	-306	-301
Governmental Affairs:								
Reductions in direct spending.....				-513		-414		-357
Reductions in authorizations.....			-4,776	-4,690	-6,360	-6,382	-7,462	-7,440
Judiciary:								
Reductions in authorizations.....			-117	-39	-134	-105	-144	-128
Labor and Human Resources:								
Reductions in direct spending.....	-163	-11	-614	-879	-1,174	-1,187	-1,832	-1,923
Reductions in authorizations.....	-2,419	-497	-10,053	-7,854	-12,299	-10,883	-14,940	-13,447
Small Business:								
Reductions in authorizations.....	-304	-67	-526	-582	-578	-541	-588	-533
Veterans' Affairs:								
Reductions in direct spending.....	-18	-18	-109	-109	-109	-115	-118	-123
Total, reductions in direct spending.....	-343	-732	-8,560	-13,389	-10,233	-15,379	-11,511	-7,741
Total, reductions in authorizations.....	-13,822	-866	-44,941	-24,675	-52,908	-32,851	-61,229	-39,706
Grand total.....	-14,165	-1,598	-53,501	-38,064	-63,141	-48,230	-72,740	-57,447

Mr. HOLLINGS. Mr. President, the reconciliation bill, which went to conference with the House on Tuesday, is the clearest possible sign of the commitment the Congress has to cut Federal spending in order to achieve a balanced budget.

But as I said earlier, there are two sides to a balanced budget. You cannot achieve it merely by cutting outlays. You have to pay attention to the revenue side. And that is where my present concern lies.

We cannot hope to ever achieve a balanced budget if for every dollar we cut in spending, we cut taxes by a similar amount. The arithmetic just does not allow it. We may reduce the overall level of Federal spending, but the deficit will remain the same.

To make any progress toward a balanced budget, we must cut taxes by less than we cut spending. To do otherwise jeopardizes not only a balanced budget but spending for some of our priority programs as well, such as national defense and social security.

To show the impact of tax cuts on the deficit, we need only look at the past decade. Since 1969, there have been seven major tax reductions. The effect of those reductions was that, in 1980 alone, if the tax laws had remained unchanged, Federal receipts from personal and corporate taxes would have been \$154.7 billion higher than they were. That is nearly three times the level of our deficit that year.

In fact, we could have essentially balanced the budget or been in substantial surplus in each year during the 1970's if it were not for the tax cuts. In the past decade, the cumulative deficit was about

\$400 billion while the cumulative revenue loss from the tax cuts was over \$700 billion.

Of course, I know just as well as the next person that everyone likes a tax cut. We like voting for them as much as our constituents like receiving them. But let us not fool ourselves and get carried away. What do the American people really want the Congress to do?

Well, in a poll taken shortly after the President's inauguration in January, 64 percent of those interviewed about Federal budget priorities ranked a balanced budget as more important than a tax cut. The people were not deceived by some of the claims made for a large tax cut. They clearly stated their preference for a balanced budget by over 2 to 1.

Mr. President, I ask unanimous consent that the results of that poll be printed in the RECORD.

There being no objection, the poll was ordered to be printed in the RECORD, as follows:

REAGAN BUDGET PRIORITIES  
(NBC Poll, released January 28, 1981)

## DEFENSE SPENDING

Do you think the federal government's spending next year on defense and the military should be increased, decreased, or kept about the same?

	1/81	10/80b
Increased .....	65	62
Decreased .....	6	6
Kept about the same.....	23	25
Not sure .....	6	6

INCREASED DEFENSE SPENDING VS. BALANCED  
FEDERAL BUDGET

If you had to choose between increasing spending on defense and balancing the federal budget, which would you choose?

[In percent]

Increase spending on defense.....	52
Balance federal budget.....	40
Not sure .....	8

## BALANCED FEDERAL BUDGET VS. INCOME TAX CUT

If you had to choose between balancing the federal budget and cutting your federal income taxes, which would you choose?

[In percent]

	1/81	8/80a	7/80a
Balance Federal budget.....	64	49	57
Cut Federal income taxes.....	29	37	33
Not sure.....	7	14	10

## FUTURE OF THE ECONOMY

During the next year, do you think the economy will get better, get worse or stay about the same?

[In percent]

	1/81	10/80a	5/80	1/80
Get better.....	38	30	30	15
Get worse.....	17	25	38	51
Stay about the same.....	40	38	27	30
Not sure.....	5	7	5	4

## FUTURE FAMILY FINANCES

During the next year, do you think your family will be financially better off than it is today, worse off or about the same?

[In percent]

	1/81	10/80b	9/80	7/80a
Better off.....	29	23	25	20
Worse off.....	14	17	16	29
About the same.....	51	52	55	46
Not sure.....	6	8	4	5



## REAGAN BUDGET PRIORITIES

Both before and after his election, President Reagan has emphasized three goals in the area of federal finance: an increase in federal outlays for defense and defense-related programs, progress toward a balanced federal budget and a reduction in federal income tax rates.

Of these three proposals, the public is most clearly attracted to the prospect of higher defense spending. Two thirds of the people interviewed in this survey—65 percent—favor higher defense outlays, while 23 percent want spending kept at current levels and only 6 percent favor less money for defense.

By a relatively narrow 12-point margin—52 percent to 40 percent—Americans would choose higher defense spending over a balanced budget, if the policy choice ultimately came to that.

Tax-cutting seems to be the least important of the three Reagan Administration policy goals, in the minds of the public. By more than two-to-one—64 percent to 29 percent—Americans say they would balance the budget rather than cut income taxes if those actions became the policy choices.

Mr. HOLLINGS. To get to that balanced budget—which the people want and the economy needs—requires not only substantial spending cuts but a responsible, prudent, timely tax cut.

The Finance Committee bill now before us has a number of provisions which I support. The committee's proposals are considerably improved over those sent to the Congress by the new administration last spring. As the distinguished chairman of the Finance Committee knows, I testified before his committee about a number of concerns that I had over the administration's original proposals.

I appeared before that committee specifically to argue three points:

That the large personal tax rate reductions be pared back to allow for specific incentives for saving.

That the business tax cuts be put in place immediately rather than phased-in over 5 years as the administration proposed, and

That the committee deliver to the American people a tax bill that could help produce a balanced Federal budget by fiscal year 1984.

In some respects the committee has done its work well. But in other respects it has failed. It failed by not keeping faith with the people who asked for a balanced budget.

We know how dramatic the reductions in spending will be—over \$38 billion in fiscal year 1982 to over \$57 billion in 1984. These will not be painless cuts.

But to achieve a balanced budget, this tax bill would require ever greater, substantial reductions in spending, the kind of cuts that even fiscal conservatives would not likely support; thus, with this bill, the prospects for a balanced budget fade farther and farther from sight.

Mr. President, it is for this reason primarily that we offer my tax amendment.

Our economy has suffered mightily during the past decade, through both Republican and Democratic administrations. Inflation has risen from a 2-percent rate during the 1950's and early 1960's to between 9 and 10 percent currently. The unemployment rate is near

7½ percent now and rising. Economic growth during the past few years has been very small, and our standard of living rose by only two-tenths of 1 percent last year.

The problem is that real income grows only when productivity grows—and productivity growth in this Nation has slipped badly during the past decade. Between 1950 and the mid-1960's, productivity, that is, output per hour worked, rose at an annual rate of about 3 percent. This growth accounted for over two-thirds of the annual growth in our capacity to produce goods and services, but during 1978, 1979, and 1980, productivity actually declined.

The lack of productivity growth has a dramatic impact on our Nation and on the Federal budget. If people cannot produce more, there is no way for them to consume more or for business to invest more. These facts are well known. What is less well known is the impact that slow productivity growth can have on the Federal budget.

Slow growth in productivity increases inflation and thus leads to higher Federal outlays. Slow productivity growth also implies slow economic growth over the long term. If this continues, our tax base will not rise rapidly enough to pay for the "graying" of the population and the necessary increase in defense readiness.

In this case, either tax rates will have to rise, or else we will have to accept further spending reductions or a large Federal deficit. This is a rather sober view of our economic prospects and one which we in Congress have been reluctant to face.

How can we improve our economic situation? We can begin by being more realistic about our economic prospects and adjust Federal programs accordingly. For example, we can alter the method by which social security, and civilian and military retirement programs are indexed for inflation.

But in addition, we can keep our eye on productivity and enact a tax program which will improve on that most fundamental fact of economic life. The economy needs a tax cut which accomplishes five things:

It must provide business with incentives to invest.

It must provide savings incentives to finance the additional investment.

It must provide individual tax cuts sufficient only to insure that economic growth will continue.

It must reduce the Federal deficit and reach a balance in 1984.

It must provide for sharp declines in interest rates later this year.

Our tax proposal would do all these things. It adopts many of the provisions included in the committee bill.

The business tax cuts provide specific incentives for capital investment and, in my view, are the centerpiece of the committee proposals and my amendment. The fact that the administration has focused on individual rate cuts, I think, gives an indication of its misplaced priorities.

The business tax cuts provide for sub-

stantially shortened and simplified depreciation schedules. Assets are placed into four categories and depreciated over 3, 5, 10, or 15 years. In addition, the investment tax credit has been increased, further stimulating investment.

Since the source of our economic difficulties—inflation, budget deficits, and the lack of increases in the standard of living—can be tied to productivity growth, it makes the most sense to attack the problem directly. The only tried and true way to increase productivity is to invest.

There has been some concern that the investment incentives may go too far, that they provide incentives greater than current year expensing, especially if interest rates decline as much as the administration thinks they will.

I share that concern. However, if interest rates do come down as predicted, subsequent measures could correct the tax inequities. Because so much of our future depends on raising the growth of productivity, we should not be stingy with investment incentives.

I, therefore, support this aspect of the committee's tax proposals.

The second important feature of our amendment provides savings incentives necessary to finance the additional investment spending in a noninflationary manner. The incentives to save in this bill through retirement accounts and stock ownership plans are worthwhile.

There can be no greater testimony to the need for these incentives than the current low rate of personal savings. In 1980, we saved only 5½ percent of our after tax income. During the 1960's, however, the savings rate was 6½ percent. If we had maintained the higher savings rate, we would now have an additional \$20 billion to finance investment purchases.

The "all-savers certificate" also should be supported. But I have some question whether this proposal will do much to increase overall savings. Much of the funds attracted by the certificates will likely come from within the savings and loan institutions themselves. In addition, we should not delude ourselves that these certificates are for all savers. Rather, they will benefit only those taxpayers above the 30-percent tax bracket.

However, the savings and loan institutions have been sheltered for some time, by design, to support the housing market. We cannot afford to let these institutions fail only because they are unable to adjust quickly enough to high interest rates. We owe these institutions a short transition period. I hope that this so-called all-savers certificate will accomplish that purpose.

One option for helping savings and loans and other thrift institutions that has apparently been overlooked is a tax program which would rapidly lower interest rates. This is a major flaw in the committee bill.

The third part of our amendment concerns individual tax reductions. In my view, we need tax reductions. Inflation has substantially increased tax burdens during the past few years and this has impaired the growth of the economy.

But, I have a major disagreement with the proposals embodied in the bill. The proposals give tax reductions which are both too large and too soon. They run the risk of undermining the very incentives for investment and savings that have been so carefully crafted by the Finance Committee. Apparently the committee is oblivious to these dangers.

What we need are individual tax cuts to insure that economic growth will not falter during the next few years. We need individual tax cuts to insure that when the capital investments are made, there will be a rising demand for those goods and services produced.

What we do not need are extraordinarily large personal tax cuts that will steal this country's scarce resources, resources that otherwise would have produced capital investment and added to productivity growth.

We do not need large tax cuts that will generate runaway demand pressures, thereby adding to inflation and keeping interest rates high. Large cuts will undermine the very supply-side investment incentives needed to sustain long-run economic growth.

Many leading economists and the financial markets are distressed by the prospects of a large personal tax cut. Indeed, the administration's own economists are "puzzled and confused" as to why their plan is not bringing down interest rates.

Mr. President, I ask unanimous consent that two articles commenting on the effect of a deficit-financed tax cut be printed in the RECORD.

There being no objection, the articles were ordered to be printed in the RECORD, as follows:

[From the Wall Street Journal, June 17, 1981]

#### DOUBTS OVER REAGAN'S DEFICITS

(By Charles L. Schultze)

Last February and March, administration spokesmen confidently predicted that as their tax and budget program began to move through Congress, financial markets would anticipate the soon-to-be realized economic improvements by bidding up bond prices.

Since then the Congress has indeed moved rapidly to adopt the President's spending program, and the prospects for enactment of something close to the President's tax program strengthen daily. But as these developments took place interest rates fluctuated more or less in line with short-term developments in the economy and the money supply. Financial markets, however, have not acted as if they expected the next several years to be marked by sharply lower inflation and increased national saving.

The President complained, with some acerbity, about the unreliability of the financial markets as an indicator of the economy's health. It is not hard to sympathize with the President. Financial markets are far from infallible predictors of the future; what would please the financial markets is not always what is good for the nation. (Nothing would drive up bond prices faster than the prospect of a solid depression.)

Whether or not the substance of President Reagan's economic program warrants the market's bearish reaction, I do not propose to argue. But I believe it is true that the rhetoric and the unorthodox economic analysis that have sometimes accompanied the presentation of the administration's program have exacerbated the market's skepticism.

Some of the more avid supporters of the administration's large multi-year tax reduction have developed an economic theory that asserts that any deficits from "supply-side" tax cuts will not affect inflation or interest rates. The additional income put into the pockets of taxpayers through cuts in marginal tax rates, they argue, has the felicitous anti-inflationary property not only of bringing forth increases in supply but of failing to raise demand.

For financial markets, this is a dangerous doctrine. Its acceptance would mean that whenever there was a choice between reducing budget deficits and making further tax cuts, priority would always go to the latter. The extent to which the administration has accepted this "hard-line" version of supply-side economics is not clear.

#### TARGET FOR 1984

On one hand the administration has labored to get major spending cuts enacted. Its budget estimates show a balanced budget target for 1984. It has recently reduced the size of its proposed tax cut in fiscal 1982. On this basis it would appear not to have bought the new theory.

But some of the administration's appointees are closely associated with the new doctrine. Moreover, the administration still insists on enactment of a 1984 tax cut virtually as large as its original recommendation (\$147 billion vs. \$152 billion), despite not being able to identify some \$29 billion in spending cuts needed to balance the 1984 budget, despite the vanishing chances of getting \$16 billion in Social Security cuts and despite a consensus of private forecasters that the optimistic economic assumptions on which it counts to balance the budget are unlikely to be realized.

Economists of virtually all persuasions have recognized three major consequences of deficit increase caused by a tax cut not accompanied by an increase in money supply.

First, the tax cut would increase taxpayers' after-tax income and hence their demand for goods and services. Second, in the face of constant money growth, some, but not all, of the increased spending on the part of taxpayers would be offset as the fiscal stimulus raised interest rates and "crowded out" some interest-sensitive private spending. Third, depending on economic circumstances, the remaining increase in demand would result partly in higher national output and partly in higher prices.

Economists who lean to monetarism emphasize interest rates and the crowding-out effect, and downplay the size of the remaining increase in aggregate demand.

Keynesians emphasize the increase in demand that remains even after interest rates have risen. And economists differ among themselves about how the remaining increase in aggregate demand would be split between higher production and higher prices. Whatever their disagreements, most believe that with stable money-supply growth, an expanded federal deficit resulting from a tax cut would result in some combination of increased aggregate demand and increased interest rates.

The economic theory of the ardent devotees of supply-side tax cuts has been set forth in a number of places, most comprehensively in a 100-page document, "The Classical Economic Case for Cutting Marginal Tax Rates." It circulated on Capitol Hill with a cover letter from the top Republican leadership in the House (Bob Michel, Trent Lott and Jack Kemp) describing it as an explanation of the reasoning behind the President's tax proposals.

There are two versions of the new doctrine in "The Classical Case." The first and most naive is:

"If we ignore the effects of tax-rate reductions on supply as the Keynesians insist,

for every \$1 increase in disposable taxpayer income from a tax cut there will initially be either \$1 less for recipients of federal spending (if spending is also reduced) or \$1 less in disposable income for the buyer of federal bonds sold to finance the federal deficit (if spending is not reduced). Aggregate income and demand are unchanged by a change in the tax rates."

And again: "The disposable income of the taxpayers increases by the amount of the tax cut. But the disposable income of the purchasers of federal bonds sold to finance the deficit is reduced by the amount of the tax cut."

According to this view, an investor who buys a \$10,000 government bond to finance the deficit, and exchanges one asset (cash) for another asset (a bond), has suffered a \$10,000 loss in income just as if his taxes had increased by \$10,000. An asset exchange is treated as equal to a loss in income. As a consequence the income, and the demand for goods and services on the part of bond purchasers, are allegedly reduced by the same amount as income and demand are increased on the part of taxpayers. Neither aggregate demand nor interest rates rise because of the deficit. The entire economic effect of a tax cut is concentrated on the supply side.

Presumably in recognition that this incredible view of economic behavior wouldn't stand close scrutiny, the "Classical Case" later advances a more complex argument. When the Treasury borrows to finance a deficit there could indeed be a problem as private investment is crowded out, creating upward pressure on interest rates. But the problem will not occur if the deficit is caused by a cut in marginal tax rates.

"A cut in marginal tax rates can offset part or all of any increase in the deficit by crowding in additional saving and raising the returns on effort and investment. . . . Deficits caused by cutting marginal income tax rates add to the supply of funds in the financial market as well as to the demand for funds." Lo and behold, once again the deficit will not put upward pressure on interest rates.

There is no pea left under this particular set of shells. So long as the Federal Reserve maintains its monetary constraint, taxpayers must save 100% of any deficit-creating tax cut if the added deficit is to be financed at no rise in interest rates. Even in that unlikely event, if all the additional savings goes to finance the deficit, what is left to finance increases in private investment? The major point of supply-side tax cuts has been lost in this dialectical shuffle.

#### EASING FINANCIAL PRESSURES

The "Classical Case" goes on to observe that the larger economy resulting from cuts in marginal tax rates would also generate increases in corporate revenues and reductions in state and local borrowing, thereby easing pressures in financial markets.

This "bootstrap" theory of finance—an economic expansion generates its own financing at constant interest rates—is ironically reminiscent of an early, very naive and quickly discredited version of Keynesianism. It simply ignores the interest rate consequences of the increased demand for money that accompanies an expanded growth in nominal GNP.

A few economists have recently resurrected a highly esoteric argument which purports by tax cuts will add neither to aggregate demand nor to interest rates. In this argument, when a tax cut is financed by a budget deficit, super-rational taxpayers will save all their tax cut to be able to pay the higher taxes which they foresee will be levied on them in the future to cover the interest on the newly created public debt. Neither aggregate demand nor interest rates will rise.

Empirical evidence and common sense



persuasively contradict this view of the world. In any event, adherents of a supply-side tax cut can scarcely afford to accept this approach to deficits. In the long run, according to this view, a deficit-financed tax cut cannot stimulate greater investment and work effort, since lower taxes today are expected to be offset by higher taxes tomorrow.

Recognition that deficits stemming from tax cuts have demand and interest-rate effects by no means implies that deficits are always "bad." In periods of economic weakness we may want to increase demand through tax cuts not matched by spending cuts. Recognizing that deficits have macroeconomic effects does not justify a policy of perpetually balanced budgets at any cost. Nevertheless, in a world of high, stubborn inflation, with inflationary expectations easily kindled and with interest rates already high, fiscal policy cannot ignore the danger that would come from high, persistent budget deficits. Financial markets will not react well to any suspicion that fiscal policy is governed by an economic doctrine that ignores its impact on demand. The administration could probably help its case with the market by making clear that it is indeed aware of such dangers in today's climate, even those created by cutting marginal tax rates.

[From the New York Times, May 27, 1981]  
GEORGE, KEYNES, REAGAN, RABBIT AND HAT  
(By William G. Tucker)

In the 1870's, a young newspaper editor named Henry George walked the streets of San Francisco lamenting the paradoxical economic mayhem that lay all around him. Why should people starve for lack of work in the very shadows of industries that were closing because people didn't have enough money to buy their goods? In 1879, he published his classic, "Progress and Poverty," to try to supply an answer.

George argued that panics occurred because the wealthy withdrew their money from productive enterprise to invest in a nonproductive good—specifically, land. Whenever rich investors started worrying about the future of the economy, he argued, they withdrew their business investments and started chasing speculative land ventures. Panic and poverty resulted. The solution, he argued, was for government to tax away all the economic "rent" earned from land ownership in order to channel investment back into more-productive business enterprises.

The system has worked occasionally in revitalizing cities. Pittsburgh's downtown renaissance is partly attributable to a Georgian taxing policy, whereby land is assessed at five times the rate of buildings on it. But as an overall strategy to stimulate the economy, it probably wouldn't work. Without land to speculate in, worried investors would just turn to something else. Art, antiques, yachts—anything would do as long as it promised to increase in value while the returns from business enterprises stagnated.

John Maynard Keynes attacked the same dilemma in the midst of the Depression and came up with another original answer. People couldn't invest, he argued, because there wasn't enough money. In a time of falling enterprises—technically called a "deflation"—money becomes more valuable, while goods become cheaper. Therefore, people want to hang onto money. But, as with land, there is only so much money available in the system. If people won't part with it, Keynes argued, business can't function. "Unemployment develops," he wrote, "because people want the moon." His solution was even more novel. If people want the moon, he argued, then give it to them. The Government should print more money and pump it into the economy to give people the illusion, at least, that they are again

prosperous. They will start spending, and the economy will begin to hum. By the time the inflation is felt, the economy will be producing fast enough to absorb its effects.

For better or for worse, the gimmick worked. Keynesian "demand-side" economics became a double-barreled approach to altruistic social policies. Congress ran up even-larger deficits on programs to help the poor. But, it was argued, these programs benefited everyone by keeping employment and production high. It all seemed too good to be true.

It was. The problem, as Milton Friedman has expressed it, lay in the maxim "You can't fool all of the people all of the time." Gradually, people began to anticipate that money would continue losing its value, and to look for safer havens. Like 19th century plutocrats, they began to speculate in art, antiques, gold—anything that promised not to lose its value. In the 1970's, suburban homeowners' property often appreciated \$3,000 to \$4,000 a month. But when was the last time you heard of someone getting rich on the stock market?

The solution, then, should be to stabilize the currency, restore people's faith in the value of money, and try to nurse them back into investing in productive enterprise.

But what has the business-oriented Reagan Administration decided to do? Instead, it is going to try a new way of fooling people. The gimmick is now called "supply-side" economics. This time, we will give people newly printed money in the form of tax reductions. Thinking they are rich, they will go out and invest (but not spend) the money to get the economy rolling again. As Keynes proposed, by the time the inflationary effects have caught up, the economy will be running fast enough to absorb all the new currency. That way stagflation will end.

It may work. Keynes's plan, arguably, kept people fooled for almost 40 years. Perhaps this new suit of clothes for the emperor will wear for another 40. But the difficulty will be that once it succeeds it will be tried again and again until once more people catch on. Then it will be up to another new economic theorist to pull the same rabbit out of a different hat.

The one thing that would work in the long run—stabilizing the currency and controlling inflation so that business investment will once again become attractive—apparently isn't on the agenda.

After 40 years of being fooled by Keynes's demand-side inflation, how long will the public be fooled by the new supply-side inflation? On that question hinges the fate of the entire Republican economic program.

Mr. HOLLINGS. The reason that the administration's personal tax plan, the one in this bill, is not working is that it is wrong.

Our amendment would correct the bill's errors. Our individual tax cut proposal includes the following provisions:

A reduction in the maximum tax rate to 50 percent in January 1982. The current maximum rate is 70 percent. The maximum rate on capital gains is lowered to 20 percent effective June 10, 1981.

An increase in the zero bracket amount—formerly the standard deduction—to \$2,500 for singles and heads of households and to \$3,800 for joint returns beginning in January 1983.

An increase in earned income credit to 11 percent for the first \$5,000 of earnings. The credit would not apply to those earning more than \$12,000 and would be effective in January 1982.

A deduction for two-earner married couples of 10 percent—5 percent in 1982—of the first \$30,000 of income of the

lower earning spouse. The effective date is January 1982.

An average 10-percent reduction in personal tax rates beginning in January 1983.

The reductions have been designed to insure that persons in the \$15,000 to \$50,000 income bracket are treated fairly by compensating for the effects of inflation. In addition, the proposal provides for a reduction in the "marriage penalty." This provides a more equitable tax treatment for the secondary earner in a family.

Our tax proposals also include reductions in estate and gift taxes, tax cuts for U.S. citizens working abroad, tightened provisions to insure that persons engaging in commodity tax straddles pay their fair share of taxes, and various small business tax provisions.

While our tax proposals are directed toward improving incentives to work, save, and invest—the supply-side—there are demand-side effects as well. Anytime people receive tax reductions, their after-tax incomes rise and they will spend more, thus adding to demand. There are no supply-side tax proposals where the effects on supply are larger than the effects on demand. Thus, we need to be mindful of the total size of the tax cut.

The individual rate cuts in our proposal are phased in slowly. Thus, insuring that the Federal deficit does not get out of control in 1982 and in subsequent years. An immediate across-the-board tax cut at this time is a luxury this Nation cannot afford.

The Senate Finance Committee bill would cost the Treasury \$37 billion in fiscal year 1982, \$93 billion in fiscal year 1983, and nearly \$150 billion in fiscal year 1984. By contrast, our proposal will cost only \$12.4 billion in fiscal year 1982, and reach \$97.8 billion in fiscal year 1984, a reduction of over \$50 billion in fiscal year 1984 alone.

Many of our tax proposals will increase savings. However, they are not, by themselves, sufficient to finance the amount of investment needed to generate long-run, stable growth.

Under the committee bill, the Federal Government will remain in substantial deficit even in 1984, thus absorbing savings that would otherwise be available for investment. This is wrong. The Government must contribute its fair share to national savings. Reducing the deficit will dramatically increase the amount of savings.

The committee bill will not, even under the most optimistic economic assumptions, cure our deficit problems. In fact, if this bill is enacted, along with the spending cuts now being considered, we will still have a deficit of about \$60 billion in 1982 and 1983 and \$50 to \$60 billion in 1984. This includes the expected, but as yet, unspecified additional cuts of \$20 billion in 1983 and \$28 billion in 1984.

Under our tax cut plan, the deficit will be reduced dramatically in 1982 to \$35 billion and will reach a balance in 1984.

Our proposal will also lower interest rates. A major danger that I see—and the reason why our proposal provides for a smaller tax cut in 1982—is the poten-

tial for a dramatic collision between fiscal and monetary policy. The Federal Reserve is committed to restraining the growth in money supply to fight inflation.

So far, the Federal Reserve has been the only anti-inflation game in town. But, the Fed cannot do the job alone. Tax, spending, and monetary policies must be equal partners in the fight against inflation. This requires substantial spending cuts, a small tax cut, and a commitment to an honestly balanced budget.

The large tax cut in the committee bill will present the Federal Reserve with a huge increase in Treasury borrowing. The problem is that if the Fed buys too much of this extra Government debt, it risks an inflationary surge in the money supply. But, if the Fed does not buy part of the extra debt, then interest rates will rise dramatically to entice private citizens to finance this Government debt. Thus, this tax bill will decide whether the economy gets tax relief or interest rate relief.

We all have seen in recent months the plight of our thrift institutions. The cause of those problems is largely high interest rates. Lower interest rates would go a long way toward correcting the financial difficulties of the savings and loans.

Furthermore, substantially lower interest rates would reduce Federal outlays. In the first budget resolution, interest paid on the national debt was projected to be around \$110 billion in fiscal year 1984. The lower interest rates resulting from our tax proposals could easily reduce interest outlays by around \$10 billion in 1984, thus, holding out the prospect of a surplus in that year.

Mr. President, interest rates are also critical because they affect the amount of investment and capital formation. While improved tax incentives will stimulate investment spending, higher interest rates will choke off that spending.

The higher interest rates that would occur with a large individual tax cut could totally offset the beneficial effects of the new investment incentives. The Government would then be left with a large Federal deficit and no extra investment to show for it. It is vital that the individual tax cuts be small enough to enhance, not undermine, the supply-side incentives needed to restore economic growth and prosperity.

There has been much talk about how the administration tax proposals are modeled after the very successful Kennedy tax cuts in the early 1960's. It is true those tax cuts were successful in promoting strong economic growth during much of the 1960's.

However, the Kennedy tax cuts were phased in as ours would be. The business tax cuts, accelerated depreciation and an increased investment tax credit, began in 1962. Only in 1964 were large cuts in individual tax rates, combined with further cuts in corporate taxes, made effective. It was not just the amount of the tax cut but its timing that contributed to the program's success. That is the

lesson to be gained from the Kennedy tax cuts.

Mr. President, our economy is in too precarious a state to start inflicting irresponsible tax policies on it. Some of the proposals that have been suggested so far, including the personal rate cuts in the Finance Committee bill, would burden the economy to such an extent that recovery from our current plight would be an impossible dream. Now is not the time to sacrifice our economic recovery for the sake of fulfilling campaign rhetoric.

We can ill afford an inconsistent fiscal policy in which spending restraint is nullified by excessive tax cuts. The reconciliation bill has proved that Congress is on the right track to a balanced budget by cutting Federal spending.

But there is a significant danger that we are about to undo that effort if we pass the tax bill as reported from the Finance Committee. Our amendment would rectify the major problems with the bill.

Adlai Stevenson was once asked whether he was conservative or liberal. He replied that that was not the important question. The important question is, "Am I headed in the right direction?"

Our amendment will head us in the right direction and insure that our spending and tax policies work together to achieve a balanced budget and economic recovery.

I urge my colleagues to support it.

Mr. President, I have a lot of material, but I am more anxious that those few Senators who will support us be heard on this particular score.

What this particular amendment does is to take from the Finance Committee's bill that is presently before the body the tax incentives for business and savings; we take the depreciation allowance, the marriage tax penalty, the foreign earnings tax credit, the saver's certificate, the various provisions to bring about investment, savings, and increased productivity and other provisions with the exception of the windfall profit tax. That costs \$1 billion per year, you can see how the Congress is split right down the middle as a result of the setaside of the Dole amendment, which allows mine to be considered at this time. That windfall profit tax provision is not included in this amendment. Other measures take effect at the very beginning of 1982 as the President's does.

We withhold the across-the-board personal income tax cut until January 1, 1983, and at that point give a 10-percent tax cut there for that year and the ensuing years.

We can dismiss this matter. I think my colleagues have heard me many times. I believe in spending cuts. I cosponsored the original reconciliation bill with Senator DOMENICI.

It is the Domenici-Hollings reconciliation bill. I cosponsored it at the very first of the year without hesitation. We tried as Democrats last year, many of us, to cut spending, and we succeeded in saving some \$8 billion in the first reconciliation bill. So I do not come now as a result of the recent popular wave of our distin-

guished President and jump on board, but rather we started in that direction last year, and I joined willingly this year.

I agree on tax cuts. The fact of the matter is we had quite a debate on tax cuts last year.

We had quite a discussion in the recent campaign. When we were all campaigning we understood what the feeling of the American people was. The feeling obviously was that we had to first get on the top of the inflation, the economy, and the high interest rates.

Very interestingly, if you look at the November issue just after the election of the U.S. News & World Report, there are some 12,782 voters just coming out of the polling booths—we had heard from all the analysts, the political writers, and the pollsters.

But here were people being polled at that moment. It was almost like what we in the law call the *res gestae*, the facts speaking to the persons themselves, and the question was "Why did you vote for President Reagan?" And out of the polling booths, the No. 1 answer was overwhelmingly inflation; No. 2 was a balanced budget; No. 3 was unemployment; No. 4 was defense and national security; and the fifth reason given by those numerous voters at that time was a tax cut. But what percentage? Thirteen percent, 13 percent of the Reagan voters.

I had to remind Secretary Regan of that because he is constantly talking about the President's commitment. The President had numerous commitments and all are understood by the overwhelming majority of the Reagan supporters.

I was in that campaign. My State went for Reagan. I saw how they were responding. They were not interested particularly in tax cuts. They had seven tax cuts in the past 10 years. They knew Democratic Congresses were not hesitant, reluctant or bashful about passing tax cuts. But what they were interested in is getting the Government in the black and lowering inflation and interest rates.

And so it is very interesting, that the Germond-Witcover column should at this timely moment review the history and tell how we have really gotten into a political box here now, by the auction for votes, by playing Santa Claus, and by developing a Christmas tree tax bill. We are a far, far cry from the original intent as I described it in last year's second concurrent budget resolution.

We called for a tax cut. But we, the majority of Democrats, envisioned at that time that it was a business tax cut restricted solely to the supply-side. We heard all the economists and all the witnesses. Most of them have lockjaw now. It is a remarkable thing. The remarkable thing, I say to the Senator from Kansas, is the almost uniform discipline, not just over on his side of the aisle in support of the President's program, but also within the business community, you can hardly find a member of the business roundtable, a corporate head, a member of the chamber of commerce, or the American Enterprise Institute or any other expert come forward and label this particular measure, as it is phased in, as the danger that it



really is. They will tell you quietly on the side. They will call you aside and say, "You ought to keep working to reduce the tax cuts."

And to the great credit of the distinguished chairman of the Finance Committee, I think he has been working in that direction, genuinely and sincerely so. When this thing started off it was a \$54 billion measure in 1982, and a 10 percent personal tax cut in 1982, 1983, and 1984. We have got it down to \$38 to \$40 billion. So I think the Finance Committee, in its work, particularly its chairman and its ranking member, our Senator from Louisiana, should be credited with trying to aim it in the right direction.

But it still is not phased-in properly. To phase it in properly we need to first, have the business incentives, second, then, to balance the budget, and third, once the Government is in the black, then to lose the revenues, and cut down on the size of Government. Put Washington on a diet. I agree with that. But it has got to be done in that order, or else you have what the headlines showed this morning—higher interest rates.

Now, I say to the Senator, since I have his kind attention, Secretary Regan, for example, in a conference at the White House, when we proposed a balanced budget by 1984, he said, "Look, Wall Street is not worried about 1984. They don't even know how to pronounce it."

I did not make that up and I am confident I would be supported in that general report of what he stated.

"Wall Street," he says, "is not worried about 1984. They don't even know how to pronounce it."

Well, within a matter of a couple of weeks, we met with the brains of Wall Street. We had the economists; we had four to five former chairmen of the Council of Economic Advisers on both sides of the aisles for Republican Presidents and for Democratic Presidents; we had the mortgage loan guarantee advisers of the large banks; we had the executive vice presidents of the large banks; we had the wage and price experts, we had the scholars from the campuses; we had Nobel Prize winners, and they were worried about one thing—and this is just a little over 2 weeks ago—1984.

And while they stayed in session in the morning in an off-the-record session, criticizing constructively—that is what they were called to do—criticizing the tentative projections for growth rate, inflation rate, interest rate, GNP deflator, nominal growth rate, the Consumer Price Index, unemployment, and other indicators of economic activity that the Congressional Budget Office had prepared. Now that they have the July 15 submission of President Reagan and his administration, they will in testimony then give those projections.

So they met in a very, very constructive session. After having been there all morning, there were still about 18 left around 3 o'clock, after a quick lunch. They voted. They voted about 1984. And they were asked if any believe that there would be a deficit below \$30 billion. None; zero. They were unanimous in

their belief that the deficit would at least be in excess of \$30 billion.

Then eight believed the deficit would be between \$30 and \$50 billion, there were eight of them who believed it would be between \$50 and \$60 billion, and there were two believed that the deficit would be nearer \$70 to \$80 billion.

What they were considering was the bill as proposed here by the Finance Committee, generally the President's program, a \$40 billion tax cut in fiscal year 1982. They were taking the President's assumptions of unidentified additional spending cuts of \$21 billion in 1983 and \$28 billion in 1984. And looking at that growth rate that they could project, they came to the conclusion, in round figures, that there would be a \$60 billion deficit in 1984.

This is what my amendment addresses, I really resist this middle class, upper class, lower class, 2 years, 3 years syndrome and the perpetual nonsense going on. The truth of the matter is inflation hurts the poor, it hurts the rich, it hurts the middle class, and it is killing everybody. We need to get on top of this inflation and these high interest rates. That is what the people really were looking for President Reagan, when they voted for him last year, to do. Unless we do that we are going to be in deep, deep trouble.

I have seen no proposal in either the House or the Senate this year, other than this particular one, which I continue to modify, that would bring this Government back into the black by 1984.

President Reagan, I like his politics. He says, "Either take my program or submit an alternative." That is the kind of politics I understand. I appreciate that kind of politics.

So in February and then in March and later in debate on the floor of the Senate, I tried to address that issue within a proposal that had general support. My wish has been to leave the flexibility. But I am not granted that particular luxury now.

I lost decisively all along the line. I am trying to attract support by taking those measures at the cost of \$12 billion of the Finance Committee that go to savings, that go to investment, that go to depreciation allowance, that go to increased productivity, and say, "Let's do that as they did it back in 1962." President Reagan and his advisers are constantly reminding us of the Kennedy program.

President Kennedy first put in his investment tax credit and liberalized depreciation schedules in 1962 and thereupon, 2 years later, put in his across-the-board income tax cut. We have a precedent. We are using the very same precedent that the administration uses, only we are using it more accurately, more advisedly.

I would plead with my colleagues to give this proposal their earnest consideration.

If we do not do something along this line, then do not be mystified by high interest rates.

The President's advisers said last week that they were puzzled, dismayed, by the continued high interest rates. I know

that they never understood the mammoth task before them. I think perhaps President Reagan has overpromised. I do not think he realized that he came to office on the biggest surge of red ink, the biggest Federal Government deficits, in the history of the Republic.

He and his advisers have been caught up in the litany of political rhetoric of the campaign about 25 years of Democratic bureaucracy. On the contrary, Government here at the Federal level has been responsible. There have been balanced budgets by Harry Truman and balanced budgets by President Johnson. Our last budget for fiscal 1969 was balanced with President Johnson.

When Richard Nixon came to office, he was given Government in the black.

In the 1950's there was a cumulative deficit of about \$17.7 billion, and between 1960 and 1970 of \$57 billion, for a total 20-year cumulative deficit of \$74.7 billion.

In contrast to that for the last 10 years, we have run up deficits cumulatively in excess of \$400 billion.

So the President and his administration came to town 6 or 7 months ago. No President could turn it around in 6 months' time. We cannot fault President Reagan for that. On the contrary, he has been very successful in cutting spending. There were 15 Democrats that did not vote for it, but at least 28 Democrats, almost a 2-to-1 majority, voted a couple of weeks ago for \$38 billion in spending cuts. They voted that way, over 2 to 1, when they passed a resolution by over 80 votes in this Chamber.

That is quite a change and President Reagan deserves part of the credit. But when he comes with increased spending programs, particularly defense and otherwise, to the tune of some \$37 billion, his \$37 billion in spending cuts is immediately offset. The only way for the economy and the Federal Reserve to look and find any relief is to look at the tax program. When they and the financial minds of this land come and learn that there will be a \$60 billion deficit in 1982, under this program: \$60 billion in 1983, and \$50-\$60 billion in 1984, then the message goes back to the investment houses, the stockbrokers, the big banks, the financiers of the land that we have the same act with different players, the same old fiscal policy of deficit spending.

They beat up on Paul Volcker yesterday, Republicans and Democrats. Pick up the morning news. "Banking panel attacks Volcker on tight money." Republicans and Democrats jumped all over him. One proposed that he be impeached.

Well, they could impeach the gentleman, but they cannot impeach the economic facts of life. The economic facts of life give the Federal Reserve two options: They can take these large deficits from these same people who are being so critical. This is not partisan comment. Republicans and Democrats have joined together overwhelmingly in the Finance Committee bill. They are also joining together under the Ways and Means version. The bottom line is about a \$40 billion tax cut in the light of a \$60 billion deficit this year, with high inflation and interest rates. Interest on the national

debt is costing the Government \$90 billion a year.

Those who are beating up on Volcker should realize that option one is to take that deficit next year and monetize it, to buy the debt and say to Chairman Volcker, "Go ahead and ease the money. Let it flow."

Everybody around here, including this speaker, is engaged in the polemics of savings and investment. We have to create more savings by the small saver.

One way to gut him is to give him a big deficit. That is what will happen if they succeed.

The Federal Reserve has that option to monetize the debt and to reduce the value of every dollar in that savings account.

The Fed can print more money, as they say in Washington. Or the Fed can allow interest rates to rise to a level where private capital buys that particular debt.

Of course, with the history of 10 years of ever deeper deficits, this is possibly the one last chance the Federal Reserve has of holding down on the money supply and permanently reducing inflation.

The only criticism I would have, and I do it lightly, is I wish Mr. Paul Volcker and all those connected with finance in this land would speak out and tell it like it is. We know the budget calls for those deficits, but it is very, very difficult to get those particular witnesses, like Mr. Volcker, to be critical of the administration's approach.

They talk in some vague language. You cannot get them, unless you cross-examine them sharply, to talk about continued Federal deficits. Why do they not come out and say this program is not working? They are saying it with their dollars, with their investments, with their banking houses, with their brokerage houses. They are saying it in the board meetings. But they will not come to the Congress and say it.

The Business Advisory Council, the Chamber of Commerce, and others have lockjaw. We have a very, very difficult time building a consensus and an understanding.

There is no mystery. We are here in this tax cut bill asking for more of the same deficit spending, Government in the red. Somewhere, somehow, some attempt should be made to get it into the black—admittedly, not in 1 year. That would be too traumatic. That would really cause a recession, higher unemployment, loss of revenues, and even a higher deficit. So I agree that it should be phased in. Three years does not bother me, 5 years does not bother me. The yearly approach, the comprehensive approach, is the desired approach. But I do think that what we first have to do is get Government in the black. We, on our side hiding behind President Reagan, say "Oh, we will just let it go and give him his chance. Everybody said he ought to have his chance, so we will give him his chance." Then if he fails, we can say, "Well, we gave you your chance," and wait for the collapse.

There has been no good evidence—they have given us a bookwriter, George Gilder. They have given us Dave Stockman.

I asked Dave Stockman when he came before us, just to see if he understood the economics. The distinguished Presiding Officer was there—before the Committee on the Budget. I said, "Mr. Stockman, does the Government make money out of inflation or does it lose money?" He looked at me amazed that I would even ask the question. Then, after hesitating, he talked about the ratchet effect on personal taxes and said we have these additional billions of dollars of inflation, ratcheting everybody up into the higher tax brackets, the Government and the politicians sitting around this table with this huge pile of money to divvy around. Absolutely incorrect.

Yes, we do get \$70 billion from bringing those people into the income tax system who are paying income taxes for the first time, and the ratchet effect of \$70 billion. But look at social security. Look at unemployment compensation, look at the veterans, look at civil service, look at food stamps, look at all the different Government programs, defense costs, and how they are increased by inflation.

This present fiscal year—1981—inflation has cost the Government \$83.1 billion. So the first task of the budgeteer is to cut back on programs, as we tried to do last year with the first reconciliation bill and this year, with this reconciliation bill. We either cut back or leave a large deficit.

We do not make money. Stockman has not understood that. Those who are voting for indexing of personal tax rates have not understood that. There has been no reluctance, Mr. President, on the part of any Congress, Republican or Democratic, to cut taxes as a result of that ratchet effect. We have had seven cuts in a 10-year period with a loss of \$731 billion in revenues. If we had those revenues, then we would have been way in the black. Instead of a \$1 trillion debt limit that is going to come right after we get back from the August recess, we would be paying the debt. But that has not occurred.

Let me, at this point, Mr. President, yield to my distinguished colleagues in support of this amendment. I believe the Senator from New Jersey wishes to speak.

**THE PRESIDING OFFICER.** The Chair recognizes the Senator from New Jersey.

**MR. BRADLEY.** Mr. President, I thank my distinguished colleague from South Carolina for his presentation of a very serious issue, one that we in Congress have not focused on clearly enough.

The issue here, Mr. President, is not which side of this debate wants economic growth. Both sides want economic growth. Both sides realize that unless this economy is growing, there will not be the revenues to keep past commitments to the poor or the elderly or the handicapped, and there will not be the room in our economy for the rising expectations that most people have felt are a birthright in this country. So the issue is not economic growth. The issue is, How do we promote the greatest economic growth in the shortest period of time and sustain it over the longest period of time?

Let me say, Mr. President, it is pretty

hard to have economic growth when interest rates are 20 percent. There is not a Senator in this body who cannot describe for us the telephone calls that he has received in the last several months from auto dealers, from farmers, from people in the housing business, people in the savings and loans business—anybody who has inventories that he has to finance out of bank loans, who has been used to planning his profit margin with an interest rate at the upper level of 10 to 12 percent and is now faced with 20-percent interest rates.

All of us have heard those personal stories. All of us know that interest rates are sending this economy into a real spiral and, more important, interest rates are eating away at the optimism that still is a very real part of every American's view of his or her future. But high interest rates not only have a profound and pernicious effect on individuals. They also affect our Nation and our national security, in the following ways:

With interest rates above 10 percent, we find an unprecedented drawdown in oil stocks in this country. A year ago, oil stocks were at an all-time high. Now the oil industry, acting rationally in an economic sense when it sees interest rates at 20 percent, chooses to deplete its existing stockpile rather than pay the interest rates to finance that stockpile and to insure that it continues to grow. That means these higher interest rates are making us more and more vulnerable to an oil supply disruption, removing that cushion, small though it has been, that we have had against the economic losses we would suffer from an oil supply disruption.

Mr. President, interest rates also affect our national security in a very real and tangible way in the international context. We are the dominant economy in the world.

The old joke was when we sneeze, Europe gets a cold, or Japan gets a cold. And right now, with these interest rates at 20 percent, three things will happen: The first thing is in West Germany, Mr. President, where we shall be going to them in the next year asking them to increase their defense expenditures, to share a greater burden of NATO. Probably that is important to do. But, Mr. President, when over 60 percent of West Germany's deficit comes from interest rates, financing their internal deficit, it is unlikely that they are then going to spend more money for defense because they are having to spend more money for interest rates.

Mr. President, in that sense, it affects very directly the national security of this country and our ability to share the burden of defending the free world.

Second, one in five jobs in this country is tied to the export business. Twenty-five percent of our GNP is involved in trade.

When the West German Central Bank or the French Central Bank has to raise its interest rates, the same thing is going to happen there that will happen here: The economy is going into a recession, which means that they will not be able to buy enough of our exports.



Third, in the Third World, the less-developed countries that currently purchase 38 percent of all those exports, with interest rates going up worldwide, will be shackled with higher and higher payments and will be unable to generate revenues to buy our exports. Specifically, for every 1 percent increase in the international banking rate for 12 key less-developed countries, their debt service payments go up \$8 billion.

Mr. President, that is precisely at the time when their oil costs are relatively stable. So just when they have a chance to get a breath from rising oil prices and have more revenues to buy our exports, we are going to be forcing them to pay higher interest rates and therefore not have the money to buy our exports.

So, for all these reasons, interest rates at the levels we presently find them pose a serious threat not only to individuals in this country, not only to our national security, but also to the stability of the international financial system.

The question arises, how do we get those interest rates down? If you ask most people, they will say that what we have to do to get these interest rates down is to get inflation down. Yet, if you look at the latest figure on the CPI and check the short-term interest rates, you find a spread of 5 to 6 points. If inflation is coming down, those interest rates should come down.

So, maybe the answer is that what we have to do to get interest rates down is not to get inflation down alone, but maybe what we need is a credible Government policy—not just the CPI, which bobs up and down with things we cannot predict, such as harvests or oil supply disruptions; but maybe what we need is a credible Government policy that gives all segments of our country the prospect that we are going to have sustained, real economic growth without inflation.

Of course, the administration's policy is an across-the-board tax cut, cutting nondefense spending, increasing defense programs, and reducing the growth in the money supply by one-half in the next 3 years. What is our country saying to this economic policy?

Wall Street is clearly saying, "No." Look at the interest rates. The banks are saying, "No." Look at the interest rates. Interest rates and monetary policy respond to fiscal policy, as the distinguished former chairman of the Budget Committee clearly stated.

Those who look at that mix say, "No, it is not credible. The economic policy is not credible."

Even today, in the Banking Committee, Paul Volcker, the head of the Federal Reserve said something specific on this subject for the first time. He said he thought that this policy would be more credible if the third year tax cut was triggered. This means that even the Chairman of the Federal Reserve realizes this is an experimental program that plays with the only economy we have and that jeopardizes our entire economic system, and he wants a safety valve.

So, clearly, the money markets say, "No, this is not a credible policy." But wage earners also say, "No." The administration's argument is that as soon as

wage earners see high interest rates and cuts in nondefense spending and increases in defense spending, and across-the-board tax cuts, they will believe that inflation is coming down and will go to the bargaining table and I ask for less. That has not happened.

I suppose one could say that if unemployment went up to 12 percent and stayed there for a year, inflationary expectations would be broken. But if that happened, you could forget the balanced budget in 1984 or a few years after, because this budget, the midyear review right here, says that in 1982, unemployment is going to be 7.3 percent.

This morning, I talked with at least two economists who say it will be more like 8.3 percent, which in budgetary terms means \$29 billion more on the deficit—\$29 billion with just 1 percent more unemployment. So I guess we could convince wage earners not to go to the bargaining table for higher wage increases if there were increased unemployment; but that would result in enormous human problems as well as budgetary problems. So wage earners are also saying, "No" to this economic policy.

What are citizens going to do with their tax cut? They are going to spend it. They are not going to save it, as the theory of the so-called supply-side school says. They are going to spend it, and the result will be higher inflation and higher interest rates.

So, Mr. President, the money markets say, "No," the wage earners say, "No," and the citizens of this country say, "No" to this economic policy.

This is where the real irony comes in, and the former chairman of the Budget Committee called attention to it very clearly. The knock on Democrats for the past 15 years has been that we spend money on nondefense programs and we give irresponsible tax cuts to the American people. Yet, if you look at this program in a macroeconomic sense, it has the same impact as the former chairman said. The only difference is that this budget spends money on defense programs and gives irresponsible tax cuts.

In fact, Mr. President, if one side of the ledger you put fiscal restraint and nondefense budget cuts and on the other side you put fiscal stimulus tax cuts and defense increases, you find that fiscal stimulus exceeds fiscal restraint by \$197 billion in the next 3 years. So the argument just does not hold water.

When confronted with these facts, the administration says, "Supply-side miracle, supply-side miracle." Let us be clear about what the supply-side miracle is and is not. The supply-side miracle is not giving incentives for business to rebuild plant and equipment, nor giving incentives for capital formation or risk taking. We have been doing that for decades.

The former chairman of the Budget Committee recognizes that such incentives are critical to getting us back on the path of economic growth, and he also recognizes in this amendment that this is not a revolutionary, new economic theory. It has been followed by virtually every country in the world that has progressed in the last 15 or 20 years. It was

following in this country from time to time in the past. It is not new.

That is what the supply-side miracle is all about. The supply-side miracle, as I said before, is the belief that the average citizen out there who gets back \$8 a week in a tax cut is going to save it and is not going to spend it.

Everywhere I go I ask my constituents in the State of New Jersey, "Are you going to save that \$8 or spend it," the message I get back is that "We have a lot of things that we have foregone in the recent past and we intend to spend it."

So, Mr. President, that is the supply-side miracle. But underlying it is the belief that the economy will perform unlike it has ever performed in the past, that Americans will not save between 4 and 7 percent of their income which is what they have saved in good times and bad times and in inflation and in recession, over the last 30 years, but somehow or another this time they will save 15 percent. It is not what the historical record shows.

Never mind that productivity has been on the decline over the last 5 to 10 years and the last 3 years it has been negative. The supply-side miracles say that in the next year or two it will be 3 percent even though nothing in the historical record says that can happen.

Mr. President, almost all of the econometric models project growth, inflation and unemployment, far, far different from the administration's projections.

That is where this issue is really joined because when you confront David Stockman, as I have, and I am sure as the Senator from South Carolina, the distinguished former chairman of the Budget Committee, has, and the Senator from Connecticut has, on the Banking Committee, the Finance Committee, or the Budget Committee, with the fact that no one agrees, no econometric model agrees, with the administration's projections, Mr. Stockman responded: "You see, Senator, those econometric models only look at the past to predict the future."

Mr. President, I have never heard as succinct a definition of the scientific method in my life. "We only look at the past to predict the future."

Mr. President, that is what the supply-side miracle is all about. It is the contention that science, empirical argument using the past to predict the future, clearing away the cobwebs, reorganizing things and making a rational judgment, is out and that belief, blind belief, is in.

I suggest that this is too great a risk to take with the only economy we have.

Just as Wall Street has said "No", as wage earners have said "No", as citizens have said "No", as anyone who believes in science and looks at the administration's program with a great deal of skepticism has said "No", so the result of this economic program will be continued high interest rates. People are not going to invest with interest rates at 20 percent, they are going to postpone their investment and productivity will not respond as quickly as the administration has said but we will continue in a very dangerous period of stagflation.

Mr. President, I think what the Senator from South Carolina has done is to offer an amendment which is a prudent, cautious amendment, in very dangerous times, dangerous times not only for our auto dealers and housing builders, but also for our national security and, indeed, the stability of our international financial system. He has come forward with a prudent, cautious amendment, an amendment which says we recognize the Finance Committee has done some good things for business, we are going to keep them there to try to promote investment.

He has also said that the amendment that was offered last week on the individual side by the Senator from New Jersey was a good amendment, and we will spread it over 2 years, so that we have some chance of breaking those inflationary expectations and sending the right message to the money markets, to the wage earners, and to the citizens of this country that, indeed, we have a Government policy that is credible and that is aimed at the long term and is aimed to generate real economic growth.

So I am pleased to cosponsor the amendment of the Senator from South Carolina, to join in this debate, and to ask my colleagues at a time when it might be difficult, when it might not be the politically easiest course to take, to act cautiously and act for the long term.

The PRESIDING OFFICER (Mr. HUMPHREY). The Senator from South Carolina.

Mr. HOLLINGS. Mr. President, I thank the distinguished Senator from New Jersey.

Mr. President, the Senator from New Jersey has been working all year long heading up a task force within the minority side trying to look critically at the economy. We have looked for alternatives and the Senator from New Jersey has tried to head up the minority effort.

And one of the great contributions that he has made, amongst many, in that particular endeavor is to target the tax cut for the \$50,000 income level and less.

I just cannot commend him enough, nor can I, on the other hand—and I will yield to the distinguished Senator from Connecticut—not give vent to a frustration that how in heavens name would we ever have any credibility—we in the Congress worry about our credibility—how could we expect in the middle of all the bankruptcies and financial hardships of honest hard working people around the clock? We take cognizance of it in the marriage tax penalty. For the young couple we are trying to do things so they can own a home. Now we say let us do not penalize them. The only way they can adequately provide for their family is both get out and work. We do not advocate breaking up the family, but the economic factors of life are that if the couple is going to have that home to raise that family that they are going to have to work together, and in this amendment we take cognizance of it.

And then we come forward here on the floor as we have in the past 24 hours for a \$40 billion tax cut for whom? For

oil. Heavens above, for the richest crowd in the land. They are wrecking us.

I am telling the Senator from Kansas, he is in real trouble not just on social security, if he does not rein in that oil crowd of his. They are going to destroy the President himself and the entire Republican Party. They come running around here for more money. For what incentive. Incentive they call it.

Try to get a meal for an expectant mother so the little child's brain can develop so we can get them off the breadline so they will be alert, attentive, educable, can concentrate and respond, be productive, and that is welfare. And we cut back on this—the WIC program—in order to get Government in the black, they say, on the one hand, and they get out here for the past 24 hours just beating down the Capitol walls to get another \$40 billion for the crowd who is destroying us.

Here we struggled in the Finance Committee all last year, under the able leadership of the Senator from Louisiana, and all this year. The Ways and Means Committee has finally come out to try to find \$12 billion for business, and business has found \$40 billion overnight. The land is awash with dollars, for all earning \$50,000 and above. There is no question about that. I have never seen such a thing in my life. The oil interests are gobbling up each other.

We cannot find revenue for a homeowner, who has a little savings. All of a sudden the banks zero in, send us these letters, and we are allocating credit, we are destroying private enterprise. We will not have anything for small business.

Of course, that is not accurate. It is pure nonsense. What is hurting small business is this oil activity where they had so much incentive that the biggest of all the chemical companies—and I have got four of them in my backyard of South Carolina—Du Pont said, "The heck with chemicals. Let us get in here and acquire this oil company."

No additional machines are needed, no business expansion undertaken, we do not have a round table on that one about productivity. The Chamber of Commerce, where art thou with the new jobs? Not a single new job, not a single new machine. Where has all that Reagan crowd gone anyway? They are busy buying each other up, merging, acquiring.

Gulf has a commitment for \$5 billion; and this one has got one for \$5 billion; everybody has \$5 billion. Pennzoil has \$2.5 billion.

We Senators sit around here praising each other, "the distinguished Senator who works so hard," peanuts. They have not gotten anywhere. The Finance Committee comes forth with a \$12 billion benefit package. That oil crowd found an additional \$40 billion. I had better watch my comments on that one because I know that the Senator from Louisiana represents oil, like I represent textiles. That is the interest of the State of Louisiana and that is the interest of the State of South Carolina, so we have got to represent our States' interests.

But when I see them come now with all of this wealth, it just shocks me. The Senator from New Jersey saw it, and he

put an amendment out here to target the tax cuts. When you pay that interest rate, the distinguished Senator from Iowa, if you are over that \$50,000 and you are up into that 50-percent bracket that 20-percent interest rate is only 10 percent interest to you. That keeps it snowballing.

The oil companies are gobbling each other up, keeping up the high interest rates. The municipalities are waiting. The savings and loan for short-term financing, they want the interest rates to go down; all hanging on, holding on, every small business in America. So for that rich crowd that is only 10 percent, and everybody knows that.

They do not need any more incentive. They come on around here and give us that Gildersleeve, George Gildersleeve, who says that is the crowd we ought to take care of because they will save and invest. Instead of buying three Rolls Royces and four country club or yacht club memberships, they will put it into the productive economy.

Mr. BRADLEY. Mr. President, will the Senator yield for a question?

Mr. HOLLINGS. Yes.

Mr. BRADLEY. The exact size of the amendment that is proposed by the distinguished Senator from Kansas has fluctuated in the debate here on the floor, and I am not certain whether it is \$5, \$10, \$40, or \$50 billion, but whatever it is, it is a sizable sum of money.

Mr. HOLLINGS. A total of \$333 billion over the next 3 years. Our amendment is about \$173 billion, so it is \$160 billion less than the Finance Committee proposal.

Mr. BRADLEY. I am referring to the amendment.

Mr. HOLLINGS. On the oil amendment, oh, yes.

Mr. BRADLEY. If we provided this additional money for oil exploration—

Mr. HOLLINGS. Incentives, they need incentives.

Mr. BRADLEY (continuing). That would increase the deficit unless we cut somewhere. Does the Senator think it is likely the Senate is going to cut more deeply than it already has in non-defense programs in the next couple of years?

Mr. HOLLINGS. No; we have been trying to do that. It is a hard message to get over to the American public. When we sit around that table and look at the overall budget, whether we did it under President Ford, whether we did it under President Carter, and now under President Reagan, this inflation has been costing us more than we have been getting from the ratchet effect, and that is hard to get over for those who are running around here with tax index proposals.

You have paid out a 14.5-percent increase for social security last July amounting to \$16.5 billion. You paid out 11.2 percent this July, which is another \$15.5 billion. You have given out \$32 billion. That is \$32 billion in indexing. Nobody in his right mind says we ought to cut that.

I and several others have suggested that indexing be done, the wage rather



than the price index whichever rises less. But there are \$32 billion that have gone out, and the tax we put in at the beginning of the year got \$7 billion or \$8 billion, so we have fallen behind.

So what they are trying to do, and it should be understood, when they are talking about future tax cuts, they are listening to that political rhetoric about Government, the 25 years of Democratic profligacy. Just cut it all out, cut it all out. Democrats want social security, Republicans want social security, and we are getting down to the bare bones now. Everybody can pick out a particular program. Some people do not like legal services, you and I happen to like it.

They are minimal, they are minuscule. Get to the veterans and the real programs in this Government, they are not going to be cut, and so they march down the road talking about unspecified cuts. These cuts are not going to be easy at all.

Mr. BRADLEY. The Senator would agree it has not been easy to cut the non-defense portion?

Mr. HOLLINGS. Right.

Mr. BRADLEY. And it will be increasingly more difficult, so the choice with the amendment on oil is whether we give it to oil, and if we did have to do one of two things if you agree we are not going to cut nondefense spending more. We will either have a bigger deficit—

Mr. HOLLINGS. Right.

Mr. BRADLEY (continuing). Or there is only one other area that will be cut; is that right?

Mr. HOLLINGS. Exactly.

Mr. BRADLEY. What does the Senator from South Carolina think about cutting back on defense spending?

Mr. HOLLINGS. Well, I know where they have not even taken care of—they are all up in the miasma of whether we should have the MX or one bomber or two bombers, and how many ships, and whether the carriers ought to be big or small. We have 30 years of neglect. They are in mud. Do you know where they are going to put the Pershing missiles? In a mud pile.

After the war we had Servan-Schreiber running around this Senate saying, "Get all the Americans out." The French were saying "Get out." You could not have a man walking around in a uniform. They would bomb him, so you had to take all your soldiers out of uniform.

Then we had the Mansfield amendment to withdraw them. You could not get money for housing, so right on down the line after 30 years, it is a disgrace.

Go talk to the commander in Heidelberg. What will he say if the Russians started over the line tomorrow? Do you know what the first request Congress would have? Housing, housing, and it is a disgrace, and it is not even in the bill.

We had not gotten around to certain real defense needs to take care of our troops. So there is no question in my mind, let us get on to that defense budget. We can make some economies there. We will have to. We cannot afford two bombers, we just cannot afford it. I would like to have three, you know me, but you cannot afford but one.

Mr. BRADLEY. If I understand the distinguished Senator, if you had to

choose between providing greater incentives for oil or greater deficits or cutting the defense budget, if you had to choose which one of those you would not do, you would not provide these incentives for the oil industry; is that correct?

Mr. HOLLINGS. There is no question about it. It is even outrageous to put it in the tax program because you would not take a fat hog and give him more slop. [Laughter.]

Mr. HOLLINGS. Look at Herblock's cartoon. Gee whiz, anybody who has any money is in oil. Du Pont in chemicals is trying to jump in oil; all smart money is trying to get into it, everybody. Seagram with liquor is trying to jump into oil. Everybody is trying to get into oil.

They do not need any further incentives. There is no equity in oil now—a hell of a lot of money but no equity.

Mr. BRADLEY. So the Senator's amendment recognizes you do not want to give more to oil but you want to have more for defense, and you do not want to have a bigger deficit.

Mr. HOLLINGS. That is exactly right.

I am willing—we have not gotten down to the economies in defense, and we have been trying to work with Secretary Weinberger. I would withhold some of the defense increases this year in order to get us into the black. I think we can get more in the outyears if we reduce inflation, if we get the Government in the black, because it not only helps us not only with respect to this particular program but with all Government programs.

I see many here. The Senator from Virginia has been a leader in trying to bolster our national defense and security and our distinguished Senator and friend from Ohio spent his life in national defense. There is no question in my mind that we have to improve our defense. But I believe that those who believe in national defense feel so keenly about trying to get this Government in the black, rather than have, say, a \$25 billion increase in the defense budget this year as a result of inflation and other real program increases, we could withhold \$5 billion or \$10 billion of that to give a signal that we are not going to continue to have more of the same deficits.

That is what this bill is about. That is why we have an amendment. You are saying in this Finance Committee bill, "More of the same," a \$60 billion deficit in 1982, a \$60 billion deficit in 1983, and \$60 billion or more in 1984. That is the message you are giving to America.

Mr. BRADLEY. Will the Senator yield for one more question?

Mr. HOLLINGS. Yes.

Mr. BRADLEY. As I understand it, the greatest deficit that has ever been sustained in 1 year by the U.S. Government was in 1975, when it was \$66 billion. Is that correct?

Mr. HOLLINGS. That is right. Unless we outdistance it this year.

Mr. BRADLEY. Does the Senator not think that with this economic program, high interest rates, across-the-board tax cuts, if he were a betting man would he wager that we might, in the next 3 years, have a bigger deficit than in 1975?

Mr. HOLLINGS. Definitely, I believe it. I listened to those economists that watch

the budget very closely, and I talked about the meeting of those economists. I am going to quote some of them who have testified in their testimony before our Budget Committee. It really concerns them now that we will have a higher deficit than we have ever had; namely, the \$66 billion in 1975 by 1984 under this particular approach.

Mr. BRADLEY. This administration will have the record?

Mr. HOLLINGS. They are going to really break the record. The truth is, we go down with them. We are in Government and we are responsible. Now is the time to look and see if there is, as President Reagan says, an alternative.

Look at last evening. I think it is prophetic that it would appear. I did not invent it. I did not invent the expression "voodoo economics." The Republicans did that; our distinguished Vice President. This is in last night's Washington Star. I know my conservative friends like this paper:

This was the conventional wisdom among Democrats and, for that matter, many Republicans. The government doesn't reduce taxes in times of high inflation and rising deficits. It is just the opposite of what is needed.

So the most the Democrats would endorse would be cuts "targeted" to businesses to stimulate productivity and lower inflation. General tax reduction would be, as someone said before a vice presidential nomination changed his mind, "voodoo economics."

That idea was, of course, a clean break with the dogma of the Republican Party—

Now, this is the President's proposal, the President's program:

That idea was, of course, a clean break with the dogma of the Republican Party that held deficits were almost as pernicious as godless communism. And some leading Republican experts, including Rep. Barber B. Conable Jr., their ranking man on Ways and Means, did have serious doubts about whether it would work.

So we have credible, responsible, serious-minded Members on both sides of the aisle worried. And with all of this concern, it seems like we would try to cut back the tax cut or at least phase it in more slowly so that it has some chance of working to increase the productivity. You cannot have all the productivity without demand, so you can come in 2 years with a tax cut come forth with a demand tax cut and balance the budget.

It is not easy. I readily admit that. But the way we are now approaching it in the Finance Committee version that is before us, unless we take this as a substitute, is more of the same—the fiscal policy of deficit spending. Do not come running around here jumping on Paul Volcker and the Federal Reserve. Like Pogo, you have met the enemy and it is us.

I yield to the distinguished Senator from Connecticut.

Mr. DODD. I thank my distinguished colleague from South Carolina for yielding.

Mr. President, I want to compliment the Senator and thank him for introducing this amendment, along with Senator BRADLEY, of New Jersey. I think that this amendment may be the single most

important amendment to be offered during this entire debate on tax policy.

I regret that it is not getting as much attention as it deserves, because I think the Senator from South Carolina has identified with his amendment the best hope we have for dealing with the No. 1 economic issue we face. Whether you live in Connecticut or South Carolina, Louisiana, Kansas, or Ohio, our constituents across this country wisely are telling us over and over again in every forum available that inflation—inflation—is the No. 1 problem we have to deal with. And this amendment, more than any other single amendment that has been offered, focuses its attention most directly on that problem.

I would like to also point out—and the distinguished Senator from South Carolina may have already made this point before I entered the Chamber—that for the last several years, while I was serving in the other body, I have heard the comparison between the so-called Kemp-Roth proposal—which is basically what we are getting with what has come out of the Finance Committee and what is being supported by the administration—and the so-called Kennedy-type tax cuts of two decades ago.

Well, nothing could be further from the truth. In fact, it was the tax cut—as described by both Mr. KEMP and Senator ROTH—that comes least close to dealing with the matter of inflation. In fact, it is the Hollings-Bradley amendment that most appropriately should be identified with the Kennedy-type tax cuts of the early 1960's, for the simple reason that it focuses the attention on the need to increase productivity and in these years recognizes that high inflation and high-interest rates come hand in hand, and unless we do lower our budget deficits, we are not going to have a significant impact on those interest rates and ultimately, on inflation.

The distinguished Senator from New Jersey and the distinguished Senator from South Carolina have described well the importance of this amendment. But I would like to add, if I could Mr. President, just a few words as to why I have joined as cosponsor of this amendment and why I hope that our colleagues in this body will support it when it comes up for a vote.

I suspect, quite honestly, that if we could have a secret ballot—and I am not an advocate of secret ballots—if on the Hollings-Bradley amendment we would pass this amendment overwhelmingly, because I believe in my heart and mind that the overwhelming majority of my colleagues in this Chamber recognize that this amendment and this approach is the sound, correct, and proper approach for dealing with our economic woes.

There are basically four reasons why I was attracted to this approach and this amendment. First of all, this amendment does not lock us into a multi-year policy that I believe will exacerbate the rates of inflation.

Second, it is clearly going to have a more profound impact immediately on our budget deficits. The Senator from South Carolina can correct me, but I believe the deficit would be reduced by

around \$30 billion or \$35 billion and that in the near future we would have the real opportunity to balance the budget.

Third, there is a far more equitable distribution. And the Senator from South Carolina could not have been more correct when talking about the contortions we go through to provide those that already have so much with even more, and within the same time frame we reduce minimum benefits to social security recipients, turn our backs on even trying to provide assistance for middle-income families trying to educate their children, transportation, economic development and housing. Seventeen percent, Mr. President, of all the budget cuts proposed and adopted, 17 percent of those cuts come in the area of housing alone, a depressed industry in this country.

Fourth, Mr. President, was the reason identified just briefly by the distinguished Senator from South Carolina. That is that it is better structured and allows for better timing to accommodate the increased demand that this proposal will create.

I have been told that an average family of four in this country will receive a \$400 tax break. That is about \$10 a week, or a little less.

I am not an economist. I am not a financial expert. But if anyone honestly believes the average citizen of this country is going to take less than \$10 a week in these times of high inflation and invest that in some securities or some blue chip stock, they are living in a never-never land, like Alice in Wonderland.

Those are the four basic reasons why I believe this amendment makes sense. Certainly all of us, whether we are Democrats or Republicans, recognize that significant change in our tax policy, including tax reductions in several important areas, is an absolutely necessary component of any strategy geared toward a stable, productive, and full employment economy. Over the last decade and a half we have witnessed the adverse impact, Mr. President, of high inflation, high interest rates, and high unemployment in our domestic, economic, and social fabric. American families, workers, and consumers have watched their standard of living drop as their paychecks lost value. Business management finds the cost of financing and operations continually rising at a staggering rate. Business is forced, obviously, to pass those costs on to consumers in the overwhelming majority of cases.

Competition is significantly affected and reduced because small businesses, which are more heavily dependent on debt financing, find it harder and harder to acquire capital to compete with larger, more established and financially secure industries. Investors' confidence in the future and the marketability of securities, particularly long-term securities, is continually undermined by unchecked inflation and high interest rates. As the distinguished Senator from New Jersey has pointed out, the international economy, which must require stable money markets, is undermined when other nations are forced to hike their interest rates in order to maintain the value and stability of their own currencies.

In the absence of rapid action our society will continue to face these problems, and economic recovery will remain a future dim hope rather than even a slight realistic possibility. Yet many of our most promising industries are those which are most severely affected. Small business, spurred by a continual push to gain the advantage in a relatively free and competitive marketplace, constitutes our primary source of innovation and new jobs. Yet small business suffers most heavily from interest rates hovering around 20 percent.

The construction industry, another area mentioned by both my colleagues, is indispensable to the supply of adequate housing for each American family. Yet, again, high interest rates have been a major factor in keeping annual housing starts at roughly half the levels required to meet that need.

In fact, in my own home State of Connecticut in the month of May we had 900 housing starts in the entire State. You have to go back to periods prior to World War II to find figures that low. Of course, the people who work in the construction trades are on the unemployment rolls. Small construction firms are going out of business every single day. Again, it is related to this same problem. High technology venture industries are turning out to be a major potential source of strength in international markets. Yet they cannot live up to their full potential under present economic conditions.

These, Mr. President, are just a few of the examples of how we are neglecting our most promising options for economic growth and competitiveness by failing to reduce inflation and interest rates substantially. Yet we cannot realistically expect interest rates to fall significantly if we insist on adopting a tax policy which will end up costing the Treasury almost \$150 billion in 1984 and if the monetary policies advocated by the administration are adhered to. We cannot expect so-called supply side policies to reduce inflation if we insist on a massive, immediate infusion of new demand as part of the first stage of our economic recovery. We cannot hope to be able to respond to the rapid, unexpected changes in the economy, whether prompted by OPEC or the weather—and if we are being honest, those are the only two reasons why we are enjoying our present temporary respite—if we lock ourselves into a tax reduction of this magnitude over the next several years.

Not only does this bill call for rate reductions of 25 percent over 3 years, but now it indexes the tax tables thereafter. With all the talk about supply side economics and balanced budgets coming out of this administration, it has proposed a tax package which will have exactly the opposite effect, massive demand stimulus and unprecedented budget deficits. I do not believe the American people deserve or want either. As much as Americans like tax cuts, they are intelligent enough to realize that fighting inflation and restoring our productive capacity are far more important, and it is with this thought in mind, Mr. President, that this amendment has been offered.



Mr. President, it is not easy for anyone to stand up at a time when inflation is hurting so many people and talk about not providing some tax cuts for individuals over the next couple of years. But I think we have to be honest with our constituents. You cannot be all things to all people. We have to make some hard choices.

What is unique about this time, I believe, is that both the politics and the substance coincide. The politics tell us that people want us to reduce the rate of inflation, and they want that far more than whatever small tax break they may get by this particular bill. It seems to me when you have the substance and the politics on the same track, you ought to take advantage of it. Here we have an opportunity now to provide some real relief, to lift the burden of inflation off the shoulders of people who are being decimated by it, and also do what is in the long-term economic interest of this country.

I again commend the distinguished Senator from South Carolina. He is right so often on so many issues.

He may not think so initially. Others may think he is not right initially. But time has proven that he has some vision. He was talking about this approach, and I would like the Record to reflect it, weeks ago. I will be candid enough to say to him and others I was skeptical about it. I did not think it made that much sense. I certainly thought that the overwhelming majority of people in this country would want that tax cut and a few extra dollars to come into their pockets.

But I have learned from talking to people in Connecticut and listening to other people around the country, that their major concern is the rate of inflation. They recognize that unless we have better control over our Federal budget, unless we are able to reduce interest rates, this problem is going to not only continue but get worse and be exacerbated, I feel, by what is being proposed in this bill.

I would hope, Mr. President, that my colleagues will listen carefully to the words of the Senator from South Carolina and others who will speak on behalf of this very sound and necessary amendment to this bill.

Mr. HOLLINGS. I thank the Senator from Connecticut. He has been very generous to me in his support.

Many people perhaps felt, just as the Senator from Connecticut, that this was some of a half-baked idea, not presented in any sincere form, but just trying to go to the extreme to draw the lines of division with respect to the President's program.

The contrary is true. I really believe that President Reagan has had success so far, but I believe his present course is a disaster.

I do appreciate the comments of the Senator from Connecticut.

Mr. GLENN. Mr. President, I rise to support the amendment. These ideas are not recently arrived at. In March of this year I did a short article for the New York Times called "Alternate Tax Pro-

posals." Embodied in the ideas expressed in that article are some of the same things that Senator HOLLINGS has very properly taken the initiative on in proposing an alternative to the direction in which we are headed.

I would like to comment today on this proposal by Senator HOLLINGS with a few introductory remarks leading up to a discussion of the amendment itself.

First, Mr. President, I do commend the Reagan administration for focusing national attention on the need to attack inflation and unemployment and do it through expanded business investment and research and innovation. Far too many American jobs have already been lost to well-financed foreign competition. Unless we dramatically improve our own competitiveness, we are certain to lose hundreds of thousands more.

That is why I have become increasingly concerned about the President's tax cut proposals. Theoretical explanations notwithstanding, the only thing we know for certain about the proposed cuts is that they are overwhelmingly weighted more toward demand than supply. Whatever happened to supply side economics?

My intention, Mr. President, is not to fuel the increasingly sterile debate over what label should be attached to the President's proposals. The truly important question is whether they will do the job for which they are intended. I frankly doubt that they will. Moreover, I submit that there is a less circuitous, less risky, and more economical way of achieving the results we all desire.

The problem is clear and beyond dispute. This Nation today faces an acute shortage of investment capital; a shortage that may well be the greatest single inhibitor of industrial productivity, modernization, and new job creation. The best illustration of these immense capital requirements is found in our most productive industry, agriculture. Some 600,000 commercial farmers today produce three to four times as much as the 6 million commercial farmers of 1940. The capital investment per commercial farmer in 1940 was less than \$35,000 in 1981 dollars. Today, it is close to \$250,000 and this does not include the capital invested in education or in the extension, market, and credit services currently available.

For the mature industries that comprise the heart of America's industrial economy, a massive capital infusion also is mandatory. In order to modernize and regain its competitiveness in world markets, the American steel industry needs \$30 billion in investment over the next 5 years; the auto industry requires an eye-popping \$80 billion over a similar 5-year period. Similar needs are mirrored in industry after industry. In fact, the prestigious conference board recently reported that the creation of an average U.S. industrial job now requires an investment of between \$55,000 and \$60,000.

In our high technology, knowledge-producing industries, even greater investment will soon be required simply to maintain existing employment levels,

let alone increase the number of new jobs available. In information processing, for example, the office secretary today works with about \$3,000 in equipment. The information specialist in the office of the future will require a capital investment of close to \$25,000.

Although the cost of these investments will be high, so will be the productivity gains we reap from them. But whatever the investments cost, we really have no choice but to make them. Our labor supply will increasingly consist of people who are qualified for knowledge work—and will be productive only if supported by the appropriate capital investment. Moreover, international competition is certain to increase in the future, challenging us not only in the areas of steel and autos, but also in the advanced industries of electronics and chemicals.

In fact, we are already seeing that competition in the international market.

In short, we cannot hope to be productive, competitive, or to have full employment without a tax program that truly addresses the supply side needs of the American economy.

But if our problems reside largely on the supply side, why has the administration proposed an economic recovery program wherein the annual Federal budget deficit will balloon to an average of \$60 billion in 1982, \$60 billion in 1983, and \$60 billion in 1984, and in which only 20 percent of the total tax cut is earmarked for direct supply side support?

Only 20 percent earmarked for what is supposed to be the major purpose of the tax cut.

Although conceding that its proposals favor personal over business tax cuts by a 4-to-1 ratio, the White House argues that since the cuts, unlike those of previous administrations, are skewed in favor of taxpayers in the upper income brackets, more money will go into investment than into consumption. Indeed, the administration spokesman—I believe David Stockman—testifying before Congress has said that he assumes 50 to 70 percent of the individual tax cuts will wind up being invested.

And if they do not wind up in that order of 50 to 70 percent, then they add to inflation instead of curing it. That is a mighty big assumption, 50 to 70 percent of those tax cuts winding up being invested, particularly since only 20 to 30 percent of all previous personal tax cuts were transformed into investment dollars. But history aside, is it not likely that many of the upper income people depended upon to invest their tax savings will instead divert potential investment dollars into gold, antiques or other speculative ventures?

Those in the upper-income bracket may be tempted to take a long-delayed vacation or buy a new car or whatever. If so, the efficacy of the President's package is correspondingly diminished. And for those in middle-income brackets, increased social security taxes will all but neutralize the benefit of decreased marginal income tax rates.

So what happens if we fall short of the administration's 50 to 70 percent investment targets? What if, as many economists predict, a 10-percent tax cut

for individuals results in a \$60 billion increase in aggregate demand—a sum larger than the proposed budget cuts and business tax reductions combined? Quite simply, our economy could easily be in far worse shape than it is today. In the President's words, "too many dollars chasing too few goods" would ignite an explosive new round of inflation. Insufficient capital investment would leave our industries uncompetitive, create fewer new jobs, and provide lower tax revenues with which to balance the Federal budget.

This is not just me talking, Mr. President. This scenario is not merely the skeptical view of the senior Democratic Senator from Ohio. Indeed, a broad assortment of economic experts—including the Joint Economic Committee, the Congressional Budget Office, Charles Schultze, Henry Kaufman, Walter Heller, and even Herbert Stein—have cast doubts on both the structure and the assumptions of the administration's economic recovery program. Let us examine some of the reasons for their misgivings.

Assuming all the monetary, tax and budget initiatives proposed by President Reagan, the Joint Economic Committee projects "a weak recovery from the slump in 1980 and increasingly higher Federal deficits"—exceeding \$100 billion in 1984. According to the Congressional Budget Office, interest spending costs on the Federal debt will average nearly \$100 billion for each of the next 3 years with budget deficits averaging \$60 billion a year.

Just compare that. It was only in the Lyndon Johnson days that we were having an entire Federal budget of \$100 billion, and now we are talking about that as the interest on the national debt.

A day or so ago, we voted to index all the income taxes for this country. We have not learned from all our entitlement programs and all the indexing we did there, which got us into this problem. Now, instead of undoing some of these entitlements and rethinking indexing, we are going to make it worse. We are going to make the whole project expanded instead of contracted.

Whereas the administration projects investment growing from 10.5 percent to 14.5 percent of GNP while inflation drops from 11 percent to 5 percent a year and interest rates decline from 14 percent to 6 percent, less partisan analysts remain unconvinced. While the administration projects an inflation rate of 6.2 percent in 1982, Chase Econometrics, Wharton and Data Resources forecast inflation rates for 1982 above 8 percent. These pessimistic inflation forecasts, which lie at the heart of our financial markets' refusal to mark interest rates down, reflect the conviction of many private economists that Federal deficits will be substantially higher than the administration now predicts. The widespread expectation that persistent deficits will sooner or later force the Federal Reserve to relax its monetary restraint in order to finance the public debt or to avoid driving rates so high as to hurt domestic industries, economic growth and other western economies, has led the financial markets

to cast a clear and resounding vote of "no confidence" in the Reagan tax plan.

Let I be accused of being partisan in my comments, I point out that, similarly, Herbert Stein, chairman of the Council of Economic Advisers under Presidents Ford and Nixon—and certainly no huge admirer of Democratic proposals in the past—describes the Reagan administration's economic projection as "inconsistent with past experience."

In his view, the most likely result if steady, significant reductions of money growth and the budget and tax cuts are carried out, is that there would not be a strong boom in investments; that the increase of production would be less than projected; that unemployment would rise and remain high; and that the budget would not come into balance.

In Mr. Stein's words, "This is not the worst of possible outcomes. In fact, it may be close to the best available."

This latter observation should be stressed—for none of the already dismal projections I have mentioned include factors that could make the next 4 years even worse than historical experience would suggest. Such unexpected events as poor weather, political unrest in areas containing critical energy and materials supplies, or any number of other adverse events could further jeopardize the administration's fragile economic projections.

In view of these dangerous possibilities, why must we gamble that personal cuts will eventually "spill over" into investment? Why attempt to stimulate private saving through deep tax cuts for individuals when any such savings will be more than offset by increased Federal deficits? Rather than risking all on a "hope" that there will be enough spill-over from personal tax cuts to provide desperately needed capital, I believe that we should provide a more modest tax cut for individuals and target what is truly required immediately to the supply side. Rather than frighten the financial markets and our allies with the prospect of big deficits and high interest rates, we should phase in the individual cuts while quickly and directly providing for our investment needs.

Mr. President, we need a tax cut that will stimulate investment and savings without fueling inflation and deficit spending. We need a tax cut that addresses the problems of big Federal deficits, high interest rates and inflation. But in my opinion—and apparently in the opinion of the Wall Street money men—the Reagan administration's proposal does not address these problems.

Fortunately, under Senator HOLLINGS' able leadership, there is a Democratic alternative that addresses our economy's immediate investment needs in a way that: First, diminishes the inflationary and deficit spending impact of the bill and second, provides for individual rate cuts that are, in sharp contrast to the rhetoric of the administration's proposal, truly "across-the-board" in effect.

Senator HOLLINGS' proposal accomplishes this by endorsing immediate implementation of the Senate Finance Committee's provisions on depreciation,

capital gains, overseas earnings, the marriage tax penalty and the all-savers plan. Enactment of these provisions will provide substantial incentives for plant modernization and job creation—incentives that are much needed and long overdue.

While increasing supply side incentives for investment and savings, Senator HOLLINGS' proposal reduces deficit spending—and will thereby halt the upward spiral of interest rates. It does this by postponing implementation of across-the-board individual rate cuts until January 1983 when a 10-percent cut in individual income tax rates would become effective.

In sharp contrast to the administration's proposal, Senator HOLLINGS' plan provides an equitable offset to bracket creep and rising social security taxes for the majority of all Americans. The Reagan plan simply does not deliver tax cuts to those who will be facing tax increases. In the next 5 years, the income on which social security taxes are calculated will rise from approximately \$30,000 to \$50,000. Hence, more people in the \$10,000 to \$50,000 range will be paying more and more in social security taxes. Because the maximum tax rate will be held to 50 percent, only those now paying below that rate will be affected by bracket creep. Thus, while the administration's proposal would protect those above the 50-percent rate from both rising social security taxes and bracket creep, those below that lofty income level—which is 94 percent of the American people—would see their tax cuts sacrificed to rising social security taxes and bracket creep.

In short, while the Reagan tax cut is "across-the-board" in theory, it favors the rich in practice, in the hope that 50 percent to 70 percent of the money going to those people will come back in investment. If not—I repeat, by Mr. Stockman's own statements—if the money does not come back in investments on the order of 50 percent to 70 percent, then it adds to inflation instead of helping to stop inflation.

While the administration claims to oppose any redistributive tax cut, it advances a tax proposal that will do just that. But there is a catch. By a kind of reverse Robin Hood logic, the Republicans would shift the burden of taxes from those who can most afford them to those who can least afford them—the poor and the middle classes.

Even worse, this proposed shift in tax burdens comes at a time when the post-depression movement toward greater equality in income distribution has been arrested. The Reagan economic package will accelerate the reversal of this historical trend and may, through slow economic growth and high unemployment, heighten the tensions that often lead to social unrest.

Senator HOLLINGS' proposal addresses these inequities. It targets the reduction in individual tax rates to middle income taxpayers (\$15,000–\$50,000) and increases the zero bracket amount by \$200 for single returns and by \$400 for joint returns. In addition, it provides for an



increase in the earned income tax credit to 11 percent, effective January 1982. This provision is noteworthy because it highlights a curious contradiction in the administration's fiscal program. Whereas the President insists that marginal rate cuts for middle and upper bracket taxpayers are an incentive for greater market-oriented work effort, his tax plan fails to provide similar incentives for the working poor. In fact, for these Americans, incentives would actually be reduced. Take the earned income credit, for example. A year from now under the administration's tax plan, the working poor will begin losing their earned income credits to bracket creep. But that is not all. On top of losing the credit, they will be asked to start paying income taxes to the Federal Treasury. Far from being better off than they are today, the working poor will find themselves in an even more hopeless and frustrated condition. Before we accede to a rising tide that will assuredly sink some boats, let us understand where that kind of "new beginning" can lead us. When huge numbers of our countrymen are methodically denied an opportunity to share in the American dream, then you can bet your bottom dollar that none of us will rest very well.

Mr. President, the choices before us are very clear: Will we choose a real, honest demand side tax cut which ignores the needs of those that suffer most from inflation and rising taxes; which will increase deficits, interest rates and inflation; and which will delay, rather than hasten, investment and productivity gains? Or will we choose a true supply side tax cut that provides equitable relief from inflation and rising taxes for all taxpayers; that reverses growing deficits, soaring inflation and rising interest rates; and that provides direct and immediate incentives for investment and savings.

The Hollings amendment addresses our Nation's economic recovery needs in a fiscally responsible and even-handed manner. I urge my colleagues to vote in support of this proposal.

Mr. President, I also add that in today's Star there is an article by my colleague from Ohio over in the House of Representatives, Congressman Don PEASE, and it is entitled "Deficits Sure To Flow From 3-Year Tax Cut."

After some opening remarks about the situation in which we are in in that article, Congressman PEASE writes that, "If those two factors—assumed spending cuts and optimistic economic assumptions—are removed, what then?"

And he says that he asked three independent sources to estimate the likely fiscal 1984 budget deficit under those circumstances. The answers he received were remarkably similar.

First, CBO, the Congressional Budget Office, put the fiscal 1984 budget deficit at \$80 billion, by the latest estimate.

Then he talked to economist Joseph Pechman, of the Brookings Institution, and he put the fiscal 1984 deficit at \$79 billion, just \$1 billion off of the estimate of the CBO.

And Rudolph Penner, economist with the American Enterprise Institute and a general supporter of the Reagan eco-

nomie recovery plan, estimates the fiscal 1984 budget deficit will be \$87 billion.

So from one economist to another, they are coming out very close to this \$80 billion figure, and this makes them very tough choices for Congress, for both Houses of Congress, as Congressman PEASE points out.

He also points out that the budget figures that would give us a balanced deficit as identified by the administration has yet to be spelled out. They have not even been identified yet for the future.

So he and 35 other congressional colleagues have signed a letter to President Reagan asking him to spell out where those cuts for 1983 and 1984 would be made so we will know what we are committing ourselves to, because the Reagan budget strategy assumes further spending cuts not yet specified of \$20 to \$30 billion in fiscal 1983. Will Congress make those spending cuts in the summer of 1982, in an election year, plus another \$28 billion in spending cuts in the summer of 1983?

Rudolph Penner, the one I quoted a moment ago, of the American Enterprise Institute, does not think so. He assumes that any spending cuts will be offset by a few new programs and we will probably reverse some of the cuts that we are making right now and the next result is that no progress is made on balance toward finding the \$28 billion in unspecified outlay cuts listed for fiscal year 1984 in the first concurrent budget resolution.

The 3-year tax cut, Congressman PEASE asked? The issue is not tax relief for Americans. To repeat, the issue is the Federal budget deficit and spending cuts.

Large deficits—an expansionary fiscal policy—must inevitably increase pressure for a very tight monetary policy with its certain concomitance: high interest rates, a depressed bond market, bulky GNP growth rates, and business bankruptcies by the score.

Mr. President, I think this article that just came to my attention a few moments ago certainly backs up the general thrust of my earlier remarks, and I ask unanimous consent to have printed in the RECORD this article in the Star of this afternoon by Congressman DON PEASE.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

[From the Washington Star, July 22, 1981]  
DEFICITS SURE TO FLOW FROM 3-YEAR TAX CUT  
(By DON J. PEASE)

While any tax cut debate obviously involves the kind and amount of tax reductions, the Great Tax Debate of 1981 is mainly about federal budget deficits and spending cuts.

To illustrate, the First Concurrent Budget Resolution (adopted by Congress on May 20) envisions an FY 1982 tax cut of \$54 billion, spending cuts of \$35 billion and a deficit of \$38 billion.

Clearly, using the Reagan administration's economic assumptions, no tax cut would mean no deficit.

A look at budget projections for FY 1984 underscores the point even more vividly:

The Reagan-backed First Concurrent Budget Resolution assumes an FY 1984 tax cut of \$48 billion, additional, as-yet-unspecified spending cuts of \$28 billion, and a small surplus of \$1 billion.

But the 1984 "surplus" not only assumes that Congress will indeed make the \$28 bil-

lion in unspecified cuts. It also requires acceptance of the extremely optimistic economic assumptions of the Reagan administration regarding inflation, interest rates, unemployment and GNP growth.

#### SIMILAR CONCLUSIONS

If those two factors—assumed spending cuts and optimistic economic assumptions—are removed, what then? I asked three independent sources to estimate the likely FY 1984 budget deficit under those circumstances. The answers are remarkably similar.

The Congressional Budget Office put the FY 1984 budget deficit at \$80 billion.

Economist Joseph Pechman of the Brookings Institution put the FY 1984 deficit at \$79 billion.

Rudolph Penner, economist with the American Enterprise Institute and a general supporter of the Reagan economic recovery plan, estimates the FY 1984 budget deficit at \$87 billion.

From economist to economist, and from month to month, the projections for FY 1984 will vary slightly, but not much. If Congress adopts the Reagan economic recovery package this summer, it will face two years from now an FY 1984 budget which is also \$80 billion in the red.

The tough choice for Congress in 1983 will be to make massive additional cuts on federal spending or to endure a huge budget deficit, the largest in U.S. history. The likely result: large, painful but insufficient cuts coupled with a large but not record-breaking deficit. Is Reagan budget strategist David Stockman aware of this probable scenario? I suspect so. The object is to force the Hobson's choice upon Congress as a way of getting otherwise unacceptable budget cuts adopted in 1983. How else, with Reagan off his peak of popularity, will the administration induce Congress to cut programs, like Social Security and veterans benefits?

Thirty-five congressional colleagues have joined me in signing a letter to President Reagan asking that the planned cuts for FY 1983 and FY 1984 be identified so that, at the very least, congressmen will know what they are committing themselves to if they vote for a three-year tax package.

Congress has struggled hard this year to come up with \$37 billion in spending cuts. The Reagan budget strategy assumes further spending cuts (not yet specified) of \$20 to \$30 billion in FY 1983. Will Congress make those spending cuts in the summer of 1982, an election year, plus another \$28 billion in spending cuts in the summer of 1983? Rudolph Penner doesn't think so. He assumes that any spending cuts will be offset by a few new programs and by cut reversals, and "the net result is that no progress is made on balance toward finding the \$28 billion in unspecified outlay cuts listed for FY 1984 in the (first concurrent budget) resolution."

#### BUILT-IN DEFICIT

If Penner is right, and I believe he is, then the \$48 billion tax cut which Reagan has scheduled for FY 1984 will contribute the bulk of a budget deficit that tops \$80 billion.

The three-year tax cut? The issue is not tax relief for Americans. To repeat, the issue is the federal budget deficits and spending cuts.

Large deficits—an expansionary fiscal policy—must inevitably increase pressure for a very tight monetary policy with its certain concomitants: high interest rates, a depressed bond market, bulky GNP growth rates, and business bankruptcies by the score.

Considering his great prowess in lobbying Congress, President Reagan will probably get his three-year tax reduction package in late July—unless responsible business and financial leaders speak out to help stave off disaster.

Mr. GLENN. Mr. President, I say once again I urge my colleagues to support Senator HOLLINGS.

I think we do have a golden opportunity here to pass this alternative that will target money where it is most needed. We do not have the kind of money that we need for capital investment in this country, the \$80 billion over the next 5 years for autos, \$30 billion for steel, the major item that was brought up by the White House Conference on Small Business last year, and I will add small business employs 55 percent of the people in this country. Small business lists adequate capital as its number one need if they are to provide the new jobs, the employment that they can provide for this country, and yet we are going a different route. The administration proposes only 20 percent of the tax cut money going directly to provide that capital. We are going 80 percent on the personal side hoping against hope that this will come back on the order of 50 to 70 percent and be reinvested. If it does not, we have added to inflation instead of curing it.

I think the Hollings proposal on this, which I support fully, gives us an alternate way out of this to have a less tax cut, better chance of a balanced budget, and target this money over to the capital market of this country where it is needed for small business and big business if we are to get this economy under control.

I yield the floor.

The PRESIDING OFFICER (Mr. ANDREWS). The Senator from South Carolina.

Mr. HOLLINGS. Mr. President, I will yield in just a second to the distinguished chairman of the Finance Committee.

But in thanking the Senator from Ohio, I think the record should show that a Senator like him within the party has been seriously concerned with this particular economic program and he has met the challenge given by our distinguished President. Back on March 24 he presented an article in the New York Times entitled "Alternate Tax Proposals," outlining just exactly what he has touched upon here, about the need for the expansion of our technology, the capital investment necessary for the fundamental and basic industries of the economy.

In thanking him for his support and guidance on this particular proposal that we now have in our substitute amendment, I ask unanimous consent that an article by the Senator from Ohio in the New York Times, Tuesday, March 24, be printed in the RECORD.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

#### ALTERNATE TAX PROPOSALS

(By JOHN GLENN)

WASHINGTON.—Although I share President Reagan's determination to resuscitate our economy, I am increasingly doubtful that his tax proposals will do the job.

America faces an acute shortage of investment capital—a shortage that may well be the greatest single inhibitor of industrial productivity, modernization, and new-job creation. Generating an average industrial job now requires a \$55,000 to \$60,000 investment. In high-technology industries, even greater investment soon will be required sim-

ply to maintain existing employment levels, let alone increase the number of new jobs available. In more-mature industries, a large-scale capital infusion is mandatory. To modernize and regain its competitiveness in world markets, the steel industry needs \$30 billion in investments over the next five years; the auto industry requires an eye-popping \$80 billion. Small business, which provides 55 percent of all private-sector employment, is faced with imminent capital starvation.

If our problems are largely on the supply side, it is puzzling why the Administration has proposed an economic program in which the Federal budget deficit will remain in excess of \$50 billion in fiscal 1981 (thus continuing to crowd an already tight money market) and in which only 20 percent of the total tax cut is earmarked for direct supply-side support. The White House argues that since its cuts, unlike previous Administrations', are skewed in favor of taxpayers in middle- and upper-income brackets, more money will go into investment than consumption. Indeed, Administration spokesmen have said that they assume that 50 to 70 percent of the individual tax cuts will wind up being invested.

That is a mighty big assumption, particularly since only 20 to 30 percent of all previous personal tax cuts were transformed into investment dollars. Moreover, except for the wealthy, increased Social Security taxes will all but neutralize the benefits of decreased marginal tax rates: After the new withholdings are factored into the equation, a family of four earning \$25,000 comes out ahead by \$23. The same family earning \$50,000 will save \$91. How many industrial bonds or stock certificates will \$91 buy?

What happens if we fall short of the Administration's 50 to 70 percent investment target? What if, as many economists predict, a 10 percent tax cut for individuals results in a \$60 billion increase in aggregate demand—a sum larger than the proposed budget cuts and business tax reductions combined? Quite simply, our economy could easily be in far worse shape than it is today. In the President's words "too many dollars chasing too few goods" would ignite an explosive new round of inflation. Insufficient capital investment would leave our industries uncompetitive, create fewer new jobs, and provide lower tax revenues with which to balance the Federal budget.

Why must we gamble that personal cuts will eventually spill over into investment? Why not provide a more modest tax cut for individuals, and target what is truly required directly to the supply side? Assuming that we can formulate adequate safeguards to ensure that businesses use the extra capital for productive, job-promoting investment (rather than for, say, the acquisition of other companies), we might consider the following: Amending the proposed 10-year, 5-year, 3-year depreciation schedule to 10-5-3-1, adding a one-year write-off for expenses incurred for pollution control.

Providing greater tax incentives for industrial research and development, perhaps even a bottom-line tax credit for certain kinds of research.

Structuring even-faster depreciation schedules for high-technology industries that must be given the opportunity to write off their equipment in less than five years.

Offering investment tax credits, or even refundable tax credits, for industries willing to invest on-site in economically distressed areas. Such inducements might prevent further deterioration and community dislocation in major urban areas.

Giving more immediate effect to the proposed cuts in capital-gains taxes. Such cuts would be particularly helpful to small business.

Reducing the rate at which interest income is taxed. To encourage small savers as

well as large, we could even exclude from taxation the first several thousand dollars of such income.

These suggestions are not comprehensive but they do provide a foundation for discussion, and clearly address the problems of capital formation and job creation head-on. Obviously, the onus of inflation and unemployment cannot be slain through tax cuts alone. Budgetary restraint, regulatory reform, reduced dependence on foreign energy sources, and greater cooperation among industry, labor, and government must all be part of our long-term economic program. But for now, whatever happened to supply-side economics?

Mr. DOLE. Mr. President, I wonder if we could ask for the yeas and nays on the amendment? Have they been ordered? I am willing to have an up or down vote.

I ask for the yeas and nays.

The PRESIDING OFFICER. Is there a sufficient second?

There is a sufficient second.

The yeas and nays were ordered.

Mr. DOLE. Mr. President, I might just inquire of the distinguished Senator from South Carolina how many other Senators will speak on this antipeople amendment?

Mr. HOLLINGS. Antipeople?

I think in responding to the distinguished Senator—I know of a couple of other Senators and myself—it should not take long.

I do not know at what length the distinguished Senator from Delaware and the distinguished Senator from Arkansas wish to be heard.

But how does the distinguished Senator from Kansas call my amendment "antipeople"?

Mr. DOLE. It was not planned. It just sort of came out.

Mr. BUMPERS. If the distinguished Senator from Kansas is talking about antipeople amendments, I heard an interesting story last night. Somebody said what can President Reagan give a man who has everything? He said "More."

Mr. DOLE. That is what this amendment gives. Maybe some will be pleased to hear it.

I have looked the amendment over and it does a lot for big business and not much for the taxpayer. Maybe that will be clarified later on.

Mr. LONG. Mr. President, will the Senator yield? Is it possible to get agreement on a time limitation so that we can reach a conclusion sometime before the day is out?

Mr. HOLLINGS. That is not necessary. I have other things to do this afternoon. Let us move on and see what happens.

Mr. DOLE. Mr. President, I will just take a minute.

The PRESIDING OFFICER. The Senator from Kansas.

Mr. DOLE. I will just take a minute. I know there will be important things said, and I am sorry I will not be able to hear them. I will be off.

[Laughter.]

I do read the RECORD daily, the index.

I would just say very seriously to my distinguished colleague from South Carolina, as I have said before, both the Senator from South Carolina and the Senator from New Mexico have had a very salutary impact on what we have done in the Finance Committee, by their



guidance in the budget process. I think you indicated earlier that there had been some reduction of the cost in the Senate Finance Committee's resolution, and there were some concerns over the remaining cost. There were bipartisan concerns, as you accurately stated, among Republicans and Democrats about whether or not we could go full tilt on the so-called Roth-Kemp proposal. I think I expressed those concerns publicly, and so there were some changes made.

I will at the appropriate time, maybe after the distinguished Senator from Delaware and the distinguished Senator from Arkansas have spoken, just take a minute or two to summarize why I believe the present proposal before the Senate, which is more or less the Reagan proposal, President Reagan's proposal, is superior to this fine product that is before us at this moment.

Mr. BIDEN. Mr. President, I have a fairly lengthy statement.

Mr. President, the elimination of Federal deficit spending should be the single most important element in a program to achieve an economically sound future for this country. The national debt will exceed \$1 trillion this year. Yet we are still making little progress toward balancing the budget. If this tax reduction is passed in the form recommended by the administration and the Finance Committee, it is reasonable to expect a Federal deficit in fiscal year 1984 of \$60 billion. Remember, 1984 is the year when the budget was to be in balance.

Already we are paying a heavy price for Federal deficits. In order to slow inflation in the face of continued Federal deficits, the Federal Reserve Board has been following a highly restrictive monetary policy.

This policy has forced up interest rates with devastating effects on our economy. The prime rate is up around 20 percent. Our economic activity is stagnating and might turn down sharply if put under greater pressure. Productivity has declined 3 years in a row.

Unemployment has been in the 7-percent range for an intolerable length of time, and now it threatens to rise further. High interest rates have devastated the housing industry—in June housing starts were down to an annual rate of 1,032,000 units and predicted to fall further. The thrift industry, experiencing great difficulties in securing funds at reasonable rates, faces an uncertain future. And with all of this, inflation is still barely under 10 percent, and certainly not under control.

Mr. President, the road to a balanced budget has not proved to be easy. It has been particularly difficult under the economic conditions of the past few years—high inflation, high unemployment and relatively low economic growth. The budget has only been in balance five times in the past 30 years. It was last balanced in 1969. In the past decade alone we have piled up \$400 billion in debt.

Ever since the congressional budget process was established our goal has been a balanced budget. Yet each time that we have looked ahead 2 or 3 years and

thought we saw budget balance, the economy has acted up and the budget balance has disappeared. Then last year we were sure we had reached the goal of a balanced budget. We prepared one that was in balance, cutting \$8 billion, but then the economy took an unexpected nose-dive and the goal still was elusive.

This year we started with a new President who was pushing for a balanced budget in 1984—a President who apparently was willing to propose strong measures to achieve a growing economy and a balanced budget fiscal year 1984. Congress has now virtually finished the first stage of that program—it has voted to cut about \$38 billion in spending from existing Federal programs. An unheard of achievement.

Coming on top of the \$8 billion achieved in 1980, the savings are substantial. Yet budget balance is still elusive. Even if we cut the budget by another \$20 billion in 1983 and \$28 billion in 1984, we still may not balance the budget.

Why is this so?

The reason is the tax bill before us on the Senate floor right now. This tax bill will cut Federal revenues by \$37 billion in fiscal year 1982; by \$93 billion in fiscal year 1983; and \$150 billion in fiscal year 1984. The economy cannot grow rapidly enough to replace that revenue to the extent necessary to meet even the drastically pruned spending proposals of the administration.

Using reasonable economic assumptions, the budget will be in deficit by up to \$60 billion in each of the next 3 years—an addition to the national debt of as much as \$180 billion. That threatens to outdo the last decade.

The fact of the matter is that we cannot eliminate deficits until we cut revenues less than we cut spending. That is the mathematics of the situation in which we find ourselves after years of deficit financing. No one would be happier than I if there were a way to cut taxes as much or more than we cut spending and still cut the deficit. But it will not work. Just saying it will work, as so many are saying these days, does not make it so.

What is it, then, that the distinguished Senator from South Carolina and I propose to do in this amendment that will aid this deficit problem? We still propose tax reductions for individuals and for businesses. But we propose to target those tax cuts more carefully on the job that needs to be done.

First we propose early tax cuts to insure that there will be vigorous economic growth during at least the first half of this decade. These tax reductions will be aimed to stimulate savings. Yet the total tax reduction will not be so large that the increased Federal deficit will offset all the benefits achieved.

We also propose business tax reductions—primarily through increased depreciation allowances—that will target increased savings toward investment in assets that can increase our industrial productivity.

Then, after we have acted to rejuvenate the economy, but only then will we provide an individual income tax reduc-

tion which will ease the tax burden under which so many Americans are staggering today. That tax reduction, effective in 1983, will also promote rising demand for the goods produced through increased investment.

If we do otherwise—if we try to give tax cuts immediately to everyone—two things threaten. First, demand will grow before the increased investment and productivity is there to meet it. That can only mean greater and greater inflation.

Second, because we will of necessity be borrowing the money to make the tax refunds, the deficit will rob the tax cuts of their efficacy. There is a real danger that the tax program in this bill, and the deficits it will create, will cause inflation sufficient to raise taxpayers into yet higher brackets—virtually nullifying any benefits from tax reduction.

What will be the effect of our proposal on Federal deficits? They will begin to disappear. The movement may be slow, but it will be clearly visible. Our proposal will cost \$12 billion in fiscal year 1982; and only \$98 billion by fiscal year 1984.

These are much more modest figures than those in the Finance Committee bill—\$37 billion in fiscal year 1982; \$93 billion in fiscal year 1983; and \$150 billion in fiscal year 1984. But our dollar figures are high enough to encourage saving, stimulate investment and provide tax relief. This will still be the biggest tax cut in history.

But, Mr. President, our deficit figures will be more modest than those of the Finance Committee bill. And it will be a declining deficit, not a level deficit as in the case of the bill before us. In place of the nearly \$60 billion deficit a year for 3 years that the Finance Committee bill provides, our proposal will lower the deficit to \$35 billion in fiscal year 1982 and reach balance in 1984.

Mr. President, this is the direction in which we should be moving.

Let me now outline the provisions in our tax reduction amendment for just a few moments.

I ask unanimous consent that a detailed listing of the contents of the proposal be printed at the end of my remarks.

The PRESIDING OFFICER. Without objection, it is so ordered.

(See exhibit 1.)

Mr. BIDEN. Our tax cut proposal adopts many of the provisions already in the Finance Committee bill as it has been amended here on the floor.

Among these are proposals designed to stimulate increased savings. In 1980 Americans saved under 6 percent of their after-tax income. In earlier years our rate of savings has been higher, although we have never reached the levels found in many other countries.

We depend on these savings to finance additional investment. For that reason provisions in the committee bill to increase contributions to IRA and Keogh retirement savings accounts have been retained.

We have also kept the proposal to exempt from taxation 15 percent of net interest income up to \$3,000 (\$6,000 per couple). Employee stock ownership plans

and the new tax exempt all savers certificates should also help to increase savings levels.

The second major area of tax reduction is the committee proposal for investment incentives in the form of accelerated depreciation of assets.

These cuts provide for substantially shortened and simplified depreciation schedules in periods of 3, 5, 10 or 15 years. In addition there are increases in the investment tax credit. These incentives will help us to attack our productivity problems head on.

The third element in this program is individual income tax reduction.

These are not reductions of a size to cause rapid stimulation of demand, and thus of inflation.

They will be adequate, however, to assure demand for increased manufacturing capacity. And they will provide a good beginning on tax relief for the overburdened taxpayer.

In fact, because this tax proposal is truly anti-inflationary, our more modest tax cuts may be worth more to the taxpayer than larger ones, because they will not be eaten up by inflation.

Specifically, our proposal would provide:

A reduction in the maximum tax rate to 50 percent in January 1982. The current maximum rate is 70 percent. The maximum rate on capital gains is lowered to 20 percent effective June 10, 1981.

An increase in the zero bracket amount—formerly the standard deduction—to \$2,500 for singles and heads of households and to \$3,800 for joint returns beginning in January 1983.

An increase in earned income credit to 11 percent for the first \$5,000 of earnings. The credit would not apply to those earning more than \$12,000 and would be effective in January 1982.

A deduction for two-earner married couples of 10 percent (5 percent in 1982) of the first \$30,000 of income of the lower earning spouse. The effective date is January 1982.

An average 10-percent reduction in personal tax rates beginning in January 1983.

The reductions have been designed to insure that persons in the \$15,000 to \$50,000 income bracket are treated fairly by compensating for the effects of inflation. In addition, the proposal provides for a reduction in the marriage penalty. This provides a more equitable tax treatment for the secondary earner in a family.

Our tax proposal also includes reductions in estate and gift taxes, tax cuts for U.S. citizens working abroad, tightened provisions to insure that persons engaging in commodity tax straddles pay their fair share of taxes, and various small business tax provisions.

Mr. President, for just a moment I would like to pause and review a case history which I believe is instructive for those who want to see where this Finance Committee bill is taking us.

We have known for some time now that our thrift institutions and their close relations, the housing industry, were in serious trouble.

In 1980, 119 savings and loan associations were merged out of existence.

In the first 5 months of 1981 the number is 80, an annual rate of 200.

In the first 4 months of this year the savings and loans had net deposit withdrawals of \$5.3 billion.

Their losses so far this year are about \$1 billion and are expected to total between \$5 and \$6 billion at yearend.

The plight of the housing industry, staggering under the 17-percent mortgage rates that the savings and loans must charge, is similar to that of savings and loans.

New housing starts in June were down 11 percent to just over 1 million units and were estimated to decline further.

New building permits issued were down 16 percent to 976,000.

Now, briefly, what accounts for all this?

The answer is high interest rates. High interest rates throughout the economy have forced S. & L.'s to borrow at high interest to finance outstanding low-interest mortgages. But even so, deposits are drained away by more favorable interest elsewhere.

The resultant high interest rates for new mortgages have cast a pall over housing.

And why do we have high interest rates?

There are, of course, a number of reasons. But one critical element is the restrictive monetary policy necessary to prevent our continued high deficits from being inflationary. So I believe the Federal Government must accept some responsibility for the problems that have arisen.

It is because of that responsibility that we have had to add to this bill, and to our proposal, what is known as the all savers proposal.

That proposal would allow financial institutions that are active in lending for housing or agriculture to issue special certificates, the interest from which would be tax exempt within certain limits; 75 percent of the funds derived through these certificates by financial institutions would have to be used for housing or agricultural purposes.

There would be a maximum on tax free interest to depositors of \$1,750 per person, \$3,500 for a couple.

The interest rate would be pegged at 70 percent of the 1 year Treasury bill rate.

It is our hope that this will provide adequate funds to the thrift industry to tide it over the next couple of years. It may also help the housing industry by bringing down mortgage rates.

I do not like having to include such a provision in this tax bill.

I wish interest rates were low and these two industries were healthy. So I am even more concerned that, in the committee bill, there is nothing to bring interest rates down in the long term. Only that can provide a permanent solution for housing and the thrifts.

The problem is deficits. Deficits put pressure on credit markets and force interest rates up. Deficits force further restrictiveness in monetary policy, pushing interest rates up. Yet this bill before us does nothing to help deficits. It holds forth only 3 years of deficits totaling almost \$200 billion.

Our amendment will reach the balanced budget goal in 1984. We have heard a lot about that goal. But few seem willing to take the hard steps to realize it.

In summary, Mr. President, I believe that this tax reduction proposal will achieve the following beneficial goals:

It will provide additional savings incentives.

It will provide business with the incentive to invest increased savings in productive assets.

It will provide individual income tax reduction that will relieve the staggering tax burden without proving inflationary.

It will make possible a balanced budget by 1984.

The choice that we must make here today is between a balanced budget in 1984 or a continuation of Federal deficit financing at higher levels than ever before.

The choice is between lower interest rates resulting from lower deficits or continued high interest rates that may push our economy ever closer to the brink of recession.

The choice is between a tax cut designed to moderate inflationary pressures or a tax cut so poorly designed that it will feed inflation. The choice is between prosperous home building and thrift industries or those same industries perched on the edge of disaster.

Mr. President, I believe that we are at a turning point in our economic future.

I am sure that the American people want us to choose the road that leads to long term economic stability and prosperity. I am convinced that our proposal can show us the way. I hope the Senate will adopt it.

#### EXHIBIT 1

##### [Summary]

#### HOLLINGS-BIDEN AMENDMENT TO H.J. RES. 266 INDIVIDUAL TAX REDUCTION

Reduction in the top rate on investment income from 70 percent to 50 percent (effective date January 1982). For capital gains the effective date is June 10, 1981.

A new deduction for married couples equal to 10 percent (5 percent in 1982) of the first \$30,000 in earnings of the lesser earning spouse.

An increase in the zero bracket amount of \$200 for single returns and \$400 for joint returns.

An increased earned income tax credit of 11 percent.

Individual rate reductions averaging approximately 10 percent, effective January 1983, weighted more heavily to middle income groups.

#### SAVINGS INCENTIVES

Provides for a tax exempt savings certificate to be issued by depository institutions having a yield 70 percent of the yield on a 1-year Treasury bill.

The current temporary provision for \$200 interest and dividend exclusion for single returns and \$400 for joint returns will revert to prior law on January 1, 1982.

Increased incentives for retirement accounts and employee stock ownership plans.

#### CAPITAL FORMATION TAX INCENTIVES

Depreciation and investment tax credit revisions.

Tax credit for rehabilitation expenditures.  
Tax credit for research and experimental wage expenditures.



## ESTATE AND GIFT TAXES

Increased credits on estate taxes.  
Unlimited marital deduction for estate and gift taxes.

Increased gift tax exclusion to \$10,000.

## INCOME EARNED ABROAD

Provides for an increased exclusion for income earned abroad.

## COMMODITY TAX STRADDLES

Provisions to ensure proper taxation of commodity straddles.

## SMALL BUSINESS PROVISIONS

Incentive stock options.  
Subchapter S corporations.  
Accumulated earnings credit.  
Investment credit for used property.

## OTHER PROVISIONS

Deduction for motor carrier operating rights.  
Corporate contributions of research equipment to colleges.

Mr. BIDEN. Mr. President, the elimination of Federal deficit spending, it would seem to me, should be the issue that we are focusing on here. It is the single most important element in a program to achieve an economically sound future for this country. I know everyone here is painfully aware of the fact that very shortly we are going to be voting on extending the national debt to \$1 trillion, a landmark level, yet we are making very little progress toward a balanced budget.

If this tax reduction bill is passed in the form recommended by the administration and the Finance Committee, I think it is reasonable for us to expect that we will have a minimum of \$60 billion and, possibly, as high as a \$80 billion deficit coming up, and it will average out somewhere around \$60 billion a year through 1984, and we will be talking about adding \$180 billion to \$200 billion to what will be a \$1 trillion deficit to work from.

I am sincerely perplexed. Not long ago I had the privilege of cosponsoring an amendment with the Senator from South Carolina to a budget resolution where we essentially did this, what we are doing now, in a slightly less structured form because of the budget format we had to work with. We were talking about the budget cuts, and I raised the point then that I will raise again now.

I have been made a believer over the last 9 years in the Senate. I must acknowledge that when I first came to the U.S. Senate at age 29, not too long out of college, many economists had been telling me about why deficit spending was not all that bad and all the things that could be good about it and how it would accomplish certain things. So I was not very convinced of the arguments made by my friends here who, I must acknowledge, were mostly on the Republican side of the aisle, telling me that deficit spending was really bad, and that it caused inflation and high interest rates.

As I listened over the years in this body I became more and more a believer in balanced budgets. When we formed the Budget Committee, I was one, as they call us, of the charter members, like the Senator from South Carolina and the Senator from New Mexico, and I had to sit down there every year and actually, in effect prepare the Federal budget.

I became a believer pretty quickly. Notwithstanding the fact that I would probably be characterized in this body on social issues and civil rights and civil liberties as being left of center, I would think my record on the Budget Committee over the past year proves at a minimum that I would be fiscally moderate if not conservative in the way I voted on that committee because I have been made a believer. I arrived at that conclusion maybe for different reasons from some of my more conservative friends, but the fact of the matter is I became a believer. They convinced me that deficits caused inflation, and inflation hurt little folks and old folks and poor folks more than it did rich folks, more than it did powerful folks.

So I began to focus on that. From 1976 on we tried chasing the elusive goal of a balanced budget. A couple of times we seriously thought we had it. We thought we had it by the neck, and then the economy—for a whole range of reasons I will not go into right now in the interest of time—fooled us, and we ended up with a deficit again, and my friends on the philosophical and physical right of this Chamber said, "Aha, those Democrats, those bad old Democrats, are at it again, big spending, deficit-making Democrats."

I said "my goodness," and I spent my whole time in 1978 going back, running for reelection, saying "mea culpa," "mea maxima culpa," "not me. I am a believer. Look at my record." They said, "You are a Democrat, aren't you?" I said, "I am a Democrat." They said, "Well, we have been hearing on these paid advertisements all over the country that the Democrats cause deficits, deficits cause inflation," and then we went through the whole thing.

Well, it was a very difficult thing to get out from under. Do you know what happened? The national Republican Party, the national Republican leadership in the Senate and in the House, the Republican candidate for President, and now President of the United States, were incredibly convincing, and they convinced everybody. They not only made a believer of me early on, they convinced my folks at home that to be a Republican was to be for balanced budgets. They were inseparable.

The American public, understandably somewhat frustrated—and it is somewhat presumptuous for guys like me to stand on the Chamber floor when the galleries are filled with the American public and say what the American public thinks—but what I think the American public thinks is that we are in pretty sad shape; that the Democratic Party did not do a whole lot to clear up the economy in the last 6 or 7 years; that they are not sure the Republican Party is going to do much but, basically, there was a referendum held in 1980 which said "Give those Republicans a chance."

It was not a referendum on El Salvador or on the CIA wanting to go back to the good old days, and it was not a referendum on wanting to do away with civil rights; it was not a referendum on a moral majority. It was not about those things.

It was about the economy. They said, "Hey, you Democrats are not doing too

good. And so we got a President who says, 'I'm fiscally responsible and to be fiscally responsible means you must balance the budget.'"

How many times did the American public hear our President stand up and say—I wish I could imitate his voice well because it would make the impact that needs to be made here—"What we need to do here is understand that Government is like running your household." And he would look out to the American people and say, "Now, could you run your household if you spent more than you took in? You couldn't do that for very long, could you, my fellow Americans?"

And we all sat there and said, "That is right. We couldn't do that. No way."

And then he said, "And the one question I want to ask you all is: Are you better off today than you were yesterday?"

And even I sat there in front of the tube saying, "No, I'm not. I will tell you, things are bad." And, you know, it worked.

Mr. DOLE. Will the Senator yield?

Mr. BIDEN. Yes.

Mr. DOLE. Did the Senator vote for Reagan?

Mr. BIDEN. I beg the Senator's pardon?

Mr. DOLE. Who did the Senator vote for?

Mr. BIDEN. I voted for Carter because I did not believe Reagan and I will tell you why I did not believe him—I think this is proof of why you should not have voted for him—because he did not mean what he said. And I will tell you why he did not mean what he said.

We got down to the point where I sat there and listened and listened and listened on this floor. Without going into detail, which you have heard and which has been much more fully articulated than I could do it by the sponsor of this amendment, on what our amendment does, and the Senator from Arkansas whom I am sure will speak, also, and others, let me tell you what worries me most about what is happening now.

What worries me more than the effect of the deficit on our economy—and I am convinced, I pray to God I am wrong, but I am convinced that the effect of the Reagan program will be economically disastrous for most of us in this country, the 99 percent that do not have an oil well in their backyard. I think there will be trouble. And I think, in the long run, it will also be trouble for the folks who have an oil well in their backyard.

But this economy is so strong, this country is so resilient, notwithstanding the trouble we are in, that even Ronald Reagan and our Republican friends, with this economic plan, are not likely to be able to do long term, complete damage to it.

Mr. DOLE. Will the Senator yield?

Mr. BIDEN. Yes.

Mr. DOLE. Does the Senator really believe that you have confidence that we can clean up the mess you left us in? Is that what the Senator is saying?

Mr. BIDEN. Well, I am not sure. I admit we did leave part of a mess. I admit that Gerald Ford gave us a \$65 billion budget deficit. I admit that Richard

Nixon left us a country in shambles that prevented us from focusing on the economy. I admit that the Republican leadership in the Senate did nothing constructive during the past 4 years, other than come up with simple solutions that obviously they knew would not work and throw hand grenades. But, as someone once said on this floor, it is much better to throw hand grenades than to catch them. So we were over here catching them and you were throwing them. We were everything from immoral to unenlightened to whatever.

But, at this time, that is not the thing that worries me.

Mr. DOLE. Will the Senator yield?

Mr. BIDEN. After I tell you what worries me and then I will be happy to yield and you can tell me why it does or does not worry you.

Mr. DOLE. I just have one thing to say and I am being called for another matter.

Mr. BIDEN. I yield.

Mr. DOLE. I do not know what worries the Senator, because then we would both be worried.

Mr. BIDEN. We should be.

Mr. DOLE. But I would hope that, in the final analysis—I understand all the rhetoric. I even made speeches like that.

Mr. BIDEN. Did you?

Mr. DOLE. Privately. I never wanted to go public with a speech like that. [Laughter.]

But, in the final analysis, it may be that you will vote for our package.

Mr. BIDEN. Well, I doubt whether I will be able to have the same incentive to vote for it as you do, because there is obviously not an incentive based on the merits of the economic package. There must be others. I will get back to that later.

But the thing that worries me is—and for the sake of argument I will admit that the Democrats were bad; that the Democrats did a horrible job; that the Democrats got us in all of this trouble; that the Democrats were the people the American people turned their backs on and that everything the Republicans said about us was true. Let us assume all of that for the sake of argument.

The thing that worries me is the American public turned to a fellow they believed was going to do at least one thing: they believed that he was going to balance the budget. They believed he was going to get the fiscal house in order. And they believed, especially after the first round of budget cuts, that he really meant what he said.

So he came along and even I supported 98 percent of all of the cuts on the floor that he offered, because I believed that if the goal was to balance the budget I would swallow hard and vote against things I supported philosophically and emotionally. So I voted for those cuts.

Now, where are we? The American people, who already lack confidence in the ability of their political institutions to function, are about to get another jolt, which is going to do more damage to us institutionally than anything we could do now. Because you are going to see the chambers of commerce of America, who are telling us to vote for this package,

when they find out next year that there is a \$60-billion deficit and another one coming up, they are going to say, "Oh, God bless the Democrats for pointing it out to us" or "Those awful Republicans for doing it to us." They are going to say, "You know what? Government does not work. Nobody can make it work. There isn't any way we can do it."

And we are going to further erode that little, tiny bit of reservoir of confidence that remains.

We spent the last 15 years—both political parties—in everything from Watergate to Abscam to stupid politics, convincing the American public that we do not know what we are doing; that we are not to be trusted; that we do not have any answers.

Mark my words, when they figure out or they conclude that the guy they really believed in did not deliver what they thought they were getting, they are going to be prepared to look to more radical answers. I cannot tell you what those radical answers will be, but they will look to more radical answers. And it will not be within the institutional framework we are talking about now.

We are talking about the free enterprise system helping us fight our way out of this. And I am all for unleashing it. That is what our bill does.

But you know what they are going to start saying—and remember I said it here—when we have unemployment above 7.5 percent, when we have a deficit of \$60 billion, when we have interest rates still at 16, 17, 18, 20 percent, when we have an inflation rate at 12 or 13 percent after we have made all of these cuts, after we have brought on all of this misery, after we have wrung the country through this issue? They are going to say, "You know what? Maybe we should start planning the economy the other way. Maybe what we should do is have the Federal Reserve elected. Maybe what we should do is turn around and control all credit. Maybe what we should do is"—it will go on down the line. And nobody talks about that.

Let me conclude by asking a question of all who are going to read this in the RECORD, as Senator DOLE does, because he does not have much better to do in the morning than read the RECORD, apparently. Anybody who would spend the time reading the RECORD, I question.

But if he reads the RECORD, I hope he reads this tomorrow morning. I want him to go back home to his home State, or any of you who are hearing this in your offices or will read it tomorrow or your staffs tell you about it, go back to your home State and find your basic conservative Republican businessperson at the Rotary Club or the Chamber of Commerce meeting, wherever you go and where we all go to speak.

Pull him aside over the August recess and say to him, "Charlie, you know we are giving you this economic program that the National Chamber wants to have. By the way, Charlie, you do know, don't you, that there is going to be a \$60 billion deficit next year? Don't you? And you do know, Charlie, that there will be another \$60 billion the following year? You are aware of that, aren't you, Charlie?"

I will lay you 8 to 5 Charlie will look at you and say, "No, no, that is not right. Reagan is going to balance the budget for us."

And then say, "No, Charlie. Reagan's budget sets up a \$45 billion deficit even with his figures. You know that, don't you, Charlie?"

You will not be able to convince Charlie, because this President has done such an incredibly good job, and I compliment him, of convincing the American public that he is for fiscal austerity, which is synonymous with balancing the budget, that he will not believe you.

I am not exaggerating. Try it on them. I do not mean to go talk to the economists for the big corporations in your State. I mean talk to the local businessman or woman, who runs a pet store, an apparel shop, whatever.

I am telling you, Mr. President, I do not know why we insist on this. I do not know why, since we went through the pain of cutting these programs, we do not do what we all know is what needs to be done. That is to put the fiscal house in order.

It is a strange thing for the Democrats to be making this argument, if all we heard about them in the last 10 years is correct. I only ask that rhetorical question, Why do they want to have the 3-year big tax cut all at once knowing that the deficits will be catastrophic? Why is that?

I will leave you with a possible suggested answer. It is because this is all about social priorities in America. This is all about whether or not Government has responsibility. Not about inflation rates, not about interest rates. Whether or not Government has the social responsibility to take care of folks who need help.

They are right about one thing: If the revenue loss occurs, if the deficits are as high as we anticipate them to be, not only are "they going to be in trouble," but all of those other programs are going to be in trouble, too. It will be very hard to convince the American public that we should be funding social security, food stamps, or any other program.

I suggest that is what it is about. I suggest to you, Mr. President, that we can ill afford to further undermine the confidence of the American people.

I would suggest this is a good amendment and at a minimum we should be thinking about whether or not we try this thing to see whether or not it works.

I apologize to the Senator from South Carolina for going on so long about this. As I said, just be thankful I did not do my whole statement. I appreciate his leadership in this effort. I sincerely mean it when I say I do not see any other good reason, economic reason, why anyone would be against moving toward a balanced budget after we have cut the programs, when we are skewing it toward the supply side, we are skewing it toward people who are going to invest. Why would you not go with this other than the longer range reason of reordering the responsibility of Government in this country?

I thank the Senator.



The PRESIDING OFFICER. The Senator from South Carolina.

Mr. HOLLINGS. Mr. President, the distinguished Senator from Delaware has made more than a speech in support of a particular amendment. He made a formidable statement about a fundamental. He has described, really, what is the issue in this land of ours, and particularly in the Nation's Capitol, as we discuss the economic program.

I know I get side glances from my colleagues on this side of the aisle when I say I support President Reagan. I do it genuinely and have done it genuinely because, in part, of the very important point made by the Senator from Delaware.

In this regard, I ask unanimous consent that the article appearing in the Washington Star last night by Messrs. Germond and Witcover be printed in the RECORD at this particular point.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

OLD RULES STILL PROVE VALUABLE FOR POLITICIANS

(By Jack W. Germond and Jules Witcover)

Playing tax-cut politics is walking in quicksand. That is clear in what has happened to Republicans and Democrats alike in the endless wrangling over the tax bill of 1981.

A year ago the Democrats were deriding the Republican priority for tax reduction at a time of runaway inflation. Speaker Thomas P. O'Neill Jr. told his party's national convention, "Let me assure the American taxpayer that the Democratic Party respects your intelligence and—unlike the Republican Party—will not insult you by proposing a massive tax cut of some \$200 billion over the next five years while promising it will stimulate demand, balance the budget and reduce inflation all at the same time."

"The Republican alternative," said President Jimmy Carter, "is the biggest tax giveaway in history. They call it 'Reagan-Kemp-Roth.' I call it a free lunch Americans cannot afford." The Reagan-supported tax cut, said Vice President Walter F. Mondale, "is obviously murderously inflationary."

This was the conventional wisdom among Democrats and, for that matter, many Republicans. The government doesn't reduce taxes in times of high inflation and rising deficits. It is just the opposite of what is needed.

So the most the Democrats would endorse would be cuts "targeted" to businesses to stimulate productivity and lower inflation. General tax reduction would be, as someone said before a vice presidential nomination changed his mind, "voodoo economics."

But today all that seems to have been forgotten by the Democrats in Congress or at least most of them. Although they are giving lip service to their traditions and principles as a party by trying to skew the income tax cuts to those who earn under \$50,000 a year, it is clear they are in a bidding war with the Republicans. Who can do the most for independent oil producers? Who has the most generous plan for minimizing the marriage penalty or reducing inheritance taxes or providing more shelter for interest and dividends?

Nor have the Republicans been any less susceptible to the political attraction of giving away the store. A year ago Ronald Reagan and his supporters were advocating tax reduction as a great experiment with the theory of "supply-side economics." Simply cut the rates, they said, and watch the economy boom.

That idea was, of course, a clean break with the dogma of the Republican Party that held deficits were almost as pernicious as godless communism. And some leading Republican experts, including Rep. Barber B. Conable Jr., their ranking man on Ways and Means, did have serious doubts about whether it would work.

But Kemp-Roth did have the virtue, in some eyes at least, of being an attempt to try something new. Heaven knows the conventional government attempts to influence the economy had been exposed as failures.

But now, as the negotiating drones on in both houses of Congress, it is clear that the economic questions have been put aside in favor of the political imperative. The White House that insisted a few months ago on nothing beyond the great experiment is now buying not only elimination of the marriage penalty and reduction of top rates on unearned income but relief for those independent oil producers and maybe indexing and perhaps deductions of charitable contributions on the short form.

What has happened is what always happens with tax legislation, although it is happening a little earlier in the year than usual. The tax bill has become a Christmas tree bill, just as they always do.

The Democrats may claim they are helping the little man as always. And it is clear the bill they are pushing in the House is different from Ronald Reagan's in that respect. But, let's not kid the troops, it is equally clear they have been stamped by the White House and Reagan's political muscle into legislation they otherwise never would have been proposing at all—or at least not this year with these inflation rates.

Similarly, the Republicans may insist they are full of noble purpose. But it is also obvious that many of them, still harboring doubts about Kemp-Roth, have been swept up in the usual competition for political credit.

The result, almost inevitably, is going to be a tax bill that satisfies neither longstanding Democratic economic theory nor the new Republican commitment to economic innovation.

The lesson in this is that there are limits to the Reagan revolution and the new politics of the new conservative majority. The old rules still apply, and one of the most basic is they don't shoot Santa Claus.

Mr. HOLLINGS. That will be a good memory jogger.

People forget the desperate circumstances we as Democrats were in last year, when, after our President had submitted his economic program and his state of the Union message, we were put to the task of saying, "Mr. President, go back and resubmit that message. It is just not an austere budget. It is not going to fly. We are in deep, deep trouble."

So the President had to resubmit, cutting billions of dollars. As Senator BIDEN has pointed out, we thought we had that June a very illusive goal; namely, the balanced budget. But we did follow on with reconciliation and cut spending. We set that dramatic record in that Congress because we felt it very keenly.

That gives somewhat of a perspective and panoramic background to the economic difficulty that we have and, necessarily, since it has persisted for a good 10-year period now, the difficulties that we have as public servants, the difficulty that Government has, and the difficulty that people have with respect to confidence in Government.

I think Senator BIDEN has made one

of the most important statements made on the floor this year, if not the most important. I hope people are listening back in their offices, and I hope those covering this may momentarily forget about this amendment because it is not going to carry, obviously. Really get to the point that we are trying to make with the amendment and which the Senator from Delaware has made so colorfully.

Incidentally, when you are that attractive, dynamic and colorful, as the Senator from Delaware is—he is just still too young for some to give careful attention to. Not in my case I assure you. Around here, they do not believe. All too often, you must have age before your message will be given the attention it deserves.

It is unfortunate that you have to have snowy, gray hair or everything else like that and everybody saying, "Sir?" before you will be heard. They ought to listen to the meat of the message that the Senator from Delaware has here given.

This is not a partisan thing. This is a matter of having it work. If it does not work under President Reagan, then I do not know how we can get it to work. I would have hoped we could have gotten through to the President.

He has many, many concerns on his mind.

I would have hoped we could have gotten through by getting through to Secretary Regan, who we have not gotten through to. He is selling us. He has an impediment. He cannot listen.

Otherwise, our good friend, David Stockman, who is brilliant, who has done much, listens too much to the news reports and does not have it all together. That is David Stockman.

The Senator from Delaware responded exactly to the point he was making. David Stockman came on TV and sobered me up one evening. He said the Government had no responsibility to the American people for any service.

Now, you have come to the real meat in the coconut here. I am almost tempted to get a live quorum and get a record. Unfortunately we do not have this thing on radio yet so we could play it back to make them listen.

Touching on that issue, if the administration's economic recovery plan does not work, then we are not going to be accredited as a body—the Senate. The Senator is right. We have been in public service and are realists enough to know that that record will not be examined—people will not have time for that, they will be so angry, distraught and disillusioned.

Why is it that in 1976 they did not take a single one for President from the Democratic Party? They took an outsider. We had Muskie, KENNEDY, Humphrey, or UDALL, or Bayh—we had a whole stableful of them come out. We lost that confidence then. The body politic said, "We'll give you this fellow down in Plains, Ga. He says he wants a government as good as the people, and he will straighten that Washington crowd out."

We got the exact same message last November. They had their whole stable:

The Senator from Tennessee, the Senator from Kansas, the Senator from Connecticut, and others. They were all candidates. And the people said, "No, we have already lost confidence."

The Senator's point is well taken. They said, "We don't want to hear that Washington crowd anymore. We will take this fellow, Reagan."

You can joke about his being a movie star, but he was sincere in what he said about a balanced budget. Then after the election, we get Gildersleeve and Stockman and they come in with this, just economic trash, about incentives, like this oil thing the Senator from Kansas is talking about; he labels it the people's amendment.

We shall get to that in just a while. But let me hold up just a second.

The point is that we lost that confidence as Democrats, they lost it as Republicans, here, in Washington. We have had two of them come from without and they are both very sincere, Jimmy Carter and now Ronald Reagan. If it does not work under this one, the people will say, "A curse on both your Houses. There is no way for Government to work."

That is what Senator BIDEN said and no one is listening. That is the real test that we have here: Can we get by this political dichotomy of what the pledge was and Kemp-Roth-Reagan and all that nonsense about going to give all that incentive and everything like that, when nobody really believes it? We are creating expectations that simply cannot be met.

And not believing it—if they had believed it that strongly, they would have given it in January. If they believe in it that strongly in July, they would have given it in July. After they backed off it in January, they would have given it in July. If they believed in it that strongly, they would have held to 10 percent, if 10 percent was necessary.

They really are worried themselves. Dr. Arthur Burns said so. But they are holding to the social goals.

I shall yield in just one second to the Senators from Arkansas, because he has been very patient with us. I shall read this statement of Dr. Arthur Burns in the RECORD. Dr. Burns is no other than the President's appointee as Ambassador to the Federal Republic of West Germany. He said:

Skepticism concerning the underpinnings of the Reagan program is not confined to traditional liberals. It is also felt to some degree by economists, businessmen, and others, who are entirely sympathetic to the president's philosophy that the restoration of a healthy economy requires much more reliance on the free market and less on government.

The basic question about the Reagan program is whether a declining rate of inflation is likely to accompany the consistently high rate of growth in the physical volume of overall production that the program projects for the five-year stretch from 1982 through 1986.

Mind you me, this is Dr. Burns that the distinguished Presiding Officer heard as a colleague on the Budget Committee. I asked Dr. Burns would he give an across-the-board tax cut this year. He said "No." He said "No."

Let me read one other little portion of Dr. Burns' treatise.

In the third place, it is more useful to view the Reagan program as a plan that is still undergone evolution rather than as a finished, final blueprint for action. As such, it merits neither acceptance of every detail nor criticism that stops short of providing a practical alternative. There is considerable evidence that the president himself views his economic program in just that way.

I wonder about those around him, because they are moving on and politically have advised that there is no compromise. Before any mention is made, you immediately get a statement. I do not know how they find the gentlemen that fast. There is immediately a statement from the White House staff, no compromise because of the social goals the Senator is talking about. They are pell-mell for hell now. They are making spending cuts and, like the sheepdog, they are going to gobble up the flock.

Mr. BIDEN. Will the Senator yield on that point?

Mr. HOLLINGS. Yes.

Mr. BIDEN. Mr. President, there is one point the Senator from South Carolina has underscored, and I want to underscore again. It seems to me this is beyond partisan consideration. The Democrats have had to do it and President Reagan has to have the guts to take on interest groups. The Senator from South Carolina and I have stood on the floor, as the Senator from Arkansas and I did, and had to vote against traditional interest groups in the Democratic Party that we thought were wrong in what they are asking for.

I wish the President would follow his basic instincts and have the guts to vote against, by his statement, the interest groups that are insisting upon this whole plate that they are asking for. The majority of the American people do not belong to any interest group on either side of the table. I think that is what they are offended by. We on this side, under the leadership, I admit, of President Reagan giving us the opportunity to do so, stood up on the floor with some little cost and voted against traditional Democratic interest groups, because it was right to do.

They should do the same thing. They have the budget cuts. Do not be afraid to take on the big guy. You will find the American people will be there. Just as I do not believe we are going to be hurt by the interest groups, because in their hearts, as one other famous Republican said, "You know we are right."

Mr. HOLLINGS. Mr. President, I shall take 1 minute to complete that thought after I listen to the Senator from Arkansas.

The PRESIDING OFFICER. The Senator from Arkansas.

Mr. BUMPERS. I thank the Chair and I thank Senators HOLLINGS and BIDEN.

Let me commence, Mr. President, with a story that really is not relevant to the bill and the amendment that we are arguing here. The Senator from Delaware alluded to President Reagan's debate with President Carter, when he looked

into the camera and said, "How many of you people out there think you are better off than you were 4 years ago?" It is very easy in this day of cynicism, distrust, and apprehension, to say "I am certainly not." I think perhaps most people genuinely believe that, and maybe it is true.

It is not true for me, although people demean the Government or the programs of this country, such as those that kept my father from going bankrupt during the depression. For example, Rural Electrification Administration, fought every step of the way by the public power companies, saved my father from bankruptcy.

After World War II, it was the GI bill that enabled me to get an education to make a living with and also which allowed me to be Governor of my State and a U.S. Senator.

So when people ask me, "Are you better off?" I am grateful for every day I have. I feel I am the luckiest man alive. I grew up about as poor as you could get.

I sometimes wonder why I am not more mean spirited than I am. It seems that you have to be mean when you grow up poor.

We had an expression in the Marine Corps: "Pull up the ladder, Jack; I'm on board." It occurs to me that that is what life can be.

People are willing to provide this \$333 billion tax cut, with most of it for the very wealthiest people in the country because they are supposedly the only ones who have enough sense to save it and invest it. As strongly as I want to cooperate with the President, I cannot support that.

Getting back to the earlier point: How soon we forget. You never appreciate peace until you have war. You never appreciate good health until you lose it. You do not appreciate anything until you lose it.

I know I am lucky. My 4-year-old brother died of acute indigestion. You would hardly have to take a child to the doctor's office to cure that today.

My wife's father used to heat a rock and put a quilt around it so her feet could stay warm in the wintertime while she rode the bus to school.

People talk to me about the good old days. I am not willing to go back to the good old days. I have had them.

That is not to demean for one moment the people in this country who are struggling and having a tough time, and nobody is more sympathetic to that than I am. I am speaking only for myself and a benevolent Government which has allowed me to get a good education, and I am grateful to it for allowing me to serve in the U.S. Senate.

In World War II, 120,000 Japanese were interned in this country in concentration camps. Senator INOUE was not one of those because he was in Hawaii. He was native born. We called them Nisei.

Many Japanese volunteered to serve in World War II if they were native born, and, eventually, they were taken out of those camps. We had about 15,000 Japanese in two camps in Arkansas, and some of them were allowed to volunteer. They



were taken from behind barbed wire fences and were put in American uniforms.

But Senator INOUE was one of the first people to enlist in World War II. We all know that he now has one arm because he lost the other during the Italian campaign. He came home with a row of ribbons across his chest like nobody you ever saw. He walked into a barber shop in San Francisco, California, and the barber said, "What are you?"

Senator INOUE said, "Well, I'm an American."

"No," the barber said. "I mean, what are you?"

Senator INOUE said "Well, I'm Japanese."

The barber said, "We don't cut Jap hair here."

Well, Senator INOUE got even with that barber, because he is a U.S. Senator today.

Nobody would question how deplorable that is; but, by the same token, nobody would condemn a Government in which native-born Japanese can serve in the U.S. Senate to make sure things like that do not happen anymore.

So when the President asks if I am better off, I could think that I do not have quite as much money in the bank. My farm is not worth as much as I thought it was going to be. I could go through a litany of things, if I wanted to do so. The truth of the matter is that I paid more in income tax last year than I ever dreamed I would make when I got out of law school, and I am grateful for that fact.

The President later said something else on national television. The President said, "If you don't like my plan, come up with a better one." That was when the Democrats were still a party in disarray. It is going to take us a while to recover from 1980 and get our act together.

The President said, "If you don't like our plan, come up with a better one." All the Democrats started trembling and said, "You can't beat something with nothing, and that's all we have."

So we scurried around to come up with something we could all agree on. Finally, in the last few days, both in the House and in the Senate, we have come up with plans we honestly believe are better than his.

But almost every day, you hear the news reports: This is not acceptable to the President. That is not acceptable to the President. This plan is not acceptable to the President.

He says, "If you will just buy this plan, we will balance the budget; we will reduce inflation; we will reduce interest rates; we will do all those great things."

Both, an amendment in the House and one soon to be offered by the Senator from New Jersey in this body, would at least hold off the third year of this tax plan until the President's own goals have been met.

Why, in the name of all that is good and holy, would that not be acceptable to the President? He says that the inflation rate is going to be down in 1983, that the deficit will be a certain figure, and that interest rates, the thing that is

absolutely dissolving this country, will be down.

The amendment of the good Senator from New Jersey and the amendment in the House would require that the third-year tax cut not go into effect until we see whether those goals are met or not. That seems to me to be the most reasonable thing in the world. However, as I drove to work this morning, I heard that the President said that is not acceptable.

The Senator from Delaware has already alluded to a thing that I want to repeat, because it is unique in the history of this country. It was the Democrats who got the message last fall. It is the Democrats, on this side of the aisle, who are bleeding for fiscal responsibility and a reduced deficit.

I do not care whether you believe that deficits are the cause of inflation or whether you believe deficits are the cause of high interest rates. It is good sense not to have deficits.

As the Senator said, he and I have to live within our means. Everybody has to live within his or her means, except the Government. So, let us do it, because if we do not carry out that one expectation of the American people, we will dissolve the small thread of confidence still remaining.

Therefore, we are pleading on behalf of the amendment of the Senator from South Carolina. I am not wild about it, but compared to Kemp-Roth, it looks like the New Testament. It is an amendment that cuts deficit spending by \$173 billion over the next 3 years.

It is the Democrats who have always been for jobs. It is the Democrats who have always been for cutting taxes. It is also the Democrats, I presume, who got the message fully last fall that the American people want to do business differently. It is the Democrats who are trying to honor that mandate, if there was one, to balance the budget and to stop deficit spending.

The President has also said that we should not tinker with social security. He told the American people that the safety net is going to be kept sacrosanct: "You people on social security, don't worry, because we are not going to tinker with that."

Although he has not said it, every poll I have seen has said, "Don't give this country away to the oil industry." Yet, yesterday, in the middle of July 1981, the U.S. Senate did the most amazing thing I have ever seen. It voted to cut the minimum social security payments to 3.5 million people, \$122 each month, many of whom depend on that almost totally. The Senate decided to take that \$122 check away from them, and, within 1 hour, we were considering an amendment to give \$40 billion to the American oil companies, who are busy buying up each other and everything else they can find to buy because they do not know what to do with the money. It is all over the floor.

I say to the Senator that he is going to live a long time before he sees that happen. I hope he lives a long time before he sees that happen again.

Concerning capital gains, I heard all the arguments made in 1978 when we

cut out the capital gains rate from 49 to 28 percent. You cannot find one thing that has been said since the debate on this measure started that was not said since 1978. Cut the capital gains rate, and people will invest. We will improve our technology, become more productive, compete with Japan, and everything will come up roses. That was 3 years ago. What happened to that promise?

Now the argument is 28 percent was not low enough; let us go to 20 percent. Is that one of the promises they are going to meet?

That is not an antibusiness argument. That is a rhetorical economic question.

This amendment, of which I am a cosponsor, is infinitely preferable to those supposedly fair across-the-board cuts which the Senator from South Carolina and I both know are about as unfair as anything we can be as these charts show.

These figures are far more compelling, than the arguments that we have to give the oil companies more money as an incentive to explore.

That argument has been so totally devastated in this Chamber so many times since I have been here that one cannot believe anyone would have the courage to continue to make it. Yet it is still made.

Twenty billion dollars of credit is lined up by four companies in this country waiting to see who is going to gobble up Conoco. Tell me how much extra oil the United States is going to get when Gulf or Mobil succeed in buying Conoco. Where is that great American adventurousism to go out and risk their money? They know that they do not have to risk anything; they can buy it. It is already found. They will just buy Conoco.

I tell the Senate that of the 27 top oil companies in this country, 20 of them are shivering in their boots right now. They know the other seven are probably going to gobble them up.

By comparison, what does the Kemp-Roth bill do for the people who make less than \$20,000 a year, and that is half the people in America? The median income in this country for a family of four is \$21,000. That means half the people of this country are making less than \$20,000. What will their situation be at the end of 3 years?

These charts show it. In 1984 the people who make between \$5,000 and \$10,000 a year will be 126 percent worse off, using a 9-percent inflation factor. The people who make between \$10,000 and \$15,000 in 1984 will be 13.1 percent worse off than they are today. And the people who make between \$15,000 to \$20,000 a year will be six-tenths of 1 percent worse off.

Unless they make over \$20,000 they are going to be worse off, and that means half of the American people will be worse off under Kemp-Roth than they are right now.

The Senator from South Carolina has very wisely made sure that his tax cut will protect those people from inflation and protect them against the increased cost of social security. Why does this argument not penetrate? It is so simple. Talk about simple solutions we have been

listening to all these years. Here is one that really is simple.

The President said he was going to protect the truly needy. No one has ever said who the truly needy are. A man and his wife making \$20,000 a year with a couple of children and with a \$200 electric bill last month surely feels that he is truly needy. Try to tell the man who is making \$30,000 a year and has two children to educate that he cannot get a student loan because he makes too much money.

Does the Senator from South Carolina know what is the take-home pay for a man with a wife and two children and an income of \$30,000. It is about \$18,000 a year. By the time he pays for his medical insurance, which admittedly is a cost of living, and by the time he pays his social security tax, his State income tax and his Federal income tax, he gets about \$18,000 a year. If he is paying 20 percent of his income for housing, he is paying about \$400 of his \$1,500 a month for housing. So tell him how he is going to educate his children. He is going to tell you you are crazy.

A lot of people have called me and said give the President what he wants, and, as did the Senator from Delaware, I also cooperated with him. I voted for some budget cuts that I did not really want to vote for and did not believe in those budget cuts, but I swallowed hard in the interest of cooperation and voted for them.

I was always told as a parent that I should not give my children everything they want; it will really spoil them.

I do not think we are going to spoil the President, but I am also not convinced I should send my commonsense on vacation because we have a new President. So I am not going to do that.

Finally, does the Senator know who is not convinced about these figures? It is the people who play hard ball. It is the people who put their money where their minds are and not where their mouths are. Those are the fellows on Wall Street. If there is any crowd in this country that is unimpressed with the President's promise to balance the budget, it is the analysts on Wall Street.

Henry Kaufman, who is about as good a guru as one will find on Wall Street, is with Salomon Brothers, and he has said that there is not any way to balance the budget and there is not any way for interest rates to come down, given these kinds of tax expenditures. If we add to this \$333 billion not just \$100 billion increase over the next 3 years in defense spending but \$100 billion over what President Carter had recommended and that was a colossal increase, that is \$433 billion.

If Arthur Laffer could convince me that by cutting taxes by \$333 billion, we are going to recoup \$334 billion, then I would vote for Kemp-Roth. But in my opinion that is economic nonsense. It is not going to happen.

It does not please me to stand here and to take issue with the President, who still rides high in the popularity polls. But I fundamentally disagree on the economics of this particular joint resolution. It is wrong. It skews the benefits toward the very wealthiest and does

nothing to protect those people in the lower income category, and it guarantees more deficit spending and, therefore, more inflation and higher interest rates.

I thank the Senator from South Carolina for proposing this amendment and allowing me to speak on it.

The PRESIDING OFFICER (Mr. MURKOWSKI). The Senator from South Carolina is recognized.

Mr. HOLLINGS. Mr. President, I thank the distinguished Senator from Arkansas. He brings the issue so cogently and forcefully to this body.

As he has emphasized, he is not enthralled with this particular amendment. The author himself is not enthralled with it. It is a realistic approach and it shows that when the Senator from Kansas, the chairman of our Finance Committee, would immediately characterize it as anti-people, when realistically we are trying to offer that alternative.

Take the Finance Committee. The Finance Committee provided for the marriage tax penalty. The Finance Committee provided for the investment tax credit. The Finance Committee provided for the depreciation allowance. The Finance Committee provided for the foreign earnings tax credit. The Finance Committee provided for the maximum tax schedule on investment income, reduced the tax rate to 20 percent on capital gains, and from 70 to 50 percent on investment income. The Finance Committee provided for all these things, including individual income tax cuts. When we phase them in in a deliberate, responsible economic way all of a sudden we become anti-people.

I think this goes to the heart of what the Senator from Delaware was trying to emphasize with respect to the confidence that they have and that will be lacking if some alternative is not passed whereby President Reagan can generally succeed. Why does he not accept this? Immediately his advisers are saying it is anti-people.

I really believe that the advisers have never understood or appreciated or the President himself, for example, the tax cuts that we have had.

If you live out on the political stump and away from Washington you get an anti-Washington bias, there is no question about it. As a former public servant at the State level, I will never forget at one time dealing with President Kennedy on the textile problem. We had submitted a paper, really which was what we called a white paper at that time, a plan that was adopted later by both the Northern and the Southern textile industries for an approach to getting an agreement with respect to one-price cotton, the quotas, and we were ready and prepared to announce this, and it was suggested that maybe some Congressmen and Senators would be called in.

In a casual way I said, "Oh, they really don't know too much about this."

It was later when I came to the National Congress that I learned that the Senator from Rhode Island, Senator Pastore, knew way more about it than I did, and that the Senator from Georgia, Senator Talmadge, knew way more about it than I did, and a lot of the others.

The service in the National Congress is

an education, a continuing education. That is why we can speak with some sense of history and some experience because we were part and parcel of it.

Let me list these different tax reduction bills: The Tax Reform Act of 1969, the Revenue Act of 1971, the Tax Reduction Act of 1975, the Revenue Adjustment Act of 1975—you see there were two in 1975; the Tax Reform Act of 1976, the Tax Reduction and Simplification Act of 1977, and the Revenue Act of 1978.

Just look at the debate, Mr. President, on that Revenue Act when we were reducing capital gains from 49 to 28 percent, and if you read that record we were going to reindustrialize America; we were going to reindustrialize.

Here we are 3 years later, and we have not reindustrialized the automobile industry, which is going broke; the housing industry is going broke; the steel industry is asking for consideration; textiles, shoes, right on down the list, they are not reindustrialized.

But when you hear these arguments now that we are going to reindustrialize and we are going to all of a sudden rejuvenate the economy and there is going to be this tremendous growth rate, we say, "Well, we have heard that before."

Mr. President, I ask unanimous consent that a list of tax reductions from 1970 to 1980, both personal and corporate, be printed in the RECORD.

There being no objection, the table was ordered to be printed in the RECORD, as follows:

TAX REDUCTIONS  
[Billions of dollars, calendar year]

	Total	Per-sonal	Cor-porate
1970	12.0	11.2	.8
1971	23.4	20.9	2.5
1972	22.3	17.1	5.2
1973	40.6	31.7	8.9
1974	44.3	32.5	11.8
1975	64.2	52.8	11.4
1976	70.2	55.6	14.6
1977	80.9	62.4	18.5
1978	97.9	76.2	21.7
1979	121.1	89.5	31.6
1980	154.7	122.8	31.9

Mr. HOLLINGS. The tax reductions are cumulative and are \$731 billion.

We heard about governmental profligacy, waste, fraud, and abuse, and all of the cute little examples of the silly research projects, and all the single-issue groups which have been spawned and nurtured and have flourished on not having any defense, on having all this Government waste.

So coming to Washington I am convinced that this particular President did not realize that we have had all of those tax cuts and all of that tax reduction and all of that lost revenue. He proclaims to the joint Congress, "We don't want to have more of the same. We want to have something different." However, what we are getting is more of the same.

Equally, Mr. President, when we get to the matter of making money from inflation or losing money, I want to put in here the schedule of tax increases from inflation, the increased revenues of individuals of \$35.6 billion, corporate \$2.1



billion, social insurance \$14.4 billion, and "other" \$17.9 billion, for a total of \$70 billion in increased revenues. That is right.

But then there are increased costs.

With respect to the matter of social security, national defense, medicare, medicaid, railroad retirement, food stamps, child nutrition, veterans' retirement, those expenditure increases as a result of inflation, are about \$83.1 billion.

I ask unanimous consent to have printed the estimated effects of inflation in the fiscal year 1981 budget.

There being no objection, the table was ordered to be printed in the RECORD, as follows:

*Estimated effects of inflation in FY 1981 budget*

(In billions of dollars)

Tax increases from inflation.....	70.0
Individual .....	35.6
Corporate .....	2.1
Social insurance .....	14.4
Other .....	17.9
Expenditure increases from inflation.....	83.1
National defense.....	16.3
Payments for individuals:	
Medicare .....	3.5
Medicaid .....	1.4
Social security.....	16.4
Supplemental security income.....	.9
Railroad retirement.....	.6
Civil service retirement.....	1.9
Black lung .....	.1
Unemployment compensation.....	1.5
Food stamps.....	.8
Child nutrition.....	.4
Veterans retirement.....	.5
Other .....	4.9
Other grants.....	4.6
Net interest.....	24.3
All other.....	5.0
Change in deficit.....	13.1

Mr. HOLLINGS. Well, Mr. President, then in a letter to my colleagues I have tried to analyze the body politic to show why at this particular time the economists say that it cannot work and why good business judgment says it cannot work, and why good commonsense says it cannot work, why any housewife who would look at this particular problem would analyze it immediately as inflationary. It is because over the years we have been running these high deficits to the tune of the last 10 years really, a surge in red ink, of over \$400 billion.

In essence, we have become diabetic on Federal deficits and alcoholic on these tax cuts. Congress has not been lethargic, they have not been politically inattentive, they have not been unaware. They knew there was some money around, so when we would be working over on the Budget Committee the distinguished chairman of the Finance Committee, the chairman himself, would be working on the theory that it was a footrace. We were trying to get the budget into balance, and knowing they had this extra kitty or pile they were trying to cut taxes and, frankly, in that footrace the Finance Committee has been winning out.

So with all of that loss of revenue, yes, to the body politic, you can give a beer to a man suffering from malnutrition. I know many ill in hospitals over a month's period of time are encouraged to drink a beer to get back, to recover from weight loss. But give an alcoholic a beer and you have given him poison.

At this particular time an across-the-board tax cut amounts to economic poison, more of the same.

We need the vitamins, the minerals, the revenues at this particular point so that we can get this body upright again and then, once recovered, surely go on a diet, cut it back across the board. The very size of Government has become oppressive. But unless it is addressed in that particular fashion, Mr. President, it cannot work. Who said so? Mr. President, Otto Eckstein came before the committee, and where I referred to the quiet lockjaw of the business community and leadership in this country, there have been some economists and leaders who have spoken out.

Otto Eckstein said:

But on the President's schedule there will always be an increment of fiscal stimulus to boost nominal demand and that factor will make the inflation worse. On a net basis, one cannot escape the conclusion, if one believes in the relationships that have governed our economy in the past, that the net effect of the President's program on the President's schedule is to make the inflation rate worse.

And that is what we are reading every day in the morning headlines.

The answer to the problem is simple enough. The Congress must stretch out the tax cuts to a schedule that will take the stimulus out of the fiscal policy.

He speaks of budget deficits. I can go quickly, because I understand now that my colleagues want to terminate the debate and go to a vote.

Mr. Chimerine, the chief economist for Chase Econometrics said:

First, I do not believe that a full implementation of all the recommendations would lead to a reduction in inflation and acceleration of real economic activity to the degree forecast by the administration. Second, the budget is not likely to be balanced at any time during the next several years and extremely large deficits are very probable.

Finally, Mr. President—and I have many others—but due to the press of time, I will quote from Herbert Stein, the Chairman of the Council of Economic Advisers for both President Nixon and President Ford.

My judgment is that if we are to balance the budget by 1984, the amount of tax cuts cannot exceed the amounts by which non-defense expenditures are actually cut below the Carter budget.

Now this is what we are doing. We are exceeding it. There is no plan to take care of it. There is no alternative on the floor.

We sincerely present this one in the light of trying not to thwart, frustrate or eliminate President Reagan's economic recovery, but, on the contrary, to have it succeed.

Mr. President, I ask unanimous consent to have printed in the RECORD a "Dear Colleague" letter signed by me and dated July 20, 1981, and also an editorial form the Washington Post today entitled "Cutting Loose on Taxes."

There being no objection, the material was ordered to be printed in the RECORD, as follows:

COMMITTEE ON THE BUDGET,

Washington, D.C., July 20, 1981.

DEAR COLLEAGUE: When does a tax cut amount to a tax increase? When the system

is so saturated with deficits and high inflation that another revenue loss means a bigger deficit, more inflation. This causes the ratcheting effect that puts people into higher tax brackets and brings millions on the tax-paying rolls for the first time. Taxes are not being increased by a new law. Taxes are being increased by a fiscal policy of deficit spending caused by tax cuts.

Ordinarily, a cool beer in this 95-degree heat would be refreshing. But give a beer to an alcoholic and you are giving him poison. A sweet to an ordinary individual is considered a dessert, but to a diabetic it is poison. The American body politic has grown fat. It suffers from the diabetes of deficit spending; it is drunk from tax cuts. Through the '50's and '60's, the body stayed relatively healthy. For the entire twenty-year period, there was only a \$74.7 billion deficit. But for the last ten years, the cumulative deficit exceeds \$400 billion. We had a balanced budget and surplus in Fiscal 1969, but there have been seven tax cuts since that time and a loss of revenue of \$731 billion. These deficits have required government to be constantly in the financial markets borrowing money to pay for the deficit—thereby increasing inflation and increasing the rate of interest. While inflation will give the government a windfall of \$70 billion in additional tax revenues this year, federal programs indexed for inflation and higher interest costs will cost the government \$83.1 billion. Instead of becoming refreshed from the cool beer of inflation, we are getting drunker. It is actually costing us more money. We try to adjust programs for inflation, but we keep running bigger deficits. The Congress is caught up. More inflation, higher taxes, bigger deficits, more inflation, higher taxes, bigger deficits.

The only way to reduce taxes in this vicious cycle is first to reduce spending and the deficits. Tax revenue is to the body politic as food is to the human body. You can't cut it below the basic necessity level and expect to maintain your health. With deficits it has been cut below basic health needs for ten years and the first order of business is to stop the deficits. The tax bill before the Senate guarantees a \$30 billion deficit in '82, a \$60 billion deficit in '83 and a \$60 billion deficit in '84. The body politic needs drying out for a couple of years before it takes another drink of across-the-board tax cuts. It needs now the vitamins and minerals necessary to stimulate productivity and savings. The Finance Committee's provisions on depreciation allowance, capital gains, overseas earnings, marriage tax penalty and a savings certificate will do just that, at a cost of \$12 billion in 1982 rather than \$40 billion. Then, beginning in January of 1983, a 10 percent individual income tax cut across-the-board targeted to those below the \$50,000 income level can be provided. This phased-in approach will produce a \$35 billion deficit in '82 and a balanced budget by 1984. President Reagan says adopt his program or submit an alternative. This is the only alternative presented that guarantees productivity, savings, a balanced budget, and lower interest rates.

Sincerely,

ERNEST F. HOLLINGS.

CUTTING LOOSE ON TAXES

Of all the congressional decisions being made in haste this historic July, none is likely to be more regretted in the leisure of future years than a decision to build automatic inflation-linked cuts into the income tax system. The Senate has already voted to adopt such provisions, and sentiment is building in the House for a similar measure.

Experience over the past several years has provided ample evidence of the dangers of building self-triggering inflation adjust-

ments into anything—social insurance programs, wage settlements or, specifically, tax systems. Some of the problems are technical—which index to use, for example. The Consumer Price Index is a useful statistical standard, but it was not designed to provide a measure of the actual cost-of-living for the purposes of any particular government policy. The CPI has been justly criticized for exaggerating the effect of inflation on Social Security and other indexed programs. Yet this is the index the Senate now proposes to use in adjusting tax brackets and other features of the system to keep inflation from increasing tax burdens.

Choosing the right index is just one of many technical difficulties. Mistakes made in 1972 when inflation adjustments were built into Social Security have added substantially to that program's financial troubles and are still not fully corrected. Yet indexing the Social Security system seems simple compared with the task of correctly adjusting all the dimensions of the tax system—and foreseeing all the consequences of these adjustments.

Still more serious is the loss of fiscal control that tax indexing entails. The notion that Congress has been fanning inflation to generate revenues for a spending spree is sheer nonsense. As Sen. Ernest Hollings pointed out on the opposite page last Sunday, inflation-driven increases in taxes have lagged well behind the corresponding increases in those parts of the budget that are explicitly or implicitly linked to the price level. Congress has shown itself fully capable over the last decades of legislating tax cuts sufficient to offset "bracket creep." What recent Congresses have not mustered the courage for is voting income tax increases when they are needed to cover unanticipated surges in government requirements.

Several states already have some inflation-proofing built into their income taxes, though not, typically, a full CPI adjustment. Colorado, where the economy has remained relatively strong, is enthusiastic. Other states, like Minnesota, however, have come to realize that there is no guarantee that the price of essential government services will move in lockstep with the CPI. The federal government, with its heavy commitment to defense, an expenditure that consistently outpaces the general price level and its large indexed social programs, is still more vulnerable. Suppose, for example, that an OPEC oil price rise jerks the CPI upward, pushes the cost of military obligations still higher and triggers a cut in taxes—all of this becoming apparent in the fall of the one out of two years with an election. What would happen? Further cuts in the non-indexed parts of the budget might be rushed through, but a bigger deficit is a much better bet.

Legislating a massive three-year tax cut in an economy as uncertain as the present one is folly enough. Sharply limiting the freedom of future Congresses to deal with whatever failures of current policy or unforeseen shifts may emerge is mid-summer madness.

Mr. DOLE. Mr. President, I thank the distinguished Senator from South Carolina. I know his proposal is presented in the utmost good faith. I am certain the Senator from South Carolina believes that he has a better plan.

The only problem is that we are supporting the President's plan and the President believes he has a better plan. But the Senator prefers his alternative to that reported by the Senate Finance Committee.

As I indicated earlier, the Senator from South Carolina, Senator HOLLINGS, and the Senator from New Mexico, Senator DOMENICI, have had an impact on the shape of the bill reported by the Senate Finance Committee. We did not do as much, or as little, I guess, depending on your point of view, as the Senator from South Carolina. He would pare back our bill, the cost of it, by eliminating provisions for a credit for royalty owners and to phase down the tax on new oil.

I think there is a lot of misunderstanding about royalty owners. Maybe in States where there is not too much production, there is an even greater misunderstanding. But I would only suggest that when we passed the windfall profit tax, few royalty owners in this country knew they were going to be involved, because President Carter always used to talk about big oil and the ripoff by big oil.

Naturally, somebody out there in the State of Kansas or the State of Louisiana or the State of Montana, or wherever, who was getting a little check for \$100 or \$200 a month, did not think the President was talking about them. Suddenly they were hit with a tax of about 36 percent.

The Senator from Kansas went to Oklahoma with the Senator from Oklahoma, Senator BOREN. We had a public hearing and about 1,800 people showed up. We asked in that audience that day how many were retired and how many were landowners and how many were royalty owners. We found, much to our surprise, that a great many in that audience were retired. They depended on these small royalty checks for their livelihood.

We also had hearings in Kansas. Senator BENTSEN had a hearing in Texas. I am certain there were hearings in other States that I may not be aware of.

We believe the royalty owner credit is a good provision. Because of the concern expressed by royalty owners, we did, as a part of the reconciliation bill last year—and I might add, with the support of President Carter and also candidate Reagan—provide for a \$1,000 credit for royalty owners. We have increased that to \$2,500, which means, in effect, that somebody with about a \$7,500 royalty income, which is not big oil and a great deal of money, would not pay a tax. Above that, they would pay the normal windfall profit tax. So that may be one small part of it. There are only 2 million royalty owners in America. But, for the most part, we believe they deserve our consideration.

We have had debates on new oil. The provision in the Senate Finance Committee bill is a very modest one. It phases out the new oil rate from 30 percent to 15 percent over a period of 4 years, commencing in 1983. So it is not a big provision, not a very costly provision. We believe it provides some incentive for more production and that there would be a production response.

But, beyond that, as I understand the Senator's amendment, it provides rate cuts for only 1 year, as far as individuals are concerned, and that is in the amount of 10 percent in 1983. These

would not be across-the-board rate cuts. So there are major differences between the Hollings proposal and the proposal that the Senate Finance Committee reported, a proposal also supported by the President.

Finally, I would say the debate for the most part has been helpful. This Senator cannot support this rather radical modification. It would take care of business taxes. We have taken care of lowering the rate from 40 to 50 percent of the unearned rate in the Senator's amendment. But somewhere along the line we forgot about the individual taxpayer who is being boosted into higher brackets right down the line.

As the Senator properly indicated, there have been several tax cuts since 1972. That has just kept most Americans up with inflation, although not all of them. It is our belief that the 5-10-10 proposal of the President is, in this case, a better proposal.

Now, history will judge whether or not the President was correct and those of us who supported his view were justified or whether the Senator from South Carolina and others who have spoken for his approach were correct.

But I believe we are on the right track. I doubt that this amendment will be adopted. That does not mean it does not have a great deal of merit. I just hope it does not have enough merit to be adopted.

I am happy to yield to the Senator from Louisiana.

The PRESIDING OFFICER. The Senator from Louisiana.

Mr. LONG. Will the Senator tell me what this amendment would do as far as an ordinary family is concerned—the salt of the Earth kind of family, where a man is the breadwinner for the family and the wife stays home and does the housework and looks after the children? Let us say for an ordinary family making anywhere from \$15,000 to \$25,000 a year, what would the significance of this amendment mean as far as that ordinary, middle-income family is concerned? How would they make out under the amendment of the Senator from South Carolina? What difference would it make as far as they are concerned?

Mr. DOLE. In the bill we have for individuals there is about \$26.6 billion in revenue in 1981. In Senator HOLLINGS' package, the figures I have, as far as individuals are concerned, there would not be any tax relief, so it would not be very difficult to compute.

Mr. LONG. Mr. President, may I say to the Senator from Kansas. I recall how, after we passed the windfall profit tax, I went back to Louisiana and I did not have any complaints from the big oil companies; they all understood about it. But, as the Senator from Kansas himself has predicted, I had all kinds of problems explaining this matter to old people, widowed women, and goodness knows how many other small landowners, about the windfall profit tax on their little bit of oil royalty.

So much so, that I will say here that if the Senator from Louisiana had known how that windfall profit tax had affected these small royalty owners, I would certainly have tried to prevent the



problem from happening. I am not talking facetiously. I am talking about widows and the small royalty owners affected by the windfall profit tax bill. We did not have them in mind when we enacted that. I came back here anxiously seeking to find some way to find relief for those worthy people, the small landowners, farmers or aged people, widows who had children to support.

As much as I was distressed about that, I know I would be even more distressed if this Senator went back to Louisiana and talked about the biggest tax cut in history for which I had voted and found that we left out all the middle-income people, these families making \$15,000, \$20,000, or \$25,000, a man, his wife and two children.

The Senator might be able to go somewhere and explain to those people that this was a productivity bill and there was no place in it for them. I think it would be hard to explain. I would hate to have the job of going to a union hall and explain to the union members that we thought it was a good job to cut the taxes for those who are doing well from 70 percent to 50 percent that we thought it was good to cut the taxes for corporations, giving them enormous savings. But someone would ask, "What about me? Why did you leave me out?"

How does the Senator feel the average labor union member would feel about it when you explained, "We thought it better that you not get the tax cut?"

I would hate to have to explain the consequences of an amendment that would leave out middle America.

I say to the Senator from Kansas that the Senator from Louisiana has had the privilege of managing a big tax cut bill on occasion, but I cannot recall when we left out the working man and woman, when we cut the taxes for big business and wealthy people. I say it would be very difficult to explain and I would not want to explain it to the rank and file of people.

A rich man might go along with that, but I say it would be difficult for the ordinary working man, who gets out and earns his money by the sweat of his brow, to understand why we kept him out and provided the tax cut for the corporations and wealthy people.

Can the Senator answer as to how he could explain how that would be a good idea?

Mr. DOLE. I cannot answer that. I only have 5 years left in my term. It would take nearly all of my time to explain that, particularly not to just the middle-income taxpayer but all taxpayers in the first year.

I understand the motive of the Senator from South Carolina in balancing the budget. I do not disagree with that. That is why the Senator from South Carolina knows we tried to hold down the first year and did it rather successfully.

It just seems to me that the Senator from South Carolina and those who support this proposal would be in a better position if they would provide more tax relief to the taxpayers. Big business is going to make out all right. They have a lot of lobbyists in the other room. I do

not care to walk out in that direction. They are going to be all right, but there is nobody here lobbying for the taxpayers except me, I guess, and the Senator from Louisiana.

Mr. LONG. How are we on Capitol Hill to react if the President should veto the bill, sending it back to us? He could say he would object that we did not do anything for middle America. How are we supposed to react to that?

Mr. DOLE. It would be pretty hard to figure that out. I would have to work on that for a while, particularly something like this. But I think we can successfully defeat this effort.

Again, I do not denigrate the effort. I think it is based on the conviction of the Senator from South Carolina that unless we cut the amount of revenue loss we will be in great difficulty. That is his view and the view of many who have spoken.

Many who have spoken are running around with little special-interest amendments they want me to take. I do not know how we can take care of all those people and not the taxpayers. What about the taxpayers, the people who are working for wages? I have not seen them running around saying "Take care of these taxpayers." They want to cut them out in 1982 and make room for more special amendments.

That is not the view of the Senator from South Carolina. Do not misunderstand me.

I have listened to some stand up with these great speeches about the taxpayer. I am reminded of what they have been telling me about their little amendments, to take care of this, to shelter this or shelter that. It is difficult to understand.

Mr. LONG. Will the Senator yield further?

Mr. DOLE. Yes, I am happy to yield.

Mr. LONG. I can understand how the Senator from South Carolina can make an attack on the people in the oil business. It sounds good, I am sure, to a lot of people in South Carolina. But Louisiana has a lot of people who produce oil and gas. The Senator from Louisiana has no apologies to make. He voted for what he thought was the prevailing view in the State of Louisiana. He did vote to give the oil and gas producers a reduction in the windfall profit tax.

Having done that, can the Senator explain to me how those of us who voted to give the oil and gas fraternity a break in this tax can go back and say, "Yes, we did help the oil and gas people get more of a tax break than proposed by the committee and we also voted to take out of here what there was to give a break to the middle-income people."

Mr. DOLE. I can give the Senator an answer but maybe not an explanation. I have not had this job very long and I understand there are only 90 amendments left. We just counted them. If they are all like this one, we will be all right, because this will be defeated. But there may be one or two which will creep through.

Possibly this amendment would save a lot of money. If we adopted this, we could take the other 90 and that would shorten the time. Instead of voting next

Tuesday on this bill maybe we could vote on it tonight.

I was here when Senator BIDEN was speaking. I cannot recall what he said, but it was fairly partisan. I cannot believe that coming from Senator BIDEN, but it had sort of a partisan overtone, indicating how this country has gone to the dogs in just 6 months with Reagan in the White House. That is pretty fast. There are a lot of people in this country. To pull them all down that quickly I think may be a tribute to the President.

I do not know where Senator BIDEN was the past 4 years. I would just say that I cannot recall in history a previous time when a President has come to this town and said to the Congress, "You have to cut spending."

Some of us have voted for that policy, including the Senator from South Carolina. I might add.

The President also says, "We have to cut taxes. People are paying too much taxes."

If that is bad policy, to cut Federal spending, cut taxes, cut regulations, and try to do something with the economy to bring down inflation, then the President is on the wrong track. But I have to believe that the American people by and large support the President. They know he cannot turn this economy around overnight. But they know he could do it a lot quicker if we could get on with our business and pass this tax reduction legislation and pass the spending reductions and get out of here in August.

The best news for the taxpayers that I can think of would be to approve the tax reduction, pass the spending reduction, and not meet during the month of August. If Congress was not here for 30 days, that would be good news for the American taxpayer. When we are not here, we cannot do anything except make speeches and they do not cost as much as some of the other things we do.

I salute the Senator from South Carolina, but I want to share the views expressed by my distinguished friend from Louisiana. I am not ashamed to stand up here and represent the people of my State. Some of them are in the oil business. If it were up to the Senators from South Carolina and Connecticut, we might freeze, but we would put the oil industry out of business. "Throw me down a blanket. It is getting cold in here."

That might be all right, to go after the oil industry, particularly the small producers, the independents, the little royalty owners.

Maybe we have not looked at timber enough in this bill. Maybe there ought to be a windfall profit tax on timber or minerals.

By and large, we are moving ahead. I do not want to delay and clutter the debate with facts. I am prepared to vote.

Mr. HOLLINGS. Mr. President, I am also prepared to vote. I wish we did have time to hear the Senator from Louisiana and the Senator from Kansas describe their handiwork. We took it from the Finance Committee. I am sure it is copied very carefully. When we take care of the marriage penalty, overseas earnings all-savers certificates, the very same depre-

clation allowance, the same investment credit, then they say we cut out the individuals to take care of special interests.

Now we have the principal portion of the incentive—they describe it as incentive—but when it appears in my bill it is special interests. They say we just gave it to the wealthy people. All of a sudden it is just wealthy people and special interests, but only when it appears in the amendment of the Senator from South Carolina.

It is remarkable to hear them palaver along about the ordinary family, the salt-of-the-earth family, the wife that stays home and looks after the children. What would we tell them? We would tell them to stop picking their pockets with inflation and deficit financing; we are going to get the Government in the black; we are going to pay the bills like the ordinary family, the salt of the earth.

We are going to do like you, ordinary family. That is what this amendment is intended to do.

They have heard all that other political talk with all those other tax bills, about the little people. The little people are tired of being taken care of. They are being taken to the cleaners. This is an approach that even that ordinary family can understand and they are willing to forgo.

You can take any poll of the ordinary family. The wealthy, it is said, we got the wealthy in here. I thought I left out the wealthy when I left out the windfall profit tax provisions.

That was intentional, to leave out the wealthy. I thought when we got married couples, it meant just that: ordinary married couples that needed to work.

Mr. DOLE. Mr. President, I think we have had enough good debate on this amendment. Whatever happens, maybe it can be offered again next year, if it does not succeed this year. If it succeeds, I shall offer the President's proposal next year.

Again, Mr. President, I want to make certain that the record reflects my respect for the Senator from South Carolina. We have a different view on this proposal. I know that both the Senator and the Senator from New Mexico (Mr. DOMENICI) have been cautioning us as leading members of the Budget Committee that more or less controls whatever else the rest of us do. I mean sincerely that it has had an impact on some of the things we have not done.

That is why we kept that royalty credit small; that is why we did not do much in other areas that may be more than some would like. But there are a number of good provisions in the Senator's proposal. Reducing that top rate from 70 to 50 percent, I think, is good. The so-called marriage penalty reduction is good. That was done in our bill. There are a number of other areas that I think we see pretty much alike on.

I think the one big difference is that we would not make the average taxpayer wait a year for a little relief. I think it is going to be difficult to explain why you are going to give business a pretty substantial cut and not the working people.

On that basis, I hope the amendment will be defeated.

Mr. LONG. Mr. President, the Senator from South Carolina says that he would keep the part the committee recommended with regard to the marriage penalty. That would help with regard to middle-income families, where both the husband and wife are working, or upper-income families where both the husband and wife are working. But his amendment would strike out of the bill the provisions for all these other married couples where only one of the two is working and earning income for the family. They would get no relief.

Mr. President, I have supported this bill and I shall vote for it. I have supported other bills that did a great deal for business. I suspect this bill will do as much to help big business and business in general as any bill that has ever passed in the U.S. Senate or through the Congress. But I would be embarrassed, Mr. President, to go back and report that even though the Republican Party and a Republican President strongly recommended that we do something for middle America, I participated with a group that proceeded to strike from the bill that which would benefit the rank-and-file working people in this country.

Some have contended that they do not receive enough benefit, they do not get enough of a break out of this bill. I would hate to think, Mr. President, if Senators feel that way, that they would proceed to strike out of this bill what the working people would get. I think this is a good bill, a well-balanced bill. It will benefit the economy, and I hope it will benefit every taxpayer. I hope the amendment will not carry. I think the many people of middle America are disadvantaged by this.

Mr. HOLLINGS. Mr. President, what we give middle America is what we give all America. That is low-interest rates under this amendment.

Mr. LEVIN. Mr. President, I support the amendment offered by Senator HOLLINGS. This amendment is fiscally responsible. It recognizes the fiscal limits before us and the pressing need to reduce interest rates.

If the Senate adopts the individual rate cuts approved by the Finance Committee, we embark on an economic journey in a boat without rudder. Unproven theories underlie the tremendous cut in taxes that will occur under the Finance Committee bill. I believe they will result in more budget cuts, deeper than those already enacted.

Most importantly, this amendment recognizes the devastating impact of interest rates on the economy. We can expect \$60 billion in the 1984 deficit if we do not adopt this amendment. We cannot possibly expect a drop in interest rates if the Federal Government continues to run up deficits of that magnitude. Economic recovery will continue to be elusive, housing construction and auto production will continue to fall prey to tight monetary policy.

I urge my colleagues to support this amendment. It is fiscally responsible and just the tonic for interest rates.●

Mr. METZENBAUM. Vote!

The PRESIDING OFFICER. The question is on agreeing to the amendment. The yeas and nays have been ordered. The clerk will call the roll.

The assistant legislative clerk called the roll.

Mr. BAKER. I announce that the Senator from Maryland (Mr. MATHIAS) and the Senator from Alaska (Mr. STEVENS) are necessarily absent.

Mr. CRANSTON. I announce that the Senator from Texas (Mr. BENTSEN) is necessarily absent.

I further announce that if present and voting, the Senator from Texas (Mr. BENTSEN) would vote "nay."

The PRESIDING OFFICER (Mr. HAYAKAWA). Are there any other Senators in the Chamber wishing to vote?

The result was announced—yeas 26, nays 71, as follows:

[Rollcall Vote No. 211 Leg.]

YEAS—26

Biden	Ford	Levin
Bradley	Glenn	Matsunaga
Bumpers	Hart	Metzenbaum
Byrd, Robert C.	Hollings	Nunn
Chiles	Huddleston	Pell
Cranston	Inouye	Randolph
Dodd	Jackson	Tsongas
Eagleton	Kennedy	Williams
Exon	Leahy	

NAYS—71

Abdnor	Goldwater	Nickles
Andrews	Gorton	Packwood
Armstrong	Grassley	Percy
Baker	Hatch	Pressler
Baucus	Hatfield	Proxmire
Boren	Hawkins	Pryor
Boschwitz	Hayakawa	Quayle
Burdick	Hefflin	Riegle
Byrd,	Heinz	Roth
Harry F., Jr.	Heins	Rudman
Cannon	Humphrey	Sarbanes
Chafee	Jepsen	Sasser
Cochran	Johnston	Schmitt
Cohen	Kassebaum	Simpson
D'Amato	Kasten	Specter
Danforth	Laxalt	Stafford
DeConcini	Long	Stennis
Denton	Lugar	Symms
Dixon	Mattingly	Thurmond
Dole	McClure	Tower
Domenici	Melcher	Wallop
Durenberger	Mitchell	Warner
East	Moynihan	Welcker
Garn	Murkowski	Zorinsky

NOT VOTING—3

Bentsen	Mathias	Stevens
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So the amendment of the Senator from South Carolina (UP 259) was rejected.

Mr. DOLE. Mr. President, I move to reconsider the vote by which the amendment was rejected.

Mr. DOMENICI. Mr. President, I move to lay that motion on the table.

The motion to lay on the table was agreed to.

Mr. HARRY F. BYRD, JR. Mr. President, I wish to send an amendment to the desk and ask for its immediate consideration.

The PRESIDING OFFICER. I wish to remind the Senator from Virginia that amendment No. 509 and amendment No. 510 are the pending questions. It will take unanimous consent to take up another amendment on top of that.

Mr. DOLE. Mr. President, what is the pending business?

The PRESIDING OFFICER. The pending question is Senator DOLE's amendment No. 509.

Mr. DOLE. Mr. President, I ask unanimous consent that it be temporarily laid



aside so we may take up a technical amendment which I think has been cleared on both sides. The distinguished Senator from Virginia has cleared it with Senator LONG, myself, and Senator METZENBAUM. There is no revenue loss. The PRESIDING OFFICER. Is there objection?

Mr. KENNEDY. I object.

The PRESIDING OFFICER. Objection is heard.

Mr. KENNEDY. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. DOLE. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER (Mr. HAYAKAWA). Without objection, it is so ordered.

Mr. DOLE. Mr. President, the pending business is the Dole amendment?

The PRESIDING OFFICER. Is the Dole amendment No. 509?

Mr. DOLE. Mr. President, may we have order?

The PRESIDING OFFICER. The Senate will be in order.

Following that is amendment No. 510.

Mr. DOLE. Mr. President, there is a technical amendment I think we can dispose of, and on that basis I ask unanimous consent that we temporarily lay aside the pending amendment and permit Senator BYRD of Virginia to bring up his amendment which has been cleared by both sides and the "special administrator" Senator METZENBAUM.

The PRESIDING OFFICER. Without objection, it is so ordered.

#### UP AMENDMENT NO. 260

(Purpose: To permit successive income beneficiaries in a qualified Subchapter S trust)

Mr. HARRY F. BYRD, JR. Mr. President, I send an amendment to the desk and ask for its immediate consideration.

The PRESIDING OFFICER. The clerk will report.

The legislative clerk read as follows:

The Senator from Virginia (Mr. HARRY F. BYRD, JR.) proposes an unprinted amendment numbered 260.

Mr. HARRY F. BYRD, JR. Mr. President, I ask unanimous consent that further reading of the amendment be dispensed with.

The PRESIDING OFFICER. Without objection, it is so ordered.

The amendment is as follows:

On page 147, line 25, strike the word "and".  
On page 148, before line 1, insert the following new subsection:

"(ii) separately with respect to each successive income beneficiary of the trust, and"

On page 148, line 1, renumber subsection (ii) to be subsection (iii).

On page 148, beginning with line 14, strike through page 149, line 4, and insert the following in lieu thereof:

"(B) all of the income of which is distributed currently to one individual who is a citizen or resident of the United States, and

"(C) the terms of which require that—

"(1) at any time, there shall be only one income beneficiary of the trust,

"(ii) any corpus distributed during the term of the trust may be distributed only to the current income beneficiary thereof,

"(iii) each income interest in the trust shall terminate on the earlier of the death of the income beneficiary or the termination of the trust, and

"(iv) upon the termination of an income interest in the trust during the life of an income beneficiary, the trust shall distribute all of its assets to such income beneficiary."

On page 149, line 5, strike the words "(4) Special Rules. —"

On page 149, line 6, renumber subparagraph (A) to be paragraph (4).

On page 149, beginning with line 12, strike through page 149, line 17.

Mr. HARRY F. BYRD, JR. Mr. President, so far as I know there is no opposition to this amendment. It is a technical amendment.

Currently, only in very limited circumstances can a trust hold subchapter S stock without terminating the corporation's subchapter S status.

These requirements are unduly restrictive in view of the fact that trusts may hold other corporate stock or a partnership interest. And, a partnership is very similar, for tax purposes, to a subchapter S corporation.

The Finance Committee recognized this problem and agreed that certain simple trusts should be permitted to hold subchapter S stock.

In attempting to convert the Finance Committee decision into specific statutory language, the language did not cover the full intent of the committee. This amendment would better implement the objective of permitting simple trusts to qualify. To qualify for subchapter S status, a trust can have only one beneficiary at a time, but could have a succeeding beneficiary or beneficiaries, following the death of the earlier one or ones. It would require, too, that where there is a succeeding beneficiary each successive beneficiary would be required to make the election specified in the committee bill.

The amendment permits a trust which, in fact, distributes income currently to a single income beneficiary to be qualified to hold subchapter S stock, even if it was not technically a simple trust.

The amendment and the decisions of the Senate Finance Committee are intended to facilitate trust ownership of subchapter S stock and provide more flexibility in the use of the stock.

In this regard, a trust which qualified for a current income beneficiary would not lose its qualification, as to the current income beneficiary, if, for subsequent beneficiaries, it ceases to qualify. In dealing with trusts which terminate at the death of the beneficiary, it is not intended that the subchapter S qualification will be defeated by the temporary continuation of the trust during the time reasonably necessary to complete the distribution of the trust assets.

This amendment does not change the basic subchapter S rules.

The Department of the Treasury does not oppose the amendment and the amendment was developed in close consultation with the Department of the Treasury.

There is negligible revenue loss associated with the amendment.

I have discussed this with the Senator from Ohio (Mr. METZENBAUM) and he has no objection.

Mr. KENNEDY. Mr. President, if the Senator will yield for a question—

Mr. HARRY F. BYRD, JR. Yes, I yield.

Mr. KENNEDY. Do I understand correctly that there is no revenue loss?

Mr. HARRY F. BYRD, JR. It is described as being negligible, minimal.

Mr. KENNEDY. Negligible? Is there any approximation of what it is?

Mr. HARRY F. BYRD, JR. Less than \$5 million.

Mr. KENNEDY. I see.

Are there any particular individuals who would benefit, or is it just a general purpose—

Mr. HARRY F. BYRD, JR. It is general purpose.

Mr. KENNEDY. I thank the Senator.

Mr. DOLE. Mr. President, I might say, in response to the question of the Senator from Massachusetts, the Joint Tax Committee advises me it is too small to estimate the loss, so it is negligible.

We are prepared to accept the amendment. I think the distinguished Senator from Louisiana is willing to accept the amendment.

Mr. HARRY F. BYRD, JR. I move the adoption of the amendment.

The PRESIDING OFFICER. The question is on agreeing to the amendment of the Senator from Virginia (putting the question).

Mr. HARRY F. BYRD, JR.'s amendment (UP No. 260) was agreed to.

Mr. DOLE. Mr. President, I move to reconsider the vote by which the amendment was agreed to.

Mr. HARRY F. BYRD, JR. I move to lay that motion on the table.

The motion to lay on the table was agreed to.

Mr. BAKER addressed the Chair.

The PRESIDING OFFICER. The Senator from Tennessee.

Mr. BAKER. Mr. President, will the distinguished manager of the bill permit me to make a brief statement at this point?

Mr. DOLE. Yes, I will yield to the majority leader.

Mr. BAKER. Mr. President, during much of the day today there has been an effort to negotiate arrangements for the final disposition of the measure before the Senate. I think we are very close to a time when I can propound a unanimous-consent request. We are not quite there yet. We are going over final details.

I wish to advise Senators that we are preparing to do that and hope to be able to make such a request within the next 10 minutes or so.

Mr. President, for the moment, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. BAKER. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

#### UNANIMOUS-CONSENT AGREEMENT

Mr. BAKER. Mr. President, if I may have the attention of the Senators, I intend in a moment to offer a unanimous-consent request that has been worked

out by many Senators, and it will provide for final disposition of this measure. I ask Senators to give me their attention while I propound this request.

Before I do so, Mr. President, let me say that if this request is granted, two things will occur that the Senate should be aware of as it considers the request.

The first is that the pending amendment by the distinguished Senator from Kansas and the second-degree amendment to it by the distinguished Senator from New Mexico will be withdrawn, assuming that the unanimous-consent request is granted.

Mr. STENNIS. Mr. President, will the Chair maintain order? This is a serious and grave matter, and we cannot hear.

The PRESIDING OFFICER. The Senate will be in order.

Mr. BAKER. Mr. President, I repeat: If the request I am about to make is granted, it is my understanding that the Senator from Kansas will ask unanimous consent to withdraw his underlying first-degree amendment, which will take with it the second-degree amendment of the Senator from New Mexico. Since the request I am about to make provides for a time certain for reaching third reading of this measure, I will propose, after the granting of this request, to vitiate the order for the Senate to convene on Saturday.

With those two matters, I should like to make this request:

Mr. President. I ask unanimous consent that the following time limitations be ordered with respect to certain amendments to the committee amendment on House Joint Resolution 266: 30 minutes on each amendment, equally divided, to be controlled as to time in the usual form, except for those amendments contained in the attached list, consisting of 92 amendments.

I may say, parenthetically, that on that list are a number of amendments on which there are 1-hour limitations, equally divided; 30-minute limitations, equally divided; and in some cases, notations that no time is requested at all or no rollcall will be required.

I further ask unanimous consent that a time limitation of 6 hours be imposed on the bill, that this agreement be in the usual form as to the division of time.

Parenthetically, once more, the 6 hours will be under the control, under this formulation, of the distinguished chairman of the committee and the distinguished ranking minority member. They would have 3 hours each. They could yield time on any other amendment from the bill, by this provision. They will have the time under their control for whatever purpose they wish.

I further ask unanimous consent that these first-degree amendments which are listed and the committee substitute as amended be the only amendments in order on this bill: that following the disposition thereof, the bill be taken through the stage of third reading, with third reading to occur no later than 4 p.m. on Wednesday, July 29, 1981, to the exclusion of further debate, but not to the consideration of these amendments; that no further debate, point of order, or appeal in regard to the joint resolution be

in order thereafter; that the joint resolution then be returned to the calendar, and that no motion in respect thereto be in order except for a nondebatable motion to proceed to its consideration.

Mr. President, before the Chair puts the request, let me say that the net effect of this is as follows:

First, we will now know what amendments are to be dealt with to the exclusion of every other amendment.

Second, there will be no second-degree amendments, only first-degree amendments, as shown on the list attached to the request, which I will supply to the clerk.

Third, time limitations will be imposed according to the list, and in the absence of a notation on the list, a time limitation of 30 minutes, to be equally divided, shall apply.

Next, that we will reach third reading on this joint resolution not later than 4 p.m. on Wednesday, July 29; that at that time, if we have not disposed of the amendments which are listed under this formulation, Senators will be entitled to call up those amendments for votes, notwithstanding the 4 p.m. time, as has been the case and the practice of the Senate in previous situations.

Mr. President, it also means that we would not proceed to final passage of this joint resolution but, rather, to third reading. It is fully anticipated that if we do this and if the House acts as I expect it to and sends us a House-passed measure, we will meet that bill in the usual form and move to amend or accept that bill, as the Senate has done previously under the rules, and perhaps ask for a conference and appoint conferees.

Mr. LONG. Mr. President, reserving the right to object, does the Senator have my name on the list? I have an amendment at the desk. Am I included in the list?

Mr. BAKER. That is off to a bad start, Mr. President, because I have the Democratic list here, and I do not observe the name of the distinguished Senator from Louisiana.

Mr. LONG. Please add my name. I have an amendment at the desk. It is about depreciation. It is an amendment relating to expense and depreciation. It is at the desk.

Mr. BAKER. I add that to the list, Mr. President.

Mr. KENNEDY. Mr. President, reserving the right to object, as I understand it, the Dole and Domenici amendments would be withdrawn. Second, that no further amendments would be offered to reduce the windfall profit tax, and no further amendments would be offered providing any other tax relief for the oil industry; that none of the other amendments on the list deals with proposed lower taxes for oil; or, if they do, then the amendments would be out of order.

Mr. DOLE. That is with the understanding—before I agree to any unanimous-consent request—that we change the effective date on the action taken by the Finance Committee to make it effective in 1982 and phase down the tax on new oil from 25 to 15 percent in 1984.

Mr. KENNEDY. With that exception, it is my understanding.

Mr. DOLE. That is my understanding, unless somebody misspelled "oil" in the lists.

Mr. KENNEDY. It comes in various forms and shapes.

May I have confirmation from the leader? Is my understanding correct?

Mr. BAKER. Yes. That is my understanding.

Mr. DOLE. There is an excise tax to be offered by the other side.

Mr. KENNEDY. That will raise taxes. I have no objection.

Mr. HEINZ. Mr. President, reserving the right to object.

The PRESIDING OFFICER. The Senator from Louisiana.

Mr. JOHNSTON. Mr. President, reserving the right to object, the pending business prior to going to the tax joint resolution was the Department of Justice authorization bill. There was pending to that the so-called Johnston-Helms amendment and a cloture motion had been filed on that.

As I understand it, under the rules of the Senate, a vote will occur automatically or should I say the call for the live quorum will occur automatically upon the disposition of the tax joint resolution and that would follow immediately.

I ask the majority leader under this unanimous consent request at what point will he proceed to the live quorum and the vote on the cloture motion?

Mr. BAKER. Mr. President, I have to confess to my friend from Louisiana I have not focused on that. I assume that we will reach the Department of Justice authorization bill sometime shortly after we dispose of this measure.

I point out to my friend from Louisiana, however, that we are going to third reading and I assume as well that the House of Representatives will send us a bill which will complete action. After that, there is no doubt that absent unanimous consent we will proceed again to DOJ and his cloture motion will be eligible.

I do not want to mislead the Senator. By going to third reading, if the House of Representatives for some reason does not send us the bill and we take up this joint resolution once more from the calendar and act on it, we will not have completed action on it.

Mr. JOHNSTON. As I understand it, under the present situation, once we dispose of the tax joint resolution, then we go immediately back to the cloture vote.

Mr. BAKER. Yes, that is my understanding also.

Mr. JOHNSTON. What happens under the unanimous-consent? We go to third reading and then do we immediately at that point go into the 6 hours of debate, or just what do we do?

Mr. BAKER. The 6 hours is on the joint resolution itself and it would be in advance of the time for third reading. At the time we reach third reading we will vote on any amendment that is then pending, or any amendments that have not been disposed of, and then the joint resolution will automatically go to the calendar under the formulation and remain there until it is motioned up on a



nondebatable motion as provided for in this request.

Mr. JOHNSTON. Under the assumption, and I ask the Parliamentarian, under the present rules immediately when we lay the tax joint resolution aside we would go to that cloture vote. Can I then assume or if I cannot assume will the majority leader ask as part of the unanimous-consent request that we go to that cloture vote immediately upon laying aside this joint resolution?

Mr. BAKER. Mr. President, I am not trying to pull any fast and fancy footwork on this. I really do not think that is necessary. I think that when we reach third reading on this joint resolution on Wednesday, the 29th, there is a good likelihood that that day or the day following the House of Representatives will send us a message embodying their tax bill and that we will immediately motion up the Senate-passed joint resolution for final passage, probably to strike all after the enacting clause of the House-passed bill and insert the Senate language, request a conference, and appoint conferees.

That is my expectation. At that point, it seems to me that there will be no doubt that the DOJ authorization bill will recur and that the vote on cloture which was postponed by the generous consent of the Senator from Louisiana will proceed.

I really have not had a chance to think that through beyond what I just described. But I suggest to the Senator from Louisiana that I do not know of anything else that would interfere.

Mr. ROBERT C. BYRD. Mr. President, will the Senator yield?

Mr. BAKER. Let me yield to the distinguished minority leader, if I may.

Mr. ROBERT C. BYRD. May I suggest to the distinguished majority leader to put a request that will allow for the interruption in the event that there is cloture invoked, put a request that will allow for the interruption of further action under cloture until such time as time or action is taken on this joint resolution or the House bill, as amended, not including conference reports.

Mr. BAKER. The minority leader defines what I am concerned about. I do not want to get into the cloture proceedings and get cloture and be locked out of the final passage on the tax joint resolution.

Mr. JOHNSTON. I obviously do not want that result. I may tell the majority leader the result that I want is a vote at a time when everyone is here and not after everyone has gone home and with a pro forma session of the Senate.

Mr. BAKER. Mr. President, let me put this inquiry to the Chair.

Mr. President, assuming that this request is granted and we proceed to third reading and the joint resolution goes to the calendar as provided in the request, what would then be the pending business before the Senate?

The PRESIDING OFFICER (Mr. LAXALT). That would not be final disposition of the tax joint resolution.

Mr. BAKER. Yes. And final disposition would not occur then until final passage of the tax joint resolution; is that correct?

The PRESIDING OFFICER. The Senator is correct.

Mr. BAKER. Do I understand, then, it is the request of the Senator from Louisiana that we alter the regular order and provide that after we have third reading that we proceed to the DOJ bill?

Mr. JOHNSTON. That is correct, with the condition it be laid aside at any time to come back to the tax joint resolution.

Mr. BAKER. Let me make a counterproposal. That request that was granted earlier with the consent of the Senator from Louisiana and all Senators embraced not only the tax joint resolution but the reconciliation conference report and the tax bill conference report.

If I were to make that request at this time, would the Senator from Louisiana have any objection to me providing that DOJ could be laid aside again on my motion after consulting with the minority leader, without debate, that it can be laid aside at any time at my request after consulting with the minority leader either for the purpose of proceeding to final consideration of the tax joint resolution, the conference report on the tax bill, or the conference report on the reconciliation bill?

Mr. JOHNSTON. I would be perfectly willing, I tell the majority leader, to do that. I ask only that he allow the vote to occur, the vote on cloture, immediately after third reading, which would insure a vote when everyone is here. Then if he wants to lay it aside that is perfectly agreeable.

Mr. MATSUNAGA. Mr. President, reserving the right to object.

Mr. BAKER. Yes.

Mr. MATSUNAGA. May I propound this question to the majority leader?

Of course, according to my calculations here of 92 amendments on the average of 30 minutes each, that would be 2,760 minutes, and then we have at least rollcall votes on 45 of them. That means 245 minutes added. And then we have some with 40 minutes and an hour. Add it up, and it is up to a minimum of 60 hours.

If we were to work 10 hours a day we have 5 days remaining. We will not make it at 4 p.m. Wednesday.

Mr. BAKER. Mr. President, the Senator from Hawaii is, of course, correct and underlying the request is the implication and suggestion that if we are going to finish and still have time to debate these amendments, some of these amendments are going to have to be withdrawn and not offered.

It is my personal estimate that a great number of the 92 amendments will never see the light of day. They will not be called up and offered.

I obviously cannot say how many, but I know of several that will not be offered.

I expect there will be a great number that will not be called up as we proceed with debate on this joint resolution.

Mr. MATSUNAGA. Mr. President, further reserving the right to object, assume that there are still amendments pending at 4 p.m. on Wednesday with time allotted, 30 minutes or 40 minutes. What happens then?

Mr. BAKER. Mr. President, I reply to my friend from Hawaii that at that time under the form of unanimous-consent

request that I have now put we would proceed to vote on all the remaining amendments but without any further debate.

Mr. MATSUNAGA. Despite the fact that we will have an allotted time by this unanimous-consent request?

Mr. BAKER. Yes. That will be correct because otherwise the alternative formulation would be to have a time certain to vote and not provide for any disposition of the amendments, which seems to be an undesirable way to treat it. So I assure the Senator from Hawaii that I will make every effort not only to eliminate amendments that may be offered but to reduce time as well.

I think our prospects are good on both counts. I believe this will work. It certainly will mean that we will have to be in late this evening and other evenings, Monday, and Tuesday, in order to reach third reading with remaining time for debate, but I think it is doable. This has been the subject of conversation and negotiation between literally dozens of Senators during the course of this day, and I think all of us recognize, as does the distinguished Senator from Hawaii, that mathematically and theoretically we are building a trap for ourselves, but I do not believe we are and I think it will work as a practical matter.

Mr. LONG. Mr. President, will the Senator yield at that point?

Mr. MATSUNAGA. I take it that the chairman of the committee will have the power of determining which amendments come first.

Mr. BAKER. Let me say to the Senator from Hawaii that the original draft of this request tried to sequence a number of amendments and then difficulties developed in that respect.

We did not attempt to sequence amendments in this unanimous-consent request. But it is my full intention and, I am sure, the intention of the distinguished managers of the bill and the minority leader to try to accommodate the convenience of Members on both sides by arranging a sequence of amendments to be considered from time to time.

I hope we can always have a backlog of a half-dozen amendments that we know in advance would be dealt with next. So in answer to the Senator from Hawaii I expect that will be taken care of as we reach that point and deal with the bill in an orderly way.

Mr. MATSUNAGA. I withdraw my reservation.

Mr. HEINZ. Mr. President, reserving the right to object, would my understanding be correct that all the amendments on this list, the 92-odd amendments, would be considered germane, and that none of them would be considered vulnerable to a point of order; is that correct?

Mr. DOLE. So far as this Senator is concerned, if they are on the list—

Mr. ROBERT C. BYRD. There is no rule of germaneness invoked.

Mr. BAKER. I do not think that is a problem.

I think only the amendments on the list would be in order. But absent cloture or an agreement that provided for only germane amendments, we would not

have to face that dilemma, and I am not now requesting a germaneness provision.

That was discussed in the several conferences and was not included in this agreement and, perhaps, for the reason implied by the Senator from Pennsylvania.

Mr. HEINZ. I thank the Senator.

Mr. BAKER. Mr. President, let me put another inquiry to the Chair, if I may. We have two conference reports that I trust we will deal with before very long, the reconciliation conference report and presumably a tax bill conference report. The tax bill conference report is self-explanatory. But in the event we receive from the conference a conference report on reconciliation, is my understanding correct that it is a privileged matter and could displace the tax bill for consideration by the Senate at any time?

The PRESIDING OFFICER. The Senator is correct.

Mr. BAKER. Nothing in this proposed request would abrogate any aspect of the privileged character of that conference report?

The PRESIDING OFFICER. That is correct.

Mr. ROBERT C. BYRD. Mr. President, will the Senator yield?

Mr. BAKER. Yes.

Mr. ROBERT C. BYRD. It would only temporarily displace the tax bill.

Mr. BAKER. Yes.

The PRESIDING OFFICER. The Senator is correct.

Mr. BAKER. Now, Mr. President, let me say to the distinguished Senator from Louisiana that one of the many blessings of electronic legislation is that people listen when they are in their offices and away from the floor.

Since we began this colloquy I have had at least one Senator and, perhaps, others by now, who have indicated they would not be willing to agree to a consent order that we proceed to the consideration of DOJ after third reading and final disposition.

Let me urge the Senator from Louisiana, however, to consider not objecting to this request, and I will reiterate the assurance I gave him before, and that is after we do the tax bill and the reconciliation conference report or between those two, if there is time available for that, DOJ will recur, and I will make my best efforts to see that it does recur. But to change this agreement at this time to say it will recur after third reading, before final passage, at least would be objected to by at least one Senator, and I would not be prepared to agree to it at this time.

Mr. JOHNSTON. Mr. President, a point of order. Under the unanimous-consent agreement is it not true that as soon as the tax bill is laid aside, unless the reconciliation bill is brought up, that the vote on the cloture motion occurs immediately after the call for a live quorum?

The PRESIDING OFFICER. The answer is no. The order was final disposition of the tax bill.

Mr. JOHNSTON. Mr. President, a further parliamentary inquiry. Would it be in order to bring up any other matter other than the tax bill, reconciliation, the Department of Justice authorization

after third reading, if the tax bill is laid aside?

The PRESIDING OFFICER. The Chair is advised it does not preclude another matter being brought up.

Mr. BAKER. Mr. President, let me say to the Senator from Louisiana I now have information that the Senator who objected to the order that we are committed to proceed to the cloture vote to occur has withdrawn his objection provided we proceed only to the cloture vote, and provided as well that we do nothing to circumvent our ability to go back to the tax bill or the reconciliation conference report, and also provided that after the cloture vote that we would not be—and that as well, of course, if the conference were to break down on reconciliation that we proceed to the consideration of the House-passed bill, if necessary.

But if the Senator will give me just a moment to decipher the suggestion I received from the Senator, I will see if I can put together language that will do that. It would appear though there will be no objection to going to the cloture vote after we do third reading. There would be objection to proceeding to debate.

Mr. JOHNSTON. That is perfectly suitable to me, and I think the majority leader.

Mr. MATSUNAGA. Mr. President, reserving the right to object, would the Senator be amenable to an amendment to his request which would allow a time limitation of 5 minutes equally divided for those amendments now on the list which will not have been considered at 4 o'clock Wednesday? I think that is a fair request, and that at least the amendment will have been explained to the Members. Otherwise those who vote without any explanation—

Mr. BAKER. Mr. President, let me make a countersuggestion for the consideration of Senators, and particularly with the minority leader with whom I have not discussed this. Did the Senator suggest 5 minutes equally divided?

Mr. MATSUNAGA. That is correct.

Mr. BAKER. Five minutes equally divided, but move the time back from 2 o'clock to 1 o'clock for third reading—I am sorry, it is at 4 o'clock, move it back to 3 o'clock.

Mr. MATSUNAGA. There may not be amendments, but assume from that list there are amendments, because of priority being given to other amendments, which could not be considered. Then those amendments would be put to a vote, perhaps a voice vote or a direct vote, after 5 minutes. Maybe 5 minutes will not be taken up. I do not know, but in fairness to those who will not be able to get their amendments up before 4 o'clock we would have had at least an explanation of the amendment which should be given.

Mr. BAKER. Mr. President, the Senator, as always, is making a worthwhile suggestion.

Would the Senator consider—and once again I repeat I have not consulted with the minority leader on this point—then providing 5 minutes equally divided for debate on amendments which have not been disposed of by 3 o'clock on the 29th, and that we would simply provide that

third reading would be reached at 3 o'clock instead of 4 o'clock, and any amendment that remained would be voted on after 5 minutes of debate, under equal time?

Mr. ROBERT C. BYRD. On each.

Mr. BAKER. Let me make one more suggestion. If we are going to do that I suggest as well that the first vote in such a sequence, if there is such a sequence there, be a 15-minute rollcall and that each succeeding vote be a 10-minute rollcall.

Mr. MATSUNAGA. That would help.

Mr. ROBERT C. BYRD. Mr. President, I think the distinguished Senator from Hawaii has made a good suggestion. I would hope that the majority leader comes in early enough and stays late enough, if it is agreeable to the managers of the bill, so that when we reach that point we will not face that situation, but conceivably we could. I think the suggestion is a good one and I think the request the Senator has proposed protects Senators against that situation, and I would think that the hour by which the final vote on third reading would be moved up would also be a good suggestion.

Mr. BAKER. I thank the Senator.

Mr. KENNEDY. Mr. President, I would just ask whether the Senator from Connecticut has been consulted before any unanimous-consent request relative to the cloture motion.

Mr. BAKER. Mr. President, I can say to the Senator from Massachusetts that I have indeed consulted with the Senator from Connecticut.

Let me now amend my unanimous-consent request, Mr. President. I will restate the request with these revisions:

First, that we proceed to third reading on July 29 at 3 p.m., instead of 4 p.m. Next, that at 3 p.m. on the 29th of July next, any amendments that have not been disposed of would be called up and the time for debate on those amendments would be limited to 5 minutes, equally divided and controlled, and the control will be in the usual form.

I also ask unanimous consent, Mr. President, that after third reading and the bill is returned to the Calendar, that the Senate resume consideration of the Department of Justice authorization bill solely for the purpose of the cloture vote and that after the disposition of the cloture vote the Department of Justice authorization bill will be laid aside temporarily once more; and that nothing in this agreement would jeopardize the consideration of the reconciliation conference report or the tax bill conference report.

Mr. JOHNSTON. Is the Senator asking that it be automatically laid aside or that it is to be laid aside on the motion of the majority leader for the purpose of taking up one of those other matters?

Mr. BAKER. I would be happy to do it that way.

Mr. PACKWOOD addressed the Chair.

The PRESIDING OFFICER. The Senator from Oregon.

Mr. PACKWOOD. Mr. President, I make a request on behalf of Senator ROTH. He had hoped to have on this list a railroad rolling stock amendment upon



which we would have a 5-minute-to-a-side time limitation. It has to do with the investment tax credit on railroads that lease railroad cars.

Mr. BAKER. Mr. President, that is with the 5-minute-time limitation.

Mr. DOLE. Mr. President, I have one late return from Senator Boschwitz, who says he has worked out an amendment with Treasury on the Federal Home Loan Bank Board. I think we can talk him out of this other amendment.

Mr. BAKER. I am prepared now, Mr. President, to add those two amendments to the list.

Is there a time limitation on the Boschwitz amendment?

Mr. DOLE. Let us make it 10 minutes. He is not here.

Mr. BAKER. Ten minutes equally divided.

Mr. President, I also ask unanimous consent that a call for regular order would not bring back the DOJ bill, notwithstanding the provision of this agreement.

Mr. JOHNSTON. Will the Senator repeat that?

Mr. BAKER. Yes. What I have said is, on the DOJ bill, that after we get the third reading and return this bill to the calendar, that the DOJ bill is going to recur as the pending business. We are going to have a cloture vote and, at any time, the majority leader, after consulting with the minority leader, can move to some other measure and displace that and a call for regular order would not then bring back the DOJ bill.

Mr. ROBERT C. BYRD. Mr. President, when the distinguished majority leader says "some other measure," would he confine such measure to reconciliation of the tax bill so it will not embrace anything and everything?

Mr. BAKER. Either of those two measures or House-passed measures in respect to those?

Mr. ROBERT C. BYRD. Yes.

Mr. BAKER. I am happy to do that. Mr. JOHNSTON. And limit it to those?

Mr. BAKER. Yes, and limit it to those.

Mr. PACKWOOD. Mr. President, is there on the Democratic list an amendment of the Senator from Ohio, Senator METZENBAUM, relating to day care?

The PRESIDING OFFICER. We do not have the list.

Mr. ROBERT C. BYRD. It is on the list.

Mr. PACKWOOD. Could I ask unanimous consent to allow a second-degree amendment to that, if he offers it?

Mr. BAKER. Mr. President, let me urge the Senator from Oregon not to offer a second-degree amendment. We have no second-degree amendments on this list. I am sure he could formulate a first-degree amendment.

Mr. PACKWOOD. Yes. But it would be a first-degree amendment as an alternative to his amendment, as I understand his amendment.

Mr. ROBERT C. BYRD. Mr. President, we have the same problem on our side. We convinced the Senator not to press his request. We also convinced him to fashion a first-degree amendment which he can craft.

Mr. BAKER. Mr. President, let me ask the Senator if he would request an addition on the list of a 10-minute time limitation for a first-degree amendment?

Mr. PACKWOOD. I ask for that request relating to day care.

Mr. DOLE. Mr. President, I hope this is a final reservation. As I understand it, if this request is agreed to, then the Senator from Kansas would withdraw the pending amendment and then I would be permitted to send an amendment to the desk which would, as I have indicated to the distinguished Senator from Massachusetts, start the phase in in 1982 at 25 percent, 20 percent in 1983, 15 percent in 1984 and would end in 1984.

Mr. KENNEDY. Mr. President, I understood that the amendment would be to change and alter the time. Outside of that, there is no change in the percentages. Am I correct that you accelerate the time when this measure will be phased in? It starts in 1983 and, as I understand it, you are just moving the time up to 1982. Am I correct? There was no objection to that, although there is, as I understand it, a revenue loss of approximately \$200 million.

Mr. DOLE. Under the present provision in the Senate Finance Committee bill, the taxable rate in 1982 is 30 percent; in 1983, 25 percent; in 1984, 25 percent; in 1985, 20 percent; and in 1986 and thereafter, 15 percent.

It would be my hope that the Senator from Massachusetts would permit us to make the rate at 25 percent in 1982, 20 percent in 1983, and 15 percent in 1984.

Mr. KENNEDY. What is the revenue loss of the bill?

Mr. DOLE. The revenue loss is \$151 million in 1982, \$291 million in 1983, and \$658 million in 1984.

Mr. KENNEDY. That was not my understanding of the conversations. I do not want to interfere with the majority leader's request. I would like to consult briefly with the Senator from Kansas.

Mr. DOLE. Let me say that I have been talking to the Senator from Oklahoma, Senator BOREN. I thought that was the understanding. Maybe I misunderstood it.

Mr. BOREN. If the chairman would yield, I will advise the Senator from Massachusetts that the amendment as it is now drawn in the bill reduces the tax from the present rate of 30 percent down to the rate of 15 percent. It cuts it in half, in other words. But the phase-in period was spread over 5 years and did not begin until January 1983.

What the Senator from Kansas, the chairman of the Finance Committee, is suggesting is that we begin the phase-out in 1982; that it would still be moving the 30 percent down to 15 percent and it would not go lower than 15 percent. But it would be doing so beginning January 1, 1982, as opposed to beginning January 1, 1983.

Mr. SARBANES. Will the Senator yield for a question?

Mr. BOREN. Yes.

Mr. SARBANES. As I understand that explanation, what the amendment should do is simply move the phaseout 1 year forward, but then maintain it

over a period of time and at the rates that were already contained in the committee proposal. Is that correct?

Mr. BOREN. I want to be clear. In the committee proposal, I agreed to modify my original amendment to spread out the phasing. It did not begin until 1983. So the rate did not drop from 30 to 25 percent until January 1, 1983. Then it proceeded to drop on down 5 percent, to 20 and 15 percent and stay at 15 percent thereafter.

What we are suggesting here is that we begin the phaseout as of January 1, 1982, so that the rate, instead of saying 30-30 and then dropping to 25 in 1983, it would be 30 this year, 25 next year, 20 the following year, and then 15, and then stay at 15. It would simply escalate the phaseout, moving it forward by 1 year.

As I recall, and I would ask the chairman of the committee, I believe at one point, the way the committee amendment was drafted, it retained it at 25 percent for 2 years, did it not?

Mr. DOLE. Right.

Mr. BOREN. So, actually, I think that took about 5 years instead of 3 years to phase it out.

Mr. SARBANES. In other words, the Senator is not only moving the phaseout 1 year forward but also changing the schedule that was established. Is that correct?

Mr. BOREN. That is correct. The schedule established was 30, 25, 25, 20, 15. What is being suggested here is 30, 25, 20, and 15. It does not change the 15 once that is reached. It does move forward to 1982 the drop to 25, and it then goes on to 20 and then 15 rather than establishing it at 25 for 2 years.

Mr. SARBANES. So this is changing the rates of the phase in, in addition to moving them forward?

Mr. BOREN. This is compressing a 5-year phase down from 30 to 15 into a 3-year phase down from 30 to 15, beginning on January 1, 1982.

Mr. KENNEDY. Mr. President, I would have no objection to the changing of the date with the understanding that it was not going to accelerate the date, if the other figures and percentages were skewed in such a way that there was not going to be a revenue loss. But this proposal now is about a \$2 billion revenue loss. That is different from the way I had understood the earlier conversation in which I had been led to believe that all we were doing was changing the date for the eligibility but that there was not going to be a revenue loss. I had no objection to that.

But this is a change not only in the date but also in the percentages. This is a \$2 billion revenue loss. That would be objectionable, as far as I am concerned.

Mr. BAKER addressed the Chair.

The PRESIDING OFFICER. The Senator from Tennessee.

Mr. BAKER. Mr. President, a great deal of work and effort has gone into this request. I really hope that it will not founder on this element. This is not even a part of the unanimous-consent request. The request was predicated on a statement by me that if it is granted the Sen-

ator from Kansas would withdraw his amendment.

I have to say I do not know anything about the substance of this. I have not discussed it with anyone. But I would hope we could go ahead with this request; that the Senator from Kansas would withdraw his amendment. Then, of course, the Senator can offer an amendment, as the list provides.

Mr. DOLE. I do not have the right to offer an oil amendment, according to the list.

Mr. BAKER. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mr. DOLE. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. DOLE. Mr. President, I wonder if I might engage in a discussion and colloquy with the distinguished Senator from Massachusetts. As I understand, we can now agree on the following, so far as withdrawal of the pending amending amendment, and then follow that with an amendment that would do the following: phase the rate, move it up to 1982 at 25 percent; 1983 at 25 percent; 1984 at 20 percent; and 1985 at 15 percent.

Will the Senator tell us what the revenue loss is for that period, 1982 to 1986?

Mr. DOLE. Total? In 1982, it is about \$200 million, Mr. President.

Mr. KENNEDY. Can he give us just the cumulative total from 1982 to 1986?

Mr. DOLE. I am advised that the Joint Tax Committee does not have a run on that, but it is about \$800 million.

Mr. KENNEDY. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mr. PERCY. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. PERCY. Mr. President, I and several of my colleagues may propose an amendment to the tax bill on the subject of commodity tax straddles. I should like, for the benefit of my colleagues, to confirm the arrangement that has been made with the majority leader and the distinguished manager of the bill, the chairman of the Committee on Finance (Mr. DOLE). Senators DIXON, SYMMS, HELMS, TOWER, HAYAKAWA, JEPSEN, HUDDESTON, D'AMATO, BURDICK, and I have been extremely concerned about the Finance Committee bill, which leaves the impression that the commodity straddle is some sort of tax gimmick used only by tax dodgers. This impression is incorrect and there is a need to put the record straight.

We are supportive, Mr. President, of the committee's effort to end abuses in the trading of commodities. There is no question or debate over the propriety of taking this action. One of our concerns

centers on the means the Finance Committee has chosen.

We feel the use of the market-to-market approach, as used by the Finance Committee, is fraught with dangers to the commodity markets themselves, to their liquidity and to their smooth operation. There are ways to close these tax loopholes without throwing the baby out with the bath water. The Ways and Means Committee bill is one such approach.

Yesterday, Mr. President, I had a conversation with a distinguished economist and former Chairman of the President's Council of Economic Advisers, Alan Greenspan. Mr. Greenspan made the following comments about the Finance Committee bill and about the commodity tax straddle. I urge my colleagues to read his words of caution.

Mr. President, I ask unanimous consent that Alan Greenspan's comments be printed at this point in the RECORD.

There being no objection, the comments were ordered to be printed in the RECORD, as follows:

Market-to-market will force an artificial restructuring of positions in the futures market during the month of December as tax considerations become critical. This will reduce the efficiency of the commodity markets which are generally our most efficient markets.

Market-to-market is technically difficult when year end closings are split; that is, where there is more than one price or in inactive markets where few trades occur.

The principle behind commodity market-to-market is not distinguishable from other capital assets. What is the principle that distinguishes commodities from stocks, land or for that matter homes?

I conclude that this is a tax move which requires considerably more evaluation of its economic impact than has been given.

Mr. PERCY. Mr. President, our second concern is that at this time the Senate bill does not contain an all-important transition rule. I urge the Finance Committee to at least incorporate such an amendment in the bill so that, at a minimum, we will diminish the side effects this legislation will have on legitimate commodity traders and the liquidity of the commodity markets.

Let us put together a good provision that will clean up abuses without inflicting damage on the commodity markets.

Mr. President, I plan to join before final passage of this momentous Economic Recovery Tax Act, with several of my Senate colleagues to discuss the commodity markets, the role they play in our free enterprise agricultural economy and our questions relating to the Finance Committee provision on commodity tax straddles.

Mr. President, the Finance Committee bill properly addresses the question of commodity tax straddles. Abuses of this tax mechanism have been pointed out and some taxpayers in this country are avoiding their fair share of the tax burden by employing these tax provisions. Let me state at the outset that I do not take issue with the committee for attacking these problems. It is their responsibility to keep a close eye on the tax system and keep it from being abused.

The commodity trading industry supports the thrust of the committee's ef-

fort, too. At a Finance Committee hearing on April 30 of this year, Robert Willmouth, president of the Chicago Board of Trade—the oldest and largest commodity futures exchange in the country—stated the following:

In the past few years, there has been a proliferation—and unabashed promotion—of tax shelter devices involving commodity spreads. Their sole purpose is to facilitate tax avoidance on income from activities having absolutely nothing to do with commodity trading.

As for the enactment of legislation directed specifically at commodity transactions entered into for the sole purpose of sheltering unrelated income, I can state our position quite simply: No problem.

I will return later to the areas that have caused me some concern. At this time, I would simply like to reiterate the point that there is a tax problem here. Let us just not throw out the baby with the bath water.

#### THE ORIGIN AND PURPOSE OF COMMODITY MARKETS

In grappling with taxation of commodity futures, the Finance Committee has taken on a very complicated area, indeed. Few Americans adequately understand the role the commodity markets play in our economy and in affecting the prices we all pay for food at the grocery store.

I believe it would be helpful to place the tax question in the perspective of the role the commodity markets play in our economy.

First, let me say that this is a major American institution. It is as important to the economy as the stock and bond markets are to commerce and trade. If we did not have the commodity futures markets, we would have to invent them. They are indispensable.

A look back into the history shows that we have had the markets—in one form or another—with us for centuries. Their origins trace back to medieval trade fairs in Europe where only "cash" commodities were traded. With the growth of trade, however, the complexities of commodity trading also grew and an active futures market developed.

On this side of the Atlantic, commodity trading followed the same course as that in Europe. That is, as our colonial markets began to grow and trade links developed between the British colonies, so too did the operation of a commodity market that can balance supply and demand in an organized and predictable fashion.

Mr. President, the Senate Agriculture Committee, which is steeped in the lore of our agricultural economy, prepared a very useful summary of the development of futures markets 3 years ago. At that time, the Senate had under consideration a reauthorization of the Commodity Futures Trading Commission.

I should like to quote two paragraphs from the Senate Agriculture Committee's report on that legislation, that so aptly describe the importance of the commodity markets:

As farmers brought grain and livestock to regional markets at essentially the same time each year, they often found that the supply of meats and grain far exceeded the immediate, short-term needs of packers and



millers. These processors, in turn, seeing more than adequate supplies at particular times, would bid at the lowest possible price. Often, the short-term demand could not absorb the glut of commodities at any price, and goods were dumped in the street for lack of buyers. The problem was often aggravated by lack of adequate storage facilities and road and water transportation. Through much of the year, snow and rain made the dirt roads from country farmlands to the city impassable, and once the commodities reached the exchange area, there was a continual problem of inadequate storage. Standards of quality and weight were often nonexistent and complicated a marketing system that also was victim of inadequate and underdeveloped harbor facilities.

Yet several months after the fall harvest and marketing of grain and livestock, prices would soar and people often went hungry. Businesses faced bankruptcy through lack of raw materials and inability to meet financing of their businesses. The rural population was unable to pay for needed manufactured products from the city—tools, building materials and textiles.

After the Civil War, again as commerce expanded westward, the pressure for a better system to deal with agricultural commodities became ever more apparent. Chicago became a center for grain marketing and New York for cotton. As the Senate Agriculture Committee report continues:

Futures trading projects demand and price into the future, and provides a means of appraising supply-and-demand conditions, and dealing with price risks, over time and distance. Trading in futures provides not only the market of today, but of months ahead, and affords guidance to buyers and sellers of agricultural commodities in planning ahead, and in financing and marketing commodities from one season to another.

#### TODAY'S COMMODITY MARKETS

Our commodity markets are continuing to evolve today and are no longer the purely agricultural markets of 100 years ago. Now, over 140 contracts are traded on 11 U.S. commodity exchanges. Approximately 50 percent of the trading is in farm products such as corn, sugar, orange juice, soybeans and cotton. The remainder is in metals, industrial products—such as lumber—and financial securities and currencies.

We all know that the stock market can be swayed by various events in an industry or even far away from the markets themselves. So it is with commodities. All major U.S. newspapers carry daily accounts of futures prices and commodity movements. A recent Wall Street Journal account on commodities was headlined: "Grain Prices Decline as Soviets Avoid U.S. for Major Purchases."

Mr. President, I ask unanimous consent that this article of July 17 be printed in the RECORD at this point.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

[From the Wall Street Journal, July 15, 1981]  
GRAIN PRICES DECLINE AS SOVIETS AVOID U.S. FOR MAJOR PURCHASE

Canada agreed to sell the Soviet Union 2.3 million metric tons of wheat and barley by the end of the year.

The news sent grain prices sharply lower on the Chicago Board of Trade, where traders noted that Brazil is expected to sign a

grain-supply agreement with the Soviets this week.

Taken together, the developments indicate the Soviets won't hurry to resume buying grain from the U.S. in large quantities, now that the embargo against Soviet sales has been lifted, analysts said. "Clearly they think of us as residual suppliers, and they're rubbing our face in it a little," said Dale Gustafson, a grain analyst with Drexel Burnham Lambert Inc.

Wheat's price on the Board of Trade fell 6½ cents a bushel for July delivery to \$3.8325. Corn, with which barley competes as a feed grain, erased most of Monday's gains in a 7½-cent decline to \$3.48 a bushel for July delivery. July soybeans skidded 21 cents to \$7.3425 a bushel. (A metric ton is 39.4 bushels of wheat, 45.9 bushels of barley or 36.7 bushels of soybeans.)

Before former President Carter declared an embargo on most grain sales to the Soviet Union in January 1980, the U.S. had contracted to sell Moscow 25 million metric tons of the 35 million metric tons it was to import last year. Since then, the Soviets have moved to line up supplies from other major grain-producing nations, including Canada.

Yesterday's sale by Canada was the first under a recent agreement that calls for the sale of at least 25 million metric tons of Canadian wheat and feed grains to the Soviet Union over the next five years.

The just-announced sale, valued at about \$375 million (U.S.), calls for shipment of slightly more than 1.4 million metric tons, or 51.4 million bushels of wheat between August and the end of the year, including 300,000 metric tons, or 11 million bushels, of durum wheat, the kind used to make pasta. It also calls for shipment between August and October of 910,000 metric tons, or 41.8 million bushels, of barley.

Shipments are to be made from ports on the St. Lawrence River, the West Coast and Hudson's Bay.

Separately, in Moscow, the Associated Press reported that the Soviet Union and Brazil are expected to sign an oil and grain agreement there today. One source said Brazil would sell the Soviets 700,000 metric tons of soybeans and soybean meal each year from 1982 to 1986, plus an unspecified amount of corn from 1983 to 1986, the AP reported. The Soviets would sell Brazil 20,000 barrels of crude oil a day for five months, the AP added. Brazil is a major competitor for the U.S. in the world market for soybeans.

In other commodity markets yesterday: Livestock and meat: Hog and porkbelly prices rose, the latter by as much as the daily limit of two cents a pound. Analysts noted that the daily slaughter of hogs continues low, resulting in sharp declines in the amount of frozen pork bellies in storage. A report yesterday showed the pork-belly inventory was reduced 7.7 million pounds this week, compared with an average draw-down for the past month of 4.5 million pounds a week. Cattle prices fell despite tighter meat supplies, as livestock traders remain pessimistic about high interest rates, which hurt the operations of the cattle breeding and feeding industry.

Sugar: Prices dropped on reports of a sale of 140,000 metric tons of Brazilian raw sugar, analysts said. September-delivery sugar sank 0.52 cent to 17 cents a pound. Increasingly tight supplies of sugar available for immediate purchase had driven prices higher in the previous three days of trading, one analyst noted. News of the sugar coming onto the market eased fears of short supplies, he added. A metric ton is 2,205 pounds.

Orange juice: Juice for delivery this month fell 2.05 cents a pound to \$1.26. Traders decided that last week's worries about the Mediterranean fruit fly hurting orange

juice supplies were unwarranted. Oranges processed into frozen concentrate are grown chiefly in Florida, and the fruit fly infestation is in California, where eating oranges are grown. Moreover, the infestation doesn't seem to have spread beyond California, analysts noted. "People just realized there wasn't much to the story," one analyst said.

Mr. PERCY. Mr. President, in addition to analyzing the drop in grain prices, the article also touches on other commodities, including the impact the Mediterranean fruitfly epidemic would have on frozen orange juice supplies.

Trading in futures can be a puzzle to outsiders to be sure. The New York Times may have recognized that commodity trading is not universally understood and includes at the top of its futures prices column each day a brief description of what commodity futures contracts are.

Mr. President, I ask unanimous consent that the New York Times' description be printed in the RECORD.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

[From the New York Times, July 17, 1981]

#### FUTURES PRICES

Commodity futures contracts are commitments to buy or sell commodities at a specified time and place in the future. The price is established when the contract is made in open auction on a futures exchange. Only a small percentage of futures trading actually leads to delivery of a commodity, for a contract may change hands or be liquidated before the delivery date. Participants comprise commercial hedgers who use futures to minimize price risks inherent in their marketing operations and speculators who, employing venture capital, seek profits through price changes. Both purchase contracts on margin, or partial payment. Futures prices indicate the direction of prices based on current market conditions.

Mr. PERCY. Mr. President, my colleagues will note that the New York Times states that—

Participants comprise commercial hedgers who use futures to minimize price risks inherent in their marketing operations and speculators who, employing venture capital, seek profits through price changes.

I believe the Times does a great service in printing this small explanation, because it dispels the notion that there is something covert about commodity trading. Nothing could be further from the truth.

An excellent economics reference book entitled the Economic Way of Thinking and authored by Paul T. Heyne of Southern Methodist University, touches on the role of speculation in our market system. He points out in his book, on page 90, that speculators—

Even out the flow of commodities into consumption and diminish price fluctuations over time. Since price fluctuations create risks for those who grow or use corn, speculators are actually reducing risks to others. More accurately, they are purchasing risk (in hope of a profit) from others less willing to take risk (and willing to pay something in the form of reduced expected returns to avoid it).

Mr. President, I ask unanimous consent that this excerpt from the Economic

Way of Thinking be printed at this point in the RECORD.

There being no objection, the excerpt was ordered to be printed in the RECORD, as follows:

EXCERPT FROM THE ECONOMIC WAY OF  
THINKING  
SPECULATORS

All of this is rather abstract. To make it more concrete we can examine a type of trading that probably suffers most from public misunderstanding: speculation.

The dictionary defines speculation as "trading in the hope of profit from changes in the market price." That's good enough for our purposes. The most celebrated (or, more accurately, the most execrated) speculator is probably the Wall Street "bear." He "sells short," that is, sells for future delivery to a buyer shares of stock he does not currently own. He believes that the stock will go down in price, so that when the time comes for him to deliver, he can purchase the shares at a low price and sell them at the previously agreed-upon higher price.

A more important speculator is probably the commodity speculator, who may trade in such items as wheat, soybeans, hogs, lumber, sugar, cocoa, or copper. He buys and sells "futures." These are agreements to deliver, at some specified date in the future, amounts of a commodity at a price determined now.

These are the spectacular speculators whose feats make the financial pages. A less publicized speculator is you yourself. You are buying education now for sale in the future at some price that you hope will be high, but which could conceivably be too low to justify your present investment. As these words are being written, many aerospace engineers are wishing they had invested in training to be environmental engineers.

Another familiar speculator is the housewife who reads that the price of sugar is expected to rise and responds by loading her pantry with a two-year supply. If the price of sugar rises far enough, she gains. If it does not, she loses. She has tied up her wealth in sugar, thereby cluttering her shelves and depriving herself of the opportunity to purchase more valuable assets—an interest-bearing savings account, for example.

The motorist who fills his tank when he sees a sign advertising gasoline at two cents a gallon less than he's accustomed to pay is speculating; the price may be four cents lower two blocks ahead. And the motorist who drives on an almost empty tank in hope of lower prices up ahead is a notorious speculator.

But many people overlook the pervasiveness of speculation in order to heap blame on the "profiteers" who allegedly "take advantage" of special situations and innocent people in pursuit of their own unprincipled profit. Is the speculator really the enemy of the people he is so often alleged to be?

CONSEQUENCES OF SPECULATION

"Speculators exploit natural disasters," it is often said, "by driving up prices before the disaster occurs. And sometimes the expected disaster never even materializes." That is true. But it is only one small and misleading part of the truth. Suppose evidence begins to accumulate in early summer that the fungus called corn leaf blight is spreading to major corn-producing areas of the Midwest. A significant percentage of the year's corn crop could be wiped out as a result. People who think this is likely to occur will consequently expect a higher price for corn next year. This expectation will induce some people to hold some corn out of current consumption in order to carry it over into the next crop period when, they believe, the price will be higher. That is speculation.

Notice how many different parties engage in such speculation: farmers who substitute other livestock feed for corn in order to maintain their corn stocks at a higher level, either to avoid having to buy corn next year at a higher price or in order to sell then at the higher price; industrial users who increase their inventories now while the price is relatively low; plus people who might not know a bushel of corn from a peck of soybeans but who hope to make a profit from buying cheap now and selling dear later. There are well-organized commodity markets to facilitate this kind of transaction. The effect of all these activities is to reduce the currently marketed supply of corn; the price consequently rises. And just as the critic protested, it rises before the disaster occurs.

But that is only a part of the picture. These speculative activities cause corn to be transported over time from a period of relative abundance to one of greater scarcity. The price next year, when the blight is expected to have its effects, will therefore be lower than it otherwise would be. Speculators thus even out the flow of commodities into consumption and diminish price fluctuations over time. Since price fluctuations create risks for those who grow or use corn, speculators are actually reducing risk to others. More accurately, they are purchasing risk (in hope of a profit) from others less willing to take risk (and willing to pay something in the form of reduced expected returns to avoid it).

Mr. PERCY. Mr. President, since the early 1960's, the size and scope of commodity trading has increased substantially. In 1963, for example, the total number of contracts traded on the exchange was 6.9 million, for a value of \$68.6 billion. Ten years later, by 1973, the total number of trades had increased by a factor of eight, to 23.5 million contracts valued at nearly \$400 billion. This growth has continued into the 1980's. For example, last year, 92 million contracts were traded, a quadrupling of the contracts traded just 8 years ago.

This industry, like many others, has a complexity and terminology all its own. The Senate Agriculture Committee, which is familiar with the structure of the markets through its periodic authorizations of the Commodity Futures Trading Commission, even published a "Glossary of Trade Terms" a few years ago so that we would know what some of these unique words meant in the context of commodity trading. These were not legal definitions, but prepared for use of Senators who were dealing with the Commission reauthorization legislation.

One look at this Glossary is enough to convince one of the uniqueness of the commodity markets. Here are some of the words that would baffle the layman: Backwardation—market situation in which futures prices are progressively lower in the distant delivery months; contango—not a dance, but a market situation in which prices are progressively higher in the future delivery months than in the nearest delivery month; hardening—describes a price which is gradually stabilizing; inverted market—a futures market in which the nearer months are selling at prices higher than the more distant months hence a market displaying "inverse carrying charges," characteristic of markets in which supplies are currently in shortage;

MIT (market-if-touched) or board order—an order that becomes a market order when a particular price is reached. A sell MIT is placed above the market; a buy MIT is placed below the market; nearbys—the nearest delivery months of a commodity futures market; running bales—a term used in the cotton trade to designate the number of bales of cotton as they come from the gin in varying weights; spread (or straddle)—the purchase of one futures delivery month against the sale of another futures delivery month of the same commodity, the purchase of one delivery month of one commodity against the sale of that same delivery month of a different commodity, or the purchase of one commodity in one market against the sale of that commodity in another market, to take advantage of and profit from a change in price relationships. The term "spread" is also used to refer to the difference between the price of one futures month and the price of another month of the same commodity.

There you have a few selections from the Agriculture Committee report. These are only a few of the phrases. Let me reiterate that. The committee printed 20 pages of these special definitions. They sound odd to those not in the trading business but they are describing business practices that are essential components of the commodity futures industry.

Let me highlight one other definition in this Glossary that may indicate to my colleagues on the floor the interrelatedness of trading in commodities. I am referring to a "switch," defined in the Agriculture Committee booklet as "the liquidation of a position in one delivery month of a commodity and simultaneous initiation of a similar position in another delivery month of the same commodity. When used by hedgers, this tactic is referred to as 'rolling forward' the hedge. See Spread."

Mr. President, I want to highlight this one particular term because it indicates that there is a close relationship between hedgers—who are in the commodity markets to minimize price risks—and professional speculators who enter the market for profit and provide an important part of its liquidity for price discovery.

I am concerned that the Senate may not fully appreciate the uniqueness of the commodity markets, which have a different terminology and mode of operation than either the stock or bond markets, with which most of us are more familiar.

Moreover, as I mentioned earlier, I hope Congress will not move ahead and throw the baby out with the bath in this legislation. A "switch" is a legitimate market function that is employed by hedgers. The authors of this provision in our bill have stated that their language will not affect hedging transactions. But a form of the "switch" is also apparently used by others than hedgers, as implied in the definition I mentioned earlier. The markets are important enough to our economy that we should not enact a law without careful consid-



eration of the impact that law will have on the legitimate traders themselves.

#### REGULATION OF FUTURES TRADING INDUSTRY

Mr. President, before I continue with my discussion of the matter at hand, I should like to remind my colleagues that the commodity futures industry is presently regulated by the Commodity Futures Trading Commission, an entity established by Congress in 1974.

According to an analysis of commodity industry regulation written by David Stockman when he was executive director of the House Republican Conference in 1974, Congress first enacted commodity industry regulation in 1921. Mr. Stockman wrote that—

The Futures Trading Act was subsequently enacted in 1921, but because it adopted the taxation approach that had been proposed nearly 40 years earlier, it was ruled unconstitutional by the Supreme Court.

Mr. Stockman's 1974 analysis continues:

Congress quickly responded to this decision by adopting essentially the same legislation in 1922, but this time providing for a direct Federal regulatory agency, the Grain Futures Administration, under the aegis of the newly expanded commerce clause. . . .

An amendment in 1936 changed the title to the Commodities Exchange Act and retained the basic provisions of the 1922 Act. This New Deal legislation expanded regulatory authority to encompass six additional commodities. . . . During the next 30 years the Act was frequently amended to include additional commodities. . . .

In 1974, Congress enacted legislation establishing the Commodities Futures Trading Commission, thereby replacing the Commodities Exchange Commission in the Department of Agriculture. The present Commission has had chief regulatory purview over commodities trading since 1974 and was reauthorized by Congress in 1978.

In its 1978 report on the reauthorization, the Senate Agriculture Committee commented on the decision to establish a Commission:

Recent experience also supports the wisdom of Congress' decision in 1974 to expand the scope of commodities that could become the subject of regulated futures trading. Futures contracts based on these new commodities have enjoyed a rapid expansion. In fact, futures contracts on financial instrument—short-term commercial paper, mortgage-backed certificates guaranteed by the Government National Mortgage Association (GNMA), Treasury bonds and Treasury bills—are among the most active new contracts currently traded.

Many hedgers, including banks, businessmen, and home builders are attracted to these futures contracts as a method of planning their enterprises by ensuring against sudden and expensive decreases in value of the instruments used to finance their commercial operations. This experience establishes that the substantive economic value of futures trading is the same for a farmer, a manufacturer, or a financial institution. Participants in the futures markets utilize the hedging or risk-shifting element of futures contracts, whether the contracts involve soybeans or GNMA's. The comprehensive framework for exchange-traded futures contracts on an ever-expanding number of commodities established in the Commodity Futures Trading Commission Act of 1974 has worked well.

#### THE STRADDLE

Mr. President, as I stated at the outset of my remarks today, I am fully supportive of the committee's intention to close a loophole in the law that allows nonprofessionals from abusing the commodity markets. I quote Board of Trade president Robert Wilmouth who voiced a similar support for ending abuses.

"My concern is that this legislation may stray from this intent."

Earlier this year the Senate considered this issue in a different context. Senator METZENBAUM offered an amendment to the budget reconciliation instructions that would have required the Finance Committee to close certain tax shelter items as part of its reconciliation package.

During debate on this amendment, my good friend from New York, Senator MOYNIHAN, said:

The commodities tax straddle is a very simple device for putting off paying taxes for an extended period of time or reducing income from the regular income tax rates to capital gains tax rates.

It has been carried out by people who are not in the commodities market for any economic purpose of any kind. They are there very solely for the purpose of avoiding taxes or minimizing taxes, and they are doing this with the help of elaborate arrangements that professionals in this field have developed. . . . The tax straddle serves no economic purpose. It has no redeeming social value.

Later in his remarks, Senator MOYNIHAN notes that "I am not suggesting anything illegal has taken place, but the presumption is that these taxes are owed and should be paid."

Mr. President, I hope my good colleague from New York is sure of the distinction between the tax straddle and the commodity straddle, for the commodity straddle, as I have pointed out in my earlier remarks, is a legitimate, economic, trading device. It does serve an economic purpose when it is used by commodity traders in their normal line of business.

Let me reiterate the types of individuals Senator MOYNIHAN said he was interested in closing the loophole on: "people not in the commodities market for any economic purpose of any kind. They are there solely for the purpose of avoiding taxes and minimizing taxes."

Certainly this definition does not fit the commodity broker whose sole business is trading in commodity contracts and who is regulated by the regulations of the Commodity Futures Trading Commission. Certainly the Finance Committee should close the loophole on those who are not in the commodities market for any economic purpose whatsoever.

But this proposal goes beyond that and applies to anyone who is involved in commodity trading—whether they be speculators, brokers, or dentists looking for a tax dodge.

As I mentioned earlier today, a straddle is another name for a "spread." The spread is actually just one form of speculation practiced in the commodity markets. Speculators and hedgers are the two essential components of futures markets. They have different motives for being in the market, but they complement each other. Moreover, it is the

speculators—that is professional speculative traders—who supply most of the risk capital for futures trading. It is this capital that forms the bulk of the liquidity of the futures markets.

The spreaders—those professional speculators who use straddles—are among some of the most important traders in the futures market. Without the spreaders, hedgers would be handicapped in their efforts to hedge cash purchases and sales. The key to the spreaders' trade is an attempt to profit by profit relationships—compared with other traders who try to profit from the direction of price movements. Spreads are of particular importance for transactions in distant months, when there are few takers among other types of traders. It is especially in the distant months that spreaders create market liquidity.

#### MARK TO MARKET

The Finance Committee legislation relies to a great extent on the mark-to-market approach. The Joint Committee on Taxation has prepared a pamphlet on this mechanism, which is used by the commodity traders to account for their daily positions.

At issue here is whether taxing the paper gains market to mark on December 31 each year will harm the liquidity of the markets. A related question is whether this approach will set a precedent in U.S. tax laws for taxing unrealized gains.

On the first point—regarding market liquidity—even the Treasury acknowledges there will be some impact. During his testimony before the Finance Committee, Assistant Secretary for Tax Policy John Chapoton said:

While our proposals will certainly have some effect on the quantity of transactions in the futures markets, we believe that, in the final analysis, they will improve, rather than detract from the efficiency of these markets.

The key part of his remarks that I would like to focus my colleagues' attention on is—

our proposals will certainly have some effect on the quantity of transactions in the futures markets.

Although the Treasury believes markets will improve with this tax change, others disagree. The editors of *Barron's*, for example, presented an editorial on this subject on July 20.

Mr. PERCY. Mr. President, the *Barron's* editors note—

The possible financial consequences of this crusade, in any case, strike us as horrific. If futures markets alone were taxed on paper profits, capital would fly elsewhere. Gold is an example. If futures contracts were liable to tax on unrealized gains, but mining shares and coins were not, capital would sensibly shift to shares and bullion. As New Year's Eve drew near, moreover, speculators would distractedly trade with an eye to taxes as much as to supply and demand. Prices would tend to become untrue.

Mr. President, I do not think enough thought has gone into considering the total economic ramifications of this tax change. There is good reason to approach this subject carefully because we are dealing with a mechanism that is key to our food-pricing system. If the pres-

ent provision in this legislation should backfire and dry up a substantial amount of liquidity as Barron's asserts—instead of just some as the Treasury asserts—we are in trouble.

On the second point, regarding this tax change setting a precedent, I have turned to an objective third party: the Library of Congress.

Mr. President, I ask unanimous consent that a memorandum prepared for my use by the Library of Congress on July 14, 1981 be printed in the RECORD at this point.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

THE LIBRARY OF CONGRESS,  
Washington, D.C., July 14, 1981.

To Senator Charles H. Percy, Attention: Bill Canis, Legislative Assistant.

From Harry G. Gourevitch, Senior Specialist in Taxation and Fiscal Policy.

Subject: The Senate Finance Committee's Marking-to-Market Provision for the Taxation of Commodity Futures Contracts.

Under the Senate Finance Committee's bill, gain or loss on regulated commodity futures contracts must be reported on an annual basis. (section 503 of the bill) A taxpayer holding a regulated futures contract is treated for tax purposes as if he sold the contract on the last day of the year at its fair market value.

You have asked whether this provision is consistent with established Federal income tax principles.

#### THE SENATE FINANCE COMMITTEE'S POSITION

The Senate Finance Committee and Senator Robert J. Dole contend the provision is consistent with the established tax doctrine of constructive receipt. Under the doctrine of constructive receipt a cash basis taxpayer must include in his taxable income an item of income which he has not reduced to possession but as to which he has an unconditional right of possession. The Treasury regulations state,

"Income although not actually reduced to a taxpayer's possession is constructively received by him in the taxable year during which it is credited to his account, set apart for him, or otherwise made available so that he may draw upon it at any time, or so that he could have drawn upon it during the taxable year if notice of intention to withdraw had never been given. However, income is not constructively received if the taxpayer's control of its receipt is subject to substantial limitations or restrictions. Reg. sec. 1.451-2(a)."

For example, interest which has accrued in a savings account during the year must be reported by the depositor as income on his tax return even if he leaves the interest in the account rather than withdrawing it. It is contended that the Senate provision is analogous to the constructive receipt of interest in this situation because under the marking-to-market system of the commodity exchanges a customer is entitled to withdraw his gains, or is required to deposit additional margin because of losses in the account, at the close of every business day.

The Senate Finance Committee's report states the Committee's position as follows:

"The Committee bill adopts a mark-to-market system for the taxation of commodity futures contracts. This rule applies the doctrine of constructive receipt to gains in a futures trading account at year-end. The application of this rule in present law means, for example, that taxpayers must include in their income any interest which has accrued during the year, even though they may not [sic] have withdrawn the interest from their

savings accounts. Because a taxpayer who trades futures contracts receives profits as a matter of right or must pay losses in cash daily, the committee believes it appropriate to measure the taxpayer's futures' income on the same basis for tax purposes. Report No. 97-144, p. 157, on H.J. Res. 266."

#### THE INDUSTRY'S POSITION

The commodity futures industry apparently contends that the bill's approach of taxing unrealized gains is unprecedented and that such taxation would represent a radical departure from established Federal income tax principles. Under current tax law unrealized appreciation in the value of property is not subject to tax. As stated in a basic textbook on Federal income taxation, "The United States tax system does not tax unrealized but accrued gain represented by annual increases in the value of property."\* Realization events which do trigger taxation of accrued gain are a sale or exchange of the property. Thus, the industry may argue that to tax the appreciation in value of a commodity futures contract absent a sale or exchange of the contract would be unprecedented under the U.S. tax system. The bill's approach, according to the industry, would be like taxing a homeowner on the appreciation in value of his home, assuming its value during the year goes up, even though he does not sell or otherwise dispose of it.\*\*

#### DISCUSSION

Which of these positions is the right one? Both are defensible, and how one comes out on the issue depends on whether one favors the interest-income analogy or the homeowner analogy.

As to the interest-analogy, it may be argued that it is inapposite, as a commodity futures contract, unlike interest income, is a capital asset and appreciation in value of a capital asset is subject to tax only upon a sale or exchange.

As to the homeowner analogy, it may be argued that the homeowner's situation is different from that of the customer holding a commodity futures account, as the homeowner can reduce to cash the appreciation in value of his house only by selling the entire house, whereas the commodities customer is entitled on any day to withdraw the balance in his account without any sale or other act on his part.

The Senate Finance Committee clearly places a great deal of weight on the marking-to-market system of the exchanges in seeking to reconcile its provision with the constructive receipt doctrine. At the same time, it should be noted that the Committee's approach of taxing unrealized gains could in the future be used as a precedent to justify the taxation of unrealized gains in other areas of the tax law where the underlying transactions will not have the benefit of a marking-to-market system.

Mr. PERCY. Mr. President, the Congressional Research Service analyst—Mr. Harry Gourevitch, a senior specialist in taxation and fiscal policy—carefully reviews both sides of the coin. He puts forth the Senate Finance Committee's position on taxing of unrealized gains and quotes from the report of the committee sustaining their view that this provision will not set a precedent.

Mr. Gourevitch also sketches the industry position. He notes that the in-

\*Surrey, S., Warren, W., McDaniel, P., and Ault, H., *Federal Income Taxation*, p. 821, Vol. 1, (1972 ed.).

\*\*This summary of industry views is based on second-hand reports; I have not myself seen any industry memorandum on this question or talked to any industry representative.

dustry has said this precedent could be used to justify taxing the unpaid equity on a person's home.

Mr. Gourevitch acknowledges in conclusion that both views "are defensible." The final paragraph of his memorandum is helpful, I believe, and I quote:

The Senate Finance Committee clearly places a great deal of weight on the marking-to-market system of the exchanges in seeking to reconcile its provision with the constructive receipt doctrine. At the same time, it should be noted that the Committee's approach of taxing unrealized gains could in the future be used as a precedent to justify the taxation of unrealized gains in other areas of the tax law where the underlying transactions will not have the benefit of a marking-to-market system.

In short, Mr. President, I believe there is adequate reason to be concerned over this approach in the Committee bill. I believe the Ways and Means Committee has hit upon a means of closing a tax loophole without posing these two important questions of liquidity and precedent.

I do not intend to offer an amendment to the Finance Committee bill, but it is clear to me that there are potential problems of a serious nature relating to title 5. I urge my colleagues on the Senate Finance Committee to carefully consider the Ways and Means Committee language when conferees meet as it may be the best approach given these concerns.

#### TRANSITION RULE

Mr. President, market liquidity will certainly be damaged if the Senate does not enact a transition rule for the provisions in the committee bill. We know there could be a massive cash drain from the market if we do not provide a mechanism for spreading out the tax liability deferred from previous years.

Immediate taxation of these deferred amounts would impact on more than just the commodity traders. It would indirectly affect hedgers, ranchers, and farmers. In other words, it would impact on all of those individuals who rely on highly liquid commodity markets to hedge and reduce risk. Ultimately, of course, the loser in this game would be the consumer, who could face much more volatile prices without the proper liquidity.

I would like to point out that even the Treasury Department, which supports the Finance Committee legislation, has spoken in favor of a transition rule and has stated that "as part of our proposal, a transitional rule might have to be provided to deal with gains and losses accrued to the effective date."

Yet, no amendment has been forthcoming.

This is not a special request for the commodity futures industry. That should be made clear from the outset. Congress has traditionally provided a transitional rule when it closed what it deemed to be "tax shelters." Although I do not believe that the tax straddle is a tax shelter as far as it concerns commodity traders, if the Senate is going to pass on this legislation, it would be shortsighted of us not to include a transitional rule.

What we are discussing here is the



timing for paying tax—not whether the tax should be paid at all.

The Tax Code is peppered with transitional rules for various instances. These rules range from 3 years to 10 years in duration, to spread out the tax liability in cases where Congress has changed the rules.

Mr. President, I ask unanimous consent that an analysis of present transition rules now in the Tax Code be included in the RECORD at the close of my remarks.

The PRESIDING OFFICER. Without objection, it is so ordered.

(See exhibit 1.)

Mr. PERCY. Mr. President, I might just highlight a few of these for my colleagues. In the Revenue Act of 1978, Congress included a 10-year transitional rule relating to a change in the taxation of corporate farming and a 5-year transitional rule for taxpayers who sell or distribute magazines. The 1976 Tax Reform Act also included a transition rule—in this case relating to the taxation of real property—for a 10-year amortization period. We could go back further, there are many such provisions in the tax code.

My purpose in mentioning these is to point out to my colleagues on the Finance Committee that it is incumbent on the Senate to write the best legislation possible. Without a transition rule, the Senate would be neglecting its responsibilities to write a responsible new law.

#### REACTION TO FINANCE COMMITTEE VERSION

The Finance Committee legislation was reported in June. I have received a number of comments on title 5, dealing with commodity straddles, and I wanted to share those with my colleagues.

First, the Governor of Illinois, Jim Thompson, sent Secretary of Agriculture Jack Block a hand-written note on June 22 about this matter.

Mr. President, I ask unanimous consent that this letter be printed in the RECORD at this point.

There being no objection, the letter was ordered to be printed in the RECORD, as follows:

STATE OF ILLINOIS,  
Springfield, Ill., June 22, 1981.

JAMES R. THOMPSON,  
Governor.

DEAR JACK: I am adding my voice to those which have been raised in the farm community across the nation, with a special plea from the Chicago and Illinois economy, to equitably resolve the "tax straddle" issue now pending in the Congress. While we agree with the need for reform, we believe it cannot come at the expense of long time and legitimate practices at the Board of Trade and Chicago Mercantile Exchange, whose activities have consistently lent stability to the cause of American agriculture.

I hope you can help us with the Treasury and Congress on this very difficult issue and I look forward to discussing it with you in person.

Best regards,

JIM THOMPSON,  
Governor.

Mr. PERCY. Mr. President, Governor Thompson states in his letter:

While we agree with the need for reform, we believe it cannot come at the expense of long time and legitimate practices at the Board of Trade and Chicago Mercantile Ex-

change, whose activities have consistently lent stability to the cause of American agriculture.

On July 10, William Leshner, Assistant Secretary for Economics at the Department of Agriculture, wrote Mr. Chapoton at the Treasury Department about this. The Agriculture Department has several concerns with the present legislation and points out that the Department of Agriculture "has expressed concern that any changes in the rules recognize the need to maintain incentives to speculators in futures markets."

The letter concludes:

In addition, we have one other concern. Traders who have been rolling over capital gains from one year to the next may now face very large one-time tax liabilities under the proposed legislation. The payment on those accumulated gains may cause some short-term cash flow difficulties for traders and trading firms and some short-term liquidity problems in the market. We believe it would not be unreasonable to recognize the difficulties that may be created by such heavy one-time tax liabilities and to accommodate those difficulties in some way, such as spreading those payments over a five-year period.

Mr. President, I ask unanimous consent that Mr. Leshner's letter be included in full in the RECORD at this point.

There being no objection, the letter was ordered to be printed in the RECORD, as follows:

DEPARTMENT OF AGRICULTURE,  
Washington, D.C., July 10, 1981.

HON. JOHN E. CHAPOTON,  
Assistant Secretary for Tax Policy,  
U.S. Department of Treasury,  
Washington, D.C.

DEAR MR. CHAPOTON: As you know, the Department of Agriculture favors the closing of tax loopholes which allows large amounts of unrelated income to escape taxation through transactions in futures markets. However, the Department of Agriculture has expressed concern that any changes in the rules recognize the need to maintain incentives to speculators in futures markets. That need has been demonstrated through research papers prepared by Houthaker, Breeden, Peck and others. What is less clear is the linkage between the tax avoidance opportunities and incentives to speculators in futures markets. While there are no conclusive empirical analyses, economic logic suggests that the opportunity to reduce taxes is a strong incentive to speculators.

We have studied the legislation recently considered by the Senate Finance Committee. As we understand it, gains on speculative transactions in regulated futures markets would be treated as ordinary income and taxed at a 32 percent maximum marginal rate.

The potential impact of this proposal on the volume of speculative trading is not clear. On the one hand, the more favorable tax rate on ordinary gains could be sufficiently attractive when compared to ordinary gains from other sources to attract new speculative trading to futures markets. On the other hand, the proposed lowering of the capital gains rate to 20 percent increases the incentive to shift ordinary gains to capital gains. That means that some potential speculators may be lured to other forms of business activity where that opportunity exists rather than pay the 32 percent rate. Thus, while the 32 percent rate is a step in the direction of accommodating the needs of futures markets, it is difficult to determine in advance the net impacts on the volume of speculative transactions from the forces described above. For this reason, it would be

desirable to find some way to make gradual adjustments from existing law. That would make it possible to monitor impacts on the volume of speculative transactions. The Department stands ready to assist in the analysis of data generated during such a phase-in.

In addition, we have one other concern. Traders who have been rolling over capital gains from one year to the next may now face very large one-time tax liabilities under the proposed legislation. The payment on those accumulated gains may cause some short-term cash flow difficulties for traders and trading firms and some short-term liquidity problems in the market. We believe it would not be unreasonable to recognize the difficulties that may be created by such heavy one-time tax liabilities and to accommodate those difficulties in some way, such as spreading those payments over a 5-year period.

We appreciate your willingness to work with the Department of Agriculture on this important issue and look forward to continued close cooperation.

Sincerely,

WILLIAM G. LESHER,  
Assistant Secretary for Economics.

Mr. PERCY. Mr. President, the last quotation I read speaks directly to the need for a transition rule in the Senate bill and I am pleased that the Department of Agriculture shares our concern over the lack of an adequate transition rule, which I described earlier in my remarks.

On June 22, H. J. Maidenberry of the New York Times business section, wrote a very comprehensive and fair article on the Finance Committee proposal. The New York Times analysis states at its outset:

The commodity futures industry is bracing this week for what could be the most damaging attack on its markets since the early days of the New Deal, when populist reformers sought to abolish futures trading entirely.

While the latest assaults being readied in Congress are not aimed at eliminating futures trading, they are widely expected to drive many hedgers and speculators out of the markets because they would sharply restrict the use of commodity futures tax straddles.

Mr. President, I ask unanimous consent that the full New York Times article be printed in the RECORD at this point.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

#### COMMODITIES—CURBING WRITE-OFFS ON TAXES (By H. J. Maidenberry)

The commodity futures industry is bracing this week for what could be the most damaging attack on its markets since the early days of the New Deal, when populist reformers sought to abolish futures trading entirely.

While the latest assaults being readied in Congress are not aimed at eliminating futures trading, they are widely expected to drive many hedgers and speculators out of the markets because they would sharply restrict the use of commodity futures tax straddles.

The classic futures tax straddle works like this:

A person who expects to pay taxes on, say, \$100,000 this year could select a commodity whose price is declining.

This investor would buy enough futures contracts in this commodity so that he or she might expect a loss, on paper, of \$100,000 during calendar 1981.

At the same time, the investor would sell short a similar volume of futures in the selected commodity maturing in 1982, reasoning that if the value of the contract for this year declines, so will the contract for next year, so that the loss in this tax year would be balanced by the gain on the 1982 contract that he had sold short.

In this way, the loss this year would be offset by the profit on the 1982 contract. But the loss this year would also be used to offset the original tax liability of \$100,000.

This procedure can be repeated: To offset next year's profit on the short sale, another money-losing deal (on paper) could be set up in late 1982, balanced by a 1983 future contract, and so on.

But not all straddles are used for rolling over tax liabilities. They are one of the most common everyday trading methods used by hedgers and speculators. The hedgers use them to protect inventory and forward sales commitments and other ordinary business operations. Speculators use them because of the lower cash margins and commissions required by brokers for straddles, as well as the fact that they represent a conservative way to trade futures.

"It is the most frightening prospect facing our industry today," declared Robert K. Wilmoth, chairman of the Chicago Board of Trade, in an interview in his office last Friday. "And while it initially affects our business, the anti-tax-straddle bills represent time bombs for the securities and other markets as well." His exchange handles roughly half the futures contracts traded on the nation's 11 commodity markets.

The two-pronged attacks on futures tax straddles are embodied in bills scheduled to be introduced early this week by Senator Daniel P. Moynihan, Democrat of New York, and Representative William M. Brodhead, Democrat of Michigan. Both are supported by the Treasury Department and the Internal Revenue Service.

Mr. Brodhead summed up his view of futures tax straddles, which was echoed by Mr. Moynihan, in an interview:

"Tax straddles do more than permit people to avoid paying taxes. They foul up the commodity markets because the tax straddles cause grave distortions in prices upon which legitimate trade hedgers and traders depend. They serve no economic purpose. Worse, many people who are encouraged to use these ploys by their brokers don't understand them at all. They are led to believe that they won't have to pay taxes on any gains. Some operators have built large tax shelters around these straddles."

Oddly, commodity industry leaders agree with many of the positions taken by Senator Moynihan, Representative Brodhead and their supporters in Government and have put forth a simple solution to the abuses of futures tax straddles: Rather than outlaw or sharply curb them, the industry would restrict their use to bona fide commodity hedgers and speculators.

Leo Melamed, special counsel to the Chicago Mercantile Exchange, one of the industry leaders fighting the proposed laws, discussed the problem during a phone interview from Chicago yesterday, noting:

"What we have been telling them in Washington all last week is that commodity hedgers and speculators have always been taxed at the highest rates, now 70 percent, because few keep positions long enough to qualify for long-term tax treatment. As a result, these traders try to average their gains by using tax straddles, in effect, putting some of their tax liabilities over into the next tax year. Until recently, the I.R.S. saw nothing wrong with this procedure."

But as inflation has thrust more people into higher tax brackets, many accountants have found futures tax straddles a convenient way to roll over the tax liabilities of their

clients as well as providing simple tax shelters. "Suddenly we got doctors, dentists, real estate operators, even rock singers using futures tax straddles," Mr. Melamed said. "And the I.R.S. didn't like that. Nor did we in the industry, because we could see trouble coming."

The former chairman of the Chicago Mercantile, which handles a quarter of all futures business, and the acknowledged "father of financial futures," went on:

"One obvious solution would be to restrict futures tax straddles to bona fide hedgers and speculators. We believe this would eliminate 95 percent of the abuses. In other words, only those with gains made in commodity trading would be permitted to use futures tax straddles."

But the Moynihan-Brodhead bills offer another approach. Their bills would have all futures traders "mark to the market" on the last trading day of the year. Any gains shown on that day would be taxable as such for the calendar year.

The industry finds this the most alarming aspect of the bills being prepared. Both Mr. Wilmoth and Mr. Melamed noted that it would mean taxing unrealized gains in still open positions that could change dramatically into losses overnight.

If this precedent were established by law, they emphasized, it could eventually be the basis for taxing portfolios of securities, real estate, mutual funds and other holdings showing profits on a certain day. It would also be the first time in this nation that unrealized gains would be subject to taxation, both men pointed out.

"Everyone in the commodity market knows how a \$100,000 profit one day can turn into a \$100,000 loss the next," Mr. Melamed said. "Can you imagine the futures markets as Dec. 31 approaches. It would be chaos. Nobody would dare risk making a profit. The markets would come to a standstill long before each Dec. 31. The thought of marking to market for tax purposes on any given day is terrifying."

Why then does the Moynihan-Brodhead bills propose this procedure? Mr. Wilmoth and Mr. Melamed and other industry leaders who have been commuting to Washington in recent weeks think they have the answer. As Mr. Melamed observed:

"Unlike the securities and other markets, the futures market has traditionally marked to the market every business day in order to guarantee the fiscal integrity of every trade. This means that we establish and transfer gains and losses at the end of every session, even though both parties may still hold their positions. Apparently, the legislators think this system can thus be easily used to fix tax liabilities for the full year. We don't."

Mr. PERCY, Mr. President, as a result of these adverse comments about the Finance Committee's tax straddle provision, I put together a letter on July 13 with nine of my Republican colleagues. Our letter to Chairman DOLE stated our concern over the operation of the commodity markets, particularly the mark-to-market approach in the committee bill.

Mr. President, I ask unanimous consent that our letter of July 13 to Senator DOLE be printed in the RECORD at this point.

There being no objection, the letter was ordered to be printed in the RECORD, as follows:

U.S. SENATE,

Washington D.C., July 13, 1981.

HON. ROBERT DOLE,

Chairman, Finance Committee,  
U.S. Senate, Washington, D.C.

DEAR BOB: We have been reviewing the tax reduction provisions of H.J. Res. 266 and

commend you for moving this important legislation through Committee so quickly. Its passage will be a landmark in stimulating capital investment and savings in the United States and in putting our economy back on the track.

One aspect of this legislation troubles us, however, and in its present form, seems to run at crosscurrents to the investment orientation of the bill. We are referring to the commodity tax straddle provision and believe that the existing language is unintentionally—but seriously—flawed. Although there is a clear need to reform certain abuses of this tax mechanism, we find that this provision could have unintended adverse effects on the economy.

As you know, the commodity markets provides an invaluable service for the economy by stabilizing price fluctuations and transferring risk from seller to buyer. Without properly-functioning commodity markets, our agricultural economy would be much less efficient and we could not deliver the quantities of food throughout our own country and the world at predictable prices.

We are particularly concerned that the Committee proposal may tax unrealized gains. Senate Republicans have worked for many years to lower the taxation on capital gains and speed investment in new plants and equipment. By their definition, these are risk ventures and our legislative proposals have sought to nurture this type of activity in the economy.

Taxation of unrealized gains in the commodity markets would actually inhibit risk-taking in that market. Removal of the present built-in incentives to trade could make legitimate commodity trading more costly and could result in wider price fluctuations in the markets. Secretary of Agriculture Jack Block voiced similar concerns on June 6th when he noted that the proposal could adversely affect market liquidity and make it more difficult for some farmers and elevator operators to hedge in the market.

We would like to work with you to fashion a tax straddle provision that would end shelter abuses without seriously affecting the operation of legitimate commodity markets. We would like to reach agreement with you on this so that a floor amendment is unnecessary.

Warm personal regards,

Charles H. Percy, Steven D. Symms, Mark Andrews, Larry Pressler, Jim Abdnor, Jesse Helms, Roger W. Jepsen, Sam Hayakawa, John Tower, Bob Kasten.

Mr. PERCY, Mr. President, the Chicago newspapers have reviewed this tax change and found it to be wanting. The Chicago Sun-Times editorialized on the subject on July 10 and noted that—

This door would be slammed shut on traders as well as tax dodgers under a bill already approved by the Senate Finance Committee.

Five days later, the Sun-Times spoke out on this in another editorial, pointing out that the Ways and Means Committee bill—

Voted to bar abuse of the futures market tax shelters called "straddles" and it did so wisely without imperiling operations of Chicago's commodity exchanges.

Our other major Chicago paper, the Chicago Tribune ran an article on the commodity straddle on July 14, relating to the letter I sent Senator DOLE.

Mr. President, I ask unanimous consent that these three articles from the Chicago press be printed in the RECORD at this point.

There being no objection, the articles



were ordered to be printed in the RECORD, as follows:

[From the Chicago Sun-Times, July 10, 1981]

#### AN ANTI-CHICAGO TAX

New York has a lock on trading in securities. Chicago exchanges, however, do 80 percent of the nation's business in futures trading, including commodities contracts and financial instruments.

It is no surprise, then, that two New Yorkers—Sen. Daniel P. Moynihan and Rep. Benjamin Rosenthal, both Democrats—are among the three prime movers of legislation now on track in Congress that would inflict severe damage on our futures markets.

The asserted aim of the legislation is a worthy one: to prevent those who make financial killings in entertainment, real estate, the professions or otherwise from sheltering their earnings against taxes by investing them in futures contracts.

Its proponents propose to do this by making unrealized gains—paper profits—carried on the books as of Dec. 31 subject to normal income taxes.

The problem, however, is that this dragnet would also sweep in bona fide futures traders—hedgers and speculators—who serve a very useful function in the economy. By their willingness to take risks on what future prices might be, these traders take risk off the backs of those who can't afford it: farmers, ranchers, food processors, businesses and financial institutions.

To fulfill this function the risk-taker must be able to average profits and losses over an extended period and be assured of capital-gain tax treatment on his earnings.

This door would be slammed shut on traders as well as tax dodgers under a bill already approved by the Senate Finance Committee. And it's causing no end of worry at futures exchanges, including the Chicago Board of Trade and the Chicago Mercantile Exchange, and among agricultural organizations, starting with the American Farm Bureau Federation.

All of these organizations support legislation to shut off the tax shelter to outsiders, but they insist that the legislation can be and should be written to exempt bona fide futures traders. We concur.

If this is not done, some go so far as to say the bill "could literally destroy U.S. futures markets as they exist today."

The blow would be especially devastating in Chicago.

We alert Illinois' two senators, Charles H. Percy (R) and Alan J. Dixon (D), to the danger. And in the House, we look to Rep. Dan Rostenkowski (D-Ill.) to stand firmly against the bill in the Ways and Means Committee, which he chairs.

[From the Chicago Sun-Times, July 15, 1981]

#### A PLUS FOR CHICAGO'S TRADERS

The House Ways and Means Committee has voted to bar abuse of the futures market tax shelters called "straddles," and it did so wisely—without imperiling essential operations of Chicago's commodity exchanges.

As originally written, the legislation would have applied to professional traders as well as those who shelter incomes earned elsewhere by investing in futures contracts. This "would have closed the doors of the commodity exchanges," in the dire judgment of Leslie Rosenthal, chairman of the Chicago Board of Trade, and others in the business. And it would have been a severe blow to Chicago, where 80 percent of futures are traded.

Rep. Marty Russo (D-Ill.) proposed an amendment we had endorsed exempting the traders. With the support of the committee chairman, Rep. Dan Rostenkowski (D-Ill.), the amendment prevailed, 25-8.

The battle isn't over. The all-inclusive language is still in a bill cleared by the Senate Finance Committee. On that side of the Capitol, we are pleased that Sen. Charles H. Percy (R-Ill.) is mobilizing support for the position of Chicago's exchanges.

[From the Chicago Tribune, July 14, 1981]

#### DOLE URGED TO EASE COMMODITY TAX

(By Laurie Cohen)

Sen. Percy (R., Ill.) and nine other Republican Senators are urging Robert Dole (R., Kan.) Senate Finance Committee chairman, to support a less restrictive tax on commodity futures transactions than the one approved by the committee three weeks ago.

The 10 Senators, including Jesse Helms of North Carolina, head of the Senate Agriculture Committee, signed a letter that was sent to Dole late Monday. An aide to Percy said the group plans to submit a "package of proposals" to amend the bill passed by the committee.

A floor vote on the senate bill is expected this week.

The committee's plan would effectively close the tax straddle loophole, which the Treasury estimates costs the government \$1.3 billion a year in revenues.

A straddle consists of the simultaneous purchase and sale of commodities for delivery in different months. The possible tax consequences include a deferral of gains into the next tax year and holding the gain for six months to qualify for long-term capital gains treatment at favorable tax rates.

"Although there is a clear need to reform certain abuses of this tax mechanism, we find that this provision could have unintended adverse effects on the economy," the letter states.

Industry leaders have been waging a vigorous lobbying campaign, claiming that the Finance Committee approach, which is supported by the Reagan administration, would substantially restrict the flow of speculative cash to the futures market. The Percy aide said that Robert Wilmoth, president of the Chicago Board of Trade, met with Percy in early May.

On Friday the House Ways and Means Committee approved an industry-backed bill introduced by Rep. Marty Russo (D., South Holland) that would produce \$400 million less in revenues to the Treasury, according to Ways and Means Committee estimates.

The Percy aide said the Republican Senators are "attempting to move it more toward the House approach."

The letter says: "We are particularly concerned that the committee's proposal may tax unrealized gains. Senate Republicans have worked for many years to lower the taxation, on capital gains and speed investment on new plant and equipment."

Mr. PERCY. Mr. President, on July 20—Monday of this week—Barron's editorialized on the matter of the commodity straddle, highlighting their editorial with the title that the Finance Committee proposal was "Fraught with risk" to the smooth functioning of the commodity markets.

Speaking to the matter of taxing unrealized gains, the Barron's editorial notes:

Why not tax unrealized gains in stocks and bonds? By closing one such "loophole," the Administration, by force of logic, must close more, until it draws a loop tight around the neck of all risk capital.

The editorial continues:

The possible financial consequences of this crusade, in any case, strike us as horrific. If futures markets alone were taxed on paper profits, capital would fly elsewhere. Gold is

an example. If futures contracts were liable to tax on unrealized gains, but mining shares and coins were not, capital would sensibly shift to shares and bullion.

And then the Barron's editorial makes an excellent point about this legislation:

As New Year's Eve drew near, moreover, speculators would distractedly trade with an eye to taxes as much as to supply and demand. Prices would tend to become untrue. The business of futures exchanges—to shift market risk from hedgers to speculators—would be impaired.

Mr. President, this is a valuable piece to the debate over this legislation and I ask unanimous consent that it be printed in the RECORD at this point.

There being no objection, the editorial was ordered to be printed in the RECORD, as follows:

#### BAD SPECULATION: PROPOSAL TO TAX COMMODITY STRADDLES IS FRAUGHT WITH RISK

To the layman, the subject of taxes on commodity straddles beckons like a dark alley. Just the thing to know nothing about, the sensible man might say. Exactly the thing to be left to the experts. Perhaps, but in the past few weeks that dusty subject has captured the imagination of the Fourth Estate. Even as the House and Senate made ready to vote on such portentous fiscal matters as indexed marginal brackets and the All Savers' Certificate, stories kept surfacing about commodity straddles and taxes. In an investigative vein, for example, The Wall Street Journal disclosed from Washington that lobbyists for commodity speculators had been seen aboard yachts as well as on dry land in the act of buttonholing legislators. Dispatches have traced the progress of alternate bills, in the House Ways and Means Committee and the Senate Finance Committee, that would close the straddle "loophole." Then, on Wednesday, a coincidence: The New York Times and Washington Post, in separate editorials, endorsed the Senate bill, which is the Administration's. Even casual observers began to gather that (a) Donald T. Regan, the Treasury Secretary and former chief of Merrill Lynch, believes that "2,500 wealthy commodity speculators" are getting away with something; (b) the Administration means to do something drastic about it; because (c) the cost in forgone revenues runs (by the government's estimate) to \$1.3 billion a year.

Yet one small detail largely escaped comment: if the Administration gets its way, commodity positions would be marked to market value at the end of each year and taxed on the basis of profits, whether realized or not. Speculators, that is, would be taxed on paper profits.

The best place to start this peculiar story is at the beginning. A commodity straddle, or spread, is a trading technique. It is vividly defined as a "tax gimmick." By the same token, a fork might be defined as a "bean spear." Some people spear beans with forks; some speculators use spreads, or straddles (the terms are synonymous) to defer taxes. The definition is wrong because it is incomplete. A spread is a technique that involves the purchase of one futures contract and the sale of another. The second contract, the one (in this example) that is sold, may be in a different commodity. For example, a man might buy beans and sell silver. Or, the second contract might be in the same commodity but in a different delivery month. Thus, a speculator might buy October gold and sell December gold.

Spreads have many uses. The first is to reduce risk. It is obviously safer to stake out a long position in beans if one were also short a bit of them (or some wheat or corn). A second use is to profit by an expected

change in price relationships, for example, between bills and bonds or between beans and silver. A good reason to put on spreads is to put on taxes which is the cause of the row in Washington and all that ink in the papers.

Anyone with income to shelter can set up a commodity spread on which a profit (it is hoped) will be largely offset by a loss. He, or she, can buy gold futures for delivery in one contract month and simultaneously sell in another contract month. The chances are that, no matter which way gold goes, one "leg" of the spread will show a profit and the other leg a loss. The tax angle is to realize the loss but to postpone the gain. If the gold price rises, the short leg yields the loss. Thus the short sale is closed out and the long leg is protected with another spread. The profit isn't realized until the following year, or perhaps the year after that. Perpetual postponement is unlikely, however, because market risk tends to outweigh the benefit of tax postponement. The idea is to push a gain forward until it becomes a long-term gain, then to sell and pay taxes at the reduced rate.

All of which has elicited considerable indignation and one exceptionally bad piece of legislation. The bill (by number, S. 626) would close the straddle loophole by requiring that speculators mark their positions to market at the end of the year. Real and paper profits alike would be taxed at a rate of 32 percent or so (income would also be offset by past losses). This way, say proponents, profits would be captured in the year in which they were earned.

Obviously nothing of the kind has been done before. In no market are paper gains subject to tax. A precedent to the contrary would open vast possibilities for mischief in financial markets and real estate. If unrealized gain in gold contracts and T-bond futures are to be taxed, then why not in bullion and bonds, or in houses and common stocks?

Equity in a house can be borrowed and spent but it isn't taxed as income until the place is sold. Why not mark houses to market? At yearend, an investor with a profit in stock can sell short "against the box," or against his long position. He thus can "cash out" his gain but pays no tax until he delivers the stock to close out the transaction next year. Why not tax unrealized gains in stocks and bonds? By closing one such "loop-hole," the Administration, by force of logic, must close more, until it draws a loop tight around the neck of all risk capital.

What consequences might spring from this essay in "reform" are anybody's guess. The nature of tax reform is that everyone wants it but nobody has time to read the legislation, or, finding the time, can't make heads or tails of it. A case in point is the bill at hand, S. 626, to wit: "In general—In the case of any offsetting position in personal property—(1) that portion of any loss—(A) which is incurred in connection with the sale or exchange of any position held as part of such offsetting position, and (B) which exceeds any gain recognized in connection with the sale or exchange of any other position held as part of such offsetting position, shall be treated as incurred as of the close of the balanced period; and (2) the holding period (as determined under section 1223) of any position held as part of any offsetting position shall not include any portion of the balanced period with respect to the position." The words make sense separately but somehow not en masse.

The possible financial consequences of this crusade, in any case, strike us as horrific. If futures markets alone were taxed on paper profits, capital would fly elsewhere. Gold is an example. If futures contracts were liable to tax on unrealized gains, but mining shares and coins were not, capital would sen-

sibly shift to shares and bullion. As New Year's Eve drew near, moreover, speculators would distractedly trade with an eye to taxes as much as to supply and demand. Prices would tend to become untrue. The business of futures exchanges—to shift market risk from hedgers to speculators—would be impaired. A futures industry handout raises an interesting point. "Should mark-to-market legislation adversely affect [financial futures] markets—as we believe it would—the cost would far exceed the benefits. Only a very slight widening of bid-ask spreads will add millions of dollars to the Treasury's costs in a new debt issue. We close a \$1.3 billion dollar straddle loophole . . . and in the process increase the cost of Treasury financing by many times that amount." Yet the Treasury, unhedged, wants to make just that speculation.

This disaster in the making, oddly, isn't born of ignorance. The Treasury Secretary, Donald T. Regan, knows that if paper profits were profits, many would be the rich man at the bar at Harry's. (Merrill Lynch, which under Regan's stewardship helped to develop a type of straddle that was subsequently challenged by the IRS, now is helpfully advising clients on "alternate income sheltering strategies.") Moreover, a friend of S. 626, Sen. Daniel Patrick Moynihan (D., N.Y.) knows a thing or two about the commodity pits. The Senator's financial statements seem to show that a trading profit of roughly \$60,000 was pushed into 1980 from 1979 as the result of some pork-belly spreads designed by his broker, Maduff & Sons. (An aide of Moynihan's was asked for comment on the Senator's apparent first-hand experience with the object of the ire of S. 626; but no comment was forthcoming.) In fairness to Moynihan, his was a managed account and the spread was far from riskless. But then, most spreads involve risk. When the Administration argues the opposite, it is misinformed.

Thus the Treasury's honorable course is surrender. S. 626 should be given up for dead. In the House, the Ways and Means Committee has passed a bill that would limit the tax benefit of spending to income earned in commodity futures trading. It would impose no mark-to-market rule. If a bill must be passed, let it be that one.

The timeless lesson in this political dustup is that the tax law is far too complicated. The only known tangible result of the parade of "tax reforms" from 1954 to date is the burgeoning fees of lawyers and accountants. A while ago, Alvin Rabushka, senior fellow at the Hoover Institution at Stanford University, proposed a simple flat-rate system. If everybody paid 11 percent, he said, the Treasury would take in as much as it does today under the current gimmick-ridden regime. Nothing against lawyers and accountants, but the more we think of that reform, the better we like it.—JAMES GRANT.

Mr. PERCY. Mr. President, I have also received a number of letters in recent days from farm groups that are strongly concerned about this tax provision and I ask unanimous consent that a few of these be printed in the RECORD at this point.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

NATIONAL BROILER COUNCIL,  
Washington, D.C., July 17, 1981.

HON. CHARLES PERCY,  
U.S. Senate, Dirksen Office Building,  
Washington, D.C.

DEAR SENATOR PERCY: The National Broiler Council represents the majority of the nation's broiler producer/processors. Because the broiler industry receives no government price support and because we rely entirely

upon the free market for the price we receive for our product, we are particularly interested in looking for ways to reduce the risks of a very volatile business. Our producers use the futures markets of the country both to hedge the price of corn and soybean feedstuffs and to hedge the price they receive for their broilers.

Because there is a huge volume of trading in the corn and soybean futures markets, broiler producers have always been able to hedge very successfully the price of their feedstuffs. Unfortunately, we have not had the same success in our attempt to hedge the price of broilers. There has been a broiler contract for several years on the Chicago Board of Trade that has never had proper volume and liquidity. Therefore, we encouraged the Chicago Mercantile Exchange to establish a broiler contract, which they did in late 1979. This broiler contract on the Chicago Mercantile Exchange has not yet achieved a volume that will provide the necessary liquidity for a vital and efficient futures market. However, we are hopeful that increased gains in volume and liquidity in this market will give us the kind of hedging tool that we want.

Because of our experience in the futures markets, we in the broiler industry have looked with interest at the current deliberations by the Congress to close the so-called commodity "tax straddle loophole." Certainly we do not feel that people should be able to take income gained in other areas and create an artificial and offsetting loss in the futures markets by using spreads or straddles or any other device. However, we are concerned about the possible impact of the mark to market approach that has been adopted by the Senate Finance Committee. We are concerned that by imposing a tax on unrealized gains at the end of each year, the government might possibly dissuade traders from investing in long-term positions. We fear that traders will be much less interested in taking long-term positions in the futures market if they are completely denied the benefit of transferring gains and losses forward into future years.

We appreciate and applaud the Senate Finance Committee's action in exempting hedgers from taxation on unrealized gains; however, we realize that there must be sufficient interest on the part of speculators in order to create a viable futures market. The futures market in broilers is a good example of a market that has sufficient hedger interest, but lacks adequate speculative interest. Therefore, we fear that any tax approach which diminishes the interest of speculative capital in the futures market will greatly impair our attempts to establish a viable broiler contract which will provide a satisfactory hedging medium for our producers. We hope that it will be possible for the Senate to find satisfactory ways to eliminate any tax abuses without having a negative impact on the futures market.

Sincerely,

GEORGE B. WATTS,  
President.

ASA WASHINGTON OFFICE,  
Washington, D.C., July 20, 1981.

HON. CHARLES PERCY,  
U.S. Senate,  
Washington, D.C.

DEAR SENATOR PERCY: I understand that during Senate consideration of the tax bill that you intend to seek less restrictive tax treatment of commodity straddles income than was approved by the Senate Committee on Finance. The American Soybean Association shares your concern with the future straddles provisions approved by the Finance Committee and urges approval of legislation similar to that approved in the House Committee on Ways and Means.

I enclose a copy of a letter ASA filed with the Committee on Finance on June 1 ex-



pressing concern that in the effort to eliminate the use of futures straddles as a method of tax avoidance that the Congress not cause a flight of speculator capital out of the futures markets. Futures markets are essential to American agriculture since they provide a way for farmers, processors, and merchandisers to reduce their risks from price fluctuations. Commercial hedgers are able to transfer their risk to the speculators who seek such risk in the hope of making a profit. If the profits from futures speculation are all taxed at the highest unearned income level one can expect a decline in speculator activity and a loss in market liquidity.

Soybean producers are especially aware of the importance of futures markets. Almost twenty percent of the total volume on futures exchanges is comprised of contracts for soybeans, soybean meal, and soybean oil. A decline in market liquidity would have an enormous effect on our industry.

Therefore, Mr. Chairman, we offer our support for your effort to gain fair treatment for income received from futures straddles.

While tax abuses through futures straddles should be stopped, the Congress should not disrupt our futures markets.

Sincerely,

JOHN BAIZE,  
Washington Program Manager.

ASA WASHINGTON OFFICE,  
Washington, D.C., June 1, 1981.

Hon. ROBERT DOLE,  
Chairman, U.S. Senate Finance Committee,  
Dirksen Senate Office Building, Washington, D.C.

DEAR SENATOR DOLE: The Finance Subcommittee on Taxation and Debt Management and Subcommittee on Energy and Agricultural Taxation have scheduled hearings on June 12 on S. 626 and other bills affecting tax treatment of commodity straddles. The American Soybean Association takes this opportunity to offer comments on those bills. We ask that our comments be made part of the hearing record.

The American Soybean Association is a national, non-profit, volunteer, single-commodity association organized to assure the opportunity for a profitable soybean industry. ASA has approximately 20,000 dues-paying members and ASA is supported by over 460,000 soybean producers who voluntarily invest in ASA programs through 23 separate statewide soybean checkoff programs. ASA seeks to maintain soybean profitability through its foreign market development, research, producer and public information, and government relations programs.

ASA does not condone the use of futures straddles as a means of avoiding federal income taxes. However, we are concerned that the Congress not unintentionally reduce overall speculation in futures in its attempt to curtail the use of commodity straddles. The futures markets are essential to the marketing of soybeans and soybean products both within the United States and in the international market. Speculators are essential to the proper functions of the futures markets.

Producers, merchandisers, processors and users of soybeans and soybean products use the futures markets both as a mechanism of price discovery and as a means of reducing the risk of price fluctuations. Farmers use the futures markets to "lock in" a future price for delivery of their production. By doing so they are better able to plan cash flow and project potential profits. Merchandisers, processors, and end-users use the futures market to "lock in" a future delivery price for such commodities. The ability to assure future prices and delivery of soybeans and soybean products greatly reduces the risk of doing business and allows substantially reduced trading margins to the benefit of both producers and consumers.

The futures markets allow hedgers to reduce their risk only because speculators seek

out such risk in the futures markets. The capital infusion into the markets by speculators is essential to their liquidity. When one considers that the value of the 1980 soybean crop was approximately \$16 billion, only a small portion of which was consumed directly on the farm, it is apparent how much speculator capital is needed to maintain soybean market liquidity. The overall value of the commodities traded on futures exchanges, not including financial futures, in 1980 was in excess of \$100 billion.

We agree that tax abuse in the use of commodity futures should not be permitted. However, we are opposed to any legislation that would, as some have suggested, result in all profits from commodity futures transactions being considered unearned income and, thus, taxable at up to 70 percent. Also, we oppose a speculator being unable to balance out profits and losses from one year to the next. Such tax statutes would have the effect of forcing many speculators to turn to other investments where they would be eligible for taxation of the profits at the lower capital gains rates. The result could be a general reduction in market liquidity with higher risks for commercial hedgers. Faced with greater risk, the commercial hedgers would most likely increase their margins to the producers and consumers. Since over \$8.6 billion of U.S. soybeans and soybean products were exported in 1980 any decrease in U.S. export competitiveness resulting from higher margins could impact the entire U.S. economy.

In conclusion, ASA urges extreme caution by the Congress in attempting to eliminate the use of futures markets as a means of tax avoidance. Futures markets are essential to farmers, processors, merchandisers, and end-users. They should not be needlessly interrupted. Soybean farmers need a strong and viable futures market to help assure their profit opportunity. The continued profitability of our nation's 630,000 soybean producers will help assure a stronger U.S. economy.

Sincerely,

FRANK RAY,  
President.

GULF, GREAT-LAKES GRAIN LTD.,  
Chicago, Ill., June 22, 1981.

Hon. CHARLES H. PERCY,  
U.S. Senate, Dirksen Senate Office Building,  
Washington, D.C.

DEAR SENATOR PERCY: While you are undoubtedly aware of proposed tax legislation pending before your committee affecting the commodities' future market, you may not be aware of the destructive impact on the entire grain marketing system embodied at the Chicago Board of Trade if such legislation were passed.

While the legislation purports to address tax "abuses" related to commodity spread transactions, it constitutes a radical departure from the underlying concept of the tax code which is to tax only realized gains. Further, such legislation would constitute a discriminatory (in fact single instance) of an effort under the tax law to capitalize interest without amortization.

We at the Chicago Board of Trade are proud of the fact that our grain marketing system plays a vital and growing role in the world economy. A firm foundation to such system is the incentive for entrepreneurial participation by investors, many of whom are small investors and who rely upon existing legislation for their participation. To enact the proposed legislation would, in this company's opinion, "dry up" this entire source of investment and create illiquidity in a market demanding complete liquidity for successful continuation.

In substance not only is the proposed legislation entirely discriminatory and without priority, but it would seriously impair the continued vitality of an industry funda-

mental to this country's entire grain marketing system.

If you believe I overstate the impact of such legislation, I ask you only to read the same in the light of this letter.

Thank you for your consideration.

ROBERT H. WILLIAMS,  
General Partner.  
EDWARD D. MCGREW,  
Limited Partner.  
JOHN J. GRIFFITH,  
Limited Partner.  
RUTH HOMER,  
Manager.

ILLINOIS COOPERATIVE FUTURES Co.,  
Chicago, Ill., July 21, 1981.

Hon. CHARLES H. PERCY,  
U.S. Senate,  
Dirksen Senate Office Building,  
Washington, D.C.

DEAR SENATOR PERCY: The Senate Finance Committee's recent action changing the method of taxing commodity straddles could deprive farm cooperatives and many other agribusiness firms of a mechanism of shifting risks of handling large inventories throughout the marketing year.

If left unchanged in floor debate or in conference, the new tax bill will drive professional speculators out of the markets. This would severely restrict the markets' liquidity and thus its capability to withstand commercial hedge pressure. The risk capital of professional speculators is necessary to absorb that risk of ownership which a farmer or agribusiness firm cannot afford to take.

Our scope of operations cover the entire United States. We represent some 45 Regional farm cooperatives and some 55 smaller cooperatives. Each of these cooperatives shift the risk of farmer owned grain to market professionals. Your understanding of the necessity to insure market liquidity will greatly help the U.S. Agricultural system and in turn the American Consumer. While I would not ask for special consideration for any group, I would ask that you continue your efforts not to unduly penalize an industry so vital to the U.S. economy.

Sincerely,

F. MCCOY COAN,  
Executive Vice President.

#### EXHIBIT 1

##### TRANSITION RULE PRECEDENTS

Adjustments required by changes in method of accounting—current law:

Changes in a taxpayer's accounting methods can often change his tax liability. Section 481 of the Internal Revenue Code of 1954 (26 U.S.C. § 481) generally provides that, where a taxpayer changes his method of accounting, whether voluntarily or involuntarily, he must take into account in computing taxable income in the year of the change all adjustments which are necessary, solely because of the change in accounting method, to prevent duplication or omission of income or deduction items.

Since income for several years might be lumped into one year due to inclusion of all adjustments in the year of the change, § 481 provides two alternative limitations on the tax due for the year of the change. Under one method of limiting the tax, the net amount of the adjustments is allocated ratably over a three-year period (the year of the change and the two preceding tax years) (26 U.S.C. § 481(b)(1)). Under the alternative method, if the taxpayer can establish his taxable income under the new method of accounting for prior years, and can allocate the adjustments due to the new method back to these prior years, the increase in tax is limited to the net increase that would result from the inclusion of the adjustments in the prior years to which the allocations are made (26 U.S.C. § 481(b)(2)).

Adjustments required by changes in method of accounting—prior law:

The above-described provisions were first adopted as part of the Internal Revenue Code of 1954. Prior to that time (under the 1939 Code) a number of inequities existed. Some taxpayers who voluntarily changed accounting methods were required by IRS to make adjustments in the year of the change, thus experiencing "bunching" of income and an especially heavy tax burden for that year. Finally, taxpayers who were required by the IRS to change their method of accounting often obtained relief in the courts from making any adjustments.

However, Congress' action in 1954 to correct these inequities gave rise to several additional problems, relating primarily to adjustments for years prior to 1954. To remedy these problems, the Technical Amendments Act of 1958 (P.L. 85-866) adopted a special rule to give relief to taxpayers "where the adjustment results in an increase in income of the taxpayer of more than \$3,000" (S. Rept. No. 1983, 85th Cong., 2d Sess. (1958)). Under this rule:

"One-tenth of the net amount of the adjustments . . . shall . . . be taken into account in each of the 10 taxable years beginning with the year of the change." (P.L. 85-866, § 29, amending 26 U.S.C. § 481(b))

Since this 1958 amendment was intended to take into account adjustments for pre-1954 Code years over a ten-year period, the amendment became obsolete for taxable years after 1963. Therefore, the above-quoted language was deleted as part of the "deadwood" amendments included in Title XIX of the Tax Reform Act of 1976 (See: P.L. 94-455, § 1911(a)(68)). The deletion of this language in 1976 did not, however, change the basic principle of allowing taxpayers to spread the increased tax liability resulting from a change in accounting methods over a ten-year period.

Other provisions allowing proration of adjustments in taxes due to changes in accounting methods:

For example, the Revenue Act of 1978 (P.L. 95-600) added a new provision to the tax laws allowing certain issuers of "qualified discount coupons" to elect to deduct for any taxable year the cost of redeeming coupons that are (1) outstanding at the end of the taxable year, and (2) redeemed within six months after the end of the taxable year. The amendment which made this change also included the following provision:

"(f) 10-Year Spread of Any Net Increase in Taxable Income Under Section 481(a)(2).—In the case of any election under this section which results in a net increase in taxable income under section 481(a)(2) . . . such net increase shall . . . be taken into account by the taxpayer in computing taxable income in each of the 10 taxable years beginning with year for which the election is made." (26 U.S.C. § 466(f))

The Revenue Act of 1978 also included a provision requiring that the taxable income of corporate farming " . . . shall be computed on an accrual method of accounting and with the capitalization of preproductive period expenses . . ." (26 U.S.C. § 477(a)).

In order to ease the tax burden imposed under this change, the same revision included an additional amendment providing that "the net amount of adjustments required . . . to be taken into account by the taxpayer in computing taxable income shall be taken into account in each of the 10 taxable years . . . beginning with the year of change" (26 U.S.C. § 447(f)(3)).

Similar relief was granted under the 1978 Act for taxpayers who sell or distribute magazines. Under prior law, accrual method sellers of magazines had been required to include sales proceeds in income for the year when the merchandise was shipped and could reduce income for returns of unsold

merchandise only in the year the items were returned. Changes in the 1978 Act allowed magazine publishers to elect to exclude from income amounts attributable to items returned within a two and one-half month "merchandise return period" after the end of the taxable year.

The same provision included an amendment entitled, "5-Year Spread of Transitional Adjustments for Magazines" whereby " . . . the period for taking into account any decrease in taxable income . . . shall be the taxable year for which the election is made and the 4 succeeding taxable years" (26 U.S.C. § 458(d)). It is significant that the Conference Report on the 1978 Act characterized this 5-year adjustment period as an exception to the normal practice:

"Also under present law, when a taxpayer changes a method of accounting, certain adjustments (called transitional adjustments) are often required to prevent the duplication or omission of an item of income or deduction. These transitional adjustments are subject to special rules that generally prescribe that the amount of adjustment is to be taken into income (or claimed as a deduction) ratably over 10 years, beginning with the year in which the change in method of accounting occurs." [Emphasis supplied.] (Standard Federal Tax Reports, 1981, CCH, ¶ 2899N.)

Amortization of real property construction period interest and taxes:

Prior to 1976, amounts paid for interest and taxes attributable to the construction of real property were generally allowable as a current deduction (unless the taxpayer elected to capitalize them as carrying charges). Congress regarded this as an undesirable tax shelter:

"The present tax provisions relating to real estate are used by taxpayers in high marginal income tax brackets to avoid payment of income tax on substantial portions of their economic income. This is principally achieved by allowing current deductions for costs which many feel are attributable to later years. For example, during the construction period the interest paid on the construction loan and the real estate taxes are immediately deducted even though there is no income from the property. . . . These deductions combine to generate losses which can be used to offset income from other sources . . ." (H.R. Rep. No. 94-658, 94th Cong., 2d Sess., 30-30 (1976)).

Therefore, the Tax Reform Act of 1976 (P.L. 94-455) added a new section to the Code stating that "Except as otherwise provided in this section . . . no deduction shall be allowed for real property construction period interest and taxes" (26 U.S.C. § 189(a)). The section went on to provide that such charges are to be capitalized in the year in which they are paid or incurred and amortized over a ten-year period (26 U.S.C. § 189(b)).

However, the ten-year amortization rule did not take effect immediately. In order to ease the transition to the new system, § 189(b) provided that amounts paid or accrued, which would otherwise have been allowable as a deduction for the taxable year, would be allowable in accordance with a table set out in § 189(b). Thus, for nonresidential real property (for example):

(1) For taxable years beginning in 1976 (the year the amendment took effect) taxpayers were allowed to deduct 50 percent of construction period interest and taxes, and then to deduct one-third of the remaining 50 percent in each of the next three years;

(2) Beginning in taxable year 1977, taxpayers could deduct one-fifth of the interest and taxes per year over a five-year period;

(3) Beginning in 1978 they were allowed to deduct one-sixth of these amounts over a six-year period, and so forth, through 1981, when they could deduct one-ninth of these amounts over a nine-year period.

In years after 1981, the provision takes full effect and taxpayers will be allowed to deduct only ten percent of these charges per year over ten years (26 U.S.C. § 189(b)).

Investment credit for qualified progress expenditures:

Prior to adoption of the Tax Reduction Act of 1975 (P.L. 94-12), an investment tax credit could be taken for an investment in "qualified property" only at the time the property was placed in service. Congress believed that this provision was inequitable.

" . . . In cases where taxpayers pay for long lead time property as it is being constructed and substantially before the property can be placed in service, to wait for the allowance of the investment credit until the property is placed in service represented too long a delay in the claiming of the credit." (Standard Federal Tax Reports, 1981, CCH, ¶ 531 quoting the Conference Report on P.L. 94-12.)

To remedy this, the 1975 Act added new § 46(d) to the Code whereby a taxpayer, at his election, would be permitted to treat "qualified progress expenditures" for new property as a part of the base for which he could claim an investment credit. To minimize the possible "doubling up effect" of this change, new § 46(d) also included a "transitional rule" providing for a five-year phase-in of the new system.

Under the transitional rule, 20 percent of a taxpayer's 1975 progress expenditures could be treated as part of his qualified investment for 1975. The remaining 80 percent of those payments would be taken into account ratably over the next four years (20 percent a year). Forty percent of the progress expenditures made in 1976 could be taken into account in that year with the remaining 60 percent taken into account in the remaining three years of the phase-in period, and so forth. Thus, by 1979 the phase-in period would be complete and all progress expenditures made in that year and later years could be treated as qualified investments. (See: 26 U.S.C. § 46(d)(7)).

Other transitional rules:

Transition rules have also been adopted in connection with amendments to the tax laws involving:

- (1) Rollover contributions to employee trusts or annuities (26 U.S.C. § 402(a)(5)(A));
- (2) Employee pension plans (26 U.S.C. § 410 note, 415 note);
- (3) Accounting methods for installment sales of property (26 U.S.C. § 453(a)(1) note);
- (4) Prepaid dues income of membership organizations (26 U.S.C. § 456(d));
- (5) Deferred compensation plans for State and local government employees (26 U.S.C. § 457 note);
- (6) Bad debt losses and gains with respect to securities held by banks (26 U.S.C. § 552(c)(4));
- (7) Interest on accumulation distributions from foreign trusts (26 U.S.C. § 668(c)(2));
- (8) Credit limitations on income from outside the U.S. (26 U.S.C. § 904(e));
- (9) Capital loss carryovers (26 U.S.C. § 1212(b)(3)); and
- (10) The definition of averageable income (26 U.S.C. § 1302(b)(3)).

Mr. PERCY. Mr. President, the understanding that has been worked out with the majority leader is that a colloquy on the commodity straddle will occur at an appropriate time and 60 minutes will be reserved for the 10 Senators whose names I have mentioned, including my distinguished colleague from Illinois, Senator Dixon, to present the case in this matter.

It is my understanding that the able manager of the bill, Senator DOLE, will take out of the bill itself whatever time



he requires to respond to that colloquy.

Mr. DOLE. That is correct.

Mr. PERCY. If it is possible to work out a satisfactory transition rule, then there will be no further need for an amendment. But if that is not possible, then it is the understanding of the Senator from Illinois that time has been reserved so that, on behalf of the 10 Senators, I may offer an amendment; that there will be 30 minutes then provided for that amendment; that that amendment will be considered and voted upon prior to final passage of the measure.

Is that understanding correct?

Mr. DOLE. That is correct.

Mr. PERCY. I thank my distinguished colleague.

I should like to ask one other question of the distinguished Senator, because most of the Senators who are concerned about this matter are on the Agriculture Committee. The Agriculture Committee will be meeting tomorrow on the reconciliation conference.

If we could have adequate notice—an hour's advance notice—as to when the colloquy would be appropriate, it would be appreciated, so that all Members who have indicated a desire to be on the floor and to speak on this issue can be on the floor. If that is satisfactory, I express my appreciation to the distinguished floor manager of the measure, the chairman of the Finance Committee, for his consideration in this matter.

Mr. DOLE. That is satisfactory with the Senator from Kansas. It is something on which we have spent a great deal of time.

I hope the Senator does not want to exempt the traders from any tax. They have a pretty good deal.

Mr. PERCY. As the distinguished Senator knows, he earlier today requested that the 3 o'clock colloquy we were to have be deferred so that, as I understood it, he could consider the matter further and possibly discuss it with the Treasury Department—I believe when he hears the way we are approaching the problem, he will see that we support the premise that everyone should pay taxes.

What we are concerned with—as I have discussed—is the destruction of highly sensitive markets, the futures markets. When he hears that colloquy, we trust that we can work out a transition rule that will preserve the integrity of what Alan Greenspan said to me yesterday is one of the most sensitive markets. Mr. Greenspan said that if we act improperly in this matter, we could affect many other markets in this country. We simply need to know what we are doing, and I know that is consistent with the philosophy of the distinguished Senator from Kansas.

Mr. DOLE. I thank the distinguished Senator from Illinois.

Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. DOLE. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. DOLE. Mr. President, I think there has been a resolution now of this matter and let me say to the distinguished Senator from Massachusetts to make certain we have an understanding. Under the latest proposal in 1982 the rate would be 27½ percent; in 1983 the rate would be 25 percent; in 1984, 22½ percent; in 1985, 20 percent; and in 1986 it would be 15 percent.

And as I understand the revenue loss on that, according to the joint committee, it is in the neighborhood of \$250 million and that is the best estimate I can make to the Senator from Massachusetts.

Mr. KENNEDY. I thank the Senator from Kansas.

I do think we quite frankly could find more deserving beneficiaries for this \$250 million but I look at it that we have hopefully saved the American taxpayers about \$25 billion today. Maybe others are going to object, but I appreciate the good faith of the Senator from Kansas. This is a 5-year loss and it is basically within margin of error. The way I see those figures, expressed over the period of time, \$30 to \$40 million a year, is within the basic margin of error.

I have no objection.

Mr. DOLE. Let me make clear to the Senator from Massachusetts those are estimates not made by this Senator.

Mr. KENNEDY. I understand that.

The Joint Committee has been always very fair with this Senator and I have no reason to question their estimates at this time.

Mr. DOLE. As I understand, that is satisfactory to both Senators from Oklahoma and the Senator from New Mexico.

The PRESIDING OFFICER. Is there objection?

Mr. BAKER. Mr. President, is the Chair putting the overall question?

The PRESIDING OFFICER. The Senator is correct.

Mr. BAKER. Just to make sure we have not dropped a stitch, let me make sure I have included everything.

#### RESTATEMENT OF UNANIMOUS CONSENT AGREEMENT

Mr. President, the intent of this request is to provide that only certain amendments will be in order. They are all first-degree amendments and they are all listed.

It is that there be time limitations on those amendments as noted on the list, except in the case where there is no time noted in which case there will be 30 minutes to be equally divided and the control of time will be in the usual form.

There will be a time limitation on the joint resolution of 6 hours to be equally divided between the distinguished manager of the joint resolution, the chairman of the committee and the distinguished ranking minority member, the Senator from Louisiana.

It is understood that time may be used as the managers wish including to yield time off the joint resolution to supplement the time provided for amendments.

No amendment other than those

amendments listed and the committee substitute, as amended, will be in order.

Following the final disposition of these amendments the joint resolution will be taken through the stage of third reading, with third reading to occur not later than 3 p.m. on Wednesday, July 29, 1981.

At 3 p.m. on Wednesday, July 29, any amendments remaining will have a time limitation of 5 minutes equally divided.

There will be no further debate beyond the 5 minutes so provided. And no point of order or appeal in regard to the joint resolution will be in order after third reading, and following third reading the joint resolution will be returned to the calendar and no motion in respect thereto will be in order except for nondebatable motion to proceed to its consideration.

In addition, Mr. President, my request provides that after third reading of the joint resolution the Senate will proceed to take up the Department of Justice authorization bill at which time a vote on cloture filed against the Johnston amendment will occur. After the disposition of the cloture motion the majority leader may on motion and after consultation with the minority leader proceed to one of five items, the House or Senate tax bills, the tax conference report, the reconciliation conference report, the House budget bill, or one appropriation bill if such is available, it being understood that nothing in this request will waive any rights nor affect the status of the appropriation bill in respect to any other rule or precedent of the Senate.

Mr. President, I believe that is the summary of the request that has been put and I have taken the liberty of restating it since it has occurred now in stages and installments rather than a single presentation.

I inquire of the minority leader if he has any demurrer to that formulation or any corrections that he wishes to make?

Mr. ROBERT C. BYRD. I thank the distinguished majority leader.

First of all, what is the understanding with respect to the pending amendment by Mr. DOLE and Mr. DOMENICI?

Mr. BAKER. Yes. Mr. President, let me yield to the Senator from Kansas so he may explain that.

The PRESIDING OFFICER. The Senator from Kansas.

Mr. DOLE. Mr. President, it is my intention to withdraw the amendment and then offer an amendment which would comport with the agreement or at least the understanding we have just had with interested Senators and have a vote on that. And I am prepared to proceed whenever I get the word.

Mr. ROBERT C. BYRD. When will the amendment by Mr. DOLE come down?

Mr. DOLE. I will take it down ahead of time. My word is good.

Mr. ROBERT C. BYRD. The only reason I ask is under the agreement it would not have to come down until third reading unless we have an understanding. My understanding is that it will come down immediately after this agreement is entered into.

Mr. BAKER. Mr. President, if the Senator will yield to me, it is my understanding it will come down immediately

after this agreement is entered into, but it is also my understanding as a result of the negotiation between the Senator from Kansas and the Senator from Massachusetts, the Senator from Kansas will offer an amendment which will comport with the agreement which I understand the two Senators have made.

Mr. DOLE. I might add further it may be disposed of on a voice vote. I am not certain anyone will demand the yeas and nays.

Mr. ROBERT C. BYRD. Further, Mr. President, what assurance can the majority leader give to the Senate? I will only state this for the record. I know what the intent of the majority leader is. But for the record, what assurance does the majority leader give that this measure will remain before the Senate until final action after third reading next Wednesday, that it will not be set aside, not be disposed of by motioning up another amendment?

Mr. BAKER. Mr. President, I give my assurance to the minority leader in that respect. I would be happy to amend the order if he wishes me to do so. But I give him my personal assurance that it is my intention to proceed to third reading on this measure and not displace it with another measure except by unanimous consent as it might appear desirable to both sides.

Mr. ROBERT C. BYRD. Mr. President, the majority leader's word is good enough for me.

I just want to make sure every opportunity is given to Senators whose amendments are enumerated to call up those amendments before the hour of 3 o'clock is reached next Wednesday.

Mr. President, can the majority leader and the two managers of the measure assure the Senate that sessions will be fairly lengthy during the interim?

Mr. BAKER. Yes, Mr. President, I would hope the managers of this joint resolution on both sides will take account of the fact that we have more than 90 amendments to this joint resolution. While I have expressed the hope that many of them will not be called up and time on debate of the measures will be severely reduced, it is still going to be a major job to take all of these amendments up and consider them in coherent way.

So I hope the managers of the joint resolution will stay late tonight and will, since Thursday night is the regular evening in any event, a late evening, I expect tomorrow evening to be very late, stay as late as necessary on Friday, Monday, and Tuesday in order to provide for the orderly disposition of this measure and all the amendments to it.

Mr. President, while I am on the floor and responding to the minority leader, let me cover one other point.

ORDER VITIATING CONVENING TIME ON SATURDAY

Mr. President, I ask unanimous consent that conditioned on the granting of this order, that the order to convene the Senate on Saturday at 10 o'clock be vitiated.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. ROBERT C. BYRD. Mr. President, if the majority leader will further yield,

I hope that Senators whose amendments are enumerated in the request will call them up in timely fashion. I have seen situations like this occur so often in which Senators want to put their amendments off until the next day or the last day and, as a result, we have a glut of amendments on the last day.

I hope that—and I am attempting to protect Members who have amendments, certainly those on my side of the aisle—they will be prepared to call those amendments up in timely fashion so that they will be able to get the time that is allotted to include them under the order.

Mr. BAKER. Mr. President, will the minority leader permit me to join him in that statement? I think the only way this can turn out to be a real debacle would be if Members do not take heed of the fact that they must offer their amendments as soon as possible.

It is absolutely essential that we stay in late in order to accommodate Senators who now have indicated they wish to offer 90 amendments.

Mr. PERCY. Mr. President, will the minority leader yield for just a comment on that point? The colloquy I had with the floor manager of the bill, Senator DOLE, is one wherein we have an amendment being offered by 10 Senators on commodity straddles, a colloquy for which 1 hour has been reserved which, if satisfactory, then the amendment would not have to be offered. But I would want to be certain, because most of the Members are on the Agriculture Committee and will be in reconciliation tomorrow. We were ready at 3 o'clock today for that colloquy. We could have completed it, but at the request of the floor managers we did not do it. I do want to be certain that we can do it. We will be ready at any time except during the reconciliation conference, but we will be ready to do it immediately tomorrow afternoon.

Mr. BAKER. Mr. President, I thank the Senator and I am very grateful to him.

Mr. DODD. Mr. President, will the minority leader yield?

Mr. BAKER. Mr. President, I yield the floor.

Mr. DODD. Mr. President, I do not object, but I have a question based on the comment made by the distinguished Senator from Kansas.

As I understand this agreement does not have included in it the further agreement that the Dole amendment, not the pending Dole amendment, but the second Dole amendment, would not necessarily be subject to a voice vote. That was not part of the agreement, as I understand it, but merely a desire of the Senator from Kansas.

Mr. BAKER. Mr. President, as I understood the Senator from Kansas, he merely ventured the opinion that it might not be necessary to have a roll-call. There was no provision made one way or the other.

Mr. DODD. That was not part of the agreement?

Mr. BAKER. No, it was not.

Mr. DODD. I thank the Senator.

Mr. ROBERT C. BYRD. Mr. President, reserving the right to object, I think there is only one question I would

like to have clarified. The request as propounded by the distinguished majority leader gives the leader one right that he does not, he would not, have otherwise, and I believe that this should be clarified.

He included in the request that in the event cloture is invoked on the Johnston amendment that following the vote on cloture the majority leader would have the right to move to proceed to take up the House or Senate tax bills, certain conference reports, and one appropriation bill.

Ordinarily, Mr. President, he would not automatically have that right to move to take up the House tax bill. That is not a privileged measure, and I take it that his request was for the purpose of assuring Mr. JOHNSTON that in the event cloture is invoked, the majority leader would only move to take up one of those bills or conference reports that he specified.

I would not want to accede to the request here that the majority leader proceed to the House tax bill in the event cloture is invoked. I have no intention at the moment of interposing any objection to a unanimous-consent request to go to that bill or obstructing, if I could—and in some circumstances I could—it is not my intention to obstruct the making of a motion to proceed to the House tax bill. But I would not want by this request to waive the right on the part of the minority or on the part of any Senator.

Mr. BAKER. Mr. President, if I can say to the distinguished minority leader, the purpose of the listing of the five items was to, as he correctly infers, reassure the Senator from Louisiana that I would only attempt to go to one of those five. I do not attempt to create any new right beyond that which has been stated, nor waive any right the minority leader would have or any Senator would have in an attempt to prevent the Senate's proceeding to those measures.

I would point out, as I did to the Senator from Louisiana, that under the response to the parliamentary inquiry put by the Senator from Louisiana on the status of the DOJ bill, the cloture vote after third reading, we are also creating a right for that vote to occur. Otherwise it would not occur after third reading. So it really is a question of accommodating the wishes of the Senator from Louisiana, and then giving certain rights to the majority leader to do other things that appear necessary and desirable.

Mr. ROBERT C. BYRD. Mr. President, I know that was the intent of the majority leader. I ask that he include in his request that any motion to proceed to the House tax bill or to one appropriation bill not waive any rule or right that any Senator presently has.

Mr. BAKER. Mr. President, I include that in the request.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. BAKER. Mr. President, that completes my summary of the request, and if there are no further questions by other Senators, I am prepared for the Senate—

Mr. DOLE. Mr. President, I raise one other question as manager of the bill.



As I understand the agreement, there will be some effort to schedule major amendments at the earliest possible time. I do not want to get into all the sequences, but I hope the managers of the bill will have an opportunity to try to negotiate some of these amendments. It puts the manager under a certain handicap if he is locked into a time agreement. So, I hope we are not in effect, getting ready to raid the Treasury here with time agreements, because I think many of these amendments might be negotiated.

Mr. BAKER. Mr. President, I would say to the distinguished Senator from Kansas that I think it is essential that we try to schedule these bills and do the major bills soon. I would hope that he and the distinguished Senator from Louisiana (Mr. Long), would take the responsibility for trying to arrange that schedule so that we have a reasonable number of amendments on tap and ready to go, maybe six of them at a time, so that we have some expectation of what is before us at any given time.

The PRESIDING OFFICER. Is there objection? Without objection, it is so ordered.

The text of the agreement is as follows:

#### UNANIMOUS CONSENT AGREEMENT

Ordered, That during the consideration of H.J. Res. 266, a joint resolution to provide for a temporary increase in the public debt limit, debate on any amendment in the first degree shall be limited to 30 minutes, to be equally divided and controlled by the mover of such and the manager of the bill, unless the amendment has a special time limit contained in the following list:

Sponsor, subject, time (30 minutes equally divided unless otherwise specified.):

Baucus—Increase write-off allowed certain small businesses for purchases of limited amounts of new equipment.

Baucus—Exclude from double taxation the first \$100,000 of undistributed dividends.

Baucus—Index cap used to value land for estate taxes to the GNP deflator.

Baucus—Restore depreciation back to 175 percent.

Bentsen—Stock option.

Bentsen—Qualified progress expenditures.

Biden—Day care tax credit.

Bradley—Research and development.

Bradley—Eliminate tax on savings.

Bradley—3-year tax cut aimed at those under \$50,000, 2 hours.

Bumpers/Kennedy—3-year tax cut redistribution to protect from inflation and social security, 2 hours.

Bumpers—Change definition of capital assets to eliminate luxury items.

Bumpers—Strike portion of the bill that reduces minimum tax on capital gains.

Byrd, R. C.—Depreciation schedule for generating equipment in coal-powered utilities and for pollution control equipment in coal-powered utilities.

Chiles—Resolution on small business, financial institutions and farms.

Cranston—Treatment of public utility property for "normalization".

DeConcini—Earnings limitations.

DeConcini—ESOP.

Dixon—Bank forward contracts.

Dixon—Individual retirement accounts.

Dodd/Heinz—Expensing option for construction of all residential rental housing, 40 minutes.

Eagleton—Social Security—de-couple from unified budget.

Exon/Bradley—Trigger for third year of tax cut, 2 hours.

Ford—Reduce tax on taxable income of principal campaign committees.

Glenn—Expand tax credit for incremental research and development, 1 hour.

Glenn—Exclude domestically performed R&D from Sec. 861 of Internal Revenue Code, 1 hour.

Hart—Commission on taxation.

Hart—Substitute individual tax cuts for indexing, 2 hours.

Hart—Tax on imported oil.

Heflin—Social Security interest rates.

Heflin—Tax credit on pecans.

Huddleston—Horse depreciation.

Huddleston—Earned income tax credit.

Kennedy—Retirement income tax credit for elderly.

Kennedy—Tax credit for home heating.

Kennedy—Deny business tax cuts to businesses that raise prices.

Kennedy/Wallop—Energy conservation.

Kennedy—Estate and gift tax.

Kennedy—Increase limit on corporate charitable contributions from 5% to 10%.

Kennedy—Cap on 10-5-3.

Kennedy—Reduce tax expenditures in proportion to direct spending cuts.

Kennedy—Reduce the tax deductions for business meals and first class airfare.

Kennedy—Phase in the 70% to 50% cut over two years.

Kennedy—Allow the investment credit to be carried back for a longer period and/or make the investment credit transferable.

Leahy—Extend capital gains one-time exclusion for sale of home to handicapped.

Levin—Adoption and foster care tax credit—40 minutes.

Levin—Exclusion for first \$100 of interest income.

Long—Expense and depreciation.

Matsunaga—Exempt energy investment tax credit from the "at risk" provision.

Melcher—IRS regulations on imputed interest rate.

Melcher—Refundable tax credit for non-ferrous metal smelting.

Metzenbaum—Increase tax credit for day care.

Metzenbaum—Adoption and foster care tax credit.

Mitchell—Tax relief for small businesses by simplifying inventory accounting for tax purposes.

Moynihan—Thor power.

Moynihan—Technical amendments on straddle.

Nunn—Procedures to enable IRS to share information on non-tax crimes with Justice Department—1 hour.

Pryor—Social Security earnings limitation.

Riegle—Refundable investment tax credit.

Riegle—Marriage penalty.

Sasser—Social Security resolution/interfund borrowing.

Sasser—Repeal excise tax on custom gunsmith.

Sasser—Marriage penalty.

Stennis—Establish interest commission for study of possible stable and lower rate.

Hatfield—Ogeon veterans home loans.

Boschwitz—Permit expensing in 1981.

Symms—Timber state and gift tax area.

Heinz—Definitions of pollution control expenditures eligible for Sec. 103 financing—1 hour.

Heinz—Repeal Sec. 189 (rental housing const.)—1 hour.

Heinz (with Domenici)—Targeted job tax credit—2 hours.

Hawkins (with Metzenbaum)—Daycare centers—1 hour.

Lugar—Tax credit for volunteer fire depts. Packwood—Day Care.

Roth—Railroad Rolling Stock, 10 minutes.

Boschwitz—Federal Home Loan Bank Board, 10 minutes.

Mattingly—Moratorium Fringe Tax.

Jepsen—Tax Exemption for People who Adopt.

Rudman—Home Heating.

Helms—Deduction for Loss of Motor Carrier Operating Authority.

Wallop—Investment Tax "At Risk" ITC.

Durenberger—Technical amendment—Private Foundations.

D'Amato—Tax Straddle—7 Day Look Back.

Quayle—Rehabilitation Housing.

Symms—3 Estate Tax amendments—30 minutes total on all 3.

D'Amato—State Legislatures Travel Exemption.

Lugar—Depreciation of Mobile Homes, 20 minutes.

Packwood—Prepaid Legal, 20 minutes.

Gorton—Tax Considerations of Stock Conversion of Mutual Savings Banks, 10 minutes.

Dole—Agreed Upon Oil Amendment.

Dole—Fiscal Responsibility.

Stevens—Performing Arts.

Percy—Transitional Rule on Straddle, 1 hour (for Percy).

D'Amato—Savers Credit.

Jepsen—Related Party Rule for Farmers.

Tower—Tight sands.

Dole—Stock Options.

Dole—Cash Management.

Dole—Withholding on Foreign Investment in U. S. R/E.

Chafee—Repeal Demolition of Historic Structures.

Chafee—Credit for Rehabilitation in Historic Districts.

Roth—Depreciation on Structures.

Provided, That in the event the manager of the resolution is in favor of any such amendment, the time in opposition thereto shall be controlled by the Minority Leader or his designee.

Ordered further, That a time limitation of 6 hours be imposed on the resolution, to be equally divided and controlled, respectively, by the Senator from Kansas (Mr. Dole) and the Senator from Louisiana (Mr. Long): *Provided*, That the said Senators, or either of them, may, from the time under their control on the passage of the said resolution, allot additional time to any Senator during the consideration of any amendment: *Provided further*, That the listed amendments be the only amendments in order, and that at no later than 3:00 p.m. July 29, 1981 the bill be advanced to third reading: *Provided further*, That if any of the listed amendments have not been called up by that time, there be 5 minutes, equally divided and controlled, on each such amendment: *Provided further*, That following third reading of the resolution, it be returned to the Calendar and that the motion to resume consideration of the joint resolution not be debatable: *Provided further*, That immediately after the joint resolution is returned to the Calendar, the Senate proceed to vote on the cloture motion presented by the Senator from Louisiana (Mr. Johnston): *Provided further*, That if cloture is invoked, the Majority Leader, in spite of the prohibitions of Rule XXVI, can move to the consideration of the House or Senate tax bill, the conference report dealing with a tax bill, the conference report dealing with the reconciliation bill, the House reconciliation bill, or one appropriation bill: *Provided further*, That any motion to proceed to either the House tax bill or an appropriation bill not be permitted to waive any present right of any Senator: *Provided further*, That no call for the regular order during the consideration of any of these measures be permitted to return the Senate to the unfinished business.

Mr. BAKER. Mr. President, I thank all Senators. I especially thank the distinguished manager of the bill, the Senator from Kansas, the ranking minority member, the Senator from Louisiana, and, most especially, the minority leader who was most helpful.

Mr. President, I yield the floor.

The PRESIDING OFFICER. The Senator from Kansas.

WITHDRAWAL OF AMENDMENT NO. 509

Mr. DOLE. Mr. President, under the agreement, I now withdraw the amendment.

The PRESIDING OFFICER. Without objection, the amendment is withdrawn.

UP AMENDMENT NO. 261

(Purpose: Relating to the rate of tax on newly discovered oil)

Mr. DOLE. Mr. President, I think it is in order to send an amendment to the desk. I ask for its immediate consideration.

The PRESIDING OFFICER. The Senator has an amendment numbered 508 dealing with stock options.

Mr. DOLE. Mr. President, I ask unanimous consent that that be temporarily laid aside.

The PRESIDING OFFICER. Without objection, it is so ordered.

The clerk will report.

The legislative clerk read as follows:

The Senator from Kansas (Mr. DOLE), for himself, Mr. DOMENICI, Mr. NICKLES, Mr. SCHMITT, Mr. BOREN, Mr. WALLOP, Mr. TOWER, and Mr. BENTSEN, proposes an unprinted amendment numbered 261.

Mr. DOLE. Mr. President, I ask unanimous consent that further reading of the amendment be dispensed with.

The PRESIDING OFFICER. Without objection, it is so ordered.

The amendment is as follows:

On page 160, strike out the matter following line 22 and insert in lieu thereof the following:

"For taxable periods beginning in:	The applicable percentage is:
1982 -----	27½
1983 -----	25
1984 -----	22½
1985 -----	20
1986 and thereafter-----	15 "

Mr. DOLE. Mr. President, this is an amendment offered by myself and the distinguished Senator from Oklahoma, Senator BOREN; the Senator from New Mexico, Senator DOMENICI; the Senator from Oklahoma, Senator NICKLES; the Senator from New Mexico, Senator SCHMITT; and the Senators from Texas, Senator BENTSEN and Senator TOWER, and perhaps others. I believe it conforms with the agreement. I have shown it to the Senator from Massachusetts. It is 27½ percent in 1982, 25 percent in 1983, 22½ percent in 1984, 20 percent in 1985, and 15 percent in 1986.

I believe, as indicated by the Joint Committee on Taxation, this would cost an additional \$250 million. As far as I know, there is no reason for lengthy debate on the amendment, but if anybody wants to speak, they may.

Mr. DODD addressed the Chair.

The PRESIDING OFFICER. Who yields time?

Mr. DODD. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. On whose time?

Mr. LONG. Mr. President, I yield time to the Senator from Connecticut.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. DOLE. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Who yields time? Do the Senators yield back their time?

Mr. DOLE. I yield back my time.

Mr. BOREN. All time is yielded back on this side.

Mr. ROBERT C. BYRD. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

Mr. ROBERT C. BYRD. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

The question is on agreeing to the amendment of the Senator from Kansas (Mr. DOLE).

The amendment (UP No. 261) was agreed to.

Mr. BOREN. Mr. President, I move to reconsider the vote by which the amendment was agreed to.

Mr. DOLE. I move to lay that motion on the table.

The motion to lay on the table was agreed to.

Mr. DOLE. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. HEINZ. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER (Mr. BOSCHWITZ). Without objection, it is so ordered.

#### ORDER OF BUSINESS

(The remarks of Mr. HEINZ at this point in connection with the introduction of legislation are printed under statements on introduced bills and joint resolutions. During the remarks of Mr. HEINZ, the following occurred:)

Mr. HEINZ. Mr. President, I ask unanimous consent that any further time I may consume be charged against morning business.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. HEINZ. I thank the Chair.

#### ECONOMIC RECOVERY TAX ACT OF 1981

##### WINDFALL PROFIT TAX

Mr. HART. Mr. President, this morning I joined many of my colleagues in support of an amendment to phase out the windfall profit tax on new oil. That amendment, by improving the incentive to search for new domestic supplies, promised to increase our domestic oil supplies and thereby lessen our continued dangerous dependence on foreign oil.

A windfall profit tax should not be imposed on new oil. We need to provide a simple, prompt, and obvious incentive for new domestic production to protect the Nation's security. The price for oil yet to be discovered in this country should be the same as the price we pay OPEC for its oil, and the same as the price received for oil discovered in foreign countries. Only by equating domestic prices with world prices can we maximize the incentive to search for new oil reserves in the United States.

However, old oil presents a different case. Old oil should be priced in relation to its costs of production. Revenue from old oil should provide reasonable and adequate profits in relation to the investment, but it should not be whatever today's market demands. Today's market is not a free market; it is an OPEC cartel market, and thus we must discriminate between old oil and new oil.

For the past 2 years, I have argued in support of this approach as one which is fair to both consumers and producers. Under this approach, there would be no cartel-induced profits for producers from the sale of previously discovered oil that is already providing investors a fair return on their capital invested to discover it in the first place. Yet, there would be no shortage of profits to be earned from the successful search for new domestic oil supplies.

Two years ago, I introduced legislation using this approach as an alternative to the windfall profit tax bill proposed by the Carter administration. That bill placed no tax on new oil and put a 100-percent tax on the profit captured by domestic producers on old oil resulting from arbitrary cartel price-fixing.

However, last year, this approach was passed over in favor of the administration's proposal, a bill which I eventually opposed. I opposed the administration's proposal because it established substantial disincentives for new domestic oil production at a point when we faced the real possibility of being drawn into a war in the Middle East because of our reliance on foreign Gulf oil.

We face the same situation today.

In the past, we have placed the wrong tax on the wrong oil. By taxing new oil we have discouraged the development of new oil supplies. Meanwhile, we have not put a high enough tax on old oil.

If the Senate ultimately adopts this amendment to phase out the windfall profit tax on new oil, I plan to introduce legislation to increase the windfall tax on old oil to 100 percent. This proposal would provide a responsible windfall profit policy which will make incentives as strong as possible to insure maximum search efforts for new oil and oil which is expensive to produce. It will also insure that domestic producers do not receive undeserved and excessive profits from old oil.

##### MORTGAGE SUBSIDY BONDS

Mr. BAUCUS. Mr. President, it is with great regret that I note the inability of the Congress to deal effectively with the problems we have with mortgage subsidy bonds. None of these have been issued



under the law passed in 1980 despite valiant efforts by many to try to comply with the new regulations and requirements.

What was needed was a clarification of the act so that the responsible entities could proceed in an appropriate way.

Unfortunately, we have not been able to agree on amendments which would provide the necessary clarification. It is indeed unfortunate; we are having great difficulties as a result of high interest rates particularly in the housing and construction industries. I understand the need to be patient and to tighten our belts so that interest rates come down, inflation is controlled, and we become productive again. But I do not see any reason to block minor changes in an act to make the act more effective.

The 1980 act was to stop abuses which had occurred in the past; but let us not throw out the baby with the bathwater.

I urge my colleagues to devote attention to this important issue and work to clarify the problems which exist with our law. It is counterproductive to do nothing. I urge my colleagues to take this issue up as early as possible and help the housing industry get going again.

Mr. President, I support and urge others to support the Senator from Tennessee's legislation (S. 1348) to amend the Mortgage Subsidy Bond Tax Act of 1980.●

#### CHARITABLE CONTRIBUTIONS— AMENDMENT NO. 246

● Mr. D'AMATO. Mr. President, as a longtime supporter and cosponsor of S. 170, the bill to allow above-the-line deductions for charitable contributions, I am pleased to cosponsor this amendment and to add my urgings to those of my distinguished colleagues that this Chamber adopt this most worthwhile of amendments. This amendment is vitally important if we are to preserve America's volunteer community. It belongs as part of this tax reduction package.

This amendment will extend to every American taxpayer the privilege that is currently afforded to only the 29 percent who itemize their deductions, that is, it would allow all taxpayers, regardless of their income class, to deduct their charitable contributions from their taxable income. This amendment will be phased in slowly in order not to disrupt the President's budget objectives.

For private philanthropy to keep pace with inflation plus make up for the loss in Federal financing resulting from budget cuts already approved by Congress, 1982 private giving to nonprofit organizations would have to be 26 percent greater than it was in 1981. This is about three times the annual rate of growth recorded in the recent past. In 1983 the rate of increase in private giving to volunteer organizations over 1982 would have to be 39 percent just to maintain present services. In 1984 a 44-percent increase would be necessary.

We have historically been a nation of givers, rather than takers. I have every confidence that private philanthropy will meet this challenge and keep our volunteer community alive and active.

Our commitment to the Nation's needy and deserving can, and will, be met.

It is perfectly appropriate, however, for the Government to encourage these activities through the tax system. Deductions for charitable contributions have long been a part of the law. Over time, however, fewer and fewer taxpayers have elected to itemize their deductions. Now only 29 percent do, and these individuals are primarily in the upper income brackets. This amendment will extend this deduction to the rest of America's taxpayers. It is consistent with the President's policy of across-the-board tax relief. It is consistent with my policy of protecting the average American taxpayer. It is consistent with the policy of this Chamber to encourage the private sector to step in and provide those services which the Government can no longer afford to offer.

Volunteer organizations involved in social welfare, education, health services, conservation, and the arts will all benefit through this legislation. With this legislation nonprofit community organizations will be able to make up the \$27.3 billion shortfall they would otherwise suffer during the next 3 years.

Mr. President, I support the amendment.●

#### ORDER FOR ROUTINE MORNING BUSINESS

Mr. HEINZ. Mr. President, I ask unanimous consent that there now be a brief period for the transaction of routine morning business.

The PRESIDING OFFICER. Without objection, it is so ordered.

#### CARD TRICKS FOR ILLEGAL ALIENS

Mr. HUDDLESTON. Mr. President, recent newspaper reports have indicated that the Reagan administration is inclined to take the easy way out on the issue of illegal aliens. According to those reports, the President's advisers are recommending that the United States try to halt the flow of millions of illegal aliens into this country by relying on an employer-employee affidavit to prevent the employment of illegal aliens. While this approach would be a good initial step as we are phasing in a more secure verification system, it would not be practical or effective as the only means of discouraging the employment of illegal aliens.

Yesterday the Washington Post ran an editorial which in essence agreed that we need some other means. The Post stated:

Without relying on some fair, accurate and simple means of distinguishing legal migrants from the illegals, proper enforcement of immigration laws becomes hopeless. Therefore, the test of any administration's determination to confront the problem seriously becomes a willingness to devise some national identifier, the most commonly mentioned being a counterfeit-resistant Social Security card.

I cannot agree more with the editor of the Post, or should I say that the editor could not agree more with me. Approximately 4 months ago I introduced a

major immigration bill, S. 776, which incorporated the use of a counterfeit-resistant social security card for the purpose of preventing the employment of illegal aliens. I thank the Post for the endorsement of this concept and ask unanimous consent that the editorial be printed in the Record.

There being no objection, the editorial was ordered to be printed in the Record, as follows:

#### CARD TRICKS

At this point, only the president himself can rescue the critical component of his own Cabinet task force's package of immigration policies—a new and less easily forged Social Security card, now threatened with extinction by sudden assault from a few powerful but misguided administration snipers.

Most people who have studied the immigration problem, including a majority of the Select Commission on Immigration and Refugee Policy (whose final report formed the basis for the task force's deliberations), subscribe to the following common sense syllogism: without enforcing strictly our existing immigration laws (or their successors), we cannot curb effectively the flood of illegal immigrants now entering the country. But without relying on some fair, accurate and simple means of distinguishing legal migrants from the illegals, proper enforcement of immigration laws becomes hopeless. Therefore, the test of any administration's determination to confront the problem seriously becomes a willingness to devise some national identifier, the most commonly mentioned being a counterfeit-resistant Social Security card.

Not only did most members of the select commission support the use of a universal identifier but, initially, the Cabinet task force also endorsed that plan. Most published accounts agree, however, that the full Cabinet rejected the proposal at the urging of a few opponents who led the attack determined to wipe out completely the concept of an identity card. Apparently First Amendment fastidiousness was less the issue than the potential use of a reliable Social Security card to impose sanctions on employers—among them the giant agribusinesses of the western states—who often hire illegal migrants.

The president has been badly served by his Cabinet in this instance, though not by its task force on immigration. That group recognized in its scrutiny of the immigration tangle something long obvious to experts such as Sen. Alan K. Simpson (R-Wyo.), formerly an influential member of the Select Commission and now chairman of the Senate Judiciary subcommittee on the problem—namely, that the cosmetic substitute of requiring workers and employers merely to sign a piece of paper attesting to the employee's legal status is meaningless.

At a time of continuing high unemployment among low-income workers in this country, both native-born and immigrant, asking illegals to swear *pro forma* to their legality while employers wink at the process reduces the level of national cynicism about hiring underpaid illegals to a new low point. Sen. Simpson said as much the other day, while urging that some form of national identifier, a new Social Security card or a useable alternative, be enacted.

Mr. Reagan should support the original Cabinet task force recommendation for a Social Security identifier. Undoubtedly creating a national identity card will make it easier to penalize unscrupulous employers who violate the immigration laws. That, however, seems a worthwhile step for a president committed already to a range of experimental programs in the field, including the new Mexican "guest worker" scheme and the elaborate plan to legalize the status of millions of

undocumented workers already living in the United States.

Mr. HUDDLESTON. Mr. President, the New York Times also addressed this issue in an editorial yesterday and came to a similar conclusion. I ask unanimous consent that that editorial also be printed in the RECORD.

There being no objection, the editorial was ordered to be printed in the RECORD, as follows:

#### BAD ADVICE ON IMMIGRATION

The Cabinet has muffed President Reagan's assignment to help him shape a comprehensive immigration policy. No system for deciding which aliens enter and stay in the United States can be cohesive, or even coherent, that fails to address the question of worker identification.

Unless employers have a sure way of knowing which applicants are legally eligible to work in the United States, they cannot reasonably be held accountable for hiring illegal aliens. And if employers cannot be required to police the effort, there is no reasonable hope of controlling illegal immigration. It just won't matter how many migrants the Government decides it wants to admit; without job controls, the nation will be burdened by hundreds of thousands more than the law allows.

This simple proposition has eluded the Cabinet. It wants the President to recommend penalties for anyone hiring illegals but to leave the identification issue up in the air. If Mr. Reagan forwards these incomplete ideas to Congress, he simply cannot expect to be taken seriously.

This is not, alas, the first evasion of the issue. The Select Commission on Immigration studied the problem for two years but only a slender majority of its members faced up to the need for foolproof identification techniques.

Fortunately, the key legislators are familiar with the commission's best thinking. Senator Alan Simpson, who heads the Senate's immigration subcommittee, served on the commission and has seen the value of a secure, counterfeit-resistant permit for all workers. A worthy alternative would be a labor force communications system by which employers could quickly check the eligibility of applicants.

Exaggerated concern about privacy adds to the problem. Some fear that a foolproof identification document would become an all-purpose domestic passport. That would indeed be unfortunate. But all that is needed is a Social Security card that cannot be forged.

What frightens the Reagan Cabinet, apparently, is another red herring—the possibility of excessive Government surveillance of employers. But with a reliable identification system, Government could enforce the law with minimal intrusion; it need only inquire whether the employer demanded satisfactory proof of a worker's eligibility.

The Cabinet's half-measure is actually the most dangerous possible approach. To make employers culpable for hiring illegals without giving them a reliable means of checking would encourage them to turn away deserving applicants on a hunch. Some would shun Hispanics and other minorities altogether. And some would use concern about identification as a pretext for discrimination.

Mr. Reagan should not endorse, and Congress should not approve, a program so flawed at the core.

#### DSAA DIRECTOR RETIRING

Mr. PERCY. Mr. President, it is a great pleasure for me to pay tribute to

the retiring Director of the Defense Security Assistance Agency, Lt. Gen. Ernest Graves, who will retire on July 31.

His is an exceptionally distinguished career. General Graves has been an extraordinary soldier-scientist-diplomat, a superb leader of men and a person with the highest standards of integrity. He has unwaveringly adhered to the highest traditions of the motto, "Duty, Honor, Country," of the U.S. Military Academy, his alma mater.

It has been my privilege to have known and worked with General Graves for over 3 years. As chairman of the Senate Foreign Relations Committee, I have sought his advice and observed the extraordinary high quality of his work.

General Graves had made extraordinarily valuable contributions in the area of nuclear energy, civil works, and military construction but perhaps his greatest contribution to our national security has been during his tenure at the helm of the Defense Security Assistance Agency, a period of considerable change in the Nation's national security policy. He has superbly managed very limited resources to insure that the United States could assist our allies and friends to meet the challenges and opportunities of the 1980's and join with the United States in collective security.

General Graves has testified often before the Senate Foreign Relations Committee. His is an unblemished record of integrity and the spirit of cooperations so essential to the effective development of foreign policy by the executive legislative branches of Government. He has impressed all members of the committee with the clarity of his presentation of the administration's programs for security assistance and his keen insight into the importance and interrelationship of the security assistance program with our national security policy.

I regret to see him leave the service, but I know that he will be equally as successful in his future endeavors. I wish him great and continued success and satisfaction in the years ahead. I congratulate General Graves on a most distinguished career.

#### THE HIGH INTEREST RATE POLICY

Mr. BOREN. Mr. President, in spite of growing evidence that the high interest rate policy is failing and is placing an unbearable burden on the American people, Chairman Paul Volcker of the Federal Reserve Board seems bent on continuing such a policy.

Yesterday's Washington Star and today's Washington Post carry stories quoting Mr. Volcker that the Fed would continue a tight money, high interest rate policy for the remainder of the year. I shall ask unanimous consent that the text of these articles be printed in the RECORD.

The chairman of the House Banking Committee, Representative FERNAND J. ST GERMAIN, according to the article "bitterly contrasted the ready availability of multibillion dollars lines of

credit for major corporations to acquire other companies with the problems which individuals and small business have in obtaining loans."

The criticism of the high interest rate policies is bipartisan. Representative GEORGE HANSEN, a Republican from Idaho, declared that this policy is destroying middle America and the American dream. Another Republican Congressman, NORMAN SHUMWAY, asked if the country could stand this kind of cure.

The answer, Mr. President, is that it cannot. It is increasingly evident that the high interest policy is deliberate. The CPI has fallen but the Treasury bill rate has not. The spread between the two is artificially large. Treasury spokesmen have clearly indicated acquiescence in and even encouragement for the policy. Unless the President strongly repudiates the policy and either turns Mr. Volcker around by persuasion or requests congressional authority to do so, it will be correctly concluded that the Volcker policy has become the administration's policy.

I take no partisan satisfaction from the administration's failure to act though if it continues, it will undoubtedly be of political benefit to my party.

I am an American before I am a member of any political party. As an American I very much want our President to succeed. I have supported many of his programs because in many areas he is trying to do what is right. It will be a tragedy, however, if he lets the extremist policy of Mr. Volcker on interest rates, completely derail the Nation's economic recovery program.

I have spoken before about the danger that such a policy poses to the entire economy. I will not recite again today the alarming statistics about the impact which interest rates are having on key segments of the economy and upon thrift institutions. I do want to ask my colleagues to carefully consider the very real effect of these policies on individual human beings. We must not bury ourselves in statistics to the point that we forget how these policies are affecting people in their daily lives, our own friends and neighbors, the kinds of average Americans who cannot afford high-paid spokesmen and who look to us to protect them.

I recently spoke to one man who has been in business for over 40 years. He has put virtually all of his adult life into building his small business. Next month he will close its doors. No one will be buying it from him. High interest rates have destroyed the equity which had been built up in that business. High interest rates have made it impossible to continue to operate it. To a man who has seen the work of a lifetime go down the drain, it is impossible to look at the high interest rate policy with statistical objectivity.

I will also never forget the middle-aged farmer who described to me what it was like to drive out the gate of his family farm for the last time after he had been forced to sell it and liquidate all of his holdings. He had grown up on the farm and raised his children past



their teenage years there. He and his wife had worked hard and lived frugally. When all was said, this industrious pair had a net of less than \$2,000 to show for over 20 years of hard work, planning, and commitment to their own dream. They too show up as a statistic on a page reciting the effects of high interest rates.

We must not forget the human tragedy that is reflected in the statistics. The suffering, disillusionment and bitter disappointment being caused by high interest rates is mounting like a tidal wave.

I hope that Mr. Volcker is not allowing any pride in authorship of the program to deter him from changes that should be made in it, I hope he will not forget the true meaning of the figures on the page.

I hope the President will not wait to act until it is too late.

Mr. President, I ask unanimous consent that the text of articles to which I have referred be printed in the *RECORD*.

There being no objection, the articles were ordered to be printed in the *RECORD*, as follows:

[From the Washington Star, July 21, 1981]

**VOLCKER SETS FURTHER TIGHTENING ON MONEY SUPPLY GROWTH RATE**

(By Jonathan Fuerbringer and Shellah Kast)

The Federal Reserve, in a move that could keep upward pressure on interest rates, announced today a further tightening in the growth rate of the nation's money supply this year and even more restraint for 1982.

The new tightening for 1981 could prevent the expansion of the money supply, which financial markets had been counting on to help bring down interest rates in the near future.

For 1981, the Fed will now aim at the lower end—instead of the midpoint—of its 3.5 percent to 6 percent growth range for the key money supply figure called M-1B. In 1982, the midpoint of the M-1B growth range will be cut by three-quarters of a percentage point. M-1B includes currency in circulation, checking accounts and the new interest-bearing NOW accounts.

Many financial analysts, assuming that the Fed would aim for the midpoint of the range, had predicted that interest rates would decline based on the expectation of this easing. The prime rate is now hovering between 20 percent and 20.5 percent and, with other interest rates, has not declined despite a significant decline in inflation.

Fed Chairman Paul A. Volcker also said there has been some initial progress on inflation but that "it could prove temporary." For 1981, the Fed's range of inflation predictions is slightly more optimistic than the administration's. And in 1982, the administration prediction falls in the middle of the Fed range.

Volcker said the Fed expects slow economic growth this year and a slower rate of growth than the Reagan administration does next year.

In addition, the Fed expects that unemployment could top 8 percent by the end of next year, much higher than the administration's 7 percent prediction.

Volcker outlined the Fed's tighter monetary policy and its economic outlook in his mid-year review before the House Banking Committee today.

The tightening of the money supply's growth rate this year and next is consistent with long-term Fed policy and with the monetary policy advocated by the Reagan administration. Both are trying to curb in-

flation by slowing the growth rate of money. The Fed had been expected to reduce monetary growth rates for next year but the slight tightening this year was not expected.

Both the administration and the Fed contend that in the long run this restrictive monetary policy will reduce inflation and lead to lower interest rates. President Reagan defended this policy at the economic summit in Ottawa yesterday against complaints from European leaders about the impact of high U.S. interest rates on their economies.

However, the tighter restraint, which this year already has produced near-record interest rates despite the unexpected decline in the rate of inflation, could result in a sharper curb in economic growth than the Reagan administration is predicting. This assumption of slower growth by the Fed is what produces the predictions of higher unemployment rates.

In February the Fed set a 1981 target growth range of 3.5 percent to 6 percent for the M-1B money supply number. At the time, Volcker said the Fed would aim for the midpoint of the range.

But today Volcker said the Fed would now aim for the lower end of the range. He said the Fed made this decision partly because the effort to get the money supply growth rate back to the midpoint of the range—4.75 percent—could lead to "excessive" growth in money in the next couple of months. As of the most recent reporting week, M-1B is growing at a 2.6 percent annual rate, far below the midpoint of the range.

For 1982, the Fed set a tentative target for M-1B of 2.5 percent to 5.5 percent, with a midpoint of 4 percent.

Volcker said the Fed would leave the target ranges for other money supply numbers unchanged but would aim next year for the midpoint of the ranges rather than the top this year. The range for M-2, which includes M-1B, money market funds and savings deposits, is 6 percent to 9 percent.

Citing "tentative signs of a relaxation of price pressures," Volcker said that energy and food prices have moderated and commodity prices generally have weakened as speculators retreated in the face of high interest rates.

But he said rising labor costs "maintain the momentum of the inflationary process," and said he sees little evidence of slowing in wage increases.

A crucially important round of union wage bargaining begins next January, potentially setting a pattern for several years ahead," he said.

Last week the administration predicted that the real Gross National Product, after adjustment for inflation, would rise 2.5 percent this year and 5.2 percent next year. The Fed, however, predicts a range of growth of 1 percent to 3.5 percent this year and only 1 percent to 4 percent in 1982.

Partly as a result of this assumption of slower growth, the Fed is also more pessimistic about unemployment, seeing little likelihood of improvement through 1982. The Fed predicts unemployment will average between 7.5 to 8.25 percent this year and between 7 and 8.5 percent in 1982.

[From the Washington Post, July 21, 1981]

**BANKING PANEL ATTACKS VOLCKER ON TIGHT MONEY**

(By John M. Berry)

Federal Reserve Chairman Paul A. Volcker yesterday came under a drumfire of criticism from members of the House Banking Committee as he announced that the Fed is further tightening monetary policy by lowering a key money supply growth target.

Democrats and Republicans alike denounced the harsh impact that near-record high interest rates are having on home buy-

ers, home buyers, small businesses and the auto industry, among others.

It was by far the sharpest criticism Volcker has faced as chairman, and its bipartisan nature indicates that previously strong congressional backing for tight control of money supply growth is eroding in the face of constituent complaints. The latest Fed tightening was first reported in *The Washington Post* last Tuesday.

"We are destroying the small businessmen. We are destroying Middle America. We are destroying the American dream," declared conservative George Hansen (R-Idaho), Rep. Norman D. Shumway (R-Calif.) more quietly asked, "Can the country stand the cure for this [inflation] problem?"

On the other side, Rep. Frank Annunzio (D-Ill.), shouting and pounding his desk, accused the Fed of favoring big business over American workers. An incensed Rep. Henry Gonzalez (D-Texas) charged that the Fed has "legalized usury," and said he is preparing a bill of impeachment covering Volcker and a majority of the Fed's seven-member board of governors.

Many of the members, including Chairman Fernand J. St Germain (D-R.I.), bitterly contrasted the ready availability of multi-billion-dollar lines of credit for major corporations to acquire other companies with the problems individuals and small business have in obtaining loans. About \$40 billion in such lines of credit have been arranged in recent weeks, St Germain said.

Despite all the criticism, Volcker said the Fed would continue to pursue a tight money policy to combat inflation.

Specifically, the chairman said the central bank's Federal Open Market Committee decided for the remainder of this year to aim for the lower end of the 3½-to-6 percent target range for growth of M-1B, instead of the midpoint of the range. As was reported last week in *The Washington Post* and confirmed by Volcker's testimony, the FOMC, which sets monetary policy, considered formally lowering the target but chose instead to lower its objective within the range.

For 1982, the target for growth of M-1B, the measure of money that includes currency in circulation and checking deposits at all financial institutions, was lowered to a range of 2½-to-5½ percent, Volcker said.

The target for M-2—which includes the items in M-1B as well as savings accounts at commercial banks, shares in money market mutual funds and funds obtained by financial institutions by selling securities with overnight repurchase agreements—was left unchanged at 6-to-9 percent both for this year and for 1982. However, Volcker said that next year the Fed would shoot for the midpoint of that range, whereas this year the central bank hopes merely to stay within its upper bound.

Recently, growth of M-1B has been below the 1981 target range, encouraging many financial market analysts to predict that the Fed soon would ease its tight money stance. M-2, on the other hand, has been at or above the 9 percent upper limit of its range.

Some monetarist economists, including Robert Weintraub of the Joint Economic Committee staff, praised the new Fed targets. Weintraub said the M-1B target, if achieved, would be "deflationary." The Fed, he declared, "is showing real toughness."

Volcker acknowledged that high interest rates were hurting the economy, particularly housing, autos, small business and thrift institutions, and that the high level of rates "also has repercussions internationally, complicating already difficult economic policy decisions of some of our major economic partners." U.S. monetary policy, for just that reason, was an issue at the economic summit meeting in Ottawa that ended yesterday.

"Amidst these difficulties, we must not lose sight of the fundamental point that so many

of the accumulated distortions and pressures in the economy can be traced to our high and stubborn inflation," Volcker told the committee. "Moreover, turning back the inflationary tide, as we can see, is not a simple, painless process, free from risks and strains of its own. All I would claim is that the risks of not carrying through on the effort to restore price stability would be much greater."

#### MESSAGE FROM THE HOUSE

At 6:47 p.m., a message from the House of Representatives, delivered by Mr. Gregory, one of its reading clerks, announced that the House disagrees to the amendment of the Senate to the bill (H.R. 3454) to authorize appropriations for fiscal year 1982 for the intelligence and intelligence-related activities of the U.S. Government, for the Intelligence Community staff, and for the Central Intelligence Agency Retirement and Disability System, to authorize supplemental appropriations for fiscal year 1981 for the intelligence and intelligence-related activities of the U.S. Government, and for other purposes; agrees to the conference requested by the Senate on the disagreeing votes of the two Houses thereon; and has appointed Mr. BOLAND, Mr. ZABLOCKI, Mr. MINETA, Mr. STUMP, Mr. ROBINSON, Mr. WHITEHURST, and Mr. YOUNG as managers of the conference on the part of the House; that Mr. PRICE, Mr. STRATTON, and Mr. DICKINSON were appointed as additional managers for consideration of such matters within the jurisdiction of the Committee on Armed Services pursuant to clause 1(c) of rule X of the Rules of the House of Representatives; and that Mr. RODINO, Mr. EDWARDS of California, and Mr. MCCLORY were appointed as additional managers for consideration of such matters within the jurisdiction of the Committee on the Judiciary pursuant to clause 1(m) of rule X of the Rules of the House of Representatives.

The message also announced that the House has passed the following bills, in which it requests the concurrence of the Senate:

H.R. 1681. An act for the relief of Andre Bartholo Eubanks.

H.R. 1785. An act for the relief of Gladys Belleville Schultz.

H.R. 2010. An act for the relief of Kai-Mee Chen.

H.R. 2218. An act to direct the Secretary of Agriculture to convey certain National Forest System lands in the State of Nevada, and for other purposes.

H.R. 2573. An act for the relief of Moses Bank.

H.R. 2820. An act to provide that certain lands constituting part of the El Dorado National Forest be conveyed to certain persons who purchased and held such lands in good faith reliance on an inaccurate surveyor's map.

H.R. 2975. An act for the relief of Yuk Yee Li.

H.R. 4034. An act making appropriations for the Department of Housing and Urban Development, and for sundry independent agencies, boards, commissions, corporations, and offices for the fiscal year ending September 30, 1982, and for other purposes.

#### HOUSE BILLS REFERRED

The following bills were read twice, by unanimous consent, and referred as indicated:

H.R. 1681. An act for the relief of Andre Bartholo Eubanks; to the Committee on the Judiciary.

H.R. 1785. An act for the relief of Gladys Belleville Schultz; to the Committee on the Judiciary.

H.R. 2010. An act for the relief of Kai-Mee Chen; to the Committee on the Judiciary.

H.R. 2218. An act to direct the Secretary of Agriculture to convey certain National Forest System lands in the State of Nevada, and for other purposes; to the Committee on Energy and Natural Resources.

H.R. 2573. An act for the relief of Moses Bank; to the Committee on the Judiciary.

H.R. 2820. An act to provide that certain lands constituting part of the El Dorado National Forest be conveyed to certain persons who purchased and held such lands in good faith reliance on an inaccurate surveyor's map; to the Committee on Energy and Natural Resources.

H.R. 2975. An act for the relief of Yuk Yee Li; to the Committee on the Judiciary.

H.R. 4034. An act making appropriations for the Department of Housing and Urban Development, and for sundry independent agencies, boards, commissions, corporations, and offices for the fiscal year ending September 30, 1982, and for other purposes; to the Committee on Appropriations.

#### EXECUTIVE AND OTHER COMMUNICATIONS

The following communications were laid before the Senate, together with accompanying papers, reports, and documents, which were referred as indicated:

EC-1629. A communication from the Secretary of Agriculture transmitting, pursuant to law, the fiscal year 1980 annual report of the Rural Electrification Administration; to the Committee on Agriculture, Nutrition, and Forestry.

EC-1630. A communication from the Director of the Defense Security Assistance Agency, transmitting, pursuant to law, a report on a proposed foreign military sale to the United Kingdom; to the Committee on Armed Services.

EC-1631. A communication from the Assistant Legal Adviser for Treaty Affairs, Department of State, transmitting, pursuant to law, copies of international agreements other than treaties entered into by the United States within the previous 60 days; to the Committee on Foreign Relations.

EC-1632. A communication from the Assistant Secretary of the Treasury for Legislative Affairs transmitting, pursuant to law, certain project performance audit reports of the International Bank for Reconstruction and Development, the Inter-American Development Bank, and the Asian Development Bank; to the Committee on Foreign Relations.

EC-1633. A communication from the Vice Chair of the Merit Systems Protection Board transmitting, pursuant to law, a status report on performance appraisal and merit pay among mid-level employees; to the Committee on Governmental Affairs.

EC-1634. A communication from the Chairman of the Council of the District of Columbia, transmitting a copy of an Act of the Council No. 4-69; to the Committee on Governmental Affairs.

EC-1635. A communication from the Acting Comptroller General of the United States,

transmitting, pursuant to law, a list of the reports of the General Accounting Office for the month of June 1981; to the Committee on Governmental Affairs.

EC-1636. A communication from the Register of Copyrights, the Library of Congress, transmitting, pursuant to request, a report on the likely effects of the expiration of the manufacturing clause of the copyright law; to the Committee on the Judiciary.

EC-1637. A communication from the Secretary of Education, transmitting, pursuant to law, notice of a final regulation relative to institutional grants for graduate and professional study program; to the Committee on Labor and Human Resources.

EC-1638. A communication from the Secretary of Education transmitting, pursuant to law, a copy of final regulations for training in the legal profession program; to the Committee on Labor and Human Resources.

EC-1639. A communication from the Secretary of Education transmitting, pursuant to law, a copy of final regulations relative to the Pell grant program; to the Committee on Labor and Human Resources.

#### REPORTS OF COMMITTEES

The following reports of committees were submitted:

By Mr. WARNER, from the Committee on Energy and Natural Resources, without amendment:

S. 859. A bill to amend the mineral leasing laws of the United States to provide for uniform treatment of certain receipts under such laws, and for other purposes (Rept. No. 97-162).

S. Res. 190. An original resolution waiving section 402(a) of the Congressional Budget Act of 1974 with respect to the consideration of S. 859; referred to the Committee on the Budget.

#### EXECUTIVE REPORTS OF COMMITTEES

The following executive reports of committees were submitted:

By Mr. PACKWOOD, from the Committee on Commerce, Science, and Transportation: George A. Keyworth II, of New Mexico, to be Director of the Office of Science and Technology Policy.

(The above nomination from the Committee on Commerce, Science, and Transportation was reported with the recommendation that it be confirmed, subject to the nominee's commitment to respond to requests to appear and testify before any duly constituted committee of the Senate.)

By Mr. PERCY, from the Committee on Foreign Relations:

Davis Rowland Robinson, of the District of Columbia, to be Legal Adviser of the Department of State.

Gilbert A. Robinson, of New York, to be Deputy Director of the International Communication Agency.

Dean E. Fischer, of Virginia, to be an Assistant Secretary of State.

Joan M. Clark, of New York, a career member of the Senior Foreign Service, to be Director General of the Foreign Service.

Everett Alvarez, Jr., of Maryland, to be Deputy Director of the Peace Corps.

Richard T. Kennedy, of the District of Columbia, to be the Representative of the United States of America to the International Atomic Energy Agency.

Contributions are to be reported for the period beginning on the first day of the



fourth calendar year preceding the calendar year of the nomination and ending on the date of the nomination.

Nominee: Richard Thomas Kennedy.  
Post: U.S. Representative to the IAEA, with the rank of Ambassador.

Contributions, amount, date, donee:

1. Self (joint w/wife), \$100.00, February 12, 1981, Rep. Natl Comm; (joint w/wife), \$100.00, October 26, 1980, Rep. Natl Comm.
2. Spouse, \$100.00, January 15, 1980, Rep. Natl Comm; \$50.00, January 16, 1979, Rep. Natl Comm; \$25.00, October 14, 1978, Rep. Natl Comm; \$30.00, February 4, 1978, Rep. Natl Comm; \$25.00, February 14, 1977, Rep. Natl Comm.

3. Children and Spouses Names: None.
4. Parents Names: N/A.
5. Grandparents Names: N/A.
6. Brothers and Spouses Names: None.
7. Sisters and Spouses Names: Margaret Krizanovsky, Andrew Krizanovsky, \$5.00, January 1980, Howard Baker Comm; \$10.00, 1980, Fla. Tele. Corp; \$10.00, 1981, Fla. Tele. Corp. (Employees Uniting for Better Government, Fla.).

I have listed above the names of each member of my immediate family including their spouses. I have asked each of these persons to inform me of the pertinent contributions made by them. To the best of my knowledge, the information contained in this report is complete and accurate.

Monteagle Stearns, of California, a Foreign Service Officer of Class one, to be Ambassador Extraordinary and Plenipotentiary of the United States of America to Greece.

Contributions are to be reported for the period beginning on the first day of the fourth calendar year preceding the calendar year of the nomination and ending on the date of the nomination.

Nominee: Monteagle Stearns.

Post: Ambassador to Greece.

Contributions, amount, date, donee:

1. Self, none.
2. Spouse, none.
3. Children and Spouses Names: None.
4. Parents Names: William Foster Stearns (father), \$25, 1980, Dem. Natl. Committee. James Williams Riddleberger (father-in-law), \$25, 1980, Rep. Natl. Committee.
5. Grandparents Names: None.
6. Brothers and Spouses Names: None.
7. Sisters and Spouses Names: None.

I have listed above the names of each member of my immediate family including their spouses. I have asked each of these persons to inform me of the pertinent contributions made by them. To the best of my knowledge, the information contained in this report is complete and accurate.

Robert Strausz-Hupe, of Pennsylvania, to be Ambassador Extraordinary and Plenipotentiary of the United States of America to the Republic of Turkey.

Contributions are to be reported for the period beginning on the first day of the fourth calendar year preceding the calendar year of the nomination and ending on the date of the nomination.

Nominee: Robert Strausz-Hupe.

Post: Ambassador to Turkey.

Contributions, amount, date, donee:

1. Self: List attached.
2. Spouse: Mayrose Strausz-Hupe, none.
3. Children and Spouses Names: None.
4. Parents Names: None.
5. Grandparents Names: None.
6. Brothers and Spouses Names: None.
7. Sisters and Spouses Names: None.

I have listed above the names of each member of my immediate family including their spouses. I have asked each of these persons to inform me of the pertinent contributions made by them. To the best of

my knowledge, the information contained in this report is complete and accurate.

David Anderson, of New York, a Foreign Service Officer of Class one, to be Ambassador Extraordinary and Plenipotentiary of the United States of America to the Socialist Federal Republic of Yugoslavia.

Contributions are to be reported for the period beginning on the first day of the fourth calendar year preceding the calendar year of the nomination and ending on the date of the nomination.

Nominee: David Anderson.

Post: Ambassador to Yugoslavia.

Contributions, amount, date, donee:

1. Self: None.
2. Spouse: None.
3. Children and Spouses Names: None.
4. Parents Names: None.
5. Grandparents Names: None.
6. Brothers and Spouses Names: None.
7. Sisters and Spouses Names: N/A.

I have listed above the names of each member of my immediate family including their spouses. I have asked each of these persons to inform me of the pertinent contributions made by them. To the best of my knowledge, the information contained in this report is complete and accurate.

Marshall Brement, of Arizona, a Foreign Service Officer of Class one, to be Ambassador Extraordinary and Plenipotentiary of the United States of America to Iceland.

Contributions are to be reported for the period beginning on the first day of the fourth calendar year preceding the calendar year of the nomination and ending on the date of the nomination.

Nominee: Marshall Brement.

Post: Iceland.

Contributions, amount, date, donee:

1. Self: None.
2. Spouse: None.
3. Children and Spouses Names: None.
4. Parents Names: None.
5. Grandparents Names: None.
6. Brothers and Spouses Names: None.
7. Sisters and Spouses Names: None.

I have listed above the names of each member of my immediate family including their spouses. I have asked each of these persons to inform me of the pertinent contributions made by them. To the best of my knowledge, the information contained in this report is complete and accurate.

John R. Countryman, of the District of Columbia, a Foreign Service Officer of Class two, to be Ambassador Extraordinary and Plenipotentiary of the United States of America to the Sultanate of Oman.

Contributions are to be reported for the period beginning on the first day of the fourth calendar year preceding the calendar year of the nomination and ending on the date of the nomination.

Nominee: John R. Countryman.

Post: Ambassador—Sultanate of Oman.

Contributions, amount, date, donee:

1. Self: None.
2. Spouse: None.
3. Children and Spouses Names: Daughter, Vanessa: None.
4. Parents Names: Mother, Lucille I. Countryman: None.
5. Grandparents Names: Julia and Charles Zwolski: None.
6. Brothers and Spouses Names: N/A.
7. Sisters and Spouses Names: Carol A. Countryman: None.

I have listed above the names of each member of my immediate family including their spouses. I have asked each of these persons to inform me of the pertinent contributions made by them. To the best of my knowledge

the information contained in this report is complete and accurate.

Richard Noyes Viets, of Vermont, a Foreign Service Officer of Class one, to be Ambassador Extraordinary and Plenipotentiary of the United States of America to the Hashemite Kingdom of Jordan.

Contributions are to be reported for the period beginning on the first day of the fourth calendar year preceding the calendar year of the nomination and ending on the date of the nomination.

Nominee: Richard Noyes Viets.

Post: Amman, Jordan.

Contributions, amount, date, donee:

1. Self: None.
2. Spouse: None.
3. Children and Spouses Names: Alexandra, Katrina, and Marynka: None.
4. Parents Names: Mrs. J. B. Viets: None.
5. Grandparents Names: Deceased.
6. Brothers and Spouses Names: J. R. Viets, Karyl Viets, B. T. Viets: None.
7. Sisters and Spouses Names: None.

I have listed above the names of each member of my immediate family including their spouses. I have asked each of these persons to inform me of the pertinent contributions made by them. To the best of my knowledge, the information contained in this report is complete and accurate.

## INTRODUCTION OF BILLS AND JOINT RESOLUTIONS

The following bills and joint resolutions were introduced, read the first and second time by unanimous consent, and referred as indicated:

By Mr. D'AMATO:

S. 1508. A bill to allow U.S. banks which establish international banking facilities to compete on equal terms with foreign banks establishing such facilities thereby enhancing the position of the United States in the international financing markets; to the Committee on Banking, Housing, and Urban Affairs.

By Mr. HEINZ (for himself, Mr. MOYNIHAN, Mr. COHEN, and Mr. MELCHER):

S. 1509. A bill to amend title XVIII of the Social Security Act to change the method of medicare reimbursement for competitive medical plans; to the Committee on Finance.

By Mr. PERCY (by request):

S.J. Res. 100. Joint resolution to authorize the participation of the United States in a multinational force and observers to implement the Treaty of Peace between Egypt and Israel; to the Committee on Foreign Relations.

## STATEMENTS ON INTRODUCED BILLS AND JOINT RESOLUTIONS

By Mr. D'AMATO:

S. 1508. A bill to allow U.S. banks which establish international banking facilities to compete on equal terms with foreign banks establishing such facilities, thereby enhancing the position of the United States in the international financing markets; to the Committee on Banking, Housing, and Urban Affairs.

### INTERNATIONAL BANKING COMPETITION ACT

● Mr. D'AMATO. Mr. President, in 1978, the Congress took an historic step toward restoring U.S. based banking operations to their rightful place in the international financial marketplace by passing the International Banking Act. On June 9, 1981 the Federal Reserve Board authorized the establishment of Interna-

tional Banking Facilities (IBF's) within the boundaries of the United States.

These facilities will be permitted to carry on purely foreign deposit and loan activities; activities which are currently carried on in the offices of United States and foreign banks located overseas. Sophisticated international investors currently place their business at foreign offices because they prefer the higher returns available overseas over protective, yet burdensome investor-oriented regulation.

On February 18, 1981, however, the FDIC realized that its obligations under Federal Deposit Insurance Act required that the deposits held at these IBF's be covered by Federal Deposit Insurance and be assessed the one-twelfth of 1 percent FDIC insurance premium.

Unfortunately, approximately one-half of all the business currently carried in off-shore branches carry margins of one-sixteenth of 1 percent; less than the FDIC assessment. I am, therefore, introducing a bill that would exempt deposits at IBF's from FDIC coverage, allowing foreign investors to accept the same risk presently they incur at a foreign branch, thereby allowing IBF's to remain competitive.

By reducing the regulation on transactions between U.S. based International Banking Facilities and their foreign clients to only those necessary to protect the safety and soundness of the U.S. economy the IBF's will obtain the competitive equality necessary to attract a significant amount of economic activity back to America's shores.

The Congress, in 1978, foresaw three benefits that are as real and important today as they were then.

First, the United States and its major cities would enhance their status as International Banking Centers and increase their overall attractiveness as places, with a consequent creation of new jobs.

Second, U.S. Treasury revenues would increase because of the taxes on the profits of International Banking Business brought to the U.S.

Third, supervisory oversight of the conduct of international banking business would be facilitated by having this activity take place within the boundaries of the United States.

These benefits will be lost if we do not allow IBF's to offer services that are competitive with those currently in existence.

Mr. President, I ask unanimous consent that my bill be printed in its entirety in the RECORD.

There being no objection, the bill was ordered to be printed in the RECORD, as follows:

#### S. 1508

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

SECTION 1. Subsection 5 of Section 3(1) of the Federal Deposit Insurance Act (12 U.S.C. § 1813(1)) is hereby amended to read in its entirety as follows:

(5) such other obligations of a bank as the Board of Directors, after consultation with the Comptroller of the Currency and the Board of Governors of the Federal Reserve System, shall find and prescribe by regula-

tion to be deposit liabilities by general usage: *Provided further*, that the following shall not be a deposit for any of the purposes of this chapter or be included as part of total deposits or of an insured deposit:

(1) any obligation of a bank which is payable only at an office of the bank located outside of the States of the United States, the District of Columbia, Puerto Rico, Guam, American Samoa, and the Virgin Islands; and

(11) any international banking facility deposit, including an international banking facility time deposit as that term is from time to time defined by the Board of Governors of the Federal Reserve System in its Regulation D or any successor regulation thereto.

Sec. 2. This Amendment shall take effect immediately.●

By Mr. HEINZ (for himself, Mr. MOYNIHAN, Mr. COHEN, and Mr. MELCHER):

S. 1509. A bill to amend title XVIII of the Social Security Act to change the method of medicare reimbursement for competitive medical plans; to the Committee on Finance.

#### COMPETITIVE HEALTH AND MEDICAL PLAN ACT OF 1981

Mr. HEINZ. Mr. President, today I am introducing, along with my colleagues Mr. MOYNIHAN and Mr. COHEN, the Competitive Health and Medical Plan Act (CHAMP) of 1981. The purpose of this legislation is threefold:

First, to offer the elderly a wider choice in selecting a health delivery system suited to their individual needs; second, to stimulate competition among alternative systems of health care delivery; and third, to contain health care costs through greater utilization of more efficient health care delivery systems.

To accomplish these goals, the CHAMP Act—we call it CHAMP after Competitive Health and Medical Plan—would reform the method of reimbursement to health maintenance organizations (HMO's) and provide medicare reimbursement to certain prepaid health benefit plans.

Mr. President, as chairman of the Special Committee on Aging, I am extremely concerned about the long-range projections for the medicare, or health insurance (HI) trust fund of social security.

I am also very troubled by the growing costs and shrinking medicare benefits for older people.

Last week, the social security trustees issued their 1981 report. Their long-range forecast for the HI Trust Fund was quite dismal. The trustees reported that the Medicare Trust Fund may go broke as early as 1989.

Furthermore, over the next 25 years, the deficit in the HI Trust Fund continues to balloon, with no reversal of this trend in sight. Extrapolating from the trustees' projections, it would require more than doubling the payroll taxes over the next 75 years to salvage the HI Trust Fund.

A rate of growth in hospital costs that continues to outstrip the growth rate of wages and prices is at the root of the impending shortage of medicare funds. Inpatient hospital costs for medicare recipients are projected to rise 15.6 percent

in 1981. The HI Trust Fund will be further strained by a burgeoning elderly population living longer than ever before.

If we continue along our current course, making no reforms in medicare or the way we approach the overall cost of health care, the cost implications for both the elderly and the Nation are immense.

The public cost of treating our Nation's elderly has been approximately doubling every 4 years. Such a doubling of the current medicare outlay of \$41 billion is difficult to fathom, let alone to budget.

At the same time, the elderly and disabled covered by medicare continue to be asked to dig deeper into their pockets to help pay the escalating costs of medicare. On July 1, the Health Care Financing Administration raised the monthly premium for medicare—part B from \$9.60 to \$11, or about 14.6 percent. This increase came close on the heels of the 13.3-percent hike in part A hospital insurance deductible, from \$180 to \$204, that the elderly and disabled began paying January 1 of this year. And, after reconciliation, we will ask them to pay still more.

For these soaring costs, the elderly health care consumer will get little more in the way of benefits than he or she does today.

At present, medicare covers only 38 percent of the elderly's total medical costs. Furthermore, the ability of the elderly to select their physician is steadily diminishing because the number of doctors willing to accept assignment under the medicare program is steadily declining. The assignment rate today is about 51 percent, down from 61 percent just 10 years ago.

Mr. President, the fact is that the medicare program is in dire need of reform now. We must begin to reverse the incentives contributing to skyrocketing costs, so that we can afford to pay health care costs of our elderly tomorrow.

The CHAMP bill that I am introducing today represents a vital first step in reforming the medicare program. It will not solve all of the problems faced by the Nation's elderly, nor is it intended to, but it is critically important that we begin now to address these issues.

The bill is designed to encourage a continuity of care that is so often lacking when an elderly individual seeks treatment today in the existing system. The traditional health care system is a bewildering array of medical specialties, hospitals, nursing homes, claim forms, and unplanned expenses.

The CHAMP bill would enable medicare beneficiaries to enroll voluntarily in HMO's and other prepaid physician-insurer contractual arrangements, all of which would be called competitive medical plans, or CMP's. In my judgment, an organized system of care like that provided through an HMO or Individual Practice Association (IPA) is an effective approach to dealing with the health problems of the elderly.

The advantages for an elderly individual receiving care from a single provider group reimbursed prospectively are particularly pronounced. From the el-



derly's perspective, perhaps the greatest benefit is the elimination of the cumbersome, frequently overwhelming paperwork for claims reimbursement under the medicare fee-for-service system.

In addition, older Americans enrolled in prepaid plans are able to budget their health care costs. Typically, these plans eliminate copayments and deductibles, and provide complete protection against catastrophic illnesses. Frequently, there is home health coverage as well.

Prepayment also removes the incentive to overserve and replaces it with an incentive to maintain health and reduce unnecessary hospitalization. For example, in 1976, hospital days per 1,000 persons age 65 and over totaled 4,121 in the United States. In the Kaiser-Permanente medical care program, the Nation's largest HMO with 4 million members, including 200,000 medicare beneficiaries, the age/sex adjusted rate for the over 65 population was 1,945 days per 1,000 members.

Under CHAMP, a competitive medical plan would receive a fixed prospectively determined payment per enrollee, which would be unrelated to the amount of care provided. This payment is set at 95 percent of the adjusted average per capita cost (AAPCC), or in other words, 95 percent of what it cost medicare today to provide its package of benefits to an eligible individual served by the fee-for-service sector.

This payment level would serve as a cost-controlling limit and also provide qualified plans an incentive to provide care in settings most appropriate to a patient's needs.

Under the maximum payment level, the actual payment per beneficiary would fluctuate based on appropriate adjustments for the population served, such as adjustments for age, sex, and health status.

Another important provision of the bill will insure that the economies realized through greater medicare participation in efficient medical plans will save not only the taxpayer's money, but that of the enrolled beneficiary as well.

Under this provision, all savings above the normal return a CMP receives through its private business will be passed on to the enrolled medicare beneficiary. Thus, this feature requires a CMP to provide medicare enrollees with increased benefits and decreased cost-sharing to the extent that medicare reimbursement exceeds the CMP's normal return or adjusted community rate.

Within the last year and a half, the Health Care Financing Administration (HCFA) has sponsored a number of demonstration projects to test the prospective reimbursement mechanism that is a central feature of my bill. The results to date show promise, although the demonstrations also have identified some problems that will need to be addressed during committee consideration of my bill.

The demonstrations prove several things: In particular that many elderly consumers are attracted to plans that can provide broader benefits in exchange for receiving all of their care from certain, efficient providers.

The Special Committee on Aging has scheduled a hearing for July 29, at 2 p.m., to look at both the benefits that accrue to medicare consumers who enroll in CMP's, and the difference between physician treatment of the elderly in a CMP and the fee-for-service system.

The Health Subcommittee of the Finance Committee has scheduled a hearing for July 30, at 2 p.m., to examine the prospective medicare financing mechanism being tested in the HCFA demonstrations, and additional methods of reimbursement to HMOs and other prepaid health plans.

It is my hope and expectation that these hearings will provide us with the information necessary to proceed in taking this vital first step to reform the medicare program.

I ask unanimous consent that a detailed factsheet, and the bill, be printed in the RECORD.

There being no objection, the bill and factsheet were ordered to be printed in the RECORD, as follows:

S. 1509

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

#### SHORT TITLE

SECTION 1. This Act may be cited as the "Competitive Health and Medical Plan Act".  
MEDICARE PAYMENTS TO COMPETITIVE MEDICAL PLANS

SEC. 2. Section 1876 of the Social Security Act is amended to read as follows:

#### "PAYMENTS TO COMPETITIVE MEDICAL PLANS

"Sec. 1876. (a) (1) The Secretary shall annually determine a per capita rate of payment for each class of individuals entitled to benefits under parts A and B who are enrolled under this section with a competitive medical plan with which he has entered into a risk sharing contract under subsection (g), and shall annually determine a per capita rate of payment for each class of individuals entitled to benefits under part B alone who are enrolled under this section with such a competitive medical plan. The Secretary shall define appropriate classes of members, based on such factors as age, sex, institutional status, disability and health status, and place of residence. The rate for each class shall be equal to 95 percent of the adjusted average per capita cost for that class. Each month the Secretary shall pay each such plan (other than a plan with which he has entered into a reasonable cost reimbursement contract under subsection (h)) the appropriate rate, in advance, for each individual enrolled under this section with the plan, or such lesser amount as the plan requests. Those payments shall be instead of the amounts which would be otherwise payable, pursuant to sections 1814(b) and 1833(a), for services furnished by or through the plan to individuals enrolled under this section with the plan, or enrolled other than under this section with the plan but eligible to enroll under this section with the plan.

"(2) With respect to any competitive medical plan which has entered into a reasonable cost reimbursement contract with the Secretary pursuant to subsection (h), payments shall be made to such plan in accordance with subsection (h) rather than under paragraph (1).

"(3) For purposes of this section, the term 'adjusted average per capita cost' means the average per capita amount that the Secretary estimates in advance (on the basis of actual experience, or retrospective actuarial

equivalent based upon an adequate sample and other information and data in a geographic area served by a competitive medical plan or in a similar area, with appropriate adjustments to assure actuarial equivalence) would be payable in any contract year for services covered under parts A and B, or part B only, and types of expenses otherwise reimbursable under parts A and B, or part B only (including administrative costs incurred by organizations described in sections 1816 and 1842), if the services were to be furnished by other than a competitive medical plan.

"(4) The payment to a competitive medical plan under this subsection for individuals enrolled under this section with the plan and entitled to benefits under part A an enrolled under part B shall be made from the Federal Hospital Insurance Trust Fund and the Federal Supplementary Medical Insurance Trust Fund. The portion of that payment to the plan for a month to be paid by the latter trust fund shall be equal to 200 percent of the sum of—

"(A) the product of (i) the number of such members for the month who have attained age 65, and (ii) the monthly actuarial rate for supplementary medical insurance for the month as determined under section 1839(c) (1), and

"(B) the product of (i) the number of such members for the month who have not attained age 65, and (ii) the monthly actuarial rate for supplementary medical insurance for the month as determined under section 1839(c) (4).

The remainder of that payment shall be paid by the former trust fund.

"(5) If an individual is enrolled under this section with a competitive medical plan, neither the individual nor any other person or entity (except for the competitive medical plan) shall be entitled to receive payments from the Secretary under this title for services furnished to the individual, except as otherwise provided in subsection (h) in the case of a plan which has entered into a cost reimbursement contract.

"(b) (1) For purposes of this section, the term 'competitive medical plan' means a public or private entity, organized under the laws of any State, which—

"(A) is a qualified health maintenance organization (as defined in section 1310(d) of the Public Health Service Act);

"(B) is licensed as a health maintenance organization in the State in which it operates; or

"(C) meets the requirements of paragraph (2).

"(2) An entity meets the requirements of this paragraph if such entity—

"(A) provides to enrolled members at least the following health care services: physicians' services performed by physicians (as defined in section 1861(r) (1)), inpatient hospital services, laboratory, X-ray, and emergency services, and out of area coverage;

"(B) is compensated (except for deductibles, coinsurance, and copayments) for the provision of health care services to enrolled members by a payment which is paid on a periodic basis without regard to the date the health care services are provided and which is fixed without regard to the frequency, extent, or kind of health care service actually provided to a member;

"(C) provides physicians' services primarily (i) directly through physicians who are either employees or partners of such entity, or (ii) through contracts with individual physicians or one or more groups of physicians (organized on a group practice or individual practice basis);

"(D) assumes full financial risk on a prospective basis for the provision of the health care services listed in subparagraph (A), except that such entity may obtain insurance or make other arrangements—

"(i) for the cost of providing to any enrolled member health care services listed in subparagraph (A) the aggregate value of which exceeds \$5,000 in any year,

"(ii) for the cost of health care service listed in subparagraph (A) provided to its enrolled members other than through the entity because medical necessity required their provision before they could be secured through the entity,

"(iii) for not more than 90 percent of the amount by which its costs for any of its fiscal years exceed 115 percent of its income for such fiscal year, and

"(iv) with physicians or other health professionals, health care institutions, or any combination of such individuals or institutions to assume all or part of the financial risk on a prospective basis for the provision of basic health services by the physicians or other health professionals or through the institutions; and

"(E) has made adequate provision against the risk of insolvency, which provision is satisfactory to the Secretary.

"(3) (A) Each competitive medical plan must provide at least the following basic health services to members enrolled under this section:

"(i) the services listed under parts A and B of this title which are available to individuals residing in the geographic area served by the plan for individuals entitled to benefits under part A and enrolled under part B; and

"(ii) the services listed under part B that are available to individuals residing in the geographic area served by the plan for individuals enrolled under part B only.

"(B) In addition, the plan (other than a plan with a cost basis contract under subsection (h)) may provide such individuals with such additional health care services either as the Secretary may approve or as such individuals may elect, at their option, to have covered. The Secretary shall approve any such additional health care services which the plan proposes to offer to such individuals, unless the Secretary determines that including such additional services will substantially discourage enrollment by covered individuals with the plan.

"(4) (A) Each competitive medical plan must have an open enrollment period, for the enrollment of individuals under this section, of at least 30 days duration every year, and must provide that at any time during which enrollments are accepted, the plan will accept up to the limits of its capacity (as determined by the Secretary) and without restrictions, except as may be authorized in regulations, individuals who are eligible to enroll under subsection (c) in the order in which they apply for enrollment, unless to do so would result in failure to meet the requirements of subsection (f) or would result in the enrollment of enrollees substantially nonrepresentative, as determined in accordance with regulations of the Secretary, of the population in the geographic area served by the plan.

"(B) An individual may enroll under this section with a competitive medical plan in such manner as may be prescribed in regulations, and may terminate his enrollment with the plan as of the beginning of the first calendar month following a full calendar month after he has requested termination.

"(C) Each competitive medical plan must provide assurances to the Secretary that it will not expel or refuse to re-enroll any such individual because of the individual's health status or requirements for health care services, and will notify each such individual of such fact at the time of the individual's enrollment.

"(5) Each competitive medical plan must provide that any individual enrolled in such plan under this section shall be reimbursed

by the plan for his expenses in securing health services, which he would be entitled to receive through the plan, which he receives other than through the plan, if the services were medically necessary and immediately required because of an unforeseen illness, injury, or condition, and it was not reasonable given the circumstances to obtain the services through the plan.

"(6) (A) Each competitive medical plan must provide meaningful procedures for hearing and resolving grievances between the plan (including any entity or individual through which the plan provides health care services) and any individual member of such plan.

"(B) Any individual enrolling with a competitive medical plan under this section who is dissatisfied by reason of his failure to receive any health service to which he believes he is entitled and at no greater charge than he believes he is required to pay shall, if the amount in controversy is \$100 or more, be entitled to a hearing before the Secretary to the same extent as is provided in section 205(b), and in any such hearing the Secretary shall make the competitive medical plan a party. If the amount in controversy is \$1,000 or more, the individual or competitive medical plan shall, upon notifying the other party, be entitled to judicial review of the Secretary's final decision as provided in section 205(g), and both the individual and the competitive medical plan shall be entitled to be parties to that judicial review.

"(7) (A) Each competitive medical plan must have a program that defines procedures for—

"(i) review of medical care by physicians and other health care professionals;

"(ii) identification of clinical and administrative problems; and

"(iii) follow-up procedures to rectify any such problems.

"(B) Each competitive medical plan must provide adequate assurance to the Secretary that the program described in subparagraph (A)—

"(i) has been implemented and that where evidence of any such problem is found, recommended follow-up action is being taken; and

"(ii) is implemented on an ongoing basis.

"(8) Notwithstanding the requirement of paragraph (2) (A) that a competitive medical plan provide inpatient hospital services, an entity shall qualify as a competitive medical plan for purposes of this section if such entity had contracted with a single State agency administering a State plan approved under title XIX, for the provision of services other than inpatient hospital services, to individuals eligible for such services under such State plan, on a prepaid risk basis prior to 1970.

"(c) Subject to the provisions of subsection (b) (4), every individual entitled to benefits under part A and enrolled under part B or enrolled under part B only (other than an individual medically determined to have end-stage renal disease) shall be eligible to enroll under this section with any competitive medical plan with which the Secretary has entered into contract under this section and which serves the geographic area in which the individual resides.

"(d) The portion of a competitive medical plan's premium rate and the actuarial value of its other charges for individuals enrolled under this section with the plan and entitled to benefits under parts A and B, and the portion of its premium rate and the actuarial value of its other charges for individuals enrolled under this section with the plan and entitled to benefits under part B only, for services covered under parts A and B, or part B only, respectively, may not exceed the actuarial value of the coinsurance and deductibles that would be applicable on the average to individuals enrolled under this

section with the plan (or, if the Secretary finds that adequate data is not available to determine that actuarial value, the actuarial value of the coinsurance and deductibles applicable on the average to individuals in the area, in the State, or in the United States, eligible to enroll under this section with a competitive medical plan) and entitled to benefits under parts A and B, or part B only, respectively, if they were not members of a competitive medical plan.

"(e) Notwithstanding any other provision of law, a competitive medical plan may, in the case of the provision of services to an individual enrolled in accordance with this section for an illness or injury for which the member is entitled to benefits under a workman's compensation law or plan of the United States or any State, or under an automobile or liability insurance policy or plan, including a self-insured plan, or under no fault insurance, charge or authorize the provider of such services to charge, in accordance with the charges allowed under such law, plan, or policy—

"(1) the insurance carrier, employer, or other entity which under such law, plan, or policy is to pay for the provision of such services, or

"(2) such member to the extent that such member has been paid under such law, plan, or policy for such services.

"(f) (1) Except as provided in paragraph (2), each competitive medical plan with which the Secretary enters into a contract under this section shall have, for the duration of such contract, an enrolled membership at least one-half of which consists of individuals who are not entitled to benefits under this title or under a State plan approved under title XIX.

"(2) The Secretary may modify or waive the requirement imposed by paragraph (1) only (A) if the Secretary determines that (i) special circumstances warrant such modification or waiver, and (ii) the plan has taken and is taking reasonable efforts to enroll individuals who are not entitled to benefits under this title or under a State plan approved under title XIX, and (B) on the condition that the plan will not have, for the duration of such contract, an enrolled membership of which one-half or more are individuals entitled to benefits under part A or enrolled under part B.

"(g) (1) The Secretary may enter into a risk sharing contract with any competitive medical plan, as defined in subsection (b) (1), which has at least 1,000 members for the purpose of carrying out this section.

"(2) (A) Each risk sharing contract under this subsection shall provide that, if the adjusted community rate for services under parts A and B (as reduced for the actuarial value of the coinsurance and deductible under those parts), for individuals enrolled under this section with the plan and entitled to benefits under those parts, or if the adjusted community rate for services under part B (as reduced for the actuarial value of the coinsurance and deductibles under that part), for individuals enrolled under this section with the plan and entitled to benefits under that part only, is less than the weighted average per capita payment to be made under subsection (a) at the beginning of an annual period for individuals who will be enrolled during the contract year under this section with the plan and entitled to benefits under parts A and B, or part B only, respectively, the competitive medical plan shall apply the difference between that average per capita payment and that adjusted community rate (as so reduced) or its equivalent in value to one or more of the following purposes:

"(i) the provision of additional benefits or services to each enrollee under parts A and B or part B only;

"(ii) reduction in premiums, deductibles, or copayments for such enrollees; or



"(iii) rebates or dividends to such enrollees.

"(B) If the competitive medical plans determine that additional benefits are to be provided as allowed under subparagraph (A) (1), such benefits shall be selected, by a group consisting of individuals enrolled under this section with such plan, from among feasible alternatives presented to such group by the plan in which such group of enrolled individuals shall be chosen shall be provided for in the contract.

"(C) For purposes of this section, the term 'adjusted community rate' for a service or services means, at the election of a competitive medical plan, either—

"(i) the rate of payment for that service or services which the Secretary annually determines based on a submission by the competitive medical plan, would apply to an individual enrolled in accordance with this section with a competitive medical plan if the rate of payment were determined under a 'community rating system' (as defined in section 1302(8) of the Public Health Service Act, other than subparagraph (C)), or

"(ii) such portion of the weighted aggregate premium, which the Secretary annually estimates would apply to an individual enrolled in accordance with this section with the competitive medical plan, as the Secretary annually estimates is attributable to that service,

but adjusted for differences between the utilization characteristics of the individuals enrolled with the competitive medical plan under this section and the utilization characteristics of the other members of the plan (or, if the Secretary finds that adequate data are not available to adjust for those differences, the differences between the utilization characteristics of individuals in other competitive medical plans, or individuals in the area, in the State, or in the United States, eligible to enroll under this section with a competitive medical plan and the utilization characteristics of the rest of the population in the area, in the State, or in the United States, respectively).

"(h) (1) If the Secretary is not satisfied that a competitive medical plan has the capacity to bear the risk of potential losses under a risk sharing contract under this section, or if the competitive medical plan so elects, or if the plan has less than 1,000 members, the Secretary may enter into a contract with such plan pursuant to which such plan is reimbursed on the basis of its reasonable cost (as defined in section 1861(iv)) in the manner prescribed in paragraph (3), and any such contract shall be terminated on the later of—

"(A) December 31, 1986, or

"(B) the end of the sixtieth month during which such contract was in effect.

"(2) Such contract under this subsection may, at the option of such plan, provide that the Secretary (A) will reimburse hospitals and skilled nursing facilities for the reasonable cost (as determined under section 1861(v)) of services furnished to individuals enrolled with such organization pursuant to subsection (c), and (B) will deduct the amount of such reimbursement from payment which would otherwise be made to such plan. If such plan pays a hospital or skilled nursing facility directly, the amount paid shall not exceed the reasonable cost of the services (as determined under section 1861(v)) unless such organization demonstrates to the satisfaction of the Secretary that such excess payments are justified on the basis of advantages gained by the plan.

"(3) Payments made to a plan with a cost basis contract under this subsection shall be subject to suitable retroactive corrective

adjustment at the end of each contract year so as to assure that such plan is paid for the reasonable cost actually incurred (excluding any part of incurred cost found to be unnecessary in the efficient delivery of health services) for the types of expenses otherwise reimbursable under this title for providing services covered under this title to individuals described in subsection (a) (1).

"(4) Any contract with a competitive medical plan under this subsection shall provide that the Secretary shall require, at such time following the expiration of each accounting period of the plan (and in such form and in such detail) as he may prescribe—

"(A) that the plan report to him in an independently certified financial statement its per capita incurred cost based on the types of components of expenses otherwise reimbursable under this title for providing services described in subsection (a) (1), including, in accordance with accounting procedures prescribed by the Secretary, its methods of allocating costs between individuals enrolled under this section and other individuals enrolled with such plan;

"(B) that failure to report such information as may be required may be deemed to constitute evidence of likely overpayment on the basis of which appropriate collection action may be taken;

"(C) that in any case in which a plan is related to another plan by common ownership or control, a consolidated financial statement shall be filed and that the allowable costs for such plan may not include costs for the types of expense otherwise reimbursable under this title, in excess of those which would be determined to be reasonable in accordance with regulations (providing for limiting reimbursement to costs rather than charges to the plan by related plans and owners) issued by the Secretary in accordance with section 1861(v); and

"(D) that in any case in which compensation is paid by a plan substantially in excess of what is normally paid for similar services by similar practitioners (regardless of method of compensation), such compensation may as appropriate be considered to constitute a distribution of profits.

"(i) (1) Each contract under this section shall be for a term of at least one year, as determined by the Secretary, and may be made automatically renewable from term to term in the absence of notice by either party of intention to terminate at the end of the current term; except that the Secretary may terminate any such contract at any time (after such reasonable notice and opportunity for hearing to the competitive medical plan involved as he may provide in regulations), if he finds that the plan (i) has failed substantially to carry out the contract, (ii) is carrying out the contract in a manner inconsistent with the efficient and effective administration of this section, or (iii) no longer substantially meets the applicable conditions of subsection (b).

"(2) The effective date of any contract executed pursuant to this section shall be specified in the contract.

"(3) Each contract under this section—

"(A) shall provide that the Secretary, or any person or organization designated by him—

"(i) shall have the right to inspect and evaluate the facilities of such competitive medical plan when there is reasonable evidence of some need for such inspection; and

"(ii) shall have the right to audit and inspect any books and records of the competitive medical plan that pertain (I) to the ability of the plan to bear the risk of potential financial losses, or (II) to services performed or determinations of amounts payable under the contract;

"(B) shall require the plan to provide (and pay for) written notice in advance of the

contract's termination, as well as a description of alternatives for obtaining benefits under this title, to each individual enrolled under this section with the plan;

"(C) shall require the plan to comply with subsections (a) and (c) of section 1318 of the Public Health Service Act; and

"(D) shall contain such other terms and conditions not inconsistent with this section as the Secretary and competitive medical plan may find necessary and appropriate.

"(4) The Secretary shall establish minimum standards to ensure that a competitive medical plan that has entered into a contract with the Secretary under this subsection will provide clear and sufficient information on a regular basis to individuals eligible to enroll under this section with the plan, about the plan and to provide for the enrollment of such individuals with the plan.

"(5) The Secretary may not enter into contract with a competitive medical plan under this section if a former contract with that plan under this section was terminated at the request of the plan within the preceding 5-year period, except in circumstances which warrant special consideration, as determined by the Secretary.

"(6) The authority vested in the Secretary by this section may be performed without regard to such provisions of law or regulations relating to the making, performance, amendment, or modification of contracts of the United States as the Secretary may determine to be inconsistent with the furtherance of the purpose of this title."

#### EFFECTIVE DATE

SEC. 3. The amendments made by section 2 of this Act shall apply with respect to services furnished on or after the first day of the thirteenth month that begins after the date of the enactment of this Act, or earlier with respect to any competitive medical plan if the plan so requests and the Secretary of Health and Human Services agrees; except that such amendments shall not apply—

(1) with respect to services furnished by a competitive medical plan to any individual who is enrolled with that plan and entitled to benefits under part A, or enrolled in part B, of title XVIII of the Social Security Act at the time the plan first enters into a contract subject to the amendments made by this section, unless—

(A) the individual requests at any time that the amendments apply, or

(B) the Secretary determines at any time that the amendments should apply to all members of the plan because of administrative costs or other administrative burdens involved and so informs in advance each affected member of the plan, or

(2) with respect to services furnished by a competitive medical plan during the five-year period beginning with the date of enactment of this Act, if a contract between the plan and the Secretary of Health and Human Services under section 1876(1)(2)(A) of the Social Security Act was in effect immediately before the date of the enactment of this Act, unless the plan requests that the amendments apply earlier.

#### SERVICES OF PHYSICIAN ASSISTANTS AND NURSE PRACTITIONERS

SEC. 4. Section 1861(s)(2) of the Social Security Act is amended—

(1) by striking out "and" at the end of subparagraph (F);

(2) by inserting "and" after the semicolon in subparagraph (G); and

(3) by adding after subparagraph (G) the following new subparagraph:

"(H) services furnished pursuant to a contract under section 1876 to a member of a competitive medical plan by a physician assistant or by a nurse practitioner (as defined in subsection (aa)(3)) and such services and supplies furnished as an incident to his service to such a member as would otherwise be

covered under this part if furnished by a physician or as an incident to a physician's service;"

# FACTS ABOUT MAJOR PROVISIONS OF COMPETITIVE HEALTH AND MEDICAL PLAN (CHAMP) ACT OF 1981

(To be introduced by Senator JOHN HEINZ)

"To reform the method of reimbursement to health maintenance organizations and to provide Medicare reimbursement to certain prepaid health benefit plans."

What are the purposes of the Competitive Health and Medical Plan Act of 1981?

(1) To offer the elderly a wider freedom of choice in selecting a health delivery system suited to their individual needs;

(2) To encourage and stimulate competition among alternative systems of health care delivery. (Explanation: the more efficient a Competitive Medical Plan is in relation to the fee-for-service sector, the richer the benefits they can offer and therefore the more attractive the CMP will be to the elderly beneficiary);

(3) To contain health care costs through competitive market forces and through greater utilization of more efficient health care delivery systems.

What are the benefits of the CHAMP Act?

Because the payment to Competitive Medical Plans under this bill will be made on a prospective per capita, rather than a service-rendered basis, the CHAMP Act will:

(1) Provide the most appropriate care in the most appropriate settings;

(2) Enable Medicare beneficiaries to budget their total out-of-pocket health care expenses;

(3) Provide Medicare beneficiaries with a continuum of care;

(4) Be effective in holding down costs.

Who is eligible to participate in a competitive medical plan (CMP)?

Anyone entitled to benefits under Parts A and B of Medicare, except individuals medically determined to have end-stage renal disease, is entitled to participate in a CMP. Eligibility is delayed for those currently under a "spell of illness" covered under Medicare.

What is a competitive medical plan?

(1) An entity that meets the Federal definition of HMO contained in Title XIII of Public Health Service Act; or

(2) An entity licensed as a HMO by the State in which it operates; or

(3) An entity which:

(a) Assumes full financial risk on a prospective basis for the provision of health care services;

(b) Provides physicians services either directly or through contracts with physicians;

(c) Provides to enrolled members at least the medical and hospital benefits provided by Parts A and B of Medicare and out of area coverage;

(d) Is compensated for the care of enrolled members on a periodic basis, without regard to date, frequency, extent, or kind of services rendered;

(e) Has made adequate provision against risk of insolvency.

What is the difference between the CHAMP Act and current law?

At present, the only CMPs that may participate in the Medicare program are Federally qualified HMOs. Furthermore, the current Medicare reimbursement to these HMOs is inconsistent with the way HMOs are paid for all other enrollees.

Federally qualified HMOs can only choose between being reimbursed on a cost or a risk basis. Under both of these methods, the HMO receives interim monthly payments from Medicare, and adjustments for actual costs are made at the conclusion of the contract period.

Under the cost contract, efficiencies and inefficiencies are reflected only in increases

or decreases in reimbursement. Under the risk contract, losses must be absorbed by the HMO, and savings are shared exclusively by the HMO and the Federal government—not the Medicare beneficiary. Thus, both of these methods ignore the principle of prospectively set (before services are rendered) payment levels inherent in the HMO concept, and oblige the HMO to calculate costs retrospectively.

What health care benefits would be provided by competitive medical plans?

At a minimum, a CMP must provide all services required under Parts A and B of Medicare.

How does the CHAMP Act ensure that savings will be passed on to the consumers?

If the Medicare reimbursement exceeds the adjusted community rate (which is the amount that would return to the CMP the same rate of profit for Medicare enrollees as for its private enrollees), the difference must be applied to additional benefits, decreased deductibles or co-payments or rebates.

The additional benefits will be selected by a group of Medicare eligible individuals enrolled in the CMP from a list of alternatives presented by the CMP.

How will the CMPs be reimbursed by Medicare?

(1) On a prospective basis (in advance of actual services rendered);

(2) At a level that would be equal to 95 percent of the adjusted average per capita cost. (AAPCC means the average amount payable on a per capita basis in any contract year for medical services furnished under Parts A and B of Medicare as if the services were furnished by an entity other than a CMP. The adjustment will be made on the basis of age, sex, institutional status, disability and health status, and place of residence.);

(3) Existing CMPs and newly participating CMPs may, when this legislation is implemented, be reimbursed under the existing retrospective cost arrangement for a maximum of five years.

What else would a CMP have to do?

(1) Have an open enrollment period for at least 30 consecutive days per year;

(2) Regardless of their health status, provide basic health services to any individual eligible for Medicare benefits;

(3) Have a plan to assure quality care, and follow-through on recommendations to enhance quality of health care services;

(4) Demonstrate that the ratio of premium to benefits for Medicare enrollees will not exceed that of non-Medicare enrollees also in the plan;

(5) Meet reasonable standards of fiscal soundness;

(6) Use a community rating system;

(7) Provide Parts A and B services through qualified institutions and individuals;

(8) Permit the Secretary to inspect or evaluate the CMP if there is reasonable evidence to do so.

What restrictions are placed on CMPs?

A CMP may not:

(1) Levy premiums and other charges for Medicare enrollees that exceed those of Medicare recipients who are not enrolled in a CMP;

(2) Charge more for other services, provided in addition to the basic services, than those services would cost if their value were determined using the adjusted community rate;

(3) Participate in the CHAMP program unless at least one-half of the membership of a CMP consists of individuals not eligible for Title XIX, Medicaid, or Title XVIII, Medicare benefits.

What about emergency medical services?

A CMP is required to reimburse its members for the cost of medically necessary emergency medical services if reduced outside

the area covered by the CMP, and must make arrangements for care 24 hours.

How are the rights of CMP enrollees protected?

(1) If dissatisfied, an individual may terminate enrollment in a CMP on the first day of the month following the first full month after termination is requested; and

(2) Review is mandated for any disputed service or charge if the amount in question is \$100 or more. Judicial review is required for amounts equalling \$1,000 or more.

How will the CHAMP Act prevent adverse selection?

(1) The Secretary of the Department of Health and Human Services will establish minimum standards under which CMPs can enroll eligible individuals and can inform them about the CMP.

(2) The Secretary may terminate contracts if significant violations are found.

How will contracts be administered?

The Health Care Financing Administration will be responsible for the administration of all contracts. Each contract:

(1) Will be drawn for at least one year terms;

(2) Will be automatically renewable, although it may be terminated at any time by the Secretary for good causes; and

(3) To be terminated by a CMP, the CMP must notify, in writing, each enrolled individual and provide a description of alternatives for obtaining benefits.

How would Medicare beneficiaries currently enrolled in HMOs be affected?

(1) Individuals already enrolled in the HMO and receiving Medicare reimbursement at the time the HMO enters into a contract with the Secretary have the option of continuing that reimbursement method or switching to the new; and

(2) The new reimbursement method would not apply for three years to HMOs already under contract with HHS at the date of enactment unless the HMO chooses otherwise.

How soon after enactment will the CHAMP Act be effective?

One year following the date of enactment, or earlier if requested by the CMP and the Secretary concurs.

By Mr. PERCY (by request):

S.J. Res. 100. Joint resolution to authorize the participation of the United States in a multinational force and observers to implement the Treaty of Peace between Egypt and Israel; to the Committee on Foreign Relations.

## MIDEAST PEACE TREATY

Mr. PERCY. Mr. President, by request, I introduce for appropriate reference a joint resolution to authorize the participation of the United States in a multinational force and observers to implement the Treaty of Peace between Egypt and Israel.

This legislation has been requested by the Department of State and I am introducing the proposed joint resolution in order that there may be specific legislation to which Members of the Senate and the public may direct their attention and comments.

I reserve my right to support or oppose this joint resolution as well as any suggested amendments to it, when the matter is considered by the Committee on Foreign Relations.

I ask unanimous consent that the joint resolution be printed in the Record at this point, together with a section-by-section analysis of the joint resolution and the letter from the Secretary of State to the President of the Senate dated July 18, 1981.



There being no objection, joint resolution and material were ordered to be printed in the RECORD, as follows:

S. J. RES. 100

Whereas the Treaty of Peace between Egypt and Israel signed on March 26, 1979, calls for the supervision of security arrangements to be undertaken by United Nations Forces and Observers; and

Whereas the United Nations has been unable to assume those responsibilities; and

Whereas a Protocol Initialed on July 17, 1981, by the Government of the Arab Republic of Egypt and the Government of the State of Israel provides for the creation of an alternative Multinational Force and Observers to implement the Treaty of Peace; and

Whereas the Government of the Arab Republic of Egypt and the Government of the State of Israel have requested that the United States participate in the Multinational Force and Observers: Now, therefore, be it

*Resolved by the Senate and House of Representatives of the United States of America in Congress assembled,* That the President is authorized to assign, under such terms and conditions as he may determine, personnel of the Armed Forces of the United States to participate in the Multinational Force and Observers to be established in accordance with the Protocol between Egypt and Israel initialed July 17, 1981, relating to the implementation of the security arrangements of the Treaty of Peace. The President is also authorized to provide, under such terms and conditions as he may determine, United States civilian personnel to participate as observers in the Multinational Force and Observers. The status of United States Government personnel assigned to the Multinational Force and Observers shall be as provided in Section 629 of the Foreign Assistance Act of 1961, as amended.

SEC. 2. The President is authorized to agree with Egypt and Israel that the United States will contribute a share of the costs of such Multinational Force and Observers in accordance with the Protocol, subject to the authorization and appropriation of necessary funds.

SEC. 3. There are authorized to be appropriated to the President to carry out chapter 6 of Part II of the Foreign Assistance Act of 1961, in addition to amounts otherwise available to carry out that chapter, \$125 million for the fiscal year 1982 for contributions as authorized by section 2 of this Resolution. Amounts appropriated under this section are authorized to remain available until expended.

SEC. 4. Any agency of the United States Government is authorized to sell, loan, or lease property (including interests therein) to, and to perform administrative and technical services for the support of, the Multinational Force and Observers upon such terms and conditions as the President may direct. Reimbursements to agencies under this section shall be credited to the current applicable appropriation of the agency concerned.

#### SECTION-BY-SECTION ANALYSIS

##### PREAMBLE

This provision sets forth the purpose of the resolution—to authorize the participation of the United States in a Multinational Force and Observers to implement the Treaty of Peace between Egypt and Israel. It also describes the factors which have led to the establishment of such Multinational Force and Observers participation in it.

Section 1.—This portion of the resolution authorizes the President to assign, under such conditions as he may determine, personnel of the Armed Forces to participate in the Multinational Force and Observers.

It is anticipated that the United States would provide one infantry battalion and a logistics support unit to participate in the multinational force.

Egypt and Israel have also requested that the United States provide the observer unit of the Multinational Force and Observers. In the negotiations both parties have further requested that United States civilian personnel of the Sinai Field Mission perform this function. This section accordingly authorizes the assignment of such civilian personnel to serve as an observer unit. (Pursuant to Public Law 94-110 of October 13, 1975, (22 U.S.C. 2441), the United States Government performed certain functions similar to some of those which will now be performed by the Multinational Force and Observers.) It is also anticipated that individual United States officers and employees may be detailed to serve in the Multinational Force and Observers in other capacities (for example, as members of the Director General's staff) pursuant to Section 628 of the Foreign Assistance Act of 1961, as amended.

The final sentence of this section makes it clear that all United States Government personnel assigned to the Multinational Force and Observers will continue to receive their normal pay, allowances and other benefits in accordance with section 629 of the Foreign Assistance Act of 1961, as amended.

Section 2.—This section authorizes the President to agree that the United States will contribute a share of the costs of the Multinational Force and Observers, subject to the authorization and appropriation of necessary funds. In light of the initial costs involved in establishing the necessary facilities for the Multinational Force and Observers, it is contemplated that the United States would contribute up to 60 per cent of the costs of the Multinational Force and Observers through September 30, 1982.

Thereafter, the United States would pay one third of annual costs. It is envisioned that these shared costs would not include the salaries and other normal costs associated with the military personnel of the developed countries that contribute troops to this peace-keeping force.

The developed countries would be reimbursed, upon request, for additional expenses associated with transporting their personnel to and maintaining them in the Sinai. In particular, the Department of Defense would receive reimbursement under this section from the Multinational Force and Observers for additional costs over and above the cost of maintaining the United States military contingent in the United States.

The developing countries will be reimbursed for all expenses associated with provision of their military contingents. The full cost of the observer contingent furnished by the United States will be reimbursed by the Multinational Force and Observers.

Section 3.—For the purpose of covering the United States share of the costs for the operation of the Multinational Force and Observers through September 30, 1982, this section authorizes the appropriation of \$125 million to carry out chapter 6 of part II of the Foreign Assistance Act of 1961, as amended (Peacekeeping Operations) in addition to amounts otherwise available to carry out that chapter. The funds made available pursuant to such authorization will be provided to the Multinational Force and Observers under appropriate grant agreements.

Section 4.—This section would authorize the provisions of supplies and services to the Multinational Force and Observers by United States Government agencies upon such terms and conditions as the President may direct.

This provision is intended to provide administrative flexibility sufficient to permit

the economical utilization of available United States Government resources. The authority of section 607 of the Foreign Assistance Act of 1961, as amended, will remain available.

Although agencies would normally provide goods and services to the Multinational Force and Observers on a reimbursable basis, this section of the Joint Resolution would also permit nonreimbursable administrative and technical services such as use of vacant office space, access to communications facilities and transportation on a space-available basis.

The authority provided by Section 633 of the Foreign Assistance Act of 1961, as amended, will also be exercised as appropriate to permit timely and economical furnishing of goods and services under contracts performed by the United States for the Multinational Force and Observers.

THE SECRETARY OF STATE,  
Washington, D.C., July 18, 1981.

HON. GEORGE BUSH,  
President, U.S. Senate.

DEAR MR. PRESIDENT: I herewith transmit on behalf of the President a proposed Joint Resolution to authorize the participation of the United States in a Multinational Force and Observers to be established by Egypt and Israel. The United States activities to be authorized are vital to the achievement of further progress towards a just and lasting peace in the Middle East which remains one of the most important objectives of United States foreign policy.

The conclusion in 1979 of the Treaty of Peace between Egypt and Israel was a crucial step in the overall peace process, and the United States has sought to provide appropriate support and assistance to ensure the full, effective and timely implementation of its terms. The next crucial steps called for in the treaty are the establishment of effective security arrangements in the border area, including the presence of United Nations forces and observers, and the total withdrawal of Israeli forces from Egyptian territory by April 25, 1982.

Unfortunately, on May 18, 1981, the President of the United Nations Security Council indicated that the Security Council was unable to reach the necessary agreement on the proposal to establish United Nations forces and observers. This possibility was envisioned during the peace treaty negotiations, and for this reason President Carter assured the Parties that, subject to United States Constitutional processes, "[i]f the Security Council fails to establish and maintain the arrangements called for in the Treaty, the President will be prepared to take those steps necessary to ensure the establishment and maintenance of an acceptable alternative multinational force."

Egypt and Israel have now agreed to establish, under the direction of a Director General appointed by them, such a multinational force and observers to permit the implementation of those security arrangements pursuant to the Treaty of Peace. This multinational force and observers can be effective, however, only if the United States and other nations who support the cause of peace provide the needed support and participation.

Timing is a crucial factor. If the multinational force and observers are to be operational by April 25, 1982, substantial planning, procurement and construction must be initiated well in advance. Given the urgency of the situation, at the request of the parties and after consultation with appropriate members of the Congress, the Department of Defense has initiated certain planning for procurement activities with financing to be provided to the Director General by the Governments of Egypt and Israel which will be credited against those Governments' shares

of the costs of the Multinational Force and Observers.

This procedure will permit essential, initial steps to take place. Nevertheless, the prompt enactment of the proposed Joint Resolution is essential if the establishment of the multinational force and observers is to proceed in a successful and timely fashion.

We cannot allow the present obstacles which prevent United Nations participation to delay or otherwise adversely affect the peace process. The enactment of this legislation on an urgent basis is vital to the successful implementation of the Treaty of Peace between Egypt and Israel which, in turn, is essential to further progress in the overall peace process. I therefore urge its early passage.

The Office of Management and Budget has advised that enactment of this proposal would be in accord with the program of the President.

Sincerely,

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#### ADDITIONAL COSPONSORS

S. 267

At the request of Mr. DeCONCINI, the Senator from Oregon (Mr. HATFIELD), and the Senator from Massachusetts (Mr. KENNEDY) were added as cosponsors of S. 267, a bill to amend title 28, United States Code, to provide that the Federal tort claims provisions of that title are the exclusive remedy in medical malpractice actions and proceedings resulting from federally authorized National Guard training activities, and for other purposes.

S. 672

At the request of Mr. PELL, the Senator from North Dakota (Mr. BURDICK) was added as a cosponsor of S. 672, a bill to require the Secretary of Transportation to administer a national driver register to assist State driver licensing officials in electronically exchanging information regarding the motor vehicle driving records of certain individuals.

S. 1310

At the request of Mr. BOSCHWITZ, the Senator from Wyoming (Mr. SIMPSON) was added as a cosponsor of S. 1310, a bill to amend the Internal Revenue Code of 1954 to provide certain community development, employment, and tax incentives for individuals and businesses in depressed areas.

#### SENATE JOINT RESOLUTION 65

At the request of Mr. PELL, the Senator from Iowa (Mr. JEPSEN) was added as a cosponsor of Senate Joint Resolution 65, a joint resolution proclaiming Raoul Wallenberg to be an honorary citizen of the United States, and requesting the President to ascertain from the Soviet Union the whereabouts of Raoul Wallenberg and to secure his return to freedom.

#### SENATE JOINT RESOLUTION 78

At the request of Mr. COCHRAN, the Senator from Nevada (Mr. CANNON) was added as a cosponsor of Senate Joint Resolution 78, a joint resolution to provide for the designation of October 2, 1981, as "American Enterprise Day."

• Mr. PELL, Mr. President, I ask unanimous consent that Senator JEPSEN be added as a cosponsor of Senate Joint Resolution 65, proclaiming Raoul Wallenberg to be an honorary citizen of the

United States, and requesting the President to ascertain from the Soviet Union the whereabouts of Raoul Wallenberg and to secure his return to freedom. The addition of Senator JEPSEN brings to 55 the number of cosponsors in the Senate for this very worthy legislation.

This resolution has been approved unanimously by both the Committee on Foreign Relations and the Committee on the Judiciary, and I look forward to the day in the very near future when the measure is passed in both the Senate and the House and signed by the President.

Raoul Wallenberg's brave mission to Hungary during World War II, where he saved the lives of an estimated 100,000 innocent people who had been marked for extermination by the Nazis, was undertaken at the behest of the U.S. Government. His efforts in Hungary were financed and supported by the U.S. War Refugee Board. Consequently, the United States has a special obligation to Raoul Wallenberg and his family.

Certainly we must do everything we can to try to secure for Raoul Wallenberg the same life and liberty he saved for so many others. Honoring him by making him an honorary U.S. citizen will greatly enhance his renown as a courageous humanitarian, not only among those whose lives he saved, but among all groups and individuals who value human life and human rights. I thank my colleagues who have joined with me in this effort. •

#### SENATE RESOLUTION 190—ORIGINAL RESOLUTION REPORTED WAIVING THE CONGRESSIONAL ACT

Mr. WARNER, from the Committee on Energy and Natural Resources, reported the following original resolution, which was referred to the Committee on the Budget:

S. RES. 190

*Resolved*, That pursuant to section 402(c) of the Congressional Budget Act of 1974, the provisions of section 402(a) of such Act are waived with respect to the consideration of S. 859. Such waiver is necessary because the bill, as reported, would reallocate receipts after January 1, 1981 from federal leases on acquired lands used for military or naval purposes.

#### SENATE RESOLUTION 191—RESOLUTION REGARDING PROGRAMS FOR THE RESETTLING OF INDOCHINESE REFUGEES

Mr. HUDDLESTON (for himself and Mr. ZORINSKY) submitted the following resolution, which was referred to the Committee on Foreign Relations:

S. RES. 191

Whereas the United States terminated all active and direct military involvement in Indochina in 1975;

Whereas since that time the United States has accepted almost 500,000 Indochinese refugees for resettlement in one of the largest and most expensive resettlement efforts in our history;

Whereas United States taxpayers have been required to spend billions of dollars to resettle and assist Indochinese refugees;

Whereas the flow of individuals in Indochina claiming to be refugees is at a very high level;

Whereas reliable sources claim that liberal first asylum conditions, together, with the prospect for rapid resettlement, is expected to continue the increased flow, and that most recent arrivals are "low-risk" refugees that do not belong to harassed minority groups, do not have close family ties in the United States, and were not associated with American programs during the war;

Whereas officials of the Immigration and Naturalization Service have concluded that thousands of Indochinese individuals claiming to be refugees do not fit the definition of "refugee" in our Immigration and Nationality Act;

Whereas the compelling and paramount economic reasons which require that Federal spending be substantially reduced necessitate a reduction in many domestic Federal assistance programs;

Whereas the basic requirements of the needy and deserving citizens of the United States must be placed first;

Whereas the concentration of Indochinese refugees has placed severe strains upon the State and local governments which must deal with their social and economic impact; and

Whereas it is necessary for the United States to maintain an equitable refugee policy and demands are increasing for the resettlement of refugees from other parts of the world: Now, therefore be it

*Resolved*, That it is the sense of the Senate that the program for resettling Indochinese refugees shall be immediately and thoroughly investigated by the Executive and Congress to determine if the program is classifying as refugees large numbers of individuals who are migrating primarily for economic reasons, is encouraging the mass migration of individuals and is being administered in the strict manner Congress intended. Should the findings of this investigation so warrant, the program shall be phased out as soon as possible.

The investigation shall give substantial weight to the testimony and professional opinions of Immigration and Naturalization Officers who have direct experience with the Indochinese resettlement program.

#### RESETTLING OF INDOCHINESE REFUGEES

Mr. HUDDLESTON, Mr. President, since the fall of Vietnam, the United States has undertaken one of the largest and most expensive refugee assistance efforts in our history. Almost 500,000 refugees have been resettled in the United States and approximately \$2 billion has been spent for Indochinese refugee assistance. However, even after this monumental effort, the end is not in sight for the flow of refugees from Indochina.

I believe that ample evidence exists to prove that many of the individuals claiming to be persecuted in Indochina are in reality immigrants who are seeking a better economic life and that our resettlement policies are encouraging this continuing flow of people.

Therefore, I am submitting a resolution today which would recommend that the Executive and the Congress conduct an immediate investigation into these allegations to determine if the program is being administered in accordance with the intent of Congress. Although I believe that sufficient evidence exists to justify immediate phasing out of this program, my resolution only calls for an investigation at this time.

I do not make this recommendation lightly. No one can deny that the individuals claiming to be refugees in that area are needy people, but there is no convincing evidence that their needs are any greater than those of the 16 million



other refugees in the world today. Furthermore, at a time when we are cutting billions of dollars out of domestic assistance programs, we should not continue this expensive foreign program which is misguided and counterproductive.

There is no doubt that our well publicized resettlement program has actually made the refugee situation worse by encouraging individuals to leave their countries. A study entitled "Indochinese Refugees: The Impact of First Asylum Countries and Implications for American Policy," which was prepared for the use of the Joint Economic Committee on November 25, 1980, made basically this finding. The study states:

The success of the program for Laotians and Vietnamese has the effect of increasing the flow of refugees attracted by liberal first asylum conditions and the prospect for rapid resettlement.

This finding comes as no surprise to those of us who have followed closely the Indochinese refugee problem from its very beginning. Several years ago it was not uncommon for the "boat people" to be picked up by our Navy. Nor was it unusual for these people to know which State in our country they wanted to go because of its reputation for the best refugee resettlement program.

They learn of these generous and rapid resettlement programs from many sources. The Voice of America and the BBC are constantly broadcasting about the type of receptions these people are getting, and then there is the flow of information from friends and relatives. The South China Morning Post recently ran an article on the exodus and reported that refugees "are sent a photo of a relative standing in front of a car which probably doesn't belong to him and then telling of jobs, houses, purchases... The Vietnamese seem to expect that they will be welcomed wherever they go...".

As long as this type of advertising continues, we should not be surprised to learn that the flow of refugees is still as high as it once was. This is substantiated by the New York Times which reported on June 26, 1981 that:

The number of refugees leaving Vietnam on small boats rose in April and May to the highest level in two years, and partial statistics obtained from the United Nations High Commissioner for Refugees indicate that the rate of departure remains high this month despite heavy monsoon weather in the South China Sea.

This discouraging fact was underscored by the publication of the 1981 World Refugee Survey prepared by the U.S. Committee for Refugees. The title of one of the lead articles in this publication tells the whole story—"Indochina Refugees: No End in Sight."

It is time that the United States faces up to the fact that continuing our present policies in this area of the world will only make the problem worse in the long run. The United States is not a bottomless well from which assistance can be extracted for an indefinite time. The Joint Economic Committee study says that as many as one million more people are willing to come out of Vietnam. I do not believe that we should continue

to provide the encouragement for these people to do so.

If the present flow of individuals out of Indochina truly consisted of refugees, I would have more reservations about proposing this phase-out. But the most recent evidence strongly indicates that 70 percent or more may not fit our very liberal definition of "refugee." Section 101(a)(42) of the Immigration and Nationality Act defines a refugee as the following:

Any person who is unable or unwilling to return to, and is unable or unwilling to avail himself or herself of the protection of, that country because of persecution or a well-founded fear of persecution.

Unfortunately, it appears that many of those who claim to be refugees under this section are fleeing economic hardships and do not have a fear of persecution in its true sense. The Joint Economic Committee study found that:

Most recent arrivals are 'low-risk' refugees that do not belong to harassed minority groups, do not have close family ties in the United States, and were not associated with American programs during the war (66% of those in the initial processing phase for entry into the United States in March-April 1980 fell in this category IV of "other" under the American preference criteria for Indochinese refugees).

This argument of lack of refugee status is supported from other sources. The South China Morning Post reported on June 23, 1981 that:

For about 90 percent of the people who want to leave the reasons are economic," a diplomat said. "Some say they want to go for their children's education future, others complain about health care."

On June 26 the New York Times reported:

An argument increasingly voiced is that more than six years after the Communist victory in Indochina the genuine political refugees have already left and those who now are risking their own lives and those of their families to escape are doing so for economic gain.

This point of view has been openly discussed in the press for a long time now. On March 24, 1981 the Christian Science Monitor ran an article which said:

A growing number of immigration officers, refugee workers, and even a few social workers are claiming that many of the refugees are not really refugees but "assisted immigrants."

Now a large percentage are young unemployed, draft dodgers, students, and many others who may find life in Vietnam hard, but are not being persecuted.

While this problem has been reported in the press, it has also been strongly debated within the Reagan administration. The Department of State has taken the position that all individuals leaving Vietnam, Laos and Cambodia are to be presumed to be refugees. After a great deal of hard infighting by the Department of State, the Attorney General agreed with the Department, although there is no provision in the law for this kind of blanket, automatic classification.

The unfortunate aspect of this capitulation by the Attorney General is not that it will continue a counterproductive foreign policy but that the Nation's chief

law enforcement officer has decided that he will not enforce the immigration law as it was written by Congress last year. The order which went out to INS officers in the field from the Acting Commissioner of INS states that "INS officers will limit their findings to admissibility under Section 212(a) of the Immigration and Nationality Act." The effect of this order was to prohibit the use of section 101(a)(42), which is where "refugee" is defined.

The internal fight between INS and the Department of State was an extremely bitter one and there are files full of cables, letters, and memos which provide convincing evidence that the refugee policy in Southeast Asia is not in compliance with the law.

It should come as no surprise to anyone that the Department of Justice is trying to cover up this evidence. Although I have been trying since June 15, 1981 to secure copies of this correspondence, the Department has refused to release it. Fortunately, it has become well known within the administration that I am seeking these documents and some have begun to see the light of day through unofficial channels.

From their content, I can understand why the Attorney General does not want them released, as can be seen from the following excerpt:

An assessment of the presently arriving Vietnamese has been made by the American Consul stationed in Songkhla, Thailand and his report taken by a Consular Officer who has been at his post for approximately 2 years indicates that 72 percent of the persons arriving at that location are economic immigrants. Further that the U.S. acceptance rate is acting as a magnet to a group who are tired of being deprived of the many things available in the western world and more exactly in the U.S.

Other documents make an even stronger case for the argument that a large percentage of those claiming to be political refugees are in reality economic refugees. There is also considerable evidence that many officials from friendly governments involved in Southeast Asia believe that our overly generous refugee policy is actually encouraging the flow of refugees.

Even those few who are true refugees do not have an automatic claim to resettlement in the United States. We have done more than our share by resettling more Indochinese refugees than all the other countries combined and by expending billions of dollars for assistance. I do not believe that it is fair to the American taxpayer to continue to ask him to contribute to an endless stream of people from Southeast Asia seeking a better life. There is no light at the end of the tunnel for this program in Indochina.

It will go on as long as we are willing to fund the major portion of it, and offer the hope to every immigrant for settlement in the United States.

If the only immigration problem we faced in the United States involved the Indochinese, the argument to continue to admit them might be more convincing. But this is not the case. Last year immigration to the United States was at its highest level in our history. We admitted

over 800,000 legal immigrants and probably as many illegal immigrants. A major portion of the legal ones were refugees.

Our refugee program has grown so large that we can no longer afford to think of it outside of our total immigration policy. Refugees come to this country as permanent residents and they contribute to the economic and social problems caused by a growing population. However, because of their special needs, they also generate direct costs for taxpayers. In fiscal year 1980 we spent \$2 billion for refugee assistance and will probably spend \$2.5 billion in fiscal year 1981. Furthermore, State and local governments are becoming more worried about the increased cost they must shoulder for refugees. A New York Times article reported in July that, "each month, California officials estimate, from 5,000 to 6,000 Southeast Asian refugees move to their State, and more than half seek public financial assistance."

If this administration is committed to telling our elderly who have spent their lifetimes working for the good of this country that they must accept less in the way of domestic assistance programs and social security, I do not believe that we can continue a policy which admits hundreds of thousands of refugees each year who will require very expensive special assistance programs.

The United States has gone far beyond the original intent of our Southeast Asian refugee resettlement program. We have created a multi-million dollar refugee recruiting program which is spearheaded by the State Department and which contravenes our own laws. Hundreds of voluntary agencies have been created to process refugees and even though they operate on very humanitarian principles, they rely on millions of dollars of grants through the refugee program in order to exist.

We have in effect created a special interest group both within and without the Government which is programmed for one purpose—to process and resettle refugees in the United States. An example of this can be seen in recent activity. Earlier this year the Department of State committed the United States to accepting several thousand African refugees, again more than the rest of the world combined.

Now it appears that the administration has agreed to double the admission level for refugees from Poland. In order to accomplish this increase, the Department of Justice is using a little deception. On the one hand, they claim to be offsetting the Polish admissions by decreasing Indochinese refugee admissions. However, since the total refugee admissions greatly exceed the statutory yearly level of 50,000 by four or five times, there is no real reduction or offset. The administration has merely played games with numbers which are already too high.

It is time that we declare that the United States cannot be the resettlement colony for all the refugees of the world. There are 16 million refugees in the world and this number will probably in-

crease due to the uncertain and volatile political and economic situations which exist in many countries of the world today.

This does not mean that we must completely stop the admission of refugees. The United States should always stand ready to do its fair share and even more. But we can no longer afford the luxury of an unlimited, open-ended policy.

Our immigration law establishes 50,000 refugees a year as a normal flow, yet, even though this legislation is less than 2 years old, we have never adhered to its limits. We admitted about 235,000 refugees in fiscal year 1980, we will admit about 217,000 in fiscal year 1981, and the number being suggested for fiscal year 1982 is 178,000. Actions beyond our control in Cuba, Haiti, or a dozen other countries could push that total much higher. Congress did not intend that the Refugee Act be abused in this fashion. If this, or any other administration, cannot use good judgment in administering the statute, Congress should take back some of the unlimited authority given to the President.

Mr. President, we cannot continue to administer our refugee policy in an ad hoc fashion as we have in the past. The only way to gain control of our total immigration policy is to include refugees within one total ceiling. Without the one ceiling to force us to set our priorities on immigration, we will continue on the same treadmill we presently are on. There are enough present and future hot spots in the world to keep the number of refugees in the millions and there will always be special-interest groups demanding that a particular group of people be given special treatment. In the past it has been Cuba, Haiti, and Indochina. Tomorrow it will be El Salvador, Poland, or any number of other countries.

News reports on this problem have begun to surface and they are providing support for the INS contention that many of these people are not refugees. I ask unanimous consent that articles from the New York Times, the Christian Science Monitor, and the South China Morning Post be printed in the Record.

There being no objection, the articles were ordered to be printed in the Record, as follows:

[From the South China Morning Post, June 23, 1981]

**ECONOMIC WOES BEHIND EXODUS**  
(By Catherine Campbell)

There is a weary joke in the capital city of former South Vietnam that even the telephone poles are queuing up to leave.

"Almost everyone wants to get out. As soon as I am alone with someone the request for help is made," a Western diplomat said.

Diplomats are bombarded with letters, some containing months of savings, to speed their requests to the right authorities.

Visitors find pleading notes tossed into their pedal cabs or are pulled aside and told sad stories of life under communism.

Wishful recollections of salaries paid by American employers are laced with American slang of the war era.

The complaints are legion: in a recent crackdown bookstalls disappeared, and West-

ern music was confiscated from the few remaining coffee houses. Taxes on the coffee houses were raised and they were forced to close, according to Vietnamese residents.

"There is nowhere to go but the movies—Russian, East German, Vietnamese—or sometimes the theatre," a young woman said. "There is nothing to do."

One hotel holds a Saturday night dance where Government approved girls are provided as dancing partners for foreigners, but usually the streets are silent, long before the midnight curfew.

Although there is grumbling about travel restrictions—for each trip outside Ho Chi Minh City, formerly Saigon, a person must receive formal permission—most of the complaints are about money.

"For about 90 percent of the people who want to leave the reasons are economic," a diplomat said. "Some say they want to go for their children's educational future, others complain about health care."

The Government does grant exit visas, mostly to people who can't earn their own living or whom the authorities feel will never be integrated into the new society, diplomats said. Most of those allowed to leave are of Chinese origin or are elderly.

About 6,500 people left Ho Chi Minh city legally for North America, Australia and Europe last year under orderly departure programs, the sources said.

"But twice that number sneaked out by boat last month alone."

The goal of doubling the number of orderly departures this year still puts barely a dent in the continuing flow of "boat people" to neighboring Asian countries.

Many Vietnamese make several attempts at a cost of up to US \$3,000 (about HK \$16,500) each in bribes to junior officials, only to face a new set of perils if they reach the open waters in often ill-equipped boats.

But people who tell of relatives lost at sea seem undeterred in their own escape plans, some having made five or six attempts only to be betrayed by someone they had paid off.

"If we are caught the women are usually set free but the men are detained," said one man who was saving his black market earnings for a seventh try.

"Even among the boat people there are few who fit the classic definition of a refugee as someone fleeing his country because of a well-founded fear for his safety," a diplomat said.

"The Vietnamese seem to feel that they have a right to resettlement and that the West, and especially America, should respect that right."

Diplomats say that their warnings of the hardships of resettlement go unheeded.

"This is the tragedy—most of the Vietnamese have no idea of life abroad," a diplomat said. "I try to warn them but their reaction is: you don't have the right to tell me to stay here. You don't understand the situation."

"My answer is that they don't know the situation abroad. They are sent a photo of a relative standing in front of a car which probably doesn't belong to him and then telling of jobs, houses, purchases. No emigrant is ever going to admit to those left behind that he made a mistake."

The Vietnamese seem to expect that they will be welcomed wherever they go, diplomatic sources said.

The unknown number of half-American children in Vietnam also provide problems for diplomats.

Some of them, curly-haired, leggy and ragged, hang around the few hotels hoping for handouts, their faces a reproach for a painful piece of recent history.



Diplomats say they get many letters asking them to find an American husband called Joe or John who left in 1972. "But sometimes even if the father is found, he doesn't want to know."—Reuter.

[From the Christian Science Monitor,  
July 7, 1981]

#### THAILAND GIVES RED LIGHT TO MORE INDOCHINA REFUGEES

(By Neil Kelly)

BANGKOK.—Thailand has cut its intake of Indochina refugees and closed one Cambodian refugee camp. It is expected to close another for Vietnamese boat people in the next few days.

These moves reflect a growing conviction in Thailand and throughout Southeast Asia that the tide of refugees must be checked. Governments in the area are concerned that they may face a growing burden as international efforts to meet the problem with financial aid and resettlement lose steam.

There is also a widespread feeling that more refugees are leaving to seek better economic conditions, rather than to escape persecution.

Cambodian, Vietnamese, and Laotian refugees in Thailand now total 250,000. This is 12,000 fewer than six months ago and more than 50,000 fewer than at this time last year.

The largest camp of all, the Khao I-Dang camp, eight miles from the Cambodian frontier, has seen its refugee population shrink from 140,000 in mid-1980 to fewer than 40,000 today.

No new Cambodian refugees have been admitted for almost a year. Like the Cambodians, Vietnamese who have trekked across Cambodia are being prevented from crossing into Thailand, and the former flood from Laos has abated.

The Thais are employing subtle persuasion, threats, and tough action to lick the refugee problem, which has plagued them since the communist victories in Indochina in 1975. There is general agreement among civilian and military authorities that the time has come to say "enough is enough," but differences remain on how to execute that policy.

Some say the tough policy is popular domestically and note that foreign governments also respond to it. Since the rumblings began in Bangkok, the United States has indicated it will remove immigration impediments which have caused a backlog of Cambodian refugees to build up, and some other countries have promised to take more.

Some of the Thai leaders even advocate enforced repatriation, but most Cabinet members favor more humanitarian policies.

Thai Premier Prem Tinsulanonda is on record as saying that no refugee would be forced to go home against his will. The United Nations High Commissioner for Refugees has said his organization would not participate in any enforced repatriation.

United Nations officials, in fact, insist that Thai policy has not changed and that Thailand will not force anyone to go back.

Nevertheless, the Thais are not prepared to regard anyone escaping from communism as a genuine refugee. They feel too many are merely economic refugees seeking better lives outside their own countries.

That feeling is behind Thai refusals to admit 358 Vietnamese refugees now stranded among Cambodian guerrillas near the Thai border.

The International Committee of the Red Cross says their lives are in danger while they remain surrounded by tens of thousands of Cambodians who have a deep-seated hostility toward the Vietnamese.

Despite ICRC pleas to the prime minister to give sanctuary to the Vietnamese, mili-

tary, and security chiefs have refused to give way. They say the safety of the Vietnamese is not Thailand's responsibility.

One Thai official said the Vietnamese had left at their own risk and had bribed Vietnamese and Cambodian officials all the way along to get to Thailand. The Thais have even ignored American assurances that the Vietnamese would probably be eligible for admission to the U.S.

Meanwhile Vietnamese boat refugees are still being allowed ashore although there have been threats to push them back out to sea. A supreme command spokesman said Thailand did not want to encourage refugees to keep on coming. He added that the Vietnamese were not refugees in the true sense but discontented people seeking better economic opportunities.

Thousands of Cambodians have left Thailand in the past year. Some have gone all the way back to their home villages equipped with rice seed and farming implements to resume their old lives. But many more have stayed in the primitive border encampments hoping for something better to turn up.

Thai policy is directed at discouraging them to go away, for, according to military leaders, they are a security risk to Thailand and their own lives are in danger.

Thai and United Nations officials are planning the voluntary repatriation of 30,000 to 40,000 Cambodians still in holding centers inside Thailand. Safe roads must be found for them through areas where Khmer Rouge guerrillas and Vietnamese soldiers are fighting.

The Thais are determined to go ahead with the plan despite Vietnam's threat to attack the Thai border again if repatriation takes place without help from the Vietnamese-installed government in Phnom Penh.

#### BOAT PEOPLE: REDEFINING THE REFUGEES

(By Frederic A. Moritz)

SINGAPORE.—President Reagan is likely to face growing pressure for a sharp cutback in admission of refugees from Indochina.

A growing number of immigration officers, workers, and even a few social workers are claiming that many of the refugees are not really refugees but "assisted immigrants."

American quotas of some 15,000 a month of these "economic refugees" favored treatment, compared with hundreds of thousands of other deserving people around the world.

So far this view has not changed US policy. Similar legislation is being proposed to exceed the same Indochina immigration quotas the next year. The Select Commission on Immigration and Refugee Policy in its final report to the President and Congress has even filed for an overall increase in legal immigration, from 580,000 a year for the last five years to 650,000 a year for the next five years.

But advocates of a clampdown hope rising economic difficulties at home will spur President Reagan to reconsider making substantial cutbacks.

These skeptics are found within the State Department and the Immigration and Naturalization Service, and among the voluntary agencies that assist in refugee resettlement. Then they refuse to be identified. But they appear eager to use the press to help create a new climate of public opinion that will accept sharp cutbacks.

According to one source, they have already been frustrated in their efforts to petition the Reagan administration for a policy change. But they are outspoken and confident on giving their case.

Their argument is first and foremost that those coming out from Indochina today do not meet the requirement of the US Refugee Act of 1980, which defines "refugee" this

way: Any person outside his country unable or unwilling to return because of persecution, or well-founded fear of persecution, on account of race, religion, nationality, or political beliefs.

Instead of applying this requirement strictly and fairly, immigration officials have met the 15,000-a-month quota by relying on certain Vietnam-era provisions. These allow entry into the United States for Indochinese who have been separated from family members now in the US, who have worked for the US military or for a US company, or who have studied in the US. But not everyone meeting these criteria qualifies as a refugee, the critics argue.

"The nature of the refugee exodus has managed markedly since the end of the Vietnam war," maintains a US Foreign Service officer, who refused to be identified.

First there were those directly involved in the fighting.

Then came the wave of ethnic Chinese in Vietnam threatened as a minority during the 1979 war with China.

Now a larger percentage are young unemployed, draft dodgers, students, and many others who may find life in Vietnam hard, but are not being persecuted.

Opponents of this view differ on the facts and in their interpretation.

"There has been some but very little change in the composition," a social worker says. "We have always had some former military, many youth, and a variety of nonskilled worker types."

Indeed, in periodically interviewing Indochinese refugees since 1976, this correspondent has found some, but relatively little, change in the types of refugees, with the exception of the 1979 Chinese exodus, and the outflowing of Cambodians fearing execution at the hands of the Khmer Rouge before it was ousted by the invading Vietnamese in early 1979. But one now meets fewer people claiming to face retaliation because of past associations with Americans.

Very few from Vietnam ever claimed they actually faced execution or imprisonment. Most said they were leaving because life was hard, because they wanted more freedom, because the state was regulating or confiscating their businesses, because the government was clamping down on Roman Catholicism, because they had relatives in the United States, or because they feared discrimination on grounds they had worked for the U.S.

Supporters of the refugees thus often maintain that from the beginning many never met the strictest definition of refugee. Rather they have always been an immense human problem which must be handled in a constructive way.

One problem is defining "constructive." As of last January there were nearly 170,000 Indochinese refugees housed in Asian camps of the United Nations Office of High Commissioner for Refugees. Some 120,000 languished in Thailand, 12,000 in Malaysia, and 9,000 in Indonesia.

The problem is that if the United States continues to apply its liberal quota, more "refugees" or "assisted immigrants" will be encouraged to take to their boats. Southeast Asian countries will have to take care of the refugees for a time, at least, as they make their way to the U.S.

Yet if the U.S. clamors down on refugee immigration, the burden of long-term responsibility for these people will fall on Southeast Asia.

Also, if anticommunist President Reagan clamped down on showing welcome to anti-communist refugees, he would be open to political charges of hypocrisy.

"The answer to that is a global policy of clampdown," says a U.S. official. "It would

apply equally to Vietnamese, Cubans, and Haitians."

"Enough is enough. Six years later we have a very limited obligation. One is to our former employees and another is in cases of assisting family reunion," this official says.

One proposal is a halfway measure demonstrating continued US responsibility but aimed at deterring a further flow and reassuring Southeast Asian allies.

Under this plan, the US would support huge transit camps holding refugees until other countries accept them. It is hoped the tide of refugees would then be stemmed, since the camps would empty more slowly than at present.

But all such proposals face a major problem: Vietnam's declining economy is a growing inducement for its citizens to leave.

In talking to refugees, as this correspondent recently did, the references to economic hardship are a droning refrain, along with vague references to questions of freedom. It is difficult to generalize, because one encounters only a spot sample and because many refugees are savvy enough not always to tell the truth.

Late last month two vessels bearing 106 Vietnamese refugees arrived in Singapore. Their roster sheets gave ample indication of the nature of the present exodus: The Oakwood, for example, carried 6 fishermen, 8 unemployed people, 9 children, 9 students, 11 workers. The roster list for the Smit Lloyd was similar.

Notable was an absence of intellectuals and businessmen. And the critics say there is a conscious strategy of getting young people out first then having the older people follow as family reunion cases.

Among them was Nguyen Tan Dung, a former air conditioner repairman who calls himself Dung Yung. The soft-spoken head of a family of 11 brought all of them out after making a deal with a fisherman.

"Why did you leave?"

"Life in Vietnam is hard. We don't have enough food and my brother is afraid he will be drafted to fight China."

The lean workman adds mention of economic hardship, rising prices, food shortages, and limitations of the religious freedom of Catholics.

And like almost all he wants to go to the United States. One reason appears to be the letters he gets from a relative already there. "They say life in America is easy, life is good," Dung Yung explains.

For those who want the refugee quotas slashed, the Nguyen Tan Dung family is living proof that refugee is no longer the proper word.

But there are also those like former schoolteacher Tu Thi Tuyet. If her words can be believed, her reasons for leaving are different.

"There is no religious freedom in Vietnam," she said.

She, too, has seen letters from the US. "They said life is hard there. That there is much race discrimination. But if that is the price of freedom, that is what we must take."

[From the New York Times, June 26, 1981]  
EXODUS OF VIETNAM "BOAT PEOPLE" CLIMBING  
BACK TO THE 1979 LEVELS

(By Henry Kamm)

BANGKOK, THAILAND.—The number of refugees leaving Vietnam on small boats rose in April and May to the highest level in two years, and partial statistics obtained from the United Nations High Commissioner for Refugees indicate that the rate of departure remains high this month despite heavy monsoon weather in the South China Sea.

The April and May totals of 11,155 and 14,792 of Vietnamese men, women and children who survived the hazardous crossings to Malaysia, Thailand, the Philippines and Hong Kong were the highest since July 1979, when

Vietnam, in the face of worldwide protests, halted the forced mass departures of citizens of Chinese origin.

The refugees who have been reaching Southeast Asian shores since then have for the most part been ethnic Vietnamese.

Last month's figures showed Malaysia receiving 5,320 refugees, Thailand 3,273 and Hong Kong 1,777. By the 15th of this month Hong Kong had already received 2,205, Malaysia 1,868 and Thailand 1,537.

#### NEW CONCERN IN SOUTHEAST ASIA

The rising rate of escapes has revived concern among the first-asylum nations of Southeast Asia and was a principal subject of discussion when the foreign ministers of the Philippines, Thailand, Indonesia, Malaysia and Indonesia met at their annual conference last week in Manila. They called on the Western countries that have been the ultimate destination of Indochinese refugees to increase the rate of resettlement. The officials expressed their concern to Secretary of State Alexander M. Haig Jr., who attended the conference.

A senior official in Mr. Haig's party said that the United States had assured the first-asylum nations that it intended to maintain its intake even after the present quota of 14,000 Indochinese a month expires on Sept. 30. But the official added that he expected that the quota would be lowered to 12,000 in consultation with Congress.

Despite the steady demand for resettlement in the United States and the total of 166,457 refugees now in Southeast Asian transit camps, as well as 135,562 Cambodians to whom Thailand denies refugee status, the United States is not filling its quota.

The reasons are difficulties of access to the Cambodians in Thai holding centers, the unwillingness of many refugees from Laos to leave this region and the application until recently by regional officials of the Immigration and Naturalization Service of rigid new criteria to deny refugees entry into the United States.

#### ONE OBSTACLE PUT ASIDE

The latter obstacle has been put aside as a result of State Department appeals to the Justice Department, including a letter from Mr. Haig to Attorney General William French Smith. But refugee officials who favor a liberal admission policy for the Indochinese as a duty imposed by the American military involvement in Indochina fear that such a policy remains contested.

They point to mounting sentiment in some Washington quarters against a more generous policy for Indochinese than for other immigrants from developing countries. An argument increasingly voiced is that more than six years after the Communist victory in Indochina the genuine political refugees have already left and those who now are risking their own lives and those of their families to escape are doing so for economic gain.

A high-level official panel, to be headed by former Assistant Secretary of State Marshall Green, will tour Southeast Asia next month and report its findings on these and related issues to the Reagan Administration. Mr. Green was chosen to replace Philip C. Habib, who is continuing his mediation mission in the Middle East.

#### AMENDMENTS SUBMITTED FOR PRINTING

#### ECONOMIC RECOVERY TAX ACT OF 1981

##### AMENDMENT NO. 511

(Ordered to be printed and to lie on the table.)

Mr. LONG submitted an amendment intended to be proposed by him to the

joint resolution (H.J. Res. 266) to provide for a temporary increase in the public debt limit.

##### AMENDMENT NO. 512

(Ordered to be printed and to lie on the table.)

Mr. HEINZ (for himself, Mr. Packwood, and Mr. Hart) submitted an amendment intended to be proposed by them to the joint resolution House Joint Resolution 266, supra.

##### POLLUTION CONTROL BOND FINANCING

● Mr. HEINZ. Mr. President, today I am proposing an amendment to the Economic Recovery Tax Act that might well be called the "Pollution Control Bond Regulatory Reform Act of 1981." Its passage is justified because for years the Internal Revenue Service—through regulations issued pursuant to section 103 of the Internal Revenue Code—has thwarted the intent of Congress by precluding the use of tax-exempt pollution control bonds for their intended purposes. Its passage is essential as part of the Economic Recovery Tax Act because the regulatory excesses perpetrated by the bureaucracy at IRS threaten to jeopardize the economic growth that otherwise would be generated as a result of the Senate Finance Committee tax reduction package.

Mr. President, the case for adoption of my amendment can be summarized as follows:

First, Senate Finance Committee hearings held the day after markup of the tax reduction bill had been completed demonstrated the urgency of the pollution control bond regulatory reforms contained in my amendment.

Second, compliance costs with Federal and State pollution control mandates jeopardize the success of the economic recovery program with respect to many of the Nation's basic industries—unless this amendment is adopted.

Third, Internal Revenue Service regulations have thwarted the intent of Congress as reflected in section 103 of the Internal Revenue Code and passage of various environmental control laws.

Fourth, my amendment would allow section 103 pollution control bonds to be used for their intended purposes—compliance with air and water pollution control and solid and hazardous waste management requirements—while minimizing the loss to the Federal Treasury.

Let me briefly expand on each of these points.

FINANCE HEARINGS HELD AFTER TAX BILL MARK-UP DEMONSTRATED URGENCY OF POLLUTION CONTROL BOND REGULATORY REFORMS

For the benefit of my distinguished colleagues who do not serve on the Finance Committee, let me explain that hearings on this proposal were not held until June 26, the day after markup of the tax reduction bill had been completed.

But the expert witnesses who testified that day presented compelling arguments for immediate passage of the legislation on which this amendment is based—S. 169, cosponsored by Senators RANDOLPH, GLENN, LUGAR, GARN, DIXON, and ANDREWS.



To recap the testimony presented to the Finance Committee:

Wayne Nichols, director of the Ohio Environmental Protection Agency, said, that this proposal—

Would do more to help eliminate sulfur dioxide and other forms of air pollution than any other measure. It would enable Ohio to assist its utilities and industries, which are now heavily burdened by the cost of complying with pollution control laws, by increasing the availability of the single most important weapon in the fight against pollution—financing at reasonable rates.

In its testimony, the National Association of Manufacturers cited the report of the National Commission on Air Quality issued in March 1981, which cited as obstacles to improved air quality the very IRS regulations my amendment would reform. The NAM observed that in view of the combination of advanced implementation of pollution control laws and the current IRS restrictions, "It is difficult to see how many small companies will be able to weather increasing environmental regulation."

Observing the strategic importance of minerals, the American Mining Congress cited a House Committee on Interior and Insular Affairs Report, "U.S. Minerals Vulnerability: National Policy Implications," which concluded:

The very nature of mineral operations requires large capital and operating expenditures for pollution control, health and safety equipment, and mined land reclamation. Funding for achieving these worthwhile objectives has placed a heavy burden upon the already strained mining industry. McGraw-Hill studies have found that pollution control expenditures during the last nine years by the entire mining industry averaged 8 percent of their total capital expenditures (and a staggering 19 percent for the nonferrous metal industry) compared to only 6 percent for all industries.

William B. Holberg, vice president, Kidder, Peabody and Co., Inc., said:

Kidder, Peabody strongly endorses S. 169. . . . As the Committee knows from prior testimony, Kidder does not customarily take the role of an advocate but prefers to note factors Congress should consider when considering legislation. Our reversal is due to the fact that Kidder believes that it is inappropriate for the IRS to override the statute through regulations.

On behalf of the Council of Pollution Control Financing Agencies, its president, Ronald Bean, executive director of the Illinois Environmental Facilities Financing Authority, noted:

The Council's member agencies operate at the intersection of environmental goals and economic development goals.

The Council has endorsed this amendment because the proposal " . . . would make it clear that the Congress did not and does not intend to have this inequitable implementation of Section 103 by the Treasury."

The Institute of Chemical Waste Management, National Solid Wastes Management Association, testified:

We hope that you will speed approval of S. 169 to direct the Secretary of the Treasury to extend IDB financing eligibility to hazardous waste management projects and, thus, accelerate the pace of bringing these

new projects into existence so that existing facilities receiving hazardous industrial wastes can be measured strictly against the yardstick of the new federal hazardous waste management regulations.

#### COSTS OF POLLUTION CONTROL COMPLIANCE JEOPARDIZE SUCCESS OF ECONOMIC RECOVERY PROGRAM

Without dwelling further on the testimony the Finance Committee heard on June 26, let me summarize the case for the regulatory reforms contained in my amendment: unless Section 103 regulations are revised, the massive capital expenditures mandated by Federal and State pollution control laws threaten the ability of American industry to make the job-creating investments that would otherwise be encouraged by the Economic Recovery Tax Act.

As socially desirable and necessary as many Federal and State pollution control mandates may be, the investments required for compliance generally are not productive investments in the sense of improving efficiency of operations or increasing output. In 1978, pollution abatement expenditures accounted for the following percentage of all investment in the following basic U.S. industries: Steelmaking—16.6 percent; chemicals—7.1 percent; petroleum—8.3 percent; and utilities—10 percent. As we approach the compliance deadlines for many environmental control acts, these costs can be expected to increase.

In fact, in the case of the steel industry, a report completed by Arthur D. Little, Inc., for the American Iron and Steel Institute, concluded that environmental control expenditures for the next decade may reach \$7 billion. Similarly, the chemical industry and related industries face the "double whammy" of complying with the 600-plus pages of hazardous waste control regulations promulgated by the Environmental Protection Agency under the Resource Conservation and Recovery Act—and paying a billion-plus dollars in additional taxes into the "Superfund" over the next 5 years. Other industries face similar mounting cost burdens for compliance.

#### IRS SECTION 103 REGULATIONS THWART CONGRESSIONAL INTENT

In adopting sections 103 and 169 of the Internal Revenue Code, Congress recognized that mandated pollution control investments warrant tax treatment different from that provided most other capital investments. Both of these provisions—section 103, dealing with tax-exempt industrial development bonds used for pollution control and waste disposal, and section 169, dealing with amortization of certified pollution control equipment—reflect a recognition that investment in pollution control and waste disposal facilities is necessary to attain desirable social goals and fulfill the mandates of environmental laws.

If faithfully implemented, these provisions of the tax code would provide industry with powerful economic incentives to reduce pollution in the most cost-effective way technically feasible—rather than to delay compliance, oppose standards, and litigate Federal and State requirements.

But in July 1975, the Treasury Department issued proposed regulations—which have since been employed by the IRS as if final—that do not reflect the intent of Congress as represented by section 103 of the Internal Revenue Code, the Clean Air Act, the Clean Water Act, and the Resource Conservation and Recovery Act. The deficiencies and inconsistencies in these regulations have repeatedly been brought to the attention of the IRS by the Environmental Protection Agency, by the industries affected, and by many of us in the Congress. The IRS has not responded to these concerns.

Instead, the IRS has persisted in employing section 103 regulations that thwart the intent of Congress with respect to pollution control bond financing. It has done so in the following ways:

First, the IRS through its "realized pollution" test has limited eligible financing for air and water pollution control expenditures to end-of-the-pipe, "black box" technologies, ignoring the fact that current environmental law recognizes and indeed encourages the use of process changes in abating pollution.

Second, the IRS has ignored the fact that Congress has amended the Solid Waste Disposal Act with the Resource Conservation and Recovery Act to regulate hazardous waste; instead, the IRS has kept the definition of solid waste contained in the original 1965 act.

Third, the IRS has adopted a "gross savings" test by which the amount of eligible tax-exempt financing is reduced by the extent to which pollution control expenditures result in economic benefit—but measuring economic benefit in gross rather than net terms.

#### AMENDMENT ALLOWS USE OF POLLUTION CONTROL BONDS FOR INTENDED PURPOSES WHILE MINIMIZING LOSS TO FEDERAL TREASURY

So that IRS regulations with respect to section 103 pollution control bonds do not continue to thwart congressional intent, my amendment would make by statute the following changes to section 103.

First, it would state explicitly that process changes that reduce air or water pollution—and that have been adopted as a result of Federal or State pollution control mandates—qualify for pollution control bond financing.

Second, it would make clear that in amending the Solid Waste Disposal Act with the Resource Conservation and Recovery Act, Congress intended that non-nuclear hazardous waste management facilities should also qualify for section 103 financing.

Third, it would provide safeguards insuring that tax-exempt pollution control bond financing is used only for legitimate pollution control expenditures.

Because of concern expressed in the past by Treasury Department officials about the revenue loss associated with the changes proposed to allow process changes and hazardous waste management expenditures to qualify, I want to spend a few minutes emphasizing the safeguards contained in the legislation.

The first safeguard is a list of the types of process changes and facilities that would be expected to qualify for pollution control bond financing under the provisions of this amendment. I ask that this list be printed in the RECORD following my remarks. Although this list is by no means exhaustive—we must avoid locking in potentially obsolete technologies by statute—it is illustrative of the intent of Congress and should provide needed guidance for the IRS.

The second safeguard is a requirement that tax-exempt financing be available only for expenditures that the Environmental Protection Agency or its State equivalent has certified would not have been made but for Federal or State pollution control requirements.

The third safeguard is a formula for reducing the amount of pollution control expenditures eligible for tax-exempt financing by the extent to which a portion of the cost of a certified pollution control facility is recoverable in the form of net economic benefit. This formula is set forth in the statutory language of the amendment.

The fourth and final safeguard is a limitation on the amount of expenditures for process changes that can qualify for section 103 financing in the case of new plant construction or major expansion of existing facilities, defined as a 35-percent increase in capacity or output. Specifically, the amount of tax-exempt financing for certified pollution control expenditures—reduced to the extent that a net economic benefit results—would be further limited to: 30 percent of the first \$100 million of capital expenditures for the entire plant or site; 25 percent of the second \$100 million; 20 percent of the third \$100 million; and 15 percent thereafter; capital expenditures subject to the limitation would include those made 3 years before and 3 years after the date on which the bonds were issued.

Taken together, these four safeguards address concerns raised in the past that allocating the portion of process changes attributable to pollution control is not feasible and that allowing process changes to qualify would allow the entire cost of new plant construction to be financed using section 103 pollution control bonds.

Because of the safeguards contained in my amendment, the Joint Committee on Taxation estimates the revenue loss to the Treasury of this proposal as follows:

Fiscal year:	Millions
1981	-----
1982	-----
1983	-----
1984	----- \$100
1985	----- 200
1986	----- 200

However, during the June 26 hearings, a number of witnesses suggested that even this modest estimate may be too high.

For example, Ron Bean, president of the Council of Pollution Control Financing Agencies, testified:

I want to caution the committee about what is not included in estimates of revenue loss. The Congressional Budget Office

and the Treasury have consistently refused to recognize that a company which is able to finance a pollution control facility on a tax-exempt basis is therefore relieved of interest expenditures amounting to some 3 percent of the cost of the financing, or \$30,000 per \$1,000,000 for each year for the life of the financing. This money is, of course, subject to taxation, and at current rates, the Treasury would increase its revenues by 46 percent of that \$30,000, or nearly \$14,000 per million, each year, for the life of the financing. The remainder of that \$30,000 is put to work by the industry, and presumably generates a profit in later years, which is also taxed. If it is distributed to shareholders, it is also taxed. These are all revenues which do not find their way into calculations of tax expenditures to the Treasury from tax-exempt pollution control financing.

Also, we are distressed to see the assumptions of Treasury revenues on the other side of the equation, from taxable bonds. This ignores the fact that most holdings of taxable bonds are by entities which themselves are tax-exempt or which manage to effectively shield taxable bond holdings from taxation.

In addition, several witnesses agreed that the revenue loss estimates should be revised downward to reflect the marginal tax rate reductions contained in the Economic Recovery Tax Act.

To summarize, Mr. President, the overwhelming body of evidence suggests that the regulatory changes made by my amendment are essential for the overall success of the Economic Recovery Tax Act. We need not make an "either-or" choice between economic growth and environmental quality—we can have both.

I thank my distinguished colleagues for their time and strongly urge their support.

Mr. President, I ask unanimous consent that the amendment and list mentioned earlier in my remarks be printed at this point in the RECORD.

There being no objection, the amendment and list was ordered to be printed in the RECORD, as follows:

#### AMENDMENT NO. 512

SEC. . INDUSTRIAL DEVELOPMENT BONDS ISSUED TO FINANCE POLLUTION CONTROL OR WASTE DISPOSAL FACILITIES.

(a) IN GENERAL.—Section 103 (relating to interest on certain governmental obligations) is amended by redesignating subsection (i) as subsection (k), and by inserting after subsection (h) the following new subsections:

"(i) AIR OR WATER POLLUTION CONTROL FACILITIES.—For purposes of this section—

"(1) IN GENERAL.—The term 'air or water pollution control facility' means land or property of a character subject to depreciation under section 167—

"(A) which is acquired, constructed, reconstructed, or erected to abate or control water or atmospheric pollution or contamination by removing, altering, disposing, storing, or preventing the creation or emission of pollutants, contaminants, wastes, or heat.

"(B) which is certified by the Federal certifying authority (as defined in section 169 (d) (2)) or the State certifying authority (as defined in section 169 (d) (3)) as meeting or furthering Federal or State requirements for abatement or control of water or atmospheric pollution or contamination, and

"(C) all or a portion of the expenditures for the acquisition, construction, reconstruction, or erection of which would not be made

except for the purpose of abating, controlling, or preventing pollution.

"(2) EXEMPT FINANCING TO BE AVAILABLE FOR EXPENDITURES FOR PURPOSES OTHER THAN POLLUTION CONTROL.—

"(A) IN GENERAL.—Subsection (b) (4) (F) of this section shall not apply with respect to any issue of obligations (otherwise qualifying under subsection (b) (4) (F)) if the portion of the proceeds of such issue which is used to provide air or water pollution control facilities exceeds (by more than an insubstantial amount) the amount by which—

"(i) the cost of acquiring, constructing, reconstructing, or erecting the facility, exceeds

"(ii) the net profit which may reasonably be expected to be derived through the recovery of wastes or otherwise in the operation of the facility over its actual useful life.

"(B) NET PROFIT.—For purposes of this paragraph, the term 'net profit' means the present value of benefits (using a discount rate of 12½ percent) to be derived from that portion of such cost properly attributable to the purpose of increasing the output or capacity, or extending the useful life, or reducing the total operating costs of the plant or other property (or any unit thereof) in connection with which such facility is to be operated, reduced by the sum of—

"(i) the total cost incurred to acquire, construct, reconstruct, or erect the property (reduced by its estimated salvage value), and

"(ii) the present value (using a discount rate of 12½ percent) of all expenses reasonably expected to be incurred in the operation and maintenance of the property, including utility and labor costs, Federal, State, and local income taxes, the cost of insurance, and interest expense.

"(C) LIMITATION ON EXPENDITURES UNDER SUBSECTION (b) (4) (f).—

"(1) IN GENERAL.—For purposes of subsection (b) (4) (F), the face amount of obligations issued for facilities preventing the creation or emission of pollutants, contaminants, waste, or heat to be installed at any new manufacturing or processing plant shall not exceed the amounts described in clause (ii) of this subparagraph after application of subparagraphs (A) and (B) of this paragraph.

"(ii) INSTALLATIONS AT NEW PLANTS, ETC.—In the case of such facilities described in subsection (b) (4) (F) to be installed at new plants as defined in clause (iii) of this subparagraph, the aggregate authorized face amount of obligations to be issued therefor shall not exceed the sum of 30 percent of the first \$100,000,000 of capital expenditures paid or incurred in connection with such plants, 25 percent of the second \$100,000,000 of such capital expenditures, 20 percent of the third \$100,000,000 of such capital expenditures and 15 percent of such capital expenditures in excess of \$300,000,000 plus the costs and expenses incurred in issuing such obligations.

"(iii) NEW PLANT.—For purposes of this subparagraph the term 'new plant' means any plant or identifiable part thereof, or other location that is or could be a source of pollution, placed in service within the 6-year period beginning 3 years before the date of any issue for the facility and ending 3 years after such date of issuance of the obligations described in clause (i). For purposes of clause (ii), all the capital expenditures during the 6-year period shall be aggregated. A major expansion of the capacity of any plant or identifiable part thereof or a major conversion in the use to which any plant (or identifiable part thereof) is devoted, shall be treated as a new plant. For purposes of this paragraph a major expansion of capacity shall mean an increase in capacity of 35 percent, and a major conversion in use shall mean a change affecting 35



percent of the output of the plant. Any plant or identifiable part thereof not described in the preceding three sentences shall be deemed an existing plant.

"(iv) CAPITAL EXPENDITURES TAKEN INTO ACCOUNT.—The capital expenditures taken into account with respect to any new plant or other source of pollution for purposes of this subparagraph are the expenditures which are properly chargeable to capital account and which are either made within 3 years before the date of the issuance of the issue or can reasonably be expected (at the time of the issuance of the issue) to be made within 3 years after the date of such assistance.

"(j) SOLID WASTE DISPOSAL FACILITIES.—For purposes of this section, the term 'hazardous waste or solid waste disposal facilities' includes land and property of a character subject to depreciation under section 167 which is acquired, constructed, reconstructed, or erected for no significant purpose other than to comply with hazardous or solid waste management requirements imposed by the Solid Waste Disposal Act."

(b) CONFORMING AMENDMENT.—Subparagraph (E) of section 103(b)(4) is amended by inserting "hazardous waste," after "sewage".

(c) CLARIFICATION OF REFERENCE.—For purposes of section 103(j) any reference to the Solid Waste Disposal Act means the Solid Waste Disposal Act as amended by the Resource Conservation and Recovery Act of 1976 and as it is, or may be, amended from time to time by other Acts. No inference shall be drawn from the preceding sentence with respect to the presence or absence of the words "as amended", by themselves or in combination with a reference to another Act, whenever reference is made in any other provision of law to an Act by its short title.

(d) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to obligations issued after the date of enactment of this Act and with respect to taxable years ending after such date.

#### EXHIBIT 1

Facilities and process changes to be included as report language to accompany legislation proposed by Senator John Heinz dealing with IRS definitions of pollution control facilities eligible for tax-exempt industrial development bond financing pursuant to section 103(b) of the Internal Revenue Code.

Eligible facilities and process changes shall include, but not be limited to, the following:

#### COAL MINING AND COMBUSTION

Coal washing and preparation to reduce sulphur emissions;

Fluidized bed boilers;

In mining operations, water diversion ditches that prevent natural water run-off from mingling with mining operations, becoming contaminated, and exiting as run-off pollution;

Cooling equipment, pipes, and pumps to recycle cooled flue gas in coal-fired boilers to reduce nitrogen oxide.

#### METALS

In metal "pickling" processes, equipment to convert sulphuric acid to hydrochloric acid, permitting acid regeneration and avoidance of waste treatment and sludge disposal expenses.

#### INDUSTRIAL PRINTING

Equipment to convert water-based paints, thereby avoiding air pollution that occurs from dried solvents dispersing through stacks.

#### PAPER INDUSTRY

Recovery boilers and their associated precipitators, black liquor oxidation systems, and black liquor evaporation systems.

#### BREWING INDUSTRY

Dust control equipment;  
Spent grain liquor evaporators.

#### SOLID WASTE MANAGEMENT

Landfills;  
Landfarms;  
Transfer stations;  
Incinerators without heat or energy recovery facilities;  
Incinerators with heat or energy recovery facilities;  
Compaction equipment (shredders, balers, and compaction equipment);  
Transportation vehicles used to implement the collection and disposal functions.

#### HAZARDOUS WASTE MANAGEMENT

Same list as solid waste management but also:  
Deep injection wells;  
Storage facilities;  
Treatment facilities;  
Limestone flue gas desulphurization systems using feeders, storage bins, conveyors, dryers, and grinding and briquetting machines to produce gypsum.

#### PETROLEUM INDUSTRY

Facilities to strip sulphur from gas streams to be combusted at the refinery;  
Facilities to transport waste water to regional waste control facilities;  
Floating roof storage tanks.

#### AMENDMENT NO. 513

(Ordered to be printed and to lie on the table.)

Mr. MOYNIHAN submitted an amendment intended to be proposed by him to the joint resolution House Joint Resolution 266, supra.

#### AMENDMENT NO. 514

(Ordered to be printed and to lie on the table.)

Mr. PERCY submitted an amendment intended to be proposed by him to the joint resolution House Joint Resolution 266.

### AUTHORITY FOR COMMITTEES TO MEET

#### SELECT COMMITTEE ON INTELLIGENCE

Mr. BAKER. Mr. President, I ask unanimous consent that the Select Committee on Intelligence be authorized to have met during the session of the Senate on today to hold hearings on S. 1273, the Intelligence Reform Act of 1981.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. BAKER. Mr. President, I ask unanimous consent that the Select Subcommittee on Intergovernmental Relations of the Committee on Governmental Affairs be authorized to meet during the session of the Senate on Wednesday, July 22, to hold a hearing on State Implementation of Federal Standards: The Clean Air Act.

The PRESIDING OFFICER. Without objection, it is so ordered.

#### COMMITTEE ON FOREIGN RELATIONS

Mr. BAKER. Mr. President, I ask unanimous consent that the Committee on Foreign Relations have the authority of the Senate to have met on July 20, 1981, to hold hearings on the Sinai Agreement with Israel and the United States.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. BAKER. Mr. President, I ask unanimous consent that the Committee on Foreign Relations be authorized to have met during the session of the Senate on Tuesday, July 21, to vote on the following nominations:

Davis R. Robinson to be Legal Advisor, Department of State;

Gilbert A. Robinson to be Deputy Director, International Communication Agency (ICA);

Dean Fischer to be Assistant Secretary of State for Public Affairs;

Joan M. Clark to be Director General of Foreign Service;

Everett Alvarez, Jr. to be Deputy Director, Peace Corps;

Richard T. Kennedy to be U.S. Representative, International Atomic Energy Agency (IAEA) with rank of Ambassador;

Monteagle Stearns to be Ambassador to Greece;

Robert Strausz-Hupe to be Ambassador to Turkey;

David Anderson to be Ambassador to Yugoslavia;

Marshall Brement to be Ambassador to Iceland;

John R. Countryman to be Ambassador to Oman; and

Richard N. Viets to be Ambassador to Jordan.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. BAKER. Mr. President, I ask unanimous consent that the Committee on Foreign Relations be authorized to meet during the session of the Senate on Wednesday, July 22, to hold confirmation hearings on the nomination of Arthur Hummel to be Ambassador to China.

The PRESIDING OFFICER. Without objection, it is so ordered.

#### SUBCOMMITTEE ON ENERGY CONSERVATION AND SUPPLY

Mr. BAKER. Mr. President, I ask unanimous consent that the Subcommittee on Energy Conservation and Supply of the Committee on Energy and Natural Resources be authorized to meet during the session of the Senate on Wednesday, July 22, to hold hearings on S. 506, a bill to reinstate and validate U.S. oil and gas leases numbered OCS-P-0218 and OCS-P-0226.

The PRESIDING OFFICER. Without objection, it is so ordered.

#### SUBCOMMITTEE ON ENERGY AND MINERAL RESOURCES

Mr. BAKER. Mr. President, I ask unanimous consent that the Subcommittee on Energy and Mineral Resources of the Committee on Energy and Natural Resources be authorized to meet during the session of the Senate on Thursday, July 23, to hold hearings on S. 1032, S. 1383, and S. 1484, bills to amend the Mineral Leasing Act of 1920 to promote the development of oil shale.

The PRESIDING OFFICER. Without objection, it is so ordered.

### ADDITIONAL STATEMENTS

#### THE COMMISSION ON MORE EFFECTIVE GOVERNMENT

● Mr. ROTH. Mr. President, earlier this year Senator EAGLETON and I introduced S. 10, to create a Commission on More Effective Government. The Commission represents an important tool for first identifying the appropriate changes in the way that our Government conducts

the public's business, and in providing the followup to help secure their implementation. These changes are needed to improve the performance of Government today and to adequately prepare our Nation to meet the challenges of the coming decade.

In an article that appeared recently in the Washington Star, James J. Kilpatrick discussed the proposed Commission and the contribution that it can make to improving governmental performance. I ask that Mr. Kilpatrick's article be printed in the RECORD.

The article follows:

FORD SHOULD LEAD REVIVAL OF HOOVER COMMISSION

(By James J. Kilpatrick)

More than a quarter of a century has passed since a blue-ribbon commission, headed by former president Herbert Hoover, brought in its recommendations for reorganization of the federal government. It's time to put another such commission on the job.

Republican Sen. Bill Roth of Delaware and Democratic Rep. Richard Bolling of Missouri are working on the idea. They have sponsored companion bills in the Senate and House calling for a bipartisan 18-member commission to undertake a two-year study of our federal government as it operates today.

If history repeats, the study should swiftly recover the anticipated \$16 million investment.

The Hoover Commission that was named by President Truman in 1947 brought in its detailed report two years later. The commission found upward of 1,800 departments, bureaus, commissions, agencies, councils and committees employing 2.1 million federal workers. No fewer than 65 agencies were reporting directly to the president.

Like a cooling field of lava, this bureaucratic eruption had stifled innovation, efficiency and federalism all at the same time.

It is one of the elementary truisms of government at every level that the reports of study commissions are to be seen, not read, and certainly not to be acted upon. Such reports emerge from a strong sense of procrastination that characterizes every legislative body. It is almost always better to put off until tomorrow what is too much trouble to do today. Appoint a study commission! And forget it.

#### HOOVER COMMISSION'S SUCCESS

The Hoover Commission's superlative studies provided an exception to the rule. Prodded by Mr. Truman, Congress undertook a dramatic restructuring of the federal government. Dozens of agencies were eliminated or combined. The State Department was wholly reorganized. Under the Military Unification Act, some impressive savings were achieved. President Eisenhower in 1953 inherited a reasonably taut ship.

But governments are like attics, back closets and rolltop desks. Left untended, they attract a prodigious clutter.

So it is today. Just a month ago Saul Pett, one of the top reporters of the Associated Press, took a perceptive look at what has become of the house of our fathers. Once it was a simple structure, uncrowded, comfortable to live in. But now?

"What we have," said Pett, "is a big, implausible, ramshackle house, distorted by random additions, by corridors that go nowhere and rooms that don't connect, a house loosely expanded through the years for numberless children, most of them unexpected."

Back in 1800, when the nation's population was about 5.3 million, "big government" was not much of a problem.

#### POPULATION OUTPAID

Since then, while our population has multiplied by 42 times, government employment

has grown by 500 times. Today more than 18 million persons are employed in government. They represent one of every six employees in the total labor force, and they cost us \$832 billion in salaries alone. The Federal Register of 1949 carried 7,952 pages of rules and regulations. The Register of 1979 carried 77,498 pages.

Roth and Bolling envision for their new commission a broader task than the old Hoover Commission took on. It is high time that we took a long, slow look at the complex picture of government totally. What are the proper limits? What are the separate functions? How can these awesome powers best be exercised—and best be restrained?

Forty years of political reporting have left this observer deeply skeptical about study commissions and study reports.

#### LEADERSHIP CRUCIAL

Such labors depend for their rare success upon a dedicated membership and an obedient staff. Leadership is everything. The word is going around that former President Gerald Ford might be tapped to take personal charge of the proposed investigation. A more experienced choice could not be found.

Under the best circumstances, the Roth-Bolling commission hardly could assemble a staff and get to work before spring of next year. Given two and a half years to complete and publish its report, the commission would be reporting to Congress in 1985. If Mr. Ford would accept the chairmanship, and agree to give the task his undivided attention, the study could become the crowning achievement of a life in public service. This was true of Mr. Hoover. It could be true of Mr. Ford as well.

#### CHRYSLER REPORTS A PROFIT

● Mr. RIEGLE. Mr. President, today I had the privilege to be in attendance at the National Press Club for a speech by Chrysler Corp. Board Chairman Lee A. Iacocca. In that speech, he announced that Chrysler was reporting a second quarter pretax profit of \$21 million.

This is, indeed, an incredible accomplishment by Chrysler. Two years ago Chrysler refused to accept defeat; refused bankruptcy. A combination of Chrysler management and employees, the UAW, Chrysler dealers, suppliers, financial institutions and Federal, State, and local governments pulled together to keep Chrysler from a bankruptcy that would have been disastrous to our national economy and to the State of Michigan. Against seemingly insurmountable odds, Chrysler has made a comeback.

All those associated with Chrysler can stand up today and be proud—this is their day. They have shown that Americans by pulling together can reach goals that the naysayers believe are not possible.

I request that Mr. Iacocca's remarks be printed in the RECORD.

The remarks follow:

#### REMARKS BY LEE A. IACOCCA

It's nice to be back at the National Press Club. The last time I talked to this distinguished audience was March 7, 1974. It was two presidents ago. I remember at the time I was wearing a W-N button (Whip Inflation Now) that Jerry Ford had given me.

I went back to see what pearls of wisdom I had laid on you way back then, and quickly discovered my speech was not that memorable.

If only for nostalgic reasons, here were a couple of my opening quotes:

"1974 could still turn out to be a good year

for the automotive industry." (In retrospect, it was an absolute disaster.)

"We have gutty problems which are well known—industry car sales are off 25 percent and layoffs have topped the 82,000 mark." (Compared to today, those numbers look like boom times.)

"I would like to join those who are calling for a return to a free market economy, and we should begin by removing all controls on the price and allocation of petroleum products and by burning those standby rationing coupons."

"I am convinced that if controls are lifted, the biggest part of our present problems will go away." (I've never been more convinced of anything in my life.)

"The most meaningful step Congress could take to reduce fuel consumption would be to freeze emissions standards for three years at the 1975 level."

"What we need most of all is a quick revision of the standards for oxides of nitrogen, or NO<sub>x</sub>."

That was the message of 1974.

It sounds like an echo in here. We still have many of the same problems.

But so much for nostalgia.

We are again in the middle of a period of American discontent. The American economy is dead in its tracks. If not the whole economy, surely the car and housing business. American spirits are low. Maybe people are feeling pretty good in Houston, but not in the cities of Detroit or Pittsburgh. There is an attitude of defeatism in the air. We see strong evidence of a kind of death wish among the editorial writers of the nation's press.

The intellectual thought leaders of America are wringing their hands over what they perceive to be the total inability of American industry to compete against the genius of foreign manufacturing. They suggest that we all become a giant national service industry, prepared to sell, clean, repair, and enjoy the basic products built at cheaper labor rates in other countries.

There is no question that America has a problem with its basic industries. In the 1970's, we had the lowest growth rate in productivity of any of the world's five largest industrial powers. It's hard to believe, but our growth rate was even lower than Great Britain's.

In 1979, our level of productivity was actually lower than it was in 1978; and in 1980, it was lower yet.

The data from those two years were obviously affected by the deep recession we've just gone through. It's tough to be productive when your plants are working at 60 percent of capacity. As we turn the economy around, and the plants fill up again, productivity will increase again.

But the long-term trend is absolutely clear. The facts can't be fudged or interpreted away. Something is out of whack in this country. Our problem is real, it is serious, and it must be reversed if we are to maintain our position as a world power.

Look at what's happening to some of our most basic industries.

Steel. Since 1960, the importation of of steel into this country has gone from 3 million tons to more than 14 million tons—56 percent of it Japanese.

Machine tools. In 1960, the U.S. machine tool industry was number one in the world. Today it ranks 5th in the world—behind Japan, France, Italy, and Great Britain.

Automobiles. In 1960, 8 percent of all cars sold in America were imports—almost none of them Japanese. The Japanese actually sold 942 new cars here in 1960! Today the import share of the American car market is hovering right around 30 percent. And Japan accounts for more than 80 percent of the total import share. They've gone from selling less than 1,000 cars a



year to roughly 2 million cars a year in this country.

There are lots of other examples—TV sets, sewing machines, cameras, microwave ovens, computers, integrated circuits, motorcycles, buses, construction equipment, you name it.

Unfortunately, some people in this country see the import challenge as a fatal challenge to American industry.

They're convinced that the sun is finally setting on America's basic industries—that we're doomed to becoming a second rate industrial power. As a people, we have begun to feed on the notion that we Americans can't do anything right anymore. It's negative. It's self-defeating. And it's very dangerous.

Nowhere is this conventional wisdom more pronounced than in discussions about the automobile industry. Because our products are so visible, people have come to associate the U.S. automobile industry—more than any other industry—with the decline of America's industrial power.

Everybody knows that Detroit has just suffered through the two most devastating years in its history. The combined pre-tax losses of General Motors, Ford, and Chrysler on their North American car and truck operations in 1980 alone were just under \$8 billion. More than 200,000 workers are on layoff. Over 2,000 independent automobile dealers have gone out of business. And everybody knows that the Japanese are having a field day in our domestic automobile market. But they don't know why.

There's an immediate assumption that the foreign car makers are smarter than we are, that they know how to anticipate markets better than we do, that their cars are never recalled, always perfect—and if we had any sense at all we would just wise up and imitate everything they do.

There's no denying that we can learn a few things from the Japanese, just as they have learned from us. But to suggest that we become clones of the Japanese is not the answer. It's a different culture, with different personal values, and different life styles. Not better. Just different.

What the Japanese do have that is better is a combined government, business, and labor policy that sets long range goals and provides the means to achieve them.

We don't have such a national policy in this country—not yet. But if we ever hope to give American ingenuity the chance it needs to restore the strength of this country's basic industries, we had better develop such a national policy—and I mean fast.

In the second place, to suggest that the Japanese have suddenly become the visible symbols of perfection, and that Detroit suddenly can't do anything right, is to overlook the facts. The fact is that just two years ago, the imports were taking only 17 percent of our market. We were holding our own very nicely, and the little Japanese cars were piling up on the docks of California and New York in record numbers. The reasons are simple. The United States government was pursuing a policy of cheap energy. Gasoline was price controlled at 65 cents a gallon. There was plenty of it. And American-built cars were in great demand.

Then the crisis hit. The revolution in Iran caused panic at the gas station. Lines formed. Tempers flared. Riots broke out. And the U.S. government decontrolled the price of gasoline. Virtually overnight gasoline jumped to \$1.25 a gallon, 40-mile-a-gallon cars became all the rage, and the glut of imported cars sitting on the docks went on the black market at a thousand dollars over list.

Now it would be one thing to acknowledge that with gas prices in Japan hovering at \$3.00 a gallon for years, the Japanese were poised and ready with small cars. But it's

also a fact that a Japanese car that sells for \$8,000 in Japan sells for \$600 less in this country solely on the basis of a Japanese tax policy that provides them an export incentive. And we allow it to happen in the name of free trade.

It is also true that their workers were prepared to work nights and weekends to take advantage of this windfall, courtesy of the U.S. Department of Energy.

But the American public and the editorial writers don't understand that. Suddenly, as if by magic, it has become a national truism that Japanese cars are in demand because they are little jewels of perfection. No recalls, no defects, no drivetrain problems. They are perfect! The Japanese worker walks on water. He sings the company song always on key. And according to this myth, Detroit builds nothing but junk, assembled with disregard for the corporate good by American workers who never come to work on Mondays or Fridays.

Baloney!

The Japanese obviously have a temporary break in the market, supported by a system that works very well for them. But before we throw our system away, and engage in a national guilt trip over our inability to compete, let me say a few kind words on behalf of the forgotten virtue of good old Yankee ingenuity.

Maybe we've lost sight of this country's tremendous ability to compete. Maybe we've forgotten who we are. Maybe we're suffering from a kind of national amnesia about our industrial and technological past.

Well, before we give up coffee and start drinking green tea, let me jog your memory a bit. Let me list a few facts that Americans may have forgotten about their great industrial heritage.

America has forgotten that all the major advances in modern manufacturing technology were made by Americans. We developed most of the state-of-the-art manufacturing systems that are in use today all over the world. That's especially true of automatic tools and assembly systems. Next time you see a picture of a robot welder on a Japanese assembly line welding a car frame under a shower of beautiful red sparks, remember that's an American invention. And keep in mind that our assembly lines look just as impressive—right down to the shower of red sparks. Of course, the red sparks don't come cheap—about \$100 million a shot to automate an assembly line.

America has forgotten how great its own products are—products built in America, by and for Americans. To this day, nobody has ever convinced me that the Japanese build better cars than we do. As far as I'm concerned, there's only one area where the Japanese beat us, and that's fits and finishes—items like the paint job and the way the trim lines up. But we're catching up fast.

In terms of overall quality and value, American cars can't be beat by anyone, anywhere. Two independent studies—one out of the University of Michigan, and one from a Congressional Subcommittee on Trade—say that American cars are just as good or better than foreign cars in the following areas:

American cars are more durable. They have more structural integrity. They're cheaper to repair, maintain, and operate, with overnight parts availability. They have better corrosion resistance. They have more room and greater comfort, and they're safer.

And here is one final analysis based on the number of recalls of foreign cars. Since the National Highway and Traffic Safety Administration was established in 1966, the foreign car makers have had to recall a higher percentage of their cars than GM, Ford, or Chrysler. It's a fact. Check it out.

We can meet the foreign challenge head on. We can meet it our own way—the American way. If you want proof of that, you

don't have to look any further than Chrysler Corporation. The company that was once on the leading edge of the worst depression the American automobile industry has seen in fifty years is now on the leading edge of the industry's recovery.

To illustrate our recovery in concrete terms, I am happy to tell you today that in the second quarter of this year, just completed, Chrysler earned a net profit of \$12 million. We are releasing those results nationwide as we meet here today.

Now if we had returned to profitability in a booming car market it would have been a remarkable achievement. But to do it against all the odds, in spite of double-digit inflation and a 20 percent prime rate, and in the most depressed market in 50 years, is maybe a little miracle.

Now we've already had a few pot-shots taken at us. We've been accused of adjusting the books just a little. Let me say this is a genuine operating profit.

Somebody has said we built more cars than we could sell. Let me point out that at the beginning of the second quarter, Chrysler had 14.5 percent of the industry's field stocks, and at the end of the quarter we had reduced that to 13.4 percent.

So don't let anybody tell you our second quarter was a fluke. It was real. Chrysler has fought its way back to profitability, and everyone associated with this company has reason to be proud.

It didn't happen overnight—it's been almost two years since we first applied for federal loan guarantees.

It didn't happen without a struggle. It took a lot of hard work, patience, and sacrifice on the part of everybody with a stake in Chrysler's future.

It didn't happen without a steady stream of intellectual carpetbaggers coming to Detroit to tell us we should have "died with dignity."

But it happened.

We've got our act together, and we're on our way back. Let me tell you how we did it.

We did it by installing state-of-the-art manufacturing technology in all of our plants. We now have a string of the most modern, automated front-wheel-drive assembly plants in the world and we're in the process of adding more.

Chrysler is the industry's front-wheel-drive leader. For 1982, 87 percent of our total product line-up will be in front-wheel drive—more than Ford, and more than GM.

We did it by establishing a management system to upgrade product quality and increase productivity. We've got a series of committees—from joint management teams in our plants to our top policy committee—working on ways to improve quality and productivity.

We did it by forming a new, progressive relationship with our labor unions—a relationship that is unique in American industry. We worked out a new wage contract with our unions. We put Doug Fraser on our Board of Directors. We developed a profit-sharing plan, and an Employee Stock Ownership Program.

We did it by hammering out a new, creative financing agreement with our banks and lenders. Under the terms of the financing arrangement—and along with all the other concessions we received from our unions, salaried employees, and suppliers—we have reduced our annual expenses by \$2 billion a year and cut our breakeven point almost in half.

We did it by putting together what, in my opinion, is the best management team in the industry.

Finally, we did it by introducing the best product line-up in our history at the right price. That's what clinched it for us. In 1981 our prices went up the least, and our fuel economy went up the most. That's an un-

beatable combination. As a result, our sales are up 25 percent in the worst market in my memory. For 1982 we'll have a complete new intermediate line of fuel-efficient, front-wheel drive cars—two-doors, four-doors, station wagons, and even convertibles. And over the next five years we'll introduce at least two new models each year. All front-wheel drive. And all very fuel-efficient.

I'm not trying to make it sound like we're out of the woods. Chrysler is not, and the U.S. automobile industry is not. But with the help of a lot of our fellow Americans, we've blazed our own trail this far, and we're not about to hire a Japanese trail guide for the rest of the trip. Chrysler Corporation is an American company that's solving its problems the American way.

This country can learn a lot from Chrysler's experience. Chrysler Corporation has survived the most hellish test of fire in American business history. But it's bordering on insanity to think that every American company that finds itself in trouble should have to go through what Chrysler went through in order to survive.

There is a lesson to be drawn from the so-called "Chrysler crisis." American industry can carry only so much in the way of a regulatory burden before it begins to sink under the weight. The fact is, we're looking back on a decade of almost total fixation on social and environmental goals—a fixation that all too often overlooked our critical need for the capital that's required to remain competitive in world markets. I'm not here to knock environmental goals. Many of them were very important goals and still are. But as one former White House advisor put it, "We have underinvested in the economic machine that previous generations labored to put together."

As a result of our overreaction to the "friends of the earth," by the end of the 1970's, one-tenth of all corporate investment was going directly to meet government requirements. And capital investment in productivity improvements dropped to about 10 percent of the GNP, compared to 15 percent in Germany and 20 percent in Japan.

We have to reverse that trend. America's future productivity lies in rebuilding this country's great industrial base.

The current buzz word for it is "reindustrialization."

Basically, all reindustrialization means is that we have to stop diverting money to taxation and regulation, and put it back where it can create jobs for American workers: in capital investments in modern plants and equipment.

I have told everyone who will listen what I think is required to solve the problems. And I'm going to tell you today.

First, we need to get rid of the wasteful and unnecessary regulations that are crippling America's basic industries. Keep the good ones, and throw out the bad ones. Get rid of the air bag. Belts are better. Get rid of the 5-mile an hour bumper. It has nothing to do with safety. Put some sense back into the tailpipe standards. The cars are already 95 percent clean. A return to reason on all regulations would save Chrysler alone more than \$500 million in expenditures by 1985.

Second, we need a monetary policy that assures a steady supply of money at a rate the country can afford. You can't have a supply side economic policy and a demand side monetary policy at the same time. It just won't work. We need a stable monetary policy (instead of jerking interest rates from 10 to 20 percent like a yo-yo) both to encourage business investment and to give our customers the confidence and the means to buy our products.

Third, we need to give business the tax incentives it needs to make capital investments. If we really are serious about reindus-

trialization, we have to help American companies get on their feet. We need to provide incentives which will benefit the marginal companies, the smaller companies, the companies that are just starting out—all the companies that are traditionally hit hardest by negative events in the economy.

Fourth, we need to establish some mechanism to help companies—such as Chrysler—before their problems reach the crisis point. We at Chrysler didn't want to apply for government loan guarantees. But we had no choice. There was no other course open to us—unless you count bankruptcy. Some choice!

What Chrysler needed then, and what U.S. industry needs today, is some kind of systematic organization to provide temporary assistance to companies that have a short-term capital problem without having to go through hysterical headlines on the nightly news. Not every company should receive help. Assistance would be reserved for those companies that could show they had a good chance of recovering fully and becoming viable again; companies like Chrysler. It is a serious need, and I believe it should be addressed quickly.

And fifth, as tough as it is to say, we need a careful reexamination of our labor practices and policies in this country. Let's face it. Our labor costs are out of line with the rest of the world. And it's our own fault. In years past, we kept giving away a larger piece of an expanding pie. But now the pie is shrinking, and we have to change our ways.

The Japanese don't have automatic cost of living increases tied to the Consumer Price Index. But we do. They don't have company-paid medical benefits that cost the consumer \$300 a car. But we do. The Japanese don't pay their workers to stay home. But we do. That's a good way to get unproductive in a hurry.

And without denying anybody the basic protection of decent wages and health benefits, we have to face the fact that the Japanese are mopping the floor with us on compensation packages.

Sixth, we need a new management attitude in this country. We need the flexibility to put a labor leader on the board, the foresight to develop new techniques of cooperation in the work place, and the wisdom to avoid the temptation of preaching doctrinaire free enterprise, when we know Adam Smith went out of style decades ago.

Our worldwide competition learned that lesson a long time ago. They know how to work together to meet a national goal. It's time we learned to do that here.

During the last two years I've listened to a thousand stern lectures on the virtues of free enterprise from some of my conservative business friends and from the nation's editorial writers. They were angry because we didn't have the good grace to walk away and let Chrysler die. There was just one problem with that line of thinking: a half million American jobs were at stake. And the so-called "little people" who held those jobs helped us wage the fight for survival.

Because we didn't quit, those half million people are still working.

Because we didn't quit, we have paid out \$4.3 billion in wages and fringe benefits since the Loan Guarantee Act was passed.

Because we didn't quit, our employees have paid over \$890 million in federal, state, and social security taxes during that same period.

Chrysler Corporation has paid direct corporate taxes to local, state, and federal governments of \$316 million since the Guarantee was passed.

We have bought goods and services worth \$7.3 billion from over 17,000 U.S. suppliers.

And we have made capital investments in new plants and modern equipment worth \$650 million since the Bill was passed.

With that economic contribution in mind, you tell me whether or not this nation has been better served because of what we did here in Washington in the winter of 1979.

The progress Chrysler Corporation has made over the past two years is living proof of how much Americans can accomplish if they work together.

Two years ago, nobody outside of Chrysler believed that cooperative effort would ever work. But it did. We're going to continue our rebuilding efforts. We're going to continue to develop new and better manufacturing systems. We're going to continue to invest in new technology. We're going to become more productive and efficient every year. And we're going to bring out new and better products every year.

We haven't lost faith in America, in American workers, or in America's ability to compete with anybody in the world.

We don't believe we have to become a service industry for the foreign workers of the world. We want to help lead the nation back to a sense of pride in our own ability.

More is at stake than the survival of Chrysler Corporation and the other basic industries of this nation. Through our collective actions, we can shape and direct the course of America's industrial progress.

No one could ask for a greater opportunity. ●

#### CONSERVATIVES SHOULD BE ENCOURAGED BY O'CONNOR NOMINATION

● Mr. GOLDWATER. Mr. President, I have stated repeatedly that certain single issue factions have unfairly and wrongly criticized Judge Sandra O'Connor's nomination.

Thoughtful media columnist and writers around the country have begun making their own investigations of Mrs. O'Connor's record and invariably, they reach the same conclusion I do—Judge O'Connor is a bright, efficient jurist with strong conservative convictions on the broad economic and social issues that are of enduring interest to the Nation.

One recent item that particularly stands out was written for the *Seattle Journal-American* by Don Feder, who himself is an attorney as well as a free lance columnist.

I recommend Mr. Feder's calm and reasoned article to my colleagues and ask that it may appear in the *Record*.

The article follows:

[From the *Seattle Journal-American*,  
July 14, 1981]

THE LINE IN SUPPORT OF O'CONNOR SHOULD FORM ON THE RIGHT

(By Don Feder)

While I expected Reagan's first Supreme Court appointment to be controversial, I hardly thought conservatives would lead the opposition. Yet from the moment Sandra Day O'Connor stepped into the limelight, the guns of the New Right have been trained on her.

A coalition of 21 conservative groups has called on the president to withdraw his nomination and, barring that, has promised to fight confirmation in the Senate. The coalition includes anti-abortion groups, the Moral Majority, the Conservative Caucus and the Committee for the Survival of a Free Congress.

Opposition to O'Connor seems to be focused on two issues. As a member of the Arizona Legislature, she cast several pro-



abortion votes. She was also a sponsor of the Equal Rights Amendment in her home state. On these two issues alone, the New Right has determined that O'Connor is utterly without redeeming judicial value.

That right-to-life groups are opposing O'Connor's nomination is understandable. After all, their *raison d'être* is to slug it out in the political arena on this single issue. Everything else is irrelevant to them.

That's fair enough. If O'Connor was a right-to-lifer who opposed the ERA, the feminist banshees would be walling their heads off. What puzzles me, though, is why certain broad-based conservative groups have zeroed in on her position on these two issues, to the exclusion of what appears to be, in general, an excellent conservative record—not to mention the right judicial temperament.

Jerry Falwell doesn't like O'Connor's position on abortion. Well, neither do I. But ultimately this issue will be settled by the people and their elected representatives, not the Supreme Court. O'Connor, in keeping with her philosophy of judicial restraint, has stated that the legality of abortion is best determined by the legislative branch.

O'Connor's position on the ERA leaves room for doubt. Her early support for the amendment seems to have cooled. Even assuming she's *gung ho* for the Equal Rights Amendment, is that a valid reason to oppose her? Though I've given it the Bronx cheer on more than one occasion, many reasonable people support the ERA. In my hierarchy of burning political questions, the ERA ranks somewhere between fluoridation and vivisection.

If conservatives are less than enthusiastic about her position on the aforementioned, they should find much to cheer on other issues. While in the Arizona Legislature, O'Connor voted for a resolution opposing forced busing to achieve racial integration. She voted in favor of a bill to restore the death penalty in Arizona. On the gun issue, she voted for a resolution memorializing Congress not to enact further gun control. She also supported legislation making it easier for residents of Arizona to obtain a license to carry a handgun.

Hardly sounds like a member of the radical chic, does she? Barry Goldwater, who's known the lady for over 20 years, is her most ardent supporter in the Senate.

Of far more importance than O'Connor's position on social issues is her economic philosophy. According to Goldwater's office, her court decisions show a strong regard for property rights. As majority leader of the state Senate, she spearheaded the drive for a tax and spending limitation amendment. Lewis K. Uhler, president of the National Tax Limitation Committee, speaks of her "commitment to the theory that government is getting out of hand." In a 1977 speech, O'Connor made her position quite clear, stating, "It is wrong to believe that government should provide solutions for every demand. Such demands place strains on our economy and tax burdens on our citizens."

Conservatives should pay particular attention to O'Connor's judicial philosophy. Will she seek to expand the rights of criminals, or protect the rest of us from their depredations? Will she interpret the Constitution as it was written, or use it as a launching pad for flights of fancy?

I am pleased to report that O'Connor is a strict constructionist, with a genuine concern for balancing the procedural rights of the accused with the rights of victims. In her appellate opinions, she generally turned down defendants' claims that their rights had been violated. She has spoken critically of judges who acquit vicious criminals on narrow technical grounds. She's expressed frustration because, "the desire to expand citizens' civil rights has made it difficult to convict people of crimes they obviously have

committed." These aren't the bleatings of a hemophilic liberal, prone to coddling criminals.

The American people should take a long hard look at Sandra O'Connor's record. If her appointment is confirmed, she could easily serve on the Supreme Court for the next two decades.

My investigation has given me much cause for encouragement. I think she'll make an excellent justice, one constitutionalists can be proud of. ●

#### THE CARNIVALE BAG COMPANY: AN EDA SUCCESS STORY

● Mr. D'AMATO. Mr. President, in 1978 Carnivale Bag Co., located in the Bedford-Stuyvesant area of New York City at 543 Park Avenue, was on the verge of leaving Brooklyn for New Jersey, or even farther out. Competition from Japanese and other foreign companies threatened the survival of the company. Adverse conditions in Brooklyn only made matters worse. Yet, thanks to assistance from the Economic Development Administration, on May 16, 1980, a group of Japanese luggage industry officials visited the Carnivale Bag Co. to observe a successful American leather goods firm at work. How did this come about?

Three years ago Carnivale Bag Co. was fighting a losing battle with overseas competition from Korea and Taiwan. The company produced handbags, but those items could be produced much cheaper overseas. The company then applied to the Economic Development Administration for a \$1 million loan which was granted. With this loan, Carnivale Bag Co., a 34-year-old, family-owned business, moved to its present location from Manhattan, modernized its equipment and shifted from its retail-oriented product, handbags, to manufacturing goods like calculator cases, cosmetic kits and the like for top business corporations.

The loan, which the company is repaying at 13.5 percent interest has enabled Carnivale Bag to pay more than \$600,000 in payroll taxes to the Federal Government and has saved taxpayers \$2.5 million in welfare payments to employees formerly out of work. "Most of our employees were former welfare recipients and all came from the immediate area, such as Williamsburg, Bushwick and Bedford-Stuyvesant," says Howard Greenstein, the company's vice president. The number of employees at the 60,000-square-foot plant grew from 100 in 1978 to 375 presently with a \$2.5 million payroll.

According to Greenstein, Price Waterhouse, the third largest accounting firm in the Nation, was so impressed with the company's 5-percent-a-year growth rate that it recommended to EDA that it make a second \$950,000 working capital loan to Carnivale Bag Co. in order to allow it to expand its production facilities. Price Waterhouse predicted that Carnivale Bag Co. would, with a second loan, be able to increase the number of employees to 700 by 1982.

Thus, what the Japanese luggage officials did not know when they visited the Carnivale Bag Co. was that they were observing, not only a successful American leather goods firm at work, but one

that pulled itself up by its own bootstraps, with a little help from the Economic Development Administration. ●

#### GIRL SCOUT COMMEMORATIVE STAMP

● Mr. MURKOWSKI. Mr. President, I am pleased to be added as a cosponsor of S. 1448, a bill to provide for the issuance of a postage stamp to commemorate the 70th anniversary of the founding of the Girl Scouts in the United States of America. I feel it is appropriate to recognize the contribution the Girl Scouts have made to local communities throughout our Nation.

In my own State of Alaska, nearly 7,000 girls organized in three different Girl Scout councils are involved in a variety of productive activities all over the State. I speak from experience when I praise the work of the Girl Scouts—my wife and two of my daughters have all been involved with Scouting.

Girl Scouting in Alaska, like Scouting across the Nation, is a strong, active movement which prepares girls for conscientious citizenship. Millions of Americans have reaped the benefits that Scouting provides—currently, there are over 3 million participants in Girl Scouting.

As such, it is the largest voluntary organization for girls in the world. I believe that the issuance of a commemorative stamp is appropriate and fitting recognition of the opportunities for community service which Scouting provides, and I am proud to lend my full support to this measure. ●

#### PHILIP GEYELIN ON THE CONDUCT OF FOREIGN POLICY

● Mr. PELL. Mr. President, I would like to call to my colleagues' attention an excellent article by Philip Geyelin which appeared recently in the Boston Globe. Mr. Geyelin points out some of the problems in the Reagan administration's handling of foreign affairs and the deleterious effects these problems are having on our foreign policy.

In particular, Mr. Geyelin notes that the Reagan administration's handling of foreign affairs has been marked by a sense of lack of discipline and extreme defensiveness, of incoherence and small-mindedness, all around. This has been evidenced, according to Mr. Geyelin, in the criticism by White House aides of Secretary of State Alexander Haig. It was also demonstrated in the administration's complaints that former Secretary of State Cyrus Vance, in a recent appearance on "Meet the Press," provided grist for Soviet propaganda mills when he questioned the administration's sincerity on arms control and the way it handled the new arms-sales-to-China policy.

Mr. Geyelin points out that all the leaks and charges and countercharges are counterproductive to an effective American foreign policy. He adds that representatives of other nations are confused; they cannot tell who has the last word. I had hoped that one of the benefits of a change in administrations would be

more coherence and harmony in the conduct and articulation of foreign policy. So far, however, that does not appear to be the case.

Mr. President, I ask that Mr. Geyelin's article be printed in the RECORD.

The article follows:

#### MUDSLINGING IN HIGH PLACES

WASHINGTON.—Remember Cyrus Vance, the former Secretary of State, Deputy Secretary of Defense, Secretary of the Army; the peace negotiator and trouble-shooter in Vietnam, Cyprus, Korea, the Detroit race riots; and now the quintessential Wall Street lawyer?

Turns out he's a dupe of the Communists. It was in the papers, straight from the Reagan high command. Not for attribution, of course; that's not how mud is slung in this town. But in leaks, with an altogether authentic ring, it was said that even the President was shocked by the way Vance provided grist for Soviet propaganda mills by questioning (in a recent interview on "Meet the Press") the Administration's sincerity on arms controls, as well as the way it handled the new arms-sales-to-China policy.

That this is hogwash hardly needs saying. Vance reported his impressions, based on what the Soviets told him on a recent trip to Moscow, of their doubts that the United States is serious about arms control. He did express his own doubts about whether the Administration has "a policy yet with respect to arms control." But he did not do so nearly as categorically as did Eugene V. Rostow, the President's very own nominee to run the arms control agency, at his Senate confirmation hearings.

So much for Vance giving aid and comfort to the Soviets. That the Russians talk in propagandistic, self-serving, deceptive ways to visiting Americans, official as well as unofficial, is no reason not to report it. That Haig's clumsy handling of the China arms matter surprised even members of the Administration is no secret.

The point is not the mud (Cyrus Vance's faithful public service speaks for itself), but the mudslinging. It says quite a lot about the continuing incapacity of this Administration, six months into its first term, to deal with the natural vicissitudes—the occupational hazards—of managing almost every aspect of foreign policy.

The Vance case is a minor bit of mean-

mindedness. But it is a piece of the far more consequential and equally furtive White House number now being done on Secretary of State Alexander Haig.

There's no way to prove it beyond a doubt (no one steps forward to take credit in these matters), but by a process of simple elimination you have to figure that both are the work of the White House inner ring. That includes the old-time political intimates (White House aides Ed Meese, Jim Baker and Mike Deaver) with an assist from Richard Allen, the President's adviser for national security.

And both incidents reflect the same severe shortage, in the handling of foreign policy, of precisely the qualities that have distinguished the Administration's handling of domestic (chiefly economic) affairs: the Mr. Nice Guy approach, coupled with sureness of purpose, competence, tough-mindedness, and a reasonably decent respect for dissent.

Whether we are talking about the overwrought reaction to the criticisms of Cyrus Vance or the White House vendetta with Al Haig, the common denominators are of quite the opposite sort. There is a sense of lack of discipline and extreme defensiveness, of incoherence and small-mindedness, all around.

It is true that Haig has brought a lot of his troubles on himself by his reach for authority, his insistence on leaving his mark on everything, his sometimes rattled, sometimes overly contentious, attitude. All this has invited the leaks and whispers of a "Haig problem". He is not a team player; he has "alienated" the President; is it "medical"?

Whether Haig has overreached or the White House powers-that-be are being over-protective—of the President or themselves—is less important than the effect this is having in a town where rumor mills are almost the only light industry.

At best, the effect is embarrassment for the President and his Secretary of State. At worst, it is beginning to be destructive—of Haig's effectiveness and of respect for not only the President but for the performance of the US government.

When the rumor-peddlers are making book on how soon Haig may be replaced (and by whom), foreign diplomats and dignitaries are, well, confused. One veteran ambassador from a close ally already is brooding out loud about the problem of knowing where the power lies: "Who should I be talking to? Who has the last word?"

In short, there is something uncommonly

rancid about the atmosphere. The high incidence of mudslinging is but one measure. White House "officials," it is said, are aware of it, and of its potential for harm to American diplomacy. But they are not sure what to do about it.

Inasmuch as they are part of the problem, that's understandable. The solution, when it comes, will have to come from the President. ●

#### ORDERS FOR THURSDAY

ORDER FOR RECESS UNTIL 9:30 A.M.

Mr. HEINZ. Mr. President, I ask unanimous consent that the order of the Senate to convene at 10 a.m. on Thursday be vitiated and that when the Senate recesses this evening, it stand in recess until 9:30 a.m., Thursday, July 23, 1981.

The PRESIDING OFFICER. Without objection, it is so ordered.

ORDER FOR RECOGNITION OF SENATOR THURMOND  
SENATOR CRANSTON

Mr. HEINZ. Mr. President, I ask unanimous consent that following the recognition of the two leaders under the standing order on Thursday, Senators THURMOND and CRANSTON be recognized for not to exceed 15 minutes each.

The PRESIDING OFFICER. Without objection, it is so ordered.

ORDER FOR CONSIDERATION OF TAX MEASURE

Mr. HEINZ. Mr. President, I ask unanimous consent that on Thursday, July 23, no later than 10 a.m., the Senate resume consideration of the tax measure, House Joint Resolution 266.

The PRESIDING OFFICER. Without objection, it is so ordered.

#### RECESS UNTIL 9:30 A.M. TOMORROW

Mr. HEINZ. Mr. President, I move in accordance with the order just entered that the Senate stand in recess until 9:30 a.m., Thursday, July 23.

There being no objection, the Senate, at 8:04 p.m., recessed until tomorrow, Thursday, July 23, 1981, at 9:30 a.m.