

trusted volunteer by the Federation of Community Planning, and is the former chair of the Cuyahoga Metropolitan Housing Authority.

Mr. Speaker, the final honoree for the Public Servants Merit Awards is George F. Williams. Mr. Williams is a native of Knoxville, TN. He attended John Hay High School and Kent State University.

Prior to joining the Cleveland Municipal Court, Mr. Williams was employed at Precision Metalsmiths, Inc. Currently, he serves as a deputy clerk at the court, where he is the assistant supervisor of the criminal counter division. He has been employed by the Court for 26 years.

Mr. Williams is an active member of the Emanu-El AME Zion Church, where he is a member of the board of trustees and the victory chorus. His other hobbies include listening to jazz music and travel. Mr. Williams and his wife, Yvonne, have been married nearly 38 years. They are the proud parents of a son, George F. Williams, Jr., and daughter, Peggy J. Dunlap.

Mr. Speaker, I take pride in saluting the eight individuals who have been selected to receive the Public Servants Merit Awards. They have each exhibited a strong commitment to public service and personal excellence. I also commend the bar foundation and bar association for recognizing the importance of honoring employees who strive to make the court system work more effectively.

#### A BILL TO REVISE THE TAX TREATMENT OF MUNICIPAL SECURITIES PURCHASED AT MARKET DISCOUNT

**HON. BENJAMIN L. CARDIN**

OF MARYLAND

IN THE HOUSE OF REPRESENTATIVES

*Tuesday, February 7, 1995*

Mr. CARDIN. Mr. Speaker, today I am introducing, along with my Ways and Means Committee colleague, Representative CLAY SHAW, legislation to repeal a provision of the 1993 tax bill that has reduced secondary market liquidity for municipal bonds and complicated the Tax Code unnecessarily. The existing law will likely make it more difficult for States and localities to invest in our Nation's crumbling infrastructure.

The provision in question changed the way certain municipal bonds are treated under the Internal Revenue Code and caused some of these bonds to be less attractive to investors. As a result of this provision, State and local issuers attempting to address America's chronically underfunded public investment needs may be forced to offer higher yields on their securities, which would drive up their borrowing costs.

Of critical importance to the success of the American system of public finance is the liquidity of the secondary market for municipal bonds. Investors are willing to accept lower rates of return on State and local government securities because of the tax exemption, but also because they know they can readily sell their bonds, if necessary, before maturity. It is this indispensable characteristic of the municipal bond market that was handicapped in 1993 by the Budget Act.

In certain situations, holders of municipal bonds seek to sell their securities at what is

known as a market discount. Market discount is the difference between the purchase price of a bond and its stated redemption price at maturity. In general, market discount occurs when a bond is purchased on the secondary market at a price below par or below the adjusted issue price. Market discount is typically caused by a rise in market interest rates or a decline in the creditworthiness of the borrower.

Before the enactment of the 1993 budget reconciliation bill, accreted market discount on a municipal bond was taxed as capital gain at the time the bond was sold, redeemed, or otherwise disposed of. A strong public policy argument can be made that, consistent with the tax exemption on municipal bond interest, market discount on State and local government securities should be exempt from taxation altogether.

However, the legislation Congressman SHAW and I have introduced today seeks only to restore the traditional capital gains treatment of market discount bonds. We believe that increases in the value of market discount bonds should be treated as capital gains, consistent with the standard treatment of increases in the value of most investments.

Under the new law, however, accreted market discount is taxed as ordinary income. Since they are now subject to higher ordinary income tax rates, market discount bonds have become more difficult to sell on the secondary market than other municipal bonds.

Furthermore, any security issued by a State or locality could become a market discount bond at some point during its life, so secondary market liquidity for all municipal securities has decreased. With the repeated rises in interest rates over the past year, the 1993 change has had dramatic consequences for the secondary market in these bonds.

The change to ordinary income tax treatment for market discount bonds also reduces their liquidity because investors cannot use capital gains on market discount bonds to offset capital losses. Investors in secondary market municipal securities now demand higher rates of return to compensate them for higher tax rates on discount bonds and for increased risk that the securities will be more difficult to sell.

The bottom line on the higher tax rates for market discount is that State and local governments could ultimately face higher costs in issuing securities to pay for much needed public infrastructure investment. Early anecdotal evidence suggests that yields on market discount bonds are as much as 25 basis points higher than they would have been under the old rules. These effects have been exacerbated over the past year as interest rates have risen and bond prices have fallen.

Moreover, the new market discount rule has resulted in a reporting nightmare for bond dealers, mutual funds, bank trust funds, and others who are required to sort out and document income to taxpayers. Some tax-exempt mutual funds have simply stopped buying market discount bonds altogether because of this complexity, further reducing the liquidity of and demand for these securities and driving up their yields.

The new market discount rules could result in higher capital costs for State and local municipal bond issuers, raise extremely complex financial considerations that repel investors, and provide little or no economic advantage to the Federal Government. As Federal and

State budgets get tighter and tighter, the importance of the tax-exempt market increases. For those reasons, I propose that Congress restore the law to its pre-1993 status.

The current proposal to cut the capital gains tax presents us with an opportunity to address this important issue. Consistent with that effort to encourage investment, we should reverse the destructive proposal enacted in 1993, and remove the penalty on investors and issuers it imposed. I encourage my colleagues to join me as cosponsors of this legislation.

#### TRIBUTE TO JAMES A. WILLIAMS

**HON. ROBERT A. BORSKI**

OF PENNSYLVANIA

IN THE HOUSE OF REPRESENTATIVES

*Tuesday, February 7, 1995*

Mr. BORSKI. Mr. Speaker, I rise today to pay tribute to my good friend, Jim Williams, who will be honored as "Glazier of the Year" at the Glaziers, Architectural Metal and Glass Workers Union Local No. 252's annual stewards dinner on March 11, 1995.

Mr. Williams has been chosen for this honor because of his unparalleled dedication to the glazing industry and organized labor. As a third generation glazier, Jim has provided the members of local No. 252 with the finest training in the country, fair and decent contracts, and the access to a dignified retirement. His tireless efforts on behalf of all unionized workers will benefit the labor movement for years to come.

Jim Williams began his apprenticeship with Glaziers and Glass Workers Local No. 252 in 1968 upon graduating from Northeast Catholic High School. The next year he enlisted in the Army to serve our country in Vietnam. As an infantryman, he was awarded two Bronze Stars, the Army Accommodation Medal, and an Alr Medal. Returning home in 1971, Jim completed his apprenticeship and began work as a journeyman glazier. He was elected president of local No. 252 in 1975. He was subsequently chosen as business manager in 1979, serving until August, 1994, when he was elected to his current position as vice president of the International Brotherhood of Painters and Allied Trades.

As business manager, Mr. Williams made Glaziers Local No. 252 into a well respected and influential force in the Delaware Valley, with membership tripling. He personally oversaw the construction of a new union hall in the northeast in 1982, which has since expanded with an Apprentice Training Facility.

Jim Williams has also been very successful in many other areas. He has served as a member of the board of trustees of Temple University, and vice president of the Philadelphia Building Trades Council. In addition, he has been a board member of the Private Industry Council of Philadelphia and Special trustee and general representative of the I.B.P.A.T. Along with these esteemed positions, Mr. Williams has been honored repeatedly for his contributions to various organizations. In 1982, he received the prestigious UNICO Man of the Year Award. He was also chosen as Labor Man of the Year by the Israeli Bond Association in 1990, and in 1992 he received the Vietnam Veterans Labor Leader of the Year Award.

Along with his many professional accomplishments, Mr. Williams is respected as a traditional family man. He resides in Holland, PA, with his wife of 22 years, Gerrie, and their two daughters and two sons.

Mr. Speaker, I thank you for this opportunity to bring to the attention of the House the accomplishments of Mr. Williams, a dedicated and respected worker who has contributed much to both his profession and society at large. I commend Mr. Williams for these achievements.

# LINE-ITEM VETO ACT

SPEECH OF

**HON. VIC FAZIO**

OF CALIFORNIA

IN THE HOUSE OF REPRESENTATIVES

*Monday, February 6, 1995*

The House in Committee of the Whole House on the State of the Union had under consideration the bill (H.R. 2), to give the President line-item veto authority over appropriation Acts and targeted tax benefits in revenue Acts:

Mr. FAZIO. Mr. Chairman, there is no doubt that we must build on the progress we have made in getting the deficit under control. The line-item veto will help us do this by highlighting and eliminating wasteful and unnecessary spending. It will enable us to spotlight narrow interest items and make it difficult for them to be camouflaged in large, omnibus spending bills.

However, I have several serious concerns about the version of the line-item veto that is proposed in H.R. 2. H.R. 2 is not the solution to our problem. Although the underlying con-

cept is sound, the process yields disturbing results.

First, H.R. 2 drastically skews the balance of power in favor of the executive branch of Government. It transfers the most important power that our Constitution gives Congress—the power of the purse—to the President and could result in just substituting Presidential spending priorities for congressional ones. This shift in power raises the question of the degree to which we want to let a President use a punitive approach to force Members to vote for things they would otherwise oppose. The President could use these new powers to force Congress to increase spending on Presidential priorities. This could undermine the original purpose of the line-item veto, possibly resulting in more—not less—spending.

If the intent of this bill is to rein in congressional spending even more, it is important to realize that Congress has more than lived up to its responsibility to contain Federal spending. Over the last 15 years, Congress has appropriated less money than the President has proposed. Furthermore, over the past 20 years in which the President has had authority to rescind appropriations, Presidents have proposed \$72 billion in rescissions. During that same time, Congress has passed rescissions of \$92 billion—\$20 billion more than Presidents have requested.

Lastly, the bill's supermajority requirements are dangerous. If H.R. 2 is enacted as written, a President, along with a very small minority—only 34 Senators or 146 Representatives—would be able to override the decisions of elected majorities in the House of Representatives and Senate. Additionally, supermajorities tend to create gridlock. I can well remember the 1992 California State budget crisis when our State legislature and Governor were held

hostage because a two-thirds majority was needed to approve budget changes made by the Governor. The gridlock that this created demonstrates the need for a majority, not two-thirds, vote on a President's ability to change Congress' spending priorities. If we are serious about keeping gridlock out of Congress, we must support giving Congress an opportunity to overturn a President's decision by majority alone.

It is for these reasons that I support the alternative proposed by my colleagues Mr. WISE of West Virginia, Mr. STENHOLM of Texas and Mr. SPRATT of South Carolina. Their version of the line-item veto is identical to a bill that passed the House last year by a vote of 342–69. It requires a vote in the House—under accelerated procedures—on rescissions and vetoed tax benefits proposed by the President. Under the Wise-Stenholm-Spratt substitute, the President's rescission package becomes effective only if it is approved by the House and Senate. It therefore forces Members of Congress to be accountable for their votes on crucial budget issues. Yet, it preserves the constitutional balance of power and upholds the principle of majority rule.

There is still a great deal of work to be done if we are to continue our efforts to reduce Government spending and bring the deficit under control. We must continue to make sizeable reductions in Federal spending in order to sustain the economic growth of the past 2 years. That is why I support the goals of H.R. 2—uncovering and eliminating unwarranted, wasteful, and special-interest spending and tax breaks. But we need to do so without an extreme—and possibly counterproductive—shift in legislative power. In order to be effective, we must approach this honestly, fairly, and responsibly.