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~~HEARING ON MISCELLANEOUS TRIFT BILLS~~

---  
Wednesday, August 9, 1978  
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United States Senate,  
Committee on Finance  
Washington, D. C.

8 The committee met, pursuant to notice at 10:00 a.m. in  
9 room 2221, Dirksen Senate Office Building, Hon. Abraham Ribicoff  
10 presiding.

11 Present: Senators Long, Moynihan, Bentsen, Gravel, Byrd,  
12 Ribicoff, Talmadge, Curtis, Dole, Danforth and Packwood.

13 Senator Ribicoff. The committee will come to order. Senator  
14 Pell is here and we told him we would give him an opportunity to  
15 make a presentation. I think you could do that now, Senator Pell.

16 Senator Pell. Thank you, Senator Ribicoff.

17 Mr. Chairman, I appreciate your courtsey in hearing me at  
18 this time since I was unable to be here with you at the regular  
19 hearing session.

20 I am here to ask for your favorable consideration of H.R.  
21 10161 which is a bill to permit a very small business firm in my  
22 own state to recover \$17,000 in excess customs duties erroneously  
23 collected from that company.

24 The Customs Service agreed these excess customs duties were  
25 collected because of an erroneous appraisal, but the Customs

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1 Service contends it is barred by law from repaying them because  
2 the company did not file what they considered a timely protest on  
3 a form required by law.

4 The fact is the company did protest the excess duties, <sup>in writing</sup> and  
5 within the time limitations, but it was not construed to be a  
6 formal protest in the exact form required by the regulations.  
7 This company, Eastern Telephone Supply Manufacturing, Incorporated,  
8 is a company with only 18 employees and annual sales of less than  
9 \$600,000.

10 Recovery of \$17,000 in excess customs duties is a matter of  
11 great importance to this small company and I hope very much the  
12 committee could find it possible to grant relief.

13 The bill before you would simply permit Eastern Telephone  
14 to file its formal protest to excess customs duties within 60  
15 days of passage of the bill, thus to my mind, bringing justice and  
16 equity to this little company.

17 I do not want to burden you with any more words on my behalf,  
18 but I do implore you on behalf of this small company.

19 Senator Ribicoff. Your entire statement will be inserted  
20 in the record.

21 (Committee insert.)  
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1 The Chairman. I think you made a good case. It would be  
2 justice and equity for your manufacturer. I would like to coop-  
3 erate, but you know the cooperation is a two-way street. Some of  
4 us need some justice and equity.

5 For example, we need modern equipment to answer mail in my  
6 office. I appeared before the Rules Committee recently because  
7 we find this IBM six is by far the best equipment to answer mail  
8 with and your committee authorized Senator Cranston -- on some  
9 kinds of basis, experimental or otherwise -- to put some IBM six  
10 equipment in and I do not want to go to this outdated equipment  
11 that you put in 50 other senators' offices.

12 The IBM stuff is far superior. All I want to do is wipe out  
13 discrimination. Can your committee work it out so I get the same  
14 consideration Senator Cranston got?

15 Senator Pell. Senator Cranston is having a test run with his  
16 equipment. We tried to persuade you to do another kind of test --  
17 I forget the name of it. All I can assure you -- obviously I am  
18 not going to engage in a quid pro quo here -- is to assure you of  
19 as fair a hearing as we can and full consideration.

20 The Chairman. I did not get a chance to attend the meeting  
21 the day the decision was made because I was busy on the Senate  
22 floor. We do not need six months for people to think about some-  
23 thing in your committee.

24 Senator Pell. We do not agree with you about your judgment  
25 on it. We have to look at it from the viewpoint of the whole

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1 Senate. If everybody gets his own equipment we will get barnyards  
2 full of equipment back when Senators leave.

3 It would be a good idea to restrict yourselves to two or three  
4 kinds of equipment. We are proceeding to try and find the best  
5 kinds. Many senators disagree with you and feel CMS equipment is  
6 excellent.

7 We do not happen to use it because we are a small office.  
8 Maybe your IBM equipment is good. We are going to give it a test  
9 for the next six months in Senator Cranston's office, see how it  
10 goes and if you would like to be included in that test -- I cannot  
11 give you assurance now.

12 The Chairman. My proposition is this. I will take it out  
13 of my clerk hire. I will reduce the amount of money I would be  
14 otherwise using for clerk hire and use that to buy what is the  
15 best equipment, by the way. I used IBM equipment. Now it is just  
16 stuff that is no longer manufactured.

17 You are not going to be able to get spare parts for the stuff  
18 the government is providing the Senate. All I am asking is to  
19 quit using the stuff they no longer make.

20 Senator Pell. This equipment is modern, is being used and  
21 is satisfactory to most offices. Your colleagues from  
22 Florida, for example, where they have many people who write letters  
23 and are retired are doing very well with it.

24 The kind of equipment you are talking about may check out to  
25 be the best. We are doing the best we can to give it a fair test.

1 The Chairman. Senator, I am willing to give your bill a  
2 fair test, if you give my modern equipment a fair test.

3 Senator Pell. I am not relating one to the other. If you  
4 want to turn my bill down, turn it down. But I do assure you  
5 whether you turn it down or not, whatever happens to my constit-  
6 uent, I will give you a fair hearing and do it as fairly as I can,  
7 but I am not going to say pass this and I will give you your equip-  
8 ment.

9 The Chairman. Let us understand. In my judgment I am being  
10 discriminated against and it seems to me if you only had one  
11 senator -- and I am not complaining about him having something  
12 except it seems to me if it works for one senator it should work  
13 for others.

14 If you are going to let one senator buy the latest equipment,  
15 IBM six, it seems to me other senators have a right to the same  
16 consideration. That is what I am asking for.

17 Senator Pell. My recollection is that Senator Cranston is  
18 going ahead with it on his 10-percent allowance. We have given  
19 him this clearance to do it. If we start saying every senator can  
20 do this on an experimental basis, this equipment or that equipment  
21 or the other equipment, it will not be a practical measure.

22 All I can say is we are doing our best. We have excellent  
23 technical people They know more than I know about it and maybe  
24 even more than you know about it. We are trying to be fair and  
25 I will continue to operate the way I think is fair.

1 If you want to turn my measures down in a quid pro quo arrange-  
2 ment, that is your privilege.

3 The Chairman. As far as your constituent is concerned, as  
4 far as I am concerned, we are going to treat him fairly. You do  
5 not need to worry about that.

6 I do feel as I say -- one committee chairman talking to  
7 another committee chairman -- I think we ought to give your bill  
8 and the needs of your constituent every consideration. I think  
9 he is entitled to it.

10 As far as I am concerned, you have it but I think in the  
11 spirit of good will I have a right to call on you to say we have  
12 some problems and you take a look at ours.

13 Senator Pell. We will take a look at them, but I can give  
14 you no assurance.

15 The Chairman. Thank you.

16 We will be looking at tariff bills today. I would like to  
17 ask staff to put in a call for our Republican colleagues and see  
18 if we can get some of them here.

19 Mr. Cassidy. There is one piece of miscellaneous business  
20 you might want to consider. The staff has been in discussions  
21 with the International Trade Commission on an analysis of multi-  
22 lateral trade negotiations in Geneva. They are prepared to do an  
23 extensive study of the different aspects of the negotiations, but  
24 they need a letter requesting a study under Section 232 of the  
25 Tariff Act. We have the letter here and we need your approval and  
signature.

1 The Chairman. If there is no objection, we will sign the  
2 letter on behalf of the committee.

3 Suppose we start considering some of these tariff bills you  
4 have here.

5 Mr. Cassidy. The document I will be working on is attach-  
6 ment C, entitled "Miscellaneous Tariff and Trade Rules." The  
7 first bill on the --

8 The Chairman. Item C?

9 Mr. Cassidy. Item C. The first bill is H. R. 5044, to  
10 suspend duty on strontium nitrate until the close of January 3,  
11 1980. This would temporarily permit, until January 3, duty-free  
12 entry of imports from most-favor-nation countries. Strontium  
13 nitrate is a chemical that gives a yellow color to fusees, flares,  
14 tracers, explosives. It is presently dutiable at 6 percent  
15 ad valorem.

16 There is only one company, FMC Corporation in California,  
17 which produces this product. Imports, up to today at least, have  
18 been small, 2 to 4 percent of domestic consumption from West  
19 Germany.

20 The Administration opposes H. R. 5044 because the duty reduc-  
21 tion should be accomplished in the trade negotiations. They also  
22 say FMC has capacity to meet domestic demands. The Pyrotechnic  
23 Signal Manufacturers Association supports this bill. They are the  
24 people who consume the product, and we understand also that the  
25 loss would be less than \$5,000. Furthermore we understand there

1 is one company in Georgia, the Chemical Products Corporation,  
2 which, while it does not produce the product now, intends to pro-  
3 duce it; they are waiting for the Georgia Environmental Protection  
4 Agency clearance. Once they get that, they believe they can be in  
5 production within six months. If they got the approval today,  
6 they would be producing six months from today.

7 Senator Talmadge. I think Mr. Cassidy stated the situation  
8 correctly. Treasury is opposed to this bill and so am I. We have  
9 a firm in Cartersville, Georgia, that has made application to the  
10 State Environmental Protection Administration to construct a plant  
11 there.

12 We are opposed to it. If this is agreed to, the principal  
13 beneficiary will be Germany. They already have practically all of  
14 the dollars in the world. We need to keep as many home as we can.  
15 I move to table the bill.

16 The Chairman. Why don't we pass it over.

17 Next.

18 Mr. Cassidy. Next is on page 2, H. R. 5265, "Temporary Sus-  
19 pension of Duty on Importation of Fluorspar." It would suspend  
20 duty on fluorspar to June 30, 1980. Duty now is \$2.10 or \$8.40.  
21 Fluorspar is used to make different kinds of steel alloys used in  
22 production of aluminum, fluorocarbon chemicals, glass, et cetera.

23 During the hearings we heard favorable testimony; we also  
24 heard objections from the Frontier Mining Corporation, which is a  
25 U. S. company that produces fluorspar. Fluorspar imports have



1 dropped from 1 million 3 in '74 to 900,000 tons. Imports account  
2 for 85 percent of U. S. consumption right now. Mexico is the  
3 principal source of imported fluorspar.

4 The Chairman. What do you use it for?

5 Mr. Cassidy. It is used in production of steel, aluminum,  
6 fluorocarbon chemicals, glass and ceramics. In steel it is used  
7 as a flush to take impurities out of the metal. Those are the two  
8 different grades.

9 The Chairman. Does this remain a part of the steel?

10 Mr. Cassidy. I don't know, sir, no.

11 The Chairman. Suspend the duty. Any objection?

12 Without objection.

13 Mr. Cassidy. Next, on page 3, H. R. 5551 is to suspend until  
14 close of June 30, 1980, duty on 2-methyl, 4-chlorophenol. Cur-  
15 rently this product is dutiable at 1.7 cents per pound plus 12.5  
16 ad valorem. PCOC is a chemical catalyst that is used in produc-  
17 tion of herbicides which are used on grains.

18 The only consumer we are aware of is a company in Tuscaloosa,  
19 Alabama. There is no domestic production of this product.  
20 Imports come from the United Kingdom, and the revenue loss associ-  
21 ated with this is about \$450,000 annually.

22 The Administration supports the bill. We have heard no  
23 objections.

24 The Chairman. Without objection.

25 Mr. Cassidy. Next, H. R. 7108, at the bottom of page 3, to

h 4  
1 suspend duty on Yankee Dryer cylinders until the close of Decem-  
2 ber 31, 1981. Yankee Dryer cylinders are machines which are used  
3 to give a certain texture to paper, tissue paper, toilet paper,  
4 writing paper. Whatever kind of finish you want on the paper,  
5 the cylinders impart the finish to the paper.

6 They are presently dutiable at 3.5 percent ad valorem. There  
7 are no U. S. producers currently. The cylinders come from various  
8 countries, including West Germany, Britain, Sweden and Finland.

9 We have heard no objections to the bill, we received favor-  
10 able testimony and the Administration favors enactment. Annual  
11 revenue loss would be about \$200,000.

12 The Chairman. Any objection?

13 Without objection, the bill will be reported.

14 Mr. Cassidy. Next, H. R. 8755, middle of page 4. It is to  
15 make specific provisions for ball or roller bearings, pillow,  
16 block, flange, take-up cartridge and hanger units.

17 This provision would have no effect on the revenue; it takes  
18 a basket category that covers all of these things and breaks it  
19 down into specific units so better statistics can be collected on  
20 imports.

21 I believe we have an example of this product here so you can  
22 see it. These units essentially are for the convenience of manu-  
23 facturers. Rather than being given loose ball bearings, they are  
24 given units which already have the ball bearings mounted and then  
25 you can insert it into a machine more rapidly.

1 We have heard no objections to the bill, we received favor-  
2 able testimony and there would be no revenue effect.

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1 The Chairman. Without objection then the bill is reported.  
 2 Mr. Cassidy. Next, middle of page 5 H.R. 9628 to suspend  
 3 until the close of June 30, 1980 duty on nitrocellulose. This  
 4 would permit duty-free entry of imports from most Favored Nation  
 5 countries of nitrocellulose. Present duty is 9.7 cents per pound.  
 6 Nitrocellulose is a product which is used in fast drying lacquer  
 7 coatings and paints by the paint industry and the principal con-  
 8 sumer is the furniture industry.

9 There is one U.S. producer of this product, Herculose Company.  
 10 They understand we support enactment of this bill. The source of  
 11 the imports is France, West Germany and Japan. We have received  
 12 favorable testimony. We have heard no objections and the adminis-  
 13 tration has no objections to the bill. Annual revenue loss would  
 14 be negligible.

15 The Chairman. Without objection the bill will be reported.

16 Senator Curtis. Mr. Chairman, I apologize for being here  
 17 late. I had the privilege of being called on by about a dozen  
 18 Japanese farmers. Since we wanted to sell and not buy I couldn't  
 19 run away. I have here a matter relating to tariff that the Com-  
 20 mittee has approved twice and it has passed the Senate. It died  
 21 in the House. It is a bill relating to mixed feed. It passed  
 22 this committee twice and passed the Senate. It would accord mixed  
 23 animal feeds containing soy beans the same treatment as feeds  
 24 containing grain. That is duty-free.

25 Mixed animal feeds containing soy beans have higher quality

1 protein than similar feed containing equivalent amount of grain.  
2 The company involved incorporated soy beans in its product because  
3 of erroneous advice from U.S. Customs Service that soy beans would  
4 be treated like grain for tariff purposes.

5 Soy beans used are of United States origin. No foreign  
6 flours are included in the animal food. No other product or com-  
7 pany would be effected in the amount of the trade and revenue  
8 effected. We approved it before. I want to be frank with you.

9 It is dog food. Soy beans were treated as grain and then  
10 a different finding was made.

11 George, there is nothing retroactive in this. We approved  
12 it -- which tariff bill should it go on?

13 Mr. Cassidy. This is the same provision you offered last  
14 year, Senator?

15 Senator Curtis. Yes.

16 The Chairman. Is there only one manufacturer who uses it  
17 in the country?

18 Mr. Cassidy. We held hearings last year. At that time  
19 there was only this one company, the Allan Products Company who  
20 we could find who would be using this provision. We haven't  
21 more recent information than last July.

22 The Chairman. Do we have any objection from the Departments?

23 Mr. Cassidy. They have no objection so long as we are sure  
24 it is written to make certain that animal feeds containing dairy  
25 products are excluded and that is Okay with Senator Curtis.

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1 The Chairman. Excluded.

2 Mr. Cassidy. Excluded because we have quotas.

3 The Chairman. It is all right with me, with this understand-  
4 ing, that we don't bring up other amendments at this time. I would  
5 like to go through these House bills first.

6 Without objection we will approve that one. What is next?

7 Mr. Cassidy. Next on page 7, H.R. 9911 to continue until  
8 close of June 30, 1981 the existing suspension of duties on cer-  
9 tain forms of zinc. Currently zinc waste and zinc bearing ores  
10 and so on are dutiable at .67 to .75 cents per pound. This was  
11 suspended between August '75 and June 1978. The principal sources  
12 of this product are Mexico, Honduras, Nicaragua, Thailand, Aus-  
13 tralia and Peru.

14 During the hearings we heard favorable testimony from the  
15 Zinc Producers Association. The Administration favors enactment  
16 of the bill and the annual Customs loss would be not more than  
17 \$1.9 million.

18 The Chairman. You say there is no objection from the --

19 Mr. Cassidy. We have heard no objection from the Adminis-  
20 tration.

21 The Chairman. No objection to the bill. The bill will be  
22 reported.

23 Mr. Cassidy. On page 8 is H.R. 10161. This is a private  
24 relief bill for the Eastern Telephone Supply and Manufacturing  
25 Company in Rhode Island. The facts behind this are that during

1 February to December of 1974 Eastern brought in telephone equipment  
2 which it had purchased from Bell in Canada. Customs alleges Eastern  
3 never sufficiently documented the value of that equipment in  
4 the first instance which was in effect \$235,900.

5 After Eastern brought the equipment into the country they  
6 inspected it and discovered it was defective. They went to Bell  
7 and reached an agreement that the equipment was only worth \$40,000.  
8 Eastern went to Customs again and they got rebates on their tariffs  
9 in two ports but in a number of other ports Customs refused to  
10 give them any rebates.

11 Customs point out Eastern failed to file a timely protest  
12 which is the legal triggering mechanism for an administrative  
13 and judicial review of a Customs problem and this bill would give  
14 Eastern 60 days from date of enactment to file a protest.

15 If they are successful either administratively or in court  
16 they could get as much as \$17,500. Customs agrees Eastern did over-  
17 pay but the Administration strongly opposes the bill because  
18 Eastern failed in the first instance to comply with the rules and  
19 regulations there.

20 Senator Packwood. May I ask a question? Eastern is not a  
21 big company, it has about 20 employees.

22 Mr. Cassidy. Very small.

23 Senator Packwood. They brought in this material through  
24 three or four different points and assumed it was worth \$235,000.  
25 It was a number of days later when they opened it up they discover-

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1 ed it was not. They went back to the first Customs port and  
2 complained after they got their agreement with Bell and got their  
3 money back at the first point they went to, thereupon I think  
4 they thought since the first Customs Director gave it back to them  
5 they would get it from the others.

6 Two refused to make the back payment even though they had  
7 been filed timely.

8 Mr. Cassidy. They had two separate problems with Customs.  
9 First the Customs said they never supplied adequate documentation  
10 to prove even \$235,000.

11 Mr. Packwood. When they went to the first port they got  
12 their money back so I think they thought dealing with the same  
13 agency although at different ports, having done what they did at  
14 the first port would be sufficient for the other ports.

15 It turns out from the very same agency that I got different  
16 answers. It is a company with 20 employees, buys its equipment,  
17 reconditions it and sells it. It is a classic example of a small  
18 business thinking they had done what was proper, having gone to one  
19 agency and the agency saying yes, going to the same agency at a  
20 different port and having them say no.

21 Senator Ribicoff. I think they are entitled to get adminis-  
22 trative and judicial review.

23 Senator Talmadge. I think that is fair.

24 The Chairman. Is there objection to reporting the bill.  
25 Without objection the bill will be reported favorably.



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1 Mr. Cassidy. Page 9, HR 10625. It is a bill to continue  
 2 the existing suspension of duty on natural graphite until the  
 3 close of June 30, 1981. Currently natural graphite is dutiable  
 4 at between 2.5 and 7 percent ad valorem between October 1975 and  
 5 June 30, 1978. This duty was suspended. The graphite increase  
 6 is raw or refined graphite and it is used in many different ap-  
 7 plications.

8 For example foundry facings. It is used to make in steel  
 9 as a lubricant, used for pencils, batteries, et cetera.

10 We heard no objection to this bill. The Administration fa-  
 11 vors the enactment and the annual loss of revenue would be about  
 12 \$57,000 per year. Mexico is the principal source of supply.

13 The chairman. Is there any objection?  
 14 Hearing none the bill will be reported.  
 15 What is next?

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1 Mr. Cassidy. Next, on page 10, H. R. 11409, to make perma-  
2 nent the existing temporary suspension of duty on certain dyeing  
3 and tanning materials. Between 1957 and June of this year such  
4 materials have been provided duty-free treatment. These are chemi-  
5 cals made from plants and trees which are used to treat leather.

6 This bill would make the duty suspension a permanent part of  
7 the law. There is no domestic production. The imports come  
8 principally from Argentina, Brazil, Paraguay, Peru and France.  
9 This would result in an annual customs revenue loss of about  
10 \$200,000.

11 The Chairman. Any objection?

12 Without objection, the bill will be reported. What is next?

13 Mr. Cassidy. The next one is on page 11, H. R. 12165. It  
14 is to extend until the close of June 30, 1981, the existing sus-  
15 pension of duties on certain metal waste and scrap, on raw metal  
16 and other articles of metal.

17 Since 1942 virtually continuously until June 30, 1978, the  
18 duties on these scrap metals have been suspended. This will  
19 would extend that suspension until June 30, 1981. It would also  
20 extend the duty suspension to a new kind of scrap; that is scrap  
21 which will be imported for various processing methods rendering  
22 imports fit only for the recovery of their metal content.

23 In other words, you can't bring in a used car and then refit  
24 it and use it as a car. You have to cut it up and use it as scrap  
25 metal.

2  
1 The Administration favors this, we have heard no objections  
2 and the annual duty loss is about \$3 million.

3 The Chairman. Any objection?

4 Without objection, the bill will be reported.

5 Mr. Cassidy. On that one, Mr. Chairman, I think the commit-  
6 tee should make a technical amendment to make clear that the sus-  
7 pension applies retroactively to June 30, 1978, when the existing  
8 suspension expires.

9 The Chairman. Without objection, that will be done.

10 Mr. Cassidy. Page 12, H. R. 12739, to suspend duty on live  
11 worms until the close of June 30, 1981. This would temporarily  
12 suspend the duty on most-favored nation imports of live worms,  
13 which are presently dutiable at 3.5 percent ad valorem.

14 Essentially all of these worms, which are night crawlers,  
15 come from Canada, and the U. S. wholesalers are the people who  
16 would like to see this, U. S. bate houses.

17 Senator Curtis. What do the fishermen think about it?

18 Mr. Cassidy. I am sure they like it.

19 The Chairman. That might be a good bill to slide something  
20 through on.

21 If there is no objection, we will report the bill.

22 Mr. Cassidy. The next bill is on page 13. It is to modify  
23 the tariff schedules with regard to certain articles used in car-  
24 nivals and parades. It would provide permanent duty-free treat-  
25 ment for imports of jewelry and other articles of personal

1 adornment to be distributed free to spectators in parades, carni-  
2 vals and similar events.

3 Most of these products come from Hong Kong and the bulk of  
4 their consumption in the U. S. is the Mardi gras in New Orleans.  
5 Senator Long has in his hand an example of a product. Hong Kong,  
6 by and large, is a beneficiary, developing country which would be  
7 eligible for duty-free treatment on this product, except they sup-  
8 ply more than one-half the imports, so they are now subject to  
9 the duty. The present duty ranges from 18 percent to 35 percent  
10 ad valorem.

11 The Administration is opposed to enactment of this bill for a  
12 number of reasons. They say duty reductions should be accom-  
13 plished in the multilateral trade negotiations. They point out  
14 that this product is already included on GSP but not for principal  
15 supplier, which is Hong Kong. We think the significant comment  
16 they make is that it would be hard for countries to administer  
17 this because they don't know at the docks whether a particular  
18 piece of jewelry will be used to distribute to spectators in  
19 parades, carnivals and similar events.

20 In order to cure this problem, we recommend that you amend  
21 the bill to provide for permanent duty-free entry for necklaces  
22 valued not over 30 cents per dozen, composed of plastic shapes  
23 mounted on fiber string.

24 This would reduce the revenue loss slightly and, with this  
25 amendment, the bill would cost \$475,000. I suspect the

1 Administration would still object to it but am not sure.

2 The Chairman. I don't think anybody could ever participate  
3 in a New Orleans Mardi gras and object. Frankly it is the great-  
4 est joy you would ever have, to ride in one of those floats. I  
5 did it once. What they do is, they buy these things and they load  
6 enough of them on a float to fill the whole back of this room, so  
7 they have a big parade and will have about as many as 20 floats  
8 and each float will probably have 10,000 of these things or maybe  
9 50,000 of them and they throw them out to the children.

10 By the time you start out, some tall man with a big family  
11 grabs up everything and little kids can't get anything. But after  
12 he gets loaded down with them, then everybody gets some.

13 They haven't always thrown these gifts off those Mardi gras  
14 floats but some years ago they started and it was so enormously  
15 popular with all the children that if you have a parade and you  
16 don't throw these things out to the kids, people think that you  
17 are really a tightwad; you could afford to have that float but you  
18 don't throw anything out.

19 Senator Bentsen. I am for the little children and I think we  
20 should pass it.

21 The Chairman. I can only say anybody that would put a tariff  
22 on something that the people voluntarily provide as a gift to  
23 little children have to have a heart of stone or he has to be  
24 totally ignorant.

25 Senator Curtis. You have suggested that, instead of trying

1 to determine what it is going to be used for, you cover that by  
2 fixing a value that would confine it to the type used for this  
3 sort of activity?

4 Mr. Cassidy. Yes, sir.

5 Senator Curtis. Repeat what that value is.

6 Mr. Cassidy. Not more than 30 cents per dozen for necklaces.

7 Senator Curtis. Is that enough?

8 Mr. Cassidy. According to the people who buy the beads for  
9 the service organizations in New Orleans, that is enough.

10 Senator Curtis. That would make it easy to administer,  
11 wouldn't it?

12 Mr. Cassidy. Yes.

13 Senator Curtis. I can't think of a better way to create  
14 friends in New Orleans.

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1 The Chairman. Anyonewho has ever stood in the crowds and  
2 seen the children enjoy that could not do anything but cooperate.  
3 It is a great idea. It is not called a form of charity, but it is  
4 in a high sense that type of thing. It provides a wonderful thing  
5 for all the children. It is something they can take home.

6 Senator Curtis. I move it be approved.

7 The Chairman. Without objection.

8 Mr. Cassidy. The next item, page 14, S. 3171 to amend the  
9 tariff schedule to the United States with respect to tariff treat-  
10 ment accorded certain gloves and trousers.

11 The Chairman. Hear is the gloves.

12 Senator Curtis. These are gloves and trousers especially  
13 designed with inserts, of a very strong material to protect forestry  
14 people so if they happen to get near a moving saw they have a  
15 chance of their hands bouncing off before it is cut off, they tell  
16 us.

17 According to the testimony we have received, there is a con-  
18 flict in one point. According to the United States International  
19 Trade Commission, there is no known domestic source of the trou-  
20 sers. They say, however, that some domestic manufacturers do  
21 produce gloves which do incorporate special safety features.

22 However, they are not the same as these gloves and trousers.  
23 We did hear objections from the Work Glove Manufacturers Associ-  
24 ation. They state that there was one firm in Wisconsin which could  
25 make these special gloves and, secondly, that the tariff item is

1 is an end-use provision which is to say it requires the products  
2 to be used in the forestry industry. In the case of necklaces,  
3 countries might not know at the docks what they are going to be  
4 used for.

5 The administration is opposed and that is all the information  
6 we have. It would result in a very negligible customs loss.

7 Senator Curtis. What is the special property these trousers  
8 are supposed to have?

9 Mr. Cassidy. They are made out of ballistic nylon which is  
10 a very strong material. Say if you get near a chain saw, your  
11 hands, the nylon will not rip and your hand will tend to bounce  
12 off at first.

13 Senator Curtis. That is the glove.

14 Mr. Cassidy. Both, the gloves and trousers. The trousers  
15 have padding in them so if you get hit by a branch or by a saw, it  
16 will tend to protect your body.

17 Senator Curtis. The way this is drawn, will it have an adverse  
18 effect on new industry that we have in this country? There is  
19 being manufactured a jacket -- they can make anything they want out  
20 of it -- that is total protection against mosquitos and other  
21 insects for fishermen and hunters and people like that.

22 Mr. Cassidy. This applies only to gloves and trousers and  
23 the special qualities of these gloves and trousers are their pro-  
24 tective features against trauma. If you get hit or cut -- not  
25 insects or something like that. These products all come from



1 Canada.

2 There are objections to the bill from the Work Glove Manu-  
3 facturers Association.

4 The Chairman. There is objection to this. I take it there  
5 is a negligible revenue effect, but the bill is objected to, is  
6 that right?

7 Mr. Cassidy. What they said in summary, the Work Glove  
8 Manufacturers Association, is that there is one firm in Wisconsin  
9 which has the know-how to make special gloves identified in the  
10 bill.

11 We have had that contradicted by the American Pulpwood  
12 Association who say for several years we have tried to persuade  
13 domestic manufacturers to offer this protective clothing, but have  
14 not met with success because they did not agree with our estimates  
15 of market potential.

16 Senator Curtis. Is it permanent suspension?

17 Mr. Cassidy. There is permanent suspension. I suppose if the  
18 committee wanted to approve it, it could be made temporary.

19 The Chairman. Why do we not make it a two-year suspension?

20 Senator Curtis. You say it is Wisconsin?

21 Mr. Cassidy. A Wisconsin company.

22 The Chairman. Are they objecting?

23 Mr. Cassidy. Someone is objecting on their behalf. It is  
24 the Work Glove Manufacturers Association. We have not heard from  
25 this company.

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1 The Chairman. Why do we not agree to report it with a two-  
2 year suspension? Meanwhile, if someone else wants to protest, I  
3 will take it up to the committee again, without objection.

4 Mr. Cassidy. That will be until June 30, 1980.

5 The Chairman. Just make that a two-year suspension.

6 Mr. Cassidy. The next item, on page 15, S.3326 to suspend  
7 the duties on freight cars until the close --

8 Senator Talmadge. I ask that that go over until we get fur-  
9 ther comments from the textile industry.

10 Mr. Cassidy. On S. 3246?

11 Senator Talmadge. Yes.

12 Mr. Cassidy. Next will be 3326, at the bottom of page 15.  
13 That is to suspend the duty on freight cars until the close of  
14 June 30, 1982. The problem that that bill is addressed to relates  
15 to generalized system of preferences.

16 Before March 1, 1978, Mexico which was a beneficiary develop-  
17 ing country under the G.S.P. was able to export to the United  
18 States boxcars duty free. However, in early this year, the Canad-  
19 ians who are their only principal competitors developed their own  
20 freight car shortage such as we have now in the United States and  
21 essentially the Canadians dropped out of our market.

22 This meant that the Mexicans were supplied more than 50 per-  
23 cent of the imports of freight cars which means they are not  
24 eligible for G.S.P. and that their exports to the United States  
25 became subject to 18 percent ad valorem duty, March 1, 1978.

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This bill would suspend that duty until June 30, 1982.

Senator Bentsen. Mr. Chairman, I would like to amend that to 1980 because of some concerns I have heard as to possibly overcoming the shortage by that time and ask that the Federal Railroad Administration do a study of the availability of railroad cars and the needs and in turn there was a proposal by Congressman Phithian, closing a potential loophole that I think the staff could address itself to, that we could accept as an amendment. That was as I recall on the importation of kit cars that were not assembled and in turn would require these be assembled.

Mr. Cassidy. Congressman Phithian also had, in addition to the kit cars, he also had an amendment which related to the effective date. What it said essentially was if you signed a contract after March 1, but before the date of enactment, then you would not get this duty-free treatment because it would be "windfall" profit to somebody who had sold them with the expectation of paying the duty and then he found out he did not have to pay the duty.

That is the only other difference between your bill and Mr. Phithian's bill.

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1 Senator Bentsen. What is your comment on that, Mr. Cassidy?

2 Mr. Cassidy. We don't know if any contracts were signed.

3 Our information is the Mexicans did not sign any contracts in that  
4 period and we don't believe it would have any effect.

5 As to the windfall profits question that is something for  
6 the committee to decide. What the concern was was people would  
7 contract to sell goods thinking they would have to pay a duty  
8 and this law would not alleviate them of that liability and they  
9 would get the money back.

10 Senator Bentsen. Effective date would be when?

11 Mr. Cassidy. Under this you could bring in any freight cars if  
12 they were contracted for before March 1st or after the date of  
13 enactment. The contract was signed before March 1st or after date  
14 of enactment. If it was signed between that period you get no  
15 duty free.

16 Senator Curtis. Who buys box cars besides railroads?

17 Mr. Cassidy. Leasing companies.

18 Senator Curtis. And some individual industries.

19 Mr. Cassidy. An individual industry and there are also  
20 partnerships of individuals who buy box cars who lease them.

21 Senator Curtis. I am for the legislation but I think  
22 that sometimes we often punish some individuals and some concerns  
23 by creating a period that the duty will not be available.

24 But I think that is necessary to prevent an injustice on the part  
25 of someone.

1 Mr. Cassidy. Our information as of now -- it is not complete  
2 -- our best information is there have been no Mexican box cars  
3 that would be covered by this special duty-free entry rule. There  
4 may be some Canadian or English or French box cars. We just don't  
5 have the information.

6 Sen. Bentsen. I would assume the duty does not apply to the  
7 Canadians. The 18 percent. They don't fall into that category do  
8 they?

9 Mr. Cassidy. They do now. If this bill passes they won't but  
10 they have not shipped many box cars to us.

11 Senator Bentsen. If they don't know of any places where it  
12 would be applicable, then we would have a conformance with the  
13 House provision and we would get this thing enacted.

14 Mr. Cassidy. They House provision does have that feature.

15 Senator Bentsen. I would go along with the House feature  
16 on that.

17 The Chairman. Is that an amendment you are talking about?

18 Mr. Cassidy. It would be an amendment to Senator Bentsen.  
19 Senator Bentsen suggested a series of amendments. One to reduce  
20 duty-free period to two years. One would be to change the effec-  
21 tive date period to conform to what the House bill which is not  
22 yet before this committee says.

23 Another would be to take care of a situation where we under-  
24 stand that Rumania has shipped 300 kits, freight car kits which  
25 will be assembled in the United States and people did not believe

1 they should be permitted duty-free treatment.

2 Then of course the Administration asked the Federal Railway  
3 Administration to make a study of the shortage and see if this  
4 suspension should be continued in the future.

5 The Chairman. Without objection let's report the bill.

6 Mr. Cassidy. The next bill is at the bottom of page 16.  
7 H.R. 3329 and is to suspend duties on mixtures of mashed or macerated  
8 hot red peppers and sale until June 30, 1981.

9 The Chairman. Gentlemen. The principal competitor with  
10 this product -- it is produced in Louisiana. We favor suspending  
11 the duty because we can't produce enough of this to go around.

12 We are exporting it all over the world. This is the best  
13 product made. I used it to spice up my "C" rations all through  
14 the war. It really does the job. It comes in duty-free from  
15 all the GSP countries like Colombia and Honduras but Mexico is  
16 not a GSP country.

17 In order to make enough red peppers to use to manufacture  
18 this hot sauce we are shipping all over the world we have to pro-  
19 duce some in Mexico. So the part that comes in from Mexico would  
20 be duty-free. The consumer bill is to reduce the cost on the  
21 part of the consumer. That is basically the whole idea about  
22 suspending duties on tariffs, is that the local producers will be  
23 able to stand the competition.

24 As far as we are concerned we can't produce enough red pep-  
25 pers in Louisiana to meet the demand for the product.

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1 Senator Curtis. Notice the estimated loss in revenue is .  
2 \$20,000 a year. They can't administer a law like that. If they  
3 have one clerk and gave him a typewriter and an office, we would  
4 end up losing money almost.

5 Senator Laxalt. What is in the big bottle, Mr. Chairman?

6 Senator Curtis. That is something special.

7 The Chairman. That is a concentrate from which this is made.

8 No objection we will agree to that amendment. We have to  
9 find the bill to which we can add these amendments.

10 Why don't we report each one of these bills out with an  
11 amendment and keep half of the bills in the committee so that you  
12 can put a committee amendment on. I believe that will still be  
13 enough so you will only have to put one committee amendment on  
14 one bill.

15 Mr. Stern. You have approved five amendments other than  
16 the House bills and you approved 11 House bills so you could re-  
17 port out six bills each of which would have about two amendments.  
18 You would have, for example, H.R. 5265. Fluorspar and you would  
19 put the text of H.R. 5551, 2-methyl, 4-chlorophenol in that and  
20 also Senator Curtis' amendment dealing with animal feeds contain-  
21 ing soy beans and the second bill could be H.R. 7108 Yankee Dryer  
22 Cylinders to which you would put ball bearings and which is H.R.  
23 8755 and the Mardigras plastic jewelry S. 2847. The third bill  
24 would be H.R. --

25 The Chairman. For public relation purposes I think you want

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1 to take the one that has the best name that seems to be most at-  
2 tractive in the trade -- put the ball bearing thing up front and  
3 put the other as an amendment.

4 Mr. Stern. Then the third one -- you want to put zinc as the  
5 name here. The zinc bill H.R. 9911 would be reported with amend-  
6 ments, the text of 9628, nitrocellulose and the text of S. 3171 as  
7 amended, gloves and trousers.

8 The fourth bill would be the Rhode Island Telephone Company  
9 with the amendments being H.R. 10625, natural graphite and S. 3326  
10 freight cars as amended.

11 Then the fifth bill would be H.R. 11409 dying and tanning  
12 terms with amendments being 12739, live worms, and then the last  
13 bill would be H.R. 1165 scrap metal, with hot red peppers as an  
14 amendment to that.

15 So that would be four bills with two amendments each and  
16 two bills with one amendment each.

17 Senator Dole. Have you gotten to Russian watches?

18 Mr. Stern. No. This is what you have done up to this point.

19 Senator Bentsen. I would like to comment, Senator Bumpers  
20 called me late yesterday afternoon on this question of Russian  
21 watches that are being shipped to the Virgin Islands that he feels  
22 are not really going through a meaningful assembly down there  
23 and are competing with one of his constituent plants in Little  
24 Rock, Arkansas, Timex Corporation. I don't know the status of  
25 that legislation but I did want to express his concern and see

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1 where we are on that.

2 The Chairman. Let me ask Mr. Cassidy to explain first  
3 what is the status, the legislative status of the proposal that  
4 involves Russian-made watch parts?

5 Mr. Cassidy. There is presently a bill in the House which  
6 has just been reported from the Subcommittee on Trade to the full  
7 Ways and Means Committee H.R. 8222. It is a Virgin Island parent  
8 bill. However it has an amendment offered by Mr. Rostenkowski  
9 which is intended to address this problem in the Virgin Islands  
10 that has to do with the assembly of Russian watch parts. There  
11 is nothing in the Senate at this time.

12 The Chairman. Now that is a bill to tighten up on the  
13 situation over there, is that right?

14 Mr. Cassidy. Yes, sir. They have not finished their con-  
15 sideration. Our information from the staff of Ways and Means is  
16 that the amendment directed toward this problem will probably be  
17 modified in the full committee.

18 There are differences of opinion as to the timing over there  
19 as to when that bill will come out but the thrust of the amendments  
20 there is to tighten up on the activities of the Russians in the  
21 Virgin Islands.

22 Essentially what has been the concern that has been raised is  
23 that Russian watch parts are being assembled by three companies  
24 in the Virgin Islands as are other foreign watch parts from  
25 Switzerland, Germany, what have you.

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1 Then if more than 30 percent of the landed value of the  
2 product when it gets to the United States is attributable to the  
3 Virgin Islands they come in duty free.

4 If the Russian parts were to come directly into the United  
5 States they would be subject to the not most favored nation rates  
6 of duty which are quite high and would keep them out of the market.

7 The Russian parts have been assembled in the Virgin Islands  
8 for some time. In the last few years they have increased  
9 significantly. At the moment or as of last year apparently

10 shipments from -- total watch part shipments from the Virgin Is-  
11 lands to the United States, Russian watch parts sold in places  
12 like K-Mart, very cheap watches, account for 18 percent of total  
13 Virgin Islands production and accounted for roughly 1 percent  
14 of U.S. consumption of watches.

15 Now, the staff received an enormous amount of information  
16 about this in the last 48 hours from various sources. We think  
17 there is probably a problem. We don't think the activities of  
18 the people who are assembling the Russian parts in the Virgin  
19 Islands is consistent with the intention of the law which is es-  
20 sentially to provide employment in the Virgin Islands but we don't  
21 feel quite comfortable with any of the proposals we have heard yet.

22 It may well be the committee should act on this in the near  
23 future but we think we need more information. We have had no  
24 hearings.

25 The Chairman. It seems to me that in other words we reported

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1 out a bill which hopefully there will be no objection on the  
2 Senate Floor. The bill we would hope we could pass with a minimum  
3 amount of debate and controversy. I would think we would be ad-  
4 vised not to act on this problem until we know more about it until  
5 someone shows up with some better answers.

6 Someone might have occasion to go to the Virgin Islands  
7 or stop on the way going somewhere else during the recess and  
8 they could maybe look into it and find a better answer but you  
9 say that is only 1 percent of watch sales now.

10 Mr. Cassidy. In the U. S. It is 18 percent of the shipments  
11 coming out of the Virgin Islands. We want you to talk to the  
12 Virgin Island people and U. S. and Swiss Watch Companies and see  
13 if we can't work things out to take care of the problem we think  
14 is real, what is alleged to be a sham operation.

15 We also have to do something to make sure that the people  
16 employed in the Virgin Islands remain employed in some kinds of  
17 occupation.

18 Senator Dole. You are talking about some kind of immediate  
19 resolution.

20 Mr. Cassidy. I don't see why we couldn't work it out in a  
21 few weeks if the committee has the time.

22 The Chairman. If you look at the generous welfare program  
23 that is available down there -- the cost of living in the Virgin  
24 Islands is not near as high as it is in the United States. Es-  
25 pecially if you haven't gotten around to putting in air condition-

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1 ing, if you just have a nice breeze going most of the time down  
2 there, and it does not get cold in the wintertime so people don't  
3 require a great deal of housing and they haven't been accustomed  
4 to the high standard of living.

5 So with food stamps and various other things that are avail-  
6 able down there, one seeking to hire Americans to work in the  
7 Virgin Islands have a real problem because they have so much  
8 available to them anyway.

9 I would think someone ought to have closer knowledge of  
10 it than we have at this point to see what the problem is. I do  
11 think it is better for people to be working than it is to be doing  
12 less productive things but on the other hand I don't have enough  
13 knowledge of it -- I don't know if anybody does -- to know to what  
14 extent that might be a rip off and to what extent it might be a  
15 legitimate American industry.

16 It requires, as I understand it, that 30 percent of the  
17 components be American, isn't that right?

18 Mr. Cassidy. 30 percent of the value of the product shipped  
19 into the United States has to be attributable to the Virgin Islands.

20 The Chairman. But what you hear is all they are doing is  
21 putting a few screws in it.

22 Mr. Cassidy. Correct.

23 The Chairman. I would hope that somebody could provide bet-  
24 ter information than we have now about it. We are not in position  
25 to act on it at this point. That takes care of the tariff

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1 measures, don't it?

2 Mr. Cassidy. Yes, sir.

3 Senator Gravel. Is it possible to put something like the

4 Medicare buy in? I brought that up several times. It effects

5 four states. To put it on one of the tariff measures. It may be

6 one of our last opportunities to do something. The impact is

7 a wash from a cost point of view. It effects even your own state.

8 Four states did not exercise it. The option that allowed

9 states to buy part B premiums for low income elderly expires.

10 Louisiana, Oregon, your State, Wyoming and Puerto Rico did not

11 buy in before the expiration date. What we want to do is give them

12 a new expiration date of one year to get their act together and

13 get in order.

14 They have all had second thoughts and would all like to get

15 in. It is a wash financially and we could tack it only to one of

16 the tariff bills and to my knowledge it is not controvertial and it

17 would accommodate these four states.

18 The Chairman. We can put it in our tariff bill if we have to.

19 Do we have some other bills we might put it on?

20 Mr. Stern. The bills amending Social Security Act include

21 the two minor bills you reported yesterday and the cost contain-

22 ment bill which is a more substantial bill in terms of minor

23 Social Security.

24 Senator Gravel. I would like a minor one.

25 Mr. Stern. These two unemployment bills and you have some

1 tariff and tax bills.

2 Senator Gravel. The ball bearing bill.

3 The Chairman. It seems to me that what you want to do  
4 would be better put -- as long as you have a bill that is going  
5 to go through it would be better to put it on something relevant.  
6 If you want to put it on the cost containment if you say there  
7 is no real cost to it.

8 I have not heard from anyone in Louisiana about that matter.  
9 I am not asking for it. If you would like to do it --

10 Senator Gravel. That is fine.

11 The Chairman. Do you know if anyone from the Department  
12 objects to it, Mike?

13 Mr. Constantine. Senator we don't know what the Department's  
14 position is on that. They have not expressed any opposition to it.  
15 It was raised before and there does not seem to be any problem with  
16 the provision. It will have a net cost according to the Department  
17 of \$8 million a year but the bill has enough money in it to cover  
18 that.

19 Senator Gravel. So we could put it on that bill.

20 The Chairman. No objection. That bill is out there already.

21 Mr. Stern. It is in the final stage of being drafted. It  
22 has been ordered reported. It has not been reported.

23 The Chairman. If there is no objection we can reconsider  
24 the bill and we can add the amendmen- to it and we will report it.

25 Mr. Cassidy. Mr. Chairman, the staff would like authority

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1 to make technical and conforming changes to these tariff bills  
2 you ordered reported.

3 The Chairman. Without objection the staff can make technical  
4 changes.

5 Senator Dole. As I understand we are prepared to go back to  
6 this list.

7 Mr. Stern. The only item on the agenda were the tariff bills.

8 Senator Dole. I think you said yesterday -- some of this has  
9 waited for a long time.

10 The Chairman. You wanted to offer an amendment yesterday  
11 and the clock went out.

12 Senator Curtis. Mr. Chairman, I have two or three matters  
13 I need to call up.

14 Senator Moynihan. New York City pension bill might hope-  
15 fully be dealt with this morning. Senator Bentsen has to leave.  
16 It is not a long one but before he leaves I hope we might do it  
17 as there is great pressure at this point in time.

18 The Chairman. Why don't we take that up since Senator  
19 Bentsen wants to leave.

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1 Mr. Shapiro. As you know, Congress passed H, R, 12426 which  
 2 was the Loan Guaranty Association allowing New York to get their  
 3 loans guaranteed. The bill was signed into law yesterday,

4 The legislation that is currently pending before the committee  
 5 deals with the situation where you have New York pension plans that  
 6 would like to be in a position to purchase some of the New York  
 7 debt.

8 However, because of certain of the pension restrictions, they  
 9 would not be able to do so. They are self-dealing prohibitions  
 10 and rules that provide the limitation of exclusive benefit rules  
 11 which prohibit the New York City pension plans and some of the  
 12 state pension plans from purchasing these bonds unless these pro-  
 13 visions were enacted to allow them to do so.

14 In 1976, the Congress enacted P. L. 94-236 which would pro-  
 15 vide that legislation to allow the pension plans to purchase New  
 16 York City debts. However, that legislation expires at the end  
 17 of this year. Therefore, the current measures that are before the  
 18 committee would continue the authority of the New York City and  
 19 state pension plans to purchase the bonds for a period of four  
 20 years.

21 There are a series of provisions and general guidelines that  
 22 have been worked out with the Treasury Department, New York City  
 23 and which Senators Moynihan and Bentson, as well as others, have  
 24 been interested in a proposal to allow the New York City pension  
 25 plans and state pension plans to purchase them.

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1 As I understand, there are general standards and specific  
2 standards which must be met in order to provide this permission  
3 for the New York City and state pension plans to purchase the  
4 bonds without losing the tax exemption status of their pension  
5 plans.

6 The two general standards, as I understand, would provide  
7 that the agreement to purchase the bonds would balance the needs  
8 of both the pension plans and the city and these are just general  
9 guidelines that the Treasury Department would make any determi-  
10 nations which would balance these needs between the pension plans  
11 and the city.

12 Secondly, that the Treasury would consider the rate of interest  
13 the security behind the bonds and the participation of outside  
14 parties such as banks and insurance companies in applying any general  
15 standards in overall agreement.

16 These are broad guidelines and they will not be specific, but  
17 it is to insure the pension plans are protected. The purpose behind  
18 these is to make sure those who are covered by the pension plans  
19 would not lose any benefit of the monies that are in the pension  
20 plans for their future benefit in the case of any potential default  
21 and try to buy some security for the New York City employees who  
22 are covered by these pension plans.

23 In addition, there are certain specific requirements that are  
24 provided such as a limitation on the amount of city and MAC debt  
25 which may be purchased but could not exceed certain annual specified

1 percentages. In the case of the city pension plans, there are  
2 percentages that vary and decline until 1982. As I understand  
3 the agreement, it would be a 40-percent limitation in 1979.

4 This means that the city pension plans cannot hold more than  
5 40 percent of their assets in this debt, city or MAC debt in 1978.  
6 This percentage would reduce to 36-percent in 1980, 33 percent in  
7 1981 and 30 percent in 1982.

8 These percentages that I just referred to are to be measured  
9 at the end of the fiscal year by taking an average of the per-  
10 centages during the year so it is an average for the entire year,  
11 determined at the end of the year. That was the percentages for the  
12 city pension plans. In the case of the state pension plans they  
13 may not invest more than 10 percent of their assets in either the  
14 city or the debt securities.

15 There is also another rule that no individual city pension  
16 fund can hold more than 50 percent of its assets in city or MAC  
17 securities. A second specific standard would provide certain  
18 evaluation rules and these in a sense would say the New York debt  
19 be valued at face value and that other debts would be valued as  
20 the same rule that pension plans used for valuation under RESA  
21 and in the case of stocks they would essentially be evaluated  
22 at market values, somewhat of a market value.

23 The next specific requirement is that the city must be making  
24 a substantial progress toward eliminating its operating deficit  
25 each year and this would be determined on the same basis as has

been provided on the loan guaranty legislation that was just passed.

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1 Senator Bentsen. No; wait a minute. On that we do provide  
2 for looking at the financial audit.

3 Mr. Shapiro. As I understand, the loan guarantee legislation  
4 looks at --

5 Senator Bentsen. It looks at budget projections. That is  
6 one thing but the actual facts and the financial audit are quite  
7 something else. To say that you are making substantial progress  
8 because your budget projections are optimistic does not neces-  
9 sarily mean that you have made that progress.

10 I believe that this piece should have in it what we origi-  
11 nally talked about having in it -- looking at the financial audit  
12 itself.

13 Mr. Shapiro. As I understand, the report in loan guarantee  
14 legislation did say that and that possibly could be provided by  
15 the committee. It could be put in the bill. The next requirement  
16 would say no pension plan with negative cash flow projection for  
17 its current fiscal year would be allowed to buy city or MAC  
18 securities.

19 A fifth specific standard would say the city must have an  
20 audit which would be conducted annually by independent public  
21 accountants of its fiscal year financial statements.

22 The sixth requirement would say the city pension plans must  
23 have conducted annually an audit, which also must be performed by  
24 independent public accountants. As we understand, the results of  
25 both of these audits would be provided to the Congress.

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1 Senator Byrd. I favor this legislation. I have one question  
2 but first let me say that it seems to me that providing for an  
3 annual audit by independent public accounts is a very desirable  
4 and important thing to do. I am not totally clear on the balanced  
5 budget proposal in this bill. I assume it provides for a balanced  
6 budget at the end of -- what is it -- '82?

7 Mr. Shapiro. 1982.

8 Senator Byrd. On a generally accepted accounting --

9 Mr. Shapiro. Generally accepted accounting practice basis.

10 Senator Bentsen. Let me say, Mr. Chairman, that this is a  
11 difficult objective we are working toward. We have a deep concern  
12 for the pensioners and the fact that we have given an exception to  
13 some of our rules, but the problem is -- I don't see any other  
14 answer frankly in trying to work with the city of New York in  
15 achieving its objectives, too, and I must say that Senator  
16 Moynihan has expressed his concern for the pensioners and has  
17 worked very closely with us and I am very appreciative of that  
18 cooperation. We think we put about as tough guidelines as we can  
19 put in and still have the thing work.

20 So, with that, I support the piece of legislation.

21 Senator Byrd. Could I ask another question at this point.  
22 Senator Moynihan, has the city ever had an independent audit?

23 Senator Moynihan. The State Controller audits the city pen-  
24 sion funds, yes. They are audited but this is not a provision  
25 which the union representatives look upon with any pleasure, but

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1 I feel they will understand our concerns, Senator Bentsen's con-  
2 cern, and they will simply have to accept it, that is all.

3 Senator Byrd. This provides for an independent audit aside  
4 from the governmental audit?

5 Senator Moynihan. That is right. The government audit is  
6 a very high quality audit.

7 Senator Bentzen. Pete Marwick is now auditing the city.

8 Senator Moynihan. We have added considerably to the pros-  
9 perity of lawyers and auditors.

10 The Chairman. Without objection, the bill will be reported.

11 Senator Moynihan. I thank the chairman.

12 Mr. Shapiro. The committee already reported H. R. 4007. You  
13 ordered it reported and that bill had an amendment that was the  
14 New York City bill. What you are really doing is: You are recon-  
15 sidering H. R. 4007 with the provisions agreed to today with the  
16 child support amendment. That, as I understand, was added to this  
17 bill the last time it was considered.

18 Mr. Moynihan. Can I take a minute to thank Senator Bentsen  
19 and to thank you. This is important; this is the last element of  
20 the most recent New York City rescue and we appreciate it.

21 Senator Ribicoff. Maybe Senator Bentsen can have an  
22 appearance at City Haul with you.

23 Senator Curtis. When you reach a point, I have two amend-  
24 ments and I am interested in two that I think will be called up  
25 by other Senators.

1 The Chairman. We agreed to add this as an amendment to the  
2 bill that had been reported.

3 Mr. Stern. It was already reported before.

4 The Chairman. Without objection, we will reconsider the  
5 bill. The amendment will be added and the bill will be reported  
6 with the amendment.

7 Senator Dole had the floor at the time we had to yield to  
8 Senator Moynihan.

9 Senator Dole. We go right down the agenda. The next items  
10 are ones we have been discussing. As I understand S. 2393, there  
11 is no objection to that bill from Treasury. I think they may sup-  
12 port 2393, the treatment of certain liabilities on incorporation.  
13 On a cash basis, the taxpayer usually has no basis for his  
14 accounts receivable; so if he incorporates he has excess of lia-  
15 bility, which results in unexpected recognized gain. I understand  
16 Treasury may support that proposal.

17 Mr. Shapiro. In general when you incorporate and you trans-  
18 fer property to a corporation, there is no gain or loss. However,  
19 in certain cases there is a gain recognized. When the sum of the  
20 amount of liabilities that may be assumed by the corporation plus  
21 the amount of liabilities to which the property is subject would  
22 exceed the adjusted base of the property, then gain may be  
23 recognized.

24 The question raised that your bill deals with is whether or  
25 not the treatment of certain currently deductible liabilities

h 5 1 such as accounts payable should be treated as gain and they would  
2 be assumed. What your bill would do is provide that, in the case  
3 of cash basis taxpayers when they transfer property to a con-  
4 trolled corporation, the liability is such as these currently  
5 deductible items as accounts payable and so forth would generally  
6 not be considered to be treated as liabilities and not be taxed as  
7 gain revenue estimate if that is less than \$5 million.

8 We understand Treasury does support the bill. There are some  
9 technical problems and we would like the committee to allow us to  
10 make some technical agreements.

11 Mr. Lubick. It is my understanding this would apply where  
12 the transfer has not had a previous direction for the item; that  
13 is one of the principal technical amendments.

14 Senator Dole. There is no objection from Treasury?

15 Mr. Lubick. That is correct.

16 The Chairman. If there are no objections, we will approve  
17 the amendment.

18 Senator Dole. Next is S. 3125. It involves special use  
19 valuation. I think Treasury may suggest modifications. I am not  
20 certain they are necessary but I don't think there is any real  
21 objection in it.

22 Mr. Shapiro. This bill deals with farm real property valu-  
23 ation that occurred under estate gift tax revisions. What the  
24 rule says is that you value for Federal estate tax purposes the  
25 property on its actual use rather than its highest and best use,



1 which was the prior law case.

2       However, this special use valuation and its actual use would  
3 be recaptured, the tax benefit recaptured, if the heirs would dis-  
4 pose of the property within 15 years after receiving it. The  
5 heirs could continue to use the property for its actual use, such  
6 as farm property, and it would be taxed as that.

7       However, if the heir would sell it, for example, for real  
8 estate subdivisions, it would be the highest and best use and  
9 that benefit would be recaptured over the 15 years.

10       The problem your bill addresses is the case where the prop-  
11 erty would be involuntarily converted where the heir may not  
12 wanted to have converted it but it was taken from him. In this  
13 case your bill would say there would be no recapture if it is  
14 involuntarily converted during the recapture period.

15       As long as the proceeds received from that involuntary con-  
16 version have been reinvested in similar property and if it has not  
17 been completely reinvested in similar property, this proportionate  
18 rule of recapture related to the reinvestment would apply.

19       The Treasury Department has made two suggestions. Don, you  
20 may want to make that yourself.

21       Mr. Lubick. The first suggestion is purely technical. That  
22 is that the adjustment to the basis of the converted property be  
23 limited to the estate tax attributable to the post-1976 appreci-  
24 ation of the property. That is the general rule for all adjust-  
25 ments to bases and we think that should be incorporated. I

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1 understand from Mr. Nutter there was no problem with that.

2       The second one is a less technical problem, and that is in  
3 measuring the 15-year period during which the statute contem-  
4 plates that the property would be continued to be used for farm  
5 purposes, we were concerned that if it is involuntarily converted  
6 into cash it is possible to have a minimum of a two-year period  
7 during which it is not used for farm purposes and then there can  
8 be a continuous extension of that, and it seemed to us that was  
9 inconsistent with the general purpose of the statute which  
10 required there actually be 15 years of farm use. The involuntary  
11 conversion, of course, requires an interruption in the use for a  
12 period of time.

13       We were concerned somewhat with the two-year period, but  
14 aside from the two-year period I think the possibility of general  
15 extensions, which, from my experience, could go on for a large  
16 number of years, seems to us to be inconsistent with the require-  
17 ment of 15 years of use.

18       We would suggest that the 15-year period be extended by the  
19 period during which the property is not actually in farm use but  
20 really held in cash. So that overall we are maintaining the  
21 15-year period of actual use.

22       Senator Dole. I am not certain I understand whether that  
23 is -- the 15-year period seems too high in any event but --

24       Mr. Lubick. The basis of the decision which was made in  
25 allowing this was that we want to make sure that the property

1 does continue to be used for these special purposes. Given the  
2 context of that period, it seems to us there ought to be 15 years  
3 of use.

4 As far as we were concerned, the fact that there is a break  
5 in the use should not be held against the taxpayer. We would not  
6 suggest any change in the five-out-of-eight rule for actually,  
7 materially participating in the conduct of the farm nor would we  
8 suggest that the period of the involuntary conversion of the  
9 property which is being held in cash is counted as a break in  
10 measuring any continuous period, but we do think it is consistent  
11 with the requirement that there actually be 15 years of use.

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1 Senator Dole. With that modification, the additional one --  
2 we have no objection. Treasury supports the proposal is that  
3 correct?

4 Mr. Lubick. That is correct.

5 Senator Dole. On that basis, I would agree to both the modi-  
6 fications. There is no controversy. There is no problem.

7 Mr. Shapiro. In view of those two changes, it appears to be  
8 appropriate.

9 Senator Dole. I think based on the fact there are only five  
10 of us here -- I know the other two items I proposed to bring up  
11 today, 3007 deals with independent contractors, there is a great  
12 deal of support for it.

13 There is also opposition from Treasury, and also 3288,  
14 deduction for certain employee retirement savings contributions.  
15 I think Treasury has some problems with that one.

16 Mr. Lubick. I think on that one, Senator Dole, I would like  
17 to call attention to the fact this whole matter of salary deductions  
18 and contributions under cash deferred profit sharing plans and  
19 a number of other items that are all related to this are in the  
20 bill which is going to be debated today by the House this week or  
21 next and I would think that the committee might want to consider  
22 this entire problem as a single unitary whole because they are all  
23 interrelated.

24 Senator Dole. I think that is accurate. Do you support  
25 3007?

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1 Mr. Lubick. No, sir. We do not.

2 Senator Dole. Maybe I should bring that up tomorrow morning.  
3 We do meet tomorrow morning. We will have more members here  
4 because there are a number of members who are not here who are  
5 sponsors of that particular provision and may want to be heard on  
6 it.

7 Senator Curtis. I have a couple of matters that are of  
8 special interest to colleagues of ours who are not members of the  
9 committee. The first one is Senator Bartlett's bill, S.2825.

10 Under present law, a charitable organization is exempt from  
11 private foundation rules if it is operated, supervised or controlled  
12 or in connection with another charitable organization such as social  
13 welfare organizations, civic league, labor union or trade associ-  
14 ations.

15 This bill would extend this exemption from the private foun-  
16 dation to charities operated, supervised, controlled or in con-  
17 nection with -- if it is controlled or in connection with a frater-  
18 nal organization. This legislation is of great importance to  
19 Sand Springs Home in Oklahoma, a charitable institution providing  
20 care for needy orphans, widows and their dependent children which  
21 is controlled by the Grand Lodge of Oklahoma Masons,

22 In addition, the bill would apply to approximately 25 other  
23 charities. Now, the Department of Treasury raised an objection  
24 that said that they could not extend what we give to civic leagues  
25 and labor unions and trade associations because they had a better

1 scrutiny over them than charitable organizations. That does not  
2 add up.

3 If the Masons of Oklahoma would transfer this to the Teamsters  
4 Union, it would qualify and apparently meet the Treasury's opposition.

5 I just think that if we left the labor unions and trade assoc-  
6 iations and civic leagues -- and most chambers of commerce are  
7 organized under that section of the code -- that this should be  
8 changed. I do not think the revenue is significant and it is  
9 something that Senator Bartlett is very much interested in.

10 Mr. Shapiro. This is a matter that has been considered from  
11 time to time in connection with bills subsequent to the Tax Reform  
12 Act of 1969. As you know, in 1969 Congress provided the private  
13 foundation changes which in effect provided rules such as self-

14 dealing, excise tax, investment comp and certain divestiture rulings  
15 relating to private foundations. Private foundation rules do not  
16 apply to publicly supported charities where there is widespread  
17 support rather than just a private type foundation.

18 In this particular case, as Senator Curtis indicated, Sand  
19 Springs Home case, it is a privately endowed home for the orphan  
20 children, the widowed and elderly people. It does not qualify as  
21 a publicly supported charity because it is privately endowed.  
22 Therefore, it comes within the rules of the private foundation as  
23 provided in 1969.

24 Therefore, they are subject to the excise taxes, the other  
25 rules and limitations that apply to private foundations. In

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addition, they are limited by charitable contribution rules where they would not get 50 percent limitation under present law for wholly supported charities, but are limited to 20 percent limitations. The proposal that Senator Curtis is bringing up on behalf of Senator Bartlett deals specifically with Sand Springs Home in Oklahoma.

As we understand there are approximately 26 other situations where they would like not to be treated as private foundations and to be treated in effect as a public charity or just in effect exempt from private foundation status.

Therefore, these long-term care organizations would not be subject to annual excise taxes on their net investment income or any other private investment excise tax. In addition, the public charity would apply to the charitable contributions to these homes and the other homes.

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1 Senator Curtis. If that home were operated supervised or  
 2 controlled or in connection with a with a civic league, labor un-  
 3 ion or trade association it would be exempt, would it?  
 4 Mr. Shapiro. Yes, it would.

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5 Senator Curtis. And it is operated by and controlled and  
 6 in conjunction with a fraternal organization and that is the  
 7 basic change that Senator Bartlett would ask in the law.  
 8 Mr. Shapiro. Yes.

9 Senator Curtis. Any significant amount?  
 10 Mr. Shapiro. I don't think we have a significant revenue  
 11 -- it is estimated that the bill would reduce budget receipts by  
 12 less than \$10 million in fiscal year '79 and then less than \$1  
 13 million each year thereafter. The reason for the \$10 million  
 14 in the first fiscal year is that the bill is made retroactive to  
 15 January 1, 1970 which is the date the private foundation rules  
 16 were made effective under the Tax Reform Act so it is the retro-  
 17 active feature of the bill that has the million dollars a year.  
 18 Senator Curtis. Without a doubt they save many times more  
 19 than that because they are taking care of orphans and others  
 20 that would be public charges if this infusion didn't exist.

21 Mr. Lubick.. I am not sure what the principal reason for  
 22 the opponents advocating legislation is. If it is to relieve  
 23 themselves of their liability on the investment income of private  
 24 foundation I would like to point out I believe legislation is  
 25 already in the works with our approval to reduce that tax from

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1 4 percent to 2 percent to cut it in half so that of course would  
2 reduce the revenue impact on them.

3 I think basically the question that is involved here is  
4 the differentiation that was made in the 1969 Act between public  
5 charities which were not subject to the very stringent rules of  
6 accounting and self dealing and a number of other things that are  
7 applicable to private foundations. The differentiation which  
8 we made on public scrutiny I don't think is concerned with the  
9 differentiation between labor unions and so on. What we are con-  
10 cerned with is the basic principle which was established between  
11 those charities which are subject to public scrutiny such as  
12 colleges, churches and so on and therefore the Congress decided  
13 were not in need of the same intensive regulation as opposed to  
14 those which were essentially privately run charitable organiza-  
15 tions whose supervision is principally limited to the Attorney  
16 General of a particular state.

17 Mr. Curtis. The fact remains doesn't it that if this home  
18 in Oklahoma were run by the Teamsters Union it would be exempt.  
19 If it is run by the Masonic group it would not.

20 Mr. Lubick. They are exempt from taxation, as I understand  
21 it. It is a charitable organization which is exempt from taxa-  
22 tion.

23 Senator Curtis. Not exempt from private foundation rules.

24 Mr. Lubick. The private foundation rules would not have  
25 any applicability outside the charitable area at all.

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1 You are perfectly right. If it were a profit-making organiza-  
2 tion it also would be exempt from those rules. It just seems to  
3 me that that does not have any application --

4 Senator Curtis. I think that is what the bill is all about,  
5 to exempt an operation such as this from private foundation rules,  
6 isn't that correct?

7 Mr. Lubick. That is only in the charitable area. In other  
8 words Congress has decided there should be certain rules which  
9 apply in the charitable area and they drew the line between pri-  
10 vate foundations and public charities.

11 Now I don't expect that -- and I don't know -- we have not  
12 been able to find out that the organization is really concerned  
13 with the self-dealing rules or the stock ownership rules, con-  
14 trol of the business rules.

15 I think presumably they would only be concerned with the  
16 special excise tax on investment income of private foundation  
17 which is now 4 percent and is expected to go to 2 and perhaps the  
18 minimum distribution rule with respect to their investment income.

19 Senator Curtis. But I want to read the Treasuries letter.  
20 "In addition the objectives of a fraternal society usually are  
21 more personal than those of a 501 (C) 3, 4, 5 or 6 organization."

22 That is the civic organization and labor unions and so on.

23 "For these reasons the fact that an organization is operated  
24 in connection with a fraternal society is less likely to provide  
25 adequate protection against excess business holdings and other ac-

1 tivities prohibited by the excise tax on private foundations."

2 I just can't follow you, that is a Chamber of Commerce or  
3 Trade Association, NAM, Teamsters Union or the Carpenters Union  
4 or anybody else could operate a home in Oklahoma, take care of  
5 needy orphans which does on children but a fraternal organization  
6 can't.

7 Senator Ribicoff. What bothers me is how many organizations  
8 are really involved? It is just not talking about Sand Spring.  
9 There is another sentence. "Any other long-term care organiza-  
10 tion meeting the requirements of the bill also would be treated  
11 under the bill as a public charity."

12 How many would that involve in addition to the 26.

13 Mr. Lubick. We don't have any idea, Senator.

14 Senator Ribicoff. So you don't know what would be involved?

15 Mr. Lubick. No, sir.

16 Mr. Shapiro. That was the date the Ways and Means Committee  
17 made its first determination in 1969.

18 The 26 were those brought to the attention of the Congress  
19 but the bill is drafted so it would cover any such case in  
20 existence at that time with continuous operation in this matter  
21 since then. We know of these. We don't know of any others  
22 that could be but any ones that are would be covered.

23 Senator Ribicoff. That is what bothers me where really  
24 this is pretty open ended we don't know where it will hit.  
25 It is not just the Sand Springs.

1 Senator Curtis. It can't hit much. The Treasury estimated  
2 \$1 million a year.

3 Mr. Lubick. I don't believe the revenue is a consideration  
4 in this matter because the only taxes that could be subject to  
5 this would be the 4 percent tax on investment incomes which is  
6 scheduled to go down to 2 percent.

7 I don't look at it as a tax matter. Indeed that tax was not  
8 intended to raise revenue, it was intended to cover the cost of  
9 audit by the Internal Revenue Service so I don't think revenue is  
10 a consideration at all. It is simply a question of where you want  
11 to draw the line on imposing the stringent restrictions on public  
12 charities as opposed to those that are not. I think that is  
13 basically the question.

14 Senator Curtis. It is not a public charity necessarily..  
15 If this same organization were operated by a labor union --

16 Mr. Lubick. Then it wouldn't be a charity, you are correct.

17 Senator Curtis. I don't think you state the necessary rea-  
18 son why fraternal organizations should not have the same status  
19 in this area as social welfare organization, civic leagues. There  
20 is a long list, 6 organizations that are organized, civic leagues  
21 including most Chambers of Commerce and labor unions and trade  
22 associations.

23 Mr. Lubick. I don't agree with you, Senator. I don't find  
24 the distinction between labor unions and fraternal groups.

25 Senator Curtis. That is all we are asking.

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1 Mr. Lubick. But it seems to us the line of demarcation is  
2 between public charities and in those charities I think we are  
3 dealing in a charitable area, those that are essentially private  
4 charities and those that are broadly based charities. And that I  
5 think is the justification for the distinction if there is to be  
6 one.

7 I think we would rest on this basis.

8 Senator Curtis. You don't have serious objection to this,  
9 do you?

10 Mr. Lubick. I think you are right. I think it is basical-  
11 ly a question of whether you want to maintain that original dis-  
12 tinction.

13 Senator Ribicoff. The problem that I have here, we have  
14 got four senators obviously we don't have a quorum. If we have  
15 a complicated problem I think it would behoove us not to try to  
16 pass a bill under these circumstances.

17 But if Senator Curtis has highlighted a problem that ought  
18 to be remedied I would hope that the staff and Senator Curtis's  
19 staff and the Treasury could work this out before the next meeting.

20 Mr. Lubick. We have been trying to find out what the  
21 problem is as far as Sand Spring home and we would like them to  
22 come in and talk with us and see if we can't reconcile it.

23 Senator Ribicoff. It could be opened. That is what bothers  
24 me. We don't know where we are going. You are passing a general  
25 law that applies to others besides Sand Springs.

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1 Mr. Lubick. It is limited to organization, that we are  
2 organized before a certain date so you have a finite class  
3 although it could be a broader class.

4 Senator Curtis. Mr. Chairman, I have a suggestion. I would  
5 like to mention another bill that I have agreed to call up for  
6 another Senator who is not on this committee. It won't take more  
7 than 40 seconds to state it.

8 The home of General Lafayette in Paris has been more or less  
9 locked up. Boxes have been unopened and a tremendous wealth of  
10 correspondence, memoranda and so on that deals with the very foun-  
11 dation of our Republic. His heirs have property in the United  
12 States. They want to give that property to the foundation to  
13 maintain this home even though it is in Paris.

14 I am not pressing it now because we don't have a quorum  
15 but here is a commitment of two bills, not mine, and I wondered  
16 if because of lack of quorum if we could have an understanding that  
17 at least these two matters would be the pending business at the  
18 first meeting we take up.

19 Senator Ribicoff. Without objection it is so ordered.  
20 They are both reasonable requests.

21 Senator Curtis. Thank you very much.

22 While I think these are urgent matters I do not want to run  
23 into any trouble for lack of quorum and I appreciate the Chair-  
24 man's consideration.

25 Senator Ribicoff. I thank the Treasury and the staff might

1 get together with Senator Curtis's staff and Senator Butler to  
2 see if you can't work out the Sand Springs problem.

3 (Whereupon, at 11:45 a.m. the meeting was adjourned subject  
4 to the call of the Chair.)

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# United States Senate

COMMITTEE ON FINANCE  
WASHINGTON, D.C. 20510

MICHAEL STERN, STAFF DIRECTOR  
GEORGE W. PRITTS, JR., MINORITY COUNSEL

August 11, 1978

## MEMORANDUM

TO : The Honorable  
Harry F. Byrd, Jr.

FROM : Michael Stern *Michael Stern*  
Staff Director

SUBJECT: Status of Unemployment Trust Fund

At the Committee meeting of Tuesday, August 8, 1978, you asked the staff to obtain certain information concerning the Unemployment Trust Fund. We have obtained the following information from the Department of Labor.

The net effective Federal Unemployment Tax rate is projected to decline from 0.7 percent to 0.5 percent on January 1, 1986. Under the 1976 Unemployment Compensation Amendments, the rate was temporarily increased from 0.5 to 0.7 percent. The rate is to revert to 0.5 percent as soon as the General Fund of the Treasury has been repaid the amounts which were borrowed by the extended unemployment compensation account of Unemployment Trust Fund to cover its deficits during the recent recessionary period. The total amount owed by the extended unemployment compensation account is now \$8.7 billion. It is anticipated that \$1 billion of this amount will be repaid during fiscal year 1979 and that the entire debt will be repaid by the end of 1985. The tax rate would, therefore, decline to 0.5 percent effective in 1986. (There is also a debt of \$4.8 billion owed to the General Fund by the Federal unemployment account of the Trust Fund. This account is used to make loans to States to cover temporary deficits in the State accounts. The repayment of this debt is not required to trigger the reduction in the Federal tax rate. It is anticipated that repayments from this account will be made starting in fiscal year 1980 as States begin to repay what they have borrowed.)

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The Honorable  
 Harry F. Byrd, Jr.  
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The status of the Unemployment Trust Fund Accounts  
 for fiscal year 1979 is estimated as follows:

(in billions)

<u>Federal Accounts</u>	<u>Start of Year Balance</u>	<u>Income</u>	<u>Outgo</u>	<u>Fiscal 1979 Surplus (or Deficit)</u>	<u>End of Year Balance</u>
Employment Security Administration	\$0.5	\$ 2.9	\$2.8	\$+0.1	\$ 0.6
Extended Unemploy- ment Compensation	0.7	1.0	1.3	-0.3	0.5
Federal Unemploy- ment Account	0.3	0.2	0.2	--	0.3
<u>State Accounts</u>	8.9	13.4	9.1	+4.3	13.2

The above table shows that there is a \$4 billion fiscal year 1979 surplus in the Unemployment Fund but that the surplus is entirely in the accounts which hold State unemployment tax funds. This table is based on the July 6, 1978 revision of the President's budget. A somewhat smaller surplus is shown here from the January budget, primarily because the January budget did not assume the \$1 billion repayment to the General Fund which is now expected.

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