OFFICIAL TRANSCRIPT

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COMMITTEE ON FINANCE

UNITED STATES SENATE

MARK-UP

MISCELLANEOUS TARIFF AND TRADE MATTERS

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WEDNESDAY, SEPTEMBER 17, 1980

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United States Senate
Committee on Finance
Washington, D.C.

The committee met at 10:10 a.m. in room 2221, Dirksen Senate Office Building, Hon. Russell B. Long (Chairman) presiding.

Present: Senators Long, Talmadge, Ribicoff, Byrd, Bentsen, Matsunaga, Moynihan, Boren, Bradley, Dole, Packwood, Danforth, Chafee, Heinz, Wollop, Durenberger.

The Chairman. The committee will come to order, please. We were on the Miscellaneous Tariff Bill.

Mr. Stern. Mr. Chairman, the bill that we had begun to discuss at the time the meeting broke up yesterday appears at the bottom of page 3 of Attachment E, Miscellaneous Tariff and Trade Matters, and it is H.R. 5047.

To expedite things, since on almost all of the provisions of that bill no one has raised any issue on, perhaps Mr. Foster could just address himself to the few things on which any issues have been raised. Otherwise, we would recommend that that bill be favorably reported.

The Chairman. Do you have any items that need to be discussed?

Mr. Foster. There are several provisions in this bill, Senator.

The Chairman. Why not touch on the ones we have not discussed up until now?

Mr. Foster. All right. On page 5 of the Staff Document E we move to Section 201 of the bill. What this would do is permit the drawback of duties, that is the refund of duties, on products which are imported into the United States but then, within three years after importation, are exported or destroyed.

What the situation now under present law is, when someone imports a product into the United States, if they know at the time of importation they are going to process it and re-export, they can get this drawback provision.

The Chairman. Which section is that?

Mr. Foster. This is Section 201 at the bottom of page 5.

But if they do not know at the time of importation that they may ultimately re-export it they cannot get the drawback provision, they have to post bonds, and that sort of thing.

This would simply extend the drawback provision moderately. The Administration supports it. There have been submissions in favor of it from many companies. There was one submission that was submitted in opposition. We have contacted that person. He did not request to testify in opposition to the bill and we have not really been able to understand his basis for objection.

So, the staff would recommend that the committee approve the provision.

The Chairman. The Administration does not object.

Mr. Foster. No.

The Chairman. Without objection, agreed. Go on to the next one.

Mr. Foster. On top of page 6 we come to Section 202 of the bill. This would authorize the Secretary of the Treasury to permit the informal entry of U.S.-origin merchandise; that is goods that have been produced in the United States, have then been exported but are brought back for the purpose of repair if they are under a warranty, or if they have been rejected by the importer in the other country as noncomforming goods.

What is happening now is that when these goods are returned to the United States after being exported, a formal entry has to be filled out if they are valued over $250. This adds considerably to the cost of providing the warranty, the cost to small and medium-sized exporters in particular.

Again, we have had comments on this bill on this provision in favor and opposed. The Customs brokers have opposed the bill on the basis that they feel it would increase the possibilities of circumvention of the duty laws and that sort of thing.

The Customs Service has stated in the House and to the committee that they feel they can administer it. There was a statistical problem raised with it, but the Census Bureau and the Customs Service have worked out that.

So, at this point the Administration is not opposed and no

Customs revenue effect is expected on this particular provision.

The Chairman. Without objection, agreed.

Mr. Foster. That is essentially it on this particular bill. The rest of the provisions, as Mr. Stern indicated, are ones that have the support of the Administration or are not objected to, no one has objected to. They are basically continuations of existing suspensions for the same reason that the matter was originally suspended, or given permanent duty-free treatment.

So, we would recommend that the committee approve this particular bill.

The Chairman. Without objection, agreed to.

Senator Bradley. Mr. Chairman?

The Chairman. Yes, sir.

Senator Bradley. I would like to raise one other issue on this bill, and that has to do with the disparity in duty on the substance of ephedrine. The difference between natural ephedrine and synthetic ephedrine. Ephedrine is a substance that is used to treat asthma; it is used in a lot of nasal sprays.

As of right now, the duty on natural ephedrine is 4.8 percent and on synthetic ephedrine it is 15 percent. The problem is that there is only one place in the world that produces natural ephedrine, that is the People's Republic of China. We have a lot of pharmaceutical companies that are now purchasing the synthetic ephedrine and there is a fear that we will, by having this diaparity continue, give a monopoly to the People's Republic of China; they can then raise the price at will.

So, what this amendment would do, to simply equalize the natural and synthetic ephedrine, the duty on each of those.

The Chairman. Is there objection to that?

Mr. Foster. Mr. Chairman, this provision is H.R. 7802, that has been reported by the House Ways and Means Committee. On the House side the Administration had no objections to it, and no one appeared to oppose it.

What the bill does, as Senator Bradley described, is to equalize the duty treatment for natural and synthetic ephedrine. As far as can be determined by the International Trade Commission and the Department of Commerce, there are no U.S. producers of these products.

The Chairman. Without objection, then, agreed. Senator Chafee?

Senator Chafee. On Section 115, Senator Heinz is on his way and he had a couple of points he wanted to raise. I wonder if we could hold that particular thing. He will be right along. Here he is now.

Senator Heinz. Mr. Chairman?

The Chairman. Yes, sir.

Senator Heinz. I would like to bring to the committee's attention a change in Section 112, which was introduced as H.R. 7047 and passed the House.

The bill that passed the House has come over to us and suspends only the Column 1 in the duty rate. I think we would be wise to add to that the Column 2 duty rate as well. The reason for that is that there apparently are only two countries that manufacture machines of this kind. One country is West Germany, they have two manufacturers; the other country is East Germany, the have one manufacturer.

Many people feel that if we do not suspend the Column 2 duty rate the same way as we suspend the Column 1, that we will be granting a monopoly to the West Germans, and that if we want to have some competition it would be advisable in this case to suspend both columns.

I have talked with people over in the House and they say they have no objection to our doing that. It was an oversight on their part. So, I would recommend to the committee, Mr. Chairman, that we do that.

The Chairman. What can you tell us about that, Mr. Foster?

Mr. Foster. Mr. Chairman, this is Section 113 of the bill, relating to warp knitting machines. There are imports to the United States from East Germany of these machines. As far as we are aware, there is no domestic production that would risk being injured by expanding this duty reduction or temporary suspension to the Column 2 countries. We are not aware of any Administration objection to this, or objections from the domestic industry.

The Chairman. There are no objections?

Mr. Foster. We are not aware of any.

The Chairman. Without objection, then, it is agreed.

Senator Heinz. Mr. Chairman, one other item. In this bill there is a provision which includes the elimination of suspension of duty for a shipment of roof tiles for the Chinese Cultural Center in Philadelphia. I would like to keep that provision in this bill. Staff has recommended it be deleted. I would like to keep it in the bill to make sure we get it passed.

The Chairman. Why do you recommend leaving it out, is it controversial, or what?

Mr. Foster. No, Mr. Chairman. This has already been approved by the committee as an amendment to H.R. 3122, which is already on the calendar. Rather than have it in two bills, we just recommended that it be deleted. It is not controversial.

Senator Heinz. I just do not know what is going to happen to any of our bills, Mr. Chairman.

Mr. Foster. There is no problem with it.

Mr. Stern. It does not make any difference.

The Chairman. All right, leave it in; it is agreed to.

Mr. Stern. Mr. Chairman, we would suggest that the provisions that you agreed to substantively yesterday, relating to chipper knives; the duty on lead, and on tuna purse seine nets and hardwood veneers be put as amendments to this omnibus bill. Those are all House-passed measures.

The Chairman. Without objection, agreed.

Senator Heinz. Mr. Chairman, a question. The omnibus bill being?

Mr. Stern. H.R. 5047.

Senator Heinz. You want to put in which ones, now?

Mr. Stern. The substance of H.R. 2535, relating to chipper knives; 6089, 6571, and 6975, which were agreed to yesterday.

Senator Heinz. Thank you. That is no problem.

The Chairman. Without objection, agreed.

Mr. Foster. Mr. Chairman, the last item on Staff Document E is the U.S. implementation of the Protocol that was negotiated to the MTN Customs Valuation Agreement.

This is a matter that the committee reviewed earlier in the year, approved the agreement at that point, and instructed the staff to work with the Administration to prepare a bill that carried out the committee's recommendations. This bill proceeds under the provisions of the Trade Act of 1974 which provides for an un-amendable bill to approve trade agreements and implement them in domestic law.

The bill that has been returned carries out the recommendations of the committee. Again, it is not controversial and no objections have been received from any source on these matters. It has been under discussion and under way for over a year and the staff would simply recommend that when the House bill arrives here, that the committee report at that time the House bill.

The Chairman. Any objection? Without objection, agreed.

Mr. Stern. The next item on the agenda, Mr. Chairman, relates to revenue sharing.

Senator Bradley. Mr. Chairman?

The Chairman. Yes, sir.

Senator Bradley. The staff document on revenue sharing, I think, reflects much of the thinking of the members of the Revenue Sharing Subcommittee, including the staff recommendations.

The basic document re-authorizes revenue sharing for a five-year period. It provides for the local share and for the State share commencing in year '82, with advance funding provisions, which Mr. Morris will explain.

The changes that the Administration proposed in their revenue-sharing bill have been dropped by the subcommittee, and the staff recommends that they be dropped with the one exception of tax enclaves.

The bill, I think, is in good shape and I think that it is certainly a cricial bill, of interest to everyone here. There is some disagreement on just parts of it, but overall, I think, that the staff document reflects a wide area of agreement in the committee. Mr. Morris would explain it.

The Chairman. Which document is that now?

Mr. Stern. This is Document F.

Mr. Morris. Just by way of background, as the committee is familiar, the general revenue-sharing program was established in 1972 and was extended with amendments in 1976. It has provided for the distribution of $30.2 billion during the 1972 through '76 period and an additional $25.6 billion between 1976 and 1980.

If we can, we would like to go through the changes one by one, starting at page 11 of the staff document. The first ten pages basically explain the existing programs. The bill that was approved by the House Government Operations Committee, H.R. 7112 to extend the general revenue-sharing program. It is my understanding that this Government Operations Committee bill has been set for floor action next Wednesday in the House.

The first issue in connection with general revenue sharing is the extension of the program. Payments are scheduled to terminate to State and local governments at the end of fiscal year 1980.

The Administration has proposed extending the program for a five-year period. The House Government Operations Committee in H.R. 7112 has agreed to extend the program for three years.

The staff would suggest that the committee may want to extend the program for a period of five years.

The Chairman. How about the five years? All in favor of the five years signify by saying aye.

(Chorus of ayes.)

The Chairman. Opposed, no.

Senator Byrd. Mr. Chairman, I want to be recorded as no on the five-year extension.

The Chairman. The ayes have it, go on to the next one.

Mr. Morris. The next issue is that of funding.

Senator Dole. What page are we on?

Mr. Morris. This is page 11, Item No. 2, Funding.

Since 1977 funding has been set at $6.8 billion per year, with one-third of the funds going to the States; two thirds going to units of local government.

The Administration has proposed funding only the local government portion of general revenue sharing at a $4.6 billion figure annually, which is the amount currently distributed to local governments.

The Administration has also proposed a $500 million payment which it has called "Transition Aid for Fiscal Years 1981 and 1982." However, the House Government Operations Committee has adopted the Administration proposal providing $4.6 billion per year for local units of government, and it did not agree to the $500 million additional for fiscal years '81 and '82. The first Concurrent Budget Resolution for fiscal year 1981 similarly does not provide any funds for this transitional assistance.

The Chairman. What is the transition, for what is that?

Mr. Morris. It basically was an attempt ro recognize the fact that because the amount that was being given to the State, some of which was being passed through to local governments. Since what was being proposed was the elimination of funding for the States, that this additional money would help local governments during this transition period and provide them with some additional funds for fiscal years '81 and '82.

The Chairman. So, it did not recommend the $500 million transitional part.

Mr. Morris. That is correct.

The Chairman. Mr. Moynihan?

Senator Moynihan. Mr. Chairman, we come to a very critical decision here. The House agreed with the Administration not to provide revenue sharing to the State governments. In other words, cutting back this program from its original conception which was to State governments, after which we added local units, taking out the States.

I think this is a grave mistake. I think one of the most important pieces of legislation in the Federal system in this generation has been general purpose revenue sharing. To abandon a principle of this kind in response to a budgetary situation which the Administration no longer thinks exists anyway, seems to me to be retrogressive.

I would hope the committee might consider the staff recommendation - a once popular recommendation - to include both State and local revenue sharing and continue this program as it now exists.

Senator Chafee. Mr. Chairman?

The Chairman. Senator Chafee.

Senator Chafee. Mr. Chairman, as I understand it, the budget does not provide for the transition; is that correct?

Mr. Morris. That is correct.

Senator Chafee. So, we have two decisions here to make. One, whether to go for the transition amount; and two, whether to authorize the State share in the out-years, other than '81. They are two separate decisions, is that right?

Mr. Morris. It in essence is two separate items. We combined it as one in the recommendation.

Senator Chafee. I think that is different. I do not think because the budget is out of balance due to a variety of circumstances we ought to throw this thing to the wind and say, "This is out of balance, all that is wrong."

So, I am not for the transition amount.

Senator Bentsen. Mr. Chairman, I would support Senator Chafee in that regard. If we choose to do otherwise, as I understand it, we are in conflict with the budget resolution and we have to look at some other point to try to make this up. I can understand the concern of Senator Moynihan, but for a long time I have felt that the State governments were in a lot better shape than the Federal Government.

I well understand the great desire of Governors to spend money they do not have to raise, that is the easiest kind of money to spend and you get a lot of credits for it. You do not have the pain and the agony of trying to raise it. The Federal Government is in serious trouble. We have a major deficit facing us. We have many good programs that we have cut back on and had to do so. I think, frankly, that this is one of the easiest ones to do that to. I know no State with a deficit and the Federal Government is facing a deficit of at least $30 billion. We have a problem with the depreciating currency, inflation, and the more we increase that deficit the more we are going to see the financial markets react, and the more we are going to see interest rates go up; and the more we see any budding recovery in the housing industry stifled, stopped.

So, I for one would oppose the additional sum.

The Chairman. Let me see if I understand this. Do I understand, Mr. Morris, that the Administration has proposed $500 million for transition aid, in addition to what is otherwise in the bill?

Mr. Morris. In addition to $4.6 billion for State and local governments. What they have proposed eliminating is roughly $2.3 billion each year, payable to the States.

The Chairman. All right. Now, do we run into conflict with the Budget Committee if we propose to keep this transition aid in here?

Mr. Morris. Mr. Chairman, I think there was a slight misunderstanding. What we have proposed is providing $4.6 billion, which is for fiscal year '81 through '85 for local governments. We have not proposed the transition amount of $500 million per year. What we have suggested is funding for fiscal years '82 through '85, the States' share, of $2.3 billion on an appropriated basis rather than an entitlement basis so that each year the Congress would have to decide. We actually suggest doing it on an advance appropriation basis so that a year in advance the Congress would have to decide whether it wants to appropriate funds for the States' share.

In essence, what this committee would be doing is authorizing the Appropriations Committee to decide whether there should be a State share in fiscal years '82 through '85. We would not run into a problem with the Budget Act.

The Chairman. We would make it automatic to just let the Appropriations Committee decide.

Mr. Morris. That is correct. We would also not recommend any money for fiscal year 1981 which has not already been provided for in the first Concurrent Budget Resolution. We are not suggesting a $500 million transition payment for fiscal '81 and '82.

The Chairman. Senator Moynihan?

Senator Moynihan. Mr. Chairman, I will not delay. This is an issue that we all understand and have our respective views on. But I would make the point, we are getting an authorization language here and a five-year program. We are free to do what we want, the budget does not constrain us in that regard.

Everything that my friend, Senator Bentsen said, is true and I agree with him. But there are other truths which are that the Federal system is becoming seriously imbalanced. More and more matters come to the Congress, come to the Floor of the Congress that do not belong here; that are clearly State or local activities. But it is the tendency for moneys to be available or deficits to be available - if you will - in this place that brings them here and has us working on things that are appropriately the work of city councils, or State legislatures at best.

Now, revenue sharing was a large idea in federalism. It has its absurdities - there is always Eagle Rock, Missouri. Is that right? What is that little town that got $50?

Senator Dole. Eagle Rock, Missouri.

Senator Danforth. Tennessee.

Senator Moynihan. But it is an idea in federalism that is new and powerful, and is one of the three pieces or four pieces of legislation in the last 30 years that will be recorded in American history as having an idea about government behind it.

Now, it seems to me we are dropping it in response to a budgetary situation which is temporary. It may be endemic but it certainly is not the fundamental issue involved. We can cut the amounts of money and still keep the principle of involving the States.

I will press it no further, but I think we are giving up something we achieved in the 1970s.

Senator Bradley. Mr. Chairman, I think that the staff recommendation here actually preserves what Senator Moynihan has said and what Senator Bentsen has said because it does not have a budget impact in 1981, but preserves the right of the Appropriations Committee to appropriate funds for the States' share in the out years, '82 through '85 on an advanced funding basis which gives local governments some certainty that they are going to actually get the money. While at the same time subjecting it to the appropriations process. So, the States' share is not an entitlemen but the authorization would provide the power for the Appropriation: Committee to actually get the money to the States while the local share is an entitlement.

I think the subcommittee basically looked at the problem of State and local share and came to the conclusion that this was the most efficient way to proceed. I know Senator Durenberger who played a big role in the subcommittee hearings feels that way.

Senator Durenberger. Mr. Chairman?

The Chairman. Yes, sir.

Senator Durenberger. I think, to add to the comments, it is important to say that those of us who may not necessarily agree with Senator Bentsen's evaluation of the problem have in essence compromised our views in light of the budgetary realities of fiscal 1981. I for one feel strongly that the States ought to be in there all the way through the process.

I do not think that the Federal Government's problems are created by the States or local government, they are created by us, right here. We have, very appropriately, through the process of general revenue sharing encouraged State revenue sharing with local government. We have encouraged a greater reliance on the part of the States on the income tax, to share that State-levied income tax with local government. My own State shares something between 75 and 85 percent of its money.

When we goof up down here economically we create the kinds of problems that all or most of the States in this country are suffering through right now.

I think it is very important that we hold out the principle of revenue sharing which started in '71-72, even though we may not be implementing it this year because of the problems. But retain that principle. Retain the principle of local sharing by States as well as Federal sharing with State governments.

Senator Byrd. Mr. Chairman, may I ask a question?

The Chairman. Yes, sir.

Senator Byrd. What do you mean by "transition period?"

Mr. Morris. What that refers to is the Administration's proposal for fiscal years 1981 and 1982. They were suggesting this additional $500 million for those two fiscal years in lieu of providing any additional funds to State governments. That was why they denominated those two fiscal years as the transitional period, basically permitting the local governments to become accustomed to receiving reduced transfers from the State governments.

Senator Byrd. Well, it does not stop at '81 and '82, does it, it goes on to '85.

Mr. Morris. Well, the Administration has proposed just providing that money for fiscal years 1981 and 1982, and nothing after that.

Senator Byrd. I understood it would not impact on the '81 budget.

Mr. Morris. No, Senator. That transition amount would have an impact on fiscal yeal '81 if the committee were to agree to provide that assistance.

What we have recommended is just providing $4.6 billion solely to units of local governments for fiscal year 1981, and then authorizing an appropriation of $2.3 billion for the States' share in fiscal years '82 through '85. So, there would be no budget impac in fiscal '81.

Senator Byrd. Well, you have a five-year transition period.

Mr. Morris. We had not recommended any transition assistance. What we had recommended was not providing any funds for fiscal year '81 for State governments and authorizing an appropriation in later years, which the Appropriations Committee could determine was warranted or not warranted.

Senator Byrd. Well, will money be going to the States under your proposal in '81, or not?

Mr. Morris. No. No money would be distributed to State governments in fiscal year 1981.

Senator Byrd. Well, how is it a transition period?

Mr. Morris. That term, "Transition aid" only applied to the Administration proposal, which was different than the Staff Recommendation. That was simply to provide $500 million in additional funds to local governments for 1981 and 1982 in recognition of the fact that since you are no longer providing any money to State governments there would be reduced transfers from

State governments to local governments, which had been the custom under the prior program.

Senator Byrd. Now, your $2.3 billion would go to the States?

Mr. Morris. Right. It would basically go back to the same formula that has been in existence under the original program for the past eight and three-quarter years.

Senator Byrd. I see. The Federal Government has no revenue to share. We are heavily in deficit. This fiscal year the Federal Government will have the second-largest deficit in history — the second-largest deficit in history in this one year.

Senator Bentsen made the point that it is fine for the State Governors to receive money and not being responsible for raising revenue, and that is certainly correct. But also, it might be added, Congress is doing exactly the same thing. The Congress is appropriating money and it is not raising the revenue to pay for it. We are operating on a deficit basis.

Senator Dole. Mr. Chairman?

The Chairman. Yes, Senator Dole.

Senator Dole. Mr. Chairman, I move we approve the Staff Recommendation, that would at least take care of the transition problem, there would not be any; then it would be subject to appropriation.

Senator Bentsen. May I commend on that before we vote on that?

The Senator from New York and I have a difference of opinion, and I share this idea with a number of the members of this committee on the question of merit of revenue sharing for the States.

This is not a change for me, I opposed it in 1971. I have been consistently against it. I saw a situation then in the relative positions of the States and the Federal Government where they were in a much better position from a fiscal point of view than the Federal Government. I have not seen that change. If anything, we have seen a further deterioration in the Federal Government's position.

I think we are kidding people when we talk about authorizing for the future this amount of money. I do not see any great change in what is going to happen as far as the fiscal position of the Federal Government over the next two or three, even four years. We are going to have difficult, difficult positions. We are going to be having to cut many, many programs that we think are very worthwhile and very important to the people of this country.

We are going to have further problems in Social Security, Medicare, Medicaid, and the rest of it.

Now, as we try to arrive at those decisions to hold this out to the Governors as though they are still going to have a serious chance of getting this amount of money, I think, is a mistake. I think they ought to be facing up to this problem and ought to be doing it with their legislatures.

I know if we do not do it, I know when the appropriations come around the argument will be made, "Well, you authorized it, you held that carrot out there, you assured them without authorization that this was still a program they could depend on." Frankly I think we ought to vote against it, and I certainly will. As you know, I question rather seriously whether that is the majority viewpoint.

Senator Chafee. Mr. Chairman?

The Chairman. Yes, sir.

Senator Chafee. If we authorize this, then it moves out of our control, as I understand it, we have authorized it for five years - not for '81, but for the five years. That completes our part. I am just talking about the States' share now. Is that not correct?

Senator Dole. For four years.

Senator Chafee. For four years. Well, Mr. Chairman, I think that is a mistake. I think we will thus be giving an indication, as Senator Bentsen suggested, to the Governors that they are going to get it. There is a good chance they might not get it.

If the money is around, if it is available, we can always authorize it next year. Is that not so, for fiscal year '82?

Therefore, I am opposed to the Staff Recommendation of authorizing this State share for the four out-years.

The Chairman. How do you propose to do that, Senator?

Senator Dole. Leave it out.

Senator Chafee. I would leave out that authorization for that State share. Then, if we choose to authorize it we can always authorize it next year; can we not, for '82?

The Chairman. If you can get the House to go along with it.

Senator Dole. Well, we can vote on the Staff Recommendation.

The Chairman. Let us vote on the Staff Recommendation, just call the roll.

Mr. Stern. Mr. Talmadge?

Senator Talmadge. No.

Mr. Stern. Mr. Ribicoff?

Senator Ribicoff. No.

Mr. Stern. Mr. Byrd?

Senator Byrd. No.

Mr. Stern. Mr. Nelson, Mr. Gravel, Mr. Bentsen?

Senator Bentsen. No.

Mr. Stern. Mr. Matsunaga, Mr. Moynihan?

Senator Moynihan. Aye.

Mr. Stern. Mr. Baucus, Mr. Boren, Mr. Bradley?

Senator Bradley. Aye.

Mr. Stern. Mr. Dole?

Senator Dole. Aye.

Mr. Stern. Mr. Packwood?

Senator Packwood. Packwood passes.

Mr. Stern. Mr. Roth, Mr. Danforth?

Senator Danforth. Aye.

Mr. Stern. Mr. Chafee?

Senator Chafee. No.

Mr. Stern. Mr. Heinz?

Senator Heinz. Aye.

Mr. Stern. Mr. Wallop, Mr. Durenberger?

Senator Durenberger. Aye.

Mr. Stern. Mr. Chairman?

The Chairman. Aye.

Mr. Stern. Mr. Packwood?

Senator Packwood. I am going to vote aye.

The Chairman. If Senator Packwood votes aye, that makes it eight ayes and five nays. That will not be final until we hear from enough Senators to constitute a majority of the committee. I would ask the staff to try to get those Senators to record their vote as soon as you can.

What is the next point?

Mr. Morris. The next series of items involves some proposed changes in the formula for distribution of funds within each State to local governments.

These are a series of Administration recommendations.

Senator Ribicoff. What page are you reading from?

Mr. Morris. We are now looking at page 12 of Staff Document F. The first item, (a) "Detiering" at the top of page 12 in Document F.

Basically, under present law when funds are distributed within a State, they are allocated among the different units of government by group. In other words, there is a pot of money set up for distribution to the counties; another fund to units of local government; another fund to townships.

The Administration has proposed that these separate "pots" be eliminated and that all the units of government within a State compete on an equal basis for the funds. They argue that because of the existing way in which funds are allocated, units of government within a county, or within the State, even though they have the same population characteristics and the same relative tax effort, and the same relative income factors which should entitle them to the same per capita entitlement as any other comparable locacility, they actually end up getting possibly more or less money, depending on which area they happen to be located in.

At the Administration's proposed funding level of $4.6 billion the adoption of this change would shift money among 14,700 localities, and these jurisdictions would lose about $137 million in each of the fiscal years of the program.

The House Government Operations Committee did not adopt this change.

What we would like to do is make a general recommendation with respect to all of the Administration-proposed formula changes after we get to the end of the series of changes that they have recommended.

The second proposal would be a revision in the maximum and minimum constraints.

The Chairman. Can we act on that first? I am not sure I understand it.

Mr. Morris. Our recommendation with respect to this provision of so-called "Detiering" would be not to adopt the Administration recommendation.

The Chairman. Not to adopt it?

Senator Dole. To not adopt it.

Senator Bentsen. What do you recommend?

Mr. Morris. We recommend keeping existing law.

The Chairman. Keeping the law the way it is?

Mr. Morris. That is correct.

The Chairman. Well, then that does not require a vote. Do we have to vote to drop it out, or is it in there?

Mr. Morris. It is not in there.

The Chairman. Unless there is a motion to put it in, it stays out. All right. What is next?

Mr. Morris. The next Administration proposal would be changing the minimum and maximum constraints. You may recall, in the original program the Congress put in a provision saying that no county area or unit of local government can receive more than 145 percent of the average per capita payment to all of the localities in the same State.

Similarly, there is a 20-percent floor so that no government can receive less than 20 percent of the average per capita grant within the State.

The Administration has proposed revising these constraints and they aregue that this would permit units of government under the formula to get a fuller entitlement with respect to the maximum. It would permit units of government to get more money by raising the maximum from 145 percent to 175 percent; and similarly by reducing the minimum from 20 percent to 10 percent, which would shift some money away from governments the Administration feels do not need as much revenue-sharing funding.

The House Government Operations Committee did not adopt this change and we would similarly recommend to the committee that it not adopt the change.

The next provision which was in the Administration's original proposal was changing, again, a provision of existing law which says that no government can receive an amount equal to more than 50 percent of its budget from general revenue-sharing funds. The Administration originally proposed to cut that 50 percent maximum to 25. They have now abandoned that proposal. So, we can just pass over that one.

The next item that has been proposes is re-allocating the excess funds that are created by these minimum and maximum constraints for local governments. Under existing law where there are these excess funds, they are re-allocated to the State government. Since there is some question about whether we are going to be providing additional funding for the States and because in 1981 there would be no funding for the States, the committee may want to consider providing that these excess funds be re-allocated to units of local government rather than having them passed back to the State, as under existing law.

What we would suggest, and what the House Government Operation Committee has agreed to, is re-allocating these excess funds ratably among the county and local governments. We would suggest the committee provide for the same redistribution.

The Chairman. Without objection, agreed.

Mr. Morris. The next item would be a limitation on the tax effort factor. The Administration has proposed limiting the tax effort factor with certain jurisdictions with per capita income over 115 percent of the per capita income within the State, and they would reduce their tax effort factor by the amount that their per capita income level exceeds 115 percent of the average per capita income level in the State.

The House Government Operations Committee did not agree to include this proposed change, and we would similarly propose that the committee not go along with this proposed change.

The Chairman. Leave it out.

Mr. Morris. The formula changes recommended by the Administration would affect about 22,500 jurisdictions out of 39,000 and would shift around about $200 million a year. Therefore, we recommend not shifting those funds around.

The Chairman. We do not have to take action unless we want to follow the recommendation.

Mr. Morris. That is correct.

The Chairman. All right.

Mr. Morris. The next item involves the non-contiguous State adjustment. This is a special provision that was put in the original Act to provide the States of Alaska and Hawaii with increased amounts to reflect a cost-of-living adjustment that is available for those States in other similar legislation.

The Administration proposed continuing this adjustment at a $3.3 million level for each fiscal year. This is a reduction of the amount currently provided to reflect the fact that no funds are being provided to the State governments.

The House Government Operations Committee discontinued the funding for the non-contiguous States in their bill. We would recommend that the committee continue the non-contiguous State adjustment at the $3.3 million level, as recommended by the Administration; and the committee may also want to authorize the restoration of the full adjustment should the States' share for fiscal years '82 through '85 be authorized.

The Chairman. Are you recommending that?

Mr. Morris. We would recommend that. We would recommend that you continue to take care of the adjustment for local governments and agree to it on a contingent basis for the State's share if the committee should decide to provide it.

The Chairman. Any objection? Without objection, agreed.

Senator Dole. Mr. Chairman?

The Chairman. Yes, sir.

Senator Dole. I wonder if I can just bring up two small matters, I have to leave for about 30 minutes.

The Chairman. All right.

Senator Dole. One has to do with, we found in Kansas that there are eight Kansas municipal auditors, including one in Russell County, Kansas - which is my home county - who failed to qualify under Treasury regulations defining, "Independent Public Accountant" for revenue-sharing audit.

Now, there is no penalty per se for submitting audits prepared by these individuals, but the audits will have to be re-done at the expense of the municipality.

I have a narrowly-drafted amendment that would apply to the State of Kansas. We have checked with the Kansas CPA organiation and they do not object to it because we require in the amendment certain specifications that would limit it to the State of Kansas - he has to have twelve hours of public accounting; not less than three years of work experience; has to pass an examination observing the principles of accounting for municipal governments; not less than 15 hours each year of continuing education in accounting in order to maintain his license.

I do not know of any objection to this amendment.

Mr. Morris. There is no formal objection that we know of. The only thing that we would point out is that it is a departure from the GAO standards for auditing. But it would apply solely in the State of Kansas.

Senator Dole. We provided it shall not be construed to limit the term "Independent Public Accountant." It does apply for the

State of Kansas.

There does not seem to me to be any need to go back and spend a lot of money to have the audits done over.

Mr. Morris. There is a provision which we will get to later, under "Auditing" to provide discretion to the Secretary of the Treasury for waiver of the audit requirement in certain circumstances. This would in essence be in keeping with that type of provision.

Senator Dole. Is there any objection to that?

The Chairman. Without objection, agreed.

Senator Dole. Then, the other matter is, Senator Exon and a number of us - I should have raised it earlier - would have extended the revenue-sharing program for five years but would provide that a State government receive its allocation only to the extent there is a reduction in the amount of categorical grant money that it would otherwise receive.

Now, I am not offering that at this point, but we would like - and I think Senator Exon joins me in this request, along with Senators Baker, Domenici, Armstrong and Danforth - if we could have maybe within a year a study done by the Treasury, submitted to the committee because they indicate it creates an administrative nightmare. So, we would just like to have some objective information on it.

Mr. Morris. We would suggest that you might want to have the Advisory Commission on Inter-Governmental Relations perform that study and have it reviewed by the Treasury.

Senator Dole. Is it necessary to offer any amendment to that effect, or just make a request?

Mr. Morris. We can provide that in the committee report, request such a study.

Senator Dole. All right.

The Chairman. Without objection, it is agreed.

Now, that gets us to the matter about the Louisiana Sheriffs, does it not?

Mr. Morris. That is correct.

The Chairman. Let me just explain why I urge that the Sheriffs be separately taken care of. Different from the other States, the Sheriffs historically in Louisiana have always been separately funded. They have been funded by a separate tax. They did their own function, and they do not work under the supervision of the police jury. The police jury has its own function, such as parish roads and things of that sort and the general government, but the Sheriff does the law enforcement and he has been separately funded.

I did not have to ask that you separately fund the chiefs of police there, they are included within the budget for the city and are taken care of. But the Sheriff, who is usually the most dignified, respected man in the parish, he is looked upon as a very important person and so, when we funded the police juries under the theory that the law enforcement would get their part, those fellows always thought they were in a secondary position. They just told the Sheriff, "We are sorry, you have plenty of money the way it is. If you think there ought to be more money for you, ask for a tax increase."

So, the experience was the Sheriff did not get any money. I urged that they be included separately and funded for what would appear to be appropriate. We did that. We did it by taking one-half of it away from the parish where you would ordinarily assume they would put some of that money in law enforcement. They did not do so. Then we took the other half away from the Federal fund.

I can appreciate my friend Jack Brooks. He has been against revenue sharing every step of the way, and anything he can do to louse it up, he is going to do so; and so with great glee knocking out the part about the Louisiana shares. I can understand that.

All I can tell him, if he was still living in Crowley, Louisiana where he was born, I would take care of him and make him sorry he did that.

(Laughter.)

The Chairman. But he does not live in Crowley any more. So, I have to ask this committee to appreciate our problem.

Now, since the State no longer gets any money it looks to me as though I need to fund the Sheriffs by taking a little more out of the part that the policy jury gets. Now, how much additionally would we need to take from the policy jury in order to fund the Sheriffs?

Mr. Morris. You would need an additional, roughly, $3.2 million.

The Chairman. Now, the Sheriffs ought to sustain some of the reduction, too. Here is what I am thinking, if you take the amount that the Sheriffs were getting and the amount the policy jury was getting, and simply reduce them all correspondingly. You see what I am talking about?

In other words, basically you have to find $3 million. Well, the Sheriffs take about 10 percent of the cut and the police jury has to take the other 90 percent of it. Basically they would all get a little less, but they would be on the same pro rata basis. If they have to suffer a $3 million cut, they just have to absorb it

Now, how much is the police jury getting the way it is now, can you tell me that?

Mr. Morris. It varies. The police juries in the parishes in the aggregate are contributing roughly $3.2 million currently to fund the Sheriffs' share because the total is about $6.4 million.

Now, we had a slightly different proposal, Mr. Chairman, to deal with funding the Sheriffs for fiscal year 1981.

The Chairman. But here is what is wrong about your proposal. If we do that, I will be left in the position of asking that Louisiana get more than other States get. I do not like to be left in that position. I would rather just take my chances with the position where we just absorb that out of our share. Can you work it out so you just add up the total of what the police juries get - not the parishes - and add to that what the Sheriffs were getting, so that to squeeze out $3 million, just reduce them all pro rata. Can you do it that way?

Mr. Morris. Yes.

The Chairman. That is what I would suggest we do, that way we are not asking in Louisiana for more than anybody else gets out of the formula.

Senator Moynihan. I would like to second that proposal.

(Laughter.)

The Chairman. I am not asking for anything extra. I know I have a lot of unhappy police jurors when they see that they are going to get a little less in each parish.

Senator Bentsen. Mr. Chairman, I would like to express my great admiration for my colleague, Jack Brooks, as I vote with you.

(Laughter.)

The Chairman. Let me say it, he would be a greater statesman if he was still living in Crowley.

(Laughter.)

The Chairman. Can you work that out?

Mr. Morris. Yes, Mr. Chairman, we will provide for a 10-percent reduction in the total entitlement for the Sheriffs and the balance to be funded out of the parishes.

The Chairman. All in favor say aye.

(Chorus of ayes.)

The Chairman. Opposed, no.

(No response.)

The Chairman. The ayes have it.

Senator Bradley. Mr. Chairman, the next issue on the list relates to New Jersey. I would ask that the committee defer consideration of this with the understanding that I might offer this amendment on the floor. It relates to a circumstance in New Jersey where because of the formula we have a number of municipalities who have smart lawyers and they have changed their designation to "Township" and doubled the amount of revenue sharing dollars that they have gotten.

We are at the moment looking at how the change would affect those townships that indeed have not switched but merit the funds. I would like to defer consideration of this amendment at this time with the committee's understanding that I would offer it on the Floor.

The Chairman. Without objection, agreed.

What is the next point you have?

Mr. Morris. The next item, Mr. Chairman, is the limitation on tax enclaves. This is an Administration proposal, it is on page 16. It is Item No. 7.

The Administration has proposed imposing a limit on the per capita adjusted taxes for certain jurisdictions which have unusually high adjusted tax effort factors because of special circumstances. They are either a small area with a heavy industrial concentration or a vacation resort area which receives unusually high taxes as a result of that type of activity.

The Administration proposes limiting those jurisdictions to per capita adjusted taxes of 250 percent of the average per capita adjusted taxes within the State. They would be scaled back from whatever the amount of their adjusted taxes are, back to this level This effects a relatively limited number of jurisdictions.

This provision is one that has been incorporated in the House Government Operations Committee bill with certain modifications and we would recommend that the committee adopt this provision.

The Chairman. All in favor say aye.

(Chorus of ayes.)

The Chairman. Opposed, no.

(No response.)

The Chairman. The ayes have it.

Mr. Morris. The next item involves a definition of a unit of local government. Under present law, a unit of local government is defined as a government of a county, municipality of township, which is treated by the Bureau of the Census as a unit of general government below the State level.

The Administration has not proposed any change in this definition. However, the House Government Operations Committee in their bill has adopted a series of high criteria for determining whether a particular unit of government should qualify as a unit of government for purposes of general revenue sharing. They have a list of 14 criteria and require different places to meet at least 14 specified services or to spend at least ten percent of their funds on at least two of the services.

We would recommend that the committee not agree to this change in the definition of a "unit of local government."

The Chairman. Without objection, we will follow the staff recommendation.

Mr. Morris. The next item is a reserve for adjustments. In the original Revenue Sharing Act there was a special fund set up for the purpose of permitting the Secretary to adjust for over and underpayments to recipient governments. In 1976, this provision was changed and we provided for a separate reserve fund for each State area and authorized the Secretary to reserve up to a half of one percent of the State area's entitlement. The funds that have been accumulated in this reserve exceed the needs of the Treasury in meeting these adjustment requirements.

The House Government Operations Committee bill continues the provision in present law, but urges the Secretary of the Treasury to vary future reserve adjustments to reflect projected needs for each State. We would recommend that the committee provide a similar directive to the Secretary of the Treasury to avoid the buildup of excess funds in the reserve.

Senator Talmadge (presiding). Any objection? Without objection it is approved.

Mr. Morris. The next item involves the annual use reports. In the original Revenue Sharing Act the Congress provided that each recipient government should provide an annual report on the amounts and purposes for which revenue sharing funds have been appropriated spent, or obligated, and they should also show the relationship of these funds to their functional items in the budget.

The Administration recommends discontinuing this annual use report because it is felt that it does not necessarily represent the actual fiscal impact of the funds within each jurisdiction.

The House Government Operations Committee went along with the Administration proposal in this area. The committee may want to eliminate the requirement for this annual use report.

Senator Talmadge. Any objection? Without objection, it is approved.

Mr. Morris. The next item involves the auditing requirements under the Revenue Sharing Act. In 1976, the general revenue sharing program was revised to include a requirement that each government which received annual payments of more than $25,000 - and this is 11,000 out of the 39,000 units of government which received revenue sharing funds - obtain an independent audit of all of its financial statements in accordance with generally accepting auditing standards, once every three years, covering all three years.

The Administration has proposed that this audit requirement be revised so that you require an audit not less than ever two years, which covers all of the financial statements for both years.

The House Government Operations Committee adopted the

Administration proposal but provided in addition that the Secretary of the Treasury has authority to waive the audit requirement where it would involve the repetition of an audit which had been performed by a State agency which was not in compliance with the auditing standard requirements but had taken action to comply with the requirement that the audits be conducted in accordance with the generally accepted auditing standards.

We would recommend that the committee may want to stick with the auditing requirements in present law, which require an audit once every three years, covering all three years.

The committee may want to also provide the Secretary of the Treasury with authority to waive the audit requirement under circumstances similar to that in the House. The House provision regarding the waiver is basically designed to cover a situation in the State of Michigan. We have received correspondence from the Senators from Michigan in support of that waiver provision and asking that our committee report similarly reflect that.

Senator Talmadge. Any objection? Without objection, it is approved.

Mr. Morris. That brings us to the reports required under the program. In 1976 we added a provision requiring the Advisory Commission on Inter-Governmental Relations to make a study of the interrelationship between revenue sharing and our Federal system. This report has been prepared and we would recommend deleting this requirement.

Senator Talmadge. Any objectin? Without objection, it is approved.

Mr. Morris. There is no provision in current law requiring anyone to evaluate the fiscal impact of revenue sharing on the budgets of recipient governments. The Administration has proposed that the Secretary of the Treasury be required to report to the Congress in 1982 and 1984 on the operation and status of the Revenue Sharing Trust Fund and include an assessment of its fiscal impact on State and local government.

Since the committee has deleted the requirement for the annual use reports, it may want to follow the Administration recommendation that requires the assessment of the program.

Senator Talmadge. Any objection? Without objection, it is approved.

Mr. Morris. That brings us to the last part of the measure, and that brings up the subject of countercyclical fiscal assistance.

In August of 1979 the Finance Committee and the full Senate approved S. 566, which in part authorized an anti-recession fiscal assistance program. A similar program has been included in Title II of the House Government Operations Committee bill. Althoug the Administration did not include a countercyclical program in its original proposal, the President in his Economic Renewal Program announced on August 28 endorsed the enactment of a $1 billion countercyclical program for fiscal year 1981.

We would point out that the first Concurrent Budget Resolution for fiscal year 1981, which was approved by the Congress in June of this year, and the second Concurrent Budget Resolution order, reported by the Senate Budget Committee on August 21, do not include any funds for countercyclical assistance.

We have provided a chart on pages 19, 20 and 21, comparing the differences between the countercyclical program approved by this committee and the Senate in S. 566, and the program approved by the House Government Operations Committee.

I can explain the principal differences between the bill as approved by the Senate, and the House bill. First of all, the funding under the bill originally approved by the Senate would have provided money only for fiscal year 1980, October 1979 to 1980. The House provision would provide funding from October 1980 through September 1983. Each would authorize one billion dollars per year.

In order to bring the countercyclical program into operation, the bill approved by the Senate provided that when national unemployment exceeded 6.5 percent for the most recent calendar quarter, the program would become effective.

The House committee has adopted a different approach. Rather than looking at unemployment, they would require two consecutive quarterly declines in real wages and salaries and gross national product. There would be a continued distribution of funds under their proposal until real wages and salaries regained their adjusted pre-recession level or, when the program ends pursuant to the authorization, it would terminate funding.

Under the bill approved by the Senate, the Congress would have distributed $125 million plus an additional $30 million, multiplied by each one-tenth of a percentage point by which unemployment exceeds 6.5 percent. This would be distributed on a quarterly basis.

Under the House bill, the amount of funding would be $10 million per quarter, multiplied by each one-tenth of a percentage point decline in real wages and salaries from the adjusted pre-recession level. Also, they would limit the quarterly distribution to not more than $300 million per quarter.

Another principal difference is that under the Senate bill one-third of the money would go to State governments, two thirds would go to local governments; under the House bill 50 percent would go to the State governments and 50 percent to units of local government.

The distribution to local governments under the Senate bill would depend on excess unemployment, which is defined as unemployment over 4.5 percent; and under the House bill it would be based on declines in real wages and salaries.

The de minimis level of payment would be $2,500 per quarter under the Senate bill and $1,000 per quarter under the House bill.

On page 21 is an explanation of exactly how the distribution formula works under each of the two bills.

Senator Moynihan. Mr. Chairman, just a point of clarification.

S. 566, am I correct, has passed the committee and passed the Senate, and is technically in Conference with the House?

Mr. Morris. Yes.

Senator Moynihan. So, we are comparing a bill which we adopted and a bill from the House and, I suppose, awaiting Conference?

Mr. Morris. That is correct, it is pending, waiting for Conference.

Senator Moynihan. I do not want to have a big discussion, but a possibility would be just to adopt once more the bill we have adopted and go to Conference with the House where we will meet the provisions on the right-hand side of your table.

Senator Bentsen. I have a question on that. Where do we stand on the Budget Resolution, they do not provide for this?

Mr. Morris. That is correct.

Senator Bentsen. Where does that leave us, then?

Mr. Morris. The second Concurrent Budget Resolution has been reported by the Senate Budget Committee, and an effort would have to be made on the floor.

Senator Bentsen. I see, it was not provided for in that.

Mr. Morris. Right.

Senator Bentsen. So, the change would have to be made on the floor if it was to accomodate this. Is that correct?

Mr. Morris. That is correct.

Senator Moynihan. I can tell my friends that it was defeated.

I proposed it, our committee having passed this bill. I proposed to the Budget Committee to provide funds for it.

Mr. Morris. Mr. Chairman, we should also mention that this is an authorization of an appropriation, rather than an entitlement, which puts it in a different position vis-a-vis a budget resolution.

Senator Byrd. Am I correct, is a billion dollars involved in that?

Mr. Morris. It would be one billion dollars per year.

Senator Bradley. It is one billion dollars per year if the unemployment rate went up to 6.5 percent and other factors in the formula were triggered.

Senator Byrd. This is a one-billion dollar expenditure that is being proposed.

Mr. Moynihan. May I speak to my friend from Virginia? This is legislation that is a stand-by legislation if the economy goes into a recession in 1981 and the recession is fairly severe, this would kick in.

Senator Byrd. It would trigger a billion-dollar appropriation.

Senator Moynihan. Yes, but it is not automatic.

Senator Byrd. It is not automatic, I understand that. I just think we have to draw a line somewhere, some time on these expenditures. This fiscal year we are in now has the highest increase in spending of any year in history; and the second-highest deficit of any year in history. The upcoming year likewise provides for a tremendous increase in spending and a tremendous deficit.

I am going to move at the proper time that this be stricken, this billion dollars be stricken out, and ask for a roll call. I just think we have to draw a line somewhere some time on spending more and more of the tax funds that we do not have.

The Chairman. Are we still talking about the revenue sharing bill?

Mr. Morris. We are talking about the countercyclical title.

The Chairman. I see.

Senator Bradley. This is simply an authorization.

Senator Byrd. I know it is an authorization and that leads to an appropriation.

Senator Bradley. I would like to speak to the concept of why it is in this bill. The reason it is in this bill is the belief that the concept of revenue sharing involves State, local, and also stand-by authority.

Now, it is certainly only available in the appropriations process. Therefore, if it is not appropriated we will not have the money. It also has to be triggered only if the Federal economy deteriorates to the level where the formula factors become operative. I know that those are not arguments that will convince the Senator from Virginia, but the theory behind it was to have on the shelf a comprehensive Federalism program for revenue sharing,

Senator Bentsen. Could I ask the Senator on that, as far as the technicalities, triggered on certain indexes, reaching certain points. Are those conditions now in effect? Would it now be triggered under the current conditions?

Mr. Morris. Depending on when you commenced the program, yes. We have unemployment of over 6.5 percent at the national level. We also have had two consecutive declines in real wages and salaries.

Senator Bentsen. Under the current conditions today it would be triggered.

Mr. Morris. That is correct. As an alternative, if the committee wanted to provide for a stand-by program which would not be triggered immediately, it could use a different national unemployment percentage.

Senator Bentsen. I am seeking information.

Senator Chafee. Mr. Chairman?

The Chairman. Yes, sir.

Senator Chafee. It seems to me that taking the figure of 6.5 percent unemployment is a low figure. If this Act were in effect now, the trigger would be on, would have been actuated. In other words, unemployment now is over 6.5 percent.

Senator Bentsen. It is at about 7.7 percent.

Senator Chafee. Where did you arrive at the figure of 6.5, where did you get that one from?

Mr. Morris. That was a figure that we selected last year.

Senator Bradley. That was in 566, which was passed in August of 1979.

Senator Moynihan. That is a figure that typically denotes a recession. We are getting so used to it, we do not think of it as a recession any more, perhaps. But there was a time when it was thought that four percent was much too high. We have now reached the point where 6.5 is beginning to be thought of as too low.

Senator Chafee. Under this Administration we have to lift our sights.

(Laughter.)

Senator Moynihan. Why not stick up for the principles of Rebublicanism and say, "6.5 percent is outrageously high and it requires countercyclical responses?"

Senator Chafee. Mr. Chairman, it seems to me that under the existing conditions to have had this program triggered in is not the kind of situation that I would envision requiring this program, particularly when we are running at a deficit. I would suggest we raise that trigger figure to something higher.

Senator Bradley. What would you propose raising it to?

Senator Chafee. Eight percent?

Senator Bradley. Eight percent? Could staff tell us, when was national unemployment last at eight percent?

Senator Bentsen. In '74-75 it was in excess of eight percent.

Senator Bradley. For two consecutive quarters?

Senator Bentsen. You certainly had that in effect, too.

Senator Chafee. Under the Senate bill it is just the most recent quarter, is it not?

Senator Bradley. We are going to go to Conference, I hope.

Senator Chafee. Let us work with the bill we have in front of us.

The Chairman. How do you feel about that, are you willing to go along with that proposal?

Senator Bradley. It is at 6.5 percent, he is suggesting eight percent. Why not compromise at 7.5 percent? I would be willing to compromise at that level.

The Chairman. Why not do that?

Senator Danforth. We are compromising on what now, as the trigger?

Senator Bradley. The trigger up from 6.5 to 7.5 percent.

The Chairman. That is a fair compromise.

Senator Chafee. Well, I should have started at nine, I guess.

(Laughter.)

The Chairman. Yes, but you did not.

(Laughter.)

Senator Byrd. Mr. Chairman, I would like a vote on the item itself.

The Chairman. All right. All in favor about doing something about this matter say aye.

(Chorus of ayes.)

The Chairman. Opposed, no.

(Chorus of noes.)

The Chairman. The ayes appear to have it.

Senator Byrd. I would like to have a roll-call vote on striking out the countercyclical provision.

Mr. Stern. Mr. Chairman, just from a purely parliamentary situation, the way we have been operating has been changing from present law. So, I would think the vote would be the other way, namely whether you are going to put countercyclical in.

Senator Byrd. The vote is whether to put the billion dollars into it.

The Chairman. You are talking about an authorization now, is that right?

Senator Byrd. I understand it is an authorization, which leads to an appropriation.

The Chairman. I understand. Go ahead and call the roll.

Mr. Stern. Mr. Talmadge; Mr.Ribicoff?

Senator Ribicoff. Aye.

Mr. Stern. Mr. Byrd?

Senator Byrd. No.

Mr. Stern. Mr. Nelson, Mr. Gravel, Mr. Bentsen?

Senator Bentsen. Aye.

Mr. Stern. Mr. Matsunaga?

Senator Matsunaga. Aye.

Mr. Stern. Mr. Moynihan?

Senator Moynihan. Aye.

Mr. Stern. Mr. Baucus, Mr. Boren, Mr. Bradley?

Senator Bradley. Aye.

Mr. Stern. Mr. Dole?

Senator Dole. No.

Mr. Stern. Mr. Packwood, Mr. Roth, Mr. Danforth?

Senator Danforth. Aye.

Mr. Stern. Mr. Chafee?

Senator Chafee. No.

Mr. Stern. Mr. Heinz?

Senator Heinz. Aye.

Mr. Stern. Mr. Wallop, Mr. Durenberger?

Senator Durenberger. Aye.

Mr. Stern. Mr. Chairman?

The Chairman. Aye.

Mr. Stern. The question is whether there should be an authorization for a countercyclical revenue sharing program added to this bill.

The Chairman. It is nine ayes and four noes. The ayes appear to have it. We will leave it open in case the absent people record themselves contrary to that. I would assume, though, just looking at the attitude, I would assume that the ayes would have it.

Now, let me announced that, having polled the absentees on the Dole motion authorizing appropriations for the State share revenue sharing in fiscal years 1982 to 1985, it was agreed to eleven by seven. So, that takes care of that.

Now, can you agree to a compromise?

Senator Bradley. Mr. Chairman, I thought Senator Chafee was offering that in the spirit of someone who was in favor of the general concept. His vote indicates that he is not in favor of the general concept. So, I would be interested to hear from my colleagues who are in favor of the general concept as to wheter 7.5 percent is a realistic number for them.

Senator Chafee. I thought we had already accepted it.

The Chairman. Well, you suggested a compromise of 7.5, and I would like to agree to 7.5 if we can.

Senator Bentsen. Mr. Chairman, I thought that was what we were voting on.

Senator Byrd. No, Harry Byrd did not want to do anything, he wanted to give it zero. But I think the members of the committee felt they were voting on the 7.5 or zero.

Senator Bradley. That is all right. I thought there were members who wanted to make a statement.

The Chairman. Why not agree on the 7.5, can we agree on that?

Senator Moynihan. Mr. Chairman, some can, some cannot. There is an issue here, and that issue is, at what levels of unemployment do we officially perceive the stress on the economy and the working people. There was a time when - under President Kennedy - we had a national goal of four percent unemployment that was set, and that was thought to be surprisingly high. We have gotten up to the point where 6.5 is an indication of serious trouble; and now moving it to 7.5 accustoms us to levels of unemployment which I do not think we should grow accustomed to.

Senator Bradley suggested that Sentor Chafee's thought was that he could be in favor of this legislation at 7.5. Well, those of us who wished to get a majority would have understandably responded. But had we known that he was going to be against it anyway, I think we would have said, let us keep the bill we passed. It was a good enough bill when we passed it the last time; the whole Senate has passed it.

The Chairman. If nobody wants to move it to 7.5, I will move it to 7.5. Just have a vote on it, just call a vote at the 7.5 level. Now, the 7.5 amounts to a reduction from what?

Senator Bradley. It is 6.5 now.

The Chairman. And we are moving it to 7.5.

Senator Byrd. The vote will be on whether to increase it from 6.5 to 7.5 as a trigger.

Mr. Stern. Mr. Talmadge, Mr. Ribicoff?

Senator Ribicoff. No.

Mr. Stern. Mr. Byrd?

Senator Byrd. Aye.

Mr. Stern. Mr. Nelson, Mr. Gravel, Mr. Bentsen?

Senator Bentsen. Aye.

Mr. Stern. Mr. Matsunaga?

Senator Matsunaga. Aye.

Mr. Stern. Mr. Moynihan?

Senator Moynihan. No.

Mr. Stern. Mr. Baucus, Mr. Born?

Senator Born. Aye.

Mr. Stern. Mr. Bradley?

Senator Bradley. Aye.

Mr. Stern. Mr. Dole, Mr. Packwood, Mr. Roth, Mr. Danforth?

Senator Danforth. No.

Mr. Stern. Mr. Chafee?

Senator Chafee. Aye.

Mr. Stern. Mr. Heinz, Mr. Wallop, Mr. Durenberger?

Senator Durenberger. Aye.

Mr. Stern. Mr. Chairman?

The Chairman. Aye.

Well, the ayes are nine, and the noes are three. We can record the absentees and I assume it will be at 7.5.

Senator Bentsen. Mr. Chairman, if I might comment just one minute on the question of the unemployed. One of the things that has happened in this country, as Senator Moynihan has very correctly stated our concern in years past at other levels. We have had more people who have wanted to take jobs than ever before in the history of this country.

In the last three and-a-half years you had eight million people added to the work force in this country. No other country in the world has matched that during that period of time. But with that you had people going to two-income families. You have a lot of women who had not been in the work force who are now seeking that kind of work; you have a lot of young people come on seeking that kind of work. That has added to our unemployment, plus we have had a growth in structural unemployment.

Unfortunately, we are going to end up in a situation where, as the Senator from New York has stated, we are going to probably accept as a norm something higher than we have accepted in the past. That is a tragedy and one which we have to work at, trying to correct.

Senator Bradley. Mr. Chairman, I would like to, if possible, propose to amend the formula that was described by Mr. Morris on page 21.

On page 21 the formula is excess unemployment times general revenue sharing employment, times local share, divided by the sum of the products of all local governments.

Well, I think it would be better if we did not have the GRS entitlement but rather used the GRS formula elements which are population, relative income, and general tax effort.

The entitlement formula includes constraints or limits, which is supposed to guarantee that the wealthy community gets a minimum, and it also imposes a ceiling on what the payments to the poor community are. The very purpose of this bill is to get it to those communities that are most in distress. I think by using the formula elements instead of the GRS entitlement formula you will be getting it to the poor communities who have the highest tax effort. I think that will be more consistent with the purpose of the program.

The Chairman. I would just like to ask for an opportunity to study that overnight because I do not know how I want to vote on it. I would vote that on this particular item we would have a chance to study it and vote on it tomorrow because I do not understand it.

Senator Ribicoff. Along that line I would hope the staff would translate this in some examples.

Senator Bradley. I think I could tell you, for example, in Louisiana which towns do better because of it. For example, it means more money in New Orleans, in Plaucheville.

The Chairman. I know what Plaucheville is.

Senator Bradley. It helps rural towns that are poor as well as the towns such as New Orleans.

The Chairman. Well, I would just like to have a chance to know a little more about it before voting on it.

Mr. Morris. One of the reasons, Mr. Chairman, that we did not include a staff recommendation on this was because we really did not have any sort of overall printout on how it would work. But since it involves a program which is not in existence at this point, nobody would lose any money.

The Chairman. That is fair enough, but I would just like to see a little bit more about what I am voting on. I am sympathetic to you and I know when you are on to something; there is no doubt about that.

Senator Bradley. How about Plaucheville, Mr. Chairman?

(Laughter.)

The Chairman. Well, Plaucheville does not have as many people who suffer, as New Orleans has. I would like to take a look at it overnight.

Senator Danforth. Mr. Chairman, during the heated controversy last year on the question of State royalties I made the argument that one of the effects of decontrol will be that State Severance Tax will be increased and as a result the revenue-sharing portion of mineral-producing States would be increased as well, the proportion of the entire Revenue-Sharing Fund.

I have a couple of charts which I want to just refresh the committee's recollection on, the effect of decontrol in increased State revenues from both royalties and Severance Taxes, which is the chart on my right. These are the figures from last winter, I am not sure they are still accurate.

But they show a total amount of $127.7 billion worth of increased revenues. Now, the chart on the left shows Severance Tax increases - and this is not just oil, it is all minerals - in various States between 1972 and 1978, which is prior to the effect of decontrol, of course. It shows an enormous increase in Severance Tax revenues of these States, from $710 million to over $2 billion; and of course that Severance Tax increase from those States is almost certain to go up and is going up right now.

The effect of this is that because Severance Tax income is included in the computation of local tax efforts, the proportion of the total amount available for revenue sharing going to these States with Severance Tax incomes is constantly being increased; and the proportion of the States who do not have Severance Tax income is being decreased.

I have an amendment which would put a cap on the extent to which Severance Taxes can be used in the computation of local tax efforts, so that the States could pick whichever year, 1977, 1978, or 1979, they want to use. Severance Taxes vary somewhat from year to year. So, it would give them a three-year period from which to pick. But after that selection is made the proportion of local tax efforts consisting of Severance Taxes would be frozen.

The Chairman. Well, let me just say, looking at your chart you cannot support some of these figures you have there. I, for one, have been contending to the people in Louisiana when I was seeking re-election that they are going to get a lot more money than their Revenue Department tells them they are going to get. They contend, the Revenue Department down in Louisiana, that they are not going to get anything like that $13.8 billion, it going to be a much lesser figure than that. I was roughing it out at about $15 billion. They said, no, it was going to be about two thirds of that.

Now, in addition to that, what is wrong about this proposal is, this opens up a great big "Mare's nest" of trying to tell the States how they are going to finance their governments. Once we get off in that area, tell them, "You do not finance your government with this tax, you have to finance it with that tax. You have to put more here, or we are going to punish you somewhere else."

I think that it just gets us into an area where the Federal government should not be, and that is trying to tell the State that it cannot use its own discretion about how to finance itself.

Now, worrying about what to do about the Severance Tax, I think in the main it has proved not justified. Louisiana has not raised its Severance Tax, we are one of the main oil-producing States. Has Texas raised their Severance Tax; Senator Bentsen?

Senator Bentsen. No.

The Chairman. We have not raised ours. They have not raised theirs. People in Alaska attempted to have a big increase in Severance Tax and it was the Louisiana people who told them, "Do not do that, it will create a lot of bad will." So, Alaska kept their Severance Tax at what the Louisiana figure is.

I do not know why, when States are behaving themselves very nicely anyway, why in the devil we have to go into the business of trying to penalize them because they raised their revenue the way they thought they ought to raise it.

Now, the Severance Tax that Louisiana has was set in place long before this oil increase took place. If the price of the oil is increased they collect more tax.

Here is a revenue-sharing bill, the premise of which was to tell the State, "We are going to give you a certain amount of money, no strings attached." That is how we started out with it. "We are not going to bear in. Rather than to tell you under what terms and conditions you are going to get the money we are going to tell you here is a certain amount of money, you spend it the way you think it ought to be spent."

Now, when the idea first came up Wilbur Mills went around speaking to these people and he said, "You do not want to have anything to do with this. As sure as you set up a program like this, it will be used just as one more leverage for Uncle Sam to try to run your State government for you."

Now, no one ever suggested at the time that we got into this that you ought to use the Revenue Sharing Bill to try to limit the State taxing power.

Senator Danforth. Mr. Chairman, I will not argue this at great length, but I just want to make two points about it.

The issue that is before us is the distribution of the total amount of money that is available for revenue sharing. It is a question of how much of that fund, what portion of this fund, should go to States that are otherwise doing very well.

Now, I take it that the whole argument for revenue sharing when people say, "Why do you take money to Washington and then send it back to the States" is that it is a way of redistributing of resources in this country. It is a way of trying to help, I hope, States that are not so well off.

So, what you have here is an acceleration of a maldistribution of resources where in effect because the percentage of the total pot is being increased for those States that are already doing well, in effect States such as, say, New York, New Jersey, Missouri, or Rhode Island, are subsidizing other States.

The second point that I would make is that Severance Tax, unlike most other taxes, is fundamentally an exported tax. That is an income tax, sales tax, those are largely borne by people who are within the State. The Severance Tax is not. The Severance Tax is borne by the populace as a whole; it is paid by the consumer of the product.

The Chairman. Senator, I am glad you said that because you just got through totally and absolutely destroying your whole argument. Let me just explain this to you, this is something you should understand.

The price of oil right now is controlled by the Federal Government. But under this decontrol it is going to be based on the world price. So, when you take that world price of oil, suppose the world price is $40 - just to pick a figure. That Severance tax comes out of what the producer gets, and there is no way on God's green earth that he can get one cent more than the $40 just because he has been taxed.

So, you take the 12,5 percent out of him. He has to take, let us say, about $5.50 out of his $40, and so instead of getting $40 he gets $35.50 and he cannot pass on one penny of that $5 that is being taxed away from him.

I know a little about that, I helped to raise that Severance Tax in Louisiana, and my father raised it before me. I am thoroughly familiar with it. I pay out a tremendous amount of it. So, it comes out of the hide of the producer.

I would ask Senator Bentsen if he is not familiar with that fact. You cannot pass a Severance Tax through to that consumer. The producer has to bear it.

Senator Bentsen. Yes, he has to bear it because finally you get the price set by the people. We are not setting it ourselves any more.

Let me also say that when you raise the Severance Tax in the State of Texas you are talking about a State with 13 million people. The idea that such a Severance Tax does not affect them, in the years past it has affected them very materially. Now you have a situation where the OPEC countries are really setting the price.

But as a result of what we have done in the past - and I did not hear the Senator From Missouri disturbed about the fact - we were paying full prices for gas in our State, decontrolled, and other States were getting it at a subsidized rate, much cheaper than ours. That is something that is very difficult for people outside of a producing State to understand. But that was what was happening. The resources of our State were being transferred to other States at a price less than we paid domestically for it.

The kinds of results that you saw with us right there at the site where we were producing it, we are paying utility rates in Austin and in San Antonio, and Houston that are the equivalent or more of the rates in Boston and Minneapolis. Now, that is what has happened to us.

When you get into a fight on excise taxes or Severance Tax, rather, in Texas., you have yourself a bloody political fight. I have not seen any move on those Severance Taxes in years in Texas because no one has dared take that kind of a thing on.

So, the idea that this is something that is just exported and does not affect the folks at home, that sure has not been the case in the past. Now, on oil we have a situation where OPEC countries are setting that price and the producer at this time is having to "eat" it, whatever it is.

Senator Ribicoff. Can I just make one comment? You talked about a big political fight in Texas. What has been raised by Senator Danforth is going to plague this country and this Congress for a long, long time. I think it is not going to go away, it is going to divide the country. That is the tragedy of what revenue sharing has done because it has changed the basic concept of our system of government between the Federal and the State.

That is why I commend and supported Senator Bentsen's and Senator Byrd's proposal because as I understand Senator Danforth, this is not the same fight that he made on the floor, so vehemently opposed by Senators Long and Bentsen, in which they prevailed.

Now he is talking about, if you get that and you keep that because they accept the arguments made by Senator Bentsen and Senator Long. Now you add something additionally to take away from the other States because you do not figure that extra so-called "windfall" - you say it is not a windfall - in the formula, which deprives the other State from its revenue share. You are always going to have this argument until you eliminate revenue sharing.

Some day you are going to have to face up to the situation, are we going to go back to what the founders of this country intended between the Federal and State governments. But as long as we have that revenue sharing it is going to be with you. Senator Danforth has hit on something that is going to plague Senator Danforth and Senator Long for lots of years to come.

The Chairman. Well, now, look, how does a State go about deciding how much tax it wants to levy on these people? I do not care whether you are raising it by a Severance Tax - Severance Tax is by no means the only tax we have in Louisiana. We have a Severance Tax; we have an income tax; we have sales tax, we have property tax.

A State looks at its needs and it levies taxes to bring in the amount of money it thinks it ought to raise, based on the needs that exist within that State. Cities do pretty much the same type of thing.

When you start trying to say, "Well, now, we are going to look at the way you raise your money, and we are going to reduce your revenue sharing based on how you raise your money," once you get into that, it seems to me as though you totally destroy the whole principle that the Federal Government is going to raise some money. It is not going to tell the States how to run their State governments. It is going to raise some money and it is going to distribute it to the States on an equitable basis.

Now, if you are looking at tax effort, how are you going to start to judge a State's tax effort - especially we are talking about a tax on their people. Are we going to get down to saying, "You can use one tax but you cannot use another tax?" It seems to me that a State pretty well has the privilege to decide how it wants to raise whatever amount of revenue that State thinks it needs to raise.

Senator Danforth. Mr. Chairman, the minute we got into the business of cranking States' tax efforts into the business of distributing Revenue Sharing Funds, we got ourselves into the business of making a judgment as to what the State does in its own tax policy is related to what we do in distributing revenue sharing.

The Chairman. You look at tax effort, you look at how much money the State raises.

Senator Ribicoff. I do not think when the revenue sharing was passed anyone contemplated the consequences and the reverberations that would take place when the price of oil advanced to such a great extent. It certainly was not in the mind of the Senator from Louisiana or the Senator from Texas.

But now it has taken place and I can foresee a continuous struggle between the various sections of the country with corelative resentment. I think a lot of it could be eliminated if you eliminated the revenue sharing because it is going to have a constant struggle and fight. One of these days the majority of the States that do not have the advantage of a Severance Tax from oil or other natural resources will actually join together to punish the States with the Severance Tax. Philosophically - and it is not going to happen this year or the next, or the year after - but philosophically this is going to be a fight that is going to divide the country and I hope it is not going to take place.

The Chairman. Let me just make this point, and I am not sure Senator Ribicoff understands it, and I think there are maybe some other people who do not understand it.

Louisiana had a Severance Tax much higher than that in Texas. Can you recall what the Severance Tax is in Texas?

Senator Bentsen. We are a little over four percent.

Louisiana. All right, so Texas has a four percent Severance Tax.

Senator Bentsen. What is yours, about twelve percent?

The Chairman. Louisiana has a twelve and-a-half percent Severance Tax, about three times as high. A barrel of Texas oil sells for the same price as does a barrel of Louisiana oil. The Louisiana producers just have to take an extra eight points out of their hides. They just get that much less because the State taxes it away from them.

If a State has no Severance Tax, their oil still sells for the same price, their producers just get that much more relative to what we get where we tax it.

Now, that Severance Tax has always been viewed in these States where we had it as a way, in terms of taxes, as a way of taxing those who are better able to pay, so those who are less able to pay would not have to pay so much. It has been a popular approach toward government in Louisiana, the attitude being just as some people would favor an income tax rather than a sales tax.

Now, we are not passing that tax on. That Severance Tax on oil is being paid by the producer. Even this windfall tax has given us all kinds of headaches because it is coming right out of their checks and they cannot pass it on to anybody.

Now, to come in here and say that we ought to be penalized because by virtue of the decontrol the Severance Tax brings in more money, which is being taxed away from our producers and it is not being passed through. The world price of oil determines what the oil is.

It seems to me this distorts the whole program, puts a whole new equation into it. This is a matter which in my judgment will lead to more and more Federal control - not just on what you can do with the money, but what you are going to do as a condition of getting it. It seems to me to say how you have to raise your taxes and I do not think we ought to get that into the bill.

Senator Bentsen. Mr. Chairman, let me make a point to

Senator Danforth on this along the lines of what you are talking about.

I have a State that, in spite of the show "Dallas" where somebody in Los Angeles tries to interpret my State weekly; and a new show called "Texas" where somebody from Brooklyn tries to interpret my State, still has the lowest per capita income in parts of that State of any place in the United States.

It still is not up to the median on per capita income in the United States.

Now, that State has been depleting its resources to a very major extent for a very long time. Now we are seeing our reserves in that State going downhill. Now, are you to say to us then that if we decide that we are going to put a heavier tax on the producers in that State to try to make up some of that depleting resource, as the income goes down that we are not to be able to do it in effect, or we get penalized. You get penalized on how you go ahead and distribute your revenue sharing, that is what you are saying.

You put a disincentive on our doing it. Let me finish, and then I will be delighted to yield.

The point is that who pays for that is the producer in the State. It is a bloody political fight any time you take on the producers to try to raise the Severance Tax because as the OPEC countries now set these prices it is not passed on.

Senator Danforth. Well, the fact is without raising the percentage of tax at all, the tax revenues for Texas, for Louisiana -

even before decontrol - went up very, very substantially. That was the second map. Even before decontrol, between 1972 and 1978 the Severance Tax revenue for Texas increased from $3.22 to $9.53; and for Louisiana from $2.20 to $4.61. That is without any action of the legislature.

With decontrol it is clearly going to go up substantially more than that. Now, I am not saying that you can or cannot do anything. The only thing I am arguing is that the whole concept of sending money to Washington and then sending it back to State and local governments is not for the sake of going through all of the procedure and the red tape of doing that, but for the sake of trying to provide a source of income throughout the country, even for parts of the country which are relatively poor.

That you can do anything you want with the Severance Tax, provided the share of the total revenue sharing is not going to be constantly increased as a process.

The only issue before us - the only issue before us is, how big are the wedges of the revenue sharing pie that are going to be served up to States which have Severance Taxes. That is the only question.

The issue that I am presenting is, is it not possible - not to take it away entirely, some people propose that. Some people say Severance Taxes should not be included at all. I do not say that. All I say is, can we not, just for the sake of equity, can we not have some limitation to the future growth of the share of this limited revenue sharing pie that is going to go to States with a Severance Tax because to the extent that their wedges grow, the wedges of other States shrink.

Senator Bentsen. Are we to be condemned forever to have a lower per capita income than some of the other States in the Union?

Senator Danforth. No.

Senator Bentsen. Is it because suddenly we are beginning to see our average move up and we are saying that we are approaching some of the other States in the Union and their per capita income average? Where is it that we are so rich?

The Chairman. I suspect you are going to find - and I will be glad to look at the figures - but I suspect you are going to find that the Louisiana share of the revenue pie will go down, not up because there are more factors in it than just this one item. One item is that we are moving up in per capita income. When I came here we were about 72 percent. Now we are gradually creeping up and we are now up to about 86 percent. Because we are creeping up in one area we have less in another. If we collect more taxes in one area, that probably means we are collecting less taxes in another area.

So, by the time you look at the balance - and I would like to ask that the staff get us some showing of just where we stand. My recollection is that Louisiana's share of revenue sharing has been going down, not going up. Can you tell me about that?

Mr. Morris. Off the top of my head, Mr. Chairman, I think it has remained relatively constant. We would have to get the distribution chart and double-check that. We can supply that.

The Chairman. Well, my recollection is that we have been moving up about one percent the last several years. We have been having about a one-percent gain as compared to the national average per year. This last year, I think, we gained about half of one percent. Can you tell me whether our share has gone up or down?

Mr. Morris. In fiscal years 1979 and 1980 the total amount distributed in Louisiana went down.

The Chairman. In 1979 and 1980?

Mr. Morris. Right.

The Chairman. Frankly, what our situation has been, our people are concerned about it going down, the way it is now; not going up. I suspect that is what you are going to find.

Furthermore, our situation here is that the State is not going to be getting any revenue sharing money. Where they really need help is at the local level, and they are not getting that Severance Tax money.

Mr. Morris. There was an actual reduction in the total amount distributed to the State of Louisiana just under $9 million between fiscal year 1979 and 1980. Now, out of that $9 million close to $1 million represented just an overpayment during a prior period. So, there was actually an $8 million decline.

The Chairman. So, we are not "hogging" up the other money, we are declining the way it is now. I suspect you are going to find that, all factors considered, we will probably go down again next year. Yes, sir.

Senator Moynihan. I have a proposal that is going to increase your share.

The Chairman. Well, I would be willing to settle right now to just stand still, frankly.

Senator Danforth. Mr. Chairman, let us vote. You have the votes. Let us just call the roll.

The Chairman. Call the roll.

Senator Wallop. Mr. Chairman, I think we have gone beyond the time permitted.

Senator Bradley. Gone beyond what?

Senator Wallop. If you want to call it, I will not object; but we have gone beyond the time permitted.

The Chairman. Why not come back and vote tomorrow, then?

Senator Bradley. Mr. Chairman, I take it that you would object to any other votes or any other issues being brought up now?

The Chairman. We do not have a quorum at the moment, frankly.

Senator Bradley. Mr. Chairman, as you are pondering a number of issues over the evening I hope that you will consider the future Plaucheville; and I hope that you will look at this formula change on countercyclical because all it says is that Plaucheville, if it has poor people and heavy taxes, that they should get the full benefit of those two factors in the formula and not be constrained by the artificial constraints that are in the general revenue sharing proposal.

Senator Moynihan. Mr. Chairman, are we not doing any more business?

Senator Bradley. I think Senator Wallop objected. There is an agreement on the floor, is that right? What was the objection?

Senator Wallop. I said that if the Chairman wanted to vote on it, I was perfectly willing, I would not object; but that we had indeed gone beyond the time.

Senator Moynihan. I have an proposal to increase Louisiana and forgive Louisiana a debt of the Federal Government since 1836.

(Laughter.)

The Chairman. Why not temporarily set this aside and tell us about it tomorrow?

Senator Moynihan. Mr. Chairman, a measure of the first revenue sharing proposal of this government was proposed by a former chairman of this committee, a predecessor of yours, John Calhoun.

At a time when there was a great disturbance over the National Bank under President Jackson, Calhoun proposed and carried in both Houses the Act of June 23, 1836, in which surplus moneys of the United States Government treasury were deposited with the States, in proportion to their representation in the Congress. They were to be held in safekeeping and repayment was to be demanded.

Altogether some $28 million was disbursed including, I am happy to say, $477,919.14 to the State of Louisiana. That is still owed, it is undischarged; it is carried on the books of the Treasury. Treasury does not want it any more, it does not think the States are good for it; do not think they will pay it back, or whatever.

Here is an opportunity for the State of Texas - alas, there was not State of Texas.

(Laughter.)

Senator Moynihan. But New Jersey, Missouri,$382,335.30. This is an opportunity to clear up a problem that has been burdening the bookkeepers of the Treasury Department for 150 years. And to the advantage of most members of this committee, those who are not advantaged or did not then exist, cannot very much complain.

(Laughter.)

The Chairman. I was not aware of this at all. Do you mind explaining what that is, Mr. Morris? Tell me more, what is that about?

Mr. Morris. As Senator Moynihan has explained, this is a sum of money that was distributed to the States back in 1836, and it has been carried on the books of the Treasury in a special category called a "Memorandum Asset Account." A number of States, when they issue a new bond indebtedness, have to have a provision within their prospectus indicating that there is this indebtedness on the books.

In the past there have been a number of bills that have been introduced during different Congresses. A bill to discharge the States from this liability was approved by the Ways and Means Committee in 1971. In the past, when this legislation has been proposed the Treasury Department and OMB have had no objection to those bills. We do not have a report as of this moment.

The Chairman. I have to leave to go to another meeting. I will leave Senator Moynihan in charge. You can work out whatever you can. If you can get the committee to agree to this matter, Senator --

Senator Moynihan. Can I say this, you can have fun with this, but actually there is a serious side. As Mr. Morris said, every time any of these States issue their bonds they have to have a clause acknowledging this debt to the Federal Treasury. The lawyers' fees have long since eaten up any advantage -- I failed to mention Rhode Island, $382,000 that you got back in 1836.

The Chairman. It sounds like it might be a good idea. Is this a matter o forgiving something?

Mr. Morris. That is correct, it is simply a forgiveness of a so-called indebtedness, and there are ten Finance Committee States who would be discharged.

Senator Moynihan. There was no National Bank.

The Chairman. I see where Missouri gets $382,000 out of this.

Senator Moynihan. That might cheer him up.

The Chairman. That should make him feel better.

Why not think about this over night?

Senator Moynihan. All right, Mr. Chairman.

The Chairman. We will study it over night.

Senator Danforth. I feel I am going to like this bill.

The Chairman. The committee stands adjourned.

(Whereupon, at 12:20 p.m. the committee adourned, to reconvene at 10 a.m., Thursday, September 18, 1980.)