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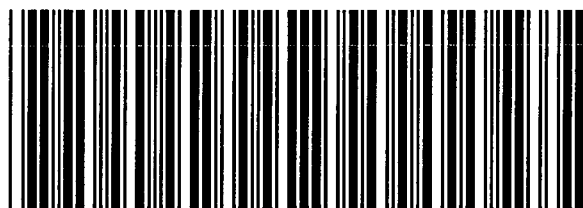
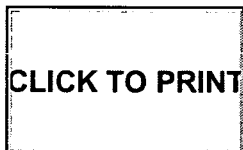
Hearing Title*: Tax Cuts and Trade Legislation

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FINANCEREP

OFFICIAL TRANSCRIPT

Bohl.

COMMITTEE ON FINANCE

UNITED STATES SENATE

EXECUTIVE SESSION

AFTERNOON SESSION

Thursday, August 21, 1980

Washington, D. C.

ALDERSON  REPORTING

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1 EXECUTIVE SESSION

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3 THURSDAY, AUGUST 21, 1980

4 - - -

5 United States Senate,

6 Committee on Finance,

7 Washington, D. C.

8 The committee met, pursuant to recess, at 3:20 p.m. in
9 Room S-207, The Capitol, the Hon. Russell B. Long (chairman
10 of the committee) presiding.

11 Present. Senators Long, Ribicoff, Byrd, Nelson,
12 Bentsen, Matsunaga, Moynihan, Baucus, Boren, Bradley, Dole,
13 Packwood, Roth, Danforth, Chafee, Heinz, and Durenberger.

14 The Chairman. Let me make this point for starters. I
15 would hope that our staff, working with the best help that
16 they can get from Treasury and elsewhere, can move these
17 figures around somewhat where you achieve about the same
18 effect that you have on the chart that is shown here, but
19 that in doing so it is done so that every bracket reflects a
20 cut.

21 For-example, I notice that the fourth bracket here
22 shows 21 percent against 21 percent. Then you come down to
23 the fifth bracket, 24 percent against 24 percent. Then
24 further down you have another bracket where you have 54
25 percent on both sides.

1 I would think that you either break the bracket, or you
2 could move the numbers up a little bit so that you achieve
3 the same effect that you are doing to do, but that you do it
4 in a way that reflects a reduction in that bracket, because
5 otherwise people will be explaining from now until we pass
6 the next tax law why it was that when we cut taxes the rate
7 was cut but those persons were not cut in that particular
8 bracket.

9 I understand your explanation, and I read about your
10 explanation. I don't feel like explaining from now until we
11 write another tax law. That being the case, it would be a
12 lot easier to understand if you could work it out for us so
13 that in every category it reflects a rate cut.

14 Mr. Shapiro. What it will require is for us to add
15 additional brackets to break them up a little bit. The
16 problem that you have is that we worked with the existing
17 structure, which had broadened the bracket and had reduced
18 the 20 brackets to 15. Then when you have brackets that are
19 \$4,000 it is very difficult to cut each bracket.

20 What Senator Long is suggesting is that he would like
21 to have cuts in each bracket even though individuals in that
22 particular bracket are getting the benefits of the cuts as a
23 result of the other exemptions. Senator Long is suggesting
24 that it would be better to have cuts in each bracket even if
25 it means adding some brackets in order to do that.

1 The Chairman. You can show it to us when you have it
2 ready. If necessary, you can show it to us tomorrow. But I
3 would like to report out a tax structure that shows the cut
4 bracket by bracket. At \$18,000, I want it to be shown that
5 you are being taxed at a lower rate than you were being
6 taxed previously, so that when people look at it they know.

7 I have read the explanation in the afternoon newspaper,
8 The Star. It says that you are lucky, even if you don't get
9 a cut in the bracket, you get the benefit of the cut below
10 that. But I would rather not have to explain it. I would
11 rather it be reflected that you get a cut all the way up the
12 line.

13 I think that you can work it out for us. If you have
14 to add a couple of brackets, it is better than having to
15 explain the rest of it. Most people are going to be turning
16 to the tax table anyhow.

17 Mr. Shapiro. That is right. The bracket that we have
18 not cut, they will probably compute outside the table, and
19 that is the 54 percent bracket. That was not cut because of
20 revenue constraints. There are three brackets that were not
21 cut, the 21 percent bracket, the 24 percent bracket, and the
22 54 percent. The 21 and 24, people just look right up in the
23 tables. Those in the 54 percent bracket would compute it
24 themselves.

25 What we will do, we will revise the rate structure by

1 increasing the brackets, breaking them down some, and
2 provide the same distribution effect that we have here, so
3 that we will not take anything away from the rate cuts by
4 changing the brackets.

5 The Chairman. If you do that, the way I understand it,
6 people have got to compute it themselves. If you have
7 \$28,900, whether or not you pay a certain amount of money
8 for \$28,000, and then you pay X percent on whatever is above
9 that. You can do that, I assume.

10 Mr. Shapiro. Yes, we can try to do that, and we will
11 come out with the same effect.

12 The Chairman. It does not have to come out to the
13 penny, or the precise dollar. But if it does, it will be
14 all right.

15 We have to set a date on the capital gains.

16 Senator Moynihan. Mr. Chairman, I appreciate that. I
17 think the date ought to be August 21, which I believe it has
18 been the practice of the committee to set the date on which
19 the committee voted.

20 Mr. Shapiro. Are you saying sales occurring today, or
21 after today. Do you want to include today?

22 The Chairman. I think that any sales occurring today
23 ought to get the benefit.

24 Mr. Shapiro. Any sales occurring after August 20th.

25 Technically, you have a corporate rate at 20.1, it

1 might be easier to say 20 percent.

2 Senator Moynihan. I think that it would make the most
3 sense.

4 The Chairman. Is that agreeable making it 20 percent
5 for corporations?

6 I think that now we ought to go to corporate rate
7 structures, and I think Mr. Danforth ought to have the
8 privilege of making that presentation.

9 Senator Danforth. Thank you very much, Mr. Chairman.
10 I appreciate it.

11 In 1978, when we last addressed the question of a tax
12 cut, there was considerable testimony at that time about the
13 effect on productivity and capital formation of lowering the
14 corporate tax rates.

15 I can remember one meeting that Senator Javits hosted
16 in which, perhaps, a dozen or more economists and business
17 people were present. They were asked, going around the
18 room, "What sort of tax cut would you prefer, which would
19 induce you to make investments for the future of your
20 company.?"

21 The unanimous view of those present was that the best
22 kind of tax cut for them was corporate rate reduction. The
23 reasoning was that when business people make decisions as to
24 what kinds of investments to make in plant and equipment,
25 they do so with a view toward the after-tax rate of return

1 that is going to be produced down the road.

2 It was also stated at that time that a corporate tax
3 reduction does not have to all take place immediately. What
4 they want is predictability and, therefore, a phased
5 corporate rate cut indicating that at a date certain the
6 rate will be cut to a percentage certain is sufficient to
7 encourage investment in the future.

8 Similar testimony was heard before the Finance
9 Committee this time. Therefore, there has been some degree
10 of talk about the possibility of reducing the corporate tax
11 rate from its rate of 46 percent down to 44 percent, 45
12 percent in 1981 and 44 percent in 1982, and that is the
13 proposition that I would move.

14 The Chairman. Any further discussion?

15 Senator Bentsen. I would like to second that proposal.

16 The Chairman. Let's call the roll.

17 Mr. Stern. Mr. Talmadge.

18 The Chairman. Aye by proxy.

19 Mr. Stern. Mr. Ribicoff.

20 Senator Ribicoff. Aye.

21 Mr. Stern. Mr. Byrd.

22 Senator Byrd. Aye.

23 Mr. Stern. Mr. Nelson.

24 (No response.)

25 Mr. Stern. Mr. Gravel.

1 The Chairman. Aye by proxy.
2 Mr. Stern. Mr. Bentsen.
3 Senator Bentsen. Aye.
4 Mr. Stern. Mr. Matsunaga.
5 Senator Matsunaga. Aye.
6 Mr. Stern. Mr. Moynihan.
7 Senator Moynihan. Aye.
8 Mr. Stern. Mr. Baucus.
9 (No response.)
10 Mr. Stern. Mr. Boren.
11 Senator Boren. Aye.
12 Mr. Stern. Mr. Bradley.
13 (No response.)
14 Mr. Stern. Mr. Dole.
15 (No response.)
16 Mr. Stern. Mr. Packwood.
17 (No response.)
18 Mr. Stern. Mr. Roth.
19 Senator Roth. Aye.
20 Mr. Stern. Mr. Danforth.
21 Senator Danforth. Aye.
22 Mr. Stern. Mr. Chafee.
23 Senator Chafee. Aye.
24 Mr. Stern. Mr. Heinz.
25 (No response.)

1 Mr. Stern. Mr. Wallop.

2 Senator Danforth. Aye.

3 Mr. Stern. Mr. Durenberger.

4 Senator Durenberger. Aye.

5 Mr. Stern. Mr. Chairman.

6 The Chairman. Aye.

7 Mr. Stern. Mr. Bradley.

8 Senator Bradley. Aye.

9 The Chairman. The ayes are 16 and the nays are zero.

10 Mr. Danforth, do you want to discuss the R&D?

11 Senator Danforth. Mr. Chairman, one of the
12 recommendations made by the report of the Joint Economic
13 Committee was that encouragement for greater spending in
14 research and development was directly related to increased
15 productivity and better competitive position for the United
16 States.

17 Historically, our technological advantage has been the
18 cutting edge for American competitiveness in world markets.
19 In recent years the percentage of our gross national product
20 devoted to research and development has declined, whereas
21 the percentage of gross national product of other countries,
22 particularly Germany and Japan, has been increasing.

23 Other countries, including Japan, do provide tax
24 incentives for spending on research and development.
25 Therefore, over a period of a few years, various members of

1 the Senate have been working on proposals to try to provide
2 incentives for greater spending on research and
3 development.

4 It appears that the most economical way to accomplish
5 this objective is to provide a 25 percent tax credit for
6 incremental increases on business spending for research and
7 development. The revenue loss estimates, and of course this
8 is with no reflows at all, that are projected range from
9 \$500 million to \$800 million in the out years. So it is not
10 projected to be a great revenue loser.

11 The definition of what constitutes research and
12 development spending has caused some degree of debate and
13 concern. However, it is proposed in this amendment that the
14 same definition be used as presently used by the Financial
15 Accounting Standards Board in its statement No. 2.

16 I have a letter from the Board which indicates that
17 this particular definition has been used by them for a
18 period of years, and that it has worked out very well, with
19 a minimum of problems.

20 Furthermore, because while the credit applies to
21 incremental increases in research and development spending
22 over a base of three past years, if R&D were overstated in
23 year A, the effect would be to increase the base and
24 therefore reduce the amount that could be taken as a
25 deduction in future years. Therefore, there is a kind of

1 self-policing that is involved in this concept.

2 The co-sponsors of this are Senators Bradley, Chafee,
3 Bentsen, Senator Ribicoff, and Senator Cranston, I believe.

4 Senator Bentsen. Mr. Chairman, on the Joint Economic
5 Committee, we had substantial testimony on this, and we
6 received from a national accounting firm the method used by
7 the Japanese in this regard. What we have here is a
8 three-year running average, as I understand it, and it would
9 start in 1980 and build up.

10 This incremental amount of increase in research and
11 development is the way that the Japanese approach it, and
12 they get a very substantial tax benefit for it. I strongly
13 support the amendment.

14 Senator Danforth. Mr. Chairman, it is my understanding
15 that the Joint Committee has some proposals with respect to
16 the initial base period

17 Mr. Shapiro. The way that the proposal works is that
18 you get a 25 percent credit on the increment above the
19 average. It is a moving average. Because of the problem
20 that some businesses have in looking back for a year prior
21 to the year 1980 in determining how much was research and
22 development, and how much was deducted as a first year write
23 off, and how much of it was an ordinary business expense,
24 and the difficulty to make that determination, for
25 administrative convenience the staff suggested that you

1 start in 1980, which means that you look at your 1981
2 research and development over your 1980. Then in 1982, you
3 look at your 1981 for purposes of your average. Then you
4 add the expense of that to your average. In 1983, you
5 finally get to your three year average. You have 1980,
6 1981, and 1982, and your 1983 average moves forward in that
7 manner.

8 Senator Bradley. Mr. Chairman, as a co-sponsor, I hope
9 that the committee will adopt this approach. In the last
10 six months to a year, I suppose I have talked to people from
11 Livermore to MIT, Princeton and AT&T, all of the big areas
12 in this country where research is done in significant
13 quantities, and all of them have the feeling that there is
14 not the kind of support that there should be by the Federal
15 government of research and development.

16 I think that this is a very important bill for our long
17 term productivity growth, and I think that it is the key to
18 many of the things that we are doing elsewhere in the bill,
19 and also the key to some of the things that the Finance
20 Committee has addressed in labor areas. It is also
21 essential to increasing our productivity.

22 I think the modifications that the Joint Committee has
23 proposed really meet any objection that has been made.

24 Senator Matsunaga. Mr. Chairman, what is the projected
25 revenue loss?

1 Senator Danforth. The initial loss is half-billion
2 dollars a year.

3 Senator Matsunaga. Fiscal year or calendar year?

4 Senator Danforth. Calendar year. In the fiscal year
5 it goes to \$200 million. For the full calendar year it is
6 the \$500 million.

7 Mr. Shapiro. Mr. Chairman, we have some other
8 suggestions that we will be working out with some of the
9 staff that relate to the provision. They carry the intent
10 of the provision. We want to be sure that it applies to the
11 taxpayers, which means that the company that does its own
12 research and development, as well as to the extent that that
13 company farms it out and gets research and development from
14 some other company, gets the credit with regard to the
15 amount that is request.

16 This means that the company that does research and
17 development for others would not get it. It is the one that
18 who actually pays to get it done. Also it would not be
19 available for tax exempt organizations. Clearly there would
20 not be any refundable credit for them as they do not pay
21 taxes. It would only be available for the company that does
22 it itself, and the company that farms it out.

23 The next situation that we would like to talk about is
24 that there are times when you get a 25 percent credit and
25 there are potential shelters or abuses that come about. We

1 would like to have the discretion in drafting to work with
2 the Senators involved who are sponsors and their staff, to
3 the extent that we come upon problems because of taking the
4 25 percent credit, and maybe with other things that you may
5 have, there may be certain shelter opportunities. There are
6 certain rules that may be worked out to be consistent with
7 what the committee wants, which is a true research and
8 development credit, but not where it would lead to shelter
9 activity. So that we can have the authority to carry out
10 the intent with any types of rules that apply.

11 The Chairman. Without objection.

12 Mr. Lubick.

13 Mr. Lubick. I have a question, Mr. Chairman.

14 Without getting into the merits, is it correct, Senator
15 Danforth, that it would not be both a deduction and a credit
16 for the same amount?

17 Senator Danforth. It is my understanding that both the
18 deduction and the credit would apply.

19 Mr. Lubick. If you had a 70 percent taxpayer doing it,
20 you would giving a 95 percent subsidy. It would seem to me
21 that you should reduce the deductible amount by the credit
22 amount.

23 Senator Matsunaga. It should be one or the other.

24 Senator Danforth. The proposal is to allow both. As
25 Bob pointed out, if there is a sheltering problem that would

1 be worked out in the drafting, but the initial proposal is
2 that it is a deduction and a credit.

3 Mr. Lubick: It seems to me that if the government is
4 paying 25 percent there is not much point in giving a
5 deduction for what the government is paying as opposed to
6 what the taxpayer is paying. In other words, the government
7 pays 25 percent, one would think that only the taxpayer's
8 out-of-pocket would be deductible, otherwise you would seem
9 to have a disturbingly large subsidy.

10 Senator Danforth. For one year's incremental only.

11 Mr. Lubick. The only thing that is reduced -- it
12 reduces the reduction. Deductibility is the portion that is
13 reflected in the credit. It seems to me that otherwise you
14 have a rather extraordinary compounding which in the case of
15 the jobs credit, which you voted on previously, you have
16 made a correct for as well.

17 Senator Danforth. Yes. This is for corporations who
18 would be doing it, and who would be getting both the
19 deduction and the credit.

20 Mr. Lubick. You would not have 44 percent less 25.

21 Senator Danforth. It is only the increase over the
22 base rate.

23 Mr. Lubick. It seems to me that there is a principle
24 involved here allowing a deduction for that which you are
25 giving a subsidy as well, particularly when you are getting

1 to the sizable credits. It gets to be credit rich.

2 Senator Danforth. The proposal is both for a deduction
3 and a credit.

4 Senator Matsunaga. That is only over and above the
5 average base.

6 Senator Danforth. That is correct. It is just the
7 incremental increase. The revenue loss, as I said, only
8 \$200 million to \$800 million at the high point over this
9 period of time. Of course, you only get the credit if the
10 money is actually spent for research and development.

11 Mr. Packwood. Before we vote, do you know how far up
12 we are in calendar year loss to date?

13 Mr. Shapiro. We are close to \$35 billion now. This
14 would add up to \$36 billion.

15 Senator Roth. Could I ask this question in relation to
16 that. As I understand there is no reflow calculated.

17 Mr. Shapiro. This is tax revenue.

18 Senator Roth. Even CBO permits the first year at 20
19 percent.

20 The Chairman. I would think that you would not want
21 the government to pick up more than 90 percent of the tab.
22 It seems to me that you ought to limit that and that the
23 taxpayers are going to have to pay 20 percent of it. If you
24 don't, it would defeat the purpose of your amendment.

25 I would suggest that it be so amended. In other words,

1 if the taxpayer is paying no more than 20 percent of the
2 money, it seems to me that it is an incentive. You pay 20
3 percent, and 80 percent being a tax savings, it seems to me
4 that it is a pretty good deal. I would hope that we could
5 agree to that.

6 Senator Danforth. That would be fine.

7 Senator Bradley. What if we made it a 30 percent
8 credit, with some provision denying the deductibility of the
9 amount of the credit.

10 The Chairman. You see don't get in the 80 percent
11 credit unless you look at the individual tax rate. If you
12 are looking at the corporate tax rate, you would not get
13 that high anyway. But if you say, all right, let them have
14 the 25 percent, and when you look at it all it works to more
15 like 80 percent, and 80 percent is the limitation. It is
16 only in the exceptional case that it would go to 90
17 percent.

18 Call the roll.

19 Mr. Stern. Mr. Talmadge.

20 The Chairman. Aye.

21 Mr. Stern. Mr. Ribicoff.

22 Senator Ribicoff. Aye.

23 Mr. Stern. Mr. Byrd.

24 (No response.)

25 Mr. Stern. Mr. Nelson.

1 Senator Nelson. Aye.
2 Mr. Stern. Mr. Gravel.
3 (No response.)
4 Mr. Stern. Mr. Bentsen.
5 Senator Bentsen. Aye.
6 Mr. Stern. Mr. Matsunaga.
7 Senator Matsunaga. Aye.
8 Mr. Stern. Mr. Moynihan.
9 Senator Moynihan. Aye.
10 Mr. Stern. Mr. Baucus.
11 (No response.)
12 Mr. Stern. Mr. Boren.
13 Senator Boren. Aye.
14 Mr. Stern. Mr. Bradley.
15 Senator Bradley. Aye.
16 Mr. Stern. Mr. Dole.
17 (No response.)
18 Mr. Stern. Mr. Packwood.
19 Senator Packwood. No.
20 Mr. Stern. Mr. Roth.
21 Senator Roth. Aye.
22 Mr. Stern. Mr. Danforth.
23 Senator Danforth. Aye.
24 Mr. Stern. Mr. Chafee.
25 Senator Chafee. Aye.

1 Mr. Stern. Mr. Heinz.

2 (No response.)

3 Mr. Stern. Mr. Wallop.

4 (No response.)

5 Mr. Stern. Mr. Durenberger.

6 Senator Durenberger. Aye.

7 Mr. Stern. Mr. Chairman.

8 The Chairman. Aye.

9 Mr. Stern. Senator Byrd.

10 Senator Byrd. Aye.

11 The Chairman. Mr. Gravel votes aye.

12 Senator Danforth. Senator Wallop votes aye.

13 The Chairman. The ayes are 18 and the nays are one.

14 The amendment is agreed to.

15 Now may be a good time to talk about Section 911. Do
16 you want to discuss that, Mr. Chafee.

17 Senator Chafee. Yes, Mr. Chairman.

18 Mr. Chairman, as you know, we have before us a proposal
19 which I am extremely interested in, which of course has been
20 vigorously supported by the President's Export Council. It
21 is directed at increasing exports from the United States and
22 encouraging Americans to serve abroad.

23 What we do under this is to exempt the first \$50,000 of
24 earnings, earned income only and not unearned income, of
25 Americans who are serving abroad who have served 11 out of

1 12 months abroad. At the end of their second full year of
2 service abroad that exemption rises to \$65,000.

3 We also have a provision that any housing costs in
4 excess of 16 percent of a GS-13's salary are also excluded.
5 In other words, the first amount that he receives for
6 housing is taxable to the person. If you have a person who
7 is receiving \$10,000 in housing and was receiving a salary
8 of \$35,000, that \$10,000 would be taxable. You could add
9 that to the \$35,000, and he would not be taxable because he
10 would still be below the \$50,000.

11 Mr. Chairman, we have had lengthy hearings on this. I
12 have been particularly interested in this one. I have made
13 trips abroad, and really seen the anguish that Americans who
14 are serving abroad who have seen the changes that came about
15 starting in 1976.

16 Prior to that the first \$20,000 of income was exempt,
17 and then we went to some changes in the law and that has
18 resulted in the American companies abroad returning their
19 Americans because it is just too plain expensive to keep
20 them there.

21 You might think that it is a step ahead, and that they
22 are hiring nationals, but it does not work out that way. I
23 was in Jordan, in Aman, and the two principal American banks
24 there had formerly had --

25 The Chairman. Let's have order.

1 Senator Chafee. -- had formerly had American staffs.
2 Those have been very drastically reduced due to the taxation
3 we are imposing on the Americans. It is not that they are
4 hiring Jordanians. The manager of one is Indian, and the
5 manager of the other one is a Pakistani.

6 So the effect of the legislation that we enacted has
7 been extremely severe, Mr. Chairman. It goes beyond just
8 having the Americans there. When you lose the American, you
9 lose the orders that come back that the American might
10 make. If he works in a bank there, he tends to purchase
11 American equipment, office equipment. If it is a Pakistani,
12 a German, or British, or whatever it is, he will order
13 British equipment, or equipment from his home country, which
14 is natural.

15 I know that some have suggested, and I know this will
16 be raised, that we should limit this to only those who are
17 involved directly in export activities. But, may I say, Mr.
18 Chairman, that one of the pleas they made was to make this
19 simple. Under the present law, particularly in connection
20 with the 913 which permits them various amounts to return
21 home or to send their children to school, it is so complex
22 that literally no American serving abroad in this capacity
23 can fill out his own income tax return.

24 Also, I would point out that it gets too hard to define
25 when somebody is serving abroad in an export position. For

1 example, suppose you have an American who is running a
2 hydro-electric plant in Indonesia. He is not engaged in
3 export activities, but by virtue of having him there in that
4 hydro-electric plant in Indonesia the chances of him
5 ordering American equipment, replacement equipment or
6 further equipment, are vastly increased by the fact that he
7 is there, and he is in that position.

8 Therefore, I believe that we should go with the
9 legislation as submitted, not have intricate definitions of
10 what somebody is involved in, such as exports. We do have a
11 limitation on the amount of \$50,000.

12 I would ask that a chart be passed around that shows
13 what other countries do. The other countries exempt all the
14 earned income. The suggestion was made the other day that
15 perhaps we ought to do the same, but I think that it is
16 better to have this restriction. In future years, if
17 inflation continues, we can increase that amount.

18 So, Mr. Chairman, I would move the legislation as
19 submitted. This takes care of all the problems that have
20 been confronting charitable people from non-profit
21 institutions that are serving abroad. This would take care
22 of them, of course. We would have a provision that would
23 cover them retroactively.

24 As you know, we have extended the time for them to file
25 their income tax returns to, I believe, October 1. We have

1 a provision to take care of those non-profit people.

2 Senator Bentsen. Mr. Chairman, what Senator Chafee has
3 proposed is a melding of the two bills, the Chafee bill and
4 the Bentsen bill, and we have worked up to be what we hope
5 to be the best of the two bills. I strongly support this
6 concern.

7 One of the things we found in some of the hearings we
8 held in the Far-East, we had one of the major accounting
9 firms examine the returns of foreign nationals and our own,
10 and they found that the cost of maintaining U.S. nationals
11 abroad was substantially above that for third country
12 nationals, and one of the major contributors was the
13 different way in which you treat the taxable income of those
14 individuals.

15 Therefore, there is an exodus of U.S. nationals from
16 abroad. In turn, obviously, it affects the amount of
17 exports that are ordered.

18 I am sympathetic to the objective of trying to see that
19 this is aimed at those people who are helping us with
20 exports, but I have not been able to come up with a simple
21 way to target that. I believe the Senator from Connecticut
22 has a proposal.

23 Senator Ribicoff. Mr. Chairman, I think we have a very
24 important issue here.

25 As the chairman knows, I have been involved in this for

1 many years, long before the distinguished Senator from Rhode
2 Island came to the Senate. The objective that we are trying
3 to achieve is to assure that we do everything we can to help
4 our balance of payments, and our export trade.

5 There are many Americans working abroad, and about 60
6 percent of those are directly or indirectly involved in the
7 problem of generating more export business. But there are
8 many who work abroad who are not. I don't know why we
9 should not require Americans who work abroad, and who are
10 not generally engaged in doing export business for the
11 United States, to come in with a \$50,000 or \$65,000
12 exemption.

13 Let me give you an example. If you have an American
14 working in the advertising in the advertising department in
15 Tokyo, for Tokyo Toyota, to help sell Toyotas to the United
16 States, why should he receive a \$50,000 exemption. Or, we
17 have an American working in Paris for a French perfume
18 company to sell perfume to American department stores, or to
19 sell Yves St. Laurent or Christian Dior dresses in America
20 in competition with our dress manufacturers on Fifth Avenue,
21 why should they receive a \$50,000 exemption?

22 Most Americans, or the overwhelming number, live in
23 Canada or in Mexico. These people have chosen to live in
24 Canada or in Mexico, why should they get a special break
25 because they live over the line.

1 The amount does not bother me, \$50,000 or even \$65,000,
2 but it should be related to export income, and it can be
3 done. Let me give you an idea of what I consider who and
4 why they should be covered. It would include the
5 following:

6 (1) Construction, architectural, engineering or repair
7 services performed in connection with equipment, structures
8 or agricultural, construction or engineering projected
9 located in a foreign country. That would take care of the
10 hydro-electric plant back in Geneva.

11 (2) Services associated with the export of U.S.
12 products (including marketing and market analysis,
13 advertising and promotional activities, sales and
14 distribution services, packaging and assembly, warehousing,
15 document and custom clearing).

16 (3) exploration for or extraction of petroleum or other
17 natural resources, and

18 (4) Any other services performed overseas which are
19 designed by the Secretary of the Treasury (after
20 consultation with the Special Trade Representative and the
21 Secretary of Commerce) as contributing significantly to U.S.
22 exports.

23 I would also include people working for charitable
24 organizations, and those educators working abroad.

25 Otherwise we are opening up a real bonanza to many

1 Americans who contribute nothing to the overall welfare of
2 this country and the building of our export trade. I would
3 hope that we would not adopt the Chafee proposal without
4 taking into account the suggestions that I make.

5 I would like to hear from the Treasury about their
6 feeling on that.

7 The Chairman. Mr. Lubick.

8 Mr. Lubick. Senator Ribicoff, we agree with you. We
9 have been working in that same direction to try to meld
10 together principles of equity that all of our citizens pay a
11 part of the tax burden, but at the same time recognizing
12 that we have this overall national interest to encourage
13 exports and try to focus the benefits on those in export
14 activities.

15 We know that the approach which you have adopted are
16 followed by France, Germany and Canada, and they have
17 legislation similar to yours. Those countries do not give a
18 blanket exemption for earnings of their employees abroad.
19 There is a distinction between those who are domiciled
20 abroad as opposed to those who are simply working abroad.

21 As to the question of administrability, which is a most
22 important question, otherwise almost everyone would agree
23 with your concept, we do believe that it is administrable.
24 First of all, when you are dealing with construction or
25 extraction, you have taken care of a whole industry, and

1 that is really the bulk of it.

2 The real problems come in fine tuning it in isolated
3 cases. But I would point out that we have had an exemption
4 since the early '70s in the DISC area defining gross
5 receipts for services of charitable organizations, and
6 related to exports. I never heard any complaint at that
7 time about the administrability of this type of language.
8 It is very, very similar language.

9 Senator Ribicoff. On this point, Mr. Chairman, I would
10 ask that those Americans living abroad who do not come under
11 those, but who live in high cost areas, could still file
12 under 913. So that we do protect Americans who live in high
13 cost countries.

14 The Chairman. We are on the second roll call now, so I
15 would suggest that we answer and come right back.

16 (Recess.)

17 The Chairman. Let me call the committee to order.

18 Let me start out by announcing the final vote on some
19 of these amendments.

20 The final vote on the Moynihan capital gain exclusion
21 was 19 to one, all senators voting for the exclusion except
22 Mr. Packwood who voted no.

23 The final vote on the Danforth proposal for the
24 corporate tax cut is 19 to one, Mr. Packwood voting no.

25 The final vote on the research and development was 19

1 to one, Mr. Packwood voting no.

2 Now, let's turn to Senator Ribicoff. Do you want to
3 complete your statement?

4 Senator Ribicoff. I think that it is basically
5 completed.

6 The Chairman. Let me make a suggestion which I would
7 hope would lead to further compromise and help bring us
8 together.

9 Might I suggest that we consider an amendment to take
10 the Ribicoff amendment with regard to certain developed
11 countries, Canada, Japan, France, Germany, the United
12 Kingdom, Sweden, Austria, Belgium and Holland. What I have
13 in mind is that might want to perfect that list. But
14 basically, Senator Ribicoff's proposal would apply to
15 certain countries, where they are going to get a cut anyhow
16 for what they pay those governments, so it does not make
17 that much difference.

18 Mr. Lubick. The OECD countries, and places like the
19 Bahamas, Bermuda, and places like that.

20 Senator Chafee. I want to compromise here, too, but
21 the Ribicoff proposal would not apply to the other
22 countries, is that right?

23 The Chairman. That is right.

24 Senator Ribicoff. I don't know today what developed
25 countries are anymore. I am sure there are places in the

1 world that are certainly comfortable and that are not OECD
2 countries, and where the living is good and lush.

3 I think if we let Bobby and his experts, overnight, try
4 to perfect is, my feeling is, from talking to Senator
5 Bentsen and Senator Chafee, that we are not too far apart.
6 There are interested in excluding income up to \$50,000 a
7 year, and I have no problem with that.

8 I think that we could take care of the teachers and
9 charitable organizations. Then I think the services that
10 are involved abroad, enough to take care of almost
11 everything that is export related, or take care of our
12 balance of payments, which is really what we seeking to
13 accomplish.

14 I don't know how you can start naming countries. I
15 think that we have a provision in 913 that if any American
16 lives in a high cost country, he gets a special credit for
17 his extra costs because he lives in a high cost country.

18 Senator Roth. Mr. Chairman, could I ask a question.

19 When I have been overseas, a number of the American
20 ambassadors have indicated to me that having American
21 nationals, for example, working in banks or financial
22 organizations is very key in promoting the sale of American
23 products, which a lot of time they are involved in the
24 financing of major projects. If you have an American
25 national there, they often can push or promote the sale of

1 American products and will do so.

2 What would your proposal do for those?

3 Senator Ribicoff. I think that they is covered under
4 subsection (2), services associated with the export of U.S.
5 products, including marketing and market analysis,
6 advertising and promotional activities, sales and
7 distribution services, packaging and assembly, warehousing,
8 document and custom clearing. If you put the financing in
9 it, then I think you will take care of the problems of
10 American banks financing the sale of services and goods.

11 Senator Roth. Let me give you this illustration,
12 helping finance a project in a foreign country.

13 Senator Ribicoff. That is part of it.

14 Senator Roth. One of the things that bothers me, and
15 bothers John, is that the Internal Revenue will very
16 narrowly construe these, and the burden is always going to
17 be to prove. In fact, what we are trying to do here is to
18 push the concept that we want American nationals working
19 abroad.

20 Senator Ribicoff. I am sure the staff is listening,
21 and they could include it in the definition so that you
22 would not have a problem. I think that we can take care of
23 the limited number of people. We are talking about not
24 opening it up to about 40 percent of the people.

25 Senator Chafee. Mr. Chairman, the problem with this is

1 that the problem that we are in right now under 911 and 913
2 which is regulations and complexities for the Americans
3 serving abroad. I think that when we get into a position
4 where that portion of one's income is exempt that is related
5 to export activities, we start again into this incredibly
6 complex problem which does not meet what we are trying to
7 achieve.

8 Mr. Chairman, I would much prefer to try to have a vote
9 on the proposal that we submitted because I think, as Jack
10 Kennedy said, everything is not fair in this world. But at
11 least we are making a terrific effort to increase our
12 exports, and indeed we are no different than we were in the
13 law that was on the books before which exempted the first
14 \$20,000 of income.

15 Senator Ribicoff. I offer my proposal as amended by
16 Senator Roth.

17 The Chairman. Let's vote on the Ribicoff proposal as
18 amended.

19 Senator Bentsen. Let me understand what it is that his
20 amendment is. Does it mean that we get everything that is
21 in this Chafee-Bentsen proposal, except what you do on
22 targeting?

23 Senator Ribicoff. Targeting the proposals, and adding
24 financing.

25 The Chairman. That would only apply, basically, in the

1 countries where people don't like to go.

2 Senator Ribicoff. It would apply to the whole world.
3 It would apply to Saudi Arabia, Kuwait, Nigeria, and those
4 countries.

5 Senator Roth. Mr. Chairman, if we consider that there
6 are some that would use this as a loophole, wouldn't it be a
7 preferable approach to have a general rule that it covers
8 everyone, and then if we want to have some exceptions that
9 are specifically not covered under those.

10 It seems to me that in what we are doing here, the
11 burden is always going to be to try to prove that these
12 people are covered because it is export related.

13 I would like to put it in the opposite way if we are
14 going to have any kind of a limitation. Has any thought
15 been given to that?

16 Senator Chafee. I find particularly troubling, Mr.
17 Chairman, the provision that you apportion somehow the
18 income. Suppose the American is over there with an American
19 export-import, and he is selling American machinery over in
20 France, Libya, or wherever it is, and also he is doing some
21 importing to the United States. Is it wrong to have him
22 there? I think that it is a plus to have him there.

23 But as I understand this provision, it only applies to
24 that portion of his compensation that is related to export.
25 He would have to go through these complexities with the

1 Internal Revenue Service.

2 Senator Matsunaga. Mr. Chairman, have we any idea of
3 how much the Ribicoff amendment will save?

4 Mr. Lubick. We did a very rough estimate overnight,
5 Senator Matsunaga. As I understand, the Ribicoff amendment
6 would be an alternative to the existing 913. If all those
7 eligible took advantage of the Ribicoff proposal, it would
8 cost approximately \$300 million. If two thirds took
9 advantage of it, it would be about \$200 million.

10 Senator Ribicoff. What would the Chafee proposal
11 cost?

12 Mr. Lubick. It would cost \$460 million in calendar
13 1981.

14 The Chairman. Let's call the roll on the Ribicoff
15 substitute, and then we will call the roll on the Chafee
16 proposal.

17 Mr. Stern. Mr. Talmadge.

18 (No response.)

19 Mr. Stern. Mr. Ribicoff.

20 Senator Ribicoff. Aye.

21 Mr. Stern. Mr. Byrd.

22 Senator Byrd. Aye.

23 Mr. Stern. Mr. Nelson.

24 Senator Nelson. Aye.

25 Mr. Stern. Mr. Gravel.

1 (No response.)
2 Mr. Stern. Mr. Bentsen.
3 Senator Bentsen. Aye.
4 Mr. Stern. Mr. Matsunaga.
5 Senator Matsunaga. Aye.
6 Mr. Stern. Mr. Moynihan.
7 Senator Moynihan. Aye.
8 Mr. Stern. Mr. Baucus.
9 Senator Baucus. Aye.
10 Mr. Stern. Mr. Boren.
11 Senator Boren. No.
12 Mr. Stern. Mr. Bradley.
13 Senator Bradley. Aye.
14 Mr. Stern. Mr. Dole.
15 Senator Chafee. No.
16 Mr. Stern. Mr. Packwood.
17 (No response.)
18 Mr. Stern. Mr. Roth.
19 Senator Roth. No.
20 Mr. Stern. Mr. Danforth.
21 (No response.)
22 Mr. Stern. Mr. Chafee.
23 Senator Chafee. No.
24 Mr. Stern. Mr. Heinz.
25 (No response.)

1 Mr. Stern. Mr. Wallop.

2 Senator Chafee. No.

3 Mr. Stern. Mr. Durenberger.

4 Senator Durenberger. No.

5 Mr. Stern. Mr. Chairman.

6 The Chairman. No.

7 It is a tie vote. The ayes are eight, and nays are
8 eight.

9 Senator Roth. Can we have a vote on the Chafee
10 proposal, then?

11 The Chairman. I would still like to suggest that we
12 vote this proposal where we would use the Ribicoff approach
13 with regard to the developed countries, and the OECD
14 countries, as well as any tax shelter; and use Mr. Chafee's
15 with regard to all the others. It seems to me that it is
16 the most logical answer to it. That way, I think that we
17 would come near to coming together on that than you can any
18 other way. I would like to propose that.

19 Senator Matsunaga. What would be the position of the
20 Special Trade Representative?

21 The Chairman. I don't care what the position of the
22 Trade Representative is.

23 Senator Matsunaga. You don't care, but the Special
24 Trade Representative does. He is going to come under the
25 Ribicoff amendment.

1 (Laughter.)

2 Senator Chafee. Mr. Chairman, I am inclined to take
3 your proposal.

4 The Chairman. It seems to me that it is a good
5 proposal. It seems to me that where the Chafee case is
6 strongest, he wins. Where the Ribicoff case is strongest,
7 he wins. It seems to me that it is a good compromise.

8 Senator Ribicoff. What would happen, Mr. Lubick, for
9 Americans living in Canada and Mexico?

10 Mr. Lubick. Canada would be part of the OECD group,
11 and it would be under your proposal. Mexico, I would
12 assume, would probably be on the other side.

13 Senator Ribicoff. How many Americans are living in
14 Mexico?

15 Senator Chafee. There are a lot of unearned income and
16 retirees, but this would not touch them.

17 The Chairman. We will have to go and vote.

18 (Recess.)

19 The Chairman. Let's call the meeting back to order.

20 Senator Ribicoff. Mr. Chairman, in discussing with the
21 Treasury Department, it is my feeling that your proposal
22 would eliminate most of the abuses. There would be some,
23 but it would be marginal. So personally, I would be willing
24 to accept your proposal.

25 Senator Chafee. Mr. Chairman, as I understand the

1 proposal, I am prepared to accept it. The Ribicoff law
2 would be limited to a list of countries that perhaps the
3 Treasury would draw up. We understand that it is Canada and
4 the OECD countries.

5 Senator Ribicoff. Basically, OECD plus Japan.

6 The Chairman. Plus the tax shelter areas.

7 Senator Chafee. Beyond them, the original
8 Bentsen-Chafee, or Chafee-Bentsen, however you want to
9 phrase it, it depends on where you are, I guess, would
10 apply.

11 The Chairman. Yes.

12 Senator Chafee. I must say, Mr. Chairman, I think it
13 is hard to figure export related income in France. It is
14 going to be a nightmare.

15 The Chairman. I think that you have got most of what
16 you want, so let's call the roll.

17 Mr. Stern. Mr. Talmadge.

18 The Chairman. Aye.

19 Mr. Stern. Mr. Ribicoff.

20 Senator Ribicoff. Aye.

21 Mr. Stern. Mr. Byrd.

22 Senator Byrd. Aye.

23 Mr. Stern. Mr. Nelson.

24 (No response.)

25 Mr. Stern. Mr. Gravel.

1 The Chairman. Aye.
2 Mr. Stern. Mr. Bentsen.
3 Senator Bentsen. Aye.
4 Mr. Stern. Mr. Matsunaga.
5 Senator Matsunaga. Aye.
6 Mr. Stern. Mr. Moynihan.
7 Senator Moynihan. Aye.
8 Mr. Stern. Mr. Baucus.
9 (No response.)
10 Mr. Stern. Mr. Boren.
11 Senator Boren. Aye.
12 Mr. Stern. Mr. Bradley.
13 Senator Bradley. Aye.
14 Mr. Stern. Mr. Dole.
15 Senator Chafee. Aye.
16 Mr. Stern. Mr. Packwood.
17 Senator Packwood. No.
18 Mr. Stern. Mr. Roth.
19 Senator Roth. Aye.
20 Mr. Stern. Mr. Danforth.
21 Senator Danforth. Aye.
22 Mr. Stern. Mr. Chafee.
23 Senator Chafee. Aye.
24 Mr. Stern. Mr. Heinz.
25 (No response.)

1 Mr. Stern. Mr. Wallop.

2 Senator Chafee. Aye.

3 Mr. Stern. Mr. Durenberger.

4 Senator Durenberger. Aye.

5 Mr. Stern. Mr. Chairman.

6 The Chairman. Aye.

7 The ayes are 17, and the nays are one.

8 I am going to submit a proposal here. This is the
9 employee stock ownership proposal. I think the Treasury
10 seems to think that the ESOP law, the way it stands right
11 now, unduly favors those companies that are capital
12 intensive. It was discussed several times, and several
13 times the Treasury offered to go along with a proposal that
14 basically says that the companies that are not capital
15 intensive, such as J.C. Penney's, Sears, and people like
16 that, you would consider a tax credit based on payroll.

17 If we did that -- I am only talking about item No. 1.
18 I am not talking about the others because I think we want to
19 try to limit ourselves to just the key items. I will
20 explain the others at a later date to the committee before
21 we report it on the floor.

22 Here is what I suggest. One percent ploughed back in,
23 and this is capital accumulation, would cost six-tenths of
24 one percent the first year, 1.6 the second year, and 2.3 the
25 third year, and going on up to 4.3. In order to cushion the

1 cost of it, I would suggest that we have one-half of one
2 percent the first year for \$300 million, three-quarters of
3 one percent the second year which will be \$1.2 billion, and
4 one percent the third year, and stop there. So there would
5 be no off-year cost in 1984 and 1985.

6 The top calendar year costs would be \$2.3 billion in
7 1983. In 1981 they would be about \$300 billion. It would
8 be half of what you have got there, I guess.

9 Senator Danforth. The alternative is that the employee
10 would get the percentage of capital investment.

11 The Chairman. They would not get both of them. They
12 would get one or the other.

13 Senator Matsunaga. So you would reduce the one percent
14 credit to one-half of one percent all the way through.

15 The Chairman. That is right.

16 Senator Bentsen. Bring me up to date. Where are we
17 now?

18 The Chairman. We are talking about employee stock
19 ownership.

20 The employee stock ownership, you get a one percent tax
21 credit, which is very fine as far as the oil industry is
22 concerned, and as far as the utility industry is concerned,
23 as far as the capital intensive industries are concerned.
24 But for industries that are not capital intensive, such as
25 the department stores where you don't have a lot of capital

1 investment as compared to the number of workers you have, it
2 does not do them much good.

3 Mr. Lubick. Mr. Chairman, we had testified earlier, as
4 you mentioned, that we think basically the contributions on
5 wages, which is the reward to the employees, the
6 compensation for their services, is a better way to go. We
7 had also discussed with you the fact that we thought the
8 credit ought not to be a 100 percent. There ought to be
9 some contribution by the employees. I don't know if you had
10 in mind a credit of 75 percent.

11 The Chairman. I would think that this is a very small
12 thing to get something started. I think thereafter we could
13 get them to put up a half percent. We start with the
14 investment tax credit, and we say that they get one percent
15 and after they get an extra one percent to match it, but it
16 takes a while. I think we ought to give a tax incentive to
17 the employer to set one up.

18 It would be all right with me, after you get them
19 started, to have something more. A lot of companies, such
20 as AT&T and the private power companies, and the oil
21 industry, General Motors, General Electric, mostly big
22 companies, have taken advantage of capital intensive because
23 they are capital intensive. But where they are not capital
24 intensive, as Sears testified and J. C. Penney's told me, if
25 you put something in the wage rate that was sufficiently

1 meaningful, they would be willing.

2 They are not capital intensive, and for them to do it
3 would be such a small amount that it would be a
4 disappointment to the employees.

5 Mr. Lubick. At a future date, I am talking about
6 matching it. This is just to get the thing started. We
7 would give them the 100 percent credit for the first three
8 years to get them rushing in, and thereafter 75 percent of
9 the contributions. So they would hurry to get in right
10 away.

11 The Chairman. After three years, we would give them 75
12 percent. It is your amendment, you offer it.

13 Mr. Lubick. It was just a suggestion, Mr. Chairman.

14 The Chairman. Don't offer an amendment, if you are not
15 going to vote for it.

16 (General laughter.)

17 The Chairman. I am asking for something that would go
18 to the third year, and would cost \$2.3 billion, and then it
19 stops.

20 Senator Ribicoff. Would everybody go to the alternate
21 wage based tax credit, even the big companies that are
22 capital intensive. Their payrolls are probably more than
23 their investments, I would imagine?

24 Mr. Lubick. I think not.

25 The Chairman. Not with regard to people like Potomac

1 Electric. The investor owned electric companies are so
2 capital intensive that it is a far better deal for them to
3 take the one percent investment credit. That is why they
4 are all in it, by the way.

5 Senator Ribicoff. When you have General Motors,
6 General Electric, and DuPont, they have a lot of capital
7 investment, but they have very large payrolls.

8 Mr. Lubick. I am not sure how it breaks down. There
9 are a number of industries where a credit based on
10 investment could be larger than the credit based upon
11 payroll.

12 The Chairman. Basically, the capital intensive
13 industries would be better off to take it on the investment
14 tax credit. But if the company tends to be labor intensive,
15 then they would be better off to take it on the payroll.

16 Senator Bradley. I move that we adopt the proposal.

17 Senator Matsunaga. Question, Mr. Chairman.

18 Those who join the ESCP plan, the employer would be
19 required to sell stocks at what rate to the employees?

20 The Chairman. The stock would go for the regular
21 market rate. Basically, he gets a tax credit, but the tax
22 credit will have to be used to provide stock to the
23 employees. Then, of course, the stock will be at the market
24 rate, whatever the rate is.

25 Let's call the roll.

1 Mr. Stern. Mr. Talmadge.
2 The Chairman. Aye.
3 Mr. Stern. Mr. Ribicoff.
4 Senator Ribicoff. Aye.
5 Mr. Stern. Mr. Byrd.
6 Senator Byrd. Aye.
7 Mr. Stern. Mr. Nelson.
8 Senator Nelson. Aye.
9 Mr. Stern. Mr. Gravel.
10 The Chairman. Aye.
11 Mr. Stern. Mr. Bentsen.
12 Senator Bentsen. Aye.
13 Mr. Stern. Mr. Matsunaga.
14 Senator Matsunaga. Aye.
15 Mr. Stern. Mr. Moynihan.
16 Senator Moynihan. Aye.
17 Mr. Stern. Mr. Baucus.
18 (No response.)
19 Mr. Stern. Mr. Boren.
20 Senator Boren. Aye.
21 Mr. Stern. Mr. Bradley.
22 Senator Bradley. Aye.
23 Mr. Stern. Mr. Dole.
24 Senator Dole. Aye.
25 Mr. Stern. Mr. Packwood.

1 Senator Packwood. No.
2 Mr. Stern. Mr. Roth.
3 Senator Roth. Aye.
4 Mr. Stern. Mr. Danforth.
5 Senator Danforth. Aye.
6 Mr. Stern. Mr. Chafee.
7 (No response.)
8 Mr. Stern. Mr. Heinz.
9 (No response.)
10 Mr. Stern. Mr. Wallop.
11 (No response.)
12 Mr. Stern. Mr. Durenberger.
13 Senator Durenberger. Aye.
14 Mr. Stern. Mr. Chairman.
15 The Chairman. Aye.
16 The ayes are 16 and the nays are one.
17 Senator Danforth. Mr. Chairman, on the question that
18 Don Lubick raised, and you asked with respect to the R&D tax
19 credit, it is my understanding that the Joint Committee has
20 worked out some administrative problems to accomplish the
21 same result with respect to individuals. I wonder if that
22 could be explained, and agreed at this point.
23 Mr. Shapiro. The research and development provision
24 that you discussed earlier, the concern was that you could
25 get to an offset that would be too large. Senator Long

1 suggested a modification of 80 percent. The way to
2 accommodate that, which maybe will take care of some of the
3 administrative problems, will be in the case of individuals
4 only. There is no change for corporations.

5 However, in the case of individuals, where you tend to
6 have more shelter problems, they would have a deduction of
7 the amount of the credit against the amount of expense that
8 would otherwise be deductible. For example, if you have
9 \$100 of incremental expenditure that would be subject to the
10 credit, they would get a \$25 credit, or 25 percent times the
11 \$100. However, they would get a deduction of that \$100 as
12 an allowed deduction, but it would be offset by the amount
13 of credit. So the deduction would be \$75.

14 It means that individuals end up getting a deduction of
15 the \$75 plus a dollar for dollar credit. This would be a
16 way to accommodate individuals, and there would be no change
17 for corporations.

18 Senator Danforth. I think that would accomplish the
19 results.

20 The Chairman. Does that achieve what I was trying to
21 say, and they would not get more than an 80 percent tax
22 advantage out of it.

23 Mr. Shapiro. Yes, that achieves it in a way that can
24 be administered without any difficulty.

25 The Chairman. Without objection, we will modify the

1 amendment.

2 Is that all right with you, Senator.

3 Senator Danforth. Yes, Mr. Chairman.

4 The Chairman. Then, it is so agreed.

5 Senator Dole.

6 Senator Dole. I had to be absent for a while, but as I
7 understand it we are down to two items, LERA and small
8 business. Maybe it is time to see if we can work out those
9 two.

10 The Chairman. Mr. Nelson is not here. So why don't we
11 take up LERA.

12 Senator Ribicoff. We have a vote coming on.

13 The Chairman. Why don't we go vote and then come
14 back.

15 (Recess.)

16 The Chairman. We will wait for Senator Nelson, and
17 meanwhile we can go on with LERA.

18 Senator Dole. Mr. Chairman.

19 The Chairman. Senator Dole.

20 Senator Dole. We have discussed LERA, and maybe we can
21 come to agreement on it.

22 The Chairman. Maybe you could suggest what we could
23 agree on.

24 Mr. Shapiro. It has been discussed, and the proposal
25 is, as far as IRA is concerned, to increase the IRA from

1 \$1,500 up to \$1,750, and increase the spousal by an
2 additional \$250, so that they could go up to \$2,000. So the
3 personal IRA would increase \$250 for both parts.

4 The proposal on the LERA is to allow \$1,000 with a
5 couple of modifications. This would mean that you could
6 take a LERA even if you were in a pension program. If you
7 have mandatory contribution, you are limited to \$100. There
8 are some programs that require you to make a contribution to
9 your pension program, and the employees do not have a
10 choice, and they may be required to contribute up to \$200.

11 This would say that no matter what your mandatory
12 contribution may be, you count \$100 towards your LERA, and
13 then you fill out the additional \$900 out of voluntary
14 contributions

15 A second part of this would be that this rule would not
16 apply to any individual that is covered -- This is limited
17 to where you have an employer that is very much involved in
18 a smaller corporation, and he can set up his own pension and
19 then he will also be able to get a LERA on the side. You
20 see he has more of a control.

21 A third modification would be to maintain the fact that
22 government employees would not be covered. They are not
23 covered under the IRAs right now. There is a concern of how
24 you treat government employees, both State and Federal, and
25 it may be that the committee would want to wait and see how

1 employees are treated, both State and Federal, with regard
2 to amending the LERA.

3 This is generally the proposal that has been
4 discussed.

5 Senator Dole. Would this permit the Tennessee Valley
6 Authority to make contributions. They are not under a
7 government employee pension plan.

8 Mr. Shapiro. The TVA are not government employees.
9 They could have a LERA. I don't know how they are treated.
10 Let me just say that if they are not government employees,
11 they would be permitted to have a LERA.

12 Senator Dole. It is my impression that they are not
13 covered under a government pension plan.

14 Mr. Shapiro. I am told now that TVA is a government
15 agency, and they would not be covered, and that is the
16 reason why they are asking to be covered. They are asking
17 to be covered, since they are not covered, being a
18 government agency.

19 Senator Dole. Is their retirement system a government
20 pension plan?

21 Mr. Shapiro. I think the question is not whether or not
22 you are a government employee, but whether or not you are
23 covered by a government plan.

24 Senator Dole. Right.

25 Mr. Shapiro. TVA is not, so it would be appear that

1 they could be covered. I think the rule is whether or not
2 you are covered under a government plan.

3 Senator Dole. Is there any objection to that.

4 Senator Bentsen. No.

5 Mr. Shapiro. I think what we are saying is that
6 government employees, Federal, State or local, covered under
7 a government pension plan would not be permitted under
8 LERA. We are not making a determination as to TVA or anyone
9 else. We are just saying whether or not an individual is
10 covered under a government pension plan.

11 Senator Dole. Yes, fair enough.

12 Senator Byrd. Does this create a precedent that might
13 cause problems or not?

14 Senator Dole. Not any more than any other private
15 pension plan.

16 Senator Bentsen. Mr. Chairman, if I might comment on
17 the proposal itself. Senator Dole has been working on this
18 for quite some time, and so have I. I have chaired hearings
19 on this particular subject, and I know the Dole proposal
20 that was adopted by the Senate in 1978, we finally lost it
21 in conference.

22 I think there has been a change of heart on the House
23 side. I know that Chairman Ullman has a comprehensive tax
24 bill in which he has something comparable to this. We have
25 had a great deal of support, particularly from groups that

1 had difficulty in staying in one place long enough to
2 establish vesting. I am talking about questions of
3 engineers, and others, who are very supportive of this. It
4 gives them an opportunity to have some portability in their
5 pensions.

6 I agree that it is a marvellous step forward, in
7 addition to encourage savings in this country, which are
8 really in a decline. Mr. Chairman, I move its adoption.

9 The Chairman. Call the roll.

10 Mr. Stern. Mr. Talmadge.

11 The Chairman. Aye.

12 Mr. Stern. Mr. Ribicoff.

13 Senator Ribicoff. Aye.

14 Mr. Stern. Mr. Byrd.

15 Senator Byrd. Aye.

16 Mr. Stern. Mr. Nelson.

17 Senator Nelson. Aye.

18 Mr. Stern. Mr. Gravel.

19 The Chairman. Aye.

20 Mr. Stern. Mr. Bentsen.

21 Senator Bentsen. Aye.

22 Mr. Stern. Mr. Matsunaga.

23 Senator Matsunaga. Aye.

24 Mr. Stern. Mr. Moynihan.

25 Senator Moynihan. Aye.

1 Mr. Stern. Mr. Baucus.
2 (No response.)
3 Mr. Stern. Mr. Boren.
4 Senator Boren. Aye.
5 Mr. Stern. Mr. Bradley.
6 Senator Bradley. Aye.
7 Mr. Stern. Mr. Dole.
8 Senator Dole. Aye.
9 Mr. Stern. Mr. Packwood.
10 Senator Packwood. No.
11 Mr. Stern. Mr. Roth.
12 Senator Roth. Aye.
13 Mr. Stern. Mr. Danforth.
14 Senator Danforth. Aye.
15 Mr. Stern. Mr. Chafee.
16 Senator Chafee. Aye.
17 Mr. Stern. Mr. Heinz.
18 Senator Heinz. Aye.
19 Mr. Stern. Mr. Wallop.
20 (No response.)
21 Mr. Stern. Mr. Durenberger.
22 Senator Durenberger. Aye.
23 Mr. Stern. Mr. Chairman.
24 The Chairman. Aye.
25 The ayes are 17, and one nay.

1 Let's go to small business.

2 Senator Packwood. There was in the small business
3 sheet, as we initially had it, a stock option provision --

4 Senator Nelson. I wonder, Mr. Chairman, if we could
5 have order. The staff is talking, and I am afraid I cannot
6 hear.

7 Senator Packwood. There was a proposal to reinstitute
8 the stock options, not identical to what they were in 1976.
9 It would seem to me that it ought to be on the agenda
10 because it was in the original small business proposal, and
11 I would offer now to reincorporate it in our package as it
12 was written in the small business proposal.

13 The Chairman. The Chair has a question. Is that the
14 same one that we reported on.

15 Senator Bentsen. Mr. Chairman, may I speak to what
16 Senator Packwood is talking about.

17 I strongly support what he is saying. What has
18 happened, in part, on our productivity, one of the problems
19 is that we don't get the long-term research and development
20 that we want. If we have developed professional managers
21 that are really portable, and they move from one company to
22 another. They will not make the long-term R&D if their
23 successor is going to get the credit for it.

24 The old entrepreneurial manager is pretty well gone.
25 So what we ought to do is tie management to a company long

1 enough that they will have the interest for the long-term
2 development, and to do the research and development. The
3 stock option helps to accomplish that. I think that we made
4 a serious mistake when we went in the other direction.

5 If you are trying to start a small company, a venture
6 capital company, and you don't have the money to do it, one
7 of the ways to get it done is with a stock option to
8 someone, obviously with a larger company, who will come and
9 take the risk on the chance that he can put it together and
10 make it work.

11 Senator Packwood. It makes it possible for the little
12 company to steal away the 40-year-old IBM engineer. They
13 cannot pay him any more, but they can offer him a piece of
14 the action. There are a lot of 40-year-olds who will try
15 it.

16 The Chairman. Is that all right with you, Senator
17 Nelson. You would accept that?

18 Senator Nelson. Actually, Mr. Chairman, Bob was the
19 original author, and I co-sponsored it with him. Then when
20 I put this whole bunch together in one package, when we were
21 wearing off the seat of our pants in trying to something to
22 go, I should not have dropped that one.

23 I am for it. We have had specific hearings on that
24 exact point from some of the smaller electronics, really
25 good ones, who need top management, and the only way they

1 can get them away from the big fours is this. I think that
2 it is a good addition.

3 Senator Packwood. Thank you.

4 Senator Bentsen. It is a good point.

5 Senator Bradley. Mr. Chairman, could I ask Senator
6 Packwood, is this employee stock option cover the granting
7 and the exercise of employee stock options, or only the
8 granting of stock options. If it covers only the granting,
9 there might be unintentional misuse. I think that it should
10 cover granting and exercise.

11 Senator Nelson. What do you mean by the exercise part?

12 Senator Bradley. When a person exercises the stock
13 option, or buys the stock option.

14 Senator Nelson. It covers that.

15 Senator Packwood. As it is drafted, I think that it
16 only applies to granting.

17 Senator Bradley. Don't you think that it should cover
18 exercise?

19 Senator Packwood. I would like to ask Bob.

20 Mr. Shapiro. It would only be exercise, Senator
21 Packwood, because the granting is not a taxable instance.
22 The only time you have a problem is when it is exercised.
23 The grant itself would not be a taxable event.

24 Senator Nelson. It sets the rules of what happens when
25 you exercise it. It has to be with a fair amount of value

1 at the time the option is made available.

2 Senator Packwood. Then it will apply to any stock
3 option exercise. Is that correct?

4 Senator Nelson. Yes.

5 Senator Bradley. It covers exercise.

6 Senator Packwood. Yes.

7 The Chairman. If there is no objection, that will be
8 incorporated in the amendment.

9 Senator Nelson, do you want to explain those amendments
10 that you have got here?

11 Senator Nelson. I wonder, has the staff passed out the
12 staff summary of the proposals that we agreed to in our own
13 caucus.

14 Let me say, as a preface, the matters involved here,
15 many of them came out of endorsement of the White House
16 Conference. Others were the ideas of members of the Small
17 Business Committee, the Finance Committee. Each of them had
18 been introduced at one time or another as a bill. I
19 introduced them all as a package.

20 In the course of our discussions in the caucus, I did
21 not have the opportunity to consult with other co-sponsors
22 of that package. I just did not have the time. So nobody
23 is bound by the fact we put these measures in here, although
24 on the left, that one box has been added.

25 There were co-sponsors in Finance on this bill, which

1 included myself, Senator Byrd, Senator Bentsen, Senator
2 Wallop, Senator Moynihan, Senator Durenberger, Senator
3 Baucus, Senator Dole. I apologize for not getting to you at
4 the time we were discussing in the caucus, although some of
5 our members would be present.

6 I don't think that anybody needs to feel bound
7 themselves by the fact that we dropped three of these
8 items. I feel bound because that was my agreement in the
9 caucus.

10 The first item on here is the corporate tax item. In
11 1976 and in 1978, I made proposals for extending the
12 corporate progressive rate up to \$50,000, and then to
13 \$100,000. This is to put it up to \$150,000. So the maximum
14 rate does not go into effect on a corporation until it
15 reaches \$150,000. Everything over \$150,000 will be at the
16 46 percent rate. Otherwise, on you chart you will see that
17 it goes progressively from 15, 20, 30, 40, and to 46 in
18 \$25,000 jumps.

19 It is simply an extension by \$50,000, excepting for one
20 provision we have reduced the lowest rate from 17 to 15,
21 otherwise the rate remains the same kind of a rate applied
22 to a higher base as we already have in the law. There is
23 another chart here estimating the cost of that to be -- That
24 is the big ticket item in here. We don't have anything on
25 it in 1981. It is \$339 million in 1982, and it goes to \$927

1 million in 1985.

2 I might say that the non-recognition of the capital
3 gains rule, which would be \$1 billion in 1985, I dropped
4 that out just because of the big ticket item, and also
5 because there appeared clearly to be an agreement that we
6 were going to drop the capital tax down to 21 percent, and
7 that made the rollover far less significant than it would be
8 without that.

9 So I would move adoption, Mr. Chairman.

10 Senator Dole. I don't think that this has been
11 discussed. I think that it can be resolved. I don't think
12 that there is anything serious here. I know Senator Chafee
13 has a little different view, and other senators would like
14 to increase the \$150,000 to \$200,000. I guess Senator
15 Chafee would like to increase it to \$250,000.

16 Senator Chafee. Mr. Chairman, what I would suggest is
17 that we talk this over. You were not able to be there this
18 morning. I think the consensus -- others can speak up, but
19 the consensus was that the best thing that we could do for
20 small business was to permit this accumulation of capital by
21 increasing the amount before the total corporate surtax goes
22 into effect.

23 There seemed to be a view that we go to your figures in
24 the first year, and to \$200,000 in the second year. We
25 would like to go to \$200,000 immediately. The White House

1 Conference wanted to go to \$500,000, and that is a little
2 rich. At least we thought that we could go to \$200,000, and
3 then maybe cut back on some of the other items as we went
4 down the line.

5 Senator Dole. What would that cost in the second
6 year?

7 Senator Nelson. In 1982 it is \$339 million, and it
8 ought to double it. You are doubling the amount.

9 Senator Chafee. Some of them will not have those
10 earnings.

11 Mr. Shapiro. Let me see if I understand what you are
12 talking about. You are talking to a change in 1982 to
13 \$200,000. If it were just going from the bracket it would
14 not be as much because going from 44 to 40 is not
15 significant. But you are changing the bracket down below as
16 well.

17 Senator Chafee. We change the brackets. The bracket
18 in the second year would be -- I could show you a sheet, but
19 it is from zero to \$25,000 - 15; \$25,000 to \$50,000 - 20;
20 \$50,000 to \$75,000 - 25; \$75,000 to \$100,000 - 30; then
21 \$100,000 to \$150,000 - 35; \$150,000 to \$200,000 - 40. So
22 the last \$50,000 would be at 40.

23 Senator Danforth. Mr. Chairman.

24 The Chairman. Senator Danforth.

25 Senator Danforth. Mr. Chairman, the discussion in a

1 nutshell was that if you are going to do something for small
2 business, it might be better to concentrate what we were
3 going to do in item No. 1, and possibly to either delete
4 some of the other seven items, or reduce their effect. It
5 was just a very general discussion.

6 Senator Durenberger expressed the view that item No. 3
7 was very important, he thought, but the general thought was,
8 is it possible to increase the surtax exemption point, and
9 perhaps delete or reduce some of the other items on this
10 list so that we have a more concentrated so-called big money
11 tax cut.

12 Senator Ribicoff. Gaylord, how do you feel about
13 this?

14 Senator Nelson. The problem with that is that there
15 are no other big ticket items here, except the investment
16 tax credit for the used equipment. There is a whole lot of
17 small business people out there who buy used equipment. We
18 had hearings on it in 1975, and 1976, and on through. That
19 is the only item on here, and it is not a huge ticket item,
20 it is \$262 million. I agreed in our own conference to cut
21 that and that it would go from \$100,000 to \$150,000 instead
22 of \$200,000 to save some money. That would save \$130
23 million five years out. It is the only place that you can
24 take it.

25 The other items here, the reserves for marketing

1 activities, actually, five years out is \$20 million. None
2 of the rest of these items is the place where you can get
3 that kid of dough. So we would really have to expand the
4 tax cut in order to do it.

5 I am not arguing against it in principle, but within
6 this package the money is not there to get it unless you
7 knocked out the used equipment. Personally, I think there
8 is a big constituency of small businesses who have to use
9 used equipment.

10 Senator Dole. What are we talking about, Bob, do you
11 know?

12 Mr. Shapiro. Right now, assuming you adopt the Nelson
13 package as is, that would go to \$39 billion in the first
14 calendar year.

15 Senator Nelson. He said the cost of the package.

16 Senator Dole. The cost of the Chafee qualification.

17 Mr. Shapiro. We are working on it right now.

18 Senator Ribicoff. There is a vote going on right now.

19 So why don't we go and vote, and we will find out when we
20 come back.

21 (Recess.)

22 The Chairman. Do we have an estimate on the cost of
23 the amendment?

24 Mr. Shapiro. Our estimate is --

25 Senator Nelson. We cannot hear down here, Bob.

1 Mr. Shapiro. Our estimate is, having looked at the
2 table, the corporate deduction for fiscal 1981 would go from
3 \$300 million to \$500 million. In fiscal 1982 it \$710
4 million. In 1983 it goes to \$1.2 billion, In 1984 it goes
5 to \$1.3 billion. In 1985, it will go to \$1.4 billion.

6 In calendar year 1981, the \$675 million would go to
7 \$1.1 billion.

8 Senator Nelson. Where do you get the \$675 million?

9 Mr. Shapiro. That is the calendar year cost.

10 The Chairman. I am trying to keep this under a \$40
11 billion figure. I just think that it would be bad if we
12 went above a \$40 billion figure.

13 That being the case, I would propose that the first
14 effective year will be year 1982. This will hold you to the
15 figure we have. Then they will get a nice tax cut in 1982.

16 Mr. Shapiro. Mr. Chairman, you are suggesting the
17 original Nelson year one, and then the Chafee year one would
18 come in 1982. Then 1983 would be the second year. Then it
19 becomes permanent after that. We are having three rate
20 changes. The first year it would be Senator Nelson's
21 schedule. The second year would be the first part of
22 Senator Chafee's table. Then in the third year it is the
23 second part. Then it would be a permanent schedule after
24 that.

25 Senator Chafee. I am not sure I understand. In other

1 words, in the second year you would go to \$200,000.

2 Mr. Shapiro. You could go directly to your year two
3 schedule, or you could take the Nelson schedule in the year
4 one.

5 Senator Bentsen. What figure are you going to before
6 you get to an accumulation surplus?

7 Senator Chafee. I am just dealing with before the
8 corporate surtax. In other words, the corporate surtax
9 would apply to \$200,000 starting in January 1982. That is
10 good enough.

11 Mr. Shapiro. Senator Nelson's rate schedule would
12 apply in 1981. The schedule that you handed out, the year
13 two of it would apply in 1982, just like you have it on the
14 sheet, and thereafter.

15 Senator Chafee. That is good enough for me.

16 I think that Pete Domenici is also supportive of that.

17 Senator Dole. It does not break the \$39 billion.

18 Mr. Shapiro. Let me say that we are working on very
19 preliminary figures, and doing a lot of rough calculations.
20 Right now we are under \$40 billion, but when we start
21 refining what has been done, it could go lower or it could
22 go higher. But this is roughly what we have now. It is a
23 little over \$39 billion.

24 Senator Bentsen. In calendar year, because in fiscal
25 year it is much less.

1 Mr. Shapiro. We are under \$20 billion in the fiscal
2 year.

3 Senator Dole. We have representatives from the
4 Treasury Department, and I believe Mr. Lubick would like to
5 say something.

6 Mr. Lubick. I wonder if I could just say a few words
7 with respect to a couple of these proposals. We have great
8 difficulty understanding the purpose of the market-makers
9 Reserve, which is a 10-year deferral for people who are
10 making a market in over-the-counter securities.

11 Basically what you provide in here is a 10-year
12 deferral for profits of a market-maker in over-the-counter
13 securities not related to the value of new companies that
14 are coming out, and it is hard to see how this is a
15 significant way of helping small business. All it seems to
16 be doing is helping the middle-man who is marketing the
17 security to get a straight 10-year deferral.

18 The second one that I would like to say a few words on
19 is the problem of the investment credit for used property.
20 The purpose of that was to help small business which is not
21 able to afford to buy new property. However, I think that
22 if we analyze it a little more closely, the investment
23 credit essentially does help the used property buyer by
24 reducing the price of the new property.

25 The illustration that I gave to Senator Durenberger was

1 the case of the man who owns or buys a 1975 Mercedes that
2 costs on the used car market today more than when it was
3 bought in 1975 because the price of the new Mercedes has
4 risen.

5 During the gas shortage, if you wanted to buy a used
6 gas-guzzler, the price was very depressed because the price
7 of the new gas-guzzler was depressed.

8 I think the fact is that when the price of new
9 equipment is reduced 10 percent by the investment credit
10 that automatically brings the cost of used property and
11 passes on that benefit. If you give an additional credit
12 for used property it is going to be an additional benefit
13 beyond that which is a double benefit.

14 In effect, you are giving the investment tax credit to
15 the first purchaser, and then you are giving an additional
16 credit for the same piece of property, in effect doubling
17 up.

18 If we are to simplify the investment credit, and there
19 are several ways of doing that, we will make it very
20 difficult to deal with a lot of the complicating problems in
21 the investment credit if we have this possibility of
22 getting, in effect, to credits for one property.

23 The Chairman. Are we ready to vote.

24 Senator Nelson. What is before us, the whole package.

25 The Chairman. You have accepted the amendment, haven't

1 you?

2 Senator Nelson. The Chafee amendment, yes.

3 Mr. Stern. This is a vote on the question of the tax
4 rate table, or the entire package?

5 The Chairman. We have an amendment on the package
6 proposal which is based, as I understand, on the results of
7 the White House Conference on Small Business. Senator
8 Packwood has offered an additional proposal, which he is
9 willing to accept. Senator Chafee has an amendment, and he
10 has agreed to it. I moves that we vote on the package.

11 Senator Nelson. I did agree, in our conference, to
12 reduce the used equipment investment credit from \$200,000 to
13 \$150,000. I stayed with my agreement on that.

14 The Chairman. I suggest that we cut the \$200,000 to
15 \$150,000, and that ought to make Mr. Lubick happy.

16 Mr. Stern. This is a vote on Senator Nelson's with
17 regard to the rate reduction, the \$150,000 rather \$200,000
18 in the case of used equipment, and the additional stock
19 option matter that Mr. Packwood offered.

20 The Chairman. We are reducing the \$200,000 to
21 \$150,000, and that saves a considerable amount of money to
22 offset the cost of the Chafee amendment.

23 Senator Chafee. Mr. Chairman, could we have a brief
24 explanation of the reserves for market-making activities.
25 What is the rationale on that?

1 Senator Nelson. Let me say right off the bat that this
2 is to me an isoteric field. We had hearings, and I assigned
3 the staff to examine this question. Lloyd is more qualified
4 to explain this than I am.

5 We had the hearings in Small Business Committee. The
6 case that was made is that there are a dwindling number of
7 so-called market-makers in the country. What is happening
8 is that issues of stock for little companies, public issues
9 of \$5 million or less, they are reaching the stage where
10 they have nobody to market them.

11 We are trying to help them get themselves in the
12 marketplace. Here is what some of the figures show from the
13 Small Business Committee's three-year study. National
14 brokers will not take a company public until he has grown to
15 the point where it earns one to two million in profits.
16 Regional brokers require \$750,000. As a result of this
17 capital gap at the entry level there has been a dramatic
18 decline in the number of small firms of five million or less
19 able to raise equity capital from the public.

20 Now listen to this statistic. The number of companies
21 of five million or less that have been able to raise capital
22 from the public has gone from 1,056 in 1968/69 to 79 in
23 1978/79. Since the mid-70's less than two dozen per year
24 have been able to go to the market to raise capital as
25 against 1,056 in 1968.

1 We took testimony on it. The number of brokers
2 providing these services has declined 40 percent in the last
3 decade, and similarly the number of market-makers fell 37
4 percent, to 468 nationwide. There are now nine states with
5 no market-makers. Three other states where there is only
6 one.

7 We took testimony on this in the San Francisco area.
8 In 1969 there were 14 market-makers, and now there are
9 five. So they are saying that they are not able to set
10 aside this i order to pick up the stock themselves. The
11 market-makers won't do it, how do they get to the market.

12 The Chairman. Let's have Senator Bentsen explain it
13 the way he explained it to me today.

14 Senator Bentsen. What has happened to the regional
15 firms is that they have been devastated by negotiated
16 commissions, which has been highly beneficial to large
17 institutions buying big blocks of stock. So a lot of your
18 small regional firms have gone out of the business.

19 Those that remain have consolidated, and have tended to
20 go to some of the larger companies. You have lost the
21 support for the small company. They just will not make a
22 market in it anymore. So if you buy stock in a small
23 company, you have difficulty disposing of it because there
24 is no market. So this discourages purchase in those small
25 companies.

1 It is hoped, apparently, by this that you would
2 encourage some of those regional firms to deal in
3 over-the-counter stock of the small companies, and see some
4 supported to buy that stock to provide a service. They will
5 buy it for their own account, hold it in hopes of selling to
6 someone else.

7 I must say to you, my friend, that I think 10 years is
8 a bit rich. I frankly think that something around five
9 years would be properly adequate to take care of it.
10 Hopefully, it would be of some help in getting some trading
11 in over-the-counter stock and some support for it.

12 The Chairman. Do you want to go to five years, Senator
13 Nelson?

14 Senator Nelson. Yes.

15 The Chairman. You modify it to five years.

16 I would suggest that we vote on items one through seven
17 with regard to which I have heard no opposition. Let's call
18 the roll on one through seven.

19 Senator Nelson. We are voting on one through seven.

20 The Chairman. Yes, one through seven, and nine which
21 is Mr. Packwood's amendment. We are voting on everything
22 except number eight.

23 Mr. Stern. Mr. Talmadge.

24 The Chairman. Aye.

25 Mr. Stern. Mr. Ribicoff.

1 Senator Ribicoff. Aye on everything but the last one
2 you were talking about. What number is that?

3 Senator Dole. That is number eight, and we are going
4 to have a separate vote on that.

5 Mr. Stern. Mr. Byrd.

6 Senator Byrd. Aye.

7 Mr. Stern. Mr. Nelson.

8 Senator Nelson. Aye.

9 Mr. Stern. Mr. Gravel.

10 The Chairman. Aye.

11 Mr. Stern. Mr. Bentsen.

12 Senator Bentsen. Aye.

13 Mr. Stern. Mr. Matsunaga.

14 (No response.)

15 Mr. Stern. Mr. Moynihan.

16 Senator Moynihan. Aye.

17 Mr. Stern. Mr. Baucus.

18 Senator Nelson. Aye by proxy.

19 Mr. Stern. Mr. Boren.

20 Senator Boren. Aye.

21 Mr. Stern. Mr. Bradley.

22 Senator Bradley. Aye.

23 Mr. Stern. Mr. Dole.

24 Senator Dole. Aye.

25 Mr. Stern. Mr. Packwood.

1 Senator Packwood. No.
2 Mr. Stern. Mr. Roth.
3 Senator Roth. Aye.
4 Mr. Stern. Mr. Danforth.
5 Senator Danforth. Aye.
6 Mr. Stern. Mr. Chafee.
7 Senator Chafee. Aye.
8 Mr. Stern. Mr. Heinz.
9 Senator Heinz. Aye.
10 Mr. Stern. Mr. Wallop.
11 (No response.)
12 Mr. Stern. Mr. Durenberger.
13 Senator Durenberger. Aye.
14 Mr. Stern. Mr. Chairman.
15 The Chairman. Aye.
16 Senator Nelson. Senator Matsunaga votes aye by proxy.
17 Do you want to vote Mr. Wallop, he is a co-sponsor.
18 Senator Dole. Yes.
19 Senator Chafee. Mr. Wallop votes aye.
20 The Chairman. The ayes are 19 and one nay.
21 Senator Dole. Now let's vote on number eight.
22 The Chairman. Call the roll on number eight.
23 Mr. Stern. Mr. Talmadge.
24 The Chairman. Aye.
25 Mr. Stern. Mr. Ribicoff.

1 Senator Ribicoff. No.
2 Mr. Stern. Mr. Byrd.
3 Senator Byrd. No.
4 Mr. Stern. Mr. Nelson.
5 Senator Nelson. Aye.
6 Mr. Stern. Mr. Gravel.
7 The Chairman. Aye.
8 Mr. Stern. Mr. Bentsen.
9 Senator Bentsen. Aye.
10 Mr. Stern. Mr. Matsunaga.
11 Senator Nelson. Aye by proxy.
12 Mr. Stern. Mr. Moynihan.
13 Senator Moynihan. Aye.
14 Mr. Stern. Mr. Baucus.
15 Senator Nelson. Aye by proxy.
16 Mr. Stern. Mr. Boren.
17 Senator Boren. No.
18 Mr. Stern. Mr. Bradley.
19 Senator Bradley. Aye.
20 Mr. Stern. Mr. Dole.
21 Senator Dole. No.
22 Mr. Stern. Mr. Packwood.
23 Senator Packwood. No.
24 Mr. Stern. Mr. Roth.
25 Senator Roth. Aye.

1 Mr. Stern. Mr. Danforth.
2 Senator Danforth. Aye.
3 Mr. Stern. Mr. Chafee.
4 Senator Chafee. No.
5 Mr. Stern. Mr. Heinz.
6 Senator Heinz. No.
7 Mr. Stern. Mr. Wallop.
8 (No response.)
9 Mr. Stern. Mr. Durenberger.
10 Senator Durenberger. Aye.
11 Mr. Stern. Mr. Chairman.
12 The Chairman. Aye.
13 Senator Danforth. Mr. Wallop votes aye.
14 Mr. Stern. Mr. Chairman, this was the five years.
15 The Chairman. Yes.
16 Thirteen ayes and seven nays. The amendment is agreed
17 to.
18 Senator Moynihan wanted to discuss further the matter
19 of the charities.
20 Senator Moynihan. Thank you, Mr. Chairman.
21 I think that we can do this briefly. As you know,
22 Senator Packwood, Senator Dole and I have a particular
23 interest in the question of the proposal which we have had
24 before the committee for some time --
25 Could we have order, Mr. Chairman.

1 The Chairman. Let's have order.

2 Senator Moynihan. -- to permit deductions above the
3 line, as is said in the tax Argot, of charitable
4 contributions. The case for this is a compelling one. It
5 has been made in extensive hearings that we have held. Our
6 action today, or yesterday, makes it even more compelling by
7 increasing that standard deduction, as the amounts of money
8 to charity are likely further to decline.

9 We feel that there is an issue here not just of
10 revenues, but of the authority of the Internal Revenue
11 Code. We feel the Internal Revenue Code since 1917 has
12 provided support for charitable works, and this has been an
13 element of the whole American social system. It goes from
14 the Red Cross down to the smallest PTA or community group.

15 We understand, sir, that this Administration is opposed
16 to this. They testified in opposition. It our
17 understanding that while there is much support in this
18 committee -- I will not speak for the chairman, but I
19 believe that the chairman is supportive. I know without
20 question that the ranking member is. The majority of the
21 members are.

22 The question is, if we included the measure in this
23 bill, we would incur a degree of hostility and opposition
24 from the Administration that might thwart the chances of the
25 legislation on the floor. We understand that you would be

1 prepared, at this point, to say that if this measure is
2 presented by Senator Packwood and by myself on the floor,
3 you would support it. You cannot guarantee its passage, but
4 I believe that we have 44 sponsors already, and if we had
5 Senator Dole and Senator Long, I don't think that we need
6 any more than that.

7 The Chairman. Let me stand up and say what I have to
8 say.

9 Let me ask Mr. Shapiro what is the out-year costs of
10 this proposal.

11 Mr. Shapiro. In the out years, it would be over \$7.5
12 billion by 1985. It starts at about \$3.5 in the first year,
13 and in the five years it would grow.

14 The Chairman. As far as I am concerned, I don't want
15 the amendment agreed to at this point because if we do I
16 think that it is going to jeopardize our chances of getting
17 this bill before the Senate. If we are successful in
18 getting the bill before the Senate, I am going to commit
19 myself to you, Senator.

20 I will support your amendment on the floor if we get
21 the bill before the Senate, but I think we had better wait
22 and see if we can get the bill that far. I am fairly
23 hopeful that we can pass the bill. If you offer the
24 amendment on the floor, you will have my vote, and I will be
25 glad to support you.

1 Senator Moynihan. I thank you, Mr. Chairman.

2 May I ask Mr. Shapiro, I think the out year costs are
3 \$4.9.

4 Mr. Shapiro. The \$4.9 would go to 1983.

5 Senator Moynihan. This is the maximum cost that we are
6 talking about.

7 Mr. Chairman, I thank you very much.

8 Senator Dole. I want to make pretty much the same
9 statement, but I want to modify it in some way to make
10 certain that we can handle it. Certainly, I think that most
11 of us support the concept.

12 I was in my state for 10 days, and somebody has done a
13 pretty good job of lobbying. I did not go to any of those
14 little towns unless they were talking about the
15 Moynihan-Packwood amendment.

16 Senator Moynihan. There is no little town in which
17 this is not important. These are the small things in
18 America that are being crushed by government.

19 Senator Dole. I will give you one example. I met a
20 fellow at a 4-H Fair who wanted to buy a calf. He said, "I
21 want to get credit for buying a calf, but I want the
22 government to pay for it."

23 (Laughter.)

24 Senator Bentsen. If this is disposed of, then I would
25 like to make another point.

1 The Chairman. Senator Bentsen.

2 Senator Bentsen. Mr. Chairman, in the printed material
3 I had put out on what we were doing on depreciation, on the
4 20-year life on buildings, I had listed the interest and
5 taxes during construction as being expensibile items rather
6 than capitalized and written off over ten years.

7 There has been some question as to whether that was
8 fully understood by all of the committee. I want to
9 reiterate it, and ask for the support of the committee for
10 that provision.

11 The Chairman. Say that again.

12 Senator Bentsen. That is interest and taxes during
13 construction of a building where we go to 20-year life on
14 depreciation.

15 The Chairman. It is deductible in the first year.

16 Senator Bentsen. Interest and taxes during
17 construction as deductible items. That is what I had in my
18 printed material.

19 The Chairman. Is that existing law or not?

20 Senator Bentsen. It is not. Existing law requires the
21 capitalization and then it requires the amortization over
22 the next 10 years.

23 Mr. Shapiro. Mr. Chairman, in 1966, let me give you
24 some background, when you dealt with a number of areas of
25 shelters, real estate, farming, and so forth, you provided

1 an at risk provision that applied to all the areas. In the
2 case of real estate because of this being a traditional way
3 of doing business, you did not provide an at risk provision
4 for the real estate industry.

5 However, you provided that one of the major elements
6 that dealt with the area of shelters was the deduction of
7 interest and taxes in the first year. When the taxes and
8 interest are paid, they write off the first year. They are
9 able to use the additional taxes against other income.

10 The committee decided to allow them to amortize that.
11 It means that instead of allowing a deduction all in the
12 first year, it is spread over the first ten years.

13 The Chairman. Let's have order.

14 Mr. Shapiro. When Senator Bentsen first proposed his
15 bill, it had that provision in it. We were focusing only on
16 the depreciation. That was not part of our estimate.

17 What Senator Bentsen is saying is that with regard to
18 those who elect a 20-year life, the rule that was enacted in
19 1976 which required a 10-year amortization of interest and
20 taxes be repealed. It would have the effect of allowing a
21 current year deduction. The revenue effect of that would
22 increase calendar year 1981 by \$1.2 billion. The fiscal
23 year 1981 would be \$460 million. In 1985, it is a little
24 over \$1 billion. It has a big impact the first year.

25 Senator Bentsen. How much impact?

1 Mr. Shapiro. In calendar year 1981 it is \$1.2
2 billion. In the fiscal year it is \$460 million.

3 Senator Byrd. May I ask Senator Bentsen a question.

4 Senator Bentsen. Yes.

5 Senator Byrd. Senator Bentsen, your proposal is a
6 compromise of the 10 year proposal. You have brought it up
7 to 20 years.

8 Senator Bentsen. That is right.

9 Senator Byrd. Then you made this a part of the other
10 package.

11 Senator Bentsen. That is correct. We did some other
12 things, though, and in all fairness I want the committee to
13 understand that. The 10-year that was a recapture under
14 ordinary income, and this goes back to the present law.

15 The Chairman. Is there some way that we could ease the
16 first-year impact of that. It is a lot of money to be
17 putting in the first year. This puts us at the \$40
18 billion.

19 Mr. Shapiro. Once you allow the expensing, right now
20 we are at \$39.1 billion for the first year.

21 The Chairman. Mr. Lubick.

22 Mr. Lubick. Mr. Chairman, this was one of the
23 principal measures that we adopted in 1976 to deal with the
24 tax shelter situation that we would not allow the immediate
25 deduction of labor costs during the construction period. If

1 you try to phase it in, what you will do is simply to have
2 people delay construction because they will be able to use
3 as a tax shelter later on. I think that it is rather
4 important that you stick with the decision that you made
5 years ago.

6 The Chairman. Mr. Chafee.

7 Senator Chafee. Mr. Chairman, it seems to me that for
8 builders, we have given them a very substantial break, if
9 you would, in changing what was normal depreciation of
10 sometimes as much as 40 years to bring it down to 20 years.
11 In view of the revenue impact, and the points that Mr.
12 Lubick made, I think we ought to stick with the present
13 system, and not let these people write it right off.

14 The Chairman. I am inclined to take that view myself.
15 It seems to me that a while back this interest in the
16 construction area was one of the principal tax shelters.
17 Mr. Lubick, is that not correct.

18 Mr. Lubick. That is correct.

19 The Chairman. A short time ago, interest during the
20 construction period was of the problem of the tax shelter
21 that we ran into, and it forced us to tighten up and do some
22 very complicated things to the code. I would prefer not to
23 get into that right now, but perhaps later on.

24 They don't have it right now.

25 Mr. Shapiro. That is right. They have to amortize it,

1 and they can deduct over a 10-year period.

2 Senator Bentsen. Mr. Chairman, I defer to the will of
3 the committee.

4 The Chairman. Okay.

5 Senator Dole. Mr. Chairman, I want to make certain
6 that I have the TVA thing. We did agree that even though it
7 is a government agency, their private pension plans are
8 deduction.

9 Mr. Shapiro. That is correct.

10 The Chairman. Mr. Moynihan.

11 Senator Moynihan. Mr. Chairman, we have the matter of
12 the leather coats and jackets decision, when you are ready.

13 The Chairman. As I understand it, the staff will give
14 us tomorrow the final sheets where they are going to try to
15 work out these rates out, so we can take a look at them. We
16 will take a look at them tomorrow, and then if we want to
17 change them, we will make the changes.

18 I would like to ask if the Treasury to work with the
19 staff to modify this schedule because I would like it to
20 reflect a reduction even though it might mean an additional
21 bracket increase. They could look at it, and I would like
22 to give them that right. Then we can meet tomorrow, and if
23 we don't like what they come up with, we can change it. If
24 we do like it, then we can leave it the way it is.

25 Senator Heinz. Mr. Chairman, there were two items that

1 we originally agreed to put on the agenda, which I will not
2 raise for consideration now. I just want to emphasize the
3 necessity of doing something on DISC. We have the trading
4 companies bill which was referred from the Banking Committee
5 to this committee.

6 I think we have a very reasonable proposal on this,
7 which is \$50 million a year, because we have made it very,
8 very restrictive. But it will do the job and further the
9 growth of trading companies.

10 The second item has to do with pollution control, and
11 what we have been able to do there is to write report
12 language that I believe will accomplish as much as we could
13 do legislatively.

14 My understanding is that those are two matters that we
15 will take up for incorporation in the committee amendment.

16 The Chairman. Yes, sir, and there are several
17 amendments which I want to offer, which have no revenue
18 costs, and also one that does have a small revenue cost.
19 That would be considered on the same basis after we report
20 the bill. We expect to hold further meetings to discuss
21 various of these things that we think are important. Most
22 of them do not involve a lot of revenue, but they are
23 important. Some of them are technical.

24 Senator Danforth. Mr. Chairman, before we vote, I
25 would like to make two brief points.

1 The first is that I am sure that those who disagree
2 with what we are doing will argue that this is some election
3 year ploy on the part of the Senate Finance Committee. I
4 would say, in that regard, that while it is true that six
5 members of the Finance Committee are running for reelection,
6 14 members are not. On virtually every vote that we have
7 had there has been near unanimity. In fact, one of those
8 who is not unanimous is one of those who is running for
9 reelection this year.

10 The second point that I would like to make is in the
11 nature of a question to Senator Bentsen.

12 Last winter, I believe, after a very comprehensive
13 survey by Otto Eckstein, and Data Resouces, the Joint
14 Economic Committee unanimously issued a report on the
15 question of supply side economics, and the relationship
16 between tax policy and trying to rebuild the economy of this
17 country and combat inflation.

18 The point that was made by the Joint Economic
19 Committee, as I understood it, and Otto Eckstein is that it
20 is not possible to combat inflation by demand management
21 alone. It is important to address the supply side of the
22 economy and to create incentives for American
23 competitiveness and American productivity. The tax policy
24 is very integrally related to that objective.

25 What I would like to ask Senator Bentsen, the Chairman

1 of the Joint Economic Committee, is, in his opinion, is what
2 we have done consistent with the unanimous recommendation of
3 the Joint Economic Committee and the work of Professor
4 Eckstein?

5 Senator Bentsen. I would say to Senator Danforth that
6 what you have seen in the bipartisan approach of the Joint
7 Economic Committee is the same kind of thing you have seen
8 here on the Finance Committee, a bipartisan approach that I
9 think will do much to give hope to America in making us
10 competitive again, and trying to fight inflation with
11 production lines and not unemployment lines, by putting more
12 goods on the shelves at a cheaper price.

13 Let me further add that supply side economics is not a
14 total solution to the problem of inflation. It is not going
15 to turn it around overnight. It is going to take time. We
16 did not get into this problem overnight. But you have seen
17 here some long-term planning by the kinds of tax cuts we are
18 talking about on the productivity side.

19 I really believe that the crucible of the test of an
20 economy as to how efficient it is, is by what happens in
21 world trade. We have seen what has happened in the way of
22 the modernization of the productive capacity of our
23 competitors, and we are now on the road to accomplishing
24 that kind of a thing in this country.

25 I am awfully pleased to see what has happened here, and

1 I am awfully proud to be a member of this committee, and to
2 have seen the united effort under the chairmanship of
3 Senator Long, and the bipartisan effort that has been made.

4 The Chairman. Mr. Bradley.

5 Senator Bradley. I just wanted to echo what Lloyd
6 Bentsen just said, and that is, I think no one would have
7 expected two weeks ago that we would be on the brink of
8 almost unanimously reporting out a bill directed at the
9 precise issues under our jurisdiction that can most improve
10 our productivity.

11 This is not to imply that these are the only things
12 that we have to address in order to improve our
13 productivity. But it is to say that the Finance Committee
14 has acted incredibly responsibly. I think that it is a
15 testimony to you, Mr. Chairman. I want to say personally
16 that it was an honor to be a part of this.

17 The Chairman. Let me just say this to the committee.

18 I would hope that the media would take a further look
19 at the way this matter has been perceived by some people,
20 because I believe that it has been in error. I would hope
21 that they would correct that impression.

22 Senator Bentsen, the Chairman of the Joint Economic
23 Committee, has been maintaining for a long time now there
24 ought to be a tax cut and that it ought to be voted this
25 year.

1 When Senator Dole offered an amendment on the floor to
2 seek to bring about an immediate tax cut, the media reported
3 that the Democrats panicked. We did not panic. We just
4 took a reading on where the votes were, and found that they
5 were not the votes to defeat the amendment.

6 (Laughter.)

7 The Chairman. That being the case, we thought that we
8 ought to join with Mr. Dole on the thought that if you
9 "can't lick 'em, join 'em." We thought that we had better
10 join with them in moving for a tax reduction, but we thought
11 we ought to proceed with all the hearings and then go to the
12 traditional mark-up.

13 The hearings, in my judgments, with about the most
14 credible witnesses that can be produced anywhere on earth,
15 proved beyond any doubt that a tax cut was needed, that it
16 is necessary to get the economy moving. It is needed to
17 fight inflation. It is needed to provide jobs. It is
18 needed to increase productivity. The evidence was
19 compelling and overwhelming.

20 Based on that, I think that all of us were convinced
21 that we ought to do exactly what we voted to do here. I
22 honestly believe that the Senator from Kansas, Mr. Dole, and
23 all of the co-sponsors, did everyone a service when they
24 presented their amendment and insisted that we should have a
25 tax cut, not to wait until next year, but that we ought to

1 vote. it now so that people could make their plans and know
2 where they stand. On the capital gains, the effective date
3 would be now.

4 I believe that this has been a good display of
5 bipartisanship. The bill has had more consideration than
6 most bills because of devoting many caucuses of probably as
7 many hours as we have been meeting here in discussing these
8 matters. Then we have been exchanging views, and getting
9 further consideration in the full committee meetings.

10 We have worked together, and I believe that everyone
11 would agree that there has been good bipartisanship put
12 forth on this side as we tried to vote what was best for the
13 country. I would like to thank the ranking member, Mr.
14 Dole, for the part he has played in bringing this about, and
15 also Mr. Roth.

16 Senator Roth. Mr. Chairman, as one who has long
17 advocated a tax cut, I, too, am delighted at the bipartisan
18 spirit as we developed this particular proposal.

19 I think that in fairness it should be pointed out that
20 this is not a tax cut in the sense that next year revenue
21 will go up something like \$84 billion, and the taxes paid by
22 individuals in most cases will go even higher. So I would
23 not want to mislead the American people to think that we are
24 giving them a genuine tax cut, but at least we are moving
25 very far in the direction of offsetting the tax increases

1 that would go into effect if the Congress does not act.

2 That is point number one.

3 Point number two, just speaking for myself, I want to
4 say that I will be back urging further tax cuts. If we are
5 really serious about doing something about productivity, if
6 we are really serious about becoming competitive in world
7 markets, we have got to look beyond one year. We have tried
8 to do that today, and I congratulate you, Mr. Chairman. We
9 have got to look down the road five years at least.

10 I think that it is significant what this tax proposal
11 will cost in the outer-years, which is roughly \$75 billion.
12 I would like to point out that according to the guestimates,
13 if you want to call them that, five years the Federal
14 revenue will double. It is something over \$500 billion now,
15 and it will go over \$1 trillion. So if we are really going
16 to do something about modernizing American plants, do
17 something about savings, I think we are going to be faced
18 with the same opportunity next year.

19 I just want to call to our attention that I think this
20 is a very sizable step in the right direction. I want to
21 congratulate everyone here. I will not offer Roth-Kemp at
22 the present time, but I reserve the right for the future.

23 Senator Moynihan. Mr. Chairman, I would very much like
24 to associate myself with the remarks made about yourself,
25 Senator Dole, Senator Bentsen, Senator Roth, and all. This

1 has been two years of work, and well done.

2 I would just want to report to you that the Budget
3 Committee is not of this view. We had a vote just about an
4 hour ago and they rejected a mark which contemplated the
5 Fiscal 81 reductions that we have made. I think that they
6 were wrong to do so, but they did.

7 To confirm the remark that Senator Roth made, the
8 current law adjusted would raise revenues by Fiscal 85 to
9 \$1.079 trillion. In that context, an \$80 billion tax
10 decrease five years out is not a large amount. I think that
11 that perspective is important.

12 Senator Roth. Would the Senator yield?

13 It should also be pointed out that in a five-year
14 period and that \$80 billion, there is a reflow according to
15 CBO of 40 percent, which makes it much lower.

16 Senator Dole. I want to thank everybody. I think we
17 have had a good session. I hope that those who have some
18 reservations, on the Republican and the Democratic side,
19 will take a look at the record of every member on this
20 committee, not just the past four days or the past several
21 months, but some for the past several years.

22 I thank the chairman for his usual tolerance and
23 spirit, and the bipartisan. As I said in my TV statement, I
24 hope that you are back here next year.

25 (Applause.)

1 The Chairman. Let's call the roll.

2 Mr. Stern. Mr. Chairman, do you want to report this as
3 an amendment to a House bill. If so, I might suggest a
4 minor delayed tariff action.

5 (Laughter.)

6 Mr. Stern. It applies to a duty free entry of six
7 bells from the foundry for the United Methodist Church in
8 Washington, D. C. I don't see any reason not to allow it.

9 (Laughter.)

10 The Chairman. Put it in addition to that bill.

11 Mr. Stern. Mr. Talmadge.

12 The Chairman. Aye.

13 Mr. Stern. Mr. Ribicoff.

14 Senator Ribicoff. Aye.

15 Mr. Stern. Mr. Byrd.

16 Senator Byrd. Aye.

17 Mr. Stern. Mr. Nelson.

18 Senator Nelson. Aye.

19 Mr. Stern. Mr. Gravel.

20 The Chairman. Aye.

21 Mr. Stern. Mr. Bentsen.

22 Senator Bentsen. Aye.

23 Mr. Stern. Mr. Matsunaga.

24 (No response.)

25 Mr. Stern. Mr. Moynihan.

1 Senator Moynihan. Aye.
2 Mr. Stern. Mr. Baucus.
3 I am informed that Mr. Baucus votes aye.
4 Mr. Boren.
5 Senator Boren. Aye.
6 Mr. Stern. Mr. Bradley.
7 Senator Bradley. Aye.
8 Mr. Stern. Mr. Dole.
9 Senator Dole. Aye.
10 Mr. Stern. Mr. Packwood.
11 Senator Packwood. No.
12 Mr. Stern. Mr. Roth.
13 Senator Roth. Aye.
14 Mr. Stern. Mr. Danforth.
15 Senator Danforth. Aye.
16 Mr. Stern. Mr. Chafee.
17 Senator Chafee. Aye.
18 Mr. Stern. Mr. Heinz.
19 Senator Heinz. Aye.
20 Mr. Stern. Mr. Wallop.
21 Senator Dole. Aye.
22 Mr. Stern. Mr. Durenberger.
23 Senator Durenberger. Aye.
24 Mr. Stern. Mr. Chairman.
25 The Chairman. Aye.

1 Senator Nelson. Mr. Matsunaga votes aye.

2 The Chairman. The vote is 19 to one.

3 Senator Byrd. Mr. Chairman.

4 The Chairman. Senator Byrd.

5 Senator Byrd. The Treasury Department and Secretary
6 Miller are very much interested in a piece of legislation
7 that I think can be disposed of very quickly. It is H.R.
8 7478. It passed the House on July 28 without any negative
9 votes. It is in two parts. It deals with the savings bonds
10 interest, and second with the long bond authority for the
11 Treasury Department.

12 These two items have been before this committee from
13 time to time in various forms. There has not been a hearing
14 on this bill. As Chairman of the Subcommittee on Taxation
15 and Debt Management, I personally do not think that it is
16 necessary to hold a hearing, but if any individual member
17 wants a hearing there should be a hearing on this.

18 First of all, the bill deals with savings bonds
19 interest. The pending bill would permit the Secretary of
20 the Treasury, with approval of the President, to increase
21 the rate of savings bonds by up to one percent during any
22 six-month period. Thus, the seven percent rate on EE Bonds
23 would be increased to eight percent upon enactment of H.R.
24 7478. Six months later the rate could be increased to nine
25 percent, and so on.

1 The savings and loan associations have expressed some
2 concern about this, and I think the committee ought to know
3 that. The savings and loan are not very favorably disposed
4 toward that part of this bill.

5 May we have order, Mr. Chairman.

6 Regarding the second part of the bill, H.R. 7478 would
7 increase the amount of the Treasury's authority to issue
8 long-term bonds, namely those over 10 years, without regard
9 to the statutory 4.1 percent interest ceiling on the bonds.
10 The present \$50 billion authority would be increased to \$54
11 billion through September 30, 1980, and to \$70 billion
12 thereafter.

13 The Treasury feels that there is a need for prompt
14 action particularly on this part of the bill. The \$50
15 billion authority has already expired, as I understand it,
16 and they can no longer sell long-term bonds as a result of
17 having exhausted that \$50 billion.

18 The Chairman. Is there any objection to this bill?

19 (No response.)

20 The Chairman. All in favor say, aye.

21 (Chorus of ayes.)

22 The Chairman. All opposed, no.

23 (No response.)

24 Senator Byrd. Thank you, Mr. Chairman.

25 Senator Moynihan. Mr. Chairman, a matter which I would

1 like to bring before the committee to be discussed briefly.
2 The committee has got to consider a presidential veto of a
3 unanimous decision by the International Trade Commission to
4 provide a three-year relief to the manufacturers of leather
5 coats and jackets.

6 An extensive hearing was held by Senator Ribicoff, who
7 is the Chairman of the Committee on International Trade,
8 this week. A case, which seems to us to be an important
9 one, was made. This is a unanimous finding by the ITC that
10 there had been injury. Three-year relief was proposed. The
11 President, in unusual circumstances, decided that it was not
12 in the national interest to do this. The Congress has 90
13 days to override his decision. There has to be a decision
14 concurrently made by the House and the Senate.

15 I would propose, on behalf of myself, Senator Danforth,
16 Senator Bradley, Senator Nelson, and I believe Senator
17 Ribicoff, our chairman, agrees to this --

18 Senator Ribicoff. May I add that we have got until
19 about September 15.

20 Senator Moynihan. You have only 20 days left.

21 Senator Ribicoff. We have to move fast. I don't think
22 there was any motivation for the President to overrule the
23 unanimous decision of the ITC. I would hope that the
24 committee would sustain the resolution.

25 Senator Moynihan. This is S. Con. Res. 108, Mr.

1 Chairman.

2 The Chairman. Is there anyone here who would like to
3 make a statement on behalf of the Administration?

4 Senator Bentsen. I would say, Mr. Chairman, I
5 understand the problem of the processing of leather. We
6 also have the problems of free trade and we have the
7 problems of the export of cattle hides. You have,
8 obviously, conflicting interests here. I am going to come
9 down in support of the Administration.

10 Senator Ribicoff. One point, Mr. Chairman, keep in
11 mind that the domestic manufacturers of leather outerwear
12 use American hides exclusively, completely. Many of the
13 foreigner manufacturers use American hides, but they also
14 use Argentinian, Uruguayan hides. I don't think that it
15 will basically hurt the hide industry as far as hides are
16 concerned. These are byproducts of the meat business. So
17 it depends on how much cattle they can slaughter, and there
18 is a shortage of hides generally.

19 The Chairman. Let me turn to Senator Bradley.

20 Senator Bradley. Mr. Chairman, just let me take a few
21 minutes and state my support of Senators Moynihan, Danforth
22 and Ribicoff.

23 I think that one of the reasons that we established the
24 International Trade Commission, and had procedures and
25 rules, and hearings to determine injury, was that if there

1 was injury was determined there would be relief. That is,
2 indeed, what has occurred here. I think the President's
3 decision to overrule was a decision based upon economic
4 factors of the moment that are no longer important, or not
5 as important today as they were then.

6 I would hope that the committee would adopt that
7 resolution.

8 The Chairman. Mr. Danforth.

9 Senator Danforth. Thank you, Mr. chairman.

10 Mr. Chairman, I share somewhat the same conflict that
11 Senator Bentsen does. Missouri is second to the State of
12 Texas -- I hate to admit that, but we are second in calf
13 production. Therefore, a couple of years ago when the issue
14 was raised in the Senate as to export restrictions, I
15 clearly voted against export restrictions on hides, even
16 though Missouri is also third in the nation in
17 leatherworkers that we employ.

18 The point here, though, is that there is a very serious
19 problem with this particular industry. Between 1975 and
20 1978, U.S. consumption of leather apparel increased from 6.5
21 million units to 11.9 million units. However, domestic
22 production at the same time decreased to 2.5 and 2.2 million
23 units. Import penetration during that period of time
24 increased from 62 percent to 80 percent of the American
25 market.

1 Many countries are shipping substantially all of their
2 exports of leather apparel to the United States. For
3 example, Uruguay -- 66 percent; Canada - 97 percent;
4 Argentina - 74 percent.

5 With respect to the possibility of the effect on the
6 American hide industry, in my opinion the effect would be
7 contrary to what has been stated by Senator Bentsen for the
8 following reason.

9 First, obviously American leather coats made in this
10 country are going to use close to 100 percent of American
11 hides rather than some fraction.

12 Secondly, the Administration testified that if we
13 overrule the President's decision it is likely to abort
14 agreements with Argentina, Uruguay and Bolivia calling for
15 exports of hides from those countries on the world market.

16 So I think that not only from the standpoint of
17 protecting the industry for only a three-year period of
18 time, which is all that is involved here, but also from the
19 standpoint of the cattle producers this makes sense.

20 The Chairman. Senator Packwood.

21 Senator Packwood. Jack, I have this question, and
22 maybe you can answer it. I do not have a big leather
23 manufacturing industry in Oregon, but I am curious if this
24 is the same industry that tried to prohibit the export of
25 American a number of years ago when the world price was

1 higher, and the farmers wanted to sell them overseas.

2 Senator Danforth. Yes, it is.

3 Senator Moynihan. I would think that it is correct.

4 Senator Danforth. It is absolutely correct. I voted
5 against it then.

6 Senator Moynihan. Maybe they will be more careful the
7 next time if we help them this time.

8 The Chairman. All in favor say, aye.

9 (Chorus of ayes.)

10 The Chairman. Opposed, no.

11 Senator Bentsen. No.

12 The Chairman. The ayes appear to have it. The ayes
13 have it.

14 Senator Moynihan. Thank you gentlemen.

15 The Chairman. Thank you, gentlemen, and we will meet
16 tomorrow.

17 (Whereupon, at 5:25 p.m., the committee recessed, to
18 reconvene at 10:00 a.m., Friday, August 22, 1980.)

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