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HEARINGS

Before the

COMMITTEE ON FINANCE

UNITED STATES SENATE

EXECUTIVE SESSION

Washington, D.C.

Thursday, September 29, 1983

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1 EXECUTIVE SESSION

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Thursday, September 29, 1983

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United States Senate

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Committee on Finance

7

Washington, D.C.

8 The committee met, pursuant to notice, at 10:43 a.m., in
9 room SD-215, Dirksen Senate Office Building, Honorable Robert
10 Dole (chairman of the committee) presiding.

11 Present: Senators Dole, Danforth, Chafee, Heinz, Wallop,
12 Durenberger, Grassley, Long, Bentsen, Moynihan, Baucus,
13 Boren, Bradley, and Pryor.

14 Also Present: Senator Warner.

15 Also Present: Mr. Chapton, Treasury Department.

16 Also Present: Rod DeArment, Staff Director; Michael
17 Stern, Minority Staff Director; Mr. Focks, David Brockway,
18 Andrew LeDuc and Mr. Kassinger, Committee and Senators'
19 Staffs.

20 The Chairman: Let me say at the outset that as I
21 understand it we are going to be voting this morning on the
22 War Powers Resolution and amendments thereto so I am not
23 certain how long we are going to be able to conduct business
24 in the committee. This afternoon as I understand it some
25 agreement is being worked out on the continuing resolution

1 where there would be no amendments offered.

2 That would mean that the FSC bill would come up on the
3 floor hopefully midafternoon not too late so I suggest we
4 probably would not be able to meet this afternoon with the
5 number of votes we are going to have. Secondly, I would
6 indicate that many people are not able to gain access to this
7 room, and we have temporarily made arrangements so that they
8 could at least hear what is happening in the hall. That may
9 be of some help.

10 We are going to continue to go through a number of
11 leasing questions that we started on yesterday and go over
12 generally the areas where some concern has been expressed by
13 colleagues and members of the industry and others to get a
14 pretty good idea of just where we are before we start trying
15 to put anything together.

16 In addition, I am not certain what we can do on trade
17 adjustment assistance. I have not yet discussed that with
18 Senator Danforth.

19 The administration is opposed to any extension of that,
20 but we can discuss that. Rod, did I understand that you had
21 some technical matters that we have to do something to comply
22 with the Budget Act or something?

23 Mr. DeArment: Yes, Mr. Chairman. Under section 302(b)
24 of the Budget Act we are required to submit an allocation
25 among the subcommittees for our programs in the budget

1 authority within our jurisdiction. This is sort of a
2 housekeeping function.

3 The Budget Act provides that it is not in order to
4 consider any bill providing for a new budget or spending
5 authority in fiscal year 1984 until the allocations required
6 by 302(b) of the Budget Act are made. So since we plan to
7 take some legislation up I thought we ought to approve that
8 report.

9 The Chairman: Is it all right with Mike? Has Mike
10 looked at it?

11 Mr. DeArment: We have cleared that with the minority
12 staff. We may have to make a slight adjustment in it to
13 reflect the FSC changes because we prepared it before we made
14 FSC. But we will make those changes.

15 The Chairman: As I assume it is a technical matter. Is
16 that correct?

17 Mr. DeArment: Yes. That is right. We do this under the
18 Budget Act every year.

19 The Chairman: So I would assume if you and Mr. Stern
20 agree.

21 Mr. Stern: That is right, Mr. Chairman. I just received
22 word this morning that there would have to be an adjustment
23 in the earlier version I saw because we now have reported cut
24 this unemployment bill. But essentially it is just a matter
25 of reflecting the numbers.

1 The Chairman: Okay. Dave or whoever wants to do this I
2 thought we went over Navy leasing yesterday. Now are the
3 summaries made available to each member on Navy leasing?

4 Mr. LeDuc: No.

5 The Chairman: Have we completed going through rather
6 major areas where we are going to have to make decisions on
7 the leasing bill? I know we discussed real estate. We
8 discussed leasing, Navy leasing, there is also some airplanes
9 involved as I understand. Do you want to go over that one
10 now?

11 Mr. Frockway: Mr. Chairman, that is just a general
12 question regarding the treatment of foreign use property
13 under the bill. Under present law that property qualifies
14 for the investment credit only if it is used in the United
15 States as a general rule, but it does not qualify if the
16 property or equipment is used overseas.

17 However, there is an exception for property that moves in
18 and outside the United States. The largest item there would
19 be airplanes, but also there would be satellites, containers,
20 vessels and a variety of these have been lease financed as a
21 way of providing financing basically the U.S. airlines but
22 also the foreign airlines and some foreign users of ships or
23 containers or satellites so that what happens is that because
24 of this exception from the general rule of the investment
25 credit is only allowed for property used in the United States.

1 For property moving inside and outside the United States
 2 lease finances are set up so that foreign users, a foreign
 3 airline let's say, can use an aircraft under a lease and
 4 indirectly get the benefit of the investment credit and ACES
 5 through the form of the lease. What the bill would do is say
 6 where properties used by a foreign person or a foreign
 7 government it will not qualify for the investment credit and
 8 also will have a longer term depreciation.

9 There is also an issue in the foreign area for certain
 10 property that is used completely outside the United States.
 11 Under present law you can lease finance that using double
 12 declining balance accelerated depreciation over the ADR
 13 midpoint.

14 The bill would have to say you have to use straight
 15 line. Now this would be plant or equipment used in a foreign
 16 country maybe built in a foreign country.

17 There is some leasing there. You do not get the entire
 18 investment credit and you do not get the entire ICERS, but you
 19 still get some advantage and the bill would take away that
 20 advantage there.

21 Basically attempting again to put themselves in the same
 22 position as other tax exempt users who were not paying tax
 23 and who could not get the credit or ACES directly, it would
 24 provide that they would be under straight line depreciation.

25 The Chairman: I indicated yesterday, and I will come

1 back to the question before us -- I indicated yesterday in
2 the real property area that I have been approached by Senator
3 Warner and others who had a direct interest in this. I told
4 Senator Warner that we were in the process of trying to
5 figure out some way to deal with it.

6 He indicated an interest at least in expressing his
7 concerns not only to the committee members but to those who
8 will be working on it at the staff level and in the
9 Treasury. Senator Warner is with us now.

10 Perhaps, Senator, you would like to express your
11 concern. I know you have other committee assignments, but we
12 would be happy to hear from you.

13 Senator Warner: Mr. Chairman, I am very grateful to you,
14 to the members of the committee and indeed the staff in a
15 bipartisan way for listening to my particular appeal.
16 Virginia, particularly northern Virginia and the Beltway area
17 have provided a home -- I use that word in an affectionate
18 sense -- for government, tax exempt and many of those who
19 lobby and otherwise deal with the Congress and the executive
20 branch.

21 Consequently we would be severely hit and perhaps more
22 severely than others in any comparable geographic area of the
23 United States by the provisions of these various legislative
24 items now under consideration by the committee. I have
25 provided the committee with my written statement on this

1 subject, and I would appreciate every consideration being
2 given to the peculiar impact or unique impact on northern
3 Virginia not only in terms of the landlord but the
4 infrastructure that supports these tenants throughout our
5 area.

6 Mr. Chairman and members of the committee, I understand
7 that some of my thoughts are beginning to find their way into
8 amendments and I thank you.

9 The Chairman: Thank you, Senator Warner.

10 Senator Warner: I would like to submit a more complete
11 statement for the record.

12 The Chairman: We would be happy to accept that.

13 As I indicated if it was all right with the committee
14 yesterday we would go through everything which might be
15 controversial. Maybe there is justification. This is one of
16 those areas, and we appreciate your comment and we are
17 keeping in direct touch with you and your staff.

18 Senator Danforth: Mr. Chairman, I might say in this
19 regard that Senator Warner not only has appeared before the
20 committee today but he has spoken to me on this subject on
21 several occasions, and he and I have addressed our attention
22 to a possible solution to the real estate issue. At the
23 appropriate time we will be suggesting a way out of this
24 situation which I think will meet the aims of Senator
25 Warner.

1 Senator Warner: I thank the distinguished Senator from
2 Missouri. Indeed I am in agreement with the objectives of
3 these legislations on real estate, but unfortunately northern
4 Virginia is caught in a fishnet.

5 Thank you.

6 Senator Chafee: Mr. Chairman, I would just like to
7 congratulate Senator Warner for his tenacity in connection
8 with this issue. He has been very serious about it, and has
9 brought it to our attention individually.

10 Whether we will be able to find a solution or not I do
11 not know, but it certainly will not be for lack of trying on
12 Senator Warner's behalf. He has worked very hard on this.

13 The Chairman: All right. Andre, what do you have for
14 us?

15 Mr. LeDuc: We talked briefly yesterday morning about a
16 proposed amendment on the solid waste, waste water and
17 renewable energy facilities.

18 The Chairman: Well, before we start accepting
19 amendments, I want to make certain we have gone through all
20 of the different areas so that everybody on the committee
21 will have an opportunity to know that we have a lot of
22 problems to address. If we start dealing piecemeal there
23 will not be any revenue left, and the door may get closed on
24 someone before we go through the entire list.

25 Mr. LeDuc: The committee has a list of clarifying

1 changes. I do not know if you want to take the committee's
2 time with those relatively minor changes, but some of them
3 are of interest to members of the committee.

4 The Chairman: Well, I think they should be gone over,
5 yes.

6 Mr. LeDuc: The first of the clarifying changes relates
7 to the effective date of the provision. Only leases entered
8 into after the general -- This is on page 2, item 4 of the
9 markup document.

10 The Chairman: Wait a minute. What document? We do not
11 have any document.

12 Senator Moynihan: What document is this? Would you help
13 us please?

14 Mr. LeDuc: The first page of the document is captioned
15 Proposed Amendments to S.1564.

16 The Chairman: It is coming. Just hold off a minute,
17 Andre. We are getting it now.

18 [Pause]

19 The Chairman: The clarifying changes on page 2 of a
20 document entitled Proposed Amendments dated September 28.

21 Mr. LeDuc: Concern was raised that the bill might be
22 interpreted to apply to leases which had been entered into
23 prior to the general effective date of May 23rd. The lessee
24 and the lessor would each be bound to the rental terms and
25 this bill would inadvertently affect the economics of the

1 transaction.

2 Accordingly we would clarify that the bill would not
3 apply to leases which had been entered into prior to the
4 effective date.

5 Senator Heinz: Mr. Chairman.

6 The Chairman: Senator Heinz.

7 Senator Heinz: Mr. Chairman, as I understand it unless
8 written very carefully this provision could at least
9 particularly as it is in the House bill make it impossible
10 for the city of Philadelphia to continue with the contractual
11 arrangements and commitments they made with respect to a
12 convention center. Is my understanding correct that we need
13 to be sure that it is this section of the bill that needs to
14 be carefully drafted to avoid problems with the Philadelphia
15 convention center?

16 Mr. LeDuc: Senator, I believe you are correct that this
17 general rule would not permit the tax benefits to be realized
18 on that convention center, and if benefits were to be
19 provided a special rule would be required.

20 Senator Heinz: Mr. Chairman, just so that everybody is
21 aware of the situation, as of today indeed going back many
22 months the Philadelphia City Council has taken a variety of
23 actions to move ahead with this center which when completed
24 would probably mean between 8000 and 9000 permanent jobs in
25 the city of Philadelphia.

1 To my mind it is the single most important economic
2 development in the recent history of the city certainly of
3 the decade. The City Council has taken action to approve
4 several tens of millions of dollars of financing and bond
5 issues.

6 The plans for it have been under development for a number
7 of years, and it would be my hope that now that they have a
8 developer that they are going forward after having been
9 through a very laborious site selection process after having
10 committed thousands of dollars that we could write a
11 transitional rule that would ensure that all of the effort
12 and work will be able to proceed and the center will not come
13 to a halt. I am advised also that the arrangements for the
14 center are such that the cost of enacting this bill without
15 the transitional rule would be such that it would probably
16 make it impossible at least for many years to develop the
17 convention center.

18 The developer had taken into account in his calculations
19 I believe the ACRS and investment tax credit benefits that
20 would be involved here.

21 The Chairman: I would just say that this may indirectly
22 affect transition rules. We thought we would not go into the
23 transition rules right now, but we are aware of a number of
24 projects that members have called to our attention about
25 which they are very concerned. Certainly Senator Heinz has

1 mentioned this to me a couple of times.

2 We hope we are able to deal with those where there have
3 been some indications. Well I do not know how we are finally
4 going to define it. That would depend upon the committee,
5 some progress, some contract, whatever.

6 It is not fair if there have been good faith negotiations
7 to change the rules in the middle of the game.

8 Senator Pentsen.

9 Senator Pentsen: Mr. Chairman, on that same point, a
10 point I raised yesterday and Senator Long raised a similar
11 one, I am not sure that this takes care of it. I want to be
12 assured of that.

13 I see it says "leases entered into after May 23, 1983
14 would be covered by the bill." I dealt specifically with the
15 problem of leases entered into prior thereto, but there is a
16 provision in the bill as I understand it that requires the
17 ship to have been in use by a certain date which was a
18 physical impossibility under some of these contracts.

19 I guess that is the very point the Chairman is talking
20 about, about a deal having been made under the rules, a
21 contract binding both parties. I want to be sure when you
22 say that it only affects those leases entered into after
23 May 23, 1983 that that vitiates for contracts made prior to
24 that, that provision about having to have been in use before
25 a specific date.

1 Mr. Chapoton: You are talking about government property
 2 in this case, and as I understand it the bill would leave in
 3 the placed in service date so that this would not fully state
 4 the rule of the bill.

5 Senator Bentsen: It would not take care of the problem
 6 that I cited then?

7 Mr. Chapoton: It would not.

8 Senator Bentsen: It probably does not take care of the
 9 problem either of the Senator from Louisiana.

10 Mr. Brockway: This particular rule, the clarifying
 11 change does not reflect this transaction that you are
 12 referring to, that placed in service date, nor does it affect
 13 the Philadelphia convention center. This is merely a
 14 modification of the general effective date to make it work
 15 better.

16 It does not apply to property that was under lease before
 17 the effective date and then one lessor sold it to another.

18 The Chairman: We have to deal with their problems
 19 separately?

20 Mr. Brockway: That is right. That is entirely
 21 independent. Both of those are independent of this rule.
 22 This is just a clarifying change to make the effective date
 23 work better.

24 The Chairman: Senator Chafee.

25 Senator Chafee: Mr. Chairman, I have another

1 clarification point that I want to raise at the proper time.

2 Is now the proper time?

3 The Chairman: Yes.

4 Senator Chafee: Okay. To see if my understanding is
5 correct on this as I understand it when you have a long-term
6 lease by a tax exempt entity to a taxable entity, a long-term
7 lease, the taxable entity is entitled to the benefits that
8 currently exist under the ACRS and investment tax credit
9 law.

10 Let me give you an example. The Willard Hotel is owned
11 by the Pennsylvania Avenue Development Corporation, a
12 nontaxable entity.

13 It has leased that hotel for 99 years to a taxable
14 entity, a developer. Now it is my understanding that he
15 would be entitled to all of the benefits as they exist under
16 current law unless he leases back to a nontaxable entity over
17 50 percent of the property. Is that correct?

18 Mr. Erockway: The way the bill works in that situation
19 is if it is leased from the development authority to a
20 private party who then rehabs the building that private party
21 owns the rehab as long as that was a long-term lease of the
22 hotel to that developer for more than 15 years. Then the
23 rehabber is treated as owning the property, and the bill only
24 applies if it is then in turn released back to a tax exempt.

25 Senator Chafee: Over 50 percent?

1 Mr. Erockway: Correct. Under the normal rules whatever
2 they might be and that is a 50 percent rule.

3 Senator Chafee: All right. Fine. Thank you.

4 Mr. Chapoton, do you agree with that?

5 Mr. Chapoton: Yes, Senator. We do.

6 The Chairman: Senator Moynihan.

7 Senator Moynihan: Mr. Chairman, I just want to say that
8 I think none of us does not have one or more specific
9 situations in his state which is caught up in this May 23rd
10 problem which arises over in the other body. How would you
11 like us to go about the process of saying "Is this all
12 right? Is that all right?" I do not think you want to do
13 it, or I do not suppose you want to do it piecemeal.

14 The Chairman: Well, we thought what we might do and we
15 know a number of our other colleagues who are not on this
16 committee have the same problem as we are trying to get word
17 to everyone for them to submit any exceptional cases. I know
18 there are some in Albany or in Rochester.

19 Senator Moynihan: There is one in Buffalo and so on.

20 The Chairman: Yes, and in other parts of the country
21 such as Atlanta. Let's just give it to the staff.

22 Senator Moynihan: Would you like us to give it to the
23 staff in writing so that if we give it to them in writing we
24 might get back information. Right now we have a lot of
25 verbal understandings which could get lost. I guess that is

1 why people invented writing.

2 The Chairman: We assume there may be one or two
3 transitional rules that we will have to work on.

4 Senator Moynihan: Okay. We will do that.

5 The Chairman: Did they do a number of these on the House
6 side?

7 Mr. Brockway: Well, we were made aware of quite a number
8 of specific transactions that were taken into account when
9 the transitional rules were drafted in the House bill when
10 the committee decided on what its transitional rules were.

11 The Chairman: So I think it might be the best procedure
12 if someone has a representative here by staff if they could
13 inform us and we will get word to other Senators as well.

14 Thank you.

15 Andre, go down the list please, certain properties and
16 grandfathers.

17 Mr. LeDuc: The second clarifying change would make it
18 clear that if certain leases had been expressly grandfathered
19 by last year's tax bill certain mass transit property,
20 certain rural electric cooperative property, the bill would
21 not reach back to affect the lease characterization or the
22 tax benefits available under those transactions.

23 Senator Moynihan: Mr. Chairman, may I inquire please?

24 The Chairman: Senator Moynihan.

25 Senator Moynihan: Last year in TEFRA we provided a

1 provision for the Metropolitan Transit Authority in New
2 York. I gather that that continues to be eligible?

3 Mr. LeDuc: The Senator is correct.

4 Senator Moynihan: Thank you.

5 Mr. LeDuc: The third change would be to correct a
6 drafting error in 1564 which made the investment tax credit
7 available for certain short leases in cases in which it was
8 not available under current law. Current law provides a very
9 restrictive test for the investment credit on leases to tax
10 exempt entities and that tax common law standard would be
11 retained.

12 That is, it is a standard that has been articulated by
13 the courts and would not be affected by this bill.

14 The Chairman: Does Treasury have any different view?

15 Mr. Chapoton: We certainly would not want to broaden the
16 present law. We had talked about the possibility of having a
17 clear rule stated in the statute, but that is a detail. In
18 other words, I think we are in agreement that we do not want
19 to broaden through this process or through an exception to
20 this process give the credit where it is not available
21 because it leads to a tax exempt under pre-existing law.

22 The Chairman: Right. You want to clarify and tighten?

23 Mr. Chapoton: Well, there is some advantage to saying
24 specifically what is a short-term lease for these purposes,
25 but if we come up with a specific suggestion on that we will

1 present it to the committee.

2 The Chairman: I think you will have to bring it back to
3 the committee because somebody may not agree or may disagree
4 with it. They may agree with what you are saying generally,
5 but they may want to take a specific look at the specific
6 thing you present.

7 Mr. LeDuc: The fourth change would be to adopt a
8 provision in the House bill which adds an additional factor
9 to be considered in determining whether a contract is treated
10 as a service contract or a lease. The test would be whether
11 the payments under the contract substantially exceed the
12 property's rental value for the contract period.

13 The notion is that if services are being provided in
14 addition to the provision of property then there should be a
15 charge for them, and the payments under the contract should
16 exceed the rental value.

17 The Chairman: May we hear from Treasury on that?

18 Mr. Chapton: That is agreeable with us. I think this
19 question, Andre, will arise further in specific properties,
20 specifically the solid waste disposal area.

21 (Pause)

22 Mr. Chapton: It will come up in detail and in terms of
23 specific property will be dealt with in an amendment that I
24 will present.

25 The Chairman: In fact, this is for the information of

1 others on the committee I want to say we are not adopting
 2 anything yet. We are just going over what is proposed so
 3 that we will understand what they are.

4 Mr. LeDuc: The fifth change would be to make it clear
 5 that certain taxable entities which are restricted in their
 6 use of the investment tax credit under special rules in
 7 particular are entitled to only a partial investment tax
 8 credit. We would extend to such entities the restrictions on
 9 leasing to tax exempt entities which are not eligible for any
 10 credit. So such entities who are limited in their investment
 11 tax credit would be treated as if they were entitled to no
 12 tax credit.

13 The Chairman: Do you have a comment?

14 Mr. Chapoton: Yes. That is agreeable.

15 Mr. LeDuc: The sixth change would be to make it clear
 16 that leases and other distribution contracts for films
 17 overseas would not be affected by the bill.

18 The Chairman: What is the problem there?

19 Mr. LeDuc: I am not sure that there is a consensus at
 20 the staff level, Senator, that there is a problem. Some
 21 taxpayers' counsel were concerned that either under the House
 22 bill or the Senate bill there might be an inference that tax
 23 exempt foreign persons who are engaged in showing U.S.
 24 produced movies overseas might be treated as tax exempt
 25 entities in the investment credit and the very generous

1 depreciation benefits available on films would be lost.
2 Mr. Chapoton: I think there was concern, Mr. Chairman,
3 whether the so-called income forecast method was an
4 acceleration method that should be affected here. I think
5 there was agreement that it should not. I believe that is
6 what (f) would clarify that it would not affect it.

7 The Chairman: Are there any other areas that Treasury
8 feels should have clarifying changes?

9 Mr. LeDuc: There are, Mr. Chairman.

10 Mr. Secretary, do you want to describe the one day sale
11 lease back question?

12 Mr. Chapoton: Yes. In the House bill the question is if
13 you have temporary use of a facility by a tax exempt
14 organization say during the construction period or during
15 initial acquisition and then a sale lease back under a
16 permanent plan for financing but it would otherwise be a new
17 facility or newly used by the tax exempt whether the sale
18 lease back rule should apply. We think it should not apply
19 if the use by the tax exempt was very temporary.

20 The Chairman: How do you define very temporary?

21 Mr. Chapoton: Well, we have suggested what --

22 Mr. Brockway: There is a 90 day rule existing right now
23 that was used in safe harbor and investment credit. We will
24 just pick that up.

25 Mr. LeDuc: Mr. Chairman, the final item not on the list

1 but it has been called to our attention would be to make it
2 clear that the test to determine whether a contract is
3 treated as a lease or as a service contract should be applied
4 generally under the Internal Revenue Code rather than simply
5 to the investment credit determination.

6 This would avoid creating a negative inference that we
7 somehow have created two tests, one for the investment credit
8 and one for other purposes.

9 Mr. Chapoton: We agree that that is a proper change, Mr.
10 Chairman.

11 The Chairman: Does Treasury have any other areas it is
12 concerned about?

13 Mr. Chapoton: No, I can think of no specific clarifying
14 changes of the type we have discussed here.

15 The Chairman: I would ask the staff if there are any
16 other general areas that have been raised that we ought to go
17 over before we start trying to make decisions.

18 Mr. LeDuc: The only item that we perhaps should spend a
19 moment on, Mr. Chairman, is the following: We talked in the
20 defense procurement area principally about the Navy contracts
21 yesterday. There are, of course, other contracts.
22 Principally the Air Force is acquiring some airplanes under
23 lease arrangements.

24 There are some differences between the Air Force
25 contracts and the Navy contracts. No investment credit is

1 being claimed, but that is a contract in which members of the
2 committee have some interest and you should be aware of it.

3 The Chairman: Why do you not explain that just a bit
4 more fully? If it is what I am thinking about it is one that
5 I think should be on the record because it may affect
6 something in the state of Kansas.

7 Mr. LeDuc: Last year a private airplane manufacturer
8 made an unsolicited bid to the Air Force which showed that
9 under a lease arrangement the operating cost to the Air Force
10 of some training aircraft for modern training aircraft would
11 be lower than the current operating cost on some out of date
12 CT 39 aircraft. The Air Force followed up and in due course
13 has entered into a contract to lease such training aircraft
14 and replace the out of date CT 39 planes with new, more fuel
15 efficient trainers. That contract is in the works.

16 As I mentioned there were a couple of key differences.
17 There is no tax indemnity under the terms of the Air Force
18 contract, that is, the private parties' claims for the
19 accelerated cost recovery deductions are not indemnified.

20 Additionally, it is treated as a lease and not as a
21 service contract and accordingly no investment credit will be
22 claimed by the private investors on this transaction. The
23 planes have not been delivered and the details of the
24 contract have not been finalized at the investor level so I
25 cannot comment in more detail on the specifics, Mr.

1 Chairman.

2 The Chairman: Are there any other areas that Treasury
3 wants to bring to our attention?

4 Mr. Chapoton: No, Mr. Chairman. I think not.

5 The Chairman: Well, I promised Senator Boren and Senator
6 Danforth on Thursday we would come back and discuss with
7 Senator Wallace an area in which they have an interest. What
8 I would suggest unless the committee has another view is that
9 we move from the public property leasing and that we give
10 staff and the Treasury and members' staff an opportunity to
11 go over again what we have discussed to see if we can reach
12 some general agreement on both sides of the aisle on a
13 package that we might be able to vote on early next week.

14 Is there any objection to that?

15 [No response]

16 The Chairman: If not, let's do that. We will have to
17 make certain that we notify each Senator about transition
18 rules so we can do that. I think you are already getting
19 some requests.

20 Mr. LeDuc: We are, Mr. Chairman. We would reiterate the
21 request that we receive in writing the details of the
22 contracts or projects that might be affected by this bill.

23 Senator Bradley: Mr. Chairman, is it your intention then
24 to leave leasing now?

25 The Chairman: Yes.

1 Senator Bradley: And next week vote on just the public
2 property aspect of it?

3 The Chairman: Well, we will vote on the bill that is
4 before us with amendments which I assume have been suggested
5 by members. What we would like to do between now and next
6 week is see if we cannot hammer out some resolution of the
7 primary issues presented to the committee.

8 Senator Moynihan: Well, Mr. Chairman, you said we were
9 going to leave leasing for tax exempt agencies. There is
10 this question we have discussed of the leasing by financial
11 institutions of properties to other organizations.

12 The Chairman: I meant to include that. We are going to
13 try to work that out, too.

14 Senator Moynihan: Oh, you will. Mr. Chapoton and I
15 spoke about that so then that is to be done.

16 The Chairman: Yes, everything.

17 Senator Moynihan: May I ask, Mr. Chairman, how do you
18 want to proceed? Should we put a proposition in writing?

19 The Chairman: I think what we will do is get together
20 with members of your staff, Treasury staff and staff on both
21 sides and the joint committee and see if we cannot reach some
22 general agreement that still preserves what we hope to do in
23 this legislation. I mean, it is easy to give everything away
24 but that is not the purpose of the bill.

25 We will find some reasonable way of pursuing this.

1 Senator Bentsen: Mr. Chairman, I share the concern on
2 the issue of the investment tax credit and ACRS insofar as
3 the leasing by U.S. entities of American produced products
4 abroad.

5 The Chairman: I think there is general agreement on
6 this. It is just a matter of working it out.

7 Senator Chafee: Mr. Chairman, when would you envision
8 meeting again, that is, to go back to this? Would it be
9 Monday or Tuesday?

10 The Chairman: I would guess Tuesday. Monday is not a
11 particularly good day. Tuesday may not be a good day
12 either. We do not know.

13 Mr. DeArment: Mr. Chairman, we do have a hearing
14 scheduled for Tuesday.

15 The Chairman: What kind of hearing?

16 Mr. DeArment: Child support enforcement, the second day
17 of that. We could move that to the afternoon or postpone it
18 to another day if that is the committee's desire.

19 The Chairman: Who is holding that hearing? Senator
20 Armstrong?

21 Mr. DeArment: I cannot remember whether it is a full
22 committee or subcommittee.

23 The Chairman: Well, let's check this. Maybe we can find
24 another room and still meet here in the morning.

25 Let us now move on to Senator Boren, Senator Danforth and

1 Senator Wallop's proposal.

2 Senator Danforth: Mr. Chairman, may I inquire if we can
 3 get a vote on this issue would it be possible then to address
 4 the trade adjustment assistance question later in the
 5 morning?

6 The Chairman: I might inform those in the audience that
 7 there will be no more leasing matters or any other revenue
 8 matters. We are going to go now to a broad proposal on
 9 spending and revenues and then in the time remaining we will
 10 try to focus on trade adjustment assistance.

11 If you are not concerned about those two issues you are
 12 on the wrong plane.

13 [Pause]

14 Senator Moynihan: Mr. Secretary, we are going to talk
 15 about balancing the budget. Do I gather that you have to
 16 leave?

17 Mr. Chapoton: Well, I did have a meeting.

18 [Pause]

19 The Chairman: Senator Grassley.

20 Senator Grassley: Mr. Chairman, I have a question
 21 regarding procedure before we proceed with Mr. Boren. Next
 22 Tuesday then it would be anticipated that we would try to
 23 work on a tax bill. How does the scheduling of that dovetail
 24 with whatever we are going to do in the way of reconciliation
 25 on the expenditure side?

1 The Chairman: Well, we have gone over the expenditure
2 side.

3 Senator Grassley: I mean as far as making a decision.

4 The Chairman: Let me say very candidly that it has been
5 my hope that during the course of these proceedings somebody
6 at the White House would be listening. There was a
7 resolution introduced yesterday by a bipartisan group of
8 House members, the chairman of the Budget Committee,
9 Congressman Jones, the ranking Republican, Congressman Latta,
10 urging the President to convene an economic summit with the
11 Speaker, the Majority Leader, and leaders in the Congress on
12 both sides of the aisle to see if we could not address the
13 deficit problem.

14 We have not been moving too quickly in here, but there is
15 still some hope that that might happen that there may be some
16 kind of meeting. If it is obvious that there will be no
17 meeting then we will just go ahead and vote on our spending
18 reductions first and move to the tax matters that we have
19 indicated we are going to look at, leasing, the insurance
20 area and a few others and I guess just decide that we cannot
21 face up to the deficits.

22 Senator Grassley: So if we do not hear anything from the
23 White House it is still your order of business that before we
24 even deal with these leasing portions of the tax bill and the
25 other matters we have discussed you are still going to work

1 on the reconciliation that we previously discussed on the
2 expenditure side beforehand?

3 The Chairman: I think that is the way we should proceed
4 since we raised those first. I would hope that we might have
5 more spending reduction. We only asked \$1.7 billion over
6 three years by the Budget Resolution.

7 It would seem to me we could do better than that. Maybe
8 we cannot.

9 I guess I will recognize Senator Danforth.

10 Senator Danforth: Mr. Chairman, I think this issue was
11 pretty well aired on Tuesday. The first question is whether
12 the deficit is detrimental to the health of the country.

13 That is a matter which is being debated. The Secretary
14 of the Treasury is not as concerned as the Chairman of the
15 Council of Economic Advisors.

16 The position that Senator Boren, Senator Wallop and I
17 have taken is one which is not in accord with the Secretary
18 of the Treasury. We believe that the deficit is quite
19 detrimental.

20 We further believe that it is not possible to reduce it
21 to an acceptable level solely by cuts in appropriated
22 programs, solely by working on the defense budget or solely
23 by an economic recovery or any combination of the three.
24 Therefore, we believe that it is necessary to put together a
25 package which calls upon the vast majority of the people of

1 this country to chip in something to reduce the deficit.

2 Therefore, the whole CPI minus 3 proposal has been one of
3 proposing that for a four-year period of time beginning in
4 1985 when tax indexing takes place that indexing for those
5 four years not be at a full cost of living but rather be at
6 the consumer price index minus three percent. The result of
7 this would be about \$117 billion over a four-year period of
8 time split just about 50/50 between revenue and spending.

9 I think that pretty well presents that case. Senator
10 Boren.

11 Senator Boren: Mr. Chairman, I certainly agree with what
12 Senator Danforth has said. I think we have a responsibility
13 to act. We are facing a crisis, and for once I think we need
14 to look ahead at what is coming down the road and exercise
15 some leadership for this country.

16 We all know what is going to happen if we add another
17 trillion dollars to the national debt between now and '88 and
18 that is what we are facing. We know it is going to happen if
19 the government consumes between 60 and 70 percent of all of
20 the available credit in this country.

21 We are going to be facing economic disaster, the kind of
22 economic disaster that will threaten all economic enterprises
23 and the financial solvency of the very social programs that
24 we would hope to see continued. So I think we have a
25 responsibility to act.

1 When you look at the fact that we have a \$200 billion
2 deficit, it is just very clear that we are facing those year
3 after year into the future and it is very clear that you
4 cannot say we are going to rule out considering all of the
5 income side and then we are going to look at the spending
6 side. We have to rule out the 14 percent of the national
7 budget that pays interest on the national debt, and others
8 would say we have to rule out defense. That is almost
9 another 30 percent so we are up to almost 45 percent.

10 Then if you rule out the entitlement programs which
11 constitute about 42 percent you are between 85 and 90 percent
12 of total spending. If we were to abolish the rest of the
13 government, that other 10 percent, we are only talking about
14 \$70 billion or so in spending and we would still be \$130
15 billion in the red.

16 So we have a problem that we have to face. I think it is
17 time for us to face it. I think the American people are
18 tired of hearing the excuse from those of us in Congress and
19 in the administration as well who were given the
20 responsibility of providing some leadership and making
21 decisions that we cannot do anything until after an election.

22 I am very, very proud to join with Senator Danforth in
23 this initiative. I think it is something that should be
24 adopted, and I would urge my colleagues either to support it
25 or to come up with proposals of their own that will total the

1 kinds of impact on the federal budget deficits that will
 2 begin to make a difference for the country and will help us
 3 to avert disaster.

4 We are doing no one a favor at any income level in this
 5 country by continuing to postpone action on this problem.

6 Senator Danforth [presiding]: Senator Wallop.

7 Senator Wallop: Mr. Chairman, this would echo what you
 8 and Senator Boren have said and would go another step farther
 9 and say this committee can reach what it can reach. We can
 10 wish that other things were taking place at other levels, but
 11 if we all sit around and wish and other committees wish as we
 12 would the Congress ends up precisely where it is, the
 13 government ends up precisely where it is with everybody
 14 decrying the deficits and nobody doing anything about it.

15 None of the sort of deficit reduction proposals that
 16 exist is in any way very appealing. Nobody particularly
 17 likes the idea of adjusting taxes or adjusting benefits.

18 Nobody particularly enjoys the idea of dealing with
 19 foreign programs or military programs or anything else, but
 20 we can reach what we can reach. This committee has control
 21 over a significant proportion of all of the spending and all
 22 of the revenues that the government has.

23 It seems to me that if we in this committee take no
 24 leadership there will be none and we will all decry it and we
 25 will all bear equal amounts of blame. I would say to those

1 who are concerned as I am about touching the one sacred cow
2 called entitlements that the income of people over 65 in the
3 past decade has risen by 137 percent while the income of
4 working people over the same decade rose 88 percent.

5 These adjustments are not going to significantly change
6 that. As a matter of fact, if you take a look at the tables
7 that were projected under 2(b) the adjustment here with
8 regards to benefits would put them right on scale with
9 projected real increases in wages, right on scale.

10 It would be within a few hundredths of a percentage point
11 there. The other sacred cow, of course, is indexing.

12 The thing that must be pointed out is over the past
13 decade and a half while there has not been indexing every two
14 years approximately during all of that time we have made an
15 adjustment in taxes which sort of has indexed them
16 principally for middle and lower incomes but nonetheless these
17 taxes have been adjusted. The social security fix which
18 appears to be working is dependant entirely on the
19 projections of 2(b), one of the assumptions that was a middle
20 range assumption between most pessimistic and most
21 optimistic.

22 The Chairman of that committee, Alan Greenspan, testified
23 before this committee. He stated that the rescue package
24 would only work --

25 Senator Fryor: Mr. Chairman, could we have order. I

1 cannot hear Senator Wallop and he is making a good
2 statement.

3 The Chairman [presiding]: Let us have order please.

4 Senator Wallop: He testified that this package, this
5 rescue package which we struggled with and hit bullets on
6 would only work if we had increased productivity and strong
7 economic growth over the next few years and argue that the
8 federal deficits would hinder the recovery of the social
9 security fund.

10 Now everything else that this Congress is looking at
11 including this committee is essentially nickels and dimes.
12 This is the one package which is asymmetrical and deals with
13 both those who receive revenues from the government and those
14 who pay revenues to the government in virtually equal and
15 very minimal pain.

16 Indeed if the projections of 2(b) were to come true,
17 those working and those receiving would be almost on a par as
18 they progressed in this economy and their ability to spend.
19 All would get some increase if those protections are close to
20 real.

21 Those projections will not be close to real. They cannot
22 even be minimally close to real unless we do something about
23 the budget deficit.

24 I am afraid and remain afraid that the arguments that
25 were represented in here when we first brought it up last

1 week by those who say you cannot touch one or the other side
 2 of the spectrum if permitted to hold sway will leave Congress
 3 and leave the country paralyzed and unable to deal with what
 4 everybody agrees is the most significant problem that the
 5 economy and the future have that the viability of this nation
 6 as a strong nation must have.

7 So it is my hope that instead of following for a change
 8 the Congress might lead instead of looking at the polls who
 9 say do not raise any taxes and instead of looking at the
 10 polls who say do not ever touch entitlement programs and
 11 following the country in the polls that we would take one
 12 good look at the country's people, believe in their good
 13 sense and their sense of patriotism and their hope for the
 14 future and do something which is within the reach of this
 15 committee and very significant about the deficit.

16 The Chairman: Thank you. Senator Pryor.

17 Senator Pryor: Thank you, Mr. Chairman. Mr. Chairman, I
 18 basically subscribe to the concept that Senators Danforth,
 19 Boren and Wallop are proposing today. I think the concept of
 20 trying to reduce the deficit is sound.

21 My only concern with this matter is that we are looking
 22 at one segment of the population and that segment is these
 23 individuals in the nonmeans tested base category and that
 24 concerns me to some degree. I guess I am asking a question.

25 I may end up voting for this by the way even if it is not

1 changed, but I do not know. But I would like to consider
 2 seeing something a little stronger and that is locking at the
 3 approach of absolutely a freeze that we voted on though we
 4 did not pass it in the Senate, a freeze on all expenditures
 5 and programs from the 1984 figures to the 1983 levels.

6 I am just wondering (1) if we have the jurisdiction and
 7 (2) if we might not include that as part of this resolution.
 8 I think there were only 16 or 18 people who voted for it on
 9 the floor. I voted for it.

10 I just think if we are going to make some reductions they
 11 ought to be across the board. My only concern is finding one
 12 segment of the population out here and saying okay you are
 13 getting too much and we are going to do something for you. I
 14 think we have to do it in a broader category.

15 That is my concern, and that is the point I raise this
 16 morning.

17 Senator Danforth: Mr. Chairman.

18 The Chairman: Senator Danforth.

19 Senator Danforth: Mr. Chairman, as a matter of strategy
 20 Senator Eoren, Senator Wallace and I have decided not to press
 21 the CPI minus 3 idea in itself to a vote today, but rather to
 22 offer a sense of the Senate resolution which has been passed
 23 out as a substitute for the CPI minus 3 idea. We have
 24 discussed this with you, Mr. Chairman, and with members of
 25 the staff, and we put it before the Finance Committee for its

1 consideration.

2 Senator Heinz: Mr. Chairman, I would like to commend
3 Senator Danforth, Senator Boren and Senator Wallace for their
4 efforts to address the serious problems of the budget. I do
5 not agree with the Secretary of the Treasury either, Jack,
6 when he says it is not a serious problem. It is.

7 I also like the fact that you have addressed the issue at
8 this point in more general terms. As a member of the
9 National Commission on Social Security I would find it -- now
10 I suppose a defunct organization -- but I would find it
11 immensely difficult to support CPI minus 3 most of which
12 would bring about savings in the social security program.

13 That proposal in and of itself would lack in my judgment
14 a sufficient bipartisan consensus as well as a popular
15 concense to really develop sufficient support to ensure its
16 enactment and to ensure that we did answer all of the
17 questions of fairness that I think it would raise. I think
18 the measure that you and Senator Boren and I have here, a
19 modified sense of the Senate resolution, does not give away
20 the possibility of making structural changes in the
21 entitlement program but it is not specific as to that
22 either.

23 It does do something that we need to do a good deal more
24 of here in the Senate and that is to advocate urgency when it
25 comes to a serious national problem. So I intend to support

1 your resolution.

2 The Chairman: I think the point last made is a good
3 one. I think rather than maybe to suggest to the President
4 that he ought to have a summit meeting maybe this would
5 encourage not only the President but the rest of our
6 colleagues in both houses to maybe move on what we consider
7 to be a very serious problem and that is the deficit.

8 Senator Long.

9 Senator Long: Mr. Chairman, I would hope in line with
10 what has been said here by Senators that we would think in
11 terms of recommending that everything within our jurisdiction
12 on the taxing end generally speaking that everything goes up
13 by 3 percent and on the spending everything comes down by 3
14 percent.

15 Now we have all the taxes and about 50 percent of the
16 spending that we have a right to look at, and in our area if
17 we say as far as we are concerned everything across the board
18 on the spending end ought to come down by about 3 points and
19 everything on the taxing end ought to go up by about 3 points
20 and that is what we are shooting at, I think we would then be
21 in a position to challenge all of the other committees to
22 fall into line because we have a big end of it right here.

23 If we would do that I think it just might start something
24 going. I am very dismayed at the way things are going right
25 now.

1 There are huge deficits. The dollar is very overvalued
2 and it is killing us in trade. Between the overvalued dollar
3 and the beating we are taking about the value added tax
4 subsidy all of that adds up to the fiscal insolvency that is
5 involved here.

6 It is just not responsible, and I would applaud the
7 committee leading the charge to try to get us out of this
8 mess.

9 The Chairman: Unless somebody wants to discuss this
10 further I see we are going to have difficulty getting people
11 back here. I wonder if we might vote on this sense of the
12 Senate resolution and then if we can get enough people back
13 here to look at trade adjustment assistance, which is of some
14 urgency.

15 Is there any objection to that?

16 Senator Baucus: Mr. Chairman, that is fine with me, but
17 there are a few comments that I would like to make first.

18 The Chairman: Certainly.

19 Senator Baucus: I would just repeat the urgency.
20 Frankly, I think we should adopt the resolution. I am glad
21 you have permitted it, Mr. Chairman, so that we can address
22 other revenue matters other than indexing.

23 I frankly do not think we should go back to indexing.

24 The Chairman: I am happy that it was compromised on.
25 May we have a record vote?

1 Senator Chafee: Mr. Chairman, I would like to propose if
2 we can get a chance afterwards when we come back just to
3 plain eliminate the indexing of the income tax. I would like
4 a vote on that and we probably cannot do it before we go to
5 the floor to vote.

6 Now I am not trying to muddy these waters, of course.

7 The Chairman: Well, some people might not want to vote
8 for this if you are going to try to strike out indexing.
9 This is a sort of compromise.

10 Senator Long: Well, why do we not vote on this right
11 here and he can offer that later.

12 Senator Boren: Mr. Chairman, what was your comment on
13 the economics summit a while ago? Did you object to urging
14 an economic summit?

15 The Chairman: Well, I just did not introduce the
16 resolution because it seemed to me that it was sort of
17 critical and indirect criticism of the President. I would
18 hope something like this might be even stronger indicating
19 our willingness to do what we ought to do.

20 Senator Baucus: Let's vote on it then.

21 Mr. DeArment: Senator Packwood.

22 [No response]

23 Mr. DeArment: Senator Roth.

24 [No response]

25 Mr. DeArment: Senator Danforth?

1 Senator Danforth: Aye.

2 Mr. DeArment: Senator Chafee?

3 Senator Chafee: Aye.

4 Mr. DeArment: Senator Heinz?

5 Senator Heinz: Aye.

6 Mr. DeArment: Senator Wallop?

7 Senator Wallop: Aye.

8 Mr. DeArment: Senator Durenberger?

9 Senator Danforth: He votes aye.

10 Mr. DeArment: Senator Armstrong?

11 [No response]

12 Mr. DeArment: Senator Symms?

13 [No response]

14 Mr. DeArment: Senator Grassley?

15 [No response]

16 Mr. DeArment: Senator Long?

17 Senator Long: Aye.

18 Mr. DeArment: Senator Bentsen?

19 [No response]

20 Mr. DeArment: Senator Matsunaga?

21 [No response]

22 Mr. DeArment: Senator Moynihan?

23 [No response]

24 Mr. DeArment: Senator Faucus?

25 Senator Baucus: Aye.

1 Mr. DeArment: Senator Eoren?

2 Senator Eoren: Aye.

3 Mr. DeArment: Senator Bradley?

4 [No response]

5 Mr. DeArment: Senator Mitchell?

6 [No response]

7 Mr. DeArment: Senator Pryor?

8 Senator Pryor: Aye.

9 Mr. DeArment: Mr. Chairman.

10 The Chairman: Aye.

11 I do not have any other proxies. The absentees can be
12 recorded. What is the vote?

13 Mr. DeArment: The vote is 11 to nothing.

14 The Chairman: The ayes are 11. The nays are zero. We
15 are solidly on record for fiscal integrity.

16 All right. The committee will stand in recess.

17 [A brief recess was taken.]

18 The Chairman: There was an effort yesterday afternoon to
19 work out some resolution of trade adjustment assistance, and
20 I must say at the outset that I have discussed this with Mr.
21 Stockman on two or three occasions as recently as this
22 morning. They are unalterably opposed to any extension, and
23 I tend to agree that this program is pretty hard to justify
24 so I think what we need to do is -- Well, how many do we need
25 to act on amendments?

1 Is there anything before the committee? We have the
2 House bill.

3 Mr. Kassinger: That is correct, Mr. Chairman. We have
4 HR 3391 before the committee.

5 The Chairman: So if Senator Danforth offered an
6 amendment to the House bill we could report that bill which
7 would be acted on by itself or I assume he then could amend
8 any bill on the Senate floor. Is that correct?

9 Mr. Kassinger: [Nods affirmatively]

10 Senator Danforth: Mr. Chairman, what I would anticipate
11 would be to offer an amendment to the coffee agreement. I do
12 not know procedurally how we should proceed in that
13 connection whether we should perhaps if we could get the
14 votes for it report out a committee amendment on the coffee
15 agreement.

16 The Chairman: Is the coffee agreement still around?

17 Mr. Kassinger: It was reported out yesterday, Mr.
18 Chairman.

19 The Chairman: So it is on the floor?

20 Mr. DeArment: That bill went directly to the calendar of
21 the House, passed the bill and it arrived yesterday. The
22 Senate Finance Committee reported its bill yesterday so those
23 bills are pending.

24 The Chairman: Well, there would not be any problem. I
25 do not know where the votes are but if there are the votes to

1 pass an amendment you could do both. You could amend the
 2 House bill which we have in the committee and report that so
 3 that would be on the calendar.

4 We could also prepare a committee amendment to be offered
 5 to the coffee agreement. Is that correct?

6 Mr. DeArment: That is correct.

7 The Chairman: We could do both.

8 Senator Danforth: That is what I would like to do.

9 The Chairman: What do we need to act on amendments?

10 Mr. DeArment: Having previously established a quorum we
 11 have five members as sufficient to do business.

12 The Chairman: Could someone explain the ratched down
 13 version of the proposal that we discussed yesterday morning?

14 Senator Danforth: Well, I can, Mr. Chairman, if you wish.

15 Mr. Kassinger: Mr. Chairman, as I understand it Senator
 16 Danforth wishes to offer a proposal that would simply
 17 substitute for the House bill and reauthorize the program as
 18 it currently exists for fiscal year 1984 and in the second
 19 year of the reorganization expand the program to include
 20 secondary suppliers, that is, workers in firms supplying
 21 essential parts and services to trade impacted industries;
 22 and secondly include the training provisions of the House
 23 bill that would require the Secretary to approve training if
 24 the workers meet five conditions that are in existing law.

25 The Chairman: Is that the entitlement program?

1 Mr. Kassinger: That is the program that the labeled
2 department is mostly concerned about.

3 Senator Chafee: Mr. Chairman, what are the fiscal
4 consequences if we merely extended the existing program?

5 Mr. Kassinger: For fiscal year 1984 the Congressional
6 Budget Office estimates reauthorization would be \$95
7 million. That would include the farm program.

8 Senator Chafee: Which is 26 to 27?

9 Mr. Kassinger: Twenty-eight, and the Department of Labor
10 estimates the cost of the two together to be \$127 million.
11 There is a disparity of figures there.

12 Senator Chafee: Who estimated the first one?

13 Mr. Kassinger: The Congressional Budget Office estimates
14 \$95 million; the Department of Labor, \$127 million.

15 Senator Chafee: \$95 million total?

16 Mr. Kassinger: That is correct.

17 The Chairman: Well, the other part of that question, the
18 fattened up version, what is the second year cost of that?

19 Mr. Kassinger: It would double roughly, Mr. Chairman.
20 The fiscal year 1985 cost would be \$205 million according to
21 the CBO and \$253 million according to the Department of
22 Labor.

23 Senator Chafee: As an extension of the existing
24 program?

25 The Chairman: Senator Chafee, what they have done is one

1 year they extended the existing program and the second year
2 they added new provisions which increased the cost.

3 Senator Chafee: Oh, no, no. I would find it agreeable.
4 Well, I mean, I understand the Chairman's concerns, but
5 something is going to pass I believe.

6 I think just go with an extension of the existing program
7 which is \$95 million. You know, when you hear these other
8 figures of higher amounts are they for two years? Say
9 Senator Danforth's proposal, is that for two years?

10 Mr. Kassinger: No, Senator Chafee. The figures I gave
11 you were disparities for the same year. According to figures
12 I have, a straight reauthorization for fiscal year 1984 would
13 be \$95 million according to the Congressional Budget Office
14 for the first year, \$98 million for the second year.

15 According to the Department of Labor a straight --

16 Senator Chafee: Well skip that. We do not want too many
17 comparisons.

18 Now Senator Danforth's proposal would be how much for the
19 first year and how much for the second year?

20 The Chairman: CBO estimates.

21 Mr. Kassinger: \$95 million for the first year, \$205
22 million for the second year.

23 Senator Chafee: Well I do not know where we are
24 parliamentary-wise.

25 The Chairman: You could offer an amendment.

1 Senator Chafee: I favor just a straight extention
2 without the broadening.

3 Senator Moynihan: May I ask a question? Has Senator
4 Danforth offered his amendment?

5 Senator Danforth: Yes, I would offer my amendment.

6 Senator Moynihan: May I be a co-sponsor?

7 Senator Danforth: Certainly.

8 Senator Heinz: Mr. Chairman, I support Senator
9 Danforth's amendment and would like to be added as a
10 co-sponsor. May I inquire of the Chair is he opposed to or
11 supportive of the Danforth amendment?

12 The Chairman: Well, I was trying to get the White House
13 to accept a lean version much like that described by Senator
14 Chafee, just an extension for two years or one year without
15 adding on any other programs that cause heartburn or more
16 heartburn than they feel they can tolerate. I am still going
17 to try to encourage the White House to accept a straight
18 extension, but I think I can speak for the Secretary of Labor
19 and the CMB Director that they are opposed to any extension.
20 But, you know, that is today.

21 Senator Heinz: So it would be a fairly accurate
22 statement to say that you would probably have to oppose the
23 Danforth amendment even though it makes to my mind an only
24 modest increase in the program in the second year, but you
25 would be able to support not only on the floor but with the

1 administration the straight two year extention Senator Chafee
2 has proccsed? Would that be accurate?

3 The Chairman: Well, I think if in fact we could persuade
4 the White House to accept that narrowed version I do not want
5 to mislead anyone now. I have not yet been convinced that
6 the program served much of a purpose, but it must because
7 there is some interest in it and we spent \$4 billion on it so
8 far.

9 Senator Moynihan: Mr. Chairman, could I just make that
10 point? If I recall and I am probably off by something
11 considerable but I think the 1980 outlays were \$1.3 billion,
12 something like that.

13 Mr. Fooks: Closer to \$2 billion, \$1.7 billion.

14 Senator Moynihan: Well, two or three years ago it was
15 \$1.7 billion and we are now talking about \$95 billion and
16 then maybe going to \$200 billion. We are not raising this
17 program. We are dropping it down to 10 percent or whatever,
18 a very small portion of what it was.

19 Senator Chafee: Well, Mr. Chairman, let me just say that
20 we are keeping all of these other programs, school lunches
21 and a host of these other things down and as has been pointed
22 out by the administration we have enacted a whole series of
23 expensive workers training programs. We have extended the
24 unemployment compensation or we are about to with the FCS and
25 it just does not seem to me that now is the place to expand

1 this program when we are cutting everything else.

2 Again, Senator Danforth has the floor in this amendment
3 but if that is voted down it would be my intention to come
4 back with another amendment.

5 Senator Heinz: Mr. Chairman, would the Senator yield?

6 The Chairman: Well, we may not be able to know whether
7 it has been voted down until some time later today because
8 there are only five of us here.

9 Senator Danforth: I thought we could act on it.

10 Senator Moynihan: Why do we not take a vote and see how
11 it looks like it is going.

12 The Chairman: Well, I think it is three to two if I have
13 any indication.

14 Mr. DeArment: Mr. Chairman, we can act but we cannot
15 report out a measure. We can act on amendments but the rules
16 require that a majority of the committee be actually present
17 for any measure or recommendation to be reported out.

18 Senator Danforth: I wonder if we could send people into
19 the highways and byways for the next ten minutes to get a
20 majority of members present.

21 The Chairman: Well, we could try to convene a meeting in
22 S-224 right off the Senate floor later on. We are going to
23 have I understand five votes between now and 2 o'clock.

24 Senator Danforth: Mr. Chairman, I wonder if we could in
25 five minutes -- I see some people standing up there -- get on

1 the phone.

2 The Chairman: Try to bring in both sides.

3 [Pause]

4 The Chairman: The wrong people are getting up. I can
5 see that.

6 [Laughter]

7 Senator Heinz: Mr. Chairman, if I could take one minute
8 of the five minutes while we are assembling --

9 The Chairman: I wonder if we cannot do that. I would be
10 willing just to try to save time not that I can object to
11 report out what Senator Chafee suggests maybe without any
12 objection by those here in order to get it out on the floor
13 because I know that is your purpose.

14 You can offer it, of course, anyway on the floor. You
15 do not need to vote on the committee to do that. Just offer
16 it on the coffee agreement.

17 If that would expedite things I would be willing to do
18 so.

19 Senator Danforth: I would have to oppose the Chafee
20 amendment, Mr. Chairman.

21 The Chairman: Senator Heinz.

22 Senator Heinz: Mr. Chairman, I was just going to say
23 that this has been a very important program in my state. It
24 has made a real difference to about 124,000 people.

25 I understand Senator Chafee has a different viewpoint on

1 it and you may too. I will not make the arguments for the
2 program. We have made them at various points, but what I
3 would like to do if possible is to find the best strategy for
4 avoiding a veto.

5 I do not want to see the President put into an
6 embarrassing position where he vetoes something that is
7 terribly important in a half a dozen or a dozen midwestern
8 northern industrial states as we go into an election year.
9 It will not help him to veto this legislation in my home
10 state of Pennsylvania or in Ohio, Indiana or Illinois.

11 At the same time if he vetoes it it will not help the
12 workers in my state so I have a very vested interest I say to
13 my Chairman in finding something that the Chairman of the
14 committee can help the administration live with. If it would
15 be possible and I know it may not be possible and the Chairman
16 of the committee has been extremely helpful in scheduling
17 this markup on trade adjustment assistance, but if it were
18 possible for the Chairman to assure me and others that he
19 would support a two year extension of the program, I would be
20 willing to urge my colleagues to support a two year
21 extension, and I would be willing to support Senator Chafee's
22 amendment. But I do not want to give something up without
23 knowing what I am going to get.

24 Senator Danforth: Well, Mr. Chairman, first of all I
25 think Senator Heinz would be giving up something and not

1 getting anything in return. Secondly, I do think that this
 2 is a reasonable compromise that has already been agreed to, I
 3 mean, obviously not by everybody but in trying to put together
 4 a reasonable proposition a straight reauthorization for the
 5 first year but in the second year making two changes, one
 6 covering secondary workers.

7 Really it is my view that there is no difference between
 8 an industry which is shut down because of a rush of imports
 9 and an industry that is dependent on that industry being shut
 10 down by a rush of imports and secondly changing the word
 11 "may" to "shall". In other words, with respect to retraining
 12 and retraining has been the big point that has been made by
 13 the administration what they want to do is to retrain people
 14 in industries affected by imports.

15 If the five criteria are met and only if the five
 16 criteria are met, then it would seem to me that the people
 17 who are affected should be covered by the program.
 18 Otherwise, we have the ridiculous situation of people being
 19 affected by exactly the kind of thing the Congress
 20 anticipated when it passed the Act and showing up at the door
 21 of the Labor Department and saying "Okay. Here we are. We
 22 are ready to be trained."

23 The Secretary of Labor says "Well, it is tough. I mean
 24 you do meet the criteria but we just cannot take care of
 25 you." So either we implement the policies of the Congress

1 or we have something in the law which is there in name only,
2 there on paper only but the paper turns out to be waste
3 paper.

4 The Chairman: Well, I understand we have a vote in
5 progress. As I indicated we will have five votes back to
6 back so there is no way we are going to be able to come back.

7 I will try to schedule if we can a meeting in S-224
8 later on this afternoon if we can get a quorum present.
9 Obviously nobody is going to come to this meeting with votes
10 going on.

11 I want to raise one other thing before we recess.
12 Senator Heinz raised on the way over to the Senate floor when
13 we might be able to act on health care for the unemployed.
14 We have to deal with the FSC today, and tomorrow is D-Day. I
15 mean, you start phasing down benefits as I understand it
16 tomorrow.

17 We have to go to conference yet with the House. We are
18 hopeful that that will not be offered as an amendment to that
19 particular bill which we would take up later today.

20 But if we are going to leave here at 6 o'clock tonight it
21 probably will not be finished until tomorrow. Have we found
22 a way to finance that program?

23 The administration did not like the tax proposal we
24 suggested of income averaging. Do we have any more ideas on
25 how to pay for it?

1 Mr. DeArment: As I understand it the objection was to
2 income averaging, that is, that it did not necessarily relate
3 to health care.

4 The Chairman: I think we need to find something and
5 schedule it if not for a day certain then for a week certain
6 so that members on both sides who have an interest in health
7 care for the unemployed are going to have a chance to vote on
8 it one way or the other. We do hope to finance it.

9 Secondly, I hope we can schedule our revenue sharing
10 conference. I talked with Congressman Brooks, the Chairman
11 of the House Conference. He said he could not meet on it for
12 a couple of weeks because he will not be in town.

13 We would like to have an early conference date scheduled
14 so that we can advise the mayors and city officials that we
15 are going to address revenue sharing as soon as Mr. Brooks
16 returns.

17 Senator Moynihan: Did you say we are not going to be
18 able to get the FSC up today?

19 The Chairman: It may come up today. I understand there
20 may be an agreement on a continuing resolution for two hours
21 if that has been reached and then following that will be
22 FSC. I also understand Senator Baker would like to leave
23 between 6 and 7 sometime. I do not know how many amendments
24 are floating around out there, hopefully not too many, but it
25 would depend on what happens.

1 Jack, would that be all right. We cannot do anything
2 here.

3 Senator Danforth: [Nods affirmatively]

4 The Chairman: Okay. Now you have your motion pending.
5 Did you offer a substitute, Senator Chafee?

6 Senator Chafee: No, he wanted to vote on his and when we
7 finish his I will go over to mine.

8 The Chairman: All right. That is it.

9 [Whereupon, at 12:30 the committee recessed to reconvene
10 at 3:00 p.m. in S-205, the Capitol.]

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1 [The committee resumed at 2:53 p.m. in room S-205, the
2 Capitol.]

3 The Chairman: We recessed this morning, and I promised
4 Senator Danforth we would try to get the group together. It
5 is going to be pretty hard to keep anybody here very long.

6 We have got the continuing resolution coming up, and then
7 we have FSC, which is out of our committee, in about another
8 hour.

9 So as I understand, whether it makes any difference or
10 not, I have discussed this matter again with the OMB
11 director, Mr. Stockman. We have not yet been able to reach
12 Secretary Donovan, but Stockman has indicated that if it were
13 a straight extension of existing law, then that might be
14 something that at least the White House could swallow.

15 Again I say we have not reached Secretary Donovan. There
16 is a call that has been placed, and it has not been
17 completed. But if it were the Danforth, even though it has
18 been scaled down, version or any other version that enlarges
19 present law, that they could not accept it. And that is a
20 judgment we have to make whether we want to get something
21 passed. If in fact we had no objection and strong support
22 for the scaled down version, it might even be possible to put
23 it on the FSC extension. If you get into some big hassle,
24 then, of course, we cannot hold that up because that expires
25 tomorrow night.

1 Senator Danforth: Mr. Chairman?

2 The Chairman: Yes.

3 Senator Danforth: You were talking to Mr. Stockman, and
4 then I talked to Mr. Stockman, and he did say what you have
5 said, except that he indicated to me that whatever it was, he
6 did not want it on the FSC.

7 Senator Chafee: Well, Mr. Chairman, it seems to me -- as
8 you know, I am for the extension because, one, I think that
9 we are cutting back everybody else all over the lot and
10 holding them steady, and thus, we should do the same here.

11 Secondly, if we do not do this, it is pretty clear we are
12 not going to get anything, or we are going to go through a
13 veto process, and we are liable to get nothing. So I am for
14 a straight extension. And it would be my intention to raise
15 that after the vote on Senator Danforth.

16 The Chairman: I promised Senator Long we would rap on
17 his door at this point, and here is Senator Bentsen just
18 coming in. So we might notify -- I think he was down in 202.

19 Well, I guess it is a bird in the hand. There are some I
20 might say who would prefer we do not extend it at all. I am
21 probably in that group.

22 Let us wait until Senator Long arrives.

23 [Pause.]

24 We have got a working quorum here now, so let me just
25 review what I said earlier.

1 The question is whether -- there are some of us who,
 2 frankly, do not want any extension, and I am in that
 3 category.

4 The second question is whether we want a straight
 5 two-year extension, which I understand after talking to
 6 Stockman, at least the White House -- well, at least OMB; I
 7 cannot speak to the White House -- would sign off on that.
 8 Now I understand Stockman and Donovan are conferring. I do
 9 not know what the Secretary might say.

10 They indicated they could not support the Danforth
 11 compromise even though it is a straight extension one year
 12 and a somewhat enlarged program the second year. Senator
 13 Bentsen had yet another thing that we talked about the other
 14 day. Senator Long has an amendment that he is interested in.

15 But I guess the basic question is whether we want to try
 16 to report out something that has a chance of being signed, or
 17 whether we want to just report out something and just take
 18 the chances with the White House. Who knows what will
 19 happen? I do not know how we want to proceed with this.

20 Jack, do you want to offer your amendment and have a vote
 21 on that?

22 Senator Danforth: Yes, Mr. Chairman. I will offer my
 23 amendment which was described by the staff today. Of course,
 24 it is always an iffy proposition as to whether or not the
 25 President will sign a bill. The first year is exactly the

1 same for both proposals. The question is the second. And
2 you have described what those differences are, whether it
3 applies to suppliers. My view is that it should for the
4 reason that they are in exactly the same position as the
5 primary affected industry.

6 Secondly, whether the Secretary should be required to
7 provide the benefits. I think that is kind of a sham program
8 if it exists in name only and on paper only, unless there is
9 some requirement that the funds are going to be there for
10 those who are qualified and ready to engage in training
11 programs.

12 The Chairman: Senator Heinz.

13 Senator Heinz: Mr. Chairman, some of my colleagues may
14 not have been present just before we came over here to vote.
15 My view is that if it is a fact that Senator Danforth's
16 proposal, which I personally favor and which I am co-sponsor
17 of, is in fact going to be vetoed by the President, and if
18 our common sense tells us that it will be impossible to get a
19 two-thirds vote to override, which in my judgment it would be
20 impossible to so get, then this Senator would prefer to have
21 a two-year extension of the existing program.

22 I would prefer that because that will help my
23 constituents a lot more than no program at all.

24 You have said that Mr. Stockman would, as I understand
25 it, not recommend a veto to the President. Is that to say

1 that the President would recommend or would sign -- excuse me
2 -- a two-year extension of the program, and would he veto the
3 Danforth bill?

4 The Chairman: Is that directed to the President?

5 Senator Heinz: It is directed to you, Mr. Chairman. Do
6 you know?

7 The Chairman: I assume that is generally the case. I
8 know he has not talked to the President about it. What time
9 was it we talked with him? About --

10 Senator Danforth: About an hour ago.

11 The Chairman: About an hour ago. But I can say that
12 there was a change in attitude since early this morning when
13 I talked with Stockman. And, again, I would indicate that he
14 is talking now with Secretary Donovan.

15 But the answer is, I think, very clearly if we load it
16 up, it is going to be vetoed. I think the chances are
17 excellent if we can keep a straight authorization it will be
18 signed, particularly if it has some strong support.

19 I just cannot give you --

20 Senator Heinz: Mr. Chairman, it is difficult for any of
21 us to really judge what is in the best interests here of our
22 constituents. I respect what Senator Danforth is trying to
23 do. Indeed, if I thought there was a chance that he would
24 succeed in what he is trying to do, I would be for it.

25 But I do not want this program to lapse, expire, go out

1 of business and end up a dead duck. And what if a number of
2 my 124,000 Pennsylvanians that have benefitted from the
3 program need that as well?

4 So I am inclined to support with the understanding that
5 the President is prepared to sign this bill. I am going to
6 support Senator Chafee's amendment unless someone says
7 something that I do not know something about.

8 Senator Packwood: Tell me again the difference in cost
9 between Danforth and the administration?

10 The Chairman: Pardon?

11 Senator Packwood: The difference in cost.

12 The Chairman: Give him the CBO numbers.

13 Mr. DeArment: The CBO numbers, the Danforth proposal
14 would be 95 in the first year and 205 in the second year.
15 That compares with the Chafee amendment which would be 95 the
16 first year and 98 the second year.

17 Senator Danforth: You have got a difference of \$100
18 million, roughly.

19 Mr. DeArment: That is rough.

20 Senator Moynihan: In fiscal 1985.

21 Senator Packwood: And the Secretary says the deficits do
22 not matter anyway.

23 The Chairman: He has not said that this week.

24 Senator Long: Well, Mr. Chairman, I have got a rinc
25 amendment here that I would like to offer, in any event. I

1 would like to offer it to the Danforth amendment. It has to
2 do with employee stock ownership.

3 To say that where they provide assistance to a firm that
4 you would favor the firm that has the employee stock
5 ownership program, because I think that would help the
6 program succeed. And I think the experience has been that
7 where employees have been trying to take a company over, in
8 the case of 92 percent of the time they succeed. And it
9 would only be a preference if somebody wanted to do it and
10 did not have a plan and nobody else was seeking to do the
11 same thing, why, it would give me no problem.

12 I hope the Senator would agree to that modification to
13 his amendment.

14 Senator Danforth: Yes.

15 Senator Bentsen: I have a question on a point that was
16 raised by Bob Packwood, or relates to it anyway.

17 The budget resolution for aid was about \$162 million.

18 Mr. LeArment: The budget resolution itself did not have
19 any amount in there. It is the crosswalk.

20 Mr. Kassinger: 162.

21 Senator Packwood: For which year?

22 Mr. LeArment: 1984.

23 The Chairman: But I might say the budget had a lot of
24 stuff in it that is never going to --

25 Senator Chafee: The budget also had \$73 million to be

1 raised over five years, which we are not making much progress
 2 on, at least as of this morning.

3 Senator Danforth: Ready to vote?

4 Senator Packwood: Can I ask what Russell added?

5 The Chairman: He added a little ESCP provision.

6 Senator Packwood: I heard the ESOP part. I did not know
 7 it fit in.

8 Senator Long: Where assistance is provided to a firm
 9 under this program, you would, if there are two firms who are
 10 seeking to put these people to work or making a proposition,
 11 the preference would be to the company that had the employee
 12 stock ownership plan. Hopefully that would mean that in most
 13 cases they would have it; they would have some stock for
 14 employees where they succeeded.

15 Now, we have done that type of thing before. For
 16 example, in the Chrysler situation we had a provision in
 17 there that required them to have some stock for employees,
 18 and it has been very good. It gave a lot of enthusiasm to
 19 the workers, and the stock is worth a lot more than they paid
 20 for in the beginning and all that.

21 The Chairman: Well, I would just hope before we vote
 22 that we might defeat the Danforth amendment and take up the
 23 Chafee.

24 Do you want to call the roll?

25 Senator Heinz: Mr. Chairman, you want to have --

1 Danforth is just going to be up or down, and what we are left
2 with if we vote first on Danforth and then on Chafee, we
3 might be left with nothing. I do not want to end up voting
4 and ending up with nothing. Could we arrange the vote so we
5 could end up with something?

6 The Chairman: I think that is the way we have got it
7 arranged.

8 Senator Heinz: All right. I trust the Chairman's vote
9 counting.

10 Mr. DeArment: Mr. Packwood.

11 Senator Packwood: Pass.

12 Mr. DeArment: Mr. Roth.

13 The Chairman: No.

14 Mr. DeArment: Mr. Danforth.

15 Senator Danforth: Aye.

16 Mr. DeArment: Mr. Chafee.

17 Senator Chafee: No.

18 Mr. DeArment: Mr. Heinz.

19 Senator Heinz: Pass.

20 Mr. DeArment: Mr. Wallop.

21 Senator Wallop: No.

22 Mr. DeArment: Mr. Durenberger.

23 The Chairman: No.

24 Mr. DeArment: Mr. Armstrong.

25 The Chairman: No.

1 Mr. DeArment: Mr. Symms.
 2 The Chairman: No.
 3 Mr. DeArment: Mr. Grassley.
 4 Senator Grassley: No.
 5 Mr. DeArment: Mr. Long.
 6 Senator Long: Aye.
 7 Mr. DeArment: Mr. Bentsen.
 8 Senator Bentsen: Aye.
 9 Mr. DeArment: Mr. Matsunaga.
 10 Senator Moynihan: Aye by proxy.
 11 Mr. DeArment: Mr. Moynihan.
 12 Senator Moynihan: Aye.
 13 Mr. DeArment: Mr. Baucus.
 14 Senator Baucus: Aye.
 15 Mr. DeArment: Mr. Boron.
 16 Senator Boron: Aye.
 17 Mr. DeArment: Mr. Bradley.
 18 Senator Bradley: Aye.
 19 Mr. DeArment: Mr. Mitchell.
 20 Senator Moynihan: Aye by proxy.
 21 Mr. DeArment: Mr. Pryor.
 22 [No response.]
 23 Mr. DeArment: Mr. Chairman.
 24 The Chairman: No.
 25 Senator Heinz: Mr. Chairman, I am going to vote no.

1 Senator Packwood: I will vote no.

2 The Chairman: Just announce it.

3 Mr. DeArment: The ayes are 9, the nays are 10.

4 The Chairman: So the amendment is not agreed to.

5 And do you offer --

6 Senator Chafee: Yes. Mr. Chairman, I offer a straight
7 extension of the present existing program.

8 The Chairman: With the Long amendment?

9 Senator Chafee: Has not asked for it.

10 Senator Long: Well, it would like to offer it as an
11 amendment to yours, Senator.

12 Senator Chafee: Sure. I do not completely understand
13 it. The only thing that bothers me, Russell, is I can see if
14 you have got two that are equal that you tilt it. Suppose
15 you have got six, and there is money for three, and of the
16 six, two are ESCPs?

17 Senator Long: Well, as a practical matter, what is going
18 to tend to happen is when companies come in to apply --
19 assume that they have got competition -- chances are both of
20 them will be putting an employee stock ownership arrangement
21 in their proposition.

22 You see, we had a similar situation with regard to the
23 Chrysler thing, and my thought at that point was now, look,
24 if the government is going to put its money into making this
25 thing succeed, it cannot succeed unless those workers are

1 doing their part to make it succeed. So if it works, the
2 employees ought to own some stock in the company. And that
3 is how it is with Chrysler. It is extremely successful.
4 That stock is now worth four times what it was at the time
5 that the government got behind it, and it has been a good
6 thing.

7 Do we not have an ESOP preference elsewhere in the law?
8 We had it. In the EDA law we had a provision.

9 Mr. Moore: And SBA is supposed to look favorably on
10 employee stock ownership plans.

11 Senator Chafee: Well, certainly considering the
12 sponsoring, considering the merits of the legislation, I am
13 all for it.

14 Senator Long: I promise this will not get it vetoed.
15 This will not get your bill vetoed, Senator. It is not that
16 big of an item. As a matter of fact, you know, President
17 Reagan is on the record as for the employee proposition.

18 Mr. DeArment: Mr. Packwood.

19 Senator Packwood: Aye.

20 Mr. DeArment: Mr. Roth.

21 The Chairman: Aye.

22 Mr. DeArment: Mr. Danforth.

23 Senator Danforth: Aye.

24 Mr. DeArment: Mr. Chafee.

25 Senator Chafee: Aye.

1 Mr. DeArment: Mr. Heinz.
 2 Senator Heinz: Aye.
 3 Mr. DeArment: Mr. Wallop.
 4 Senator Wallop: No.
 5 Mr. DeArment: Mr. Durenberger.
 6 The Chairman: Aye.
 7 Mr. DeArment: Mr. Armstrong.
 8 [No response.]
 9 Mr. DeArment: Mr. Symms.
 10 [No response.]
 11 Mr. DeArment: Mr. Grassley.
 12 Senator Grassley: Aye.
 13 Mr. DeArment: Mr. Long.
 14 Senator Long: Aye.
 15 Mr. DeArment: Mr. Bentsen.
 16 Senator Bentsen: Aye.
 17 Mr. DeArment: Mr. Matsunaga.
 18 [No response.]
 19 Mr. DeArment: Mr. Moynihan.
 20 Senator Moynihan: Aye.
 21 Mr. DeArment: Mr. Baucus.
 22 Senator Paucus: Aye.
 23 Mr. DeArment: Mr. Boron.
 24 Senator Boron: Aye.
 25 Mr. DeArment: Mr. Bradley.

- 1 Senator Bradley: Aye.
- 2 Mr. DeArment: Mr. Mitchell.
- 3 [No response.]
- 4 Mr. DeArment: Mr. Pryor.
- 5 [No response.]
- 6 Mr. DeArment: Mr. Chairman.
- 7 The Chairman: Aye.
- 8 Senator Mcynihan: Hold it a second, please.
- 9 Mr. Matsunaga votes aye and Mr. Mitchell votes aye.
- 10 Mr. DeArment: The vote then is 16 ayes to 1 nay.
- 11 Senator Danforth: Mr. Chairman, is it my understanding
- 12 these votes amount to, one, an amendment to the House bill,
- 13 and two, a committee amendment with respect to the Coffey
- 14 agreement?
- 15 The Chairman: If that is satisfactory, it will amend
- 16 both the House bills so you will have two shots at it, and
- 17 the Coffey agreement.
- 18 Mr. DeArment: So we will report the House bill as
- 19 amended with a Chafee substitute with the Long amendment, and
- 20 we will report out a separate committee amendment, the Coffey
- 21 agreement bill pending on the calendar.
- 22 Senator Danforth: That will be voted on today or
- 23 tomorrow, the Coffey agreement?
- 24 The Chairman, I assume today or tomorrow because it
- 25 expires tomorrow night. It is going to expire anyway with

1 this amendment on it unless the House just takes this
2 amendment. I do not know whether they will or not.

3 I think that is it. We will meet again Tuesday.

4 Mr. DeArment: Then the committee by unanimous consent
5 orders us to report the bill?

6 The Chairman: Yes. With these amendments.

7 Senator Danforth: And also the Coffey.

8 [Whereupon, at 3:13 p.m., the committee was recessed, to
9 be reconvened on Tuesday, October 4, 1983.]

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John Warner

29 SEP 83

STATEMENT OF SENATOR JOHN W. WARNER
BEFORE THE SENATE FINANCE COMMITTEE
REGARDING THE GOVERNMENTAL LEASE FINANCING ACT
DIRKSEN 215
12:00 A.M.

Mr. Chairman, members of the Finance Committee, I am especially grateful to have this opportunity to appear before the Senate Finance Committee to express my concerns over the crippling blow the Governmental Lease Financing Reform Act will have on a major segment of our nation's economy, and especially on the economy of Northern Virginia.

A home has been provided for the federal government and the myriad support services, tax-exempt organizations, trade associations which have come here because of the federal government.

No other place in the entire United States would be ~~so~~ ^{more} negatively affected than Northern Virginia, the District of Columbia and Maryland unless the amendments I have proposed are adopted.

The federal government and other tax-exempt entities lease large blocs of office space in the Crystal City and Rosslyn areas and all along the beltway.

If this bill is enacted as drafted, the owners of those buildings will be penalized and the present tenants--the federal government, the trade associations, state and local governments--will be made undesirable tenants.

As you recognized in your statement introducing the bill, Mr. Chairman, the real property rules go beyond merely preventing targeted abuses and impose limits on ordinary and nonabusive business practices.

Senator Danforth, Senator Packwood and I have been working together in an effort to write amendments which address these concerns.

I urge you to support amendments which will prevent the unintended application of the bill to normal leases of government and tax-exempt entities without diminishing the bill's effectiveness in curtailing the targeted tax-motivated transactions.

Real property lease of tax-exempt entities with durations, including option, in excess of 10 years would be considered "tax-exempt use property" under S. 1564.

If over 50 percent of a building is such property, the percentage of the building so occupied would be depreciated over the greater of 40 years or 125 percent of the lease term under the straight-line method.

This is in contrast to the 15 year recovery period and the use of either the straight-line or accelerated method provided under ACRS.

Because typical lease terms often exceed 10 years, large numbers of government and tax-exempt organizations would be penalized for entering into normal commercial and residential leases at market rates.

Such organizations choose to lease space because they find that leasing is less expensive, requires less capital, and provides more flexibility in meeting the space needs of their operations than owning building space.

Thus, the decision of these entities to lease is based upon non-tax consideration.

Unless amended, the bill will have unintended adverse consequences for state and local governments and tax-exempt organizations, lessors to tax-exempt entities, local taxing authorities, and the federal government.

The reduced depreciation deductions of affected buildings would substantially reduce anticipated cash flows in buildings with government and tax-exempt tenants and could result in creating a class of "undesirable" tenants.

This legislation would encourage lessors to refuse to renew leases of government and tax-exempt organizations when their leases expire and to refuse to lease property to new government and tax-exempt tenants.

It also would encourage lessors to raise dramatically the rents of government and tax-exempt tenants in order to compensate for the reduced depreciation deductions and the reduced value of their buildings.

The value of existing buildings with substantial numbers of tax-exempt tenants would decline because the sale of such a building would trigger the application of the bill and the consequent substantial reduction in depreciation allowances.

In addition, the reduced value of affected buildings would result in lower property assessments and tax revenues for local governments.

The reduced depreciation deductions also would provide a disincentive to new construction and would reduce economic growth generated by real estate development.

The federal government leases a substantial amount of space because the private sector can build and operate functionally equivalent space for less, according to studies by the General Services Administration and the General Accounting Office.

Also, leasing satisfies the government's need for flexibility to meet changing space requirements.

This bill would increase the leasing cost to the Federal Government.

It also would bias against leasing the decision of whether to lease or own space.

If adopted, this legislation would encourage a massive federal construction program and create a substantial new requirement for federal borrowing at a time of record budget deficits.

The decision on whether the federal government should satisfy its space needs through leasing or ownership should be based on a case-by-case consideration of which option -- owning or leasing -- would provide space at the lowest cost.

The introduction by this bill of a bias against leasing in the determination of whether to own or lease space is ill-advised, particularly at this time in view of the current debate over other proposals that would bias this determination.

These proposals include provisions of the Public Buildings Act of 1983 (S. 452), the inclusion of the tax benefits of lessors to the government as a cost of leasing, and changes in the discount rate employed in comparing the costs of leasing and ownership.

To avoid these consequences, I urge you to support ^{four}~~three~~ amendments to S. 1564:

1. The term of a lease (including options) should trigger the application of the bill only if it exceeds 20 years.
2. The threshold requirement for triggering this bill should be if one tax-exempt tenant leases one-third or more of a single office building.
3. Leases (including options) entered into prior to the effective date of the bill should not be affected by the bill.
4. The penalty for exceeding the threshold amount of leases affected by the bill should be straight-line depreciation over 35 years.

I understand that the purpose of the long-term lease provision of the bill is to deter leases that are actually financing transactions used as a substitute for ownership, and not to penalize normal lease arrangements.

The 10 year test now provided in the bill does not accurately make this distinction.

The 20 year period I propose is more stringent than the test advocated by the Treasury and adopted in H.R. 3110 by the House Ways and Means Committee.

Under the Treasury and House proposals, the test would be 80 percent of the useful life of the building.

The Treasury has long argued that the useful life of a building is 40 years or greater.

Under the 80 percent test, this useful life would result in the application of the bill to leases exceeding 32 years.

The longer period advocated by the Treasury and the Ways and Means Committee is a far better test for distinguishing normal leases from leases that are a substitute for ownership, the intended and appropriate targets of this legislation.

Indeed, in its testimony before the Finance Committee, the Treasury recommended that the 10 year provision which it had formerly supported be eliminated on the grounds that it would "impose an unnecessarily rigid limitation on leases by tax-exempt entities."

However, while the longer period adopted by the House Committee is substantively preferable to the 10 year test of S. 1564, the Senate bill's concept of setting a fixed number of years is desirable because it avoids disputes over useful life.

The amendment I suggest would combine the best features of both bills: a period long enough to exempt normal, non-abusive leases that is fixed so as to avoid wasteful disputes between taxpayers and the IRS over the appropriateness of the useful lives claimed in individual cases.

I understand that the 10 year test was established under the assumption that most leases of tax-exempt entities would not be affected.

Since this amendment would insure that the bill would not apply to normal leases, as intended, it would have no effect on the revenue raised by the bill.

I urge you to establish a threshold requirement if one-third of the building is leased to one tax-exempt organization.

The 20 percent threshold contained in the House bill would affect small buildings with a few tax-exempt lessees in situations where such leases clearly are not a substitute for ownership.

The application of the bill to leases executed before the effective date of the legislation, including options contained in such leases, would be unfair and would impose serious economic penalties on those who entered into leases that were proper under existing law and did not involve abuses.

The legislation would diminish the value of leased property simply because a substantial amount of space had been leased to governments or tax-exempt entities.

In addition, where financing terms are based on ACRS depreciation allowances, the lessor may be unable to make the required mortgage payments from the cashflow provided by the rents, which were based on ACRS depreciation allowances, and by the reduced depreciation allowances provided by the bill.

The 35 year deprecation period I proposed is preferable to the depreciation periods of 40 years or 125 percent of the lease term provided by the bill because it avoids the possibility that absurdly long depreciation periods would be required for very long term leases.

In addition, there is precedent for a 35 year depreciation period, since a 35 year depreciation period is used in section 168 for real property outside the U. S. and in section 312 for computing corporate earnings and profits.

A 35 year depreciation period would allow the taxpayer less than one half the depreciation deductions allowed under the ACRS in the first 15 years.

Mr. Chairman, you have been extremely helpful in this cause, and I am hopeful that with your continued support and assistance we will succeed in achieving the objectives you desire and the modifications we feel are so vital to making this legislation fair and equitable.

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STATEMENT BY SENATOR MAX BAUCUS
SENATE FINANCE COMMITTEE
CPI MINUS 3 RESOLUTION

SEPTEMBER 29, 1983

MR. CHAIRMAN, DEFICITS HANG OVER OUR HEADS LIKE DAMOCLES'
SWORD, THREATENING TO CHOP-OFF RECOVERY.

THE CONGRESSIONAL BUDGET OFFICE RECENTLY ISSUED ITS MID-YEAR UPDATE. IT REPORTED THAT, EVEN IF THE BUDGET RESOLUTION IS FOLLOWED -- AN AWFULLY OPTIMISTIC ASSUMPTION -- DEFICITS WILL REMAIN IN THE \$150-200 BILLION RANGE.

WHAT DOES THIS MEAN? ECONOMIST LEONARD SILK RECENTLY SAID THAT, AT THE RATE WE'RE GOING NOW, WE'LL ACCUMULATE MORE NATIONAL DEBT DURING THE NEXT 6 YEARS THAN WE ACCUMULATED DURING THE LAST 207. AND THIS, HE SAID, "IS THE WORRY THAT...HOLDS UP LONG-TERM INTEREST RATES."

HIGH LONG-TERM REAL INTEREST RATES HAVE AN ESPECIALLY BAD IMPACT ON MY OWN STATE OF MONTANA. THEY CRIPPLE INTEREST-SENSITIVE MONTANA INDUSTRIES LIKE HOUSING, TIMBER, AND COPPER MINING. AND THEY INFLATE THE INTERNATIONAL VALUE OF THE DOLLAR SO HIGH THAT, NOW, MONTANAN EXPORTS LIKE BEEF, TIMBER, AND WHEAT ARE EFFECTIVELY SUBJECT TO A 25% SURCHARGE.

GIVEN THIS SITUATION, WE MUST SOMEHOW GET THE DEFICIT UNDER CONTROL. THE QUESTION IS HOW. THE SOONER WE BEGIN DEBATING THIS, THE BETTER.

ONE FIRST STEP IN THE DEBATE IS THE RESOLUTION BEFORE THE

COMMITTEE TODAY. AMONG OTHER THINGS, THIS RESOLUTION INSTRUCTS OUR STAFF TO "IDENTIFY MEASURES FOR INCREASING TAX REVENUES AND REDUCING THE GROWTH IN NON-MEANS-BASED ENTITLEMENT PROGRAMS," INCLUDING "SUCH OPTIONS AS TEMPORARY MODIFICATION OF THE 'INDEXING' THAT BOTH INCREASES SPENDING ON ENTITLEMENTS AND FOREGOES THE GROWTH IN REVENUES THAT WOULD OTHERWISE OCCUR IN RESPONSE TO INFLATION." THIS, IN EFFECT, INSTRUCTS OUR STAFF TO EXPLORE THE "CPI MINUS 3" PROPOSAL EMBODIED IN S. 1627.

MR. CHAIRMAN, THE "CPI MINUS 3" PROPOSAL EMBODIED IN S. 1627 IS A REASONABLE, GOOD-FAITH CONTRIBUTION TO THE DEBATE. IT DESERVES OUR CLOSE ATTENTION. THEREFORE, I SUPPORT THIS RESOLUTION TO EXPLORE IT.

AT THE SAME TIME, I'M CONCERNED ABOUT SEVERAL ASPECTS OF THE CPI MINUS 3 PROPOSAL. LET ME BRIEFLY DESCRIBE THEM.

FIRST, I'M CONCERNED THAT THE PROPOSAL MIGHT HAVE A DISPROPORTIONATE IMPACT ON LOW- AND MIDDLE-INCOME TAXPAYERS. FOR EXAMPLE, TAX INDEXING WILL BENEFIT MAINLY THESE TAXPAYERS, SO REDUCING TAX INDEXING MAY HURT MAINLY THESE TAXPAYERS.

SECOND, I'M CONCERNED THAT WE MIGHT SET A BAD PRECEDENT BY REPEALING FULL TAX INDEXING. I'VE SUPPORTED INDEXING. IT'S GOOD TAX POLICY, BECAUSE IT PREVENTS CONGRESS FROM SILENTLY RAISING TAX REVENUE THROUGH "BRACKET CREEP." IF WE REPEAL INDEXING BEFORE IT STARTS, EVEN JUST PARTLY AND TEMPORARILY, WE MAY CREATE A BAD PRECEDENT FOR ADJUSTING THE INDEXING RATE AS A WAY TO RAISE REVENUE.

THIRD, I AM CONCERNED ABOUT REOPENING THE SOCIAL SECURITY

COMPROMISE REACHED JUST 6 MONTHS AGO.

FOURTH, I'M CONCERNED ABOUT MILITARY SPENDING. WE MUST SPEND MORE ON NATIONAL DEFENSE. BUT THE PRESIDENT WANTS TO SPEND EVEN MORE THAN THE DEFENSE DEPARTMENT CAN ABSORB. THE RESULT IS THOUSAND-DOLLAR BOTTLECAPS AND OTHER SUCH ABUSES. THEREFORE, OUR DEFICIT REDUCTION STRATEGY MUST INCLUDE MODERATE RESTRAINTS ON THE INCREASE IN MILITARY SPENDING.

AND FIFTH, I'M CONCERNED ABOUT ACHIEVING A NATIONAL CONSENSUS. LET'S BE CANDID. THE ONLY WAY WE CAN RESPONSIBLY ADDRESS THE DEFICIT ISSUE IS IF ALL SIDES PARTICIPATE.

SPECIFICALLY, THE PRESIDENT MUST PARTICIPATE. ALL HIS POLITICAL LIFE, HE'S COMPLAINED ABOUT DEFICITS. NOW WE FACE THE LARGEST EVER. THE PRESIDENT MUST TAKE HIS HEAD OUT OF THE SAND AND JOIN THE DEBATE.

NOT THE DEBATE ABOUT WHETHER WE SHOULD REDUCE DEFICITS, BUT THE DEBATE ABOUT HOW.

MR. CHAIRMAN, I APPLAUD THIS EFFORT TO FOCUS ATTENTION ON WAYS OF REDUCING THE DEFICIT. I HOPE THAT OUR STUDY OF THE CPI-3 PROPOSAL WILL SPECIFICALLY ADDRESS THE THE POINTS I HAVE RAISED TODAY. I SUPPORT THE RESOLUTION.