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**HEARINGS
Before The**

COMMITTEE ON FINANCE

UNITED STATES SENATE

EXECUTIVE SESSION

WEDNESDAY, DECEMBER 8, 1982

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EXECUTIVE SESSION

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WEDNESDAY, DECEMBER 8, 1982

U.S. Senate

Committee on Finance,

Washington, D.C.

The committee met, pursuant to notice, at 10:15 a.m., in room 2221, Dirksen Senate Office Building, Senator Bob Dole (chairman of the committee) presiding.

Present: Senators Dole, Packwood, Roth, Danforth, Chafee, Heinz, Wallop, Durenberger, Armstrong, Symms, Grassley, Long, Byrd, Bentsen, Matsunaga, Moynihan, Baucus, Boren, Bradley, and Mitchell.

Staff present: Robert E. Lighthizer, chief counsel; Roderick DeArment, deputy chief counsel; Michael Stern, minority staff director.

Staff from the Joint Committee on Taxation: David H. Brockway, deputy chief of staff; James W. Wetzler, chief economist.

Also present: Hon. Drew Lewis, Secretary of Transportation; John B. Chapeton, Assistant Secretary for Tax Policy, Department of the Treasury.

1 The Chairman. Let me suggest now that I have asked
2 Ambassador Brock to take just a few minutes, and then we
3 will hear the nomination of Mr. Johnson, and then move into
4 the gas tax. I have asked Ambassador Brock if he could talk
5 to us for about 10 minutes on the Caribbean Basin and its
6 importance not only to the administration but the general
7 importance as he sees it as our special trade representative.

8 Bill, if you evoke enough interest in the committee,
9 we'll see if we can't be helpful in the remaining days we
10 have, whichever way you wish to proceed for the next few
11 minutes.

1 STATEMENT OF AMBASSADOR WILLIAM E. BROCK, U.S. TRADE
2 REPRESENTATIVE

3 Ambassador Brock. Thank you, Mr. Chairman. I
4 will be very brief.

5 Perhaps the most important thing I can do this
6 morning is to stress for you the urgency with which we view
7 the problem and the need for some particular legislative
8 response in the form of the CBI bill. We have just completed
9 a trip with the President.

10 The Chairman. Turn the mike up there.

11 Ambassador Brock. I'm still a little weak from
12 my travels, Mr. Chairman. I will try to speak up a bit.

13 We just had a trip through South America and into
14 Central America, and I don't believe it is possible to
15 overstate the difficulty that those countries face and that
16 the world faces right now in this global recession that we
17 have. When you look at what has happened to particularly
18 the smaller countries in the Caribbean Basin, with the
19 collapse of their basic commodity prices sugar being banned
20 effectively, or most of it, by U.S. legislation, the fall of
21 all their basic raw material prices, even basics like bananas,
22 coffee in difficulty, and combine that with the explosion of
23 energy prices caused in part by the strength of the dollar,
24 their debt circumstance with high interest rates, and the
25 reduction in market opportunities both here and in Europe and

1 in Latin America because of the recession, their situation
2 simply is almost intolerable.

3 What we have proposed in this legislation, as you
4 know well, is effectively a three-part program. The Congress
5 has acted on the first, and that is the direct financial
6 support. The second, the trade aspect, and the investment
7 aspect, are included in the CBI legislation.

8 We have very substantial movement now in the House
9 of Representatives. I believe the prospects are good that
10 the committee will vote by a substantial majority favorably
11 on the bill, referring it to the House, hopefully by Friday,
12 and it looks as though most of the contentious areas are
13 being worked out.

14 You know of my own feeling that any bill that gets
15 increasingly encumbered by exceptions becomes more and more
16 contentious and less and less easy to pass. I think that is
17 the primary concern we have at the moment, that we would like
18 it as clean as humanly possible in order to be as effective
19 as possible.

20 One last point: There are a number of individuals
21 and organizations who have expressed concern with the
22 legislation. I would like to just try to put the issue in
23 some perspective. These economies, in sum total -- their
24 total GDP or GNP -- are just slightly over 1 percent of the
25 economic base of the United States. The thought that they

1 could do us damage simply is not a rational thought. The
2 contrary is true.

3 We have a \$2 billion a year trade surplus with
4 these several countries. An awful lot of Americans, at least
5 50,000 or 60,000 net jobs are created today in the Caribbean
6 because of the trading situation. Now if we don't take
7 action to let their economies recover as ours does, to give
8 them market access to the United States, that trade balance
9 is going to disappear. You are jeopardizing, by not acting,
10 50,000 or 60,000 U.S. jobs.

11 The reverse is true if we take action on this bill.
12 That is, simply stated, if we can increase the total trade
13 between these two trading groups -- the United States and the
14 Caribbean nations -- an awful lot of net new jobs can be
15 created in the United States. In all candor, it will primarily
16 benefit the United States first because, in order to develop
17 an industrial base or any manufacturing base at all, they
18 have to import the capital equipment to produce the goods, and
19 the capital equipment will come from this country.

20 Therefore, we have an enormous amount to gain,
21 virtually nothing to lose, and a desperate situation with
22 some very, very good friends of ours. I guess I would
23 conclude with something I said the last time we were together,
24 Mr. Chairman: If we had done this 10 years ago, I am
25 absolutely and deeply convinced that we would not have the

1 problems in the Caribbean that we have today. If we do not do
 2 it now, I am equally convinced that the problems are going to
 3 be far more costly and far more difficult for us in 1 or 2,
 4 much less 10 years from now. Therefore, my plea is that this
 5 committee exercise its traditional leadership and move this
 6 bill as quickly as it possibly can.

7 The Chairman. I want to thank you, Ambassador Brock.
 8 I thought it might be well for committee members to hear of
 9 your direct concern. I understand that over the weekend, I
 10 guess, there has been a meeting in Miami. The Vice President
 11 has appeared. I am not certain whether you have been there,
 12 but there is a great deal of concern in the countries involved
 13 that we have not done much on this legislation.

14 I know Congressman Gibbons is working as hard as he
 15 can on the House side. There is, I think, some strong
 16 bipartisan support in the House.

17 Ambassador Brock. Chairman Rostenkowski has been
 18 really magnificent in his support in the last several days,
 19 Gibbons, Frenzel, Vander Jagt. It is totally bipartisan and,
 20 I think, very effective now.

21 The Chairman. Senator Bradley?

22 Senator Bradley. Mr. Chairman, I think that clearly
 23 the Caribbean Initiative is important. There are some areas
 24 where, obviously, some of us disagree but the point that
 25 Ambassador Brock has made that it is absolutely essential that

1 we all understand that unless these countries -- not only in
2 the Caribbean but in South America -- Brazil, Argentina,
3 Bolivia, Mexico -- unless they are able to export, to here or
4 to anywhere, we are going to have a lot of banks in serious
5 trouble. I think that probably whatever we do in this session
6 up here in the next 3 weeks is not nearly as important as what
7 the administration has just said on quotas for the IMF, in
8 agreeing to raise the quotas, and Secretary Regan calling
9 for a new Bretton Woods. We are at a very, very critical
10 juncture in the health of the international economy.

11 Ambassador Brock. You are absolutely right.

12 Senator Bradley. I think that in the larger scope
13 of things the Caribbean Initiative is kind of small in scale,
14 but the administration's change on quotas is absolutely critical.
15 I applaud them, and hope that you had a role in it so I can
16 congratulate you.

17 Ambassador Brock. I am very strongly supportive,
18 Senator, and I thank you for the comment. Your point is so
19 fundamentally important, that the quotas won't do the job if
20 they have no place to sell their product. It takes both.
21 Trade and finance are absolutely interrelated now. We cannot
22 separate them any more, and it is fundamentally important that
23 we take both steps. I appreciate that.

24 The Chairman. Senator Long?

25 Senator Grassley. Mr. Chairman? Oh, I'm sorry.

1 Senator Long. I just want to ask, Mr. Ambassador,
2 when are we going to start showing some concern and doing
3 something about this \$60 billion a year deficit in our trade
4 accounts?

5 Now I am told by someone who I had asked to talk to
6 and try to learn about some of this matter from, "Don't worry
7 about all that. The fact that we're running a \$60 billion
8 deficit in our trade accounts is all right because we have a
9 balance of payments."

10 Now the impression I gained is that we are achieving
11 that balance of payments by selling them America acre-by-acre.
12 For example, I know of a good investment consultant, a lawyer
13 by profession, who had an arrangement with people abroad to
14 buy about \$1 billion a year of American assets. Now they told
15 him, "Don't buy anything that is for sale. If it is for sale,
16 there might be something the matter with it. We only want
17 assets that anybody would like to own and which are not for
18 sale. We would be interested in buying up the best real
19 estate in the growing communities. We are interested in buying
20 stock in office buildings, in growing concerns, and in companies
21 that don't have any problems. Don't buy anything in these
22 companies that might have some difficulties."

23 Now I assume that if I know one person in that
24 position buying up American assets, the best there is to have,
25 at the rate of \$1 billion a year, there must be others doing

1 the same so I would assume that you could multiply that. It
2 looks to me like our situation is about the same thing as a
3 farmer who is out there on that farm and decides that it is
4 cheaper to buy eggs than it is to produce eggs on the farm, and
5 cheaper to buy the poultry than to produce it, and cheaper to
6 buy milk at the store than to have a cow out there on the
7 farm, and in due course he is paying for all of this by selling
8 his farm. Acre-by-acre he sells his farm to pay for these
9 things that in bygone days a farmer would produce on the farm.

10 Do you think that we can afford this trade policy,
11 a \$60 billion deficit, or do you agree with my theory that we
12 are selling America in order to pay for things that we ought to
13 be producing ourselves?

14 Ambassador Brock. I do not think anybody can take
15 lightly the degree of trade deficit that we have and that we
16 face in the present circumstance. Two points: First of all,
17 we have twice as much investment overseas as there is in the
18 United States, so there is a quid pro quo in the process.
19 However, I think in the fundamental nature of the problem that
20 I have to face, with you, in the next 12 to 24 months, is the
21 fact that the United States has become a safe haven for world
22 investment because it is still the biggest and the best and
23 the most productive economy in the world, and people are
24 desperate to put their money somewhere outside of their own
25 country that offers some security of investment.

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1 That has caused an unfortunate double effect. First
2 of all, it has reduced their opportunity for growth in their
3 own economy, so that our markets are soft overseas. Secondly,
4 it has strengthened the dollar to such a degree that we have
5 lost our competitive edge by the relative shift of exchange
6 rates overseas vis-a-vis the franc, the mark, the pound, and
7 the yen, and it is harder for us to compete overseas with a
8 very, very strong dollar that is overvalued by a considerable
9 amount.

10 That, on top of the recession, has made our trading
11 situation very, very difficult, Senator. I understand that.
12 I am wrestling with it. I have made a number of recommendations
13 to the President for a course of action next year. We are
14 presently debating those actions and will hopefully have some
15 alternatives to suggest, but I do take it very seriously and
16 I think you are absolutely right to point out the problem.

17 Senator Long. Now some years ago an American concern
18 wanted to dredge the Suez Canal when they would bring that
19 thing back into operation. They came and talked to me because
20 some of the investors were from Louisiana.

21 After looking at that situation, I concluded that
22 we did not have any chance to get that because our Government
23 was not going to take any interest in the matter. We were
24 going to pay for it by way of one of these international
25 organizations -- I don't know whether it was the IMF or

1 whoever -- but we were going to pay for it --

2 Ambassador Brock. Not the IMF.

3 Senator Long. Well, somebody, the World Bank or
4 something, somebody or other was going to pay for this thing
5 using almost entirely American money, but our Government
6 was not going to tell our Ambassador to go over there and tell
7 Mr. Sadat, or whoever was in charge over there at the moment,
8 that if we are going to pay for it, it ought to be done by an
9 American company.

10 My impression was that the Japanese or somebody
11 else got it. They got that big contract just because our
12 Government did not tell them that if we pay for it, it ought
13 to be an American contractor.

14 Now I saw Mr. DeButts just before he went over there
15 to try to sell the American telephone system to Saudi Arabia.
16 I don't believe he made the sale. I would be glad to follow
17 it through. Do you know whether he made the sale or not,
18 who is going to put those telephones in?

19 Ambassador Brock. No.

20 Senator Long. Well, my impression was he did not
21 have any chance to sell telephones in Saudi Arabia or put in
22 the American system, even though it is the best, because this
23 Government was not going to tell those Saudi Arabians, "Look,
24 you know, if we are going to buy that oil from you, we want
25 you to buy from us. We cannot just continue to buy if we

1 don't sell something."

2 Now that gets me to the question I have here: Why
3 should we subsidize the sale of Japanese equipment into those
4 Caribbean republics? Does this tax subsidy, this tax credit
5 go to people whether they install Japanese equipment or
6 American?

7 Ambassador Brock. No, sir.

8 Senator Long. Is this tax credit just in the event
9 they are buying American equipment?

10 Ambassador Brock. Absolutely.

11 Senator Long. Well, I must say that that makes it
12 a bit more like it ought to be. I would just hope that in
13 pursuing this thing, that we do it on a basis that if we are
14 going to subsidize something, that it be to encourage the sale
15 of our commodities, not to get a market for the other guy.
16 They are subsidizing their stuff far beyond what we are doing
17 already.

18 Ambassador Brock. Senator, I am in full agreement.

19 Senator Long. Thank you.

20 The Chairman. Let me say, Ambassador Brock, we
21 did not want to get into a hearing here but I think you
22 understand some of the concerns expressed by Senators Bradley
23 and Long and certainly others. However, we did want you to
24 indicate to us how strongly you feel about this initiative and
25 to suggest to you that we are certainly willing to cooperate.

1 If in fact the House moves quickly, we hope to be in a
2 position to be helpful. I think, myself, there are some areas
3 that are troublesome but I also believe you have been able to
4 accommodate most of the concerns.

5 Ambassador Brock. We have tried very hard to work
6 out the troublesome areas. There are some differences of
7 opinion. I think we have come very close to an accommodation
8 of most of the views established.

9 However, Senator, it is an important piece of
10 legislation and it is urgent. The problem is going to be
11 worse in January than it is now. The longer we wait, the more
12 difficult it becomes, and I very much appreciate your
13 willingness to let me come today.

14 Senator Chafee. Mr. Chairman?

15 The Chairman. Yes?

16 Senator Chafee. I wanted to ask Ambassador Brock
17 a brief question, if I might.

18 The Chairman. Okay, if he will give a brief answer.

19 Senator Chafee. All right. Mr. Ambassador, we are
20 now involved in the roads and the tax program. In the House
21 it is my understanding that they put on this bill a so-called
22 "buy American" provision in which all steel and all cement
23 must be purchased in America. Could you give us your thoughts
24 on that?

25 Ambassador Brock. I am very much opposed to that,

1 Senator. It does not --

2 Senator Chafee. Could you speak up? It is a little
3 hard to hear.

4 Ambassador Brock. I am very much opposed to that.
5 It really is difficult for us to go to an international
6 conference, as we did 2 weeks ago in Geneva, and try --

7 Senator Moynihan. Could we have order, Mr. Chairman?
8 It is such an important statement being made.

9 Ambassador Brock. -- and try, as the United States
10 did, to keep the world trading system from collapsing into an
11 insanity of protectionism that is being practiced on the part
12 of other countries, to go to that conference and to exercise
13 some pretty tough leadership, to insist that political
14 commitments be made not to take new protectionist actions and
15 in fact to begin to roll back those that are presently, and
16 to come home and within 2 weeks have the Congress suggest that
17 we should start putting "buy American" language on all of
18 these bills. It makes it very difficult for us to maintain
19 a credible leadership position in the world that will stop
20 other countries from doing damage to us.

21 I would very much hope that the Senate would not
22 follow that course, and would in fact insist that the amendment
23 be deleted. It will raise the price of the program; it will
24 reduce competition; it will mean less jobs for construction
25 workers, and that is one of the purposes of the bill. I do

1 not see how we can gain in that process, and I would
2 respectfully hope that the Senate might find in its wisdom
3 the way to oppose that particular amendment.

4 The Chairman. Thank you.

5 Senator Heinz. Mr. Chairman, may I just follow up
6 on that? There is something I did not understand.

7 The Chairman. Right. We did not want to have a
8 hearing here but we certainly do not want to shut anyone off.

9 Senator Heinz. Just to clarify that colloquy --

10 Ambassador Brock. I am at your disposal, Senator.

11 Senator Heinz. -- am I to understand that the
12 reason we should not have any "buy America" legislation is
13 because it might interfere with the progress that we achieved
14 at the GAT Ministerial? Is that what you are saying, because
15 I did not see any progress at the GAT Ministerial except that
16 they agreed not to break up in hopeless, irreconcilable disarray,
17 at least on the record.

18 Now I commend you, Mr. Ambassador, for having tried
19 to make that a productive GAT Ministerial. The fact that the
20 European nations and the Brazilians, and the French in
21 particular torpedoed every effort you made to make it a
22 constructive step forward to a freer trading system, I commend
23 you for. However, the fact is, much as you and I and everybody
24 on this committee would like it otherwise, we did not make any
25 of the real progress we had hoped to achieve. We did not really

1 get much progress on a safeguards code. We have not resolved
2 any of the problem of common agricultural policy. We have all
3 these problems sitting, unfortunately, very much where they
4 were. The only thing that is different is, there is a
5 heightened awareness, perhaps, on the part of the Europeans --
6 for better in most cases, for worse in some -- that these are
7 real problems to us.

8 However, if there is an implication that somehow
9 our doing something here which is consistent with the GAT
10 and does not in any way abrogate our responsibilities under
11 the procurement code that was part of the 1979 trade agreements,
12 is in some way detrimental to maintaining the progress that
13 we made at the GAT Ministerial, I would strongly take exception
14 to that because I do not really think we made any.

15 Ambassador Brock. There are times, Senator, when
16 you say things that are unfortunately prophetic. I said
17 before the Ministerial that maybe there were those who said
18 that if we avoided a disaster, we would have a success. I
19 think that was unfortunately too prophetic. We came so close
20 to a disaster that maybe the biggest achievement we had was
21 in keeping the system in some form intact, and at least without
22 going backwards. We did not go backwards; we made some limited
23 progress in a few areas -- clearly not enough, as you say, and
24 certainly did not satisfy the United States.

25 However, it is important that we did commit to the

1 other 87 contracting parties to take or maintain no new action
2 that would be destructive of the trading system. It is my
3 judgment that if the United States were to begin to take these
4 actions, while not overtly in contradiction to the Government
5 procurement code, it certainly is in contradiction to a healthy,
6 liberalized trading system for us to start saying that the
7 products sold here all have to be produced domestically.

8 More rationally, laying aside the theory of the GAT
9 and the theory that we are pursuing in our trade stance, if
10 in fact a part of the logic of this bill is to create greater
11 employment in the construction industries of this country,
12 this will not do it. This will raise the price, and that
13 means less jobs will be held by Americans. I think that is
14 the best single argument I can make against the "buy American"
15 approach.

16 Senator Heinz. Would the House "buy American"
17 provision create more or less jobs in the American steel
18 industry?

19 Ambassador Brock. If it contributes to inflation,
20 which has been the primary cause of unemployment, and therefore
21 recession, ultimately the cost will be devastating.

22 The Chairman. If I could, I do not want to cut off
23 any debate on the gas tax bill or any "buy American" amendments,
24 but we do have a very important matter of business, important
25 to everybody on this committee. However, I think Senator

1 Moynihan wanted to make a comment about Puerto Rico and the
2 Caribbean Basin.

3 Senator Moynihan. Yes, Mr. Chairman. If I could
4 just ask our distinguished friend, Ambassador Brock, not so
5 much to make any statement but to simply acknowledge a concern,
6 as you know, Puerto Rico and the Virgin Islands are very much
7 a part of the Caribbean Basin, and they want to be part of
8 this for the same reason that we all want to be. We want to
9 support the President. They are American citizens and they
10 have the same interests we all do.

11 They are also Caribbean islands and produce the
12 same products, and so necessarily they have some special
13 difficulties here. In the case of Puerto Rico these are
14 compounded by the fact that we changed, in the last tax
15 legislation, the terms of Section 936, as it is called, of
16 the Tax Code, which since 1921 has been the basis by which
17 American manufacturers opening plants in Puerto Rico are
18 exempt from taxes. It has been the basis of their
19 industrialization, and it has not been unsuccessful at all.
20 It is something they are very proud of, and I think we ought
21 to be as well.

22 They are concerned, however, that the recent change
23 might indicate an interest of the administration in further
24 changes -- Secretary Chapeton is here, or was recently -- and
25 they have now 23 percent unemployment in Puerto Rico. That is

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depression.

Ambassador Brock. That is right.

Senator Moynihan. They have an absolute freeze on new investment because there is a concern: Will these tax laws remain in place? They have been changed, they have been made less favorable, but they can live with the new changes if they think they will have a decade of stability. I wonder if you share this concern and would hope that this committee might try to reassure them in this regard. Otherwise, the Caribbean Basin in its totality will not have the consequences of an economic disaster in Puerto Rico.

The Chairman. That might be more in the tax area than the trade area, but --

Ambassador Brock. Well, if I may just respond to sharing the concern, I certainly do. We have tried very hard in this bill to be sure that we accommodate the growth opportunity of Puerto Rico and the Virgin Islands because they have to be the beacons. They have to be the light that shows what can be done with the kind of association they have had with the United States. They ought to prosper as much, if not more, than anybody else in this process. If we can carefully describe the bill, we will see to it that that happens.

I should point out that if the investment tax credit comes out of the bill, that would disadvantage both Puerto Rico and the Virgin Islands because they would get that too,

1 and they have something positive at stake in the CBI in that
2 sense. However, I share your concern, Senator, and whatever
3 we can do to be sure that they prosper as a consequence of
4 this legislation, we will try to do.

5 Senator Moynihan. Well, I know that would be your
6 view, Mr. Ambassador, and I just wanted to formally draw to
7 your attention what you are individually well aware of, as I
8 know.

9 Ambassador Brock. Thank you very much.

10 Senator Moynihan. Thank you.

11 Thank you, Mr. Chairman.

12 The Chairman. Ambassador, thank you very much.

13 Let me say that our first scheduled order of
14 business today was a matter of considerable regret to many
15 of us because we are losing a close and valued colleague, but
16 this more than anything, I think, is an occasion for gratitude,
17 gratitude for the service of Harry Byrd as given this committee
18 and the country in the United States Senate.

19 Harry, we haven't done the best job in the world
20 but we have prepared a resolution we would like to present
21 in about one moment. We would also like to get a photograph.
22 We have a number of members coming in from the back room.

23 I would just say very, very seriously, Senator
24 Byrd, no resolution can adequately convey how important
25 Senator Byrd has been to the Finance Committee or how great

1 our loss is on the occasion of his retirement. It is nearly
2 50 years since Harry Byrd, Sr. first joined the Finance
3 Committee, and there has been a Harry Byrd on the committee in
4 almost unbroken sequence since then. The devotion both
5 father and son have shown to the principles of limited
6 government and individual freedom are well known, but for
7 those of us who have had the privilege of serving with
8 Senator Byrd and of learning from him, there is much more,
9 perhaps less well-known, that needs to be said. I will say
10 it for the record because I think it is very important.

11 Harry, we know you as one who chooses your causes
12 because you believe in them. We know that you have worked to
13 carry out your beliefs rather than to seek partisan
14 advantage. Few members of the Senate have shown your
15 consistent and rigorous dedication to principle, yet few
16 could match your example in the civility and good temper you
17 have shown in the pursuit of your goals. Those are qualities
18 you can never have too much of in political life, and they
19 will be missed.

20 We know, too, that you have had some difficulty
21 over the years with the Treasury Department under every
22 administration. It may be that Treasury has had some
23 difficulty in determining how to deal with a Member who
24 wanted to argue every bill on the merits.

25 (Laughter.)

1 The Chairman. However, be that as it may, the
2 record should show that the Treasury is not as unresponsive
3 as you may have thought. During the 97th Congress, they
4 actually endorsed at least one tax relief bill that came up
5 for a hearing before the Subcommittee on Taxation. There may
6 have been others that escaped my attention, so the record is
7 not all that bleak.

8 In your capacity as chairman, and now ranking
9 member of the Subcommittee on Taxation and Debt Management,
10 you have constantly reminded us of the need for fair play for
11 the taxpayer, restraint on the tax burden, and the dangers of
12 excessive public debt. Those concerns are with us today
13 more urgently than ever, and your campaign for governmental
14 restraint is even more relevant today than when you first
15 joined the Senate.

16 Many commentators remarked that the Byrd era is
17 ending with the retirement of Harry Byrd. I would say just
18 to the contrary. The Byrd era in Government is just beginning
19 because the principles Harry Byrd has espoused have finally
20 begun to enjoy the consensus support on the national level.
21 We now understand all too well the dangers of inflation and
22 the unending deficit spending, but Harry Byrd warned us
23 first. We know that there are limits to the areas in which
24 Federal spending can be effective, but Harry Byrd knew that
25 many years ago. We know that the National Government and

1 States must share responsibility for public policy, and that
2 the States have an increasingly important role to play. Again,
3 Harry Byrd was there first. No, this is not the end of an
4 era at all, nor hopefully the end of our professional
5 relationship with Harry Byrd.

6 We hope, Harry, to have the benefit of your advice
7 and counsel for many, many years to come. We hope you will
8 also give us your candid opinion of what we do in the years
9 ahead, even if it makes us wince once in a while. You have
10 always spoken out with conviction, and we know you will
11 continue to do so. For that, I know we are all grateful.

12 (Applause.)

13 The Chairman. Just let me very quickly, Harry,
14 present you with the nameplate that has occupied your seat
15 for a long time as chairman of the Subcommittee on Taxation.
16 Then we do have a resolution signed by every member of the
17 committee which, very quickly, reads:

18 "WHEREAS, Harry F. Byrd, Jr. of Virginia has
19 served honorably and faithfully as a member of the Committee
20 on Finance since January 3, 1969, and

21 "WHEREAS, Harry F. Byrd, Jr. of Virginia generously
22 devoted his knowledge and energy to the consideration of the
23 many complex issues before the committee during this period,
24 and

25 "WHEREAS, Harry F. Byrd, Jr. of Virginia has

1 unceasingly advanced the development of legislation relating
2 to taxation, trade, Government finance, and social welfare, and
3 the execution of the broad responsibilities of this committee,

4 "NOW THEREFORE BE IT RESOLVED, that the Committee
5 on Finance hereby express to Harry F. Byrd, Jr. of Virginia
6 its sincere appreciation and gratitude for his outstanding
7 contributions to the fulfillment of the obligations of this
8 committee and for his faithful and devoted service as a
9 member of this committee," signed by the members of the
10 Senate Finance Committee. It was done "this first day of
11 October, 1982."

12 Senator Long?

13 Senator Long. Thank you very much, Mr. Chairman.

14 Shall we be seated, gentlemen?

15 What I am going to say is no news to Harry. I have
16 said it many times before to him, but one of the useful things
17 the Republicans did when they were in control of the Congress
18 was to give us Peter Marshall as the Chaplain, and he made
19 some very fine prayers as the Chaplain of the Senate. I think
20 his best one was the shortest. He said, "God, help us to
21 stand for something, lest we fall for anything."

22 (Laughter.)

23 Senator Long. Now Harry has stood for something,
24 and he has stood for something consistently. I must say it
25 has given me some problems, and it has even given Bob Dole

1 some problems when we had to pass a bill to raise that debt
2 limit, that Harry felt that having voted against all the big
3 spending, he should not be asked to raise the debt limit.
4 However, he has consistently advocated the principles that
5 the chairman spoke of here, and if you just ask people who
6 know something about the Senate, "Which one of these guys up
7 here do you think might qualify for the title of 'statesman'?"
8 I think they would probably put Harry first, as a man who has
9 stood, as a statesman, consistently by positions he believed
10 in.

11 All of us are proud to have served with you, Harry.

12 (Applause.)

13 Senator Byrd. Mr. Chairman?

14 The Chairman. Senator Byrd.

15 Senator Byrd. Frankly, I don't know how to respond
16 to such generous and kind and wonderful remarks that have
17 been made by Chairman Dole and by Senator Long, and by all
18 of you through the resolution which you have so kindly signed.
19 I think the best way that I could respond is to say that
20 tonight when I say my prayers, I shall ask the Lord to forgive
21 you for your great exaggeration.

22 (Laughter.)

23 Senator Byrd. I shall tell him you did it only in
24 the spirit of friendship and not to hold it against you.

25 This is a wonderful committee. I am very proud to

1 have had the opportunity to serve on it. I think we have
2 had, during the time I have been here, we have had two
3 outstanding chairmen. Russell Long was a splendid and
4 outstanding chairman; Bob Dole is a splendid and outstanding
5 chairman. If I am going to be candid, I cannot claim that
6 either one is the best chairman that this committee has had.
7 I think that the immediate predecessor of Russell Long was
8 the best chairman.

9 (Laughter.)

10 Senator Byrd. However, the membership of this
11 committee is today an outstanding membership. I think it is
12 the best committee in the Senate. I think it is the most
13 important and most influential committee in the Senate, and
14 I feel that Russell Long as chairman, Bob Dole now as
15 chairman, and the membership of this committee through the
16 years have rendered not only the committee but the Senate of
17 the United States and our Nation great service in the way
18 that this committee has conducted its affairs.

19 Again, I am proud to have been a part of this
20 committee, proud to have associated with each member of this
21 committee, and I am deeply grateful, deeply grateful for your
22 friendship and for the comments of you today. Thank you so
23 very much, each of you. Thank you.

24 (Applause.)

25 The Chairman. Thank you very much, Senator Byrd.

1 I would just like to acknowledge the retirement of
2 one other person at a staff level, and that is the staff
3 director of the Joint Committee on Taxation, Mark McConaghy.
4 I cannot think of anyone who has performed better service
5 for this committee in the past 2 years, when I know in fact
6 that he wanted to leave 2 years ago and I know he wanted to
7 leave a year ago, but he decided to stick it out until the
8 end of this session.

9 Mark, why don't you stand up so we can all thank
10 you for your help?

11 (Applause.)

12 The Chairman. Now Mark is going out in the private
13 sector where he will probably do much better than he has, and
14 I said if he could line us up any honorariums to let me know.
15 I have already got him working on that.

16 (Laughter.)

17 The Chairman. I think what we would like to do
18 now is just take a few minutes, and Senator Byrd would
19 introduce Manuel H. Johnson, who has been nominated to be an
20 Assistant Secretary of the Treasury. I think we can
21 dispose -- I don't mean it in that sense -- I think we can
22 handle this nomination fairly quickly, and then we will move
23 on to the gas tax.

24 (Recess taken.)

25 The Chairman. Now we will take up the gas tax bill.

1 I think Secretary Lewis and Secretary Chapeton and members of
2 the Joint Committee staff are here.

3 I think we all could identify what we will be
4 working from, and that would be this spread sheet. Does
5 everybody have that?

6 Senator Packwood. This is "Legislative Issues and
7 Proposals to Revise Highway..." --

8 The Chairman. I mean does every Senator have that.
9 We will be glad to make other copies available at the
10 appropriate time.

11 Senator Packwood. After the markup.

12 The Chairman. Yes, right after the markup.

13 Sparky, could you give us the latest news bulletin?

14 Senator Matsunaga. Yes. Just listening to the
15 radio, there is a man with 1,000 pounds of bomb at the base
16 of the Washington Monument, threatening to blow it up. He
17 has asked the Park Police to clear the area. On the ground
18 everyone is cleared away except that there are, by last report,
19 seven visitors up at the top of the monument.

20 The Chairman. Senator Bentsen is an eyewitness.

21 Senator Bentsen. And one Senator. I was just
22 coming back from making a speech down at the State Department
23 and was totally immobilized. They have tied up all the traffic.
24 If a bomb ever really hit this town, I don't know what would
25 happen. This fellow is supposed to have a van loaded with

1 explosives.

2 Senator Matsunaga. Right, and on the van -- it's
3 a white van which he drove right up to the base of the monument
4 -- and on the van is written, "Number one priority: Ban the
5 nuclear bomb."

6 The Chairman. Well, thank you very much for that
7 report. I don't know where he is going to have lunch, but
8 I don't want to be there.

9 Dave?

10 Mr. Brockway. The administration proposal, S. 3044,
11 would provide for a substantial increase in the motor fuels
12 tax to fund increased spending on the interstate highway
13 system and also on certain transit, mass transit projects.

14 The legislation also, as a separate major function,
15 would rearrange the various taxes on truck parts, the sales
16 tax on trucks themselves, the taxes on tires, lubricating
17 oil, and other taxes and highway use taxes, to try to
18 reallocate the burden placed on users of the highways so that
19 -- in accordance with a Department of Transportation cost
20 allocation study requested by the Congress -- that taxes
21 would be increased on the heavier vehicles in accordance with
22 the benefit they get from the use of the highways and
23 decreased on lighter trucks.

24 The Chairman. Could I interrupt just for a moment?
25 Senator Metzenbaum came in earlier this morning and he has

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been waiting patiently. He wanted to raise just one question briefly, and I suggested he come back when we got into the bill. We have just started, Senator Metzenbaum.

1 STATEMENT OF HON. HOWARD M. METZENBAUM, A U.S. SENATOR FROM
2 THE STATE OF OHIO

3 Senator Metzenbaum. I appreciate your courtesy,
4 Mr. Chairman, and I appreciate the courtesy of the witnesses.
5 I am aware of the fact that this matter is not exactly within
6 the jurisdiction of this committee, but it is certainly
7 relevant, and that has to do with the allocation formula.

8 I want to say that Senator Bentsen has provided the
9 leadership in his concern about the question of fairness in
10 getting the money back to the States. I wanted to point out,
11 however, that just using the 85 percent formula -- and I
12 have talked with Senator Bentsen of this committee and the
13 Environment Committee -- if you just use the 85 percent
14 formula it does not solve the problem because you are talking
15 about 85 percent of the dollar paid in.

16 When you have a situation whereas last year you
17 paid back \$1.44 for every dollar paid in, there are very few
18 States that would be assisted by that formulation, and in
19 order to avoid an issue being developed on the floor, I wanted
20 to raise the issue with the members of the Finance Committee
21 and certainly with Senator Bentsen, who has provided the
22 leadership on this issue, to point out that unless you change
23 the formula -- unless you make some modification related to
24 the total amount of dollars paid back -- that 85 percent is
25 not a significant factor, or at least sufficiently significant.

1 I point out that in the State of Texas, for
2 example, last year you paid in 8.4 percent of the total and
3 only got back 4.8 percent. The State of Ohio paid in 4.6 percent
4 and only got back 2.8 percent. That is obviously inequitable.
5 The 85 percent formulation is directed to take care of that
6 problem but it won't unless some further change is made in
7 the language, and I am trying to raise the issue at this point
8 both in the Environment Committee -- where I just made a
9 similar statement -- as well as this committee, so that the
10 matter might be resolved before it gets to the floor.

11 I thank you, Mr. Chairman.

12 The Chairman. Thank you, Senator Metzenbaum. I
13 am certain Senator Bentsen will be alert to that comment
14 and that provision.

15 Now if I could just say to the committee members,
16 we are going to try to meet until about 11:45 and then come
17 back at 1:30, unless that --

18 Senator Boren. I just wonder what the plan is for
19 the afternoon. As you know, I am involved in another
20 conference -- in a conference, rather -- which you are also
21 involved in.

22 The Chairman. Right, and I am in the same one.

23 Senator Boren. There are going to be some
24 important things to come up over there later. I wonder if
25 we might talk to the chairman of that conference, into

1 delaying their conference for an hour or two.

2 The Chairman. If we could do that, I know the
3 majority leader is pushing to get this bill up tomorrow on
4 the Senate floor and we are just now beginning. Now there
5 are some areas that we think we can agree to very quickly.
6 There are other areas that we are probably going to have some
7 discussion, and that is why Secretary Lewis is here and
8 Assistant Secretary Chapeton. We think if we could resolve
9 some of these areas as we go along, it might not take a great
10 deal of time.

11 I am also hoping that we will not offer nongermane
12 amendments, and I would hope that there would be some
13 cooperation. I do not mean on the floor. You can obviously
14 offer what you wish on the floor, but in the committee itself
15 we could expedite our work if we did not consider nongermane
16 amendments. It would be my hope that we would not adopt any
17 nongermane amendments in the committee itself. In fact, I
18 have a couple I would like to offer but I hope I do not have
19 the opportunity.

20 Senator Long. Mr. Chairman, I want to cooperate
21 with the chairman about his effort to get this bill before
22 the Senate. I would urge that the afternoon session start
23 about 4:30, to give some of us the opportunity to fulfill
24 commitments that we have made during the afternoon. It would
25 be better, I know, for me and I would hope for others who have

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other commitments, if we want to quit at 12:30 or whatever time and come back at 4:30, and then stay --

The Chairman. Does anybody have any objection to the 4:30?

Senator Durenberger. Senator Chafee might because he is chairing the Intelligence Committee, and I think he tried to move part of that meeting from 10:00 a.m. this morning to 4:30 this afternoon.

Senator Long. It would be all right with me to postpone it until later if you wanted to but frankly, you see I have a list -- I am sure others have the same problem I have -- I have a list of commitments for the afternoon as well as being present at the session, and I would hope that we could come back about -- well, if sometime later than --

The Chairman. What time is our conference, Dave?

Senator Boren. The conference is at 2:00. We might urge them to move it up, or --

Senator Packwood. Mr. Chairman, let me echo that. I have obligations, too, but if we could come back at four o'clock, 4:30, five o'clock, and meet through the night or as far as we can go to finish this up tonight, that would be much preferable.

Senator Long. I don't see why we cannot finish it up but I think that in view of the fact that members have made commitments and the Senate is in session and all that,

1 if we can get back in here and we can stick around and give
2 it our undivided attention long enough to vote on it, well,
3 we ought to get the bill out today.

4 Senator Boren. Some of us have commitments later
5 on in the evening, and I would hope that we would not go as
6 far as --

7 Senator Bentsen. I do, too.

8 The Chairman. Let's try 4:30. Senator Baker wants
9 to meet with me at 11:45 but Senator Packwood knows this
10 subject very well, and if you do not mind presiding until
11 12:30 --

12 Senator Packwood. No, not at all.

13 The Chairman. -- you might be able to wrap it up
14 before 12:30.

15 Senator Packwood. We might. There is always hope.

16 The Chairman. If you do, call me.

17 We have some suggestions that I think might be --

18 Mr. Brockway. As you indicated, there are a number
19 of items that we should be able to dispose of immediately.
20 As far as I am aware of, there is not significant controversy.

21 Senator Long. Could I just ask at this point,
22 Mr. Chairman --

23 The Chairman. Sure.

24 Senator Long -- it would seem to me that if we
25 could go along with the chairman in his suggestion that we

1 limit ourselves to a rule of germaneness in this committee
2 in voting on the bill in the committee -- reserving the right
3 to every Senator to offer to offer his amendments on the
4 floor that are not germane, just as any Senator has a right
5 to offer a nongermane amendment on the floor -- that that
6 would very much expedite the consideration of this bill
7 because otherwise, I know what it is like to have a
8 Christmas tree bill. I have managed some on occasion and I
9 know what it is like to have the last train through the
10 station. Everybody comes out with his amendment, and we may
11 have to face that on the floor and deal with it however the
12 Senate wants to deal but if we can avoid doing it here in
13 the committee this morning, we might just report the bill.

14 The Chairman. Is that satisfactory?

15 Senator Long. In other words, I would anticipate
16 voting for some nongermane amendments on the floor but if
17 we do not do it here, we might just get the bill on out there.

18 The Chairman. I think there are only going to be
19 about four or five areas that we are going to have to make a
20 decision, a hard decision, not an easy decision. Therefore,
21 I would hope that if we can generally agree that we will
22 restrict our amendments to germane amendments, I do not want
23 to shut anyone off but we are being pushed by the leadership
24 on both sides. This is an important piece of legislation, on
25 the other hand, so we can take as much time as we need.

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Maybe we could go through it now. I met with the Joint Committee this morning, and there are about 20 items that I just do not believe there is any controversy at all. They are technical in nature or they are areas where we have agreed to exempt certain people. Senator Packwood will comment on one of those when we reach it. He wants to add -- and I think Senator Long has the same interest -- to add private buses as well as public buses.

Senator Packwood. Exempt them.

The Chairman. Exempt them.

Mr. Brockway. Senator, the first item is just generally the increase in the fuels tax of 5 cents, to increase the general fuels tax to 9 cents per gallon. There appears to be general consensus on that item to increase the tax.

The question there is how long the tax should be extended. The House bill extends it through 1988. That appears to be acceptable to the administration. They have so indicated.

The Chairman. Secretary Lewis, is it agreeable to you to terminate through September 30, 1988? Pardon?

Secretary Lewis. We are satisfied.

The Chairman. You are satisfied with that?

Secretary Lewis. Yes, sir.

Mr. Brockway. On the motorboat fuel --

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The Chairman. Let me just suggest, now, that I understand we can agree to A(1). That is on the first page of the spread sheet, which is the tax itself, and without objection we will agree to that.

Senator Heinz. With a changed date.

The Chairman. With a changed date to September 30, 1988.

Mr. Brockway. The next should skip down to item 3(b), which the treatment of buses. Under the administration bill, it would only continue the present 4-cent-a-gallon exemption. Under the House bill, it would provide a full 9-cent-a-gallon exemption for the gasoline, and there appears to be interest in extending the --

Senator Packwood. I would move we continue the exemption as we have had it before. We have treated public and private buses equally. They compete with each other. Our choice is either to tax the public buses or treat the private buses equally, and I would move we accept the House language as it is.

Senator Heinz. Mr. Chairman, are we on 3(a) or 3(b)?

The Chairman. 3(b).

Senator Long. Might I just make this point before we get to that, Mr. Chairman, because I think I would like to make this suggestion. Rather than confront this committee

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1 with the burden of having to extend this tax, it seems to me
2 that we should not have a termination date. Now if you want
3 to terminate the fund, so you can decide whether the tax goes
4 into the highway users fund at that date in 1988, I would have
5 no objection to that but my thought is that the Government is
6 going to continue to need the money. Unless we develop something
7 that we use for fuel instead of gasoline, the money will
8 continue to be there, and I do not know why we ought to put
9 the Senate and this committee under the burden of having to
10 vote twice on this tax when there is no doubt in my mind the
11 Government is going to continue to need the revenue. I
12 would just suggest that we strike the termination date.

13 Now, mind you, that does not mean the tax goes on
14 forever. You know you can always repeal a tax any time the
15 Senate wants to do so.

16 Senator Heinz. Mr. Chairman, I could agree to
17 that, I guess, for those bus lines that compete with public
18 entities.

19 Senator Long. However, I am talking about all of it.

20 Senator Heinz. I know. I could agree to that for
21 those private bus lines that compete with public entities,
22 but I am a little puzzled why we would want to exempt
23 Greyhound and Trailways, which are the intercity bus lines.

24 Senator Long. Well, first I would like to talk
25 about just the tax itself before we talk about the buses.

1 I just want to talk about the extra 5 cents on the gasoline.
2 What I would like to suggest is that we strike the date, the
3 termination date, so that we are talking about something that
4 will go on, that basically the tax will continue until such
5 time as we want to repeal it. Otherwise, we confront Congress
6 with the problem of extending this tax, and frankly I would
7 not be surprised if Congress might have the burden of
8 increasing the tax rather than reducing it. I do not know
9 why we want to say that this tax, which is going to be needed
10 for a long time in the future, will have to be extended. It
11 seems to me that we ought to just go ahead and face up to
12 it, get it over with, and if at a future date the circumstances
13 justify repealing it, consider it then.

14 Senator Durenberger. Mr. Chairman?

15 The Chairman. Senator Durenberger.

16 Senator Durenberger. Let me make a brief comment.
17 I can understand Senator Long's argument about no effective
18 date, and if this were just any old tax I guess I might be
19 sympathetic, but part of the problem as I see it that we are
20 dealing with here is that, as illustrated by Senator
21 Metzenbaum's appearance here -- coming in and characterizing
22 the way we allocate this money as being inequitable because
23 Texas does not get back what it puts in and so forth -- raises
24 the whole issue, to me, anyway, of the role that a national
25 tax plays in financing the delivery of services, primarily at

1 a local level but it also has a national benefit.

2 I can support an increase in the Federal tax as
3 long as I can be certain that it relates in some way to taxes
4 that are being raised at the local level, and that the money
5 is getting back there to develop this unique combination of
6 Federal, State, and local transportation systems, but I would
7 like the opportunity, through the tax and through the way
8 that tax moves into trust funds and so forth, to reexamine
9 that issue. I do not have that opportunity if I am not on
10 Environment and Public Works or some other committee, and I
11 think it is important that this committee, the tax committee
12 of the United States Senate, look at the larger picture of
13 Federal, State and local financing of all of these services.

14 Therefore, I would argue against your suggestion.
15 In fact, I would suggest that the House date of 1988 is more
16 appropriate than the administration date of 1990.

17 Senator Long. Well, I just think the Government
18 is going to need the money. I do not know why we should put
19 the burden on ourselves to do it again but I am ready to
20 vote on it.

21 Senator Matsunaga. If the gentleman will yield,
22 making it permanent does not mean, of course, that this
23 committee may not from time to time review it for purposes
24 of amending it if necessary.

25 Senator Heinz. Mr. Chairman, I would just observe

1 that the pattern under current law is to have an expiration
2 date from time to time. Under current law the existing 4
3 cents would expire at the end of 1984. I think Senator
4 Durenberger's reasons are persuasive.

5 Senator Long. Well, I am willing to go along with
6 you and amend my proposal to say that the trust fund will
7 terminate in 10 years. At that point you can decide whether
8 you want to continue to put it in the trust fund, or use it
9 for other Government purposes, or whatever.

10 Senator Durenberger. I would just make one additional
11 argument -- and I hesitate to make this on behalf of the
12 President of the United States -- but last year he proposed
13 that at some point in the future, he said 4 years, that we
14 should get out of the Federal gas tax business and turn that
15 whole thing back to the States. I do not know what his
16 current position is on the issue but I guess I would like to
17 leave him a little flexibility in terms of the recommendations
18 he makes to this body, and in making this whole Federal system
19 work more effectively.

20 The Chairman. Secretary Lewis?

21 Secretary Lewis. Although we could live with a
22 permanent tax, we are satisfied with the 1988 but we do have
23 one technical correction. Your authorization calls for this
24 bill to go through 1987, so for us to be able to spend the
25 monies, you have to change it to 1989. Therefore, if you do

1 not accept Senator Long's recommendation, you should change
2 that from 1988 to 1989. In other words, it should correspond
3 with your authorization.

4 Mr. Brockway. That would be correct. You would
5 want 2 years beyond the authorization from their standpoint,
6 if you have a sunset.

7 The Chairman. In the first event, on Senator Long's
8 proposal, do you want a vote on it?

9 Senator Long. Yes.

10 The Chairman. The clerk will call the roll.

11 The Clerk. Mr. Packwood?

12 Senator Packwood. No.

13 The Clerk. Mr. Roth?

14 (No response.)

15 The Clerk. Mr. Danforth?

16 Senator Danforth. Aye.

17 The Clerk. Mr. Chafee?

18 (No response.)

19 The Clerk. Mr. Heinz?

20 Senator Heinz. No.

21 The Clerk. Mr. Wallop?

22 (No response.)

23 The Clerk. Mr. Durenberger?

24 Senator Durenberger. No.

25 The Clerk. Mr. Armstrong?

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(No response.)

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The Clerk. Mr. Symms?

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(No response.)

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The Clerk. Mr. Grassley?

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Senator Grassley. No.

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The Clerk. Mr. Long?

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Senator Long. Aye.

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The Clerk. Mr. Byrd?

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(No response.)

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The Clerk. Mr. Bentsen?

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(No response.)

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The Clerk. Mr. Matsunaga?

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Senator Matsunaga. Aye.

14

The Clerk. Mr. Moynihan?

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(No response.)

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The Clerk. Mr. Baucus?

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Senator Baucus. No.

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The Clerk. Mr. Boren?

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Senator Boren. No.

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The Clerk. Mr. Bradley?

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Senator Bradley. No.

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The Clerk. Mr. Mitchell?

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Senator Mitchell. No.

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The Clerk. Mr. Chairman?

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The Chairman. No.

1 The Chairman. The vote on this is 9 nays, 3 yeas.
2 The absentees will have an opportunity to record their votes.

3 Then, is there any objection to making the technical
4 change that the Secretary referred to? How would that be,
5 Dave?

6 Mr. Brockway. You would want to look at what the
7 authorizing committees do, and I understand that they are
8 thinking of a 5-year extension on the Senate side, so extend
9 it through 1989 instead of 1988.

10 The Chairman. Is there any objection to that?

11 (No response.)

12 The Chairman. If not, then let's move on to --

13 Mr. Brockway. It was 3(b). The discussion was on
14 the buses. There was a suggestion to provide a full exemption
15 for the buses.

16 Senator Bradley. Mr. Chairman, how are we proceeding?
17 Are we going down the list?

18 The Chairman. What we are trying to do now on the
19 spread sheet, Senator Bradley, is to go to those where we
20 think there is no problem, skip anything where we think there
21 is any little problem at all. We will skip over it and come
22 back. The one now is on the buses.

23 Senator Bradley. Oh, I see.

24 Senator Packwood. Mr. Chairman, I would move to
25 continue the law as it is, which is treating public and private

1 buses the same. To begin with, there is a fair amount of
2 competition. The public buses are chartering out their buses
3 for intercity or longer traveling. In New Jersey and
4 Connecticut you have public agencies providing intercity
5 transportation in competition with private buses.

6 It is the only service that rural areas have. Most
7 of them have no trains. Most of them have no mass transit or
8 local buses, so that the buses that go between those small
9 cities are their only form of service. The amount of revenue
10 we are talking about is \$12 million a year, and I think we
11 should not change the law. Just leave them both exempt, as
12 they are now and as the House bill still did.

13 The Chairman. Is there objection?

14 (No response.)

15 The Chairman. If not, that change will be adopted.

16 Mr. Brockway. I would suggest passing over
17 taxicabs because some questions have arisen there, and
18 items 3(d), (e), (f), and (g), are all suggestions to provide
19 a full 9-cent exemption, State and local use, nonprofit,
20 farming, off-highway use, and that would all be continued.

21 In the area of other exemptions, in the House bill
22 there were two additional exemptions from the tax. One was
23 for special fuels that were 85 percent or more in alcohol
24 content, provided they were not derived from petroleum. The
25 suggestion is to follow that House provision with a

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1 modification to say that this exemption from the fuel tax
2 will not apply where the alcohol is derived from natural gas,
3 so as not to encourage the diversion of natural gas from
4 other uses to motor fuel use.

5 Senator Heinz. Mr. Chairman, may I make a comment
6 on that? I think that that is reasonable policy taken at
7 face value but there is a practical problem. We would like
8 to see in this country developed a methanol industry, and
9 particularly based on coal, but the problem with methanol
10 based on coal is that you have to have a substantial market
11 for it before you can build a truly cost-effective plant and
12 produce it at a competitive price. We know how to do it. It
13 has been done before but we cannot produce it right now at
14 a competitive price because the market for it does not exist.

15 If we exclude for all practical purposes the
16 manufacture of at least some methanol from natural gas, which
17 can be done at a far lower capital cost, we will make it very
18 difficult for Detroit to develop a modest fleet of cars --
19 and I think there are only 200 or 300 right now run on
20 methanol -- and what I would like to see is some kind of a
21 limitation on the use of natural gas but not its total
22 exclusion from this exemption.

23 It has been suggested that that exclusion might
24 take effect here once there were 10,000 vehicles running on
25 methanol from whatever source, and I would hope we could

1 have some kind of a ceiling, once above which the change that
2 is proposed would take effect, the change in the House bill
3 would take effect.

4 Senator Durenberger. Mr. Chairman, let me speak
5 briefly in opposition to the suggestion. I do not argue at
6 all with John's objectives in terms of coal gasification or
7 the development of alternative energies, but from various
8 standpoints I object to including natural gas. First of all,
9 it is already to a degree a subsidized fuel. Secondly, it is
10 a depletable resource of limited supply in this country.

11 It is a premium fuel in the sense that it is easily
12 transported, it burns very clean. It is the perfect energy
13 tool for a whole lot of other uses in this country, and I
14 suggest that we not be too quick to start forcing it in the
15 direction of transportation.

16 I worry, also, about the advantage that ethanol
17 fuels currently have, and if by doing this we do not take
18 away some of the advantages that ethanol fuels have.

19 On the economic side, ARCO, one of the largest oil
20 companies in this country, people who have explored alternative
21 fuels, already are building or have built a rather substantial
22 methanol from natural gas plant, so I do not see that the
23 economic incentive argument is there. We are only going to
24 enhance the profits to ARCO.

25 My concern about the limitation that the Senator

1 would put on it is that if people are going to make --
2 others are going to make -- investments in the plant capacity
3 to produce methanol from natural gas, it is going to be very
4 difficult to tell them to shut those plants down at some point
5 in time when we reach that magic 10,000. Therefore, I think
6 there are other ways to achieve the Senator's objectives
7 other than using this exemption, and I think appropriately
8 it is taken out in the recommendation.

9 The Chairman. Well, if there is some dispute on
10 it, maybe we can just pass that over temporarily. Would
11 that be all right?

12 Senator Heinz. Yes, let's pass it over.

13 The Chairman. Let's not put that in the agreed-upon
14 column.

15 Mr. Brockway. The next --

16 The Chairman. Senator Mitchell?

17 Senator Mitchell. Just to clarify a point, under
18 current law purchases of fuel for fishing vessels are exempt
19 from the tax, and I believe the administration's proposal
20 continues that exemption. It is not listed in the summary,
21 and I just wanted to make certain that it is in fact --

22 Mr. Brockway. That is correct. There is no
23 change. That would be a nonhighway business use.

24 Senator Mitchell. Thank you.

25 Mr. Brockway. We have agreed on (d), (e), (f), and

1 (g). On the other exemptions, there is one other in the House
2 bill, and that would be just a manner of allowing ground
3 fertilizer applicators and crop dusters to qualify for the
4 exemption that they are allowed under present law, to allow
5 the exemption to go directly to the crop duster rather than
6 making it go to the farmer and then pay it back over.

7 Evidently that is generally without controversy in that item.

8 The Chairman. That does not give an advantage. It
9 just eliminates one step in --

10 Mr. Brockway. It just eliminates one step in the
11 current process of getting the exemption. It is just for use
12 when they are on the farm property, off-highway use.

13 The Chairman. If there is no objection, we will
14 agree to that, but we will keep the other one open, that
15 Senator Heinz and Senator Durenberger --

16 Mr. Brockway. On page 2, there is only one item
17 there and that is 4(c), dealing with laminated tires.
18 Presently there is a 1-cent tax which was continued in the
19 administration bill. It was repealed in the House bill. Our
20 understanding is that these tires are for nonhighway
21 vehicles, and they are seldom used and made any more, and
22 this would be a very minor change to repeal that.

23 Senator Packwood. I have a
24 question of 4(a). How much additional revenue would be
25 raised if we did not drop the 9.75 to 4.8, if we just kept

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1 it where it was, going ahead with the 25 cents a pound over
2 100 pounds?

3 Mr. Brockway. You could pick up better than \$300
4 million a year if you kept in the 9.75 percent tax and then
5 had a graduated rate schedule so you went over 25 --

6 Senator Packwood. You know, Senator Long just
7 talked about the need for money, and this is a tax that is
8 neither onerous nor particularly noticed, and I think we
9 ought to keep it. I do not know what kind of negotiating
10 room we may need in conference with the House, and I understand
11 the argument about shifting the burden to the trucks and off
12 the cars, but I think this is a tax that is well-accepted by
13 the consumers. Tire prices vary tremendously, depending upon
14 who is selling them and when sales are going on, and I just
15 think we ought to leave it at 9.75, go ahead with the 25
16 cents a pound over 100 pounds but not lower the present tax.

17 Mr. DeArment. Mr. Chairman, at one point we had
18 talked about a proposal that would -- and that is part of the
19 proposal we are going to go through at a later point -- that
20 would maintain the tax at 9.75 on tires under 50 pounds, go
21 to 15 cents between 50 and 100, and go to 25 cents above
22 100.

23 The Chairman. Is that for safety reasons in part?

24 Mr. DeArment. There was some concern that having
25 a 100-pound tire cliff would encourage some trucks to run

1 on tires that were less than safe.

2 The Chairman. Again, I think Bob Packwood has a
3 good idea but I think we need to discuss that further, so it
4 would not be in the agreed-upon column.

5 Mr. Brockway. I think the last item we were
6 discussing was the laminated tires, and as I say, I am
7 unaware of any objection to the repeal of that tax.

8 Senator Packwood. (acting chairman) The last
9 item is the what?

10 Mr. Brockway. Is the laminated tires. That is
11 item 4(c). There is negligible revenue and I am unaware
12 of any objection.

13 The next area will be on page 4, which is just
14 items 8(a) and (b), and that is merely a transitional rule,
15 floor stocks provisions, which will have to be coordinated
16 with the particular changes that you do make in the truck tax,
17 sales tax, and the tire taxes that you have, refunds, and
18 increasing taxes at the effective date in the future. That
19 will just be a technical change.

20 The next items are on pages 5 and 6, and the
21 suggestion is that the provisions in the administration bill
22 are not controversial and they could be accepted.

23 Senator Matsunaga. What items did you say?

24 Mr. Brockway. These are the provisions which
25 provide -- these are on pages 5 and 6 -- these are the

1 provisions dealing with the trust fund which would extend the
2 trust fund. You would have to make a conforming change in
3 the date. I believe that it was agreed on before to extend
4 the tax through 1989, and you would want to make a conforming
5 change here on the date on the trust fund, and then you
6 would keep present law as to whether or not to transfer the
7 trust fund into the Internal Revenue Code. You would update
8 the purposes of the trust fund so it would refer to the
9 current statutes. The current Highway Trust Fund language
10 refers to old statutory terms, so you would just do that.
11 That is item 4.

12 Item 5 is the Byrd amendment, or so described, the
13 anti-deficit provision to prevent the fund from going into
14 a deficit. That would retain present law under the
15 administration, and item 6 is to allow the trust fund to
16 borrow from the general revenues and expend that revenue,
17 and then pay back the general revenue. The House bill
18 eliminated that privilege. The administration left current
19 law as it is, and that would be kept.

20 The motor boat fuel tax, there is a provision which
21 we will discuss next when we get back to the fuel tax, and
22 then the transit account, the administration has, one,
23 provided for the establishment of a transit account into
24 which there shall be deposited 1 cent of the 5-cent increase
25 in fuel taxes. That would amount to \$1.1 billion a year.

1 The one issue area here that you want to consider
2 -- this is on page 6, Senator -- page 6, item C(3), and the
3 one item here is expenditure purposes. The administration
4 provided in its bill that this can only be used for capital
5 expenditures on mass transit programs. Under the House bill,
6 it provided that it could be used for capital expenditures on
7 mass transit programs only but also included new starts. That
8 was an item that was of concern, and that would be the
9 suggestion here.

10 Then the anti-deficit provision, there is none in
11 the transit account. That would just be under the general
12 one, although there is a specific 1-year anti-deficit provision
13 in the House bill. This would suggest just following the
14 administration provision and, again, allowing repayable
15 advances, allowing the transit account to borrow. There
16 would be no change there.

17 Mr. DeArment. David, Senator Symms is in another
18 markup and he has several points that he would like to raise
19 with respect to the transit account, so I would suggest we
20 leave it all open.

21 Mr. Brockway. Okay.

22 Senator Bentsen. Mr. Chairman?

23 Senator Packwood. Senator Bentsen.

24 Senator Bentsen. If I might comment on that, I
25 would very strongly support the fact that the mass transit

1 accounts be available for rehabilitation of some of the older
2 systems but at the same time for new starts. It is my
3 understanding -- and I would appreciate the Secretary speaking
4 to that -- it is my understanding that that is now the
5 position of the Department of Transportation, and that is how
6 we anticipated proceeding.

7 Secretary Lewis. That is correct, Senator. We
8 believe that your recommendation that new starts be included
9 is a proper position, and we support your recommendation.

10 Senator Bentsen. Thank you.

11 Mr. Brockway. Going back to the beginning of the
12 spread sheet --

13 Senator Bradley. Before we go back, could I
14 raise just one question on the transit account?

15 Senator Packwood. Are you on page 6? Which item?

16 Senator Bradley. Yes, page 6. As I understand it,
17 the expenditure purposes cannot be for operating subsidies.
18 Is that correct, or has there been a change?

19 Secretary Lewis. That is correct.

20 Senator Bradley. I was under the impression that
21 there was a proposal to scale back 20-10-10.

22 Secretary Lewis. Senator, this is just part of
23 the funding levels that will be included in this bill, and
24 the portion that we are talking about here, the \$1.1 billion,
25 would just be for capital expenditures. In our other mass

1 transit legislation there is an allotment for operating funds.
2 We would like -- the administration has recommended -- that
3 be scale back a third, a third, a third, over 3 years, and
4 that -- and Mr. Heinz can speak to this -- I do not believe
5 that that has come out of committee yet. We recognize, the
6 administration does, that we may not get a third, a third,
7 a third, but the administration feels if we are going to
8 put another \$1.1 billion into mass transit, we should increase
9 the amount of decrease of operating subsidies at least
10 20-10-10-10, meaning that over the 4-year period that would
11 cut operating subsidies about 50 percent. Nonetheless, there
12 would be a very significant net gain to mass transportation
13 over that period, actually about \$2 billion.

14 Senator Bradley. However, that proposal is not
15 contained in this legislation. In this legislation previously
16 was elimination of operating subsidies, as I understand it.

17 Secretary Lewis. That is not part of this
18 legislation. John, can you comment on that, because I think
19 you are more familiar with this, where we stand in the
20 Senate on that? I think your recommendation is 20 percent
21 the first year and none the second, third, and fourth?

22 Senator Heinz. Senator Lugar and Senator D'Amato
23 have proposed a committee amendment to the mass transit bill
24 that is simply a 20 percent reduction the first year. It
25 does not include the 10 and the 10 and the 10 that the

1 Secretary seeks.

2 Secretary Lewis. That is correct.

3 Senator Heinz. My own personal view, having been
4 a participant in the discussions between Senator D'Amato and
5 Senator Lugar, is that that is an issue that the other
6 committee had best decide. It is technically possible to
7 write an amendment here that would be germane, but I think
8 the other committee would view it nonetheless as an
9 infringement.

10 Senator Bradley. That what?

11 Senator Heinz. I say you could technically write
12 a provision here that would be germane to this bill, but I
13 think those of us on the Banking Committee have been trying
14 to work out things in the context of a mass transit bill --
15 and I speak for myself as well as the others on this point --
16 and would view that kind of an effort as something of an
17 infringement on our Banking Committee's rights.

18 Senator Bradley. Fine. Well, these are areas that
19 I am sure we will have further discussion on. I just was
20 curious where it stood.

21 Senator Packwood. Senator Mitchell?

22 Senator Mitchell. I would just like to ask a
23 question about item B(7) on page 6. That is the motor boat
24 fuel tax.

25 Senator Packwood. B(7)?

1 Senator Mitchell. B(7), the very first item listed
2 on page 6, the motor boat fuel tax. Would you, Dave, please
3 explain what the cap means and the references to "other funds."

4 Mr. Brockway. Yes, Senator. Under present law
5 there is the tax on motor fuels which also applies to motor
6 boat fuel, so the 4-cent tax which raises about \$30 million.
7 That \$30 million, rather than going into the Highway Trust
8 Fund, goes into the Land and Water Conservation Fund.

9 However, under legislation adopted in 1978, \$20
10 million of that revenue a year can go into a boating fund
11 established under that legislation, which I believe expires
12 at the end of 1983. This boating fund is to be used for
13 improving boating access, fishing improvements, and safety,
14 basically fresh-water usage.

15 Senator Packwood. I might also say, George, that
16 the money is not being spent. In one part of this bill that
17 will be coming from the Commerce Committee, because we have
18 jurisdiction over boat safety, it directs that the money be
19 spent. They are mounting it up. Much as they do with
20 ADAP funds and others, they are not spending it.

21 Senator Mitchell. That was one of the points I
22 was going to get to, but go ahead.

23 Mr. Brockway. The present structure, as Senator
24 Packwood indicated, is that not only is there an annual amount
25 of \$20 million a year but this amount is capped in an

1 aggregate amount in the fund of \$20 million at any given time,
2 so that you have to spend down some money out of the boating
3 fund in order to put more in, and I understand the situation
4 that the boating fund has the full \$20 million in and I am not
5 aware that there have been amounts appropriated out of it.

6 Therefore, under the bill as introduced by the
7 administration, no additional amounts would go in.

8 Senator Mitchell. Before you go any further, let
9 me ask you a question at that point. You have a \$20 million
10 amount in the fund now and a \$20 million cap on the fund.
11 Where does the \$30 million raised in taxes right now go?

12 Mr. Brockway. The taxes would go into the Land and
13 Water Conservation Fund.

14 Senator Mitchell. The Land and Water Conservation
15 Fund?

16 Mr. Brockway. That's right. The excess falls
17 back into that.

18 Senator Mitchell. There is no cap on that?

19 Mr. Brockway. There is no cap on that.

20 Senator Mitchell. Therefore, none of the money
21 for the motorboat fuel tax goes into the Highway Trust Fund.

22 Mr. Brockway. That is correct.

23 Senator Mitchell. Will that be continued?

24 Mr. Brockway. That would be continued. The
25 difference between the House and the Senate is, the House

1 took the cap on the boating fund from \$20 million a year up
2 to \$45 million, just in proportion to the increase in the tax
3 rate, but either way the excess that does not go into the
4 boating fund would go back into the Land and Water Conservation
5 Fund and would not go into the Highway Fund.

6 Senator Mitchell. For what purpose, if you would
7 detail briefly for us, are the monies in the Land and Water
8 Conservation Trust Fund used?

9 Mr. Brockway. Well, the Land and Water Conservation
10 basically, as I understand it, is for fresh water, improving
11 boating access, improving the areas for fishing and a certain
12 amount for hunting but basically for fishing, my understanding,
13 improving the access. The boating fund is more directed
14 toward safety concerns.

15 Mr. DeArment. It goes to the State game and wildlife
16 departments for those purposes, for land and water
17 conservation purposes, for building boat access ramps, fish
18 hatchery kinds of operations to improve sport fishing.

19 Senator Matsunaga. Do you have the figure --

20 Senator Mitchell. May I just inquire of the
21 Secretary, if you have a \$20 million cap now on the boating
22 fund and we are going to more than double the tax, what is
23 the argument for not increasing the cap on the boating fund?

24 Secretary Lewis. We are satisfied to support the
25 increase in the cap on a pro rata share. As a matter of

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1 fact, we would have probably recommended that at the time that
2 we picked this item up. We have no problem with your
3 recommendation, your committee.

4 Senator Mitchell. Thank you.

5 Senator Packwood. Further questions?

6 Senator Matsunaga. Mr. Chairman?

7 Senator Packwood. Sparky, go ahead, and when we
8 are done here what I am going to suggest to the staff is
9 that we go back and start with the figure of money that we
10 are hoping to raise, much as we did with the \$100 billion
11 last year, so that as we are going down it and subtracting
12 or adding we have an idea of whether we are above or below
13 the target that we are ultimately aiming at.

14 Sparky?

15 Senator Matsunaga. Now in hopes of looking for
16 available money, do you have any figure as to what the Land
17 and Water Conservation Trust Fund is up to now?

18 Secretary Lewis. We can get that figure for you.
19 I believe that is administered by the Department of Interior,
20 and if you would like to have that figure we will get the
21 figure for you and submit it by your 4:30 session.

22 Senator Matsunaga. Will you also give us information
23 as to how much it has been accumulating per year over the
24 years?

25 Secretary Lewis. Yes, sir.

1 Senator Matsunaga. Thank you.

2 Senator Packwood. Other questions, before we go
3 back?

4 All right, then, let's go back and start with the
5 figure that we are aiming at, and go through the different
6 proposals that we have as to whether they increase or lower
7 revenue from the targets we are hoping to hit. You can lay
8 out the different options for us. Clearly the truck tax is
9 a matter of controversy, and you can lay out the different
10 options that are presented to us on the truck tax.

11 Senator Matsunaga. Mr. Chairman, may I inquire
12 as to what procedure we are going to follow now?

13 Senator Packwood. We are going to ask the staff
14 to start with the amount of money that we are attempting
15 to raise, the target, as we did with our \$100 billion tax
16 bill last August, and then as we go down this and consider
17 different options, ask whether it is going to lower or raise
18 our sights on that target. There may be some tradeoffs we
19 can make, but not if we are going to lose more money than
20 we can afford to lose.

21 Mr. Brockway. Senator, at the back of the spread
22 sheet there are several tables. What I would basically like
23 to do is work off the last set but before getting there,
24 just describe the tables and what is on them.

25 Table 1, on page 7 of the document, it lists what

1 the estimated Highway Trust Fund revenues are under current
2 law but if you extent the current law rates at the same
3 base after 1984, because many of these taxes expire on
4 September 30, 1984, and a number of others like the fuel tax,
5 the gasoline tax, drops from 4 cents down to 1.5 cents. This
6 sheet indicates how much revenue you would pick up in the
7 trust fund if you extended present law. Down at the bottom it
8 just indicates your aggregate revenues going in at \$6 to \$7
9 billion a year.

10 The next is on similar assumptions but it is the
11 estimated fund revenues under the administration proposal if
12 you would adopt the administration proposal, and I understand
13 that to be the general revenue target in the aggregate, to
14 reach the same general revenues as the administration to fund
15 the highway program.

16 Senator Packwood. Say that again?

17 Mr. Brockway. I would understand your target to
18 be is to, over the period of the authorization bill, to
19 raise similar amounts of revenue as the administration so
20 there will be sufficient funds to cover the proposed
21 expenditures in the spending side of the bill.

22 Senator Packwood. I noticed that the House is
23 slightly over them by several hundred million dollars.

24 Mr. Brockway. In certain years the House is under
25 and over, and that in part turns on how they handle the

1 truck tax, the phase-in there, and certain other ones.

2 However, you can see that under the administration proposal
3 they go from the current \$6 to \$7 billion up to \$12 to \$13
4 billion annually in tax revenues going into the fund.

5 Table 4, a 2-page table, indicates the differences
6 between the administration bill and present law and the
7 differences between the administration bill and present law.
8 If you look on page 11, the second page of table 4, it gives
9 the aggregate tax increases. Looking at the last bracket
10 here of items, total tax revenues, you have a line there for
11 how much the House bill increases, how much the administration
12 proposal increases, and then the difference item there is the
13 difference between the House and the administration proposal
14 and how much they raise as compared to present law.

15 Senator Packwood. Let me come down to the use tax
16 on heavy vehicles there. If I read your chart correctly, the
17 House is significantly under the administration proposal in
18 the early years but is over it by the end. Do I read that
19 correctly?

20 Mr. Brockway. That is correct, Senator. What the
21 House did was to delay the imposition of the use tax, and
22 in delaying it there was a revenue loss as compared to the
23 administration, but then they also changed the rate brackets,
24 with the top end of the tax they reduced from -- the
25 administration proposed a \$2,700 maximum tax on an 80,000-

1 pound vehicle --

2 Senator Packwood. Yes. That is the total tax,
3 not the increase.

4 Mr. Brockway. That is the total tax. Present law --

5 Senator Packwood. Is that counting your averaging
6 of gasoline taxes, or just --

7 Mr. Brockway. No, Senator. That is just the use
8 tax. In present law the use tax is \$3 per 1,000 pounds. On
9 an 80,000-pound truck, that would get you up to \$240. The
10 administration, this is the major way they attempt to
11 implement their cost allocation study, they would graduate
12 the highway use tax and it would be significantly higher for
13 heavy vehicles. They would get up to \$2,700 --

14 Senator Packwood. You have the heavy truck going
15 from \$240 to \$2,700 in one jump.

16 Mr. Brockway. That is in the administration bill.

17 Senator Packwood. The administration bill.

18 Mr. Brockway. That accounts for the sharp increase
19 in revenues here.

20 Senator Packwood. The House comes down to what
21 figure?

22 Mr. Brockway. The House, the top end only goes up
23 to \$2,000 a year. However, to make up the revenue the House
24 starts it at a lower level than the administration. The
25 administration would not start imposing the tax until you

1 had a truck of at least 55,000 pounds. The House comes down
2 to 33,000 basically, and by including these larger trucks
3 they raise the revenue but in the aggregate, in fact, you
4 can see in the out-years looking at it, they are picking up
5 in the House bill about \$80 billion a year compared to the
6 administration proposal just by shifting the burden among
7 trucks. The big revenue effect you see is the fact that
8 they have delayed the effective date. The administration's
9 would have gone into effect on July 1. The highway use tax
10 is an annual tax that is on a tax year of July 1 to June 30.
11 The administration would have increased it at the next tax
12 year. The House bill delayed the increase for 6 months, and
13 that accounts for your revenue difference on the table.

14 Senator Packwood. Senator Bradley?

15 Senator Bradley. You said that the administration
16 bill had 55,000 and it was reduced to 33,000? What is the
17 rationale for reducing it to 33, and why not to 20?

18 Mr. Brockway. The rationale, the present tax
19 starts in at 26,000 pounds, so at \$3 a thousand pounds that
20 is \$78, I believe. You do not pay any tax until you are
21 at least 26,000, and that is basically a de minimis amount
22 to keep out low levels of tax.

23 The reason the administration increased the exempt
24 amount, the zero tax amount up to 55,000, was in accordance
25 with their cost allocation study. Their study indicated that

1 the trucks that are below 70,000 pounds generally were
2 overpaying their tax compared to how much damage the
3 administration felt, in their study, they did to the road.
4 The heavier trucks substantially underpaid it, so what they
5 did was to take the present tax and try to throw the tax
6 burden on the heavier trucks. The lower you go down in
7 weights of the trucks, the more tax you will pay on the
8 lighter trucks, and their study indicated the lighter trucks
9 are already overpaying their burden and they would under
10 the House bill.

11 Senator Bradley. My question is, if their study
12 showed 70,000, why did they propose 55,000 and then later
13 agree to the House reducing it to 33,000? I mean, what is
14 the rationale for that? Mr. Secretary?

15 Secretary Lewis. Senator, our study indicated
16 that the heavier trucks were primarily responsible for the
17 damage to our highways, and for that reason we tried to make
18 our recommendation correspond as closely as we could to the
19 study that was mandated by Congress and which we presented
20 to you a year ago last October.

21 There was a great controversy in the House that
22 there was too great an increase on heavy trucks. Actually, in
23 total it is not quite the tenfold that Senator Packwood
24 implied. In total dollars it went from about \$1,700 to
25 \$3,800, but what they tried to do was to spread the incidence

1 of that tax down through some smaller trucks so that the
2 burden was not as heavy on the 55,000 pound trucks and above.

3 Your question as to why they used 33,000, they
4 could have used 36,000, 33,000, 26,000. They felt that this
5 was a normal breaking point and I believe it had to do with
6 Class A trucks. What I am saying is that it was a decision
7 they made so the escalation in heavy trucks was not as
8 severe as proposed by the administration. Our proposal
9 actually allocated those very heavy trucks about 86 percent.
10 Their compromise brought it down to 75 percent and the
11 33,000, as I indicated, was just a cutoff in that particular
12 class of truck.

13 Senator Bradley. Once you get under 33,000, it
14 is a different kind of truck?

15 Secretary Lewis. Yes, that is right, a different
16 class of truck, a different weight truck.

17 Senator Bradley. However, your study showed that
18 trucks at 70,000 pounds were the prime problems on the roads?

19 Secretary Lewis. That is correct, 80,000. That
20 is correct.

21 Senator Bradley. 80,000?

22 Secretary Lewis. What we did was, we took the
23 findings of our study and allocated the charges against
24 that study, and only increased that to 86 percent, not the
25 total 100 percent allocation.

1 Senator Bradley. This gets into engineering, I
2 guess, which the committee is not expert in, but in my State
3 we have one highway that does not allow any trucks on it, no
4 trucks, and another highway which is the New Jersey Turnpike
5 which is a lot of heavy trucks, and the repair work to the one
6 is not significantly greater than the repair work to the
7 other. Therefore, I mean, the question is really, do the
8 heavy trucks beyond any doubt cause damage to the roads in
9 a degree significantly larger on an incremental basis, an
10 incremental basis, than your ordinary trucks on the highways.
11 You know, if you have a highway and you have 100,000 cars
12 going down it a week and they say, "Well, we have to resurface
13 it," is that because of the 5,000 trucks or the 100,000 cars?"

14 Secretary Lewis. Obviously, it has something
15 to do with vehicular traffic and the load that you have
16 just in terms of the number of vehicles traveling, but the
17 study indicates -- and I think even the trucking industry
18 will agree -- that the predominant deterioration of our
19 highways does come from heavy trucks. I do not think there
20 is any question that that is an item that has been
21 documented accurately in the study which we submitted to
22 Congress.

23 Senator Bradley. However, the point is really the
24 incremental basis. In other words, if you set the tax
25 because you say the 80,000 pound truck does the damage,

1 you are allocating the cost of maintaining that truck,
2 therefore the tax, the total repair, or can you allocate an
3 incremental of the repair that is due to the fact that trucks
4 are on the New Jersey Turnpike but they are not on the Garden
5 State Parkway?

6 Secretary Lewis. We believe that our study, that
7 it has been allocated not only incrementally but properly,
8 and that is the determination that made us reach the
9 conclusion we reached, which as you know was reduced by the
10 House. If you would like further information on that, I am
11 sure you have our study but I would also be glad to send some
12 of the technical people that worked on that, who are much
13 more qualified than I to comment on it. If you would like to
14 have that, we will have them contact your staff.

15 Senator Bradley. That would be good. I would
16 appreciate that.

17 Could I ask one more question?

18 Senator Packwood. Sure.

19 Senator Bradley. There was also some question
20 about delay, delay of the tax. What is that?

21 Mr. Brockway. Under the administration bill,
22 they would have applied the highway use tax beginning with
23 the next tax year, which is July 1 through June 30 -- July 1,
24 1983 to June 30, 1984. Under the House bill, they adopted
25 a substantial increase in the highway use tax but they only

1 put it into effect on January 1, 1984, so they had a 6-month
2 delay in the increase in the highway use tax. The trucking
3 industry and others have been advocating a further delay in
4 the tax because of concern about the significant increase in
5 tax that they would have to pay under this highway use tax.

6 The principle argument they make is that the
7 highway use tax is a tax that you pay once. Under the
8 administration proposal you would have to pay as long as you
9 use the highway for 2,500 miles a year, and then you are
10 subject to the full tax. Given the fairly significant
11 increase from \$240 at the top end to \$2,700, they felt that
12 during a difficult time for the industry that they would
13 be able to take the increase a little bit better if you
14 phased it in over a long period of time.

15 Senator Bradley. The only point is -- and the
16 Secretary answered this the other day, so he is not really
17 vulnerable on this point -- is if any part of this is to get
18 people working, the later you collect the tax and get it out,
19 as I understand it out, the later it will be before there will
20 be people working. However, if it is a public works project,
21 then the delay is not that significant.

22 Secretary Lewis. Senator, it is our recommendation,
23 despite the delay in the collection of the tax, that we move
24 ahead immediately with the program. We do have funds within
25 the Highway Trust Fund which would permit us to escalate the

1 timing of the program.

2 Senator Bradley. Therefore, you would allocate
3 that residue that is in there now that has piled up over the
4 years because you expect the tax to replenish that?

5 Secretary Lewis. Essentially, that is what we
6 are saying.

7 Senator Bradley. Okay.

8 Senator Heinz. Mr. Chairman?

9 Senator Packwood. Senator Heinz.

10 Senator Heinz. Mr. Chairman, I have a few questions.

11 One is a question of how you balance in the relatively short
12 term between the present mix of the distribution of revenues
13 from lighter and heavy trucks, and how we get to higher
14 revenues from heavy trucks.

15 Mr. Secretary, the first question I guess I have
16 for you is, are you satisfied, can you live with the terms
17 of the House bill in terms of the collection of taxes from
18 heavy trucks?

19 Secretary Lewis. The answer to that question is
20 yes. Obviously we would prefer to have the recommendation
21 made by the Department of Transportation based on our study.
22 The other side of that is, we recognize the trucking industry
23 has been hurt very much by the depression in the economy,
24 and for that reason we think the delay in the timing until
25 they can receive the productivity gains they are going to be

1 receiving from Senator Packwood's office, and to give them
2 time to absorb this until the economy is stronger, we are
3 satisfied to accept the recommendation of the House.

4 Senator Heinz. Now I am told that somebody on
5 this committee is going to offer what would amount to a lower
6 level of user fees on the heavy trucks. If your original
7 recommendation was 33 percent allocation to the heavy trucks,
8 and if the House as I understand it is 29.5 percent, I
9 understand that there is a proposal that will be made that
10 will be around 28 percent. Would that be acceptable?

11 Secretary Lewis. Well, I have not had an
12 opportunity, as you know, to study the proposal itself but
13 we feel we have already been compromised sufficiently.
14 Obviously that is a determination that has to be made in
15 the judgment of this committee.

16 Senator Heinz. Well, my reason for asking is that
17 certainly there is a lot of concern about how much -- no
18 great pun intended -- the traffic can bear at this time, and
19 it seems to me that there is an opportunity for both sides to
20 reach an accommodation depending on whether we want to phase,
21 let us say, to the House level with an intermediate stop
22 along the way here at the level that may be proposed. Do
23 you have great reservations about a slightly more extended
24 and therefore complicated phase-in if it ended up around the
25 House level?

1 Secretary Lewis. If it ends up at the House level,
2 I would like to reserve a comment on the phase-in until I
3 have had a chance to study it. Again, we concurred with the
4 House. We spent a great of time reviewing their proposal and
5 are satisfied with what they recommended. We feel at the
6 present time we would like to have our proposal. We would
7 stick with the House recommendation and hopefully get something
8 close to that coming out of here.

9 Senator Heinz. How I have a question that is --
10 Secretary Lewis. Mr. Chapeton would like to
11 respond.

12 Mr. Chapeton. Let me just mention one thing, just
13 as a matter of interest. The tax is now payable, and will
14 continue to be payable on a year of -- fiscal year July 1 to
15 June 30. When we move to another year, as the House did,
16 we do require 2 fiscal years. The House starts January 1, 1984,
17 so we will have a short, 6-month year, July 1, 1983 to
18 January 1, 1984, and then another year, June 1 to June 30 --
19 excuse me, the first was 1983 -- the last half of calendar
20 1983 and then the first half of calendar 1984. After that
21 it picks up on a year-by-year, so when we adjust it we ought
22 to try to keep it on the year so it would make it less
23 complicated for everybody.

24 Senator Heinz. Very well. Let me ask you a
25 different kind of question, both a transportation policy

1 issue and a tax policy issue. As I understand what the
2 House did, they took -- I don't understand what the House
3 did.

4 The administration, as I recollect, originally
5 proposed to eliminate the tax on parts. Is that correct?
6 Mr. Secretary?

7 Secretary Lewis. No. Originally we recommended
8 that parts stay in. The House felt it was an unworkable thing
9 because of the interchangeability of parts, and we accepted
10 their recommendation to eliminate parts. Because of that, we
11 increased the tax on the new trucks, the excise tax.

12 Senator Heinz. Now what they did is, they
13 allocated the loss on revenues by eliminating parts to
14 increased user fees. Is that not correct?

15 Secretary Lewis. No, I think you have to look
16 at the entire package. We modified on the House the tire
17 taxes, we eliminated some oil taxes, lube taxes, and the
18 package as it came out met the criteria that Senator Packwood
19 is talking about to come up with the total dollars, so there
20 are a number of ingredients in that, and --

21 Senator Heinz. Well, wasn't the largest one an
22 increase in user fees to offset --

23 Secretary Lewis. No, the largest one was gasohol
24 because the 5 cents on gasohol costs us, in terms of projects
25 we can complete, \$250 million. That was eliminated in the

1 House, so as they eliminated that \$250 million, they had
2 more flexibility in other programs. That was a real source
3 of funds. Is that correct, Buck?

4 Mr. Chapeton. The other thing is, the House as
5 contrasted with the administration proposal put the truck
6 sales, the manufacturers' excise tax, the new 12 percent or
7 what we were proposing, 12 percent, and the Ways and Means
8 adopted that, put it at the retail level rather than the
9 wholesale level --

10 Senator Heinz. That increased you up some more
11 money.

12 Mr. Chapeton. That broadened the base, yes.

13 Senator Heinz. Well, it would seem to me that
14 the elimination of the tax on parts makes a lot of good tax
15 sense if you can pick it up someplace else. It is tough --
16 it is a good idea because it is complicated to administer
17 this, as I understand it. You have to audit, Buck, as I
18 understand it, a much more complex system unless we did shift
19 the parts tax someplace else. Is that correct?

20 Mr. Chapeton. That is correct. In our original
21 proposal we had produced reducing the number of parts covered
22 very dramatically, but it is still a problem in identifying
23 the parts that will be subject to the tax and those that
24 will not because those that go to the heavy trucks will be,
25 and parts that go to lighter trucks would not be.

1 Senator Heinz. However, if you eliminate the parts
2 tax, it frees you from a considerable -- and it frees the
3 would-be taxpayer -- from a lot of expenses, deductions,
4 costs that you would bear. Is that not correct?

5 Mr. Chapeton. That is correct. Senator Heinz, let
6 me mention one problem that we have identified once we
7 eliminate the parts tax, and that is the problem of trailers
8 -- the problem may be only for trailers -- that there will
9 be an incentive to sell a trailer stripped down and then a
10 purchase of the parts added to the trailer later, the parts
11 then being tax-free whereas the parts, if they were purchased
12 at the time the trailer was purchased, would be part of the
13 overall cost and there would be a 12 percent tax.

14 Senator Heinz. Now my understanding is, the House
15 developed some language that was an attempt to take care of
16 that problem. Have you examined that language.

17 Mr. Chapeton. Yes. We are not wholly satisfied
18 with that language, though.

19 Senator Heinz. All right. Thank you very much,
20 Mr. Secretary.

21 Senator Packwood. Mr. Secretary, let me ask a
22 question again on the total figures you talked about. In one
23 case we talk about the use tax going from \$240 to \$2,700 on
24 big trucks. You used the figure \$1,700 to \$3,800. Are you
25 averaging in fuel taxes on that, or are we talking about

1 apples and oranges?

2 Secretary Lewis. What I am trying to do -- and we
3 can give you the specifics on that -- is look at the total
4 taxes. I think we ought to get you a comparison on that.
5 You are just talking about the one tax.

6 Senator Packwood. I am talking about the use tax.

7 Secretary Lewis. On the use tax you are right, but
8 if you take the total package it would not be the tenfold.
9 Actually the average increase across the board comes to 79
10 percent.

11 Senator Packwood. That is the \$1,700 to \$3,800
12 figure.

13 Secretary Lewis. Yes. Do you have the details on
14 that breakdown, Charlie?

15 Senator Packwood. Are you averaging fuel taxes in
16 that or not?

17 Secretary Lewis. Yes, we are. The \$1,700 to \$3,800
18 figure is calculated on an average vehicle in the 75,000 to
19 80,000 pound range traveling approximately 65,000 miles per
20 year.

21 Senator Packwood. And the \$240 to \$2,700 is the use
22 tax regardless of whether the vehicle moves or not?

23 Secretary Lewis. That is correct.

24 Senator Packwood. Other questions?

25 Senator Bradley. Just one, Mr. Chairman. We are

1 going to come back at 4:30. Is that the idea?

2 Senator Packwood. Come back at 4:30, and go on,
3 according to Senator Dole, as long as necessary in the hopes
4 of finishing tonight.

5 Any other questions?

6 Senator Bradley. No, that was not my question.

7 Senator Packwood. All right.

8 Senator Bradley. My question is, is there anywhere
9 in this document where we see how each one of these changes
10 affect the revenues. In other words, there is an appendix
11 at the back but it lists gasoline, diesel, truck parts. Is
12 there any way that we could see, for example, if we changed
13 one of the components, how much more that would produce in
14 revenue? Do you have that accessible so that if we ask the
15 question --

16 Mr. Brockway. We have it for those that we are
17 aware of, those changes, and we can discuss that with you.

18 Senator Bradley. Okay.

19 Senator Packwood. Any other questions before we
20 break?

21 Secretary Lewis. Senator, we have that for all
22 of them, so we should be able to answer those this afternoon.

23 Senator Packwood. Come back here at 4:30.

24 (Whereupon, at 12:20 p.m., the committee recessed,
25 to reconvene at 4:30 p.m. the same day.)

1 The Chairman. As I understand it, you have gone
2 through all the "non-controversial" this morning, and they
3 have been properly noted, except in one area where I think
4 someone had a question.

5 Mr. Brockway. That is correct, Senator. There is
6 one area dealing with alcohol fuels, where there was 85 percent
7 or more alcohol. There was some concern as to the suggestion
8 that this be limited only to alcohol fuels that were derived
9 from sources other than natural gas and petroleum. There was
10 a question about putting in that limitation dealing with
11 natural gas. The other provisions that we went through were
12 agreed to, and then there was a general discussion of the other
13 aspects of the Administration's proposal, the more controversial
14 areas of the proposal.

15 The Chairman. Then, during the interim since we
16 adjourned this morning, there was some discussion on whether
17 or not we might be able to address the other areas with one or
18 two exceptions. I think there was a proposal that we would
19 like to submit to the committee. We have discussed it with
20 Senator Long and Senator Packwood. Senator Symms was there,
21 and as people were coming in, we pulled them into the room.
22 Senator Grassley was there for part of the time. I wonder if
23 we might go over that proposal and see if there are strenuous
24 objections to certain provisions, and we can address those
25 provisions.

1 Mr. Brockway. Bob is distributing the writeup on it.
2 It deals with most of the open areas in the package on the
3 gasoline tax. Three of the four items on the writeup were
4 already agreed to as non-controversial, and that would be to
5 increase the gasoline tax to 9 cents per gallon, with certain
6 changes from the Administration. The first that was not dealt
7 with would be to allow the exemption for taxicabs to expire
8 at the end of 1982, as under current law. In the Administration's
9 there was an extension provided for the taxicab exemption.
10 That was not dealt with this morning.

11 The other three, allowing an exemption for alcohol
12 fuels, which was provided in the House bill, where more than
13 85 percent of the content of the special liquid is alcohol, the
14 exemption was provided in the House bill as long as it was not
15 produced from petroleum. The suggestion was that this
16 exemption should not apply where the alcohol was derived from
17 natural gas. That one issue was passed over, as I mentioned
18 before. The third item, that there should be an exemption for
19 ground applicators of fertilizer and crop dusters, that was
20 agreed to. And the fourth, that all buses would be exempt
21 from the motor fuels tax, that was agreed to in the morning.

22 The next general area, tires, this is an area that
23 was just discussed in the morning but no changes were made.
24 Under present law, there is a 9.75 cents tax on tires, beginning
25 with the first pound, and there is a 5 cents tax on tread

1 Rubber used in retreading tires, beginning with the first pound.
2 The Administration's proposal would have had an increase of the
3 tax rate on new tires to 25 cents, but it would have only
4 started with tires that weighed 100 pounds or more. So you
5 have a cliff at a 100-pounds tire: a 99-pound tire would have
6 no tax, and a 100-pound tire would have a \$25 tax. On retreads
7 they applied a 25 cents tax on tread rubber beginning with the
8 first pound. In the House bill they applied the 25 cents tax
9 on new tires, the same as the Administration, and on retreads
10 only began with tires weighing over 100 pounds. The
11 suggestion here would be to have a graduated tax on tires, so
12 you do not have the cliff that is provided in the
13 Administration's proposal. That would be to keep the present
14 9.75 cents tax on tires for the first 50 pounds of tire weight
15 at 15 cents per pound tax on the next 50 pounds, and then
16 25 cents per pound for the weight of the tire over 100 pounds.
17 On retread tire, there would be the current 5 cents per pound
18 on the first 50 pounds, 8 cents per pound on the next 50, and
19 16 cents per pound on tires in excess of 100 pounds. This
20 would be to keep the same differential in rate structure
21 between new tires and retread tires as there is under present
22 law. Also, it would follow the House bill to repeal the taxes
23 on non-highway tires and laminated tires. Finally, the tax on
24 inner tubes, 10 cents per pound, which would have been repealed
25 by the Administration and by the House, would be retained.

1 The Chairman. All right. Let's go on through it.

2 Mr. Brockway. The next item, lubricating oil, in
3 current law there is a 6 cents per gallon tax on lubricating
4 oil, raising about \$80 million. This would be to retain that
5 tax on lubricating oil and also would be to extend that tax to
6 synthetic lubricating oils made out of graphite.

7 The next item, dealing with the excise tax on new
8 trucks and truck parts, the current law has a 10 percent tax
9 on new trucks and an 8 percent tax on truck parts. This
10 proposal would be to follow what the House did for new trucks
11 and increase the rate as recommended by the Administration to
12 12 percent but to apply the tax at a retail level on new trucks
13 rather than at the manufacturer's level, as in current law.
14 Also, it would pick up an exemption of the tax on new trucks
15 for what is generally referred to as "road railers." These
16 are vehicles that are made with both highway tires and also
17 railroad wheels, and they are generally used on the rails.
18 So exemption was thought appropriate because less than 10
19 percent of the time they were used on the highways.

20 Finally, it would pick up the trucks parts tax as
21 proposed by the Administration, to increase that to 12 percent.
22 This was deleted in the House bill but it would be included
23 here, both in the tax on new trucks and on the tax on truck
24 parts. In current law, the tax applies on trucks in excess
25 of 10,000 pounds. This would be to increase the zero bracket

1 amount in effect, the area where there is an exemption, up to
2 33,000 pounds. That is a class area where there are few trucks
3 that are made. So by increasing that exempt level, most light
4 trucks would be exempt from tax.

5 Finally, dealing with the highway use tax, and this
6 has been the area where there has been the most controversy,
7 the Administration proposed to increase the present use tax,
8 which is \$3 per 1,000 pounds for all trucks in excess of
9 26,000 pounds. For example, on an 80,000-pound truck, there
10 is presently imposed a tax of \$240. The Administration
11 proposed to increase that tax and made it a graduated tax, so
12 it would start at trucks weighing 55,000 pounds and would
13 increase that up to a tax of \$2,700 on 80,000-pound trucks.
14 The House rearranged that structure so that the maximum tax
15 would only be \$2,000 on an 80,000-pound truck but then start
16 it in earlier at a 33,000-pound truck and 26,000-pound trailers.

17 This would do two things under this proposal. One,
18 it would phase the tax in over three years, so that one-third
19 of the increase would go into effect in the year beginning
20 July 1 of '83 to June 30 of '84; in the 1984-1985 year, two-
21 thirds of the tax; and in the 1985-1986 year, you would get
22 the full increase. This rate structure would bring the top
23 tax up to \$1,600, as compared to \$2,700 by the Administration
24 and \$2,000 by the House bill.

25 The Chairman. The House bill does not phase it in

1 either, does it?

2 Mr. Brockway. The House bill delays it for six
3 months, and that is it. So the Administration puts it into
4 effect right away, in July of next year. Also, under the
5 Administration's proposal, it would provide for trucks that
6 were seldom used on the highway, they had a de minimis rule of
7 2,500 miles. If they are used on the highways for less than
8 2,500 miles, there would be no tax. This proposal would
9 increase that to 5,000 miles. If the truck is used for less
10 than 5,000 miles on the Federa-aid highways, then there would
11 be no tax.

12 The Chairman. There is also under consideration
13 another consideration for so-called "farm trucks," and that is
14 if those less than -- Rod, you are familiar with that.

15 Mr. DeArment. If a farm vehicle were less than
16 55,000 pounds, and it received under the State licensing
17 procedure a lower rate as a farm vehicle, there is some
18 thought to exempting that sort of vehicle.

19 The Chairman. And you are talking about bona fide
20 farm vehicles, which are generally licensed at a lower rate,
21 depending on the State. What we are trying to make certain
22 is that we not affect the off-the-road vehicles, which may
23 have to be on the highway from time to time. Normally we
24 are not talking about farm corporations who have their own
25 fleet of trucks engaged in trucking operations or anyone else.

1 I do not know whether Treasury has had a chance to
2 look at that?

3 Mr. Chapoton. No, Mr. Chairman. We were just
4 discussing that. I would like a little more time. I understood
5 that at one time we were talking about limiting it to trucks
6 under 55,000 pounds.

7 The Chairman. That is right.

8 Mr. Chapoton. We are trying to get a fix on that now.

9 The Chairman. Senator Andrews has been following
10 this very closely. I have discussed it with him at great
11 length, and he thinks the combination of the 5,000 miles plus
12 this additional provision would take care of any so-called
13 off-the-road vehicles.

14 Senator Durenberger. The problem came about,
15 Mr. Chairman, when the House dropped the limit from 55,000 to
16 33,000. That caught a lot of temporary-use vehicles, for
17 example in the area that Mark Andrews and I share in sugar
18 beets and potatoes and so forth. Even the 2,500-mile
19 limitation was not adequate to cover it.

20 Secretary Lewis. In principle, we are in agreement
21 with this. It was not our intention. We want to be certain
22 we do not get the coops and all those people in it; we want the
23 real farm trucks. That happened, as the Senator points out,
24 when we dropped it from 55,000 to 33,000.

25 The Chairman. This outline just presented takes care

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of the major provisions of the bill. I am not suggesting that everybody is in agreement, but if there is discussion and someone would like clarification we can do it now. I know Senator Durenberger has a question on van pooling, and there may be other areas we have not addressed. What we tried to do in that four-hour period was to go back and address the major areas that were not agreed upon this morning, with several exceptions such as van pooling, gasohol, and some others.

Senator Wallop. Mr. Chairman, as you say, it has gone a long way in the right direction, but I have a hard time still counting it as much of a favor when you say you have only increased the taxes on an individual vehicle by \$1,400 instead of by \$2,000. It is still a pretty significant change.

First of all, I would like to ask Secretary Lewis, if I could, a question. It was my understanding this morning when we talked that your statement was that there are virtually no new revenues in this bill other than the fuel taxes, and the rest of it is the reordering of the imposition of taxes. Is that a fair characterization?

Secretary Lewis. That is correct. What we have done is reallocated the taxes to the trucks that are creating the greatest damage to the highways and taking it off those who are paying more than their fair share.

1 Senator Wallop. If you are talking, then, about fair
2 share, it would seem to me that we could do something yet more
3 fair in all of this. That is to lower the use taxes by some
4 figure still and get into a diesel differential. The reason
5 why I say that is, then you are getting the people who are
6 using the highways who are using the damages. An unused
7 truck paying the same amount of tax as a highly-used truck or
8 a partially-used truck is simply not a fair thing. If you are
9 going to make it fair, if that is the intent of it, I would
10 like to see us discuss what it would take to do that. If
11 fairness is what you are talking about, and who uses the road
12 the most should be paying the most, just because you have a
13 heavy truck you are not using the roads the most if you are not
14 driving it.

15 Secretary Lewis. We did take that into consideration
16 at an earlier time. We felt there was so much opposition among
17 the manufacturers, the steel companies, the parts manufacturers,
18 everybody who was connected with the trucking industry and
19 the automobile industry. They also felt it would impact the
20 sales of diesel cars, which are fuel efficient, and for this
21 reason reached this compromise.

22 I might also point out, from the point where this
23 committee was this morning even to now, if you adopt this
24 \$1,600 actually the heavy trucks are going to be paying a less
25 proportional share than the average in the total package.

1 The total package is about a 79 percent increase, and actually
2 heavy trucks are going to be paying less than the average.
3 Cars would be paying about 97 percent, and trucks -- I have
4 not calculated the \$1,600, but we know it is under 79 percent.

5 Senator Wallop. As I pointed out this morning, there
6 is nothing Biblical about the DOT study, and you do not commit
7 a sin if you question either its premise or its conclusions.
8 Right at this moment, this conclusion is going to hurt my
9 small truckers. But more importantly, it is going to hurt
10 the customers of my small truckers, which are livestock
11 producers. They cannot pick this up, except by way of higher
12 tariffs. I do not know how close the Department of
13 Transportation keeps track of that, but I can tell you it is
14 a significant effect on the agricultural community of Wyoming,
15 because they are the principal customers of our trucking
16 companies out there. Again, I would suggest that it is better
17 that we spread that load to the people who use it, if that
18 really is the intent and purpose. Otherwise, if there are no
19 new revenues in here, but for the gas taxes and the fuel
20 taxes--which seems to have at least a reasonable measure of
21 popular support, myself included--I have a hard time seeing
22 why we do anything in those areas right now when the situation
23 in the industry is at least 40 percent excess capacity.

24 Secretary Lewis. I think we should be very aware
25 that if we do nothing but the gasoline tax here, that itself

1 is a restructuring. What you are doing then is, you are
2 dumping all the burden of the highway bridge and mass transit
3 programs on the little guy driving his automobile. That is
4 why we felt it was time we had to do this. Secondly, we are
5 giving major productivity gains. Nobody talks about that
6 because it is not part of this committee, but in Senator
7 Packwood's committee, we are giving major productivity gains
8 to the trucking community.

9 Senator Wallop. Very little of those, by your own
10 testimony, Mr. Secretary, happens to those west of the
11 Mississippi.

12 Secretary Lewis. The main benefit west of the
13 Mississippi is 102, with obviously those going across country
14 the elimination of the problems in Illinois, Missouri and
15 Arkansas to give them cross-country access. So it does
16 benefit those communities to that extent. But nonetheless,
17 no matter where you go in this country -- and I realize there
18 is nothing Biblical about our study -- I think it is clear
19 the heavy trucks are ripping up the highways in this country.
20 They are not paying their fair share. We have considerably
21 discounted our report, even when we come in at 86 percent.
22 Then we drop down to about 76 percent or something like that
23 in the House bill. This bill is going to put it considerably
24 less.

25 Every time we make a modification here, we are

1 shifting the incidence to the guy driving back and forth to
2 work in his car and pickup truck.

3 Senator Wallop. No, we are not, because if the only
4 new revenues in here are they, what are you going to pay
5 anyway. You may be shifting revenues around in the area of use
6 tax and these other taxes. That is one thing, but you cannot
7 say that the guy driving back and forth to work is going to
8 pay the same with whatever we do in here.

9 Secretary Lewis. Senator, where I take issue with
10 that is that the trucking industry, before we even started
11 this, was paying 26 percent of the cost of the highway and
12 doing considerably more damage. If you put this in without
13 giving them any increase in taxes, and just let the 5 cents go,
14 you are actually dropping their proportional share to 21
15 percent, and on top of that you are giving them tremendous
16 productivity gains out of Senator Packwood's committee.

17 Senator Wallop. Then are you saying there are new
18 revenues besides this?

19 Secretary Lewis. There are no new revenues besides
20 the 5 cents tax. But the problem is, the way it was shifted
21 before, the guy driving the pickup truck, the very light
22 trucks who are doing no more damage than the cars, were
23 fundamentally carrying the burden for the heavy trucks.

24 Senator Durenberger. Mr. Chairman, if I might add
25 a dimension, I agree with a lot of what Malcolm has said.

1 I think one of the frustration is that we will not be able to
2 deal with all of what we are doing until we get to the Floor,
3 since this is the product of four committees, and we just
4 happen to be lucky to have the chairman of one of them sitting
5 on this committee. The reality of the subject matter that he
6 is addressing and the thing that bothers me is the way the
7 Secretary addresses it, in terms of equity and fairness and
8 the typical way of saying, "Well, so much percent got foisted
9 on the little guy and just a little bit foisted on somebody
10 else."

11 That is like trying to demonstrate to the American
12 people that in their tax bill we did two years ago, 79 percent
13 went to the average guy and only 20 percent to corporations.
14 They did not believe it, for some reason or another. But the
15 difficulty here is trying to do this so-called equity at the
16 same time we are doing the gas tax. As far as my State is
17 concerned, you can keep your 102 in. You can keep the rest
18 of your deals. I mean, my trucking industry is going broke.
19 It has nothing to do with the gas tax or anything else; it
20 has everything to do with the fact that next to steel in this
21 country, the trucking industry is probably in the worst shape.
22 It is operating at 42 or 41 percent of capacity, and steel is
23 38.

24 Really what I would like to see us do is to postpone
25 the decision on the fairness issue, trying to get as much of

1 the political leverage as you can out of 102-inch and the
2 weight, but find some way to postpone some final decision on
3 this fair-share issue. It is somewhere between 26 and 33.
4 You actually have two studies, as I understand, not just one.
5 Each one uses a different methodology. Somebody chose to use
6 the study with a certain methodology that says they have to
7 get up from 26 to 33. Well, none of us is on the committee
8 that even looks at that sort of thing.

9 I think the Chairman here, in his efforts, has moved
10 a long way from imposing the use tax immediately to delaying
11 it for some period of time. Now it is a phase-in. If that is
12 the only way we are going to get something out of this, then
13 I would support some kind of a phase-in. I wish it would
14 not start phasing in until January 1 of 1984 or something like
15 that. But I just want to associate myself with the comments
16 of the Senator from Wyoming, because it really is hard to sit
17 here and say to that particular industry, "You are not paying
18 your fair share, and here it is." I cannot decide whether
19 they are paying their fair share, and I have a hard time
20 imposing that kind of a bill on them, in the condition they
21 are in today.

22 Secretary Lewis. May I comment briefly on that?

23 We had a meeting today of our Highway Cost Allocation
24 Subcommittee, which is largely composed of truckers appointed
25 by us to give us advice. One of their recommendations is to

1 have this final cost allocation fall between the two
2 methodologies, theirs and ours. I think there is a clear
3 understanding on the part of the trucking industry that they
4 are not paying their fair share. For that reason, we have been
5 willing to accept some kind of a compromise that phases it in
6 over a period of time.

7 I think the thing we all have to understand, and I
8 am sure we do, is that the problem is not the one-half of 1
9 percent or seven-tenths of 1 percent we are imposing on the
10 trucking industry. The problem is, we have a depressed
11 economy, and there is no cargo to move. If we had cargo
12 moving, and there is going to be nothing that can help the
13 cargo industry except to turn around the economy. Steel has
14 to move again, automobiles have to move again, and agricultural
15 products. That is why I think the proposal has been made to
16 string things out over a longer period of time, and it is an
17 equitable way to do it.

18 The point I am trying to make is, Senator Durenberger
19 and Senator Wallop, that even the industry recognizes they are
20 not paying their fair share. They are satisfied to make an
21 adjustment, and they feel there should be some kind -- obviously
22 less than we want, whether or not it is acceptable with what
23 you are proposing. The indication I have is that a phase-out
24 and some reeducation is equitable, even in terms of the
25 trucking industry. Obviously, they do not want to pay

1 anything; nobody does.

2 Senator Heinz. Mr. Chairman, I am glad to hear
3 Secretary Lewis agree with Senator Wallop and Senator
4 Durenberger, at least as I understand it in large part. In
5 Pennsylvania, we have, as Secretary Lewis knows, a major truck
6 producer, Mack Trucks, which is really trying not to follow
7 in the footsteps of International Harvester. It is having
8 a difficult time. International Harvester, one of America's
9 largest corporations, is literally at death's door, as we all
10 know. They are trying to hold on to their truck business, for
11 what it is worth. If we do move too quickly here, it is not
12 going to be worth anything, and we will just precipitate
13 massive unemployment in some additional areas of the country,
14 which I do not think is the Secretary's objective at all.

15 It would be my hope that we can work out an
16 appropriate phasing-in over time, so that we do not precipitate
17 the kind of economic catastrophe none of us wants to see.

18 Senator Boren. Mr. Chairman, I also want to
19 associate myself with the remarks that Senator Wallop has made
20 Senator Heinze and Senator Durenberger have made. I personally
21 was ready to make the motion that we defer any tax on trucks
22 at this time, that we wait until we have adequate time to
23 have hearings and determine what is fair. I am extremely
24 concerned. We have had 245 trucking companies go bankrupt in
25 the last 12 months. We are going through this period of

1 trucking deregulation, in addition to the economic trials that
2 would be affecting the industry anyway. These 245 companies
3 alone that have gone bankrupt represent \$2.1 billion in
4 revenues and 45,000 jobs, and that does not count all the
5 owner-operator vehicles that I have been hearing from by the
6 scores in our State to say that they are going to go out of
7 business.

8 I personally just do not intend to vote for this
9 bill with this kind of trucking provision in it that is in it
10 now. I would much prefer to see us take it out, knock out the
11 whole section on truck taxes, and have hearings on it next
12 year to determine what the fair share is. I may, just as a
13 simplification, offer that motion to see where the votes are
14 to strike that section. If that fails, I certainly think we
15 should look at a phase-in. I personally think the preferable
16 thing would be to not take any action raising truck taxes at
17 all at this time.

18 Senator Wallop. Would the Senator yield?

19 Senator Boren. I would be happy to yield.

20 Senator Wallop. I find some attraction in that,
21 for the simple reason that we do not have the foggiest notion
22 what we are doing.

23 Senator Boren. No, we do not.

24 Senator Wallop. We have had this presented to us
25 now for about five days or seven days or nine -- not very

1 many. We have had no hearing, to my knowledge, on the effect
 2 of it on the industry. There is a lot of speculation.
 3 I may be right or I may be totally wrong; I have no idea. It
 4 just seems that this thing is carrying on a life of its own,
 5 and I am really scared of what we are going to do. I am not
 6 against doing, at some moment of time, what the Secretary
 7 wants, but I would like to know what it was that I was doing
 8 and what it was going to accomplish. We can tell, in terms of
 9 dollars, if there are any truckers around to pay those dollars.
 10 But we just do not know. We just do not have information
 11 that we can reach, and there are a lot of people whose very
 12 livelihood is at stake here. I am not talking, in most
 13 respects, about big international truckers.

14 Secretary Lewis. Actually, this report, in terms
 15 of allocation, was submitted to the Congress October 1st of
 16 last year. There were hearings on this, actually four hearings
 17 on this matter. So it is not something we have taken lightly.
 18 Just the fact that it came up this week does not mean that it
 19 has not been thought-out well and not been considered before
 20 by the Congress. We have been working on it for about a
 21 year-and-a-half.

22 Senator Wallop. Please do not misunderstand me.
 23 I did not say it was not thought-out well.

24 Secretary Lewis. What I am saying is, the report
 25 was submitted over a year ago.

1 Senator Wallop. I hate to tell you, but there are
2 more than one report submitted to my office in the course of
3 a year, not all of which get total scrutiny. We did not
4 receive it with the idea in mind of changing taxes. At least
5 I did not. The first I heard about this 5 cents per gallon
6 thing was sometime late this fall, and I thought that is all
7 we were talking about. Until I got back here, I did not
8 realize the extent of reallocating and shifting of priorities
9 and burdens that was implicit in the bill. I am not saying it
10 is not ultimately a good idea; I just do not have the foggiest
11 notion, and I could not tell you whether it is a good idea or
12 not.

13 Secretary Lewis. Actually, the reallocation study
14 was mandated by Congress. We were required in the Department
15 to make the study. It has been reviewed by the GAO and the
16 CBO and of course by the technical people in our Department.
17 Everyone comes down on the side that it is a legitimate study
18 and accurately reflects what the cost allocations should be.

19 Senator Wallop. It may well, but it does not have
20 the first relationship with what it is going to do to the
21 industry at this moment of time. That is a matter of some
22 significance.

23 Secretary Lewis. The purpose of the study was to
24 determine the reallocation of costs. Because of the condition
25 of the industry, we deferred trying to accomplish a bill that

1 would take care of the total cost, and that is why it is only
2 taking care of it partially. It is also why we have agreed
3 that we think it is equitable to defer the imposition of this
4 tax.

5 Senator Wallop. If we are going to defer it at all,
6 I think we might be able to defer it long enough to look at it
7 with some real perspective.

8 Senator Grassley. Secretary Lewis, I was in on some
9 meetings that we had this spring with you and individual
10 members of the committee. It is my recollection that at that
11 point we were only talking about the increase in the fuel
12 taxes. Was the increase in fees for truckers part of your
13 package during the period of time of April and May?

14 Secretary Lewis. There has always been-- It has been
15 discussed with Senator Packwood and the people from his
16 committee-- we have always considered the possibility, whenever
17 we have had to readjust the taxes on gasoline to 5 cents, we
18 had to have a reallocation so we did not put all the incidence
19 on the little driver. We have always determined that at the
20 time we gave the truckers the productivity demands they
21 demanded, we would also have to reallocate the costs so they
22 did pay their fair share. The answer to your question is yes,
23 it has always been part of our package.

24 Senator Grassley. Then let me ask the Chairman this.
25 Remember in our Republican Caucus, as you referred to yesterday,

1 we temporarily -- at least overnight -- had approved an increase
2 in the gasoline taxes and fuel taxes. It is my understanding
3 that is all we were approving at that time; am I right?

4 The Chairman. That is correct.

5 Senator Grassley. We were not talking about the
6 other part of this package. So if we had gone with this in
7 the spring or in June, we would have been going then only with
8 the increase in the fuel fees and not with the adjustment in
9 the truck fees; is that right?

10 The Chairman. That is my recollection. You know,
11 we temporarily approved that.

12 Senator Symms. Mr. Chairman, with as much association
13 that I can make with Senator Wallop on this, I think I would
14 not be quite fair to my colleagues if I let that go by. I was
15 the author of that original amendment, and there was some
16 consideration for the new cost allocation study in it. It
17 actually went further than I wanted to go, but it was somewhere
18 we wanted to make a quick thumbnail sketch. It went somewhere
19 between what DOT had recommended and where I thought the
20 truckers might be able to bear the burden. So it was
21 considered, yes.

22 Senator Packwood. I can corroborate that.

23 Senator Symms. We have had a lot of testimony
24 before the Surface Transportation Committee on this subject.

25 The Chairman. If you would yield, as I understand

1 this, when we did discuss this in the Republican Caucus, it
2 was the Symms proposal. It had, in addition to the 5 cents
3 tax, a number of use-tax increases that I had forgotten about.

4 Senator Grassley. Let me ask the Senator from Idaho,
5 how far down this road did we go of increasing these fees then?
6 I would like to know what I temporarily agreed to in June.

7 Senator Symms. Well, we did not go very far,
8 because we got a phone call from a man who lives down at
9 1600 Pennsylvania Avenue, and that stopped it.

10 Senator Grassley. Let me suggest that probably if
11 we had gone beyond the nickel, we would not even have had to
12 wait for The White House to call.

13 Senator Long. Mr. Chairman, according to your
14 estimates, Mr. Secretary, what percentage of the damage on the
15 highways which must be repaired is caused by trucks?

16 Secretary Lewis. We estimate somewhere in excess of
17 33 percent would be a fair share for the heavy trucks.

18 Senator Long. You think they are doing 33 percent
19 of the damage?

20 Secretary Lewis. Yes. We never recommended that.
21 We actually recommended about 31 percent and then compromised
22 in the House to bring it down to 29 percent.

23 Senator Long. My impression has been that those
24 trucks are doing a great deal more than any 33 percent of the
25 damage to those highways. I have never seen an ordinary

1 automobile crack a slab yet on a good well-built concrete
2 highway. I have driven along behind a big truck and seen the
3 crack three or four slabs in damp weather: just "Bang, Bang,
4 Bang." It sounded like cannon shots. I have yet in my life
5 to see just a passenger automobile crack a slab on a good
6 concrete highway.

7 Secretary Lewis. That is true, Senator, but we do
8 have very extensive data that indicate that 33 percent is a
9 fair share.

10 Senator Long. So you think they are doing 33
11 percent of the damage to the highways?

12 Secretary Lewis. Yes, sir.

13 Senator Long. What percent of the cost of the
14 highway are they paying?

15 Secretary Lewis. Right now they are paying about
16 26 percent.

17 Senator Long. Is this recommendation of yours to
18 try and bring that into line, where they are paying their share
19 of the damage that is being done to the highway? Is that what
20 we are talking about here?

21 Secretary Lewis. Yes, we are. It is clear that we
22 cannot bring them in line, but we would at least like to
23 increase it somewhat so that they are closer to a fair share
24 than the presently are.

25 Senator Long. It seems to me that is fair. To the

1 extent that they come nearer to paying their fair share, does
2 that not tend to equalize the competition with rail? Those
3 railroads are paying 100 percent of the cost of the damage that
4 they are doing to those rails.

5 Secretary Lewis. That is true, but that is really
6 not a factor that we put into our study. It was just really
7 to have them pay the fair share of the factory, so to speak,
8 that we are providing for them. If this were restructured,
9 as Senator Wallop and Senator Durenberger are talking about,
10 it would actually drop their fair share down to about 21
11 percent. That is why I say, that in itself is a restructuring,
12 because everybody else would be paying for the highways that
13 they benefit from. In the long term, the program we are
14 proposing here, despite the opposition of the trucking
15 industry, ultimately will prove to be the best thing that
16 ever happened to them, because it is going to give them the
17 wherewithal to provide a livelihood and move the commerce of
18 this country.

19 The real problem we have is that we are all nervous
20 about the condition of the industry, which is certainly a
21 justified concern. Excuse me for diverting there, Senator.

22 Senator Long. But is it not also true that this tax
23 is not what their problem is; their problem is the decontrol.
24 Since we gave them the decontrol, that has been such a
25 competitive operation that the effect of decontrol is keeping

1 them from making any kind of profit that they would like to
2 make. Is that correct or not?

3 Secretary Lewis. That could be partially correct.
4 The real problem they have is, there just is not enough cargo
5 moving in this country. We have to get steel going. We have
6 to get cement moving. We have to get concrete flowing on the
7 highways. Those things are what will really help the trucking
8 industry. They need more business.

9 Senator Baucus. Mr. Secretary, are you aware of
10 other studies that either corroborate or contradict your DOT
11 study that heavy trucks should pay about 33 percent of the
12 costs?

13 Secretary Lewis. I indicated, just prior to your
14 coming in, that in meeting with a number of the trucking people
15 this afternoon and our highway group that represents a number
16 of people in the trucking industry, they do have a somewhat
17 different methodology than ours. They felt that we should
18 strike a balance somewhere between the two. We have already
19 pulled down on ours.

20 I should also say that we did have our study
21 reviewed, not only by the highly technical people involved in
22 the study from the outside and within the Department, but also
23 the CBO and the GAO. All substantiated that the study was
24 valid.

25 Senator Baucus. What figure does the industry come

1 up with.

2 Secretary Lewis. The latest proposal of the ATA is
3 at 22.5, which is about 3.5 percent below where they presently
4 are.

5 Senator Baucus. And CBO and GAO, you say, agree with
6 your methodology and your results?

7 Secretary Lewis. That is correct.

8 Senator Baucus. Thank you.

9 The Chairman. Senator Packwood, do you have a
10 comment?

11 Senator Packwood. I was only going to corroborate,
12 Chuck, what Secretary Lewis said. Dave, despite the fact that
13 you say it may not affect the truckers in Minnesota, we have
14 worked with the American Trucking Association for a better
15 part of a year on widths and lengths. It was clearly understood
16 that if and when we could pass it, it would be a quid pro quo
17 for an increase in taxes. Call it "use fees", call it "gas
18 taxes", call it "diesel taxes." We passed the bill out of
19 committee over a year ago and held it at the Desk, waiting for
20 this vehicle to come along. We have sent it out again with
21 some slight changes, based upon the President's program, but
22 it was always conditioned -- at least in our minds -- on being
23 tied to some kind of increase in the use and/or gasoline taxes.

24 You can argue until you are blue in the face about
25 this Department of Transportation study. I can remember,

1 going back to my days in the legislature, when the railroads
2 and the trucks used to argue with each other about who got more
3 subsidies. The railroads would come up with a study as to how
4 the trucks were getting off easy because they badly damaged
5 the highways. That debate will not end, and it will not end
6 if we take this out and have hearings next spring. You still
7 will not have an answer that will satisfy those who do not want
8 any increase in truck taxes.

9 The Chairman. Could I just say that we have been
10 trying to accommodate those in the industry, but I understand
11 there is no way they can support anything. They have to be
12 against anything. But even despite that resistance and
13 unwillingness to try to work out some arrangement, we have
14 been doing it for them. We have gone about halfway between
15 what the Administration suggested and what we now have before
16 us, from about \$2,700 down to \$1,600. In addition, we phase
17 it in; it does not just happen overnight. We phase it in over
18 a three-year period. We could start it in January of 1984;
19 that would cost about \$100 million, but that might be worth
20 looking at, as suggested by Senator Wallop.

21 We understand the depressed condition of the
22 industry, but I think we just have to make a basic decision.
23 If I were in the trucking industry, I would not want to wait
24 until next year. We might get another reconciliation from the
25 Budget Committee in the Congress, saying we ought to raise

1 \$100 billion. We will be looking for areas that have not been
 2 attended to lately, and we know of some areas we are looking
 3 at right now. I would rather be in the position next year of
 4 saying, "Well, you just addressed our industry last year." I
 5 am not suggesting that will happen, but I imagine the Budget
 6 Committee will meet next year, and somebody is going to think
 7 of something.

8 At any event, I would like to see how many strong
 9 objections there are to this package. If you want to make
 10 your motion to defer the excise taxes until next year, maybe
 11 we should have that vote.

12 Senator Boren. Mr. Chairman, as I understand it now,
 13 is the proposal here in the last paragraph to start July 1,
 14 1983? I would like to make the motion that we begin the
 15 phase-in on January 1, 1984, and adopt the rest of your
 16 proposal here.

17 Senator Wallop. You would be suggesting doing the
 18 other two years as well, would you not?

19 Senator Boren. That is correct. Mr. Chairman, that
 20 would give us time to come back. We would not be delaying all
 21 action until we have had a chance to look at it, but it would
 22 mean that during this next year the committee would still have
 23 time to act if we found that we were wrong.

24 The Chairman. If we did that, it would be \$100
 25 million in each of the three years.

1 Mr. Brockway. In each of the three years, if you do
2 it for all three years. If you just do it with that first
3 six-months delay, but then pick up the same pattern, then it
4 is \$100 million the first year. That is the option.

5 Senator Wallop. Can somebody explain to me how it
6 is anything, if there are no new revenues, but just a reordering
7 of the obligation? Somebody is going to be paying the same
8 tax that they are now.

9 Secretary Lewis. No, it is not a new revenue,
10 Senator; it is a reallocation. The lighter trucks, the
11 pickup trucks, would be reduced. There is a shift in the
12 allocation, as a result of this study, that we indicated we
13 think is valid.

14 Senator Wallop. If you are phasing it in, surely
15 everything remains as it is at this moment in time. You do
16 not drop taxes.

17 Mr. Brockway. The notion would be, for example, on
18 the parts tax and the new truck tax, to drop the tax right
19 away on those that are under 33,000 pounds. Otherwise, if you
20 don't do that right away, you have a delay in the market, with
21 people waiting until you have the new regime in place where you
22 do not have the tax. So where you have the tax cuts in these
23 situations, you do have the loss. When I say \$100 million per
24 year, I am talking about the overall package as such.

25 Senator Wallop. I understand.

1 Senator Boren. Mr. Chairman, just to see where we
2 are, I would make the motion--realizing that it is a \$100
3 million reduction each year, I think we are still talking
4 principally about imposing new burdens--that we proceed to
5 phase it in, starting in January 1, 1984, and suffer that loss
6 of \$100 million per year for the three-year period. That will
7 give us an indication of where we are on the committee.

8 Mr. Chapoton. Mr. Chairman, this problem I
9 mentioned earlier that occurs when you start this on January
10 1 is that you have short years. We are on a fiscal year in
11 this use tax, from July 1 to June 30 of each year. Under
12 that proposal, we have six years. If we start it at July 1 and
13 change the rate, we cannot avoid, if we start it on January 1
14 of each year, having a six-month year for this phase-in period.
15 We have not been able to figure out a way around that. I do
16 not think there is a way around that. So we will have six
17 fiscal years over the next three. It is just an administrative
18 complication that we have for us, for the Internal Revenue
19 Service and the industry.

20 The Chairman. Senator Boren, I wonder if we might,
21 just in a spirit of compromise -- and we think we have done a
22 great deal without even talking with the industry, because we
23 understand the problem -- delay it for that first year, which
24 would give us ample time to address it. Then the second would
25 trigger in, in July of 1984.

1 Senator Boren. You would have no increase in the
2 heavy truck tax until January 1, 1984, but the next step would
3 come in, in July 1 of 1984.

4 The Chairman. If you are looking for time, that
5 gives us a full year. I could accept that. Is there any
6 objection to that?

7 [No response.]

8 Senator Bentsen. Let me ask for a clarification on
9 another part of that, if I may, Mr. Chairman. In the 12 percent
10 increase on truck parts, do I understand that this is just to
11 those truck parts that are identifiable to be utilized on
12 trucks of 33,000 pounds or more?

13 Mr. Brockway. That is correct, Senator. It is the
14 same structure as the present tax, except that the present
15 tax is for over 10,000, and these would be only for parts for
16 vehicles that are 33,000 and more.

17 Senator Bentsen. Thank you.

18 Senator Boren. My understanding is, we would
19 immediately trigger that tax off the smaller truck parts, as
20 of the very beginning of this act. We would not wait until
21 January 1 to do that.

22 The Chairman. That is right. And Lloyd, in your
23 absence, we think we have taken care of the farm vehicle
24 concerns, with a couple of changes. I am wondering now if we
25 might agree to the package.

1 Senator Wallop. The farm vehicles are still in at
2 5,000?

3 The Chairman. Yes. Plus, there is another thing
4 for which we are waiting for Treasury, but we are going to put
5 it in anyway.

6 Mr. Chapoton. We will try to be persuasive.

7 The Chairman. I did not mean it that way. We think
8 there is a legitimate case to be made.

9 Mr. Chapoton. We have been trying to find out how
10 many States have special registration fees for farm vehicles
11 and what criteria they base it on. But the estimate on the
12 revenue loss, we can give you that. If we exempt from the use
13 tax vehicles under 55,000 pounds that had a special registra-
14 tion, a lower fee registration at State level, it would be
15 about \$75 million per year in 1985, 1986 and 1987.

16 Senator Long. I would like to ask one more question,
17 if I might. Mr. Secretary, can you give me a figure? I would
18 be curious to know if your people have estimated what the
19 cost of this user tax is on a ton-mile basis. In other words,
20 you are only levying this against the large trucks, with a
21 large capacity. I would think that somebody over in your
22 shop has done an estimate to see how much they think this is
23 going to increase the cost on truckers per ton-mile of cargo.
24 There ought to be some way. If you can give me some indication
25 of what the cost per ton-mile is now and how much this will

1 increase it -- this one tax now, the user tax on the truck we
2 are debating here -- I think that would be helpful to me.

3 Secretary Lewis. I think we can give you a rough
4 estimate on this. We did calculate this in relation to the
5 total revenues of the trucking industry, and in relation to
6 what we saw as productivity gains. For example, just the three
7 barrier States alone would pick up about \$3 billion in the
8 economy. The total tax, as we interpret it, is about less
9 than half of 1 percent of the total revenues of a company, and
10 the income coming in from productivity gains, notwithstanding
11 your point, Senator Wallop, which is well taken. Across the
12 board, it will be about 2:1. I will see if we can calculate
13 that for you, but we probably will not be able to get it to
14 you immediately.

15 Senator Long. In relative terms, how much does this
16 increase their costs?

17 Secretary Lewis. As I said, in relative terms, we
18 are talking about six-tenths of 1 percent, with a return to
19 them well in excess of twice that. We do have those figures,
20 and we can document those. We will present them with out backup
21 to the committee. We have not calculated them on the ton-mile,
22 but we can come up with some rough estimates on this.

23 Senator Long. Let me get this straight. You are
24 saying here that this would increase their costs by roughly
25 one-half of 1 percent ?

1 Secretary Lewis. That is correct.

2 Senator Long. And you are saying further that by
3 letting them have these bigger and wider trucks, you are going
4 to save them a lot of money?

5 Secretary Lewis. That is correct, more than twice
6 as much as the cost. This is nationally now, so we have to be
7 clear that in certain instances --

8 Senator Long. In other words, you are saying that
9 on a nationwide basis, what you are proposing to do here would
10 save them twice as much as what they are going to pay?

11 Secretary Lewis. That is correct.

12 Senator Wallop. Would you yield for a question on
13 that?

14 Surely that is dependent on your financial ability
15 to buy the new equipment. In some instances, in terms of
16 loads, contemporary equipment can increase its capacity to
17 haul.

18 Senator Long. Of course, if you are not in business,
19 it is not going to do you any good at all.

20 Senator Wallop. It does not do any good for
21 somebody to say, If you could buy another truck for \$150,000,
22 you could make a lot more money. If you don't have \$150,000,
23 you only have the truck you have. It's a theoretical potential
24 from which some will be able to benefit. I point out, it would
25 not work in Wyoming or west of the Mississippi.

1 Senator Packwood. It is theoretical, but we have
2 had these hearings for a year in the Commerce Committee, and
3 the trucking association would cite us the figures on what they
4 thought the increase in productivity would be on the average.
5 Granted, it is on the average; some companies may go out of
6 business, some companies are not going to buy trucks, and you
7 have to average it. But I would hope that the trucking
8 association would not now say that their productivity is not
9 going to increase, when the argument at least before my
10 committee for a year has been that it is going to.

11 Senator Wallop. Look, I am not the trucking
12 industry. I am just saying that if I don't have a truck that
13 big -- I have not talked to anybody about this matter, but it
14 is obvious to me from a business standpoint that you cannot
15 increase your productivity if you do not have the capital to
16 do it.

17 Secretary Lewis. That is why what we have to have
18 is the economy to improve and more cargo moved.

19 Senator Packwood. Mr. Chairman, I would move we
20 adopt the proposals on this sheet--possible highway trust
21 fund proposals, the gasoline tax, tires, lubricating oil,
22 trucks, trailers, and the highway use tax -- with the amendment
23 suggested by Senator Boren.

24 Senator Boren. Could I ask just one question.
25 I apologize, I was in a conference committee this afternoon.

1 Senator Wallop and I did have an amendment on
 2 the excise tax for agricultural purposes. I am not sure
 3 whether or not that has been dealt with. It is modified
 4 language from a bill which was previously introduced. S. 1898
 5 has been modified, relating to that equipment design, not onl
 6 the process for preparing feed and seed, but for the hauling
 7 of feed, seed, and fertilizer to and from farms and transporting
 8 livestock to and from farms. I wonder if that has been
 9 acted upon as a modification of that agricultural exemption
 10 to the excise tax? I think staff have copies of the language
 11 on that.

12 Mr. Brockway. That has not been acted upon.
 13 I understand this is an amendmeht which would provide for the
 14 truck sales tax and would exempt certain trucks from tax.
 15 Under the present law, it is if it is utilized for trucking
 16 products to a farm or on a farm, if it is structured for that
 17 purpose it is exempt from tax. Then this would expand that to
 18 say that it would be not subject to tax if it was transporting
 19 products from the farm also?

20 Senator Boren. Structured for use on farm only is
 21 the exemption now, as I understand it.

22 Mr. Brockway. I think it is also for use, too.

23 The Chairman. It will still be open --

24 Senator Boren. As long as we reserve the right to
 25 look at that, I do not want to hold up other action now.

1 The Chairman. And we want to take up Senator
2 Matsunaga's question about the taxis. We will just eliminate
3 that for the time being.

4 Senator Packwood. I am not suggesting by my motion
5 that we preclude other things, but I would like to adopt what
6 is on the sheet.

7 Senator Bradley. Mr. Chairman, before we move, could
8 I inquire of staff how much more revenue would be generated if
9 we dropped the eligible tonnage from 33 to 26,000 pounds?

10 The Chairman. Instead of 33?

11 Senator Bradley. Instead of 33.

12 Mr. Brockway. This would be on the highway use tax?

13 Senator Bradley. Yes.

14 Mr. Brockway. It would take some time to run that.
15 It is \$10 per 1,000 pounds. At that level, that would be an
16 additional \$70, I guess.

17 Senator Bradley. No, no. How much more revenue
18 would we get?

19 Mr. Brockway. We would have to run that. Assuming
20 you kept the rest of the rate structure in place, it might
21 just increase the tax on everybody by \$70. Right now the rate
22 structure for trucks of 33,000 pounds to 55,000 pounds is \$80
23 plus \$10 per 1,000 pounds; 55,000 to 80,000 pounds, it is
24 \$300 plus \$52 per 1,000 pounds, which would be a top rate of
25 \$1,600. If you brought it down at the bottom, you would be

1 increasing the tax for everybody if you started in earlier.
2 We just have to run an estimate.

3 Senator Bradley. What I want to know is how much
4 more revenue would flow to the Federal Government to the
5 highway fund if we taxed trucks beginning at a weight of
6 26,000 instead of 33,000. We have come down from 80 to 70 to
7 55 to 33. Based upon what the Secretary said today, there is
8 no real rationale for anything under 80. So what I am saying
9 is, if we are looking for revenues, how much more can we get
10 for reducing the eligible trucks that would have to pay the
11 tax.

12 Secretary Lewis. Senator, we can calculate that.
13 We just got your figures a few minutes ago. We are calculating
14 that in the back and will give you a rough estimate.

15 What I do want to say is, there is a rationale for
16 the manner in which we made this split. Our split was at
17 55,000, because that is where most of the damage was caused on
18 the highway. At the compromise reached in the House Ways and
19 Means, we dropped it to 33. If you drop it further to 26, you
20 are again shifting the incidence on the trucks that are not
21 doing the damage. So, from our standpoint, we think that has
22 already been compromised fairly well. We will give you the
23 figure in a minute, but I do not want you to think there was
24 not a rationale. There was a rationale.

25 Senator Bradley. It is a matter of degree, though,

1 at this stage, if you have accepted 33 but prefer it to be
2 higher.

3 Secretary Lewis. We prefer 55, we accepted 33, and
4 you have really almost made the allocation study worthless if
5 you just keep dropping down to trucks that should not be
6 paying increased fees.

7 Senator Bradley. I recognize that you cannot go all
8 the way down. The question is, How far do you go down and for
9 what revenue?

10 The Chairman. I wonder, Bill, if we might go ahead
11 and adopt this. It would still be open. We will exclude the
12 taxicabs, to protect you on that until we get back to it; is
13 that all right?

14 Senator Matsunaga. With the understanding that
15 the taxicab provision would be excluded, I have no objection.

16 The Chairman. We will just take it out of here and
17 bring it up later.

18 Senator Matsunaga. As I understand it, the
19 Senator's proposal includes an exemption on road-railers?

20 The Chairman. That is correct.

21 Senator Mitchell. Mr. Chairman, may I ask what you
22 mean when you say "adopt this"? You are referring to the
23 entire sheet, the gas tax increase and all of the matters
24 on that?

25 The Chairman. Yes. With the exception of the Boren

1 Amendment, which has been adopted, and we have removed the
2 taxicabls, plus we are going to look at Bill Bradley's
3 suggestion, and there are about a dozen other matters that
4 are not discussed here of a minor nature.

5 Senator Bradley. I have at least two other points
6 to raise, which I assume we will still be able to raise.

7 The Chairman. Yes.

8 Do you want a roll call on this?

9 The Clerk will call the roll.

10 The Clerk. Mr. Packwood?

11 Senator Packwood. Aye.

12 The Clerk. Mr. Roth?

13 [No response]

14 Mr. Danforth?

15 Senator Danforth. Aye.

16 The Clerk. Mr. Chafee?

17 [No response]

18 Mr. Heinz?

19 [No response]

20 Mr. Wallop?

21 Senator Wallop. Aye.

22 The Clerk. Mr. Durenberger?

23 Senator Durenberger. Aye.

24 The Clerk. Mr. Armstrong?

25 [No response]

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Mr. Symms?
Senator Symms. Aye.
The Clerk. Mr. Grassley?
Senator Grassley. Aye.
The Clerk. Mr. Long?
Senator Long. Aye.
The Clerk. Mr. Byrd?
Senator Byrd. Aye.
The Clerk. Mr. Bentsen?
Senator Bentsen. Aye.
The Clerk. Mr. Matsunaga?
Senator Matsunaga. Aye.
The Clerk. Mr. Moynihan?
[No response.]
Mr. Baucus?
Senator Baucus. Aye.
The Clerk. Mr. Boren?
Senator Boren. Aye.
The Clerk. Mr. Bradley?
Senator Bradley. Aye.
The Clerk. Mr. Mitchell?
Senator Mitchell. No.
The Clerk. Mr. Chairman?
The Chairman. Aye.
We will come right back and finish this up in about

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30 minutes.

We have 14 yeas and 1 nay. The package is agreed to.

[Recess taken.]

The Chairman. Mr. Brockway, I wonder how many items we need to address that are still open?

Mr. Brockway. The items in the fuel tax left open are just motorboat fuel, gasohol, and taxicabs. We have done all the taxes relating to tires, tread rubber, inner tubes lubricating oil; the truck sales tax, also the heavy vehicle use tax. You have a minor item in the motor carrier operating rights, and then I think that just leaves you with the transit account.

The Chairman. As I understand the motorboat fuel, Senator Roth had raised a question, but that fund has been raised from \$20 million to \$45 million. Is that correct?

Mr. Brockway. That was done by the House side.

Mr. Chapoton. That is correct, but we have learned a lot more about that since this morning. We ought to all be aware of the peculiarities of that situation. In effect, the land and water conservation fund is limited by law to \$900 million per year. Several sources of receipts go into that fund, including the Outer Continental Shelf receipts, which exceeds \$900 million per year. Anything that goes in here is not going in to increase the land and water conservation fund, even though we could do it in form, and the House bill does do

1 it in form. In fact, we have to recognize it is already
2 overfunded, so they are in effect going into general receipts.

3 The Chairman. Maybe somebody should discuss that
4 with Senator Roth, because he was satisfied with the House
5 action based on the explanation at that time. I think he will
6 be here in just a few moments.

7 Senator Bentsen. Mr. Chairman, I have an amendment
8 I would like to offer, and that is on the collection of the
9 motor fuels excise tax and the special motor fuels tax. I had
10 originally thought about moving it to once a month instead of
11 twice a month. It is now being collected twice a month, being
12 remitted on the ninth day following each 15-day collection
13 period. Actually, the jobbers tell me that their average
14 collection period is 20 days and deposits calculated every 15
15 days. If you are in a rural or an agricultural region, on your
16 farm accounts, which make up about 21 percent of jobbers'
17 business, the farmers tend to pay their fuel bills some 52 days
18 after invoice. If these prices continue the way they are, it
19 may be later than that.

20 What I am proposing, in a spirit of compromise,
21 trying to take care of this situation, is that those collections
22 continue twice a month but that instead of the ninth day that
23 we add another six days, and that would mean 15 days thereafter
24 that they would remit. The transfers would have to be an
25 electronic wire transfer.

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Mr. Chapoton. It would have to be electronic wire transfers?

Senator Bentsen. Yes. That would get the money there. You would not have the float working there for that period of time anyway.

Mr. Chapoton. I did not understand that, sir. I thought they were now subject to wire transfer.

Senator Bentsen. They are subject to it, but I did not know that it was necessarily what they were doing.

Mr. Chapoton. I am not certain on the latter point, Senator Bentsen. On the further delay, the six-day delay, I think the general principle we are dealing with -- and this came up before the Ways and Means Committee as well; and the result, as I mentioned to you, we have a meeting with oil jobbers and with the service station owners, in an attempt to see what the payment terms were and if the increased excise tax would work a hardship because of the credit terms and the extent of that hardship.

We had a disagreement between those two groups on the terms of payment: the service station people saying that payment was made immediately and the oil jobbers saying that payment terms were 10 to 14 days.

The problem we are dealing with is, any time there is an excise tax, someone has to finance it from the date of payment, depending upon his credit source. This problem has

1 come up in other excise tax areas. There is some sympathy
2 for the case that they are having to finance an additional
3 tax for a period of time, after they pay it and before they
4 can collect the amount from the person they are selling to,
5 their customer. But we just have to recognize, if we do this
6 for the gas tax, there is no sound argument for not doing it
7 for the other excise taxes in this bill and no sound argument
8 for not doing it for other excise taxes in general.

9 The schedule of payment that you discussed is the
10 schedule of payment for excise taxes.

11 Senator Bentsen. I think that what I am proposing
12 would more correctly reflect the customer collections. I think
13 it would bring better equity in it. And the fact that it
14 becomes a precedent may become a very good precedent. I think
15 it reflects the realities of the marketplace and reflects the
16 realities of credit costs and collection terms. In this
17 instance, with some 6,800 independent small businesses, I
18 think it reflects a small business equity.

19 Senator Packwood. Let me ask a question, since I
20 just came in. Is this the same as the fishing tackle excise
21 situation?

22 Mr. Chapoton. It is the same problem exactly.

23 Senator Packwood. Can we do both of them on this
24 bill?

25 Mr. Chapoton. There is a much smaller tax, but in

1 each of these cases the argument is made that you ought to look
2 at the customary terms of credit in the industry in deciding
3 when the excise tax is payable. We have resisted that
4 because we would have different excise taxes payable all over
5 the Internal Revenue Code. So the position we have taken is
6 that the excise taxes ought to be payable under the same terms.

7 Senator Bentsen. But let me say that in this,
8 insofar as the budget is concerned, I do not see a revenue
9 impact because we leave it within the same month.

10 Mr. Chapoton. I do not have the revenue impact.
11 The one month revenue, if we made the collections once a
12 month, it would have been around \$400,000. It is a one-time
13 loss though.

14 Senator Bentsen. In this situation, you would
15 keep it within the same month. When you add the 6 days to the
16 9, you are talking about 15 days. Then you get yourself an
17 electronic wire transfer, and it seems to me that takes care
18 of that point.

19 Senator Symms. Mr. Chairman, I am sorry I got here
20 late. May I make an inquiry? I understood that the Senator
21 from Texas was going to offer an amendment to make it once a
22 month.

23 Senator Bentsen. No. I am trying, in the spirit
24 of compromise, trying to bring equity here, trying to reflect
25 current collection processes and the marketplace on this, to

1 continue this twice a month. But instead of the 9 days after
2 collection that it has to be remitted, to more truly reflect
3 what is happening on credit and to add 6 days, it would make
4 it 15 days instead of 9 -- that is all I am asking -- that
5 would keep it within the current month. I do not see then that
6 it has any revenue impact on the budget.

7 Senator Symms. I would certainly say to the
8 Senator from Texas, I would certainly support what he is
9 trying to do. In fact, I was prepared to support something
10 even more aggressive than this. I might say, in my own State

11 Senator Bentsen. Well, I'm just a softie at heart.
12 I'm trying to work these things out.

13 Senator Symms. In my own State, the State of Idaho
14 allows the collectors of the State's money one-tenth of a
15 cent for their collection charges. I think what we are doing
16 here would be the absolute minimum that we ought to do. The
17 fact is, I don't know what the feeling of the committee is,
18 but I would like to go further with it.

19 The Chairman. I detect a strong feeling that the
20 committee would like to adopt this compromise.

21 Mr. Chapoton. Mr. Chairman, I am not certain of
22 the effect of the electronic fund transfer. I understand you
23 are trying to keep it in the same month and therefore it would
24 not kick over into a another fiscal year. The excise taxes
25 are now made in deposit to the Federal Reserve System. I think

1 there is no slippage there, though I am not certain of that
 2 point. But I think you could devise the system so it did not
 3 move over into another fiscal year, in which event you would
 4 simply have that much loss of the float. You would be
 5 transferring, in all candor, the float from the Federal
 6 Government to the jobber.

7 Senator Bentsen. Well, that jobber is just not
 8 collecting the money.

9 Mr. Chapoton. In some cases, Senator, we are
 10 advised that they are collecting the money. I think we have
 11 to be careful in making such a change on the basis of that,
 12 and we also have to recognize that we would have to make this
 13 change, whether it happened this year or next, for all excise
 14 taxes because we would soon be presented with that position
 15 and it would be irresistible.

16 Senator Wallop. At the risk of asking Treasury to
 17 be consistent, I would remind you of your statement on the
 18 time value of money.

19 Mr. Chapoton. I am conceding. I just now said that
 20 the float now belongs to the Federal Government, there is an
 21 extra six days, and the Senator's amendment would move that to
 22 the jobber. The time value of the money would be transferred,
 23 and that would be the loss. If we could keep it in the same
 24 month, that would be the only loss to the trust fund.

25 The Chairman. You could probably survive then.

1 Mr. Chapoton. Probably survive, yes, sir.

2 The Chairman. With some minor objection, the
3 amendment will be adopted.

4 Senator Durenberger. Mr. Chairman, would it be
5 appropriate to offer my small exemption amendment now?

6 The Chairman. I thought what we might do is go
7 through those that are on the list and then take those.
8 I might say to my colleagues, I understand the Senate is going
9 to go out, but we would like to finish this tonight. We need
10 to keep a quorum present. The Majority Leader would still
11 like to take this bill up tomorrow. So we have had permission
12 to file by midnight tonight. There will not be a committee
13 report, but we will have a statement. As I understand, you
14 have been drafting some of this material throughout the day,
15 anticipating that something might happen.

16 Mr. Brockway. That is correct.

17 The Chairman. Let us move on. Can you take care of
18 the motor boat fuel? Can we just check these off as we go
19 down?

20 While Mr. Glickman is discussing that with Senator
21 Roth, let us move on to the Gasohol.

22 Mr. Brockway. Senator, the next item would be
23 Gasohol. Under present law, there is a 4 cents per gallon
24 exemption, the full exemption for gasohol, which would be a
25 mixture of gasoline and alcohol, where there is at least a 10

1 percent alcohol content. The Administration would propose to
2 increase that to a 9 cents exemption tax level, and under the
3 House the exemption was kept at a 4 cents exemption. The House
4 would impose a 5 cents tax on gasohol.

5 The Chairman. Is there objection to retaining the
6 Administration provision?

7 Senator Wallop. Could we have a revenue figure on
8 the difference over the life --

9 Secretary Lewis. Each cent is worth approximately
10 \$50 million per year. So, over the bill, each cent would be
11 worth \$200 million. Is that correct?

12 Senator Wallop. So the extra 5 cents would be a
13 billion per year?

14 Mr. Chapoton. Let me just read these numbers that
15 were our estimates. They are \$70 million in fiscal year 1983,
16 \$282 million in fiscal year 1984, \$371 million in fiscal year
17 1985, and \$461 million in fiscal year 1986.

18 Senator Wallop. How does that square with the
19 Secretary's figures?

20 Mr. Brockway. I think the figures are higher than
21 the Secretary's figures. What happens is, there is an
22 assumption that at a 4 cents tax there is a certain incentive
23 effect. At a 9 cents tax and an exemption, there is a larger
24 incentive effect to use gasohol, so you will have more gasohol
25 in the system.

1 Senator Chafee. Mr. Chairman, we are on the gasohol,
2 are we not?

3 The Chairman. Yes.

4 Senator Chafee. What is our proposal here?

5 The Chairman. To adopt the Administration's proposal.

6 Senator Chafee. That there be a 9 cents exemption.

7 The Chairman. That is what it is.

8 Senator Chafee. I am sorry I missed a bit of this,
9 but what is the rationale? That is a subsidy.

10 Mr. Brockway. It is intended as such, to encourage
11 the use of gasohol as an alternative fuel.

12 Senator Chafee. It is being subsidized in other
13 ways, isn't it: research for gasohol?

14 Mr. Brockway. There are a variety of incentives
15 for alternative fuels.

16 Senator Bradley. Where was the revenue loss for
17 the investment tax credit or the income tax credit for the
18 gasohol last year?

19 Mr. DeArment. You mean the 40 cents per gallon?

20 Senator Bradley. That is right: the subsidy that
21 already exists for the production of gasoline from plants.

22 Mr. DeArment. That was \$60 million per year.

23 Mr. Brockway. The \$60 million was for the loss from
24 the present law exemption on the 4 cents per gallon tax.

25 Senator Bradley. I am sorry, Senator Chafee. I did

1 not mean to interrupt.

2 Senator Chafee. I just have a little trouble
3 following the rationale for the 9 cents exemption, that is all.
4 Sure, maybe we do want to encourage gasohol, but why to that
5 extent? What is the rationale?

6 Secretary Lewis. Senator Chafee, I might admit that
7 the Administration has mixed emotions on this. When we
8 originally submitted our bill, we did recognize that even
9 though there is some difference between the Treasury figures
10 and ours, they think that there will be some more incentive
11 as the subsidy increases. It is clear that the total effect
12 on this bill will be about a billion-dollar loss when you
13 go from 4 cents to 9 cents. For that reason, when we
14 met with the House Ways and Means Committee and were in the
15 process of moving figures around to try to accomodate our
16 needs and at the same time to come up with a satisfactory
17 tax package, we agreed -- and I should say with great
18 enthusiasm on the part of the Department of the Treasury, to
19 keep the 4 cents and not subsidize the industry an additional
20 billion dollars. For that reason, even though our original
21 proposal was 9 cents, we had no objection to the exemption
22 staying as it was at 4 cents per gallon. Obviously, this is
23 a decision to be determined by you not us.

24 Senator Grassley. I think we want to increase the
25 exemption to 9 cents for the same reason that it was 4 cents

1 originally. It was to give encouragement to an industry that
2 was infant and to give it an opportunity. First of all, it
3 is a renewable resource, and I guess we have all kinds of
4 tax policies encouraging renewable energy sources. It is used
5 to make up for low octane in those instances where lead, not
6 being an ingredient in gasoline, is as much as before or ought
7 to be.

8 It is directly related to surplus agricultural
9 products. For each penny of deficiency payment that we have
10 to make up for corn, it costs the taxpayers \$42 million. I
11 think this 4 cents we have now will probably raise the price
12 of corn, because the 100 million bushels of corn used for the
13 ethanol has raised the price of corn by a nickel and gotten
14 rid of 100 million bushels of surplus corn that we would
15 otherwise have. I think whatever the reasons for the first
16 four cents, we want to continue it on the same basis.

17 Senator Durenberger. We have another dimension to
18 at least partially justify the extension of the exemption.
19 What has happened in a lot of States in the country is that
20 with only a 4 cents exemption here, and the price differential
21 being what it is, a lot of States have enacted their own
22 exemptions from their State gasoline taxes. Some of them have
23 even gone so far, as in my State, to exempt only alcohol fuels
24 produced in Minnesota. So, if you try to sell them alcohol
25 fuel produced in Iowa, it does not get the exemption.

1 I think what will happen here, when we go to the 9
2 cents exemption, you will find a lot of States will drop their
3 State exemptions. That means that the State tax then goes
4 right into highways. So really we are not taking anything
5 away from highways here by granting this exemption in a lot
6 of areas. I think what I have explained will actually happen
7 out there in many cases, and we will get more money via the
8 State tax into the system.

9 Senator Bradley. Mr. Chairman, let me just see if
10 I have the numbers right. You said that if we keep the tax at
11 4 cents instead of raising it to 9 cents, that means there will
12 be \$1 billion more coming into the treasury? How does that
13 work out? What is the level of gasohol subsidy per gallon?

14 The Chairman. Ninety cents.

15 Mr. Brockway. Of gasohol, under current law, at a
16 4 cents tax, it is a 40 cents per gallon effect on the alcohol
17 content. If you went up to the 9 cents, it would be 90 cents
18 per gallon on the alcohol content, assuming you had 10 percent
19 alcohol content.

20 Senator Bradley. So that for every gallon of
21 gasohol, the market price should be 90 cents more?

22 Mr. DeArment. No, it would be nine cents per gallon
23 of gasohol.

24 Senator Bradley. But the level of subsidy per
25 gallon of gasohol, which is one part per gallon ethanol and --

1 Mr. Brockway. It is 9 cents per gallon of gasohol,
2 90 cents per gallon of the alcohol content.

3 The Chairman. If you bought 10 gallons of gasohol,
4 how much subsidy is there?

5 Mr. Brockway. Ninety cents, or 9 cents per gallon
6 of the gasohol.

7 Senator Heinz. Or, if the Senator will yield, for
8 every gallon of ethanol, the subsidy is 90 cents per gallon
9 of the actual fuel that is mixed with gasoline.

10 Mr. Brockway. Of the alcohol content, but since
11 you are doing a mixture, this is for a gallon of the gasohol
12 combined. It is 9 cents under the bill as proposed by the
13 Administration or 4 cents under current law.

14 Senator Bradley. What does that mean if you are
15 also figuring in the tax credit that exists in the law now for
16 the production of gasoline?

17 Mr. DeArment. The tax credit is not available if
18 you claim the exemption, in terms of the alternative 40 cents
19 per gallon tax credit. You choose one or the other.

20 Senator Bradley. So you have to take either the
21 exemption from the tax or a tax credit for the production of
22 gasohol?

23 Mr. DeArment. That is right.

24 Senator Bradley. Now, just once more: we could get
25 how much more revenue?

1 The Chairman. About as much as you get if we knock
2 out mass transit. [General laughter]

3 Senator Bradley. The issue has suddenly come into
4 focus. [General laughter]

5 Senator Matsunaga. Mr. Chairman, are we on an
6 amendment offered by the Chairman?

7 The Chairman. No, there is no amendment. It is
8 just whether we adopt the Administration's proposal.

9 Senator Matsunaga. I would like to speak in support
10 of the 9 cents instead of the 4 cents. I feel that the very
11 purpose of extending the exemption initially of the full 4
12 cents was to encourage the production of ethanol to make this
13 Nation energy self-sufficient. That is still the biggest
14 problem, insofar as energy is concerned. If we were energy
15 self-sufficient, we could control our own economy. Right now,
16 so much is dependent upon foreign oil that they, to a degree,
17 control our economy. I think by extending the exemption to
18 9 cents from 4 cents, we will provide the needed encouragement
19 to develop ethanol plants to the point where perhaps maybe we
20 will be self-sufficient in energy.

21 Senator Baucus. Mr. Chairman, I would like to weigh
22 in favor of the 9 cents subsidy, too. Agriculture has been
23 hit I think as hard as truckers have. Net farm debt since the
24 Depression has risen from about \$12 billion to about \$200
25 billion dollars. Net farm income has not risen at all since

1 the Depression. In fact, my State of Montana has \$32 per
2 farmer last year, and we need this kind of subsidy to help
3 additional market farmers. There are other reasons for the
4 9 cents.

5 I have another reason for hoping that we could get
6 on with this, because I do not want to stay here all night as
7 we debate mass transit.

8 The Chairman. Oh, no. I just threw that in. Is
9 there any objection? Does anybody want a roll call? If not,
10 then we will approve the Administration's proposal. I assume
11 we will make the necessary tariff changes.

12 Mr. DeArment. We will make the necessary coordinating
13 changes on the fuel ethanol tariff.

14 Senator Wallop. I will not object to that, but I
15 will bet you that in four years this committee will have the
16 darndest time trying to get back out from under the tent that
17 it has placed over itself. About that time it will be
18 functioning all on its own, and it will be displacing a great
19 many other fuels that are as valuable to us in our energy mix
20 because of the distortion of price. I think Senator Baucus'
21 point is well taken on the state of the farm economy right now,
22 and for that reason I would not vote against it. But I just
23 will tell you that we are building a tent that it is going to
24 be hard to find the flap to get out of.

25 Senator Heinz. Mr. Chairman, would it be a good

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idea to have some kind of an earlier sunset on this proposal, so we can look at it again in two years?

The Chairman. When is its sunset? 1990?

Mr. Brockway. 1992.

The Chairman. Well, we could move it up to 1991.

Senator Heinz. Mr. Chairman, this does not include gasohol from sunflower seeds, does it?

The Chairman. No, we do not have any gasohol plants in Kansas. We hope to have some.

Mr. DeArment. To the extent that other things than corn are used, milo is used a great deal in the arid regions. It would be covered as well -- and wood or any other --

The Chairman. I do not see any reason to change the date. Certainly we are going to review this. We are going to conference for 4 cents and 9 cents. I would suggest, for some who have those concerns, it is probably going to be a lesser amount.

Senator Long. Does this include all gasohol made from agricultural products, including forestry?

Mr. DeArment. Any renewable source; that is correct. Forestry, yes, that is done a lot in Oregon. Cheese whey.

Senator Long. It does not leave sugar out? Sugar cane can be in?

Mr. DeArment. That is correct.

Senator Long. We live in hope. We live in hope.

1 The Chairman. Then without objection, that will be
2 adopted --.

3 Mr. DeArment. With the authority to do coordinating
4 changes in the fuel tariff.

5 The Chairman. You have to do that, yes.

6 Now, what about motor boats? Have they been pulled
7 in yet?

8 Senator Chafee. Mr. Chairman, I have a suggestion
9 on motor boats. We have taken care of the corn producers.
10 The problem is that now it goes into two funds, both of which
11 are full. The Boating Safety Fund is at \$20 million. This
12 committee, as I understand it, has authority to increase that.
13 I would suggest increasing that to \$45 million. I am not
14 suggesting cutting out the tax, because I understand the
15 President proposed that, but I suggest we increase the Boating
16 Safety Fund from \$20 million to \$45 million.

17 The Chairman. Is there objection?

18 Without objection, that takes care of motor boats.

19 We have qualified taxicabs next, and I think
20 Senator Matsunaga wants to be heard on that.

21 Senator Matsunaga. Mr. Chairman, I was initially
22 intent on offering an amendment to the Administration's
23 proposal to increase it from 4 cents to 9 cents, but I have
24 counted noses and cannot seem to get sufficient votes. But
25 I propose that we agree to the House version of 4 cents

1 exemption through September 30, 1984, at which time a study
2 will be submitted.

3 Senator Moynihan. Mr. Chairman, I believe it is the
4 purpose of my colleague that we amend the Surface Transportation
5 Act of 1982, which provides for the refund, to make it available
6 to companies whose policy is not to prohibit ride sharing.
7 There are jurisdictions where this is a problem.

8 The Chairman. That amendment, if we did it, if you
9 do not require ride sharing, then that adds what? About
10 \$1 million?

11 Senator Moynihan. It is not a billion.

12 The Chairman. A million. In that area.

13 Senator Moynihan. It is one-thousandths of a
14 billion. I don't even think it --

15 The Chairman. Is there any particular jurisdiction
16 where that would apply?

17 Senator Moynihan. One. This is a question of
18 public safety, principally. Some companies can and some cannot.
19 This particular jurisdiction is not a total ban at all; it is
20 a partial ban.

21 The Chairman. Mr. Chapoten, do you have any comment?

22 Mr. Chapoten. Our estimate is that it would cost
23 \$2 million to \$3 million per year.

24 The Chairman. You are talking about the entire
25 change?

1 Mr. Chapoten. No, I am talking about this change.

2 The Chairman. Is that included in the House bill?

3 Mr. Chapoten. I am sorry, I misstated. This would
4 bring in most taxicabs in New York. It would be \$1 million,
5 and the other is the total taxicab exemptions, around \$3
6 million.

7 Senator Moynihan. There are more than one
8 jurisdiction.

9 The Chairman. Does the Treasury testify in favor
10 of this?

11 Mr. Chapoten. No. We have opposed this. This bill
12 continued this exemption on the grounds that we had not tried
13 to address the exemptions. We had opposed this exemption
14 before. It was done, as I understand it, in 1978 or 1980 as
15 a conservation measure, and there is a serious question
16 whether it had any conservation impact. It did have a small
17 impact on the budget. We had opposed it all along. This would
18 simply broaden it. We did not expand the exemption; we left
19 it at 4 cents, not to address the question of any exemption
20 change in this bill.

21 The Chairman. What is the Department of
22 Transportation's view on the House amendment?

23 Mr. Fowler. The House amendment does not extend
24 beyond qualified taxicabs, and the revenue measure is small
25 and really does not affect our allocation at all.

1 The Chairman. Do you support the House provision?

2 Mr. Fowler. Yes.

3 The Chairman. Do you support it extending that to
4 1984?

5 Mr. Fowler. Yes.

6 The Chairman. So the only change -- and I am not
7 certain whether it has merit --

8 Mr. Chapoton. I think, Mr. Chairman, we are not
9 addressing the basic exemption at this time. We have no
10 objection to the House provision. But extending it beyond
11 the original exemption we would object to.

12 Senator Moynihan. Mr. Chairman, I am sure the
13 Treasury would, but the Treasury has just let a billion dollars
14 go by without any great alarm. This is a question of firms
15 that are dealing with public safety ordinances over which they
16 do not have any real control. It is not just one city; it is
17 many cities. I think if there is a taxicab exemption, it ought
18 to be uniform.

19 The Chairman. What is a qualified taxicab?

20 Mr. Chapoton. The original theory was that if ride-
21 share was utilized, there would be significant conservation
22 effects.

23 The Chairman. How do you monitor that?

24 Mr. Chapoton. It is where the jurisdiction does not
25 prevent ride share, so the taxicabs will use ride share.

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The Chairman. Do you prevent ride share?

Senator Moynihan. No. In some situations, yes; in other situations, no. The companies, some companies will not, as a matter of policy. These companies will not be eligible.

Mr. Chapoton. But where there is in fact no ride-share, the conservation of course would not --

Senator Moynihan. But where the company policy is not to do so, they would not be an exemption.

Senator Matsunaga. If the Senator will yield, right now, as I understand it, if the jurisdiction -- the city or state -- will not bar share riding, then they qualify for the tax exemption. But what Senator Moynihan is proposing is that if the company policy, the taxicab company, will not forbid share-riding, then they ought to be qualified for the exemption.

The Chairman. But only those companies that do not bar.

Senator Moynihan. Only in those companies; only. A company that bars share-riding would not be eligible for this.

Senator Wallop. That would be a matter of simple declaration for wherever you were in the country, would it not? Regardless of your jurisdiction, if your company just said, "We don't bar shar riding, but we're not permitted to," would that not be a matter of simple declaration anywhere in

1 America?

2 Mr. Chapoton. I thought that ride-sharing was
3 prohibited.

4 Senator Moynihan. In some situations but not in
5 others. It is almost mandatory for some parts.

6 Mr. Chapoton. Would this amendment cover cases
7 where the policies allowed ride-sharing but the law prevented
8 it? Where ride sharing could not take place, it would not
9 seem to be in line with the original exemption.

10 Senator Moynihan. The one jurisdiction that I am
11 familiar with encourages ride-sharing in some situations and
12 discourages it in others and forbids it in others as a
13 matter of public safety.

14 Senator Durenberger. Mr. Chairman, what is the
15 theory of granting an exemption to any of these people? The
16 theory of granting an exemption to the buses and so forth
17 is that they take more than one person in a vehicle and they
18 save us wear and tear on the road and so forth. The theory
19 of the qualified taxicab also is that chances are, in
20 communities that adopt the ride-sharing qualified proposals,
21 they will take more people off the street and have fewer cabs
22 running around, and there is less wear and tear, and my gas
23 tax money is being adequately spent.

24 I do not know what New York does, but I know it is
25 not qualified. So I have a little hesitancy about going

1 beyond where we are with the theory of exemptions.

2 Senator Moynihan. If you will accept this small
3 matter, I will give you my commitment to see that New York
4 gets qualified, with the exception of those places where,
5 as a matter of public safety, it is their judgment that they
6 should not. All the major airports and terminals of the
7 city, taxi-sharing is not only permitted it is urged and,
8 for all practical purposes, required. But they continue not
9 to have the exemption which everywhere else is available.

10 The Chairman. If the Administration supports the
11 House provision, then we will support the House provision.
12 If we are going to do that, we are not asking much in
13 addition to take care of Senator Moynihan's problem. Is
14 there any way we can address that? He has now indicated that
15 -- Do you have the definition now of a qualified taxi?

16 Mr. Chapoton. I was trying to understand what
17 prohibits it now, and it is a two-pronged approach. It is
18 available only if ride-sharing is not prohibited under laws,
19 regulations or procedure of such Federal, State or local
20 authority and is not prohibited by company policy from
21 furnishing, with the consent of passengers, shared transporta-
22 tion.

23 Senator Moynihan. This would in effect leave the
24 second part of the law intact, and the first part would not.
25 It gives the government a certain amount of freedom. Govern-

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ments have a responsibility here to say when you can or cannot.

Senator Durenberger. Mr. Chairman, I think we should take the Senator up on his offer to get New York to qualify. But if we adopt his notion that you do not have to qualify and you do not have to have that prohibition eliminated, then it seems to me all the cab companies are going to start prohibiting so you can have more cabs on the road giving more one-person rides, making more money, and tearing up the streets a little more.

Senator Moynihan. This is not a subject I will keep you on, but I will say to you that the municipal ordinances are public safety ordinances. Where the issue of the actual ride-sharing would work is at these large terminals, the air terminals particularly, where there is an enormous amount of taxi traffic. There is now very little ride-sharing because, although it is encouraged in every possible way, there is no tax advantage. This would encourage ride-sharing. And it is not a billion dollars. And we are not asking for the other 5 cents.

The Chairman. We would like to accommodate you, but we just do not want to change the rule everywhere. I think Senator Durenberger raises a good point. Let us go ahead and agree with the House provision and try to figure out, maybe there could be a one-year exemption.

Senator Moynihan. Could you give us a one-year

1 exemption, and if we do not come back with a satisfactory
2 statute, the exemption will lapse?

3 The Chairman. Is that all right with Treasury?

4 Mr. Chapoton. Yes, sir.

5 Mr. DeArment. 'Could we write it in such a way so
6 that other cities --

7 Senator Moynihan. There are many other cities, and
8 I think the Treasury would want to hear the reasons why there
9 are exceptions made to a general rule of encouraging it.

10 Senator Matsunaga. Let me get this clear, Mr.
11 Chairman. This is over and above the House provision?

12 The Chairman. With that one addition.

13 Senator Matsunaga. With the Moynihan amendment to
14 the House version?

15 Mr. Brockway. There would be two years allowed
16 for the cabs presently qualified and one year for those that
17 do not qualify. So for the present ones, they would go
18 through 1984. New York City cabs would go through 1983.

19 Senator Moynihan. And I would have a general
20 commitment from the Department of the Treasury and the
21 Department of Transportation to hear the case of these
22 communities.

23 Mr. Chapoton. Yes, sir.

24 The Chairman. All right. If that is totally
25 understood, which is not a requirement -- I understand it:

1 it is two years, one year. Is that satisfactory?

2 Senator Wallop. One year applies, does it not, to
3 those companies whose policies --

4 The Chairman. That is correct. Only those.

5 Anything else on the first page, Dave?

6 Mr. Brockway. The next item that has not been
7 dealt with is No. 9, the last item in the tax area, and that
8 is Motor Carrier Operating Rights, where there is a provision
9 in last year's legislation --

10 Senator Packwood. What page is that?

11 Mr. Brockway. This is on page 4, Senator, item
12 No. 9.

13 Senator Heinz. Mr. Chairman, when truck deregulation
14 occurred, there was an accommodation made to the motor
15 carriers whose operating rights were worth less as a result
16 of deregulation made here in the Finance Committee and
17 subsequently enacted into law, which said that there would
18 be a write-up in basis for any operating rights increase
19 where the stock was acquired by a corporate purchaser. It
20 turns out--and nobody knew this at the time -- that there is
21 one noncorporate purchaser. He happens to be a motor operator
22 in the vicinity of central Pennsylvania, near Harrisburg.

23 This is a very special-interest amendment in that
24 sense, but it would simply extend to that one taxpayer who
25 was unique and nobody realized that this kind of taxpayer

1 existed what we extended to everybody else. My understanding
2 is that the cost of this is somewhere between insignificant
3 and negligible. Secondly, the House of Representatives has
4 done it. Third, during our last session, before we all broke
5 for a recess, I discussed this with a number of members,
6 including even Senator Metzenbaum, who was guarding the Floor
7 very carefully against any special-interest amendments.
8 Even Senator Metzenbaum agreed that he could let this
9 amendment pass. I hope the members of the committee feel the
10 same way.

11 Senator Long. We took care of everybody except one
12 man in Pennsylvania. That takes some real doing. I think
13 we ought to take care of him.

14 Senator Heinz. This is our chance, Senator.

15 The Chairman. I know that Treasury may have a
16 different view.

17 Mr. Chapoton. Let me be very brief. This is, I
18 guess, the easiest way. It is a fairly complicated question,
19 involving liquidation under section 334(B)(2) of the Internal
20 Revenue Code, which is available only to corporate taxpayers.
21 The benefits under that section were extended when we gave
22 the writeoff for motor carrier operating rights. These
23 taxpayers did not qualify because they were not operating and
24 the purchase was not made by a corporation. Therefore, they
25 did not come within the general rules of 332(B)(2) and lost

1 the benefit that you gave to those who were operating in
2 corporate form. This would correct that.

3 We have had trouble with it all along, because it
4 would extend the benefit beyond the corporate sector, beyond
5 the benefits normally available under that section. I think
6 probably the question is whether you would have done it had
7 you realized it. This was not raised at the time it was
8 before the committee, and you might well have decided to do
9 it then.

10 The Chairman. I think we probably would have. The
11 House did adopt it.

12 Senator Heinz. We will put you down as leaning in
13 favor but not prepared to fully endorse it at this time.

14 Mr. Chapoton. Leaning against but understanding the
15 position.

16 The Chairman. Then without objection, we will agree
17 to No. 9. Are there others in the spread sheet?

18 Mr. Brockway. The next item is in the transit
19 account, which you have left open on the spread sheet, which
20 appears on page 6.

21 Senator Symms. Before we go on past that, on page
22 5 I have a question to ask counsel there. That is on this
23 trust fund. It is my understanding this morning that the
24 date was changed from 1990 back to 1988?

25 Mr. Brockway. 1989 it was ultimately changed to.

1 Senator Symms. Does this comply with the bill we
2 passed in the Public Works Committee this morning?

3 Mr. Brockway. That is correct.

4 Senator Symms. There is no problem?

5 Mr. Brockway. Originally, it went to 1988. Then,
6 because you had a five-year bill over there, it was moved to
7 1989.

8 Senator Symms. That was my concern. Thank you.

9 The Chairman. Next?

10 Mr. Brockway. On page 6, item C is the Transit
11 Account that was discussed this morning but no decisions
12 were made. Under the legislation, the Administration has
13 recommended that a new transit account be established, where
14 1 cent per gallon of the increase be deposited from the
15 Motor Fuels Account. That is about \$1.1 billion. Under the
16 Administration's proposal, this could only be used for
17 transit capital programs described in the Urban Mass
18 Transportation Act of 1964. It would not include new
19 starts, as the Administration proposed. However, under the
20 House bill it would provide capital funding for new starts
21 as well as existing ones.

22 The Chairman. You are talking about C(1); is that it?

23 Mr. Brockway. C(1), (2), and (3) -- really, the
24 item here, C(1) is just that it would establish the separate
25 account for transit purposes, and C(2) would be that it

1 would be funded --

2 The Chairman. I think Senator Symms had raised a
3 question on those this morning.

4 Senator Symms. Mr. Chairman, do you want to address
5 everything that deals with the Highway Trust Fund first,
6 before we start on this one?

7 The Chairman. We might as well do it.

8 Senator Symms. I have one more that deals with that
9 Highway Trust Fund. I am sorry. I apologize. It dealt with
10 the last issue.

11 The Chairman. What we thought we might do is to go
12 through the spread sheets. Then I know Senator Bradley has
13 a couple of amendments, and you have an amendment. But is
14 yours pertinent to the one we just addressed?

15 Senator Symms. The one I am talking about right
16 now is pertinent to the one we just addressed.

17 The Chairman. Let's do it now.

18 Senator Symms. The amendment I would like to offer
19 deals with the subject on page 5, where the trust fund is
20 set up. If we could take the trust fund out of the unified
21 budget. Every Administration, whether Republican or
22 Democrat, tried to jockey around with the Highway Trust Fund
23 and use it for balancing the budget. Then we end up that
24 people are paying gasoline taxes to fix their roads, and they
25 are always accumulating a balance. If there is any sympathy

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for this on the committee, I do not want to make a long debate out of it.

Mr. Lighthizer. Mr. Chairman, it is our belief that if we adopted an amendment like that, the whole bill would then have to go to the Budget Committee under 306 of the Budget Act.

Senator Symms. I am taking it out from under the budget.

Mr. Lighthizer. Legislation which changes the budget process has to go through the Budget Committee. It cannot come out of another committee. So it is our sense that this bill would then have to go to the Budget Committee after we reported it out.

Senator Symms. Wouldn't we have to go to the Budget Committee anyway? It would not have to go to David Stockman any more.

The Chairman. Is there any support for the idea, before we get into the technicalities? Does anybody want to second the motion?

Senator Grassley. I will second it.

The Chairman. There is some little sympathy for that. It is a minimum of sympathy. If you want to vote on it, we would be happy to.

Senator Symms. If there is no other support besides Senator Grassley, there is no need to belabor the committee

1 on it.

2 Senator Heinz. That is right.

3 Senator Symms. I feel that we will woe the day
4 that we did not do this. We have \$9 billion in the trust
5 fund right now, and we are going to increase it by \$5 billion.
6 I can foresee that in five more years we will have \$18 billion
7 in there, and that is not what any of us in here intend to do.

8 The Chairman. Have we not had assurances from DOT
9 that they are going to spend this money?

10 Mr. Fowler. You have, and furthermore, in the last
11 two years we have overspent the revenues by \$3 billion. So
12 it has gone down. It is not building up.

13 Senator Symms. We have not done that by accident,
14 I might say. We have tried to do that in the Surface
15 Transportation Committee because we have had this problem for
16 years. So I will withdraw my amendment, Mr. Chairman.

17 The Chairman. I say that because I discussed this
18 with Secretary Lewis, and he assured me that we were not
19 going to try to build up a big trust fund because we are
20 having the same problem in other areas.

21 Mr. Fowler. That understanding is correct.

22 Senator Chafee. It is wonderful to have these
23 reassurances that they will not only spend it but overspend
24 it. That is in full step with the U.S. Government. [Laughter]

25 The Chairman. Let us go on then to the next item.

1 Mr. Brockway. On the transit account, there are
2 two general issue areas. One is whether to allow the monies
3 in the transit account to go to new starts. That was allowed
4 under the House bill and of interest to certain members of
5 the committee. I gather that the Administration now finds
6 that acceptable.

7 The Chairman. Is there any objection to C(1), the
8 establishment of a separate account?

9 Mr. Brockway. I am unaware of any.

10 The Chairman. Right. And C(2)?

11 Mr. Brockway. C(2) is just to provide the 1 cent
12 per gallon to go in, and I am unaware of any controversy on
13 that.

14 The Chairman. And C(3)?

15 Mr. Brockway. C(3) is whether the monies from the
16 fund can go to provide not only existing capital programs
17 but also new starts.

18 The Chairman. And the House bill?

19 Mr. Brockway. Would allow the new starts.

20 The Chairman. What is the Administration's position?

21 Mr. Fowler. As was discussed this morning, Mr.
22 Chairman, from Senator Bentsen, Secretary Lewis did
23 acknowledge that we were in favor of new starts.

24 The Chairman. Is there any objection to C(3)
25 including new starts?

1 Senator Heinz. I do not object to it, Mr. Chairman,
2 but I have one point of clarification. Is it available for
3 new starts without limitation, to the exclusion of existing
4 programs? How would DOT propose to achieve a balance here?

5 Mr. Fowler. Essentially, it would go to the local
6 authority to use for new starts, if they chose to use for
7 new starts. We would hope to have it go into the most
8 cost-effective variety of new starts in order that you did
9 not wind up with projects that took 20 years to complete.

10 Senator Moynihan. If the Senator would yield.

11 Mr. Fowler, under the section 22, there is a formula
12 allocation. The allocations are not discretionary at the
13 departmental level, are they? Jurisdictions get --

14 Mr. Fowler. Jurisdictions will get an allocation
15 under our proposal, yes.

16 Senator Heinz. You are getting at my point.
17 Normally, we have this pot of money that is called discretionary
18 money in mass transit accounts. It is discretionary because
19 when you undertake a new start in a city, it is very expensive.
20 That is not formula money; it is unrestricted grant money.
21 So I just want to be clear that we are not talking about
22 putting new start money into the present discretionary kind
23 of account, are we?

24 Mr. Fowler. Under our bill, we have a section 22,
25 which is a formula block grant account for this new money.

1 There is a section 9 block grant, and there is section 3
2 discretionary funds. How it comes out of the Senate will,
3 in part, be determined by the Banking Committee.

4 Senator Heinz. So we are not making a decision
5 here on that?

6 Mr. Fowler. No.

7 Senator Heinz. Fine. That is the point.

8 Senator Wallop. Mr. Chairman, I will not belabor
9 the point. I just register my own personal philosophical
10 objection to it. If the idea of all this is to tax truckers
11 and to tax highway users and everything else for abuse of
12 their highways and for the construction and rehabilitation
13 and other things for bridges, I do not believe we ought to
14 be spending it on mass transit. But that is just a personal
15 opinion, and I will not ask for a vote.

16 The Chairman. All right. With that clarification,
17 is there any objection to C(3)?

18 Have we agreed on C(4) and C(5)?

19 Mr. Brockway. Yes. I think C(4) and C(5) is just
20 the Administration proposal.

21 The Chairman. Is there anything else in the spread
22 sheets --

23 Senator Matsunaga. Mr. Chairman, I note that on
24 C(5) the Administration's proposal and the House proposal
25 are different.

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Mr. Brockway. Yes. Under the Administration's proposal, they would allow the fund to borrow and then to repay the general treasury. In the House provision, there would be no borrowing by the transit account.

Senator Matsunaga. Would the House's proposal hamper the transit account and the very purpose for which it would be established?

Mr. Brockway. You would follow the Administration, consistently with what you have done with the Highway Trust Fund, and that is to allow --

Senator Matsunaga. We are going with the Administration's proposal?

Mr. Brockway. Yes. There is one clarification we should bring up, just on the highway vehicle use tax. This is on page 3, item 7(C). It was not on our one-pager here of the package. The Administration has proposed and the House also followed to have the highway use tax enforced through a verification procedure where, in order to get their vehicle registered for State purposes, you had to show your Federal tax receipt. That was in the Administration proposal in the House --

The Chairman. I think that is one of the areas that Senator Bradley wanted to address; is that correct?

Senator Bradley. Yes, thank you, Mr. Chairman. One of the problems is, we are putting on this

1 highway use tax, and there are a great number of people who
2 say that it is now not being collected to the level that it
3 should at the present rate. Therefore, there is some
4 question that it will actually be collected, for a variety
5 of reasons. I wonder, first, has the Department given this
6 any consideration. Specifically, I would suggest that you
7 require that the tax has been paid and that evidence of
8 the tax being paid before whatever agency in the State that
9 is empowered to do so issues a motor vehicle registration
10 for that size of vehicle. In that way, you are sure you
11 are going to get the tax.

12 As it is now, if you are in a deregulated
13 environment, the guy takes a chance, "Well, he won't pay
14 the tax."

15 Mr. Fowler. That is exactly what the provision
16 we are addressing is designed to do.

17 The Chairman. Is that the way he does it?

18 Mr. Fowler. That is exactly the way he does it.

19 Senator Bradley. In other words, before a vehicle
20 can be registered in any State, it has to produce receipts
21 showing that it has paid the appropriate user tax for that
22 vehicle.

23 Mr. Chapoton. It has to show it has paid a use
24 tax. We are not leaving it to the State to determine
25 whether the correct amount of tax has been paid. Once a

1 vehicle has paid a tax, it will be in the IRS files and we
2 are a long way to collecting the right amount of tax. But
3 we do not put the mechanic of the State office determining
4 that that is the right amount.

5 Senator Bradley. You tax a 33,000-pound truck but
6 you do not tax a 25,000-pound truck. If I apply for a
7 license in whatever State, what do I have to prove to the
8 licensing authority that I have paid?

9 Mr. Chapoton. They will have to determine whether
10 it meets the category of a taxable truck or not and will have
11 to show that it is paid if it is a taxable truck.

12 Senator Bradley. Before I get the license?

13 Mr. Chapoton. Before you get the license.

14 Mr. Brockway. Just as a point of information, this
15 is enforced through a reduction of apportionment to the
16 State if it does not demand the Federal tax payment. But
17 that is not in the Finance jurisdiction. That would be in
18 Senator Symms' subcommittee's jurisdiction. That would be
19 in the Administration bill.

20 Senator Bradley. Then who actually collects the
21 tax? If you had the motor vehicle agency collect the tax,
22 they would actually have the revenue in hand.

23 Mr. Chapoton. Senator, we thought about that, and
24 some day that might be desirable, but we really have not
25 looked into it enough to see if we could make the State

1 offices collection agencies. I think that would take a lot
2 more review. Then we might get a strong reaction from the
3 States, of course.

4 Senator Bradley. Is there a review in process?

5 Mr. Chapoton. As I understand it, there have been
6 some discussions with the States on that. I don't know
7 whether a full review is accurate.

8 Senator Bradley. Is there any document that would
9 be produced at some time in the future that gives the
10 committee some sense about that?

11 Mr. Chapoton. I am informed that there is a study
12 authorized and directed in this bill on that point.

13 The Chairman. Is that satisfactory?

14 Senator Bradley. Yes.

15 The Chairman. Let me just raise one other question.
16 Back to the farm off-the-road vehicles, has the Treasury had
17 an opportunity to determine whether we could provide some
18 language there?

19 Mr. Chapoton. I think we have no more information
20 than we did earlier. We cannot get at other than the revenue
21 end back that I described. We are talking about the use tax
22 on vehicles that use the roads more than 5,000 miles per
23 year, but nevertheless by reason of State registration
24 requirements, giving lower rates to farm vehicles, they are
25 designated under State law as a farm vehicle. I am a little

1 bit concerned on the exact impact, what vehicles we may be
 2 pulling in. I am concerned that the revenue impact shows
 3 that there will indeed be some good number of vehicles
 4 covered. But in this short time, we do not have any more
 5 information.

6 The Chairman. If you could work on that and perhaps
 7 come up with a suitable amendment that we could offer on the
 8 Floor, that would be better.

9 Senator Boren. We have been trying to work out the
 10 language, particularly on horse trailers and things like that
 11 which farmers buy and use.

12 The Chairman. That is a bit different than yours.

13 Mr. Chapoton. Senator Boren, there are two taxes
 14 we are talking about. I believe you were going to the truck
 15 sales tax, which this does not go to.

16 Senator Boren. I wonder if we could work those
 17 out together?

18 Mr. Chapoton. I think it is a far different thing.
 19 All trucks are subject to the sales tax, unless they are
 20 special-purpose vehicles not designed for use on highways.
 21 This question is whether they in fact use the highways. The
 22 others, that is not a question. Indeed, the sales tax is
 23 applicable if they can use the highways, whether or not they
 24 do.

25 Senator Boren. Mr. Chairman, I was going to offer

1 this amendment.

2 Mr. Chapoton. We could work on separate Floor
3 amendments.

4 Senator Boren. If we might work on that, on those
5 primarily designed strictly for an agricultural --

6 Mr. Chapoton. If it is primarily designed for an
7 agricultural purpose, and the design makes it -- I do not have
8 the exact words -- economically not feasible for use on the
9 highways, then it is already exempt. That is a question that
10 comes up under the present tax.

11 The Chairman. I wonder if Treasury might look at
12 both of these and see if we can come up with some suitable
13 language, rather than hold up the members tonight.

14 Senator Boren. The principal thing I have been
15 trying to do is work on language, and I think we have been
16 agreeable to limit it in some way. We were talking about
17 horse trailers, which were primarily purchased not by
18 commercial transporters but by farmers.

19 The Chairman. Would that be all right with you, Dave?

20 Senator Boren. If we could work out some language
21 later, as Senator Wallop and I attempted to do in our amendment,
22 it would be agreeable to me.

23 Mr. Chapoton. Senator Boren, I think horse trailers
24 probably would be exempt already under the weight limit.

25 Senator Boren. It could be.

1 The Chairman. I think we can determine those
 2 questions but not right now. We would rather not stay here
 3 all night. If you could address that with Senator Boren's
 4 staff, and then the question I raised that was raised to me
 5 by Senator Andrews, that would be fine.

6 Senator Grassley. I am fishing for some information.
 7 Is there a category of truck fee that presently is paid
 8 quarterly that the House changed the law so that it is paid
 9 annually; and if there is, I want to know the justification
 10 for it; and then I wanted to raise the point that if that is
 11 the case, with these increased fees and the economic
 12 conditions, shouldn't we be still paying them quarterly.

13 Mr. Brockway. I do not believe there was any
 14 change. The truck use tax you are allowed to pay quarterly.
 15 No one has in the past because it was at a low rate, and
 16 presumably people will start to pay quarterly. The phase-in,
 17 even when you have the two short years, you will be able to
 18 make that in two payments. I am unaware of any situation
 19 where they cut that back.

20 Senator Heinz. Mr. Chairman, I think the proposal
 21 we have adopted, on balance, is a good proposal. There is,
 22 however, one element of it that still perplexes me. Maybe it
 23 is an oversight; I do not know. When we are talking about
 24 trucks and trailers, we retain the tax on truck parts and we
 25 increase it to 12 percent as proposed by the Administration.

1 Now, the tax on truck parts is essentially, for all
2 practical purposes, another form of user fee. But it is being
3 collected through a very complex non-cost-effective mechanism,
4 and it is very hard to force compliance because what we are
5 talking about are parts that are sold, supposedly, only to
6 trucks of more than 33,000 pounds. Now, how in God's name
7 you tell the difference between a spark plug that is going
8 into a 32,000-pound truck and a 34,000-pound truck I don't
9 know. Maybe somebody does know the difference.

10 I would just like to understand why it is bad policy
11 or bad politics or a bad idea -- and maybe the American
12 Trucking Association is against it; if they are, so be it.
13 Their members are going to pay this tax. Why don't we just
14 take that tax, whatever the value of it is, and shift it and
15 do a direct user fee, and save the Treasury all the collection
16 and compliance problems. Maybe this is too simple an idea,
17 and we have been here too late, but I would like for someone
18 to enlighten me as to why we shouldn't do that.

19 Mr. Brockway. There are a variety of reasons,
20 Senator, why we might keep the truck parts tax rather than
21 put it under the use tax. The problem the truckers have with
22 the use tax is that it is an annual fee and, under the
23 committee's amendment, would be paid as long as they drove
24 5,000 miles per year. So you have a truck, particularly if
25 the trucker was on hard times and he is not shipping that

1 much produce, he is still paying the full tax, the full
 2 \$1,600 tax under the committee's amendment. If you impose a
 3 parts tax, you are more likely to have that tax fall on trucks
 4 that are used more. You are more likely to need replacement
 5 parts, and I think the decision reflects a desire to put it
 6 on parts that are more likely to wear out and be able to use
 7 that revenue to reduce the use tax, which is the one that the
 8 trucking industry has had much more problem with.

9 As to the split between when it's a part for a
 10 truck that is more than 33,000 or less than 33,000, that is
 11 the same structure you have under present law. It is not an
 12 easy cutoff, but under present law the tax applies for parts
 13 for trucks that are more than 10,000 pounds. The amendment
 14 the Administration's proposal would do and what the committee
 15 has done would apply only to parts for trucks over 33,000
 16 pounds. The reason they took the 33,000 pounds line is, that
 17 is a natural break between classes of trucks. It is a more
 18 easy line to draw, to decide that this part is for a heavy
 19 truck, a more-than-33,000-pound truck, than for one that is
 20 less than that.

21 But here you have a tax that is paid at the
 22 manufacturer level, and there are relatively few manufacturers,
 23 rather than increase the use tax, which is where the trucking
 24 industry has had substantial difficulties.

25 Senator Heinz. I do not want to quote anyone out of

1 school, but I am advised that the Chairman of the American
 2 Trucking Association referred to this as "robbing Peter to
 3 pay Paul." Now, if the ATA really feels that way, it sounds
 4 to me they think it is awash. Maybe that is not what they
 5 meant. I do not wish to put words in their mouth. My sense
 6 is that the Treasury Department would certainly have a
 7 more limited number of collection points, as evidence by what
 8 Buck Chapoton said early today. But if there is really
 9 political opposition to this idea, the truckers will flex
 10 their muscles. I do not want to find tire tracks going across
 11 my chest tomorrow either.

12 Senator Bradley. Mr. Chairman, is Senator Heinz
 13 going to offer his methanol amendment.

14 Senator Heinz. I just would like an answer to this
 15 question. The answer is yes, I would like to do that, if you
 16 support it.

17 Senator Bradley. I have not decided. I was just
 18 curious, wondering whether we were going to finish.

19 Senator Heinz. It is getting late. I might get
 20 it on the Floor. This one I would like to get some expert
 21 advice on.

22 The Chairman. I don't think he heard the question.

23 Senator Heinz. The question was, based on what I
 24 have heard from the ATA secondhand, it would appear that they
 25 do not view it as making a big difference to their membership.

1 Now, that is somewhat at variance, Mr. Brockway, with what you
2 related. You indicated that those people who drive more miles
3 can pay more through the parts. That is certainly true, and
4 there is certainly nothing inequitable about that; it is quite
5 reasonable. But on the other hand, from the standpoint of
6 the efficiency of collection and compliance, I would think that
7 you would have a better policy if you could simplify it. Is
8 there truly political opposition from the ATA to what I am
9 talking about?

10 Mr. Brockway. The problem is that when it was
11 dropped in the House, it was dropped in relation to a certain
12 package of taxes on given vehicle classes and revenues
13 collected from those vehicle classes. If you drop the revenue
14 from this, you have to pick it up in either the sales tax or
15 the use tax.

16 Senator Heinz. You could pick it up presumably in
17 use tax.

18 Mr. Brockway. Presumably. But the problem that
19 creates is, for instance, the person who goes out and acquires
20 a stripped-down truck, turns around and buys a lot of parts
21 without any sales tax on it, and winds up with the same truck
22 as he would have bought with all that stuff on it but having
23 avoided paying the sales tax on the parts.

24 Senator Heinz. All right. I don't know whether one
25 can handle that problem or not, but I sense the answer is that

1 no one wants to tackle this, and that is fine with me. I was
2 trying to look for a little more rational tax policy. If you
3 can't get it, you can't get it.

4 Senator Chafee. Mr. Chairman, I would like to ask
5 Mr. Chapoton one quick question.

6 What did we do on new truck sales? It was 10 percent
7 of manufacturer's price. The House went to 12 percent at
8 retail price. That was a tremendous jump. What did we do?

9 Mr. Chapoton. The same. The Administration
10 recommended 12 percent of manufacturer's. The House wanted to
11 go to the retail level and did.

12 Senator Chafee. That is one whale of a jump.

13 Senator Wallop. It is a whale of a jump. What
14 determines what the retail value of a truck is? What it sells
15 for?

16 Mr. Chapoton. The sales price.

17 Senator Wallop. So that whatever bargain they
18 strike is whatever tax is collected?

19 Mr. Chapoton. That is correct. I think, Senator
20 Chafee, that was in the House view part of a package dropping
21 the tax on parts. So it did increase the revenue.

22 Senator Chafee. But we kept both.

23 Mr. Brockway. You delay the collection of tax.

24 Rather than having it imposed at the time of manufacture, it
25 is not imposed until the time of retail sale. So in the early

1 year, you have a revenue loss and then in later years, once
2 you get over that problem, you pick up some revenue due to
3 the fact that you are imposing the 12 percent on the retail
4 price, which is about 10 percent higher than the manufacturer's
5 price.

6 Senator Chafee. It is far more than 10 percent,
7 plus you have increased it.

8 The Chairman. As I understand, I think Senator
9 Durenberger has an amendment. I think there are no other
10 amendments, unless Senator Symms has an amendment. I want to
11 make certain of the staff, are there any other loose ends that
12 we have not addressed?

13 Mr. Lighthizer. Mr. Chairman, I am told by the
14 Leadership that they want us to report out a resolution to the
15 Budget Committee asking for a budget waiver of the provisions
16 that are not in our jurisdiction.

17 The Chairman. Can we do that?

18 Mr. Lighthizer. It is my understanding that we can.
19 There are no budget problems with the Finance Committee's
20 parts of the bill, but apparently there are some technical
21 budget restrictions. What will happen to that resolution is,
22 it will go to the Budget Committee and they will consider
23 whether or not to grant a waiver.

24 The Chairman. Is there any objection to that
25 resolution?

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Senator Symms. Well, reserving the right to object, I would like to come back to counsel again on it. That is what I thought you just told me was why we could not get this out of the unified budget so that this thing could stand on its own.

Mr. Lighthizer. These are budget waivers, it is my understanding, with respect to the amounts that the other committees have in the budget totals. They apparently are spending beyond the budget totals and needed that kind of a budget waiver.

The 306 problem, with the amendment that you talked about, was a protection put into the Budget Act to preserve the right of the Budget Committee to be the committee which reports out any change in the budget procedure. There is no provision for waiving that protection for the Budget Committee.

The Chairman. In other words, we are trying to accommodate the Leadership, is that it?

Mr. Lighthizer. Yes, sir.

The Chairman. Without objection, we will report that resolution.

Are there any other loose ends in the spread sheet? I want to recognize Senator Durenberger and Senator Symms, and we hope to have a vote on final passage here in the next five or 10 minutes.

Mr. Brockway. There are no other loose ends.

1 Ultimately, we will want standard technical drafting authority.

2 The Chairman. Without objection, we will authorize
3 the technical corrections drafting authority.

4 Do we need to vote on whether or not we will file
5 a report?

6 Mr. Lighthizer. No.

7 The Chairman. There will be no report.

8 Senator Durenberger. Mr. Chairman, I would move
9 that we add van pools to the fuel exemption section. "A van
10 pool is a highway -- " Quoting from the Tax Code. "A van
11 pool is a highway vehicle with seating of at least eight that
12 is used at least 80 percent of the time for commuting to and
13 from work. The exemption would apply to vans whether owned
14 by a business to transport employees, owned by an individual,
15 or owned by a third party and leased to the business or the
16 operator. The requirement would be that the principal use
17 be for commuting, only gasoline or motor fuel used for
18 commuting would be exempt. The costs are \$1 million in 1983,
19 \$2 million in 1984, \$3 million in 1985, and so on.

20 The Chairman. Does Treasury want to be heard?

21 Mr. Chapoton. Mr. Chairman, this is an extension
22 of an exemption based on conservation. We had not wished to
23 extend any of the exemptions for that purpose.

24 I do not know, Senator Durenberger, but some vans
25 now have a special tax credit. I understand some do not.

1 Would this cover both: if a business has a van pool for its
2 employees and already gets a special credit designed to
3 encourage it to have vans for conservation purposes, and they
4 would now also be exempt from the gas tax?

5 Senator Durenberger. It covers all. It has a
6 basis in conservation. But if you put eight people in a van,
7 that means seven fewer cars on the road. That saves your roads.

8 Senator Packwood. I think it is a good amendment.
9 I recall that when we put that in, Treasury opposed it four
10 years ago. But the evidence we had then was that the vans
11 were the most efficient -- more efficient than buses -- in
12 terms of moving people, and it was a good amendment. I think
13 we ought to adopt Dave's amendment.

14 The Chairman. All in favor, say aye.

15 [Chorus of ayes.]

16 Opposed, no.

17 [Chorus of nays.]

18 The ayes have it. The amendment is agreed to.

19 Senator Danforth. I would like to ask a question
20 of the Department of Transportation, just for the sake of
21 making the record. Is it the Administration's belief that in
22 making section 3 discretionary grants, preference should be
23 given to projects which maximize the cost-effectiveness of
24 the Federal contribution by, for instance, the use of existing
25 infrastructure, like existing track or tunnels or other

1 substantial non-Federal capital contributions?

2 Mr. Fowler. The Department believes that in giving
3 any grants that we should use them in the most cost-effective
4 manner.

5 The Chairman. The answer is yes?

6 Senator Symms, is that satisfactory?

7 Senator Symms. Yes.

8 Mr. Chairman, Senator Wallop brought this up a
9 minute ago. I know there is a lot of reservation to the
10 proposition that the Transportation Department has made for
11 many of the more rural States, based on the fact that the
12 trust fund was originally set up to spend the money on highway
13 and bridges and surface transportation in that respect. It
14 was never set up with the idea that we were going to break up
15 the trust fund to start going out here and building railroads
16 and other means of transportation. I feel that it is a little
17 late, and I do not particularly wish to make a long discussion
18 here. But we are in the process of trying to make a more
19 equitable cost allocation to the highways. We are raising the
20 taxes on the users of the highways. I would feel more
21 comfortable in voting for this if we would strike that
22 section that deals with putting the money into mass transit.

23 I thought maybe Senator Wallop was going to move
24 that earlier, and he did not. But if he does not wish to do
25 it, I would certainly like to see us at least consider that.

1 I do not know how the sentiment is on this committee, but I
2 think we will find there will be a lot less resistance to this
3 legislation on the Floor if we just strike this out. Probably
4 we all realize there have to be some compromises to achieve
5 this, and there are members on the committee that favor mass
6 transit. I know Senator Bradley and Senator Bentsen and
7 others have big problems in their constituencies. There
8 probably would be plenty of opportunity to make some arrangements
9 when the Chairman has to go to conference with the House on
10 this.

11 I think it would certainly strengthen the hand of
12 the Senate. We would have a much more equitable formula
13 process in our bill for all of the States in the country than
14 is what in the House bill. So I would just move that we
15 strike out "mass transit", the diversion of the money from
16 the trust fund.

17 The Chairman. Before we do that, let me state to
18 the Senator from Idaho -- and we certainly will vote on it --
19 that I expressed the same concerns and reservations when I
20 first met with Secretary Lewis and wanted to make certain
21 that we could find some agreement in what we were about to do,
22 knowing, as the Senator from Idaho stated, in order to get
23 this bill passed there would have to be some compromises made.
24 I suggested we lower it to a half cent, but you would just
25 strike it out entirely.

1 What bothers some of us is, we have another
2 committee where there are going to be about \$1.1 billion; is
3 that correct?

4 Mr. Fowler. That is correct.

5 The Chairman. And they are talking about operating
6 funds of I do not know much in the other committee. Is it
7 \$900 million?

8 Mr. Fowler. It is down to that, yes.

9 The Chairman. There is an unwillingness to reduce
10 the operating costs below 80 percent; is that correct?

11 Mr. Fowler. At the present time.

12 The Chairman. I seemed to me that we are not going
13 to create any jobs with operating subsidies. If that was
14 part of the purpose of this bill, we should have addressed
15 that. It was suggested that perhaps this committee might
16 reduce the amount for capital construction if there was not
17 some agreement in another committee to reduce operating
18 subsidies. That became rather complicated.

19 I do not quarrel with the intent of the Senator from
20 Idaho, but I think like everyone else, we have agreed to put
21 this together and keep it together. I would be constrained
22 to vote against the motion. It has been recommended by the
23 Administration-- Is that true, Mr. Fowler?

24 Mr. Fowler. That is true.

25 The Chairman. Are you in favor of the motion?

1 Mr. Fowler. Of this motion to strike the mass
2 transit portion?

3 The Chairman. Yes.

4 Mr. Fowler. No, we are not.

5 The Chairman. Did Treasury get into this?

6 Mr. Chapoton. This is really their call. The
7 Administration is opposed.

8 The Chairman. That is the only point I would make.

9 Senator Symms. Mr. Chairman, I think I would be
10 strengthening your hand and that of the Ranking Minority
11 Member and the others who will be at the conference if we
12 did this. I am not going to force this to a record vote, but
13 I certainly think it would strengthen our hand. It would
14 certainly send a message about how some of us feel about this
15 compromise. I personally feel that too much was compromised
16 too soon. The compromise was made way in advance of what I
17 think a great many constituents in this country feel like.
18 People feel very strongly about a trust fund. That is why
19 I would like to see these trust funds outside the unified
20 budget: the social security trust fund, the highway trust
21 fund, and each trust fund can stand on its own. If we need
22 a mass transit trust fund, I would be willing to offer a
23 proposal to develop one that could be funded by its own use.
24 We are making a tremendous departure from what the
25 past has been with respect to our trust fund monies.

1 The Chairman. I think you are right: I think there
2 were a number of accommodations made before total consultation.
3 But once they were agreed to, it would seem to me that we
4 probably should be bound by the agreement.

5 Do you care for a record vote or a voice vote?

6 Senator Wallop. Mr. Chairman, I would like a record
7 vote on it.

8 Mr. Fowler. If I might, Mr. Chairman, may I speak
9 to the amendment before the vote on it?

10 The Chairman. I don't think so. You can, but go
11 ahead.

12 Mr. Fowler. I don't know if you would prefer it or
13 not. In this circumstance it should be noted that we are in
14 a situation where we have 55 percent of our revenues coming
15 from urban areas, and only 44 percent of the distributions
16 go back to urban areas. This additional \$1.1 billion going
17 to mass transit is intended to do rehabilitation and only
18 brings the percentage up to 48.

19 Senator Symms. That is well and good, but it is a
20 national highway program. The tax base for General Motors
21 Corporation is right in Michigan, and yet they are running
22 those General Motors trucks all out across Utah, Wyoming, and
23 Idaho. We are not benefiting from that tax base. But it is
24 an essential thing, not only for defense but for getting
25 those products from the farms, from the mines --

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Members. Vote. Vote.

The Chairman. You just put the rest of your statement in the record.

The clerk will call the roll.

The Clerk. Mr. Packwood?

Senator Packwood. No.

The Clerk. Mr. Roth?

[No response]

Mr. Danforth?

Senator Danforth. No.

The Clerk. Mr. Chafee?

Senator Chafee. No.

The Clerk. Mr. Heinz?

Senator Heinz. No.

The Clerk. Mr. Wallop?

Senator Wallop. Aye.

The Clerk. Mr. Durenberger?

Senator Durenberger. No.

The Clerk. Mr. Armstrong?

[No response]

Mr. Symms?

Senator Symms. Aye.

The Clerks. Mr. Grassley?

Senator Grassley. Aye.

The Clerk. Mr. Long?

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Senator Long. No.

The Clerk. Mr. Byrd?

[No response.]

Mr. Bentsen?

[No response.]

Mr. Matsunaga?

Senator Matsunaga. No.

The Clerk. Mr. Moynihan?

Senator Moynihan. No.

The Clerk. Mr. Baucus?

Senator Baucus. No.

The Clerk. Mr. Boren?

Senator Boren. Aye.

The Clerk. Mr. Bradley?

Senator Bradley. No.

The Clerk. Mr. Mitchell?

Senator Mitchell. No.

The Clerk. Mr. Chairman?

The Chairman. Mr. Roth votes no, and the Chairman votes no.

Senator Long. I have Mr. Bentsen's proxy to vote on the bill. I believe I have his proxy to vote against it.

The Chairman. With Bentsen, that is 14:4.

Are there other amendments?

Senator Heinz. Mr. Chairman, I would like to do one

1 and maybe we can handle it in about a minute. I don't know
 2 whether it will succeed or fail. It is the one that Senator
 3 Bradley referred to a moment ago that has to do with the
 4 exemption for alcohol fuels. The one that we are going to
 5 include is under the House bill but we have at this point
 6 excluded that exemption for alcohol fuels from oil and gas.
 7 I would like to propose that we retain the language that we
 8 agreed to, the limitation to alcohol fuels from sources other
 9 than oil and gas, except that there would be an exemption
 10 from the tax for oil or gas fuels that would expire when
 11 either 10,000 alcohol fuel vehicles are manufactured per
 12 year or after 10 years, whichever comes first.

13 The purpose of it, Mr. Chairman, is simply to
 14 try and begin to promote -- even though it may use some
 15 natural gas or some other petroleum feed stock -- the building
 16 of methanol-capable automobiles and other vehicles. Senator
 17 Durenberger is not, I know, in favor of this. He has a
 18 philosophic problem of using any natural gas. Frankly, we
 19 are not talking about very much here. I understand his
 20 philosophy; I just want to get something moving. I frankly
 21 think methanol is going to be a very important fuel for us.
 22 We might get a coal mine to use that way.

23 I think everybody knows what the issue is, and
 24 maybe we can vote it either up or down.

25 Senator Durenberger. If we restrict it to coal,

1 I do not have a problem. And I am not approaching it as a
2 philosopher. I can understand the farmers of this country
3 having problems, and so maybe some of you reluctantly supported
4 exemptions of alcohol fuel. To me, this is the Arco Amendment.
5 I know it is not intended that way by its maker, but in terms
6 of incentives, there is a plant already up there without any
7 incentives, making methane from natural gas.

8 Senator Heinz. If he says it is the Arco Amendment
9 that is news to me.

10 Senator Durenberger. That is why I said you did
11 not intend it. I am just talking about the realities of
12 the economics out there. It just is not needed.

13 The Chairman. Do you want a roll call?

14 Senator Heinz. Yes, let's have a roll call, Mr.
15 Chairman.

16 The Clerk. Mr. Packwood?

17 Senator Packwood. Aye.

18 The Clerk. Mr. Roth?

19 [No response]

20 Mr. Danforth?

21 Senator Danforth. No.

22 The Clerk. Mr. Chafee?

23 Senator Chafee. No.

24 The Clerk. Mr. Heinz?

25 Senator Heinz. Aye.

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The Clerk. Mr. Wallop?
Senator Wallop. Aye.
The Clerk. Mr. Durenberger?
Senator Durenberger. No.
The Clerk. Mr. Armstrong?
[No response]
Mr. Symms?
[No response.]
Mr. Grassley?
Senator Grassley. No.
The Clerk. Mr. Long?
Senator Long. I pass.
The Clerk. Mr. Byrd?
[No response]
Mr. Bentsen?
[No response.]
Mr. Matsunaga?
Senator Matsunaga. No.
The Clerk. Mr. Moynihan?
Senator Moynihan. No.
The Clerk. Mr. Baucus?
Senator Baucus. No.
The Clerk. Boren?
Senator Boren. No.
The Clerk. Mr. Bradley?

1 Senator Bradley. Aye.

2 The Clerk. Mr. Mitchell?

3 Senator Mitchell. No.

4 The Clerk. Mr. Chairman?

5 The Chairman. No.

6 I say that, but I think we may be able to work
7 something out if it is offered on the Floor. We have the
8 Treasury working on some other things.

9 The nays are 10 and the ayes are 4. The amendment
10 is not agreed to.

11 Are there, hopefully, no other amendments?

12 Senator Symms. Mr. Chairman, I will not offer
13 an amendment, but I will say for the record, I hope that we
14 could work out something with DOT and Treasury and maybe meet
15 some of the Members here who are much more interested in mass
16 transit systems but there is a great feeling out here in the
17 States that this is a very bad deal for most of the States
18 that have cities with less than 200,000 people. I hope that
19 something can be worked out. Maybe we can come up with a
20 more restrictive amendment or something on the Floor that
21 would address this problem. It may even cause much more
22 problems for this legislation than many of the people in the
23 Administration may think it may cause when it finally reaches
24 the Floor.

25 The Chairman. I think there have been some

1 assurances from DOT, and we will want some futther assurance
 2 that even though we do not hage cities of 200,000, we are not
 3 going to be totally eliminated from that process.

4 Mr. Fowler. Not only that, but under the bill you
 5 could use the funds for highway programs if there were no
 6 transit needs.

7 Senator Symms. We cannot get it, because we do not
 8 have a city of more than 200,000 in our State.

9 Mr. Fowler. Oh, yes, you can. You will be
 10 designated recipient. The State would be a designated
 11 recipient under the program if it has no cities of over
 12 200,000.

13 The Chairman. If that is not the case, we will
 14 make certain it is.

15 Senator Matsunaga. Mr. Chairman, a point of inquiry.
 16 The action may have been taken while I was absent. But what
 17 did we agree relative to heavy vehicle use tax: to adopt the
 18 Administration proposal or the House proposal?

19 Mr. Brockway. You adopted a proposal that was
 20 less than either the Administration or --

21 The Chairman. You adopted a compromise, with
 22 less than either the House or the Administration based on a
 23 three-year period.

24 Senator Matsunaga. Just out of curiosity, what
 25 would a truck 80,000 pounds or more cost?

1 Senator Symms. \$150,000.00.

2 Senator Matsunaga. It is a relative percentage.

3 It is not too great a tax nationwide.

4 Mrs. Fowler. All of the taxes combined by operators
5 are less than 1 percent of the cost to operate.

6 The Chairman. Is the staff satisfied that we have
7 covered all the bases?

8 Mr. Lighthizer. Yes, Mr. Chairman.

9 The Chairman. There will be a statement prepared
10 on the bill, is that right?

11 Mr. Lighthizer. Yes, sir.

12 Senator Bradley. Mr. Chairman, may I put a statement
13 in prior to the vote? I am not going to make a statement.
14 I would like this in for the record.

15 The Chairman. Fine. We will be glad to receive
16 your statement at length.

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The Chairman. The clerk will call the roll on final passage.

The Clerk. Mr. Packwood?

Senator Packwood. Aye.

The Clerk. Mr. Roth?

[No response.]

Mr. Danforth?

Senator Danforth. Aye.

The Clerk. Mr. Chafee?

Senator Chafee. Aye.

The Clerk. Mr. Heinz?

Senator Heinz. Aye.

The Clerk. Mr. Wallop?

Senator Wallop. No.

The Clerk. Mr. Durenberger?

Senator Durenberger. Aye.

The Clerk. Mr. Armstrong?

[No response.]

Mr. Symms ?

Senator Symms. Aye.

The Clerk. Mr Grassley?

Senator Grassley. Aye.

The Clerk. Mr. Long?

Mr. Long. Aye.

The Clerk. Mr. Byrd?

1 Senator Long. Aye by proxy.

2 The Clerk. Mr. Bentsen?

3 Senator Long. Aye by proxy.

4 The Clerk. Mr. Matsunaga?

5 Senator Matsunaga. Aye.

6 The Clerk. Mr. Moynihan?

7 Senator Moynihan. Aye.

8 The Clerk. Mr. Baucus?

9 Senator Baucus. Aye.

10 The Clerk. Mr. Boren?

11 Senator Boren. No.

12 The Clerk. Mr. Bradley?

13 Senator Bradley. Aye.

14 The Clerk. Mr. Mitchell?

15 Senator Mitchell. No.

16 The Clerk. Mr. Chairman?

17 The Chairman. Aye. Mr. Roth votes no.

18 On this vote, the ayes are 15 and the nays are 4.

19 Mr. Armstrong can record his vote.

20 I want to thank the joint committee, Transportation,
21 Treasury, and our own staff.

22 [Whereupon, at 8:15 p.m., the executive session

23 adjourned, to reconvene at the call of the Chair.]

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