SENATE—*Tuesday, July 28, 1981*

(Legislative day of Wednesday, July 8, 1981)

The Senate met at 8:15 a.m., on the expiration of the recess, and was called to order by the President pro tempore (Mr. THURMOND).

PRAYER

The Chaplain, the Reverend Richard C. Halverson, LL.D., D.D., offered the following prayer:

Let us pray in the profound and familiar words of St. Francis of Assisi.

"Lord, make me an instrument of Thy peace. Where there is hatred, let me sow love; where there is injury, pardon; where there is doubt, faith; where there is despair, hope; where there is darkness, light; and where there is sadness, joy.

"O Divine Master, grant that we may not so much seek to be consoled as to console; to be understood as to understand; to be loved as to love; for it is in giving that we receive; it is in pardoning that we are pardoned; and it is in dying that we are born to eternal life." Amen.

RECOGNITION OF THE ACTING MAJORITY LEADER

The PRESIDENT pro tempore. The acting majority leader is recognized.

Mr. STEVENS. I thank the Chair.

Mr. President, it is my understanding that the regular time for the two leaders has been reserved under the order that applies for this morning; is that correct?

The PRESIDENT pro tempore. The Senator is correct.

THE JOURNAL

Mr. STEVENS. Mr. President, I ask unanimous consent that the Journal of the proceedings be approved to date.

The PRESIDENT pro tempore. Without objection, it is so ordered.

THE IRS IN ALASKA

Mr. STEVENS. Mr. President, assuming that we can terminate this portion of our session and go into recess in August, I plan to return to my State of Alaska to conduct hearings with other Members of the Senate on an issue that I think is alarming.

In recent months I have become increasingly of the opinion that the law enforcement activities of the Internal Revenue Service are overzealous. It is my hope to explore in detail the rules followed by the Internal Revenue Service concerning seizure practices.

The hearings that we shall hold in Alaska will be before the Subcommittee on Treasury Appropriations, whose chairman is our good friend Senator JAMES ABDNOR. The dates for those hearings will be August 4 in Anchorage and August 6 in Fairbanks. It is my hope they will be well attended for I am quite disturbed with the statistics which indicate that Alaskans suffer among the highest incidence of forced collection and tax arrest in the country by the Internal Revenue Service.

The purpose of these hearings is to establish why such unequal treatment is being administered to Alaska, why the Internal Revenue Service practices such energetic enforcement in Alaska as compared to elsewhere, and to identify solutions to these problems. It may be that we will be touching just the tip of an iceberg when we address the questionable practices of the IRS in Alaska.

It is my understanding that the IRS is the only Government agency that has seizure powers without a court review. The impact of such power in the hands of the IRS means that each and every American—not just Alaskans—are subject to the exercise of these broad powers by a single agency that, to me, seems to be questionable in view of our rights and protections guaranteed by the Constitution of the United States.

It is my hope that our subcommittee will look closely into these matters and particularly into the seizure powers of the IRS during these hearings in August. Therefore, I am hopeful the Senate will complete its legislative responsibilities and that the August recess will commence on time.

SECRETARY OF THE INTERIOR JAMES WATT

Mr. STEVENS. Mr. President, I have been very concerned about the criticism that has been levied against the Secretary of Interior, James Watt. If there are voices of extremism in the country today, they are the extreme voices that are criticizing Secretary Watt before his policies have had a fair chance.

The policies he has promoted, in my opinion, will help restore the balance and reason to the programs administered by the Department of the Interior.

During the last few years, I have been intimately involved in the legislative battle over a very important issue to Alaska, which the Senate knows well from the long days that we spent on it last year. I am referring to the legislative battle on the Alaska lands bill.

During that battle, the former Secretary of the Interior, Cecil Andrus, who I believe is a good man, held viewpoints that were definitely contrary to those that I hold.

We had many battles as we tried to convince Federal officials of the needs of Alaska's Native communities, Alaska's hunters, Alaska's fishermen, miners, businessmen, hikers, and both the rural and urban dwellers of our State.

In the past, the Federal Government showed great antipathy toward Alaska and Alaskans concerning the rights and needs of Alaskans.

Now, that policy has changed. It is my opinion that Secretary Watt has brought a fresh viewpoint to the Department of the Interior, and although we are certainly not winning all of the battles, today there is a great deal more understanding of the problems relating to Alaska and the West in the Department of the Interior. Secretary Watt has surrounded himself with experts in land policy and management and he remains sensitive to concerns made known to the Department of the Interior by States and communities on controversial issues. I am pleased with his leadership at the Department.

Mr. President, an editorial was recently published in the Fairbanks Daily News-Miner describing the viewpoint of Alaskans toward the policy of Secretary James Watt. I ask unanimous consent that the full text of the editorial be printed in the RECORD at this point.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

BACK SECRETARY WATT

The political wolves are snapping at the heels of Interior Secretary James Watt. Alaskan leaders, both here and in Washington, D.C., would do well not to join the pack because many of his policies are heading in a direction that will make him one of the best friends our state has had in the federal government for quite some time.

The focus of the criticism is Secretary Watt's plan to increase and speed up offshore leases for oil prospecting. Some of the California leases are controversial from an environmental standpoint and so are some of the ones in fish-rich Alaskan waters. He also is being criticized for letting out too much lease acreage at one time.

One aspect of the attack on Mr. Watt is outlined in an article elsewhere on this page. The thrust seems to be that the new administration should forget about what the voters seemed to be saying last November and continue with the tired policies that were rejected in that election.

Much is being made of the fact that the supposedly moderate National Wildlife Federation has joined more militant environmentalist groups in calling for Mr. Watt's resignation. It seems to us, however, that a very real question exists about just how moderate the NWF is. Alaskans will recall, for example, that federation members from our state broke with the national organization several years ago when it was bent on supporting overly restrictive Alaska lands legislation.

Another aspect of the attack takes a viciously personal approach. We saw it this week when Rep. James Weaver of Oregon tried to drag Secreatry Watt's fundamentalist religious beliefs into a House Interior subcommittee hearing. We Americans laid that sort of religious bigotry in our politics to rest with John Kennedy's campaign for the presidency in 1960 and those who are now trying to revive the corpse two decades later are ill-serving our Nation.

● This "bullet" symbol identifies statements or insertions which are not spoken by the Member on the floor.

AUTHENTICATED U.S. GOVERNMENT INFORMATION GPO

We also saw this personal approach in the attack this week from Cecil Andrus, Interior Secretary until the voters turned his boss out of office last fall. Secretary Watt has, Mr. Andrus said, "a developmental zeal I've never seen the like of before in public life."

And the former Secretary didn't stop there. "I had hoped that this was just bombastic rhetoric early on and I've remained silent for six months," Mr. Andrus said. "But it becomes apparent that he plans to dump extra acreage out, more than they can use."

That's laughable; doubly so coming from Mr. Andrus, who recently allowed that he might have tended just a wee bit to hyperbole a few years back when he characterized Alaskans who were opposing him on the lands bill as the "rape, ruin and run boys." Certainly Mr. Andrus knows whereof he speaks when he talks of bombastic rhetoric. Remember the bulldozers he said were poised to rip through Alaska? He certainly does know how to turn a phrase. By comparison, Mr. Watt seems almost tongue-tied.

It's true that many Alaskans, most of our political leaders among them, oppose some of the off-shore oil leases the Secretary has proposed for our state. Some are in areas that produce major amounts of fish for the world market and an oil spill there could have disastrous consequences. And it's also hard for Alaskans to understand why we need to explore some of these environmentally risky areas right now when there are so many good oil prospects on the land in our state.

Our leaders should continue to press those questions, working in Congress, which must approve the lease offerings before they can be made, and even going to court if we must.

But despite this disagreement, we must keep in mind the fact that Secretary Watt is generally treating our state better than we've been treated for a long time. One such indication is his rules for the new federal holdings set up under the lands bill; they generally seem to take Alaska's special conditions into account.

Certainly we Alaskans are not going to like everything Mr. Watt proposes and we're going to fight him on some issues. But on the many things he's doing right, our leaders ought to be backing him strongly. The voices that call for his resignation need to be countered if our country is to move away from its debilitating dependence on foreign resources.

Mr. STEVENS. Mr. President, I am hopeful that others will come forward and defend his right to attempt to change the policies of the Department of the Interior in the future.

APPOINTMENT OF FRED THOMPSON AS SPECIAL COUNSEL

Mr. BAKER. Mr. President, I wish to commend the Senate Select Committee on Intelligence for their appointment of Fred Thompson as special counsel.

I had the pleasure of working with Fred during the Watergate hearings, when he served as minority counsel. His knowledge of legal affairs coupled with his professional manner brought praise from both parties, and reaffirmed his status as one of the brightest and most able lawyers in Washington.

Fred recently served as Republican counsel for the confirmation hearings of Secretary of State Alexander Haig. He is a partner of the law firm of Thompson & Crawford of Nashville, Tenn., and Washington, D.C., and a member of the Nashville, Tenn., and American Bar Associations, the District of Columbia Bar Association, the Tennessee Trial Lawyers Association, and the National Association of Criminal Defense Lawyers.

I am confident that Fred will lead the investigation concerning CIA Director William Casey in an expeditious and honorable fashion.

RECOGNITION OF MINORITY LEADER

The PRESIDENT pro tempore. The minority leader is recognized.

THE ADMINISTRATION'S INCONSISTENCY REGARDING SOCIAL SECURITY

Mr. ROBERT C. BYRD. Mr. President, in a letter to me July 18, 1981, President Reagan indicated he would ask for time on television to address the Nation "as soon as possible" on the issue of social security.

He said he would ask for the time "to tell the American people the facts," and to let them know that he would "fight to preserve the social security system * * *"

On July 27, the President did address the Nation on national television. However, most of the speech was devoted to his fight for the Republican tax proposal.

In the President's brief remarks on social security, though, there were various inconsistencies in regard to previous statements and actions by his administration.

Because of this, I am inserting in the RECORD a copy of the President's letter to me of July 18, my letter to the President July 27, the text of his speech to the Nation July 27, and my brief statement at a news conference July 28.

I asked unanimous consent that these items be printed in the RECORD.

There being no objection, the material was ordered to be printed in the RECORD as follows:

THE WHITE HOUSE,
Washington, D.C., July 18, 1981.

Hon. ROBERT C. BYRD,
Minority Leader, U.S. Senate,
Washington, D.C.

DEAR SENATOR BYRD: The highest priority of my Administration is restoring the integrity of the Social Security System. Those 35 million Americans who depend on Social Security expect and are entitled to prompt bipartisan action to resolve the current financial problem.

At the same time, I deplore the opportunistic political maneuvering, cynically designed to play on the fears of many Americans, that some in the Congress are initiating at this time. These efforts appear designed to exploit an issue rather than find a solution to the urgent Social Security problem. They would also have the unfortunate effect of disrupting the budget conference and reversing the actions of a majority of both Houses of the Congress. Such a result would jeopardize our economic recovery program so vital to the well-being of the Nation.

In order to tell the American people the facts, and to let them know that I shall fight to preserve the Social Security System and protect their benefits, I will ask for time on television to address the Nation as soon as possible.

During this address, I will call on the Congress to lay aside partisan politics, and join me in a constructive effort to put Social Security on a permanently sound financial basis as soon as the 97th Congress returns in September.

Sincerely,

RONALD REAGAN.

U.S. SENATE,
OFFICE OF THE DEMOCRATIC LEADER,
Washington, D.C., July 27, 1981.

THE PRESIDENT,
The White House,
Washington, D.C.

DEAR MR. PRESIDENT: Tax cuts, spending cuts, and the Social Security System are all part of the intricate fabric of the Federal budget. One element of the budget cannot be changed without having a direct affect on another.

During the campaign for the presidency you promised the American people that you would balance the budget in fiscal year 1983. The Administration's current budget projects a balance by fiscal year 1984, and assumes additional Social Security cuts as well as $44 billion in "unidentified" cuts.

Your economic recovery plan calls for an enormous reduction in the revenue collected by the Federal government, on the order of $730 billion over the next five years. In order to avoid large deficits, spending cuts much larger than those the Congress is about to enact will be necessary to offset the loss of revenue from the proposed tax cut.

On May 12, you recommended a severe reduction in Social Security benefits. Under your plan, Social Security benefits would be cut by $88 billion over the next five years, including a 40 percent reduction in benefits for people retiring at age 62.

Most objective analysts, including the non-partisan Congressional Budget Office, believe that your massive cuts in Social Security benefits are unnecessary to preserve the solvency of the System. Cuts in benefits which the Congress is about to enact as part of your budget-cutting program, when combined with authority for the three Social Security funds to borrow among themselves, would meet any foreseeable need to shore up the System well into the next century.

It appears that the Administration has abandoned its promise not to cut Social Security retirement benefits. It appears that Office of Management and Budget Director David Stockman discovered that the budget cannot be balanced, in light of the enormous tax cuts, unless Social Security benefits are reduced.

In a letter to me dated July 18, you promised to "ask for time on television . . . to tell the American people the facts . . ." about Social Security.

Since the tax cuts apparently are directly linked to your proposed Social Security benefit reductions, I was very disappointed to learn that your television address this evening will be directed primarily, if not exclusively, to promoting the revised tax-cutting plan.

It is my sincere hope that your speech tonight will allay the concerns of the American people by abandoning your commitment to immediately and drastically cut basic Social Security retirement benefits.

It is my further hope that your speech tonight will answer this basic question: How can we explain an economic plan to the American people which inordinately rewards the already-rich with huge tax cuts which are partially financed by cutting the Social Security benefits of the Nation's elderly?

Sincerely,

ROBERT C. BYRD.

THE PRESIDENT'S SPEECH

Good evening. I had intended to make some remarks about the problem of Social Security tonight—but the immediacy of Congressional action on the tax program, a key component of our economic package, has to take priority. Let me just say, however, I've been deeply disturbed by the way those of you who are dependent on Social Security have been needlessly frightened by some of the inaccuracies which have been given wide circulation.

It is true that the Social Security system has financial problems. It is also true that these financial problems have been building for more than 20 years—and nothing has been done.

I hope to address you on this entire subject in the near future. In the meantime, let me just say this:

I stated during the campaign and I repeat now I will not stand by and see those of you who are dependent on Social Security deprived of your benefits. I make that pledge to you as your President. You have no reason to be frightened. You will continue to receive your checks in the full amount due you. In any plan to restore fiscal integrity of Social Security I personally will see that (no part) of the plan will be at the expense of you who are now dependent on your monthly Social Security checks.

Now, let us turn to the business at hand. It's been nearly 6 months since I first reported to you on the state of the Nation's economy. I'm afraid my message that night was grim and disturbing. I remember telling you we were in the worst economic mess since the Great Depression. Prices were continuing to spiral upward and unemployment was reaching intolerable levels and all because Government was too big and spent too much of our money.

We're still not out of the woods, but we've made a start. And we've certainly surprised those long-time and somewhat cynical observers of the Washington scene who looked, listened and said, "It can never be done. Washington will never change its spending habits."

Well, something very exciting has been happening here in Washington and you are responsible. Your voices have been heard. Millions of you, Democrats, Republicans and Independents, from every profession, trade and line of work, and from every part of this land; you sent a messag: that you wanted a new beginning. You wanted to change one little two-letter word. It doesn't sound like much, but it sure can make a difference changing "control by Government" to "control of Government."

In that earlier broadcast you'll recall I proposed a program to drastically cut back Government spending in the 1982 budget which begins October 1st and to continue cutting in '83 and '84. Along with this I suggested an across-the-board tax cut spread over those same 3 years and the elimination of unnecessary regulations which were adding billions to the cost of things we buy.

All the lobbying, the organized demonstrations and the cries of protest by those whose way of life depends on maintaining Government's wasteful ways were no match for your voices which were heard loud and clear in these marble halls of Government.

And you made history with your telegrams, your letters, your phone calls and, yes, personal visits to talk to your elected representatives. You reaffirmed the mandate you delivered in the election last November. A mandate that called for an end to Government policies that sent prices and mortgage rates skyrocketing, while millions of Americans went jobless.

Because of what you did, Republicans and Democrats in the Congress came together and passed the most sweeping cutbacks in the history of the Federal budget. Right now Members of the House and Senate are meeting in a conference committee to reconcile the differences between the two budget cutting bills passed by the House from savings of approximately $140 billion in reduced Government costs over the next 3 years. And that doesn't include the additional savings from the hundreds of burdensome regulations already cancelled or facing cancellation.

For 19 out of the last 20 years the Federal Government has spent more than it took in. There will be another large deficit in this present year which ends September 30th. But with our program in place it won't be quite as big as it might have been and starting next year the deficits will get smaller until in just a few years the budget can be balanced. And we hope we can begin whittling at that almost $1 trillion debt that hangs over the future of our children.

Now so far I've been talking about only one part of our program for economic recovery—the budget cutting part. I don't minimize its importance. Just the fact that Democrats and Republicans could work together as they have, proving the strength of our system, has created an optimism in our land. The rate of inflation is no longer in double-digit figures, the dollar has regained strength in the international money markets and businessmen and investors are making decisions with regard to industrial development, modernization and expansion. All of this based on anticipation of our program being adopted and put into operation.

A recent poll shows that where a year-and-a-half ago only 25 percent of our people believed things would get better, today 46 percent believe they will. To justify their faith we must deliver the other part of our program. Our economic package is a closely knit, carefully constructed plan to restore America's economic strength and put our Nation back on the road to prosperity. Each part of this package is vital. It cannot be considered piecemeal. It was proposed as a package and it has been supported as such by the American people. Only if the Congress passes all of its major components does it have any real chance of success. This is absolutely essential if we are to provide incentives and make capital available for the increased productivity required to provide real, permanent jobs for our people.

And let us not forget that the rest of the world is watching America carefully to see how we will act at this critical moment. I have recently returned from a summit meeting with world leaders in Ottawa, Canada and the message I heard from them was quite clear—our allies depend on a strong and economically sound America and they are watching events in this country, particularly those surrounding our program for economic recovery, with close attention and great hopes. In short, the best way to have a strong foreign policy abroad is to have a strong economy at home.

The day after tomorrow—Wednesday—the House of Representatives will begin debates on two tax bills and once again they need to hear from you. I know that doesn't give you much time, but a great deal is at stake.

A few days ago I was visited here in the Office by a Democratic Congressman from one of our Southern States. He'd been back in his district and one day one of his constituents asked him where he stood on the economic recovery program I'd outlined in that earlier broadcast, particularly the tax cut. Well, the Congressman, who happens to be a strong leader in support of our program, replied at some length with a discussion of the technical points involved, but also mentioning a few reservations he had on certain points. The constituent, a farmer, listened politely until he'd finished and then said, "Don't give me an essay. What I want to know is are you for 'em or agin 'em?"

I appreciate the gentleman's support and suggest his question is a message your own Representatives should hear. Let me add those Representatives honestly and sincerely want to know your feelings. They get plenty of input from the special interest groups, they'd like to hear from their homefolks.

Let me explain what the situation is and what is at issue. With our budget cuts we presented a complete program of reduction in tax rates. Again, our purpose was to provide incentive for the individual, incentives for business to encourage production and hiring of the unemployed and to free up money for investment.

Our bill calls for a 5 percent reduction in the income tax rates by October 1st, a 10 percent reduction beginning July 1, 1982 and another 10 percent cut a year later—a 25 percent total reduction over 3 years. But then to ensure the tax cut is permanent we call for indexing the tax rates in 1985, which means adjusting them for inflation. As it is now, if you get a cost of living raise intended to keep you even with inflation, you find that the increase in the number of dollars you get may very likely move you into a higher tax bracket and you wind up poorer than you were. This is called bracket creep.

Bracket creep is an insidious tax. Let me give an example. If you earned $10,000 a year in 1972, by 1980 you had to earn $19,700 just to stay even with inflation. But that's before taxes. Come April 15th, you find your tax rates have increased 30 percent. If you've been wondering why you don't seem as well off as you were a few years back, it's because Government makes a profit on inflation. It gets an automatic tax increase without having to vote on it. We intend to stop that.

Time won't allow me to explain every detail, but our bill includes just about everything to help the economy. We reduce the marriage penalty, that unfair tax that has a working husband and wife pay more tax than if they were single. We increase the exemption on the inheritance (or estate) tax to $600,000 so that farmers and family-owned businesses don't have to sell the farm or store in the event of death just to pay the taxes. Most important we wipe out the tax entirely for a surviving spouse. No longer, for example, will a widow have to sell the family source of income to pay a tax on her husband's death. There are deductions to encourage investment and savings. Business gets realistic depreciation on equipment and machinery. And there are tax breaks for small and independent businesses which create 80 percent of all new jobs. This bill also provides major credits to the research and development industry—these credits will help spark the high technology breakthrough that are so critical to America's economic leadership in the world. There are also added incentives for small businesses including a provision that will lift much of the burden of costly paperwork that Government has imposed on small business.

In addition, there is short-term but substantial assistance for the hard-pressed thrift industry as well as reductions in oil taxes that will benefit new or independent oil producers and move our Nation a step closer to energy self-sufficiency.

Our bill is, in short, the first real tax cut for everyone in almost 20 years.

Now when I first proposed this—and incidentally it has now become a bipartisan measure co-authored by Republican Barber Conable and Democrat Kent Hance—the Democratic leadership said a tax cut was out of the question. It would be wildly inflationary. That was before my inauguration.

Then your voices began to be heard and suddenly in February the leadership discovered a 1 year tax cut was feasible. We kept on pushing our 3 year tax cut and by June the opposition found that a 2 year cut might work. Now it's July and they find they could

go for a third year cut provided there was a trigger arrangement that would only allow it to go into effect if certain economic goals had been met by 1983.

But by holding the people's tax reduction hostage to future economic events, they will eliminate people's ability to plan ahead. Shopkespers, farmers and individuals will be denied the certainty they must have to begin saving or investing more of their money. And encouraging more savings and investment is precisely what we need most to rebuild our economy.

And there is a little sleight of hand in that trigger mechanism. The committee bill ensures that the 1983 deficit will be $6.5 billion greater than their own trigger requires. As it stands now the design of their own bill will not meet the trigger they have put in. Therefore, the third year tax cut will automatically never take place.

If I could paraphrase a well-known statement by Will Rogers that he had never met a man he didn't like—I'm afraid we have some people around who never met a tax they didn't hike.

Their tax proposal, similar in a number of ways to ours, but differing in some very vital parts, was passed out of the House Ways and Means Committee, and from now on I'll refer to it as the committee bill and ours as the bipartisan bill. They will be the bills taken up Wednesday.

The ma'ority leadership claims theirs gives a greater break to the worker than ours and it does—that is, if you're only planning to live 2 more years. The plain truth is our choice is not between two plans to reduce taxes, it is between a tax cut or a tax increase. There is built into our present system, including payroll Social Security taxes and the bracket creep I've mentioned, a 22 percent tax increase over the next 3 years. The committee bill offers a 15 percent cut over 2 years; our bipartisan bill gives a 25 percent reduction over 3 years. As you can see by this chart—here is the 22 percent increase line and here is their cut below that line and ours wiping out the increase with a little to spare.

Incidentally, their claim that cutting taxes for individuals for as much as 3 years ahead is risky rings a little hollow when you realize that their bill calls for business tax cuts each year for 7 years ahead.

It rings even more hollow when you consider the fact the majority leadership routinely endorses Federal spending bills that project years into the future, but objects to a tax bill that will return your money over a 3 year period.

Here is another chart which illustrates what I said about their giving a better break if you only intend to live for 2 more years. Theirs is the dotted line, ours the solid. As you can see, in an earning bracket of $20,000 their tax cut is slightly more generous than ours—for the first 2 years—then taxes in that earning level start going up. On the other hand, in our bipartisan bill, the tax keeps going down and then stays down permanently. This is true of all earning brackets.

This red space between the 2 lines is the tax money that will remain in your pockets if our bill passes and it's the amount that will leave your pockets if their tax bill is passed.

I take no pleasure in saying this, but those who will seek to defeat our Conable-Hance bipartisan bill as debate begins Wednesday are the ones who have given us five "tax cuts" in the last 10 years, but our taxes went up $400 billion in those same 10 years.

The lines on these charts say a lot about who's really fighting for whom. On the one hand, you see a genuine and lasting commitment to the future of working Americans. On the other, just another empty promise. Those of us in the bipartisan coalition want to give this economy and the future of this Nation back to the people, because putting people first has always been America's secret weapon. The House majority leadership seems less concerned with protecting your family budget, than with spending more on the Federal budget.

Our bipartisan tax bill targets three-quarters of its tax relief to middle-income wage earners, who presently pay almost three-quarters of the total income tax. It also then indexes the tax brackets to ensure that you can keep that tax reduction in the years ahead. There also is, as I said, estate tax relief that will keep family farms and family-owned businesses in the family. And there are provisions for personal retirement plans and individual savings accounts.

Because our bipartisan bill is so clearly drawn and broadly based it provides the kind of predictability and certainty that the financial segments of our society need to make investment decisions that stimulate productivity and make our economy grow.

Even more important—if the tax cut goes to you the American people in the third year—that money returned to you won't be available to the Congress to spend. And that in my view is what this whole controversy comes down to: Are you entitled to the fruits of your own labor or does Government have some presumptive right to spend and spend and spend?

I'm also convinced our business tax cut is superior to theirs, because it is more equitable, and it will do a much better job promoting the surge in investment we so badly need to rebuild our industrial base.

There is something else I want to tell you. Our bipartisan coalition worked out a tax bill we felt would provide incentive and stimulate productivity, thus reducing inflation and providing jobs for the unemployed. That was our goal.

Our opponents in the beginning didn't want a tax bill at all. What is the purpose behind their change of heart? They've put a tax program together for one reason only, to provide a political victory for themselves. Never mind that it won't solve the economic problems confronting our country. Never mind that it won't get the wheels of industry turning again or eliminate the inflation which is eating us alive. This is not the time for political fun and games. This is the time for a New Beginning.

I ask you now to put aside any feelings of frustration or helplessness about our political institutions and join me in this dramatic but responsible plan to reduce the enormous burden of Federal taxation on you and your family.

During recent months, many of you have asked what can you do to help make America strong again. I urge you again to contact your Senators and Congressmen, tell them of your support for this bipartisan proposal, tell them you believe this is an unequalled opportunity to help return America to prosperity and make Government again the servant of the people.

In a few days, the Congress will stand at the fork of two roads.

One road is all too familiar to us. It leads—ultimately—to higher taxes. It merely brings us full circle back to the source of our economic problems—where the Government decides that it knows better than you what should be done with your earnings, and, in fact, how you should conduct your life.

The other road promises to renew the American spirit. It's a road of hope and opportunity. It places the direction of your life back in your hands—where it belongs.

I have not taken your time this evening merely to ask you to trust me. Instead, I ask you to trust yourselves. That's what America is all about. Our struggle for nationhood, our unrelenting fight for freedom, our very existence—these have all rested on the assurance that you must be free to shape your life as you are best able to—that no one can stop you from reaching higher or take from you the creativity that has made America the envy of mankind.

One road is timid and fearful.

The other bold and hopeful.

In these 6 months, we have done so much and have come so far. It has been the power of millions of people like you who have determined that we will make America great again. You have made the difference up to now. You will make the difference again.

Let us not stop now.

Thank you.

Mr. ROBERT C. BYRD. On May 12 President Reagan submitted a plan to cut $88 billion in social security benefits over the next 5 years.

Yet, last night the President said:

I stated during the campaign and I repeat now I will not stand by and see those of you who are dependent on Social Security deprived of your benefits.

How could he say this?

The President's plan to cut social security benefits includes the elimination of the minimum retirement benefit currently received by 3 million elderly Americans. In a few days, this cut will become law.

Last night in his nationally televised speech, the President said: "You will continue to receive your checks in the full amount due you." How could be say this?

The President's plan to cut social security benefits includes the elimination of the minimum retirement benefit currently received by 3 million elderly Americans. In a few days, this cut will become law.

In October, 1980, during the Presidential campaign Mr. Reagan said:

Any reform of the social security system must have one overriding goal: that the benefits of those now receiving—or looking forward to receiving—social security must be protected, and that payments keep pace with the cost-of-living.

Yet, in stark contrast, President Reagan's plan to cut social security would reduce the benefits of those "looking forward to receiving social security" at age 62 by 40 percent. It would also delay the date on which benefits are adjusted for inflation.

Last night the President said: "You have no reason to be frightened."

But in recent congressional testimony OMB Director Stockman said that the social security system would be bankrupt "on or about November 3, 1982."

In his letter to the congressional leadership of July 18, the President promised to tell the American people the facts about social security.

After last night's speech, we are still waiting to hear the facts.

This brings us back to what I call the $88 billion question. This is the amount the administration has said it would cut from social security retirement over the next 5 years.

Has the President abandoned his plan to slice $88 billion in social security benefits?

Or, was his statement to the Nation last night meant merely to calm the fears which have been flamed by David Stockman and others in the administration.

The American people—the elderly of the Nation, especially—deserve an

answer. The President has a responsibility to clarify these inconsistencies.

Mr. STEVENS. Mr. President, I yield to my good friend from South Carolina whatever time remains under the leadership time on this side.

The PRESIDING OFFICER (Mr. WARNER). The Senator from South Carolina is recognized.

Mr. THURMOND. I thank the Senator for yielding.

THE DAVIS-BACON ACT, PART VII, DAVIS-BACON AND THE PRESS

Mr. THURMOND. Mr. President, during the past several days, I have presented a series of discussions on the Davis-Bacon Act. I have endeavored to make these discussions factual and unbiased. But the more research I do on Davis-Bacon, the more I discuss the issue with colleagues and constituents alike, the more I become convinced that the Davis-Bacon Act must be repealed.

Regulatory reform is not the answer. No matter how the Davis-Bacon rules are rewritten, a large Federal bureaucracy will remain to set wages that will apply to Federal construction contracts.

Notwithstanding the virtual assurance that labor will delay these revised regulations for months through court action, these artifically set wage rates will continue to be an insult to the American free enterprise system of doing business.

PART VII—DAVIS-BACON AND THE PRESS

Mr. President, let me conclude my Davis-Bacon series—not with my own findings—but with the feelings of the American people, as expressed through the media of the press. I have selected the following quotations at random, but my colleagues should note that Davis-Bacon repeal is supported by the press from coast-to-coast, from border-to border, and by newspapers ranging from conservative to liberal. There are very few issues before the Congress today where there exists such widespread consensus as the call to repeal the Davis-Bacon Act.

U.S. News & World Report, July 27, 1981:

Sometimes a law that was useful for a time outlives its usefulness. This is true of the Davis-Bacon Act . . . The American taxpayers deserve some relief.

The New York Times, May 4, 1981:

The better remedy, requiring no day-to-day decisions by unmonitored Government officials; is to repeal the Davis-Bacon Act. The idea of using tax dollars to raise construction wages was dubious enough during the Depression. Carrying on with such a policy when the economy is wrestling with a disastrous inflation is mad.

The Wall Street Journal, April 22, 1981:

The case for repeal (of the Davis-Bacon Act) is so overwhelming that it's hard to see how arguing it would be distracting. Indeed arguing for repeal seems the simplest course to take; goodness knows, its the most sensible one.

The Pittsburgh Press, March 26, 1981:

Whether the Davis-Bacon Act ever did any good is debatable. Certainly it has outlived whatever usefulness it may have had.

The Chicago Tribune, June 1, 1981:

Revising the regulations would save money for as long as this administration is in power, but repealing Davis-Bacon would save money for years to come.

Rocky Mountain News, Denver, Colo., March 30, 1981:

Additional evidence has come to light supporting the proposition that the Federal Davis-Bacon Act should be repealed.

The News, Pensacola, Fla., March 24, 1981:

Rescission of the (Davis-Bacon) act should be high on President Reagan's priority list. Eliminating $20 billion a year from construction costs would be a mighty blow against inflation.

Mr. President, I could go on and on with similar editorial comments from newspapers across the Nation. Let me list just a few of the other newspapers that have called for repeal or at least major revision of Davis-Bacon since President Reagan was inaugurated:

The Portland Press Herald, Maine;
The Denton Chronicle, Texas;
The Daily News, Lebanon, Pa.;
The Washington Post;
The Star-Journal, Pueblo, Colo.;
The Baltimore Sun, Maryland;
The Mississippi Press, Pascagoula, Miss.;
The Mobile Register, Alabama;
The Tulsa World, Oklahoma;
The Richmond Times-Dispatch, Virginia;
The Indianapolis News, Indiana;
The Southwest Times-Record, Fort Smith, Ark.;
The Sentinel, Milwaukee, Wis.;
The Republican, Waterbury, Conn.;
The Press Tribune, Caldwell, Idaho;
The Advocate, Baton Rouge, La.;
The Kentucky Post, Covington, Ky.;
The Alexandria Gazette, Virginia;
The Times, Shreveport, La.;
The Houston Chronicle, Texas;
The Times and Democrat, Orangeburg, S.C.;
The Journal, Martinsburg, W. Va.;
The Cincinnati Post, Ohio;
The Republic, Phoenix, Ariz.;
The Herald News, Joliet, Ill.

Mr. President, how can we continue this blatant waste of the taxpayer's money? It is time to act now to repeal the Davis-Bacon Act.

RECOGNITION OF SENATOR DODD

The PRESIDING OFFICER. The Senator from Connecticut is recognized under the previous order for a period not to exceed 15 minutes.

Mr. DODD. Mr. President, I thank the Chair.

WANTED: A MIDDLE EAST POLICY

Mr. DODD. Mr. President, today, as over the past several weeks, the attention of the world is focused on the Middle East, and, once again, we learn from the morning news that an uncertain peace hangs precariously over the region. The ceasefire announced over the weekend is obviously an improvement over the violence that preceded it. But, let us not kid ourselves, a ceasefire is no substitute for a Middle East policy. And, given the problems that must be overcome in that ancient region—a region tortured by its past, tormented by its present, and troubled by its future—the hope for peace seems all but illusory.

In the latest round of tragic events, the illusion of peace was shattered initially by the Israeli raid on the Iraqi nuclear facility near Baghdad and, more recently, by the renewed Arab-Israeli conflict in Lebanon. The PLO arms buildup in southern Lebanon eventually gave way to Israeli air strikes on PLO positions in that country, accentuated by the attack on the organization's headquarters in Beirut. This, in turn, produced the expected response from Palestinian rocket and artillery batteries located a short distance from Israel's northern settlements. The cycle of violence and counter-violence had begun anew; much as Secretary Haig had warned during his confirmation hearings before the Foreign Relations Committee. He cautioned:

In the Middle East, an uneasy peace continues to be punctuated by raid and reprisal, with each such sequence threatening renewed and wider conflict.

Mr. President, some may look back on the Secretary's assessment and view it as prophetic. Some may be satisfied with that. But, quite frankly, Mr. President, I am not. I am not because I am more concerned about Secretary Haig the policymaker than I am about Secretry Haig the prophet. One is no substitute for the other, as this administration's lack of Middle East policy so clearly demonstrates.

Plain and simple, this administration has no Middle East policy worthy of the name. Or, if it does, it is the best kept secret in Washington. Secretary Haig obviously does not know what it is. His deputy, Mr. Clark, does not know what it is. Secretary of Defense Weinberger does not know what it is. And if President Reagan knows what it is, he is not saying, other than to make it clear that the others do not know and are not speaking for the administration.

Yes, Mr. President, some 7 months into this administration—and counting—we are still waiting for a Middle East policy. A statement from this administration that will serve as a guide to Arabs and Israelis alike, a statement—a policy—that will indicate to them and to the rest of us how this administration intends to use American power and prestige in that part of the world.

To put it mildly, such a policy has been too long in coming. As a result, I believe a good argument can be made that the United States bears a large measure of responsibility for the recent events in the Middle East. Neither friend nor foe there knows what to expect from this administration—despite the fact that the United States is the dominant outside force. This uncertainty, if not confusion, only serves to add, as it has already, to the volatility and instability of a part of the world that daily comes closer and closer to a regional nervous breakdown—with the ever-present danger that the victims of

it will employ some of the most sophisticated weaponry available to the world today.

Indeed, Mr. President, to the extent there is a madness in the Middle East, we are as much a part of it as the Israelis, the Arabs, the Palestinians or the Russians. In pointing the finger—in assessing the blame—we would do well to begin with ourselves.

Our role in that turbulent region is as real as the corpses in Beirut or the bodies in Kiryat Shemona. And to those who say that it is just a matter of degree—I say it is only a matter of degree. I further say that the Reagan administration, because of its inability to develop a consistent, reliable, and balanced foreign policy—as Secretary Haig pledged it would—must now accept a large share of the responsibility for the most recent turmoil and bloodshed in the Middle East.

This is a great responsibility for the Reagan administration to carry. It is a very heavy burden. But of this, President Reagan and company can be sure: The longer this administration delays developing a realistic, forthright, and specific policy for the Middle East, the larger the responsibility and the heavier the burden will be.

One final point, Mr. President. Thus far, the Reagan administration's foreign policy has concentrated on the Soviet Union and on the transfer of arms and other military equipment for the expressed purpose of containing Soviet expansionism. If it persists in this direction—to the exclusion of other foreign policy considerations, as it has done so far—it will record one failure after another on the international scene. The events of the past several weeks in the Middle East are a good example of one such failure, and it has come primarily as a result of this administration's fundamental misreading of the situation.

In the Middle East, as elsewhere around the globe, the emphasis has been on stopping Soviet penetration and on arming anyone who will take the pledge, seemingly regardless of the consequences. But the Middle East has its own dynamic, its own history, its own culture, its own social and political forces—which are not to be denied and which are quite apart from the activities of the Soviet Union. Until the administration recognizes these factors and recognizes the situation for what it is, rather than for what it wishes it to be—in short, until the administration develops a coherent policy toward the Middle East—there will be more and more setbacks in that part of the world. In the long run, this will only redound to the benefit of the Soviet Union—an irony to be sure, but one that we must obviously strive to prevent.

I thank the Chair and I yield back the remainder of my time, Mr. President.

ROUTINE MORNING BUSINESS

The PRESIDING OFFICER. Under the previous order, there will now be a period for the transaction of routine morning business not to extend beyond the hour of 9 a.m.

THE CAMBODIAN CONFERENCE

Mr. PROXMIRE. Mr. President, the United Nations has convened a special conference on the status of Cambodia. That conference is now going on in New York. The conference is trying to shed an international light on the terrible problems of a nation wracked by warfare and campaigns of mass murder.

Speaking before the conference, Secretary of State Haig denounced the genocide that has occurred so often in Cambodia and declared our support for the Cambodian people. I am glad that the administration has taken this opportunity to recognize that campaigns of genocide are not a specter out of the past but, rather, a problem that we still confront today.

Despite the absence of the Soviet Union, Laos, and Vietnam, this conference carries significance as a symbol of the concern and involvement of the international community. Through its discussion, it may help to generate new approaches to resolving the country's long-term problems.

The Genocide Convention is another such symbol, one worthy of acceptance by the United States. Just as we have respected the role of the international conference on Cambodia, so should we respect the consensus of international opinion represented by the 87 nations who have thus far chosen to ratify the Convention.

Tragedies like the one in Cambodia are unfortunately far from unique. We have a clear moral obligation to oppose such crimes of genocide wherever and whenever they occur.

We certainly have a clear moral obligation to ratify the Genocide Convention, which this country was able to persuade the United Nations to adopt 32 years ago, and which has been pending in the Foreign Relations Committee simply because this body, the Senate of the United States, refuses to act.

Mr. President, the time certainly has come for us to act, as every President we have had since 1949 has urged us to do.

So I plead with my colleagues, once again, to ratify the Genocide Convention as an important part of our opposition to genocide, which has occurred not just in Hitler's Germany but also is occurring today, in Cambodia.

AN OWNERSHIP APPROACH TO PRODUCTIVITY

Mr. LONG. Mr. President, this past Friday the Senate, by a vote of 93 to 1, went on record in support of the employee stock ownership provisions of the Economic Recovery Act of 1981. Those provisions offer a promising new approach to increasing America's productivity.

Expanded ownership is an issue that cuts across party lines in an attempt to bring out the best in our free enterprise system. As the 1980 Republican platform reminds us:

> The widespread distribution of private property ownership is the cornerstone of American liberty. Without it, neither our free enterprise system nor our Republican form of Government could long endure.

Mr. President, let me say that I think most Democrats will agree. I certainly agree with that suggestion of the Republican platform. The Republican platform pledges the Reagan administration "to help millions of Americans * * * to share in the ownership of the wealth of their Nation."

President Nixon included a similar pledge in his 1970 state of the Union address in which he suggested:

> We must adopt reforms which will expand the range of opportunities for all Americans. . . . This means . . . new opportunities for expanded ownership, because in order to be secure in their human rights people need access to property rights.

In a similar vein, Senator Hubert Humphrey explained his support of expanded ownership in a letter to the editor of the Washington Post not long before his death:

> Throughout my career as a public servant, I have viewed full employment as a top priority goal for this country. And I continue to do so. But I recognize that capital, and the question of who owns it and therefore reaps the benefit of its productiveness, is an extremely important issue that is complementary to the issue of full employment.
>
> I see these as twin pillars of our economy: Full employment of our labor resources and widespread ownership of our capital resources. Such twin pillars would go a long way in providing a firm underlying support for future economic growth that would be equitably shared.

The benefits of Government-stimulated economic growth have traditionally trickled down through higher wages, expansion in the number of jobs, and the availability of increased tax revenues to fund expanded social programs.

That approach has produced strains on the economy as the benefits of such growth have resulted in the accumulation of massive amounts of productive capital by a relatively few households while the vast majority have been left with only a meager net worth.

For example, during our bicentennial year, the Joint Economic Committee studied capital ownership in the United States and found that 50 percent of the total value of outstanding stock held by individuals is owned by just 0.5 percent of the U.S. population. Two-thirds, according to a 1976 IRS report, is held by 5.2 percent of the population age 20 and over. Similarly, 1 percent of the population received 47 percent of all dividends.

At the other end of the ownership spectrum, the committee cited a 1972 study indicating that 55 percent of American households have a net worth of less than $10,000; and 12 percent, or 1 in every 8, have a net worth of $1,000 or less.

Perhaps the most disturbing analysis of the present state of our private property system, however, is provided by the National Bureau of Economic Research which reports that for the majority of American families their most important "wealth" is now their entitlements under our social security system.

Thus, for most Americans their most important asset is an assurance that

someone else will be taxed on their behalf. Clearly that is a long way down the wrong road if we intend to have a private property economy to leave to subsequent generations of Americans. Incentives for economic growth need to be combined with incentives that will distribute the long-term benefits of such growth more widely.

CAPITAL OWNERSHIP OPPORTUNITIES

Most of us share President Reagan's concern for incentive economics, for supply-side measures designed to stimulate new capital investment. We are generally in agreement that this package of tax cuts will provide a strong private sector foundation for a revitalized economy.

With that in mind, we are considering legislation that will target an estimated $147.5 billion through 1986 for increased business writeoffs of equipment and facilities—all of which will be owned by someone. The financial press estimates that by the close of this century productive wealth in the United States will increase by $2 to $5 trillion. The bulk of that new wealth will be owned by private individuals.

Within a healthy and growing economy, there will be opportunities not only to work but also to own. The distribution of job opportunities as an outgrowth of Government-stimulated economic growth is a factor that will be evaluated in great detail. Unfortunately, we are unlikely to have an analysis of the distribution of ownership opportunities as well.

In large part, corporate finance will determine who will be owners of these badly needed new capital investments. Corporations finance their growth from three primary sources: Retained earnings, debt, and various tax benefits—primarily equipment writeoffs, such as those which form the bulk of the business tax relief in this bill.

New stock plays only a minor role in the financing of new capital. For example, Federal Reserve Board figures show that corporate equities accounted for only 0.89 percent of the total funds raised in the United States during 1979. For the entire 1970's, stock sales accounted for a mere 3.7 percent of new capital raised in the nonfinancial sector. Even during the rapid growth of the 1960's, new equity issues were the source of only 7 percent of total financing for nonfinancial companies.

Because of the way in which new investments are financed, capital ownership has historically been an opportunity reserved for a relative few. The ownership of new capital wealth is largely a function of existing capital wealth.

After studying the self-perpetuating wealth concentration that the most widely used financial techniques imply, the Joint Economic Committee concluded in its 1976 annual report:

> To provide a realistic opportunity for more U.S. citizens to become owners of capital, and to provide an expanded source of equity financing for corporations, it should be made national policy to pursue the goal of broadened capital ownership.

For the most part, the American people cannot afford capital ownership. Daily economy survival, not savings and investment, is their main concern. And the less our technologically advanced economy needs their labor, the less able they are to save their way to capital ownership. Inflation, of course, penalizes what little savings they are able to set aside.

After passage of this bill, the bulk of America's new productive capital will, I expect, continue to be financed as before—except that more accelerated write-offs will then be available with which to do that financing. It is my hope that the Employee Stock Ownership Plan (ESOP) provisions of this bill will provide an incentive for at least some portion of this new capital to be financed in such a way that more Americans will begin to accumulate a capital estate.

A MODEL OF WORKABILITY

Free enterprise capitalism is losing ground all over the world. We need to be able to demonstrate to other nations how our increasing prosperity spreads out and reaches Americans in all walks of life.

Unless we offer such a model, other nations will continue to see the socialist model as a more attractive alternative. Secretary of State Haig was on target when he recently commented that our economic contradictions here at home make it more difficult for us to lead abroad.

As Ronald Reagan explained in 1975:

> Capitalism hasn't used the best tool of all in its struggle against socialism—and that's capitalism itself.

In a July 1974 speech to the Young Americans for Freedom, Governor Reagan explained the historical precedent for a policy of expanded ownership and endorsed the uniquely American opportunity that such a policy would represent:

> Over one hundred years ago, Abraham Lincoln signed the Homestead Act. There was a wide distribution of land and they didn't confiscate anyone's already owned land. They did not take from those who owned and give to others who did not own. It set the pattern for the American capitalist system. We need an Industrial Homestead Act . . . I know that plans have been suggested in the past and they all had one flaw.
>
> They were based on making present owners give up some of their ownership to the nonowners. Now this isn't true of the ideas that are being talked about today.
>
> Very simply, these business leaders have come to the realization that it is time to formulate a plan to accelerate economic growth and production and at the same time broaden the ownership of productive capital. The American dream has always been to have a piece of the action.

The theme of the employee stockownership provisions of this bill is a theme of widespread participation—participation not only through jobs but through ownership as well. To encourage expanded ownership does not mean to take from those who own in order to give to those who do not. Rather, the intent is to provide incentives for newly created capital to be more broadly owned.

As the private sector expands and the economic pie begins to grow, these ESOP incentives will provide those who make that pie with an opportunity to own a piece of it. Instead of simply sharing in the pie by taking a larger slice, ESOP will provide a chance for more working Americans to own a piece of the pie-making machinery.

Thirty-two Members of the Senate have joined me in cosponsoring the bipartisan measure which I introduced some months ago. About half of those provisions appear in this bill and they have been unanimously recommended by the Committee on Finance.

In addition, it is encouraging to see that just this past month the State of Delaware joined the States of Maryland, Michigan, Minnesota, and New Jersey in establishing as official State policy the encouragement of ESOP's as a means to broaden ownership. Similar legislation is pending in several other States.

As the President reminded us last night in his address to the Nation:

> The best way to have a strong foreign policy abroad is to have a strong economy at home.

As we enact these incentives to restore strength to the American economy, I hope that we will keep in mind the crucial role that private ownership plays in the functioning of a free enterprise system.

TOWARD A POLICY OF ECONOMIC SELF-SUFFICIENCY

If we are to have a self-sustaining economic system, and one in which Government plays only a minor role—as the voting public seems to be telling us it should—then the private sector must itself be encouraged to play a greater role in the functioning of our private enterprise economy.

By producing the economic pie, we necessarily create the problem of how it is to be distributed. Wages and salaries are one way. Under our present system, however, pay tends to outpace productivity.

When an upward drift in income is not matched by a real growth in output, income gains are, of course, largely illusory. It would be shortsighted for us to continue to leave the vast majority of Americans with nothing other than their labor, as the capital with which they provide input into—and derive income from—our capital-intensive economy.

Redistributive taxation is another way to distribute income, although for this purpose it is strictly a hindsight, remedial approach. In addition, the fiscal strains created by this approach are increasing at an alarming rate. For example, over the past 20 years, direct Federal transfer payments to individuals have grown from 26.4 percent of total budget outlays to more than 50 percent; $27 billion was paid out in 1960—by 1980 that had risen to $284 billion, including a growth of more than $200 billion just since 1970. And of course Government can never return as much as it takes, so its costs insure a net loss in the transfer.

We need to bring our outtake system more "in synch" with the realities of our input system. A market economy is based on the premise that each person's outtake from the economy is directly related to that person's productive input—whether that input be through a job or through the ownership of productive capital. Both can generate income.

Rather than break the relationship between effort and reward, the expanded ownership concept suggests that we recognize the increasingly dominant role that nonhuman capital now plays in the productive process, and begin to provide a way for more Americans to economically participate by means more consistent with the existing state of technology.

When capital owners are few, the private property conduits of a market economy reward those few. If there were many owners, the earnings of that productive capital could begin to broadly irrigate the economy with purchasing power.

How efficiently our free enterprise system works in solving our income distribution problem is partly a function of how well our structure of property laws matches the underlying technological and economic realities. If those realities change and our property arrangements fail to keep pace, a conflict is inevitable.

Of the even leading industrial democracies—France, West Germany, Canada, Sweden, the United Kingdom, and Japan the United States now ranks second only to France in its degree of income inequality. In addition, our poorest 20 percent have a lower share of total pretax income than any country, including France. A broader distribution of capital ownership would help to improve our poor ranking internationally.

In some nations, the private ownership of productive capital is forbidden—on the grounds that private property is at the heart of the problem. The solution, however, lies not in destroying the institution of private property, but in making it possible for all to become owners of some of it.

Expanded ownership could help reduce the role that Government plays in redirecting income. But to do that requires that we work to build economic self-sufficiency into the American population at large.

Over the long term, the best way to cut back Government programs is to cut back the need for such programs. If we are to be successful in our attempt to create a self-sustaining economic system, however, we must first begin to share the ability to succeed. The encouragement of expanded ownership would be a step in that direction.

A NONINFLATIONARY BENEFIT

In addition, if we are to win in our battle against inflation, we need incentives for working Americans not only to save but also to moderate their wage demands. The current situation at Continental Airlines provides a good example of the potential that employee stock ownership plans have for moderating wage-push inflation.

The Continental employees are proposing that they forgo a portion of future pay raises and, instead, apply those funds to invest in company stock (through an ESOP). This inflation-fighting approach to compensation should be encouraged.

According to pollster Louis Harris, the American public is generally receptive (that is, 63 percent) to the idea of having their salaries linked to higher productivity—at least if they are convinced that their sacrifices will provide funds for needed investment. Thus the encouragement of employee stock ownership plans may help restrain inflation by helping to channel wage demands into capital investment.

When combined with the labor productivity gains that generally accompany employee stock ownership, widespread ESOP-type financing has the potential to significantly improve our economic situation. Just as the company with employee stock ownership will have a productive advantage over a conventionally owned competitor, so too should the U.S. economy enjoy a competitive edge with a tax policy supportive of expanded ownership.

Employee stock ownership could also serve as a new stabilizing element in labor-management relations—an element that may encourage these traditional foes to act more in the national interest by beginning to operate more in a spirit of cooperation and compromise. Unions must find new, noninflationary ways to deliver victories to their members, and management needs to find new ways to deal with union demands.

A recent Harris poll found that 53 percent of American employees and 61 percent of American business leaders feel that there is too little cooperation between business and labor. Employee stock ownership provides a fruitful new area in which these traditional adversaries can resolve their differences.

INCENTIVE ECONOMICS

What would be the effect of transforming this troubled economy of ours into one in which working Americans have the interest and incentive of ownership? Even a modest stake in the system would bring with it a better understanding of how our free enterprise system works, and a greater awareness of the costs and the tradeoffs of Government programs.

Our tax code should encourage a broad distribution of productive input and a substantial payout of the earnings generated by that input. If we are to have a more equitable and a more workable income distribution—without Government redistribution—we must have incentives for the widespread ownership of productive capital.

Our tax system is a key to linking equity and efficiency. As presently structured, that system not only aggravates the bias toward concentrated ownership and governmental redistribution, in the process it also jams the market's pricing system and its ability to allocate resources in the most productive, market-responsive fashion.

We must begin to strike a better balance between the energy and efficiency of the market and the equity, compassion and equality of democracy. Expanded ownership would bring a democratic new dimension to the investment process, and open new possibilities for economic system we mean to have in the icans.

DEMOCRATIC CAPITALISM

Since 1973, the Congress has approved, and three separate administrations have signed into law, 14 bills promoting the use of employee stock ownership plans as a means to expand the ownership of productive capital. In addition, in the Tax Reduction Act of 1976, Congress made clear its policy of "* * * encouraging employee stock ownership plans (ESOP's) as a bold and innovative method of strengthening the free private enterprise system which will solve the dual problems of securing capital funds for necessary capital growth and of bringing about stock ownership by all corporate employees."

However, the provisions of current law—even when improved by the very modest ESOP-related provisions of this bill—will do very little to expand the base of capital ownership in the United States. Due to the nature of the most commonly used techniques of finance found in the private sector, the great bulk of the new productive capital created due to the investment incentives in this bill will likely flow to that same small group of Americans who are already quite wealthy.

That would show a failure of foresight on our part, and I hope that we will take steps to correct such a trend if we find that is the direction in which we are headed.

Both sides of the aisle are on record in support of expanded capital ownership. Both sides are also on record as opposed to a socialist approach to economic policy, such as is now being considered in France.

This is the richest and the most comprehensive capital formation bill ever considered by the U.S. Congress. By the end of this century we would be well advised to insure that a significant amount of this yet-to-be-created productive capital flows into the hands of a steadily expanding number of American households.

If there is to be an expansion of capital ownership in the United States, certainly these next two decades are an opportune time to make that bipartisan desire a reality. Tax policy alone may not be adequate if expanded ownership is to become a reality. Thus, we should also consider how monetary policy can operate in support of a national policy of expanded capital ownership.

Capitalism's market mechanisms of incentive and reward have brought more and better goods and services to more people here and throughout the world than any other system in history. Yet those mechanisms are not indestructible. If they are to be preserved, we need an institutional framework that operates in their support. That support lies in the direction of a more democratic form of private property capitalism—a type of capitalism that is true to its democratic roots, and true to the American tradition of widespread participation.

The issues raised by this legislation go to the very heart of just what sort of economic participation by more Amer- United States, and just what sort of Nation we intend to leave for succeeding generations of Americans. The ESOP provisions of this bill offer us a blueprint—a guide for future legislation de-

signed to include more Americans as partners in our economic progress.

CLARIFICATION OF ESOP AMENDMENTS

Mr. President, the Economic Recovery Act of 1981 makes a number of changes in the law relating to employee stock ownership plans (ESOP's). Many of these changes are highly technical in nature. Thus, it may prove useful to provide some additional clarification regarding several of the provisions.

An ESOP is a technique of corporate finance. It is also a tax-qualified plan under which employer stock is held for the benefit of employees. The stock, which is held by a tax-exempt trust under the plan, may be acquired through direct employer contributions or with the proceeds of a loan to the trust.

In order to qualify, a plan must, for example, satisfy rules prohibiting discrimination in favor of highly-paid employees, and it must meet standards relating to employee participation, vesting, benefit and contribution levels, the form of the benefits, and the security of the benefits. If a plan meets these requirements, in addition to deferral of employee tax on employer contributions, the income earned on assets held under the plan is generally not taxed until it is distributed or made available. In addition, special 10-year income averaging rules or tax-free rollover treatment apply to distributions made in a lump sum. Also, the Internal Revenue Code provides for deferral of tax on the appreciated value of employer securities and for exclusions from estate and gift tax.

An employee stock ownership plan which borrows to acquire employer stock is referred to as a leveraged ESOP. A leveraged ESOP is a technique of corporate finance designed to build beneficial equity ownership of shares in an employer corporation into its employees.

Under such an ESOP, an employee stock ownership trust generally acquires stock of the employer with the proceeds of a loan made to it by a financial institution. Typically, the loan is guaranteed by the employer. Employer contributions to the trust are applied to retire the loan. Within limitations (based on a percentage of payroll), those contributions are deductible by the employer.

The provisions of this bill raise the deductibility limits for employer contributions applied to the repayment of the principal of an ESOP loan. In addition, employer contributions to repay the interest expense of an ESOP loan will be deductible without regard to the deduction limitations otherwise applicable to contributions to tax-qualified employee benefit plans.

Subject to meeting a nondiscrimination test, a corresponding amendment provides that the limitation on annual additions to employee benefit plans will no longer apply to employer contributions applied by an ESOP to repay interest on an ESOP loan. In addition, those limitations will no longer apply to amounts forfeited under an ESOP loan.

Although the effective date of the Act applying to these revised limitations is generally effective for years after 1981, it is intended that employer contributions applied to pay a loan incurred prior to 1982 will also qualify under the new provisions.

Many of the rules governing the new payroll-based tax credit ESOP are the same as those applicable to the current additional investment tax credit for ESOP contributions. As under present law, for example, a payroll-based tax credit ESOP may be treated as a tax-qualified plan from its effective date even though the plan is not actually established until the date for filing the employer's tax return for its taxable year—including extensions.

As under present law, the allocation of employer contributions to a tax credit ESOP for a year must be made in proportion to the total compensation of all participants sharing in the allocation for the plan year, taking into account only the first $100,000 of compensation for an employee. Integration with benefits provided under social security continues to be prohibited. In addition, amounts allocated must be immediately 100 percent vested, for example, nonforfeitable.

Limited amounts of administrative expenses for establishing a tax credit ESOP may be charged to the plan. The maximum amount which may be charged is 10 percent of the first $100,000 of the amount required to be transferred to the plan for the taxable year in which the plan is established, and 5 percent of any additional amount for such year. In addition, ongoing costs of administration—up to 10 percent of the first $100,000 of the trust's dividend income plus 5 percent of the remaining dividend income—may also be charged to the plan.

This bill also introduces a new nondiscrimination test applicable to leveraged ESOP's and to tax credit ESOP's. The purpose of the test is to insure that rank and file employees are the primary beneficiaries of the additional incentives provided under this bill.

The nondiscrimination test places limitations on the amount of employer contributions that may be allocated to officers, 10 percent shareholders, and the highly compensated. For purposes of this requirement, the term "officers" includes only those persons, regardless of title, who perform substantive duties in the nature of top management. Highly compensated employees are those earning twice the annual addition limitation under section 415—$83,000 for 1981.

THE ALLIED PLYWOOD ESOP

Mr. President, I ask unanimous consent that a profile of an ESOP company that appeared in the current newsletter of the Employee Stock Ownership Association be printed in the RECORD.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

THE ALLIED PLYWOOD CORPORATION OF ALEXANDRIA, VIRGINIA

Allied Plywood's ESOP is working—for the company, its owners, and its employees.

Allied Plywood Corporation is a plywood distributing firm founded by Ed and Phyllis Sanders in 1951. Spurred by the Washington-area building boom and sound, conservative management practices, the company enjoyed steady growth for 25 years. But like most small business owners, the Sanders' faced enormous obstacles from the Internal Revenue Service when they tried to convert some of the hard-won fruits of their labors to cash for their own enjoyment.

They considered selling some of their stock back to the corporation, but IRS regulations deny capital gains treatment when a family owns more than 50 percent of the common stock. Any such sale is treated as a dividend instead. The result: a confiscatory 70 percent personal tax on proceeds, and no corporate-level deduction for the amounts paid for the stock.

Then, in 1976, Ed Sanders read a Washington Post letter to the editor describing the merits of the Employee Stock Ownership Plan. After studying the plan carefully, Ed concluded that he could use it to solve his tax problems and provide an entirely new system of incentive for his employees at the same time.

THE SOLUTION

Allied Plywood then adopted a non-leveraged ESOP, combining a stock bonus plan with a money-purchase plan to take advantage of the higher contribution levels available when this type of combination is used. Under the money-purchase plan, the firm is required to contribute 10 percent of its covered payroll to the plan each year; the level of contributions under the stock bonus plan is entirely discretionary. Each year since its inception, the ESOP has used cash contributed by the company to purchase shares from Ed and Phyllis Sanders.

From a tax standpoint, the results of the plan have been right on target. The cash that Ed and Phyllis receive for their stock is taxed at capital gains rates, rather than at the much higher dividend rates, because they have taken care to abide by the rules of Revenue Procedure 77-30. The company's contributions to the ESOP have been fully tax-deductible, another big advantage over the stock-redemption alternative.

The ESOP has also solved a problem that had been troubling Ed Sanders for years: how to get the employees more involved with the company, how to get them to identify their own fortunes with the company's fortunes. Previously, he had tried to sell shares directly to the employees, but that approach met with little success. Most workers had no after-tax money to spare for "luxury" items like stock. The ESOP, by providing employees with stock at no out-of-pocket to them, gives each worker a substantial capital stake in the company.

Allied Plywood's ESOP, after last year's contribution and stock purchase, owns just under 50 percent of the total equity outstanding. Next year, the amount will surely surpass the 50 percent level, and in a few years, as Ed and Phyllis continue to sell their equity, it will own substantially all of the stock of Allied Plywood.

COMMUNICATING THE BENEFITS

Like most ESOP companies, Allied Plywood has had to make special efforts to communicate to its employees exactly what the rights and responsibilities of stock ownership are. Each year, the employees' annual ESOP reports are printed by a computer on to a form resembling a stock certificate.

The report lists the value of the individual's accounts in the ESOP, broken down so that he can see the importance of a steady increase in the value of his Allied Plywood stock. Along with the certificate comes a report on company operations written by Ed Sanders, bringing the employee-owners up to date on the "big picture" most workers never see. Once a month there is a meeting of all the employees, to share information with them and to pick their brains about how different aspects of the company's operations might be improved.

Sanders believes, however, that formal meetings are not really the best places for productivity-improving ideas to be worked out. Rather, participation occurs in a more unstructured way: as problems develop in day-to-day operations, or as a new idea pops up, things are discussed right away rather than waiting for a formal meeting.

CASH BONUSES

Sanders firmly believes that the ESOP has made a difference in his employees' productivity, although he says it is difficult to put an exact dollar figure on the productivity value of the ESOP. In the employees' minds, the ESOP benefits are closely intertwined with Allied's outstanding cash bonus program.

Each month, the firm contributes an amount of cash to a bonus pool, the size of the contribution based strictly on the profits accumulated by the firm during the month. The pool is then divided equally among all the employees. For the month preceding the ESOP Association's interview with Ed Sanders, each employee received about $1,200 from the monthly bonus pool.

That's in addition to the employee's take home salary. Admittedly, this was a higher than average month; but the combined effect of the ESOP and the productivity-tied cash bonuses of this magnitude ought to be self-evident. At the end of the year, employees receive an additional bonus, based on a complex formula involving the number of days worked, importance of the job, years of service, and the quality of the individual's performance.

To top it all off, the employees receive a dividend on the stock held in their ESOP accounts. The dividend is "passed through" the ESOP to the employees, providing them with a cash return on their stock. The size of the dividends is very small because dividends are not deductible to the corporation as bonuses are. This combination of long-range ownership benefits and short-range cash benefits has resulted in extraordinarily low rates of absenteeism and turnover for Allied Plywood, and have contributed to the remarkable productivity rates the firm enjoys.

Of course, the "proof of the pudding" as far as the employees are concerned is the stock distribution when they terminate employment. Because Allied Plywood is a small company with dedicated employees, there has only been one such termination since the plan was started in 1976.

Naturally, there was quite a bit of interest from the other employees about the details of this distribution. Sanders took the opportunity at one of the monthly meetings to discuss this payment to the employee, who chose to sell his stock back to the ESOP immediately for a full payment in cash.

The sale was made using a book value formula for pricing the stock. Allied Plywood has used this formula since the inception of the ESOP, without any complaints from the IRS. (That doesn't mean, however, that the IRS would permit a book value formula to be used in other circumstances. See Revenue Ruling 59-60 for the IRS preferred valuation approach.)

THE BASICS

Name: Allied Plywood Employee Stock Ownership Plan.

Year established: 1976.

Type of plan: Stock bonus plan combined with money-purchase plan. Non-leveraged, non-contributory.

Participants: 19.

Vesting schedule: 0 percent for first three years, 30 percent after three years, 40 percent after 4 years, etc. up to 100 percent after 10 years.

Plan investments: 90 percent in Allied Plywood; 10 percent in certificates of deposit.

Percent of employer owned by plan: Just under 50 percent.

Other benefit programs: Monthly and yearly cash bonuses.

ED SANDERS' VIEWPOINT

Ed Sanders is satisfied with his ESOP, and he thinks that Congress ought to encourage more companies to adopt the program. "ESOPs are great for the continuity of corporations," says Sanders. "They enable them to roll along as new owners come in and the old ones go out."

He is particularly irked by what he regards as a tax-code bias in favor of conglomerate takeovers of small companies that could otherwise be purchased by ESOPs similar to Allied Plywood's. The solution, he has argued repeatedly in Congressional testimony and elsewhere, is to provide a "tax-free rollover" for sales of small business stock to ESOPs.

In other words, a person who sold small business stock to an ESOP and reinvested the proceeds in other small business stock within 18 months would not have to pay a tax on his gain—at least until he sold the stock acquired with the proceeds, at which time his tax would be based on the entire gain from the time he acquired the original stock sold to the ESOP. This would put the seller in the same position he would be in had he engaged in a tax-free merger into a conglomerate.

Sanders also opposes mandatory pass-through of voting rights to ESOP participants. "I've invested half a lifetime in building this company," he argues, "so why should I just turn over control to somebody else? I'm not really afraid of doing that, but why should I? Most of them haven't put in a penny of their after-tax dollars as I have, and I don't think it is fair for the government to force a vote pass-through."

SUPPORT FOR SMALL BUSINESS

Mr. STEVENS. Mr. President, recently an editorial appeared in the July 15, 1981 edition of the Washington Star endorsing the Small Business Innovation Research Act of 1981 introduced by the distinguished Senator from New Hampshire, Mr. RUDMAN.

Senator RUDMAN has addressed a very important issue regarding support for small business in this country. If the United States is to remain on the path to economic recovery, it is essential that small businesses throughout the land become healthy and viable. There is no doubt that the strength and stability of the U.S. economy is directly correlated to the survival of small businesses.

The measure sponsored by my able friend from New Hampshire, directs Federal agencies with research and development budgets over $100 million to set aside 1 percent for small businesses. As a result, small businesses would be eligible to submit proposals relating to the research and development objectives of the agency from which the seed money will come. In this way, the efforts of an agency research and development would be complemented by the efforts of small businesses with promising ideas. It must be clear, however, that any commercial application would be resulting from the research and development financed by private capital, not public funds.

I am pleased to join Senator RUDMAN as a cosponsor of the Small Business Innovation Research Act of 1981 and I ask unanimous consent that the text of the editorial referenced above be printed in the RECORD.

There being no objection, the editorial was ordered to be printed in the RECORD, as follows:

INVENTION IN THE SENATE

It remains something of a historic scandal that the Wright Brothers waited five years to get federal support, which came grudgingly at that. But the problems facing small innovative businesses haven't changed much. Their contribution to American life and invention far exceeds their size, yet federal support remains minuscule—3 or 4 percent of the federal research and development budget. That could be changed by one of the most ingenious bills of the 97th Congress introduced by freshman Sen. Warren B. Rudman, R-N.H.

Mr. Rudman's "invention" could give small R&D firms as much as $400 million more a year—without adding a cent to the federal budget. His Small Business Innovation Research Act of 1981 simply requires that federal agencies with an R&D budget in excess of $100 million set aside 1 percent for small business. Thus it would counter the federal temptation to turn always to one or two "safe" contractors and open the market to more spirited competition. The government may spend as much as $40 billion on R&D in 1982.

The importance of small business cannot be overstated. An MIT study, for instance found that between 1953 and 1974 some 50 percent of all major innovations came from firms with fewer than 1,000 employees. A National Science Foundation survey showed that small businesses produce up to 24 times more innovation per R&D dollar than larger ones. An MIT Development Foundation Study said that "young" technology companies, with sales equaling only 2 per cent of those in "mature" industry, created 34 percent more jobs than those created by the mature companies. Yet federal R&D grants persistently favor large firms.

Mr. Rudman's bill, introduced jointly with Sen. Lowell Weicker Jr., R-Conn., is simplicity itself. Small businesses would be invited to submit proposals touching on an agency's R&D objectives. Those judged to be more promising could get "seed money"—and more money if the research appears fruitful. Any commercial application would be financed entirely by private capital.

One can anticipate objections. A National Science Foundation program, after which Mr. Rudman's bill is modeled, was widely judged to be successful, but there were some complaints about implementation. There are bound to be difficulties in following through on any program in which more companies participate and more ideas emerge.

Nevertheless, the case for the proposal is powerful indeed, as Mr. Rudman observed when he said that "almost 50 per cent of American economic growth stems from innovation." Similarly, a 1977 Office of Management and Budget study found that small firms have inadequate access to federal R&D money and that "our country will lose significant high technology capabilities" without such support. Mr. Rudman's bill would increase that resource by redistributing a tiny portion of federal money already being spent on R&D.

When final hearings on the bill begin today it should also be noted that it admirably complements President Reagan's wish to stimulate the economy and enhance productivity. For such reasons it has attracted 79 cosponsors, including such traditionally opposing voices as Howard Metzenbaum, Edward Kennedy, Jake Garn and Jesse Helms.

But there have been other attempts to awaken Washington to the importance of American R&D—and most have gotten no-

where. Mr. Rudman's exceptional bill could be an exception to that sorry history, and it ought to be.

THREE MILE ISLAND: NUCLEAR POWER'S TET

Mr. SYMMS. Mr. President, in the wake of the nuclear accident at Three Mile Island, my guess is that if you asked the average American how many people would die in the event of a nuclear meltdown, the answer would be thousands. I suppose that the average American, who depends for his information about nuclear power on the evening television news and an occasional headline in the local paper, would tell you that nuclear power is terribly risky. And that is truly unfortunate, Mr. President, since the truth is just about exactly the opposite.

In order for nuclear power to be as dangerous to the health of Americans as burning coal, for example, we would have to have a melt-down someplace in the country about every 6 months. Actually, this estimate is based on the kind of worst-case figures generated by the Union of Concerned Scientists, not widely thought to be strong supporters of nuclear power. Using official Government figures the frequency of meltdowns would have to be one every 2 weeks to make nuclear power as dangerous as coal.

These facts are provided by Dr. Bernard Cohen, a professor of physics at the University of Pittsburgh, and chairman-elect of the American Nuclear Society's Division of Environmental Sciences. Dr. Cohen notes that in almost no cases would there be any immediate deaths from a meltdown, though such deaths are not impossible. The usual effect would be a very, very modest rise in the number of cancer-related deaths spread over decades. Taking all deaths together, they work out to about 400 for each meltdown. For comparison purposes, Dr. Cohen points out that burning and mining coal is killing about that many people every 2 weeks.

That is not to say that coal burning is particularly dangerous either. I am not against the burning of coal. Nor am I making excuses for any deaths which can be related to one form of energy production over another. Nor am I oblivious to the importance of strong nuclear safety procedures. I merely think it is important to put things in perspective. The public perception of coal burning and nuclear power production are just very much at variance with reality.

Why is the fact so different from the reality, Mr. President? This is an important question, and one that we ought to focus some attention on. Dr. Cohen suggests that it is because nuclear power is the first energy source which has developed in the modern age, when we have had the foresight and capacity to evaluate all the risks up front, ahead of time. Thus we have learned a great deal about the risks of nuclear power.

Coal, and other fossil fuels, by contrast, came into use hundreds of years ago, before we developed our penchant for long-range planning. The risks of burning coal were unknown at the time. We are now able to go back and evaluate those risks, but to the average person, coal is an old friend. We all know it and are comfortable with it. Dr. Cohen suggests that this unequal treatment is damaging to our long-term security and well-being.

He suggests one other explanation for the disparity between image and fact: the news media. To quote him:

A reporter's job is to get an interesting story, something that will attract the attention of the public. . . . A reporter trying to make an interesting story . . . naturally picks the worst possible accident—45,000 cancers, $15 billion cost—to discuss. His story says that nuclear accident could have these consequences, but readers and those reporting a story seldom make a sharp distinction between could and would. Since media people get most of their information from other media productions, powerful media figures ranging from Dan Rather to Johnny Carson have been convinced that a reactor meltdown is the ultimate disaster. With them preaching the gospel, the public is soon convinced.

Mr. President, Dr. Cohen is right on target with this point, and I found his other insights into the safety of nuclear power equally illuminating. I ask unanimous consent that Dr. Cohen's article, from the June 12 issue of National Review, be printed at this point in the RECORD.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

KING COAL AND THE MELT-DOWN MYTH

(By Bernard L. Cohen)

Melt-down has become a household word synonymous with the ultimate disaster. That word, referring to a complete melting of the fuel in a nuclear power reactor, was brought to public attention in the movie The China Syndrome, and its implications were underlined by the accident at Three Mile Island. Fear of a melt-down has led several commentators to say that we should depend on coal rather than nuclear power for electricity.

How rational is this? According to estimates by government scientists, for nuclear power to be as dangerous as coal we would have to experience a reactor melt-down every two weeks somewhere in the United States. If one rejects the credibility of government-sponsored studies and goes to the other extreme of accepting the estimates of the Union of Concerned Scientists (UCS), nuclear risks become equal to those of coal if we have a melt-down only every six months.

An average melt-down, according to the government estimates, would result in about four hundred eventual cancers. The UCS estimate is ten times higher. But air pollution from coal-burning is generally estimated to be causing about ten thousand fatalities per year in the United States, a rate of four hundred every two weeks (some estimates of the effects of coal-burning are many times higher).

Since there seems to be a credibility problem with government statements, it should be explained that what we refer to as "government estimates" is actually work by scientists whose research is supported by the Federal Government, which includes well over 90 percent of the involved scientific community. Their scientific work is not subject to political pressure or review, although the official summaries of their documents and the press releases on them are in the political arena. Since science is international, and its findings can be readily checked, incorrect scientific information is ordinarily rapidly exposed in the scientific community, and those responsible pay a heavy price professionally. There is of course some room for honest disagreement in interpretation of data, and that is why UCS can obtain results differing from the government estimates.

The "government estimates" referred to are from the Nuclear Regulatory Commission (NRC) document WASH-1400, better known as the Rasmussen Report. According to some press reports, WASH-1400 was "repudiated" by NRC, but that is an overstatement. Actually NRC accepted the report of a committee headed by H. W. Lewis which said that the uncertainties in WASH-1400 are larger than stated; it did not say that the dangers were greater than estimated in WASH-1400, and, in fact, Lewis himself told a congressional committee that he believed that they were smaller. Moreover, the principal criticisms referred to the WASH-1400 estimate of the probability of a melt-down, and we are not using that estimate here. We consider only a melt-down's consequences.

The report by the Union of Concerned Scientists does not contain as much detail as WASH-1400, but its viewpoint can be roughly represented if all consequences given below are multiplied by ten. The UCS also contends that the probability of a melt-down is ten times larger than the WASH-1400 estimate, but that is not at issue in our discussion.

For nuclear power to be as dangerous as coal-burning we would have to have a melt-down every two weeks. If that statement is shocking, it is because the dangers in a melt-down have been grossly over-sold by the media. A reactor is enclosed in a very powerfully built structure called the "containment" with walls several feet thick made of very heavily reinforced concrete. This gives protection against a wide variety of external threats—the containment would not be breached by an automobile or tree hurled at it by a tornado, by the explosion of a large quantity of TNT placed against its walls, by an airplane flying into it, or by an aerial bomb. In a melt-down, its function is to contain the radioactive dust and gases for as long as possible. Inside the containment there is equipment for removing the airborne radioactive dust by sucking the air through filters as in a vacuum cleaner and by scrubbing it with chemical sprays. Most of the dust would simply settle on the walls, so if the containment maintained its integrity for a few days, the consequences of a melt-down would be minimal. This is what is expected to happen in the majority of melt-downs.

That is definitely what would have been expected in the Three Mile Island accident if the necessary measures had not been taken to prevent a melt-down. According to the Kemeny Commission Report, page 14, "even if a melt-down occurred, there is a high probability that the containment building . . . would have been able to prevent the escape of a large amount of radioactivity." Similarly the Rogovin Report states on page 20: "even with a core melt-down . . . the most likely probability is that the reactor building would have survived . . . and the vast majority of the radioactive material would have been retained within the building, not released to the surrounding environment." Actually, none of the systems designed to preserve the containment integrity in such an accident were out of operation or would have been jeopardized by a melt-down, so there is no reason to have expected containment failure at Three Mile Island.

Great harm will result only if the containment is breached shortly after the fuel melts. This is highly improbable, and expected in only 1 per cent of all melt-downs,

but this low probability factor is somehow ignored in nearly all public discussion. In The China Syndrome, the fear is that when the molten fuel comes in contact with water, a steam explosion can occur that would be powerful enough to blow open the containment. To create enough steam in a short enough time to cause such a powerful explosion, the hundred tons of molten fuel would have to be effectively divided into pieces the size of small necklace beads, and all would have to strike the water within less than half a second—a highly unlikely situation. Even then, there would have to be a heavy object on which all this force is focused to act as a missile. It is much more likely for the fuel to drop into water (if it ever does) in rather large chunks, and over a period of many seconds.

It is implied in the movie that even interaction with ground water could cause such an explosion, but the molten fuel would come into contact with ground water only very gradually. If it did so, the steam formed would exert a pressure keeping the rest of the ground water away, so there would be very little contact until the molten fuel cooled and solidified, many days later. Then it would form a glassy solid mass which could not be easily dissolved in water, so that little or no ground water contamination could be expected. If there were a problem of this type, there would be plenty of time—many months or years—to take action to prevent harm to the public.

In accounts of the Harrisburg accident the impression given was that a hydrogen explosion could have ruptured the containment. This is almost certainly not the case. Even if all the hydrogen that could have been produced in that type of accident had exploded in the worst possible way, the containment probably would not have been broken. Since this hydrogen is produced rather gradually and there are many sources of sparks available (e.g., from motors) one would expect the hydrogen to be consumed in many small fires and explosions, which would be much less forceful. In fact, it is believed that there was a hydrogen explosion in the containment. It increased the pressure briefly to almost double the outside pressure but this is only one-seventh of the pressure rise needed to break the containment. After the first few hours, the hydrogen level in the containment never rose much above 2 per cent, whereas hydrogen is flammable only at concentrations over 4 per cent, and becomes explosive only after reaching 15 per cent.

In most melt-downs the containment is expected to maintain its integrity for a long time, and the expected number of fatalities is zero. That is, most melt-downs would not kill a single person, immediately or eventually. However, as the molten fuel reacts with the concrete floor of the containment, gases would evolve which would slowly build up the pressure inside to the point where gaseous releases may be necessary to avoid cracking the containment. In such cases it is probable that some cancers would be induced. In one out of five melt-downs there would be perhaps a thousand eventual cancer fatalities; in one out of a hundred melt-downs there would be ten thousand—the number of fatalities we now get each year from burning coal; and in one out of 100,000 melt-downs there would be 45,000—the number of fatalities each year on our highways.

In addition to cancers, in one out of a hundred melt-downs there would be a few early fatalities, people dying within a month or two from direct effects of radiation. In one of five hundred melt-downs the number of such fatalities would exceed one hundred; in one out of five thusand melt-downs it would exceed one thousand; and in one out of 100,000 melt-downs it would reach thirty-five hundred.

When all of these various kinds of consequences, the cancers and the early fatalities, are added, it works out to an average of four hundred fatalities per melt-down. the number we get every two weeks from burning coal.

Some people say that it's not the average that counts, but the catastrophic nature of a single event. They point out that the deaths from air pollution go unnoticed and are therefore less frightening. However, the same would be true of the cancers from a nuclear melt-down. Even the 45,000 cancers caused by the worst accident—expected once in 100,000 melt-downs—would be distributed among ten millions people and over a fifty-year time span, with the risk to each individual increased by less than half of 1 percent. The average American's risk of death from cancer is now 17 percent, so an increase to 17.5 percent (for those affected) would not be noticeable. In fact the risk varies in different states, from 19 percent in New England to 14 percent in Kentucky and Tennessee, and nobody seems to notice that. The average loss of life expectancy for those exposed would be about one month, which is equal to the risk incurred by an overweight person who gains one additional pound, or a man who smokes one pack of cigarettes every three months. Don't forget that this is the worst accident, but it is the only one the news media and The China Syndrome elect to discuss.

Let's compare these figures with the worst accidents that could result from using other energy sources that are considered acceptable. There are hydroelectric dams in this country whose failure could kill over 200,000 people. There are potential gas explosions that could kill many hundreds of thousands, and perhaps even wipe out a whole city. There are oil fires possible which could create enough air pollution to kill hundreds of thousands. There have already been air pollution episodes from coal-burning that have killed 3,500 people in a week.

Up to this point we have not mentioned genetic damage, the much publicized effect on future generations. The total number of genetic defects eventually expected from a reactor melt-down is about two-thirds of the number of cancers—the most probable number in a melt-down is zero, but the average number is close to three hundreds. These would occur over a period of 150 years, and would be difficult to pinpoint—about 200,000 U.S. babies are born annually with these types of genetic defects.

Coal-burning, meanwhile, produces a large variety of chemicals called mutagens that induce genetic defects. There is not enough information available to make quantitative estimates, but there is no reason to believe that these effects are less than those from the amount of nuclear radiation we are considering.

And then there is land contamination. We hear repeatedly that a melt-down could contaminate an area the size of Pennsylvania, 45,000 square miles. Of course this depends on one's definition of "contaminate"; it could be said that the whole earth is contaminated, since naturally radioactive elements like uranium, thorium, potasisum, and radon are found everywhere, in all rock and soil, in our bodies, and in the air we breathe. But if one uses the definition adopted by the International Commission on Radiological Protection, or by official national organizations that have ruled on the issue, the worst reactor accident would contaminate an area of 3,300 square miles—a circle with a thirty-mile radius—90 per cent of which could be readily decontaminated by such measures as washing hard surfaces with hoses and deep plowing of open fields. Of course any area can be decontaminated at a cost but it would probably be more practical to evacuate some areas for a period of time. In the worst accident, the evacuated area would probably be about three hundred square miles, equivalent to a circle with a ten-mile radius.

In most melt-downs the cost of such an evacuation—including decontamination costs and lost pay—would be less than $50 million, and in nine out of ten it would be less than $300 million. In 1 per cent of all melt-downs the cost would be over $2 billion, and once in ten thousand melt-downs it would reach $15 billion. Averaging over all situations gives a cost of less than $100 million per melt-down. By comparison, the property damage from coal-burning is estimated to be about $13 billion per year, so for the monetary cost to the public to be as large from nuclear power as it now is from coal-burning we would have to have a melt-down every three days.

Why then have the media given such a different impression of the costs and risks of a nuclear power accident?

For the first time in the history of our civilization, an industry has exerted an intense effort to determine its environmental effects in advance. Thousands of man-years of effort have been expended in dreaming up all the things that could go wrong in nuclear plants and in estimating the possible consequences. (In addition, $2 billion has been spent for research on health effects of radiation, many times more than has been spent studying air pollution, food additives, and other environmental hazards that are generally recognized in the scientific community as being far more dangerous.) With all of this effort, some very damaging scenarios can be developed, although they would have very small probabilities.

A reporter's job is to get an interesting story, something that will attract the attention of the public. If public interest in a nuclear reactor melt-down had not been aroused by the China Syndrome and the Harrisburg accident, the facts recited in this article would have been dull—most people don't understand probabilities. A reporter trying to make an interesting story out of it naturally picks the worst possible accident—45,000 cancers, $15 billion cost—to discuss. His story says that a nuclear accident could have these consequences, but readers and those reporting a story seldom make a sharp distinction between could and would. Since media people get most of their information from other media productions, powerful media figures ranging from Dan Rather to Johnny Carson have been convinced that a reactor melt-down is the ultimate disaster. With them preaching this gospel, the public is soon convinced.

Unfortunately, the consequences are tragic. Surely no one believes that we will have a melt-down every two weeks, or even every six months. There have already been over a thousand reactor-years of experience operating nuclear plants around the world, and there have been twice that in experience with naval reactors; and we have not yet had a single melt-down. There has never been an evacuation, although that would be the first action if there appeared to be even a reasonable chance of a melt-down. The Union of Concerned Scientists estimates that if all our electric power were nuclear we would have a melt-down on an average of once in five years: if that were accurate, we probably should have had one by now.

Nonetheless, as a result of the fear spread by the media, the U.S. is abandoning nuclear power. We are thus being deprived of our cheapest and safest form of energy at a time when we desperately need it. Utilities will build coal-fired rather than nuclear plants. Every time this is done, many hundreds of Americans will be condemned to premature death, and close to a billion dollars in extra property damage will be incurred. That is the price we are paying for the media's exciting story.

CONCLUSION OF MORNING BUSINESS

The PRESIDING OFFICER. Morning business is now closed.

ECONOMIC RECOVERY TAX ACT OF 1981

The PRESIDING OFFICER. The clerk will report the pending business by title.

The legislative clerk read as follows:

A joint resolution (H.J. Res. 266) to provide for a temporary increase in the public debt limit.

The Senate resumed consideration of the joint resolution.

UP AMENDMENTS NOS. 296 AND 297
DEPENDENT CARE TAX CREDIT

Mr. HEINZ. Mr. President, I am pleased to be a cosponsor of the amendments offered by my distinguished colleagues from Ohio (Mr. METZENBAUM), Florida (Mrs. HAWKINS), Minnesota (Mr. DURENBERGER), and Oregon (Mr. PACKWOOD), to increase the existing child care tax credit, make it refundable, and provide increased incentives for employers to become involved in providing child care assistance for their employees.

Mr. President, these amendments are both necessary and timely. More mothers are entering the work force today than ever before. Ten years ago, 39 percent of our Nation's children had mothers in the work force. Today, the children of working mothers comprise one-half of all children under the age of 18. And projections show that this trend will continue through the end of this century.

This dramatic growth is taking place for two primary reasons. First, many women are breaking down the barriers that have traditionally kept them from pursuing successful professional careers. The second, and probably most common reason, is that difficult economic circumstances are compelling many women to enter the work force.

For example, one-fourth of all working mothers are single parents, and their incomes are much lower than those of other working families. Even in families with two parents working, if the mother's income were subtracted from the total family income, most of these families would fall below the poverty level.

Mr. President, increases in wages for these lower income families have not kept pace with the increases in inflation. As a result, many working families cannot afford to provide the basic necessities such as food and housing as well as the day care which is necessary for them to work. Today, the greatest single cost for most single parents and for many who are married is day care.

Millions of low-income women face the choice of leaving children without supervision for hours each day, or of dropping out of the work force to join the welfare ranks. In my judgment, neither of these choices are acceptable.

These amendments are designed to assist those who are working to help themselves and their families. They expand and improve the dependent care tax credit available under current law for low-income families.

While the present dependent care tax credit was designed for the dual purposes of recognizing child care as a business expense necessary for earning income and helping lower income working parents afford the day care expenses they incur while trying to maintain a minimal standard of living for their families, it has, in large part, been ineffective.

The current tax credit suffers from three major flaws. First, the tax benefits have favored those families using the credit as a business credit over those using it as a means of affording dependent care. Second, the allotted percentage of costs credited under the current tax credit is not adequate to meet child care costs for many low-income families. And third, the tax credit is meaningless to low-income families who have little or no income tax liability against which the credit can be claimed.

The amendments before us redesign the dependent care tax credit so that the poorest families gain the greatest benefit. The most important provisions in these amendments are that the credit would be refundable; that the amount of credit available to each family would be determined by a sliding scale, and that the total amount of credit available is increased to reflect the true costs of day care.

To summarize these important amendments:

First, the dependent care tax credit is increased to 30 percent for families with incomes of up to $10,000, decreasing by 1 percent for each additional $2,000 in income. For those with incomes above $30,000 the credit remains at 20 percent, the same as present law.

Second, the amount of day care expenses for which the credit may be taken is increased from $2,000 for one dependent and $4,000 for two or more dependents in present law to $2,400 for one dependent and $4,800 for two or more dependents in our amendments.

Third, for those with little or no tax liability, the credit is refundable.

Fourth, dependent care provided by an employer is not taxed as income to the employee; and

Fifth, employers who contract with day care providers receive a credit of 50 percent of the employer's expenses.

This means that, to a family with $10,000 of income and $2,400 of dependent care expenses, the credit increases from $400 in present law to $720 under our amendments. And if that family has little or no income-tax liability, they would receive up to $720 in refund from the Government. A family with $20,000 of income and $2,400 in expenses receives $200 more than under present law.

Mr. President, for thousands of American families, credit proposed by the amendments could mean the difference between work and welfare. It will assist families with the greatest need to compensate for budget reductions and to make ends meet during this time of high inflation and economic uncertainty. The amendments will help working mothers provide their children with the necessary supervision and care so vital to their development. And by targeting lower-income families through a sliding credit scale, we will enable women to participate in meaningful employment and help to raise their families above the poverty line.

I urge my colleagues to adopt these important amendments by supporting the motion before us.

CHILD CARE TAX CREDIT

● Mr. D'AMATO. Mr. President, every time an individual stays out of the labor force because adequate day care is unavailable or unaffordable, valuable productivity is lost. We must make it possible for people to work if we are to restore our economy to economic health. Providing tax credits for dependent care is an important step in this process.

Current law already allows working individuals to take a tax credit for day care costs up to $2,000 a year for a single dependent in day care or $4,000 if two or more dependents are in a day care. Thus, the maximum tax credit is $400 for one dependent and $800 for two or more. This is helpful, but it is simply not enough, especially for workers in low-paying jobs.

The present amendments have several provisions, but I believe that three of these are important enough to be addressed here. The first of these raises the allowable expenses against which the tax credit may be taken to $2,400 for one dependent and $4,800 for two or more. This 20 percent increase is necessary to compensate for recent inflation in day care costs. Anyone who believes that $200 a month for one child or $400 a month for two or more children is an overly generous allowance for day care expenses today has not recently had to secure day care for a child. If we let this credit lag behind day care costs, more and more working parents will decide that it simply is not worth it to work and their valuable contributions to our economy will be lost. It has been 5 years since the allowable expenses for credit were set at their current levels. They are no longer reflective of actual expenses. They must be increased.

The second provision would increase the current 20 percent credit on a sliding scale designed to primarily benefit middle and lower income working parents who need this assistance the most. No family would receive a smaller credit percentage than they do now, but most American families would see their credit percentage increase.

For families with annual incomes of $30,000 or more the credit would remain 20 percent as it is now. However, for every $1,000 less the family earned, their credit would be increased by half of 1 percent. Thus, families with $29,000 would receive a 20.59-percent credit; and so on. This gradual increase in the credit percentage as family income declined would continue down to families with incomes of $10,000 or less. Their credit percentage would be 30 percent.

Thus, the maximum credit for families with $10,000 in income would increase from its current $400 ($800 for two or more dependents in day care) to $720 ($1,400 for two or more dependents in

day care). However, for families with $30,000 in income the increase would only be from $400/$800 to $480/$960. This is as it should be. The Government must make it possible for all Americans to work through inducements such as this tax credit, rather than by becoming the employer of last resort itself.

The final provision of these amendments to which I would like to address myself at this time is the one that would make this tax credit refundable. This credit would be useless to those at the low end of the income scale unless this provision is included. If your income is too low to pay taxes, a tax credit such as this is of no help at all unless it is made refundable. If we want all Americans to work, and that must be our highest priority, we must find a way to get this relief to everyone, and refundability is the best way to do this. It would insure equity in the dependent care tax credit to all Americans, regardless of their income class.

Low- and middle-income families need this tax relief now. So, however, does the American economy as a whole which will benefit from the availability of more people made able to assume productive work upon being relieved of some of the financial burden of providing day care to their dependents. These are bipartisan amendments important to every working American family. I am pleased to be a cosponsor of both of these amendments. I urge their immediate adoption.●

Mr. STEVENS. Mr. President, I move to reconsider the voice vote by which the Metzenbaum-Durenberger-Hawkins-D'Amato day care center amendment was agreed to.

The PRESIDING OFFICER. The question is on agreeing to the motion.

Mr. LONG. Mr. President, in order that the vote might reflect an "aye" vote being for the amendment, I move that the motion be laid on the table and I ask for the yeas and nays.

The PRESIDING OFFICER. The yeas and nays have been requested.

The Chair requests the Senator from Louisiana to once again restate his motion.

Mr. LONG. Mr. President, I move that the motion to reconsider be laid on the table.

The PRESIDING OFFICER. The Senator from Louisiana is asking for the yeas and nays on the motion?

Mr. LONG. I ask for the yeas and nays.

The PRESIDING OFFICER. The yeas have been requested.

Mr. STEVENS. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. STEVENS. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

Mr. LONG. Mr. President, I ask for the yeas and nays.

The PRESIDING OFFICER. Is there a sufficient second? There is a sufficient second.

The yeas and nays were ordered.

The PRESIDING OFFICER. The question is on agreeing to the motion to lay on the table the motion to reconsider the vote by which the amendments were agreed to. The yeas and nays have been ordered, and the clerk will call the roll.

The legislative clerk called the roll.

Mr. STEVENS. I announce that the Senator from New Hampshire (Mr. HUMPHREY) and the Senator from Idaho (Mr. MCCLURE) are necessarily absent.

Mr. CRANSTON. I announce that the Senator from Arkansas (Mr. BUMPERS), the Senator from Florida (Mr. CHILES), and the Senator from Massachusetts (Mr. KENNEDY) are necessarily absent.

The PRESIDING OFFICER (Mr. ARMSTRONG). Are there other Senators in the Chamber who wish to record their vote?

The result was announced—yeas 94, nays 1, as follows:

[Rollcall Vote No. 227 Leg.]

YEAS—94

Abdnor	Glenn	Murkowski
Andrews	Goldwater	Nickles
Armstrong	Gorton	Nunn
Baker	Grassley	Packwood
Baucus	Hart	Pell
Bentsen	Hatch	Percy
Boren	Hatfield	Pressler
Boschwitz	Hawkins	Proxmire
Bradley	Hayakawa	Pryor
Burdick	Heflin	Quayle
Byrd, Harry F., Jr.	Heinz	Randolph
	Helms	Riegle
Byrd, Robert C.	Hollings	Roth
Cannon	Huddleston	Rudman
Chafee	Inouye	Sarbanes
Cochran	Jackson	Sasser
Cohen	Jepsen	Schmitt
Cranston	Johnston	Simpson
D'Amato	Kassebaum	Specter
Danforth	Kasten	Stafford
DeConcini	Laxalt	Stennis
Denton	Leahy	Stevens
Dixon	Levin	Symms
Dodd	Long	Thurmond
Dole	Lugar	Tower
Domenici	Mathias	Tsongas
Durenberger	Matsunaga	Wallop
Eagleton	Mattingly	Warner
East	Melcher	Weicker
Exon	Metzenbaum	Williams
Ford	Mitchell	Zorinsky
Garn	Moynihan	

NAYS—1

Biden

NOT VOTING—5

Bumpers	Humphrey	McClure
Chiles	Kennedy	

So the motion to lay on the table the motion to reconsider was agreed to.

● Mr. CHILES. Mr. President, I was unable to be in the Chamber during the vote on the motion to table the motion to reconsider the Metzenbaum amendment on child care. I wish the record to show that had I been here, I would have voted "aye."●

The PRESIDING OFFICER. Under the previous order, the Senator from Montana is recognized to call up an amendment dealing with regulations on imputed interest rates.

Mr. DOLE. Mr. President, the distinguished Senator from Montana has agreed that his amendment might come at about 10:30 a.m. He will be meeting with the Treasury Secretary at 10 o'clock on this amendment. He has agreed to withhold offering the amendment contingent on what may happen at that meeting. Therefore, I ask unanimous consent that that amendment be temporarily set aside.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. DOLE. Mr. President, as I understand it, the next amendment will be that of the Senator from Hawaii (Mr. MATSUNAGA).

The PRESIDING OFFICER. The Senator is correct.

Mr. DOLE. I advise the Chair that he is on his way to the floor. I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. MATSUNAGA. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

UP AMENDMENT NO. 308 (MODIFIED AMENDMENT NO. 495)

(Purpose: Providing that the at-risk rules not apply to certain energy property)

Mr. MATSUNAGA. Mr. President, I call up amendment No. 495 which has been modified and ask for its immediate consideration.

The PRESIDING OFFICER. The amendment will be stated.

The legislative clerk read as follows:

The Senator from Hawaii (Mr. MATSUNAGA), for himself and others, proposes a modified version of printed amendment 495, which is unprinted amendment numbered 308.

Mr. MATSUNAGA. Mr. President, I ask unanimous consent that reading of the amendment be dispensed with.

The PRESIDING OFFICER. Without objection, it is so ordered.

The amendment is as follows:

On page 102, between lines 2 and 3, insert the following:

"(E) SPECIAL RULE FOR CERTAIN ENERGY PROPERTY.—

"(i) IN GENERAL.—The provisions of subparagraph (A) shall not apply to amounts borrowed with respect to qualified energy property (other than amounts described in subparagraph (B)).

"(ii) QUALIFIED ENERGY PROPERTY.—The term 'qualified energy property' means energy property to which (but for this subparagraph) subparagraph (A) applies and—

"(I) which is described in clause (iii),

"(II) with respect to which the energy percentage determined under section 46(a)(2)(C) at the time such property is placed in service is greater than zero,

"(III) with respect to which the taxpayer, as of the close of the taxable year in which the property is placed in service, is at risk (within the meaning of section 465(b) without regard to paragraph (5) thereof) in an amount equal to at least 25 percent of the basis of the property, and

"(IV) with respect to which any nonrecourse financing (other than financing described in section 46(c)(8)(B)(ii)) in connection with such property consists of a level payment loan.

For purposes of subclause (II), the energy percentage for property described in clause (iii)(V) shall be treated as being greater than zero during any period the energy percentage for property described in section 48(1)(14) is greater than zero.

"(iii) PROPERTY TO WHICH THIS SUBPARAGRAPH APPLIES.—Energy property is described in this clause if such property is—

"(I) described in clause (ii), (iv), or (vii) of section 48(l)(2),

"(II) described in section 48(l)(15),

"(III) described in section 48(l)(3)(A)(iii) (but only to the extent such property is

used for converting an alternate substance into alcohol for fuel purposes),

"(IV) described in clause (i) of section 48(l)(2)(A) (but only to the extent such property is also described in section 48(l)(3)(A) (viii) or (ix)), or

"(V) property comprising a system for using the same energy source for the sequential generation of electrical power, mechanical shaft power, or both, in combination with steam, heat, or other forms of useful energy.

"(iv) LEVEL PAYMENT LOAN DEFINED.—The term 'level payment loan' means a loan in which each installment is substantially equal, a portion of each installment is attributable to the repayment of principal, and that portion is increased commensurate with decreases in the portion of the payment attributable to interest.

On page 104, line 15, strike out the end quotation marks and the end period.

On page 104, between lines 15 and 16, insert the following:

"(3) SPECIAL RULES FOR CERTAIN ENERGY PROPERTY.—

"(A) IN GENERAL.—In the case of the 2nd taxable year following the taxable year in which any qualified energy property (within the meaning of section 46(c)(8)(E)) is placed in service by the taxpayer and any succeeding taxable year, the taxpayer, for purposes of paragraph (1), shall be treated as ceasing to be at risk with respect to such property for such taxable year in an amount equal to the credit recapture amount (if any);

"(B) CREDIT RECAPTURE AMOUNT.—The term 'credit recapture amount' means an amount equal to the excess (if any) of—

"(i) the toal amount of principal to be paid as of the close of any taxable year under a nonrecourse level payment loan (other than a loan described in section 46(c)(8)(B)(ii)) with respect to such property, over

"(ii) the sum of—

"(I) the amount of principal actually paid as of the close of such taxable year, plus

"(II) the sum of the credit recapture amounts with respect to such property for all preceding taxable years.

"(C) SPECIAL RULES FOR DETERMINING PRINCIPAL TO BE PAID.—For purposes of subparagraph (B)(i), in determining the amount of the principal to be paid under a level payment loan, such determination shall be made as if such loan was to be fully repaid by the end of a period equal to the earlier of—

"(i) the present class life (as defined in section 168(g)(2)) of the property or, if the property has no present class life, a similar period determined by the Secretary, or

"(ii) the period at the end of which full repayment is to occur under the terms of the loan.

"(D) SPECIAL RULE FOR CERTAIN CUMULATIVE DEFICIENCIES.—If the excess of—

"(i) the amount of the total scheduled principal payments under a loan described in subparagraph (B)(i) as of the close of the taxable year, over

"(ii) the total principal actually paid under such loan as of the close of such taxable year,

is equal to or greater than the amount of such total scheduled payments for the 5-taxable year period ending with such taxable year, then, notwithstanding subparagraph (B), the credit recapture amount for such taxable year shall be equal to the principal remaining to be paid as of the close of such taxable year over the sum of the credit recapture amounts with respect to such property for all preceding taxable years.

"(E) SPECIAL RULE FOR CERTAIN DISPOSITIONS.—

"(i) IN GENERAL.—If any property which is held by the taxpayer and to which this paragraph applies is disposed of by the taxpayer, then, for purposes of paragraph (1) and notwithstanding subparagraph (B), the credit recapture amount for the taxpayer shall be an amount equal to the unpaid principal on the loan described in subparagraph (B)(i) as of the date of disposition.

"(ii) ASSUMPTIONS.—Any amount of the loan described in subparagraph (B)(i) which is assumed by any person shall be treated for purposes of clause (i) as not reducing unpaid principal with respect to such loan.

"(F) APPLICATION WITH SUBSECTION (a).—The amount of any increase in tax under subsection (a) with respect to any property to which this paragraph applies shall be determined by reducing the qualified investment with respect to such property by the aggregate credit recapture amounts for all taxable years under this paragraph.

"(G) ADDITIONAL INTEREST.—In the case of any increase in tax under paragraph (1) by reason of the application of this paragraph, there shall be added to such tax interest on such tax (determined under section 6621 as if the increase in tax under paragraph (1) was for the taxable year in which the property was placed in service).

Mr. MATSUNAGA. Mr. President, the amendment is a modified amendment and it is not in printed form, but it is the amendment which has been agreed to by all concerned, including the majority and minority staffs and the Treasury.

Mr. President, the amendment which I am offering is cosponsored by 59 Senators from both sides of the political aisle. In alphabetical order, they are as follows: Senators ARMSTRONG, BAUCUS, BENTSEN, BOREN, BRADLEY, BUMPERS, BURDICK, ROBERT C. BYRD, HARRY F. BYRD, JR., COHEN, CRANSTON, DANFORTH, DECONCINI, DENTON, DIXON, DODD, DURENBERGER, EAGLETON, EXON, FORD, GARN, GLENN, GORTON, GRASSLEY, HART, HATFIELD, HAYAKAWA, HEFLIN, HEINZ, HOLLINGS, HUDDLESTON, INOUYE, JACKSON, JEPSEN, JOHNSTON, KENNEDY, LEAHY, LEVIN, LONG, MELCHER, MITCHELL, MOYNIHAN, MURKOWSKI, PACKWOOD, PELL, PERCY, PRESSLER, PRYOR, RANDOLPH, RIEGLE, RUDMAN, SARBANES, SASSER, TSONGAS, WARNER, WEICKER, WILLIAMS, and ZORINSKY.

Mr. President, the tax bill, House Joint Resolution 266, as reported by the Finance Committee, contains a little-known provision that would deal a devastating blow to the development of alternative energy. In this respect, I wish to remind my colleagues that in 1978 and 1979, the Senate overwhelmingly supported alternative energy production. On the Senate floor most of us here today voted for the amendments that established the present energy tax credits.

These tax credits have encouraged farmers to support gasohol production, southern food processors and textile mills to utilize solar process heating, irrigation districts and towns to develop hydroelectric facilities, and industries throughout the country to develop wind energy and cogeneration. These tax credits have become increasingly vital, because the administration's budget has slashed Federal assistance for renewable fuel projects.

But now, the bill, as drafted, would even remove incentives to commercialization of alternative energy by cutting back on investment and energy tax credits. The Treasury Department does not seek to repeal the energy tax credits directly, but would effectively curtail the energy credits indirectly through its at-risk rule. Under this rule, if equipment is bought with a nonrecourse loan from anyone other than an established financial institution, insurance company or government agency, the tax credit would be denied to the extent of that nonrecourse loan. In effect, the tax incentives available to the private sector under existing law would be repealed by this complex at-risk provision, quietly stuck into this bill, without the benefit of any hearings, without giving those who would be affected the opportunity to be heard.

In all fairness to the Treasury Department which drafted this at-risk rule, I want to explain that its intention is laudable, for it is seeking to strike at a recognized abuse of tax shelters in the lithograph plate and master recording business. In these businesses, sellers have been known to set an artificial, inflated value on the plates or master recording to escalate the buyers' investment tax credit. Under this scheme the buyer would actually pay only a fraction of the price, and the unpaid balance would be covered by a nonrecourse loan from the seller to the buyer. The buyer would thus be allowed to recover his investment in 2 or 3 years from the tax benefits alone. The total inflated investment itself would never pay off economically, because the agreed price would be inflated beyond reality. After 7 years, when the investment-credit recapture period would lapse, the buyer could walk away from the scheme without liability on the unpaid balance of the loan; and the seller would simply foreclose on the master recording or the lithograph plate and discharge the loan.

The at-risk provision in the bill would completely wipe out these nefarious schemes by disallowing any investment tax credit to the extent of the nonrecourse loan, and I would have no quarrel with the Treasury Department, if the proposal were limited to doing away with these abusive practices. But what the provision, as drafted in the bill, would do is to throw out the baby with the dirty bath water. My amendment would throw out the dirty wash but save the baby.

Treasury officials have admitted that their at-risk rule is a bludgeon. It does not differentiate between valid nonrecourse financing and sham nonrecourse financing. Under the Treasury's proposal, legitimate transactions will be shut off with the sham, but the Treasury is willing to close down legitimate deals to reach the bogus tax shelters, until we finally convince them that our position is the right one.

The Treasury's proposal is an in terrorem rule, designed to scare individuals away from artificial tax shelters. To this general rule the Treasury has provided a very narrow exception, under which the investment tax credits would be allowed if the buyer obtains his nonrecourse loan from a regulated financial institution, insurance company, or Gov-

ernment agency. These institutions, the Treasury reasons, exercise sufficient care and review for their own protection to prevent artificially high valuation of the property in question. Nonrecourse financing, from any other source, however, would lose the tax credit to the extent of the loan.

What puzzles me and bothers me is that Treasury officials have taken this narrow position, knowing full well that most alternative energy projects are unable to obtain conventional financing. Banks and insurance companies simply will not lend money for innovative, unproven technology. Developers themselves are not willing to undertake risky alternative energy projects if it means making themselves personally liable beyond the redeemable value of the equipment. Consequently, these projects are funded chiefly through nonrecourse borrowing from the equipment manufacturer or the seller who has an interest and stake in the full development of the new technology and not the regulated loan institutions.

Businessmen realize that the commercial viability of many alternative energy projects is unknown, but the energy tax credits provided by Congress make the risk worth the taking. It is the energy tax credits which prompt Americans to invest in the development and commercialization of alternative energy. Congress, in its wisdom, saw the need for providing such incentives in 1978 and 1979 in the national effort to attain energy independence. The Treasury's at-risk provision, if left unamended, would frustrate this national effort.

Moreover, the at-risk proposal is much more draconian than it appears on its surface. It will, in fact, deny the investment tax credit to a businessman who finances the purchase of a Chevy delivery truck with a nonrecourse loan from the General Motors Acceptance Corp., or to a tool shop operator who buys his electrical generator with a nonrecourse loan from the General Electric Finance Corp. General Electric, General Motors, Ford Motors Acceptance Corp., and Household Finance, provide billions of dollars in loans to businesses. But under the Treasury's proposal, these lenders are not qualified sources. A businessman who buys equipment with nonrecourse loans from any of these sources would lose the investment tax credit to the extent of the loan. The Treasury's provision is so broad that it will not only close off the bogus nonrecourse loan from the lithograph peddler, but it will also close off legitimate nonrecourse loans from General Motors Acceptance Corp. and other well accepted sources.

Be that as it may, our amendment has the simple objective of preserving legitimate transactions in several alternative energy areas—solar, wind, hydroelectric, cogeneration, biomass, geothermal, and ocean thermal energy. Projects in these fields, although financed with nonrecourse loans, would continue to benefit from the full, undiminished energy tax credit and investment tax credit, as they are under present law. To insure that these energy projects involve genuine loans with a real economic value, and are not sham projects, our amendment will establish a financial test. Under this test, the nonrecourse loan must be repaid on a pro rata basis over the midpoint ADR (asset depreciation range) life of the equipment. In other words, the loan must have the indicia of a true repayable loan; otherwise, the buyer must forfeit all investment and energy tax credits, and reimburse the Federal Government for any credits wrongfully taken, with interest.

This special rule provided in our amendment would apply to alternative energy projects so long as the energy tax credit is in effect. When the energy tax credit expires, this special rule would also expire. This sunset provision would insure that the Energy Tax Credit Act is given a fair chance to achieve its objectives and not be surreptitiously foiled by any new at-risk rule.

I believe our amendment provides adequate safeguards to meet the Treasury Department's concern. It presents a fair and most sensible compromise for the implementation of the policy we established in 1978 and 1979 to foster alternative energy development through tax credits. Our amendment would simply retain present law and would not mean any loss in revenues.

I repeat, our amendment would simply retain present law and would not mean any loss in revenues.

Mr. President, I urge the adoption of the amendment which, I repeat, is cosponsored by a bipartisan group of 59 Senators from both sides of the aisle.

The names of the following Senators were added as cosponsors of the amendment: Mr. BRADLEY, Mr. DENTON, Mr. GORTON, Mr. HEINZ, Mr. JOHNSTON, and Mr. MURKOWSKI.

Mr. RANDOLPH. Mr. President, will my able colleague from Hawaii yield?

Mr. MATSUNAGA. I am more than happy to yield to the senior Senator from West Virginia, a cosponsor of the amendment.

Mr. RANDOLPH. Mr. President, with 53 cosponsors, the able Senator from Hawaii, as the sponsor of the amendment, cannot lose. It is not difficult to add the names and note more than one-half of the Senate membership endorses your worthwhile proposal.

The substance of the amendment is well documented. He is very energetic as he offers this energy tax credit.

Mr. MATSUNAGA. The name is "Sparkie."

Mr. RANDOLPH. You do spark good legislation.

Mr. MATSUNAGA. I thank my colleague.

Mr. RANDOLPH. "Sparkie" rather than "energetic"?

Mr. MATSUNAGA. Spark is energetic.

Mr. RANDOLPH. I have listened very carefully to the explanation of the provisions of the amendment. It reflects in a very genuine degree the need, when we can do it, and we can do it, we must foster and assist alternate forms of energy.

The PRESIDING OFFICER (Mr. COCHRAN). The time of the Senator from Hawaii has expired.

The Senator from Kansas has 15 minutes.

Mr. DOLE. Mr. President, I am happy to yield additional time to the Senator from West Virginia.

The PRESIDING OFFICER. The Senator from West Virginia.

Mr. RANDOLPH. I thank our affable floor manager. Many of us in this body have worked in the past on synthetic fuels and other alternatives to the imported petroleum coming from OPEC countries overseas. In this amendment there is the opportunity to give incentives to those forms of energy which sometimes are not mentioned in the discussion of energy alternatives available to us.

Fostering agricultural products to produce ethanol can help to alleviate possible transportation fuel shortages if needed. Biomass fuels can be burned directly to produce heat or converted to gaseous or liquid fuels by a variety of processes, which can serve as gasoline extenders or octane boosters.

It is constructive for the Senate, good for the Congress, and for the country to provide incentives for development of organic fuels, other than fossil, wind power, and direct generation of electricity from the Sun through photovoltaics.

We discussed yesterday, Senator HART, especially, that the so-called glut in petroleum today can be a mirage, it can vanish. We must not turn away from giving incentives to private commercial development of hydroelectric, geothermal and ocean thermal energy at the same time we cut research funds for this program. This is what the Senator is doing here today—seeing that what we do in the alternate energy programs of this country are continued, fostered and encouraged. This amendment does that very well.

Mr. MATSUNAGA. I thank the Senator from West Virginia.

The PRESIDING OFFICER. The Senator from Kansas.

Mr. DOLE. Under the committee bill, the amount of basis taken into account in computing the investment tax credit is limited to the amount the taxpayer is at risk.

Under the amendment, the investment tax credit is allowed to certain energy property placed in service by the taxpayer if the taxpayer is at risk at least 25 percent of the basis of the property and if the property is financed with a nonrecourse level payment loan over not longer than the class life of the property. If in any year after the first year after the year the property is placed in service, any principal on the loan is not paid, the investment credit attributable to that amount of principal is recaptured, with interest. If the taxpayer falls substantially in arrears over a 5-year period or if the taxpayer disposes of the property, the entire credit attributable to the unpaid balance of the loan is likewise recaptured. This credit recapture is computed separately from any recapture arising from a disposition during the first 7 years of the life of property, but in no event is any double recapture required.

Mr. President, as always, I appreciate the comments of the distinguished Senator from West Virginia, and also the splendid remarks of the Senator from Hawaii.

He is correct. This is an amendment which does have widespread bipartisan, across-the-board support. There were some minor modifications suggested by the Treasury, and they have been made.

We are willing to accept the amendment.

I understand the Senator from Hawaii would like the yeas and nays on the amendment. I ask unanimous consent—and this has been cleared with both the minority and majority leaders—that the vote on this amendment occur, in addition to any other votes ordered, not before the hour of 2 o'clock.

The PRESIDING OFFICER. Is there objection?

Mr. MATSUNAGA. Mr. President, I ask for the yeas and nays.

The PRESIDING OFFICER. The Senator from Montana. Is there objection?

Mr. BAUCUS. Mr. President, reserving the right to object, I understand the request is not yet cleared on this side. Apparently it is not yet cleared, and for the time being I will have to object until the request is made at a later time.

The PRESIDING OFFICER. Objection is heard.

Is there a sufficient second on the request for the yeas and nays of the Senator from Hawaii? Apparently there is a sufficient second.

The yeas and nays were ordered.

Mr. DOLE. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The bill clerk proceeded to call the roll.

Mr. DOLE. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. DOLE. I yield back the remainder of my time.

The PRESIDING OFFICER. All time having been yielded back, the yeas and nays having beeen ordered on the amendment of the Senator from Hawaii, the question is on agreeing to the amendment of the Senator from Hawaii. The clerk will call the roll.

The assistant legislative clerk called the roll.

Mr. STEVENS. I announce that the Senator from New Mexico (Mr. DOMENICI), the Senator from Idaho (Mr. MCCLURE), and the Senator from Texas (Mr. TOWER) are necessarily absent.

The PRESIDING OFFICER. Are there any other Senators in the Chamber desiring to vote?

The result was announced—yeas 97, nays 0, as follows:

[Rollcall Vote No. 228 Leg.]

YEAS—97

Abdnor	Byrd, Robert C.	Durenberger
Andrews	Cannon	Eagleton
Armstrong	Chafee	East
Baker	Chiles	Exon
Baucus	Cochran	Ford
Bentsen	Cohen	Garn
Biden	Cranston	Glenn
Boren	D'Amato	Goldwater
Boschwitz	Danforth	Gorton
Bradley	DeConcini	Grassley
Bumpers	Denton	Hart
Burdick	Dixon	Hatch
Byrd, Harry F., Jr.	Dodd	Hatfield
	Dole	Hawkins
Hayakawa	Mathias	Roth
Heflin	Matsunaga	Rudman
Heinz	Mattingly	Sarbanes
Helms	Melcher	Sasser
Hollings	Metzenbaum	Schmitt
Huddleston	Mitchell	Simpson
Humphrey	Moynihan	Specter
Inouye	Murkowski	Stafford
Jackson	Nickles	Stennis
Jepsen	Nunn	Stevens
Johnston	Packwood	Symms
Kassebaum	Pell	Thurmond
Kasten	Percy	Tsongas
Kennedy	Pressler	Wallop
Laxalt	Proxmire	Warner
Leahy	Pryor	Weicker
Levin	Quayle	Williams
Long	Randolph	Zorinsky
Lugar	Riegle	

NOT VOTING—3

Domenici	McClure	Tower

So Mr. MATSUNAGA's amendment (UP No. 308) was agreed to.

Mr. DOLE. Mr. President, I move to reconsider the vote by which the amendment was agreed to.

Mr. ROBERT C. BYRD. Mr. President, I move to lay that motion on the table.

The motion to lay on the table is agreed to.

The PRESIDING OFFICER. Under the previous order, the Senator from Montana (Mr. MELCHER) is recognized to call up an amendment dealing with regulations on the imputed interest rate.

Mr. DOLE. Mr. President, at this moment the distinguished Senator from Montana (Mr. MELCHER), Senator JEPSEN, Senator DURENBERGER, and Senator BOSCHWITZ are in conference with the Secretary of the Treasury trying to work out some agreement on that proposal.

I suggest the absence of a quorum and ask that the time be charged equally to both sides.

The PRESIDING OFFICER. Without objection, it is so ordered.

The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mr. DOLE. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

MOTION TO TABLE MOTION TO RECONSIDER VOTE ON UP AMENDMENT NO. 300

Mr. DOLE. Mr. President, yesterday, there was accepted an amendment on withholding of tax on sales of real estate by foreign-owned interests. A motion to reconsider that vote was not made. At the suggestion of the distinguished Senator from Louisiana, and I know of no one who has objection to that amendment, I now move to reconsider the vote on that amendment.

Mr. LONG. I move to lay that motion on the table.

The motion to lay on the table was agreed to.

WITHHOLDING OF TAX ON DISPOSITIONS OF U.S. REAL ESTATE OWNED BY FOREIGNERS

Mr. DOLE. Mr. President, last year, the Congress adopted legislation requiring that foreign persons who dispose of U.S. real property interests pay tax on any gain realized on the disposition. The intent of the legislation was not to discriminate against foreign investors, but to treat them the same as U.S. persons by removing certain preferential tax treatment previously accorded them. The net result is that, like Americans, foreign sellers of U.S. real estate now must pay U.S. tax on their gain.

WITHHOLDING

A major problem with this legislation is that it can often be easily evaded. Since the tax is not due until a tax return is filed after the end of the year, a foreign person can sell his U.S. real estate, take the proceeds out of the United States and, since he is beyond the legal jurisdiction of the United States, not pay any tax to the United States on the sale. Moreover, through nominees and foreign corporations established in tax havens, he can reinvest these untaxed proceeds back in the United States with impunity.

The Senate version of this legislation sought to deal with this problem by requiring that the purchaser of the U.S. real estate withhold the tax that would be due on the sale. This is the method used to insure collection of tax on other payments of income to foreign persons, and in fact is used by almost all countries.

The conference dropped the withholding provision. The conferees were concerned about protecting withholding agents who might not know that a seller is really a foreign person. The conferees agreed that it would be neecssary to structure withholding provisions carefully to insure that they would not inadvertently disrupt the U.S. real estate market or expose U.S. buyers or U.S. agents of foreign sellers of U.S. real estate to liability where such liability is not appropriate.

Since last year, significant attention has been given to insuring that those entitled to protection are protected. The provision that I am introducing today meets the dual objectives of insuring the collection of U.S. tax due when foreign investors sell U.S. real estate, and protecting U.S. purchasers and their agents.

In lieu of withholding, the provisions of the real estate bill are currently being enforced through information reporting. This reporting can place a significant burden on those who are willing to pay the U.S. tax but who are afraid to identify themselves because of possible prosecutions in their home country. Furthermore, this will eliminate the problem of identifying owners of bearer shares. It will also relieve U.S. persons of significant paperwork. Adoption of withholding will enable some of these reporting requirements to be relaxed or eliminated.

The provision requires withholding by a purchaser, purchaser's agents, or any settlement officer or seller's agent where U.S. real estate is acquired from a foreign person.

The amount to be withheld is the smallest of: first, 20 percent of the sales price; second, the seller's maximum tax liability, discussed below; or third, the fair market value of that portion of the sale proceeds which is within the withholder's control. The seller's maximum tax liability is the maximum amount which the Treasury determines that the seller could owe on his gain on the sale plus any unsatisfied prior withholding tax liabilities of prior foreign owners with respect to that property