INTRODUCTION OF MARKET DISCOUNT BILL

HON. E. CLAY SHAW, JR.

OF FLORIDA

IN THE HOUSE OF REPRESENTATIVES

Thursday, February 9, 1995

Mr. SHAW. Mr. Speaker, I have joined with my colleague, BEN CARDIN, to reintroduce legislation that would restore the capital gains tax treatment on the sale of market discount bonds. As a result of an amendment contained in the Omnibus Budget Reconciliation Act of 1993, the gain is taxed at the ordinary income rate rather than at the capital gains rate. This bill was originally introduced last June in response to the rise in interest rates that had precipitated, among other things, a noticeable loss of market liquidity for market discount bonds. Since that time, interest rates have continued to climb and there has been a corresponding increase in the volume of market discount bonds in the marketplace. The restoration of capital gains tax treatment for market discount bonds is an appropriate and timely way to reduce the borrowing costs to State and local issuers by improving market liquidity.

As a former mayor, I have a tremendous appreciation for tax-exempt municipal financing and the role bonds play in meeting public needs. In the State of Florida last year, there were over $7.6 billion in long-term bonds issued. Infrastructure requirements like secondary roads, bridges, water and sewer systems, airports, and public schools are all financed and built by State and local governments using tax-exempt municipal bonds. Bonds are used to leverage and argument Federal construction grants, revolving loans and other direct assistance programs. I believe tax-exempt bonds are an important tool in empowering States and localities to address public needs and consistent with the message of ''New Federalism'' contained in the Contract With America.

Prior to 1993, the proceeds from the sale of a bond purchased at discount were treated as capital gains. The 1993 Budget Reconciliation Act contained the provision that amended the tax treatment of municipal securities purchased at a market discount. As a result, when an investor sells market discount bonds, they now pay the ordinary income tax rates of up to 39.6 percent rather than the maximum capital gains rate of 28 percent.

The sharp rise in interest rates, beginning last February, lead to a dramatic increase in the amount of market discount bonds. Market discount generally exists when a bond is purchased on the secondary market at a price below par, or, in the case of bonds with an original issue discount, below the adjusted issue price. Market discount is the difference between the purchase price of a bond and its stated redemption price at maturity or its adjusted issue price. Since rules took effect in 1993, demand for discount bonds in the secondary market has suffered.

The change in the market discount rules adds significant complexity to reporting by bond dealers. For example, a single zero-coupon bond purchased at a discount could generate tax-exempt income, ordinary income, and a capital gain. Such complicated tax treatment poses problems for dealers and funds which must issue summary reports to the IRS and investors. The market discount rules also have a very real negative effect on market liquidity. For instance, certain tax-exempt mutual funds have simply stopped buying discounted bonds altogether.

In addition, the new market discount rules could result in higher capital costs for State and local municipal bond issuers, raise extremely complex financial consideration that repel investors, and provide little or no revenue gain to the Federal Government. For all of these reasons, I believe repeal of the new market discount rules is appropriate. Such a change would be consistent with efforts for overall capital gains reform.

I urge all of my colleagues to cosponsor this important municipal bond legislation.

NATIONAL LABORATORY EMPLOYEES INCENTIVE

HON. BILL RICHARDSON

OF NEW MEXICO

IN THE HOUSE OF REPRESENTATIVES

Thursday, February 9, 1995

Mr. RICHARDSON. Mr. Speaker, I rise today to introduce legislation to provide a retirement incentive to national laboratory employees who are members of the public employees retirement system [PERS] of California.

These 450 men and women have each given over 30 years of service to the Department of Energy [DOE] and yet they were not offered a retirement incentive when DOE began downsizing staff at national laboratories administrated by the University of California.

The DOE funds three national laboratories through the University of California. From 1940 until October 1, 1961, national laboratory employees enrolled in the PERS of California. In 1961, the University of California established its own retirement system. As a result, employees hired at the national laboratories after October 1, 1961, were enrolled in the University of California Retirement Program [UCRP]. When the University of California established the new retirement system, national laboratory employees were given the option to transfer to the UCRP or remain with the PERS. Most chose to stay with the PERS because they had already accrued benefits in that system.

In 1993 when DOE began downsizing, national laboratory employees with UCRP were offered a retirement incentive package that added 3 years to retirement age, 3 years service credit, and 3 months pay. National laboratory employees with the PERS were not offered any incentive. The result of the University of California's decision to offer retirement incentives only to employees with UCRP was discriminatory against the most senior employees at the labs who were with the PERS of California.

As with any retirement incentive, this bill would have initial costs, but would generate millions of dollars in salary savings each year thereafter. For an initial investment of $14 million we could achieve $32 million in national laboratory salaries savings in the first year alone.

I urge my colleagues to join me in supporting this legislation which brings equality to the scientists and employees of our national laboratories and achieves significant downsizing at the DOE.

ECONOMIC CONDITIONS IN ISRAEL AND EGYPT

HON. LEE H. HAMILTON

OF INDIANA

IN THE HOUSE OF REPRESENTATIVES

Thursday, February 9, 1995

Mr. HAMILTON. Mr. Speaker, the United States has a strong interest in the economic conditions and government policies aimed at promoting economic reform in Egypt and Israel. Every year since the signing of the Israeli-Egyptian Peace Treaty in 1979, the Congress has voted to provide these two countries with substantial economic and military assistance. Last year, Congress supported the administration's fiscal year 1995 request of assistance totaling over $5.2 billion. The administration had made the same assistance request to Congress for fiscal year 1996.

Given the importance of the economic conditions in Egypt and Israel to the United States, I would like to place in the CONGRESSIONAL RECORD the summary of USAID's Report on ''Economic Conditions in Egypt, 1993–94'' and the economic overview of the State Department's fiscal year 1994 Report to Congress on the ''Loan Guarantees to Israel Program and Economic Conditions in Israel.''

REPORT ON ECONOMIC CONDITIONS IN EGYPT, 1993–94 SUMMARY

During the past three years, Egypt has made progress implementing macroeconomic stabilization measures, such as reducing fiscal and current account deficits and liberalizing interest rates and foreign exchange regulations. It has made much less progress on the broader structural reforms necessary to promote increased economic efficiency and growth. The resultant slow economic growth has a number of explanations. Some reasons are temporary and although critical, should become less constraining over time. These factors include the sharp decline in Egypt's government spending over the last four years, high real interest rates, an overvalued exchange rate, and sluggish foreign demand for Egyptian products due to the uncompetitiveness of the Egyptian private sector.

Unfortunately, other constraints to growth are structural and cannot be changed quickly. Egypt adopted a socialistic and inward-looking approach to economic development in the 1950s. as a result, the country is burdened with public sector enterprises which are inefficient, unprofitable, and contribute very little to output. Millions of Egyptians have jobs with the Government or parastatals which they believe are theirs for life, regardless of the productiveness of the job. Legal, regulatory, and bureaucratic systems restrict business expansion and impose unnecessary costs on business. The judicial process is time-consuming and expensive. High levels of protection hinder international trade and competitiveness. The tax administration is cumbersome. Long term financing at reasonable rates is scarce. Government owned firms dominate the business sector, and they have proven incapable of generating jobs for the Egyptians entering the labor force each year. At this point in time, the private sector is too small to provide jobs for the new entrants to the labor markets.

Private investment and export orientation are the only realistic path to economic development. Unfortunately, Egypt's environment for the private sector is not sufficiently alluring to attract an adequate amount of investment funds from the international financial markets. The task for the Government of Egypt (GOE) is to prepare the private sector business environment so that Egypt can harness the energy of the private sector, direct it down the path of sustainable development, create jobs, and make it easier for Egypt to enhance its role as a model of stability, democracy and prosperity in the region.

Vice President Gore and Egyptian President Mubarak developed an Economic Growth Partnership that focuses precisely on this issue. The Gore-Mubarak Partnership is intended to spur equitable economic growth and job creation in Egypt, especially in the private sector. It is intended to strengthen links between the U.S. and Egyptian private sector, and increase trade and investment. The Partnership reflects a personal effort by the U.S. leadership to help Egypt improve the welfare of the Egyptian people. It reflects the special relationship which exists between the U.S. and Egypt.

STATE DEPARTMENT'S FISCAL YEAR 1994 REPORT TO CONGRESS ON THE LOAN GUARANTEES TO ISRAEL PROGRAM AND ECONOMIC CONDITIONS IN ISRAEL

OVERVIEW

The Loan Guarantees to Israel Program was established to assist Israel in its humanitarian effort to resettle and absorb immigrants into Israel from the republics of the former Soviet Union, Ethiopia, and elsewhere. The guarantees were authorized in recognition that the effective absorption of these immigrants within the private sector requires large investment and economic restructuring to promote market efficiency and thereby contribute to productive employment and sustainable growth. The legislation anticipates that the effect of U.S. loan guarantees will be bolstered by an Israeli economic strategy involving prudent macroeconomic policies, structural reforms designed to reduce direct government involvement in the Israeli economy and measures to promote private investment. Israel presently enjoys the basic preconditions for sustainable medium-term economic growth. These include a skilled and rapidly growing labor force, an environment of macroeconomic stability, and an improved geopolitical situation. A series of economic reforms begun in the late 1980s and early 1990s has continued under the Rabin Government, including measures discussed below to liberalize capital markets, relax restrictions on foreign currency transactions, lower trade barriers and reduce the budget deficit.

Nevertheless, much remains to be done: trade barriers—especially in the agricultural sector—continue to limit international competitiveness; progress has been very slow in privatizing 165 state-owned firms; and fiscal police must fall into step with tighter monetary policy in order to tame inflation. Inflation, an overvalued shekel, and a growing balance of payments gap present serious challenges for the government as it heads into the new year.

UNITED STATES-ISRAEL JOINT ECONOMIC DEVELOPMENT GROUP

Since the mid-1980s, the United States and Israel have engaged in periodic economic consultations under the auspices of the Joint Economic Development Group [JEDG]. This group has a mandate to examine and discuss Israeli economic policy. It played a key role in shaping the successful 1984 economic stabilization program for Israel. The Group is led on the U.S. side by the Under Secretary of State for Economic Affairs and on the Israeli side by the Director General of the Ministry of Finance.

In keeping with the intent of the Loan Guarantees to Israel legislation, the U.S. and Israel revived the JEDG in September 1993 to focus specifically on areas identified in the legislation: economic and financial measures, including structural and other reforms, that Israel should undertake during the duration of the loan guarantee program to enable its economy to absorb and resettle immigrants and to accommodate the increased debt burden that results from the program. The JEDG convened in 1994 on May 26 in Washington and again on October 3 in Madrid. Participants included senior officials of USAID, Commerce, the Council of Economic Advisors, Treasury, and in May, Stanley Fischer from the Massachusetts Institute of Technology. The group discussed in both sessions progress and plans in the areas of fiscal and monetary policy, privatization, trade liberalization, financial and capital markets, and labor markets.

MACROECONOMIC DEVELOPMENTS

Israel, with a population of 5.3 million and a GDP of $72.2 billion in 1993, has a per capita GNP of $13,471. The Government of Israel (GOI) has been relatively successful in stabilizing the economy in the face of a massive inflow of immigrants which has increased the population by over 12 percent since the end of 1989. The general economic picture is relatively good, despite the appreciation of the shekel, rising inflation and a growing trade deficit.

PROSPECTS FOR ECONOMIC GROWTH

The country is in the midst of a four-year economic expansion, with GDP growth expected at 6.5 percent by year-end 1994, and a growth rate of 4.9 percent predicted for 1995. Growth rates of 4–6 percent are projected for the remainder of the decade, relying as in previous years on the productivity of new immigrants (with 70,000 expected to arrive in 1994), structural reforms in the economy, and an opening of new export markets, mostly in Eastern Europe and Asia. In 1994–95, the government faces economic challenges associated with immigrant absorption, the peace process, and unique sectoral requirements. In dealing with the inflow of immigrants, the GOI has appropriately adopted a strategy of abstaining from direct intervention in the labor market and has instead focused on providing the immigrants with housing, subsistence grants and training while encouraging a more favorable environment for private sector investment and expansion.

EMPLOYMENT

Over the past four years, Israel's labor force grew rapidly with the addition of these immigrants and a baby boom generation. Although the rapid economic expansion and a moderation in wages resulted in an average 4 percent overall employment growth rate between 1990 and 1992, the unemployment rate nonetheless increased from 8.9 percent in 1989 to a peak of 11.2 percent in 1992. During 1993, however, despite the relative slowing in the economy, employment growth picked up to 6 percent and unemployment declined to 10 percent. Unemployment has further declined to 7.8 percent in 1994. Immigrant unemployment has fallen even more dramatically, from 38 percent in 1991, 29 percent in 1992, and 19 percent in 1993, to 12 percent in 1994.

BUDGETARY PRESSURES

In meeting the economic demands of the peace process and sectoral shortcomings, the government has met with less success. Indeed, a 5.6 billion New Israeli Shekel (NIS) supplemental budget ($1.87 billion) for 1994 was passed in November to cover public sector wage hikes and unanticipated expenses for implementation of the Declaration of Principles (DOP). The 1995 budget proposal is in keeping with recent fiscal policy, emphasizing investment in infrastructure and education. The GOI proposes $460 million to help cover defense industry losses, the labor federation Histadrut's health insurance fund, and kibbutzim debt rescheduling. The 1995 budget proposal projects a deficit of 2.75 percent of projected GDP, down from 1994's target of 3 percent.

INFLATION

Israel's track record on inflation is mixed. On the one hand, it succeeded in bringing inflation down from 420 percent in 1984 to 9.4 percent in 1992. On the other hand, the rapid increase in the money supply which took place at the end of 1993 marked the onset of an inflationary surge that reached 15.5 percent for 1994, and the Government has not coordinated its fiscal and monetary policies to control this problem. An annual increase of 25 percent in housing costs, and over 35 percent in fruit and vegetable prices, combined with higher than anticipated levels of private consumption and public sector wage raises, have thwarted the government's 8 percent target inflation rate. Furthermore, there is some fear that a new capital gains tax may cause a shift from stocks to real estate, with new demand again pushing housing costs higher.

Some question the need for expansionary policies when annual GDP growth rates averages 4–6 percent. Longstanding structural rigidities in the economy also contribute to inflationary pressures, which could be eased by steps to open the agricultural sector to international competition, deregulate the housing sector and increase the labor market's responsiveness and market forces.

EXCLUSIONARY RULE REFORM ACT OF 1995

SPEECH OF

HON. VIC FAZIO

OF CALIFORNIA

IN THE HOUSE OF REPRESENTATIVES

Tuesday, February 7, 1995

The House in Committee of the Whole House on the State of the Union had under consideration the bill (H.R. 666) to control crime by exclusionary rule reform.

Mr. FAZIO. Mr. Speaker, the fourth amendment to our Constitution prohibits unreasonable search and seizure by the government. It protects all Americans from arbitrary and unfounded government invasions into their homes.

The Supreme Court has held—in its ruling establishing what is known as the exclusionary rule—that any evidence seized in violation of the fourth amendment cannot be used as evidence at trial. In 1984, however, the Court created the good faith exception to the exclusionary rule, specifying that, if law enforcement officers in ''objective good faith'' believe they are conducting a constitutional search or seizure, then the evidence can be used at trial. The Court limited this exception to apply only to searches with warrants.

If H.R. 666, the Exclusionary Rule Reform Act, is enacted, the good faith exception to the exclusionary rule would be broadened to apply to searches both with and without warrants. As a result, evidence obtained in a search or seizure that violated constitutional protections