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Sen. Mike Gravel — pushing for AGSOC plan

Gravel goes on the stump for stock ownership plan

By SUZAN NIGHTINGALE

Daily News reporter

Sen. Mike Gravel is being followed these days — by a film crew recording Gravel's speeches for a statewide advertising campaign.

The Anchorage Democrat said Tuesday he's planning the multi-media campaign to acquaint Alaskans with his Alaska General Stock Ownership Corporation, a plan Gravel says could pay every man, woman and child in Alaska \$400 a year.

Under Gravel's proposal, Alaska residents would form the corporation and, initially, purchase British Petroleum's share of the trans-Alaska gas pipeline. A nine-member board would run the corporation, with dividends being paid to "stockholders" on a quarterly basis.

The Alaska legislature declined to approve the plan earlier this year, prompting Gravel to launch a petition drive to place the AGSOC proposal before the voters. He says a statewide education program is needed to tell Alaskans about the plan.

"If we get 13,000 signatures, it'll go on the ballot," Gravel told the Dining and Speaking Society Tuesday. "I don't expect to have to go to the ballot because I think the state legislature will approve it, but what this does is force us to launch a state educational program."

Gravel says if the corporation bought British Petroleum's share of the pipeline for \$3.4 billion, it "could pay a dividend to every person in Alaska of between \$75 and \$100" its first quarter. Such secondary income could have far-reaching effects in Alaska,

especially in the bush, he added.

Looking ahead to the year 2000, Gravel said, "If we had a portfolio of \$10 billion, every person would realize a return of \$10,000 a year; a family of four would receive \$40,000."

Describing his proposal as "an effort to try and find a way to diffuse the wealth of our society," Gravel denied charges that the plan represents state involvement in private enterprise, and repeated his claim that a state loan guarantee wouldn't be necessary to finance the purchase.

"We're not doing anything that isn't already being done in the private sector," he said. "What I'm trying to do is create more democracy in the economic marketplace. Our job is to make people free and help them live better economic lives."

Saying that 52 percent of this nation's wealth is owned by 25 percent of the people, Gravel said, "So this great affluence we think we have is only our salary and not our ownership. Today we have freedom in our political structure, as best we find it, but in the private sector, in the economic sector, that was never done. Our economy is based on an autocratic and dictatorial system."

"If I'm right, Louis Kelso's (originator of the employee stock ownership concept) name will become more famous than Karl Marx. It will change the course of the free enterprise system."

"If I'm wrong, I'm prepared to suffer the consequences. I think this opportunity is so unique that if we are successful, for the rest of my career, I'll never equal this accomplishment."

Times The Legislative Session

By Tom Fink

THIS LEGISLATIVE SESSION ended with more pluses than minuses. It will be several weeks before we find out what all happened in the last 10 days but the overall balance is good.

There were many bills introduced which would have been damaging had they been passed. The pressure by the Senate president for a 100-day session was a big aid.

He set deadlines which some called arbitrary. However, unless you do establish a time schedule in the Legislature, it will go on indefinitely as it has in recent years.

First of all, the Legislature didn't pass any of the numerous tax increase bills the governor had introduced with the exception of the increased tax on fishing. We didn't need that tax, but that's still a pretty good score.

The Legislature didn't approve the salary increases, which although partially meritorious were too big. We have an expanding and uncontrollable state salary schedule. The fact that the Legislature did not fund the salary increase that the administration had agreed to will bring the issue to a head. The governor introduced legislation to put on the ballot any increases in case of a dispute. He really didn't push the bill. In fact, he introduced it in the House where he knew the bill would go to Mike Miller's committee, in which it would not move. He could have introduced it in the Senate where the bill would have been given consideration. In any case, the state salary schedules will be a topic of discussion between now and the next session.



THE LEGISLATURE didn't pass the Alaska General Stock Ownership Plan, which is a big plus. When the state has extra money, it should reduce debt, pay for capital improvements with cash and reduce taxes. I think most Alaskans would rather invest their own money than have another state corporation do it for them.

The Legislature stood up to the governor's pressure on making a commitment to the Northwest gas pipeline. The Legislature said it didn't have adequate information to make a decision and further than the state's decision was not necessary for the line to go forward. The legislature's position certainly has the support of the vast majority of the people of this state.

The Legislature did pass a new land law. It probably doesn't go as far as it should, but it will make land finally available to the residents of this state. The fact that the Legislature withheld 35 percent of the budget for the Division of Lands will be extremely helpful in seeing that land is made available. Also by the Legislature putting pressure on Mike Smith, we're told that he will be removed from the decision-making position.

The Legislature did make an accommodation to continue the various state loan programs. Unfortunately, it raised the interest rate from $7\frac{1}{2}$ to $9\frac{1}{2}$. With a little public pressure between now and next January, that increase in rates can be reversed.

The Legislature also made money available to start some small dam projects for power generation throughout the state. This is certainly an appropriate way to spend surplus state funds.

THE LEGISLATURE did not agree on a permanent fund bill. In my view this is a plus since the bills that were being proposed were not satisfactory. The House intended to tie up most of the money in conservative outside investments. The Senate, on the other hand, had a fancy system of leveraging money, but at least it intended to use all of the money within the state. The House bill also had proposed increasing the contribution to the permanent fund above 25 percent which would have been of no benefit to the state.

The Senate passed a resolution in favor of the Beaufort Sea sale in December and the House passed a resolution against the Beaufort Sea sale. The only important thing is that both houses did not agree to call it off. Hopefully, the governor will not hang his hat on the House's position and call the sale off.

The budget could have been worse. The fact that it is 2 percent less than last years is an achievement. The operational budget did go up. It should have gone down.

The Legislature did not come up with a solution to the capital move. It did pass a resolution directing the governor to negotiate with the Matanuska-Susitna Borough. If the borough keeps the pressure on the governor, it is possible that the next session will not be able to resist taking action with money.

With some trepidation, since I have not seen the final budget, I want to congratulate the 1979 Legislature and particularly the president of the state Senate.

Tom Fink, an Anchorage insurance man, is a former speaker of the Alaska House of Representatives.

\$3 million set aside for interim work

By CHARLIE SPENCER
News-Miner Bureau

JUNEAU—Legislators have allowed themselves nearly \$3 million for "interim committee work" during fiscal year 1980—more than \$1 million over what will have been spent for comparable activities in the fiscal year ending this June.

Interim spending two years ago, when all appropriations and newly passed legislation were added in, was, however, higher than last interim and amounted to about \$1.9 million.

Such interim spending generally is high in the off-election years. Budget records are complicated, with the amount set aside in the just-enacted 1980 budget bound to increase when all the figures filter down, say financial personnel in the Legislative Affairs Agency.

For example, for fiscal 1979, an item marked for the Legislative Council and interim committees was given about \$650,000. But more than double that amount ended up being spent out of the account.

The figure would be even higher, though some of the money will carry over another year.

This year for the same line item, the legislators are starting with \$2.7 million. All of that money will not be spent during the interim period between sessions. Some of the interim activities or committees continue year-round.

And besides the Legislative Council account, there is other money that will be spent in the interim.

The Legislative Finance Division budget, which was beefed up by about 70 per cent for 1980, supports interim

activities and staff for both houses' finance committees. The Legislative Budget and Audit Committee, funded through another account, also works during the off-session.

Though more will be spent during this interim than ever before, Sen. George Hohman, Legislative Council chairman, says it may make a bigger dent in next year's work.

"The interim work will streamline things next session," says Hohman, a Bethel Democrat.

Several committees have announced they will be studying and holding hearings on controversial and complicated issues this summer and fall.

Examples are a complicated school funding bill, which was held this session, and the controversial Alaska General Stock Ownership Corp. proposal.

That could speed up lawmakers' committee work next year during what many expect to be a much longer session than this year's 112-day stint.

Hohman also hopes to have faster, and better qualified staff, composed partly of graduates or participants of a new legislative internship program. Money for the program comes from the \$2.7 million line item.

Also in that line item is \$786,000 for activities of the 40-member House of Representatives. Some of the chamber's regular committees get a portion, topped by the Resources Committee with \$193,000 to be spread among subsistence, agriculture land and foreign investment activities.

A House special oil and gas leasing policy committee gets \$150,000.

Those committees had to submit proposed budgets to the House leadership, and each is now listed with its allocations on the newly printed budget document approved last weekend by the Legislature.

The balance, about \$1.9 million, goes primarily to committees of the 20-member Senate, with some left over for the council activities, additional House work and remodeling in the Capitol.

Hohman said Senate activities not broken out in the budget are mineral resources, Alaska in the Pacific Rim marketplace, beefing up the teleconference network, state tax policy and the constitutional convention project that is required every 10 years.

Hohman said that at the end of each decade the voters are given a choice of holding a constitutional convention. The interim work will focus on the issues around which the next session

could revolve.

Panels such as the Legislative Regulation Review Committee and the Personnel Blue Ribbon Commission are funded from the \$2.7 million.

For the present fiscal year as a control on the spending, the Legislature wrote into the budget the requirement that each interim committee chairman submit a report to the Legislative Council, for presentation to the Legislature next February.

"The reports shall include the business addressed by each committee, the recommendations made by each committee, and full fiscal information on committee expenses," says the document.

Additional guidelines will be set Tuesday by the council when it meets in Anchorage, says Hohman. Committee chairmanships and memberships will be filled then.

House Panel Passes AGSOC

By NANCY HARRIS
Empire Staff Reporter

After two months of extensive hearings, the House State Affairs Committee Wednesday adopted a substitute bill for creation of an Alaska General Stock Ownership Corporation. The bill attempts to alleviate fears of some witnesses and legislators that the proposed citizen-owned corporation would become an all-powerful economic and political force in the state.

Work on the bill (HB 240) seems to be at an end for this session. It is not clear what, if anything, will happen to the measure this year.

Sen. Mike Gravel, who pushed legislation through Congress last year to provide for AGSOC, has been in Juneau this week urging passage of the bill this session. But Juneau Rep. Mike Miller, chairman of the State Affairs Committee, indicated he might want to "take it on the road" in the interim to get comment from Alaskans.

"That doesn't preclude you from trying to sell your idea," Miller told Gravel, who has

also been lobbying members of the Senate Finance Committee to pass out a companion measure.

The Senate panel has had the bill (SB 170) for more than a month, but has done little work on it. Gravel said he is attempting to get that committee to adopt the House bill as a substitute.

The AGSOC proposal calls for creation of a general stock ownership plan in Alaska. The corporation would be exempt from federal corporate income taxes under the federal law allowing for GSOPs. Under the federal provisions AGSOC would have to distribute 90 percent of its earnings to its shareholders, who would pay personal state income taxes on the dividends.

All Alaskan residents as of the effective date of the bill would receive a free share in AGSOC.

AGSOC would set up as a private corporation and would borrow funds to finance its investments.

Gravel appeared before the House committee three times this week to explain why he

thinks AGSOC must be approved this session. Wednesday he outlined a scenario for getting the corporation in action which he said places it dangerously close to the five-year deadline, after which the special federal tax provisions will be revoked.

Gravel told the committee if any of the necessary start-up procedures take longer than expected, Alaska will have missed the opportunity to show whether a state-wide AGSOP will work.

"To wait until next year could be condemning all your efforts to naught," he said.

The committee has made numerous changes in the bill, adding an entire chapter to Alaska corporate law to govern AGSOC.

Several witnesses told the committee Alaska corporate law would be inadequate to govern AGSOC because the law concentrates too much power in the corporate directors.

Provisions to insure more director responsiveness to shareholders were added to the bill, including:

—Prohibiting the use of proxies. In their place, the corporation would send out a

ballot and information pamphlet. This would prevent proxy battles and give more voice to the individual shareholder, according to the committee.

—Allowing shareholders to amend the articles of incorporation and bylaws, place issues on the corporate ballot and nominate board of directors candidates through a petition signed by 1,000 shareholders.

—Requiring three-fourths of the board of directors to be Alaskans. The bill also requires that board and shareholders meetings be held in Alaska and that they may be teleconferenced throughout the state.

Some witnesses and legislators worried that AGSOC, with its large number of shareholders, would become a major political influence in the state if it were allowed the rights of other private corporations.

The committee substitute, in an attempt to reduce AGSOC's potential political activity, provides that:

—AGSOC could not endorse candidates or issues, spend money on political activity or

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Hammond Favors Delay In AGSOC's Creation

By Empire Staff

Gov. Jay Hammond Wednesday said he does not want to see an Alaska General Stock Ownership Corporation created until his proposal for sharing Alaska's resource wealth with its citizens, "Alaska, Inc." is enacted.

In an outline of his position on AGSOC, he said he supports the concept of Alaskans receiving "some direct benefit from their resource wealth rather than simply receiving whatever more government we politicians think they should have."

But he said Alaska's long-term best interest would be served better if his Alaska, Inc. program is operating before AGSOC.

Under Hammond's Alaska, Inc. proposal, each Alaskan would receive one share of half the earnings of the Permanent Fund according to his length of residence.

Hammond has introduced a modification of his Alaska, Inc. proposal (HB99), under which the dividends would come in the form of tax credits. That measure so far has seen no action.

"The conclusion that an Alaska, Inc." type program should be established before an AGSOC proposal was reached primarily because of the potentials of an AGSOC to place the shareholders' interests precisely at odds with the state's interests," Hammond's position paper states.

For example, he said, if AGSOC purchased a portion of the trans-Alaska pipeline, one possible investment which has been discussed, AGSOC would be interested in the highest possible tariff to ensure higher profits for the corporation.

On the other hand, Hammond said, the state treasury's interest would be in a lower tariff so contributions to it and the Permanent Fund are higher.

AGSOC...

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employ lobbyists.

—The incorporators would be appointed by the Governor, House Speaker and Senate President. The original board, named by the incorporators, would have to stand for election at the first shareholders' meeting. Under the original bill, the governor would have appointed all the incorporators, but Gravel, saying the administration was trying to block AGSOC, asked the committee to change that provision.

—The articles of incorporation and the bylaws must be submitted to the Legislature for approval.

—The Legislature would have the right to amend laws relating to AGSOC.

The committee decided the bill should limit the financial commitment of the state to

AGSOC. Under the substitute bill:

—There would be no commitment by the Legislature to finance AGSOC investments. Financial assistance would require legislative approval.

—The fund to guarantee private credit for AGSOC start-up expenses would be limited to \$5 million.

The committee substitute also provides that shareholders may not retain their shares if they leave Alaska. Federal law prohibits the sale of shares during the first five years unless the shareholder leaves Alaska. To discourage shareholders from leaving the state just to sell their shares, all sales during the first five years would have to be made to the corporation at book value. After that, shares could be freely traded within the state.

Gravel Mounts AGSOC Drive

By NANCY HARRIS
Empire Staff Reporter

Fearing the Alaska Legislature won't pass it next session, Sen. Mike Gravel has started an initiative drive to get his Alaska General Stock Ownership Corp. plan on the ballot in 1980.

Gravel was scheduled to leave Juneau today after more than a week of intense lobbying to get the Legislature to act this year on a bill setting up the citizen-owned corporation. He said Monday it would be "counter-productive" to continue the effort since he has met with "concern, suspicion and various levels of ignorance" among legislators.

Gravel called the AGSOC measure worked up by the House State Affairs Committee an "excellent bill," saying "It's obviously time to go forward."

She State Affairs panel worked on the bill, HB 240, and its Senate companion measure, SB 170, for more than eight weeks, holding hearings and taking testimony from several expert witnesses. But committee chairman Mike Miller of Juneau wants more public comment on the AGSOC proposal, possibly by holding hearings throughout the state during the period between sessions.

The legislation would set up a private corporation whose stockholders would be all Alaska residents on the effective date of the bill. With the help of state guarantees, the corporation would seek private financing to invest in capital-intensive projects.

Under federal legislation allowing for general stock ownership plans, 90 percent of the earnings of AGSOC would have to be paid out to shareholders.

Gravel said he didn't think the bill would be improved by more hearings and said he doubted hearings would add to the public's understanding of the AGSOC proposal.

"We've had hearings and teleconferences,"

Gravel said. "State Affairs has had over 30 meetings on AGSOC, all open to the public. You can just about hear something to death."

Gravel termed AGSOC is a very "esoteric" idea. "The only people who understand it will be the experts who bother to read economic theory," he added.

"I would venture to say there won't be 20 people who will read the entire 60 pages of legislation," Gravel said.

But Gravel said his initiative drive, which will force him to gather 13,000 to 14,000 signatures, will be an educational process, also.

Gravel admitted that it is "a little unusual" for a U.S. senator to lobby a state legislature on a bill and said he doesn't think his failure to get action on the bill reflects adversely on him.

More than half a million dollars in government funds has been spent to far on the AGSOC proposal, Gravel said. His office has been working on the idea for more than four years, he said. In addition, the Legislature contracted with Louis Kelso, a San Francisco economist who fathered Employee Stock Ownership Plans, for \$180,000 to come up with a similar plan for the citizens of Alaska.

Jerry Gauche, a tax lawyer on Gravel's staff, has been in Juneau since early March working on AGSOC legislation. Gravel said his office pays Gauche's salary, but the Legislature paid his per diem expenses while here. Gauche was not a "lobbyist" for the bill, but a staff person, Gravel claimed.

Gravel said he plans to spend a lot of his time promoting the initiative, and said he doesn't see a conflict in using government funds to plug AGSOC at the same time he is running for re-election.

"It would be an unfair criticism to say that I am doing this for political reasons," he said.

"It would be cruel, bad criticism."

Gravel Mounts Drive To Get AGSOC Passed

By The Associated Press

Sen. Mike Gravel, saying he was prepared to spend all of the week here if needed to get an Alaska General Stock Ownership Corporation bill out of committee, said there is "no logical reason for delay other than timidity."

The House State Affairs Committee, which has done the bulk of the work on the proposal, is holding several more hearings on it this week.

Gravel testified on Saturday that "a great momentum" would be lost if the bill is held over until next session. He also stressed that an AGSOC must be in operation within five years or the federal legislation providing tax and other special treatment of the plan would expire.

Under an AGSOC, all Alaskans would be shareholders and the citizen-owned corporation would invest in capital intensive projects.

Gravel said the "real test" on whether the

idea has merit will come in the bond marketplace on Wall Street.

He said AGSOC is an "esoteric" subject for which it would be pointless to hold further public hearings on.

The senator, who pushed general stock ownership legislation through the last Congress, said it was difficult to discuss what an AGSOC would invest in, saying a professional management team would come up with specific investment proposals.

Rep. Terry Gardiner, D-Ketchikan, suggested that AGSOC invest in petroleum production facilities.

He also said that the state has already aided Alaska Airlines, by selling revenue bonds so it can get reduced interest on its borrowing, and has already (last year) set up the mechanism to issue bonds for Northwest Alaskan, builder of the U.S. portion of the Alaska highway natural gas pipeline.

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Stock Plan Questions Abound

By NANCY HARRIS
Empire Staff Reporter

After five hearings and a string of witnesses made up mostly of economists, lawyers and financial consultants, House and Senate committees working on legislation creating an Alaska General Stock Ownership Corporation (AGSOC) have been left with more questions than answers.

While lawmakers have been told they would merely be setting up the framework for a private corporation which could then borrow money on the state's loan guarantees, make investments and pay dividends to its citizen shareholders, many have expressed concern about the social and political implications of establishing a general stock ownership plan for an entire state.

Bills introduced in the House and Senate (HB240 and SB170) would set up a general stock

ownership corporation whose shareholders would be all Alaskans who were residents on January 1, 1980.

The AGSOC plan is based on a plan developed by Dr. Louis Kelso, considered to be the father of general stock ownership plans nationwide (GSOPS).

The state would loan the corporation money for start-up costs and later guarantee private loans it would need for investments.

The committee Tuesday was given a list of questions by Fran Ulmer, head of the Governor's Division of Policy Development and Planning, outlining administration concerns with the legislation.

The questions range from "What are the political implications of a corporation whose shareholders comprise the voting public?" to, "What will be the impact on the state's credit rating if AGSOC requires dif-

ferent kinds of financial assistance?"

The initial appropriation required has been pegged at around \$2.5 million.

Members of the House State Affairs and Finance committees and the Senate Commerce Committee have questioned whether AGSOC would really be a private corporation.

Rep. Mike Miller of Juneau asked several of those testifying at hearings Tuesday and Wednesday what the chances are that AGSOC will need no other state assistance other than start-up costs.

Ron Ludwig, a San Francisco attorney who represents an association of companies with employee stock ownership plans, told the committee that if the corporation made good investments under favorable conditions, it would be able to survive without help.

"If the investment is a good

business deal, the corporation will make money on it," he said.

But John Miskimen, a consultant who has worked on the AGSOC plan for Kelso, told the State Affairs Committee Wednesday that the corporation would probably be limited in the kinds of investments it could make.

Under the plan outlined by Kelso, the corporation would make investments using 100 percent credit. The corporation would have little capital, since it would be required to pay out 90 percent of its earnings to shareholders in order to take advantage of federal provisions giving it tax exempt status.

Miskimen said, "If you took 10 separate investments, perhaps five could be accomplished on credit and five would require equity capital."

"My guess is that within three years the corporation would come back for state aid," he said.

Stephen Buser, a professor at Ohio State University, told the committee Tuesday that the corporation would have to have some money to put into investments.

"I don't think \$2.5 million will do," he said. "It's going to be a continuing thing."

Some lawmakers were concerned about what rights stockholders would have in managing the corporation.

"Can we create something that is out of control, that the owners don't control?" asked House Speaker Terry Gardiner, D-Ketchikan.

Jeff Gates, a consultant for Hewitt Associates, who has also been studying the GSOP concept, said the idea of GSOP is to make people owners, not managers.

"Management is a skill," he said, "while ownership is a right."

Friday, March 30, 1979

State Warns Of AGSOC Power, Political Impact

By ROXINNE ERVASTI
Associated Press Writer

A proposed Alaska General Stock Ownership Corporation could ultimately become a fourth and highly powerful branch of government, according to an assistant state attorney general.

Because virtually every resident would be a shareholder, the corporation would have formidable political clout over the Legislature and governor — who are answerable to registered voters, he adds.

Those are comments in assistant attorney general Joe Donahue's review of bills pending in the House and Senate to set up an AGSOC, which would be the first of its kind if adopted.

The analysis was requested by the governor's office.

Donahue said that under current law, the AGSOC would be subject to state oil and gas taxes if it invested in petroleum-related projects. He said that could lead to a powerful lobby force by the citizen-shareholders to repeal many taxes and other restrictions against the industry, while speeding up "exploitation" of Alaska's resources.

"A successful AGSOC, representing as it would the residents of the state of Alaska, would in essence become a fourth branch of government," he said. "... It would quickly become susceptible to the pressures of any cohesive organized group of residents within the state, such as large labor unions, Native corporations, etc.

"That is, any private organization containing a large number of resident votes could well form a block in the nature of a voters' trust, which could be used to gain control, or at least to form an influential minority on the board of directors," he said.

Because all residents, not just voters, would be AGSOC shareholders, Donahue said "the chairman

of the board could conceivably end up representing a larger number of Alaskan residents than the governor of the state."

The House State Affairs Committee has held a series of hearings on the proposal in recent weeks, and similar concerns to those raised by Donahue were expressed by "expert" witnesses.

Under the AGSOC proposal, the state would loan several million dollars in "start-up" money for the initial nine-member board, appointed by the governor, to set up management and investigate possible investments.

Later, the state could be asked to guarantee its credit so AGSOC could borrow money from usual private lending sources to invest in large capital projects. One proposal has been buying out British Petroleum's share of the transAlaska pipeline.

Donahue said that because the federal requirement that the AGSOC return 90 percent of its earnings to shareholders, the corporation would not accumulate capital for further investments. In other words, if the AGSOC wanted to invest in more than one project and did not have the collateral to borrow, it might be forced to ask the state for additional loan guarantees.

He also said the AGSOC could push the traditional private corporations out of certain areas of the state's economy and that the citizen-owned corporation could end up having a monopoly in some cases.

Although Donahue raised questions about the structure of the board and methods of operating the private corporation, his primary concern was the possible political power the AGSOC would have.

"No matter who the AGSOC is ultimately designed, it would be foolhardy to believe that this entity would not quickly become highly politicized and ultimately, if it is successful, become an extremely powerful force in the state," he said.

State Ponders Purchase Of BP's Pipeline Share

By The Associated Press

Uncertainties facing proposals for Alaskans to buy British Petroleum's share of the trans-Alaska pipeline were discussed in a December consultant's report to the Legislature made public Monday.

The \$25,000 report by Louis Kelso, a San Francisco investment banker, includes descriptions of private meetings between Kelso, the author of the proposed Alaska General Stock Ownership Corp. under debate in the Legislature, and officials of British Petroleum Corp.

The Kelso report says British Petroleum may want to sell its share of the pipeline to reduce its debts.

The report said the value of the firm's pipeline investment ranges from \$1.3 billion to \$1.5 billion. The oil company's equity in the line ranges from \$200 million to \$400 million, with the balance of the investment in debts, the report said.

The international oil company gets less than five percent of its revenues and profits from the pipeline, but the pipeline debt of \$1.1 billion to \$1.2 billion is one-third of the company's entire debt worldwide, the report said.

The Kelso report said another likely factor influencing British Petroleum's interest in selling out is the risk the pipeline own-

ers face in the Federal Energy Regulatory Commission's pending decision on tariffs — transportation fees — the owners will be allowed to charge for carrying each barrel of oil.

"There is considerable risk that (the commission) will establish a low tariff ..." the report was quoted as saying in the Anchorage Daily News.

Sen. Mike Colletta, R-Anchorage and a backer of the proposed Alaska General Stock Ownership Corp., said the study of a possible British Petroleum purchase was ordered because it is an established investment that can better illustrate possible returns to Alaska citizens than a new project.

Colletta said British Petroleum's share of the pipeline is "certainly an attractive investment." But he said he doesn't think it is necessarily the best project for investment by the joint ownership corporation.

Prospects that further investment in the pipeline will be made to increase the amount of oil it can carry, and uncertainty over whether new oil reserves will be found to fill the line when the Prudhoe Bay field begins to decline are other "unknowns in the (British Petroleum) position," the consultant's report says.

If the federal energy commis-

sion makes its interim tariff of \$4.68 permanent, and the Alaska General Stock Ownership Corp. bought British Petroleum's interest for around \$1.5 billion with 10 percent interest to be paid on loans, Alaskans would get less than \$100 per year in dividends initially, and after about 10 years, "cash flow would be negative," the report said.

The report contains summaries of meetings between Kelso and his staff and British Petroleum officials in London and San Francisco. But names, dates and places of the meetings are deleted from the publicly released report.

The report was prepared for the Legislature's Budget and Audit Committee. The release of the report was held up while lawmakers tried to figure out what to do about the accounts of the private meetings.

Some of the financial details of the pipeline are sensitive because of the federal energy regulatory hearings, the report said.

Powerful Board Foreseen For AGSOC Plan

By NANCY HARRIS
Empire Staff Reporter

The proposed articles of incorporation and bylaws for an Alaska General Stock Ownership Corporation would place the board of directors beyond the control of the shareholders or the Legislature, lawmakers were told Tuesday night.

Daniel Fessler, a professor at the University of California at Davis law school, said the usual constraints which work against other corporations would not apply to AGSOC because of its diffuse shareholders, making the board of directors very powerful.

Fessler, who specializes in laws relating to business organization, told the House State Affairs and Finance Committees that he sees some problems with legislation setting up AGSOC.

"I have more serious problems with the proposed articles of incorporation," he said, "and even more serious problems with the proposed bylaws."

The articles of incorporation and bylaws are contained in a report prepared for the Legislature by Louis Kelso, an economist who fathered the idea of general stock ownership plans (GSOP).

Under bills introduced in the House and Senate (HB240 and SB170) the Legislature would appropriate money to finance start-up costs for a corporation in which all Alaskan residents as of January 1, 1980 would be shareholders.

The governor would appoint nine persons to the board of directors, who would then investigate possible investments for the corporation. Those investments would be made by securing private loans guaranteed the state.

Under federal legislation pushed by Sen. Mike Gravel, the corporation would be exempt from federal corporate income taxes. In order to take advantage of that exemption, however, the corporation would be required to pay out 90 percent of its earnings to shareholders.

Lawmakers have been told they are only setting up the framework for what would be a private corporation, subject to the same laws as other private corporations.

But Fessler warned the committees that "While you are being asked only to pass enabling legislation, if you pass the bill in its present form it will be beyond your powers to affect the bylaws."

A newly appointed board of directors would be likely to adopt the bylaws set down in the Kelso report, he said, rather than starting with a "blank sheet."

While a string of witnesses at previous hearings have argued the pros and cons of setting up a GSOP for the entire state, Fessler was

among the few who have specifically addressed the way the corporation would operate.

He urged lawmakers to build restraints on corporate management into the legislation, if such controls are desired.

"It's important to think through and anticipate problems before you create something you can't change," he said.

While AGSOC will be governed by the Alaska Business Corporations Act, he said, that act is "predicated on certain assumptions which don't apply to this particular corporation."

The Alaska law places strong powers in the board of directors of corporations because it is assumed that "blocks" of stock ownership will form, giving shareholders some influence in corporate decision-making, he said.

Shareholders in AGSOC would initially be given one share, and no one would be allowed to own more than 10 shares. Also, corporations and institutions would not be allowed to purchase stock, as they can in other corporations.

The basic assumption of the Corporations Act is totally contradicted by the way AGSOC stock will be dispersed, Fessler said.

"Management will be in an almost impregnable position," he said. "The nine men and women on that board will be more powerful than any in Alaska."

The only leverage the Legislature would have would be in refusing to guarantee loans for the corporation, Fessler said, terming it a "very indirect way of indicating displeasure."

The board would likely become "self perpetuating" he said, because it would circulate the proxies, or absentee ballots, for directors which would contain the management's slate of candidates.

The only way for other persons to get on the board would be to come up with the funds to solicit proxies, Fessler said.

"It's difficult to do in other corporations, and it will be even more difficult in this one," he said.

House Speaker Terry Gardiner said he was concerned with making management of the corporation "more democratic," but Fessler argued that that might not be the best way to run a business.

"The idea of putting shares in the hands of 480,000 people is to provide them with a stream of income," he said. "Does it follow that these individuals should have much of a role to play in governing that corporation?"

Fessler said it is easy to try to compare running a business to the way government is supposed to be run.

"I've never met Louis Kelso," he said, "but I've got to believe from the way these bylaws are written that he is not intending for people like myself to have any role in governing this corporation."

Empire
3/28/79

3/20/

HB240

MIKE GRAVEL

U.S. Senator-Alaska

APRIL

WASHINGTON, D.C.

1978

Fellow Alaskan:

As you may know, I have proposed that the state of Alaska institute a financial device called a General Stock Ownership Plan on behalf of all citizens of the state.

Under such a plan, each Alaskan would become a share-holding owner in one or more of the large and financially-sound energy projects in the state. Alaskans would acquire this ownership without personal expense -- and over a period of years, they would collect substantial income from the profits which the energy projects will generate.

The General Stock Ownership Plan (GSOP) concept is a complicated one, and many questions remain to be answered about its feasibility. Nevertheless, I feel the concept has great potential, and this newsletter has been prepared to explain the mechanics and the rationale for such a plan in Alaska.

Further intensive research by financial professionals is necessary -- and I have suggested to members of the Alaska Legislature that they appropriate funds for a study of this concept. If you think such a study would be worthwhile, I hope you will contact your state senators and representative.



General Stock Ownership Plan A Proposal for Alaska

As a public policy proposal, the General Stock Ownership Plan (GSOP) suffers from a peculiar liability: it sounds too good to be true.

How can great numbers of people, without personal expense, become the owners of capital estates? More particularly, how can they acquire this ownership without spending the public's money and without taking away from wealthy people what they already possess?

On first exposure, the proposition that this may be feasible -- and through means which basically are traditional and tested -- strikes one as unlikely, even preposterous. If it is indeed possible, then why has it not already been done?

This paper is an effort to answer these and other questions about the GSOP concept and its potential application in Alaska. In summary, the paper is meant to show that:

1) *the concept, in a related form, is already working successfully in Alaska and throughout the United States;*

2) *it works by diffusing the new wealth that is generated by capital investment, not by raiding the wealth of those who are already well-off;*

3) *it calls for the state to guarantee loans, in essence extending the state's credit for the benefit of each individual citizen; but it does not involve significant expenditure by the state;*

4) *it relies on tax policy which is*

already either wholly or partially in place; and,

5) *if successful, GSOPs might significantly improve the health of capitalist economies, helping to solve problems as seemingly diverse as capital accumulation and growing welfare rolls.*

The GSOP concept was developed by Mr. Louis Kelso, an investment attorney in San Francisco. It is based on his success with the Employee Stock Ownership Plan (ESOP), which he invented and which is now used throughout the United States.

The basic thrust of Mr. Kelso's work has been to broaden capital ownership -- to make more Americans owners of the companies which produce

Potential Alaska GSOP Dividends

GSOP Investment Level	First Year Income		Year 2000 Income (6% inflation)	
	per Alaskan	per Family (4)	per Alaskan	per Family (4)
\$1.5 billion	\$500	\$2,000	\$1,512	\$6,048
\$3.5 billion	\$1,162	\$4,648	\$3,528	\$14,112
\$10 billion	\$3,333	\$13,332	\$10,070	\$40,280

For assumptions, see Page 2, "Income Estimate"

our nation's wealth. Through his ESOP device, he has enabled people to do this in a very direct way by becoming the owners of the companies they work for.

Under an Employee Stock Ownership Plan, the owner of a company sells the company to its employees, who make the purchase entirely on credit, using the company's profits to gradually pay off their loan. In other words, their labor is making them the new owners instead of further enriching the present owners. This is how ESOPs are now successfully working, both in Alaska and throughout the rest of the U.S. (See inset, "Alaska's ESOPs," on this page.)

The principle at work in the ESOP mechanism is very simple: employees are allowed to borrow against the future profits which they themselves will be generating. The GSOP goes one step further: it allows a larger number of people to borrow money with which to purchase a profit-making enterprise -- and then those profits are used to pay back the loan.

As in the ESOP, when the loan is paid off, profits go to the people who "financed" and therefore own the enterprise, even though they didn't use their own money to provide the financing and acquire this ownership.

In both cases, the basic progression is the same:

-- a group of people borrow money

-- the money is invested in a profit-making company

-- the profits of the company pay off the group's loan

-- the group is left with ownership of the company and of all its further profits.

WHY IT WORKS

An obvious question arises at this point -- Who's going to lend us all that money? The answer is -- If the investment is credit-worthy, the money will be lent by the same banks, insurance companies and other private sources who would be financing the project without the GSOP.

And why would they lend money to the GSOP? For two reasons, in addition to the basic financial soundness of the venture:

1) Because their loan will be guaranteed by the state

2) Because tax policy will make GSOP investment more profitable than conventional investment (done presently for ESOPs.)

Let me elaborate on those two points.

First, the common principle in both the ESOP and the GSOP is the extension of credit to those who normally would not have such credit. In the case of the ESOP, the employees, would not normally be able to borrow the amount

necessary to buy their company -- but the ESOP allows them to borrow, in essence, from future profits of the company. This system, as I've already noted, is working now in Alaska and throughout the country.

In the case of the GSOP, certainly the greatest number of citizens could not normally borrow for the kind of significant capital investment that is envisioned here. Banks are happy to lend to those who already have money -- and, in fact, this is exactly why "the rich get richer." They don't spend their own money on new profit-making ventures -- they borrow the money and pay back their loan out of their new profits, just as the GSOP is designed to do.

The difference is that the rich have enough assets to "guarantee" their own

Alaska's ESOPs

Ten million American workers benefit today from Employee Stock Ownership Plans.

In Alaska, six companies with 867 employees have operating ESOPs.

As in the proposed GSOP, the ESOP device permits these Alaskans to borrow, in essence, from future company profits in order to become owners of the companies they work for.

Alaska's ESOP companies are --

-- The Daily News Miner, Fairbanks

-- Yukon Office Supply, Anchorage

-- Alaska Bank of the North, Fairbanks

-- Alaska Magazine, Anchorage

-- Madison Lumber & Hardware, Ketchikan

-- Porter Spaulding Insurance, Ketchikan

Income Estimate

How much income could a General Stock Ownership Plan bring to Alaskans?

The chart on Page 1 shows annual income per person, depending on the amount invested by the GSOP. The chart shows how much might be expected during the years when loans are being paid off ("First Year Income") and how much after the debt is retired ("Year 2000 Income.") The post-debt figures include inflation, estimated at 6 per cent, and population growth.

The levels of investment are \$1.5 billion (as in purchase of BP's share of TAPS), \$3.5 billion (\$1.5 billion in TAPS, \$1.5 billion in a gas line, and \$500 million in ALPETCO), and a large round figure, \$10 billion.

In order to compute the income estimates, actual cost and earnings figures are needed. As shown in the chart below, we have used BP's experience as a TAPS owner. Therefore, the figures show with some accuracy the income that might be expected from GSOP purchase of BP's share in TAPS: \$500 per person during loan pay-off; and \$812 per person after debt pay-off -- or \$1,512 in 2000, counting inflation and population growth. (Total cash flow, minus operating costs and debt service, divided by state population; and total cash flow, minus operating costs, divided by state population in 2000 -- and inflated at 6 per cent.)

For gas line, ALPETCO, or other investment, of course, cost and earnings figures are not available, so it is necessary to assume that BP's experience with TAPS would be typical. The income figures for investment of \$3.5 billion and \$10 billion are multiples of the estimates derived from TAPS.

TAPS ownership:	15.85 per cent	(BP share)
Loan:	State bonding	(subject to referendum)
Interest rate:	5.5 per cent	(Moody average, March, 1978 long-term tax exempts)
TAPS throughput:	64,062,000 bbls/yr	(current BP - Dillon, Read & Co.)
TAPS tariff:	\$6.35/bbl	(current BP tariff)
GSOP revenue:	\$406,794,000	(64,062,000 x \$6.35)
Operating costs:	\$90,452,000	(current BP - Dillon, Read & Co.)
Debt service:	\$123,820,000	(20-year bonds, as above)
State population:	405,000/777,500	(current/2000; state Commerce Dept.)
First year:	1978	

loan. In the GSOP, a way has been found to use the huge collective credit of the state such that each citizen has the kind of borrowing power that the wealthy have now.

Under a GSOP, a corporation is formed with each citizen as a shareholding owner. This corporation can borrow large sums for capital investment because the state will guarantee the loan. Thus, in essence, the state has extended its credit for the benefit of each individual citizen.

The second factor in making both the ESOP and GSOP plans work is favorable tax treatment. In the ESOP case, when a company is purchased by its employees, its earnings are exempted from the 50 per cent corporate tax for as long as it takes the employees to pay off their loan. In other words, Congress has decided to forego substantial tax revenues in the interest of broadened capital ownership. This provision helps make it especially attractive for company owners to sell to their employees, as well as helping to secure the necessary financing.

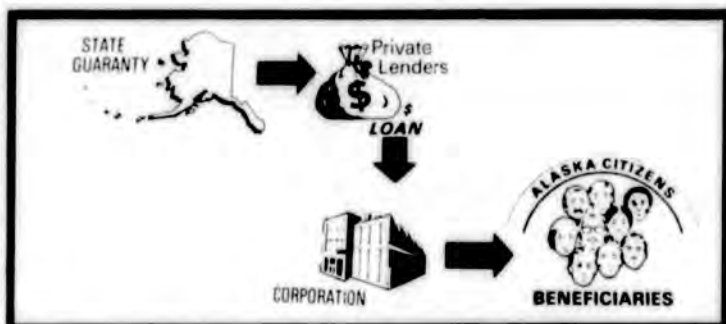
In the case of the GSOP, there are

How a GSOP Could Work

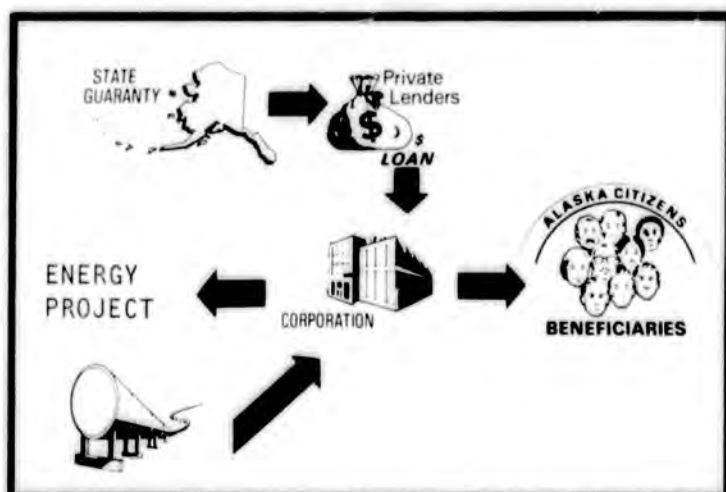
A corporation is formed, and its stock is issued to all Alaskans, making them the owners of the corporation.



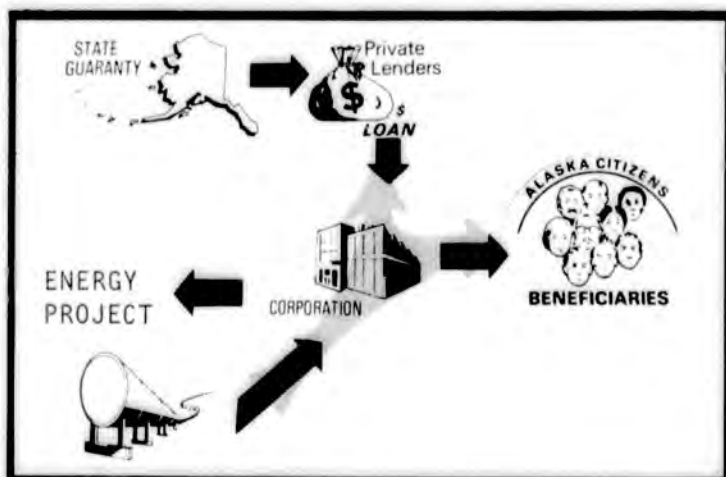
The corporation borrows money from private sources, and the state guarantees the loan.



The corporation invests the money in an energy project, making the corporation a part-owner of the project and thus making all Alaskans part-owners.



Earnings from the project are used to pay off the loan and to pay dividends to Alaskans. When the loan is paid, all profits are passed through as dividend payments to Alaskans.



two possibilities for avoiding corporation taxes. First, if the IRS finds the GSOP corporation to be technically a state agency, then it would be exempt from all federal taxes. Or, second, Congressional action could take place to provide an exemption from corporate tax, just as in the ESOP.

THE ALASKA PLAN

How, then, might a GSOP be applied in Alaska, and what would it mean for Alaskans?

First of all, Alaska appears in many ways to be an ideal ground for a General Stock Ownership Plan. On the one hand, similar ideas have been discussed previously, so Alaskans are better prepared for its novelty.

In addition, a form of "general stock ownership plan" already exists in the state: the Native Regional Corporations. The Regional Corporations differ from the GSOP concept insofar as they receive actual funds from the govern-

ment, and not simply government guarantees for loans. But as a means of spreading the ownership of new wealth, they are true to the GSOP intention and method.

More than either of those reasons, however, the particular position of Alaska and its stage of development today appear to make the state a good ground for GSOP plans.

A great amount of new wealth will be created in Alaska during the coming decades. It will be created through the capital-intensive projects which enable us to exploit our natural resources.

If these projects are financed in the traditional way, then those who benefit will be those who already are wealthy -- in most cases, non-Alaskans. Through a General Stock Ownership Plan, however, the opportunity may exist for financing these projects in a way that will help distribute the new wealth among Alaska's citizens.

Mr. Kelso has noted the particularly favorable conditions in Alaska

for a potential GSOP. In Anchorage last November, he suggested a plan for applying general stock ownership in the financing of the proposed gas pipeline.

I feel that, assuming financial soundness, GSOP investment would be possible for any of the large energy projects which will be built in Alaska. Today, in addition to the gas pipeline, there is the proposal to build a petrochemical plant (ALPETCO), which will require a great amount of capital. Still more projects are inevitable. And investment is even possible in the existing oil pipeline, especially as it is known that British Petroleum, a major TAPS owner, may be willing to sell its share.

How would an Alaskan GSOP work? As already broadly outlined above:

-- a corporation would be formed and each resident of Alaska would be given an equal ownership share of the corporation

-- the corporation would borrow

“... If these projects are financed in the traditional way, then those who benefit will be those who already are wealthy -- in most cases, non-Alaskans. Through a General Stock Ownership Plan, the opportunity may exist for financing these projects in a way that will help distribute the new wealth among Alaska's citizens.”

money to invest in the energy project, having assured itself of the project's soundness

private lenders would be willing to provide this loan because it would carry a state guarantee (however, the state's guarantee would not involve any significant expenditure of public money)

-- the loan would likely be in the form of state-issued bonds, and if these had a tax-exempt status, they would bear a particularly low interest rate

-- the money would be invested in the project, making the corporation a part owner and thus making each Alaskan (as a shareholder of the corporation) a part owner

-- earnings from the project would be used to pay off the loan

-- dividend payments could be made to Alaskans as soon as profits were being realized; and once the loan was paid off, all profits from the corporation's share of the pipeline would belong to the Alaskans.

As a final addition to this picture, a trust would be needed to hold Alaskans' shares in the GSOP corporation, and dividends would be distributed by the trust. In addition, the state's bonds or other guarantee would be subject to referendum.

How much could Alaskans hope to realize from such a plan? As shown on Page 2, investment in BP's share of the TAPS line could yield some \$500 per Alaskan initially, and \$805 per Alaskan after payment of a 20-year loan. For the family of four, this is \$2,000 per year initially and \$3,220 per year after pay-off of the loan.

Adjusted for 6 per cent inflation and for population growth, dividend payments per Alaskan could be \$1,512 per year in 2000 on the TAPS investment alone. And assuming similar investment characteristics for other GSOP projects, dividend income to Alaskans can be estimated as a function of the level of investment: investment of \$1.5 billion in each of the pipeline projects and \$500 million in ALPETCO would yield \$3,528 per person after loan

pay-off, including inflation; or, assuming investment of \$10 billion, \$10,070 per person in year 2000 dollars would be generated -- \$40,280 per family of four.

CONFLICT

A final consideration: the state itself, of course, could make these investments and add the earnings to its treasury, using them to increase services or decrease taxes.

But there are basic reasons for avoiding state ownership of the productive tools of society -- which of course

constitutes socialism.

One legislator to whom I explained this proposal suggested that the plan be called "Corporate Democracy," and this name does indeed suggest the purpose of the plan.

Not only is it desirable *per se* to spread the ownership of wealth, but it is desirable also to keep a maximum of decision-making power at the individual level.

Finally, a plan like this makes more visible the conflicts and trade-offs between state regulation and taxation and the needs of an economy for self-sustaining growth.

Early in this century, it was found that about 5 per cent of Americans owned more than 50 per cent of the nation's wealth. Today, despite a three-quarter century effort to distribute our wealth more equitably, the figures are virtually unchanged.

In fact, according to the Bureau of Census, the same 5 per cent own 62 per cent of American business and 83 per cent of the stock. The top 1 per cent owns 25 per cent of the nation's wealth and 50 per cent of the stock.

Meanwhile, the U.S. economy has reached the trillion-dollar level, making this country the greatest productive entity in history. Yet there is a widespread and well-founded fear that this enormous economy is in deep trouble.

The government so far has treated these two problems as separate entities, trying to solve each with "fine-tuning" policies which are often short-sighted and even self-contradictory.

But are these problems really separable?

In fact, it seems clear, they are directly linked, because in trying to cope with economic injustice, the government pursues policies which hinder economic development.

For example, in order to achieve greater economic equity, "transfer payments" from the wealthy and the middle class to the poor are ordered. But what is this, really, except

withdrawing from the economy the capital it needs to produce the nation's wealth?

Likewise, non-productive jobs are created or preserved because most people still must rely on their labor for income. And yet everyone can see that this policy is on a collision course with the technology which can improve our lives, precisely by freeing us from unrewarding labor -- the same technology which has been a primary factor in the ascendancy of the American economy.

The fact is that the crisis of today's capitalist economics is very directly tied to their failure to bring about economic equity.

The key to both economic health and economic equity lies in spreading the ownership of the productive instruments of our society: our corporations.

We can begin to treat the root of both problems if we can spread among all citizens the ownership of the companies which produce the nation's wealth.

The General Stock Ownership Plan is conceived as a means of achieving this widespread ownership without confiscating the property of the wealthy and without creating a monolithic socialist state.

A GSOP for Alaska could be a first step toward this larger goal.

UNITED STATES SENATE

WASHINGTON, D.C. 20510

PUBLIC DOCUMENT

OFFICIAL BUSINESS



U. S. S.

Editorial Opinion and Comment of

FAIRBANKS

Daily News - Miner

"Independent in All Things . . . Neutral in None"

Other opinions expressed on this page do not necessarily reflect those of the Daily News-Miner.

Behind AGSOC

There's big money behind the campaign for Sen. Mike Gravel's Alaska General Stock Ownership Corp. (AGSOC). That's not bad in itself, but it's a sign that AGSOC might be headed in the wrong direction.

The campaign for a 1980 general election ballot initiative creating an AGSOC has spent more than \$60,000 already getting signatures on an initiative petition. The AGSOC committee got its biggest chunk of money in a \$25,000 loan from the Alaska National Bank of the North. The next largest contribution was \$15,000 from a Washington D.C. labor organization.

Other contributions of \$5,000 each came from Alascom, E.F. Hutton Co. (a partner in the Alpetco royalty oil refinery project), Alaska Interstate and the Fairbanks Local 375 Plumbers and Steamfitters Union.

Now this ties in nicely with the AGSOC pitch that the statewide stockholders program would finance large projects in the state to generate dividend income for Alaskan residents. Buying a share in the trans-Alaska oil pipeline has been mentioned. Seeing the name of an Alpetco partner in the list of contributors makes one wonder if AGSOC isn't being eyed for financing of that venture too.

That's fine, but we already have a lot of big project capital in the state. The state coffers are bursting with increased oil revenue and the Alaska Highway gas pipeline looks more like a sure thing all the time. While we're past the building boom of a few years ago, a big project can still find backers when it can show it's economically feasible.

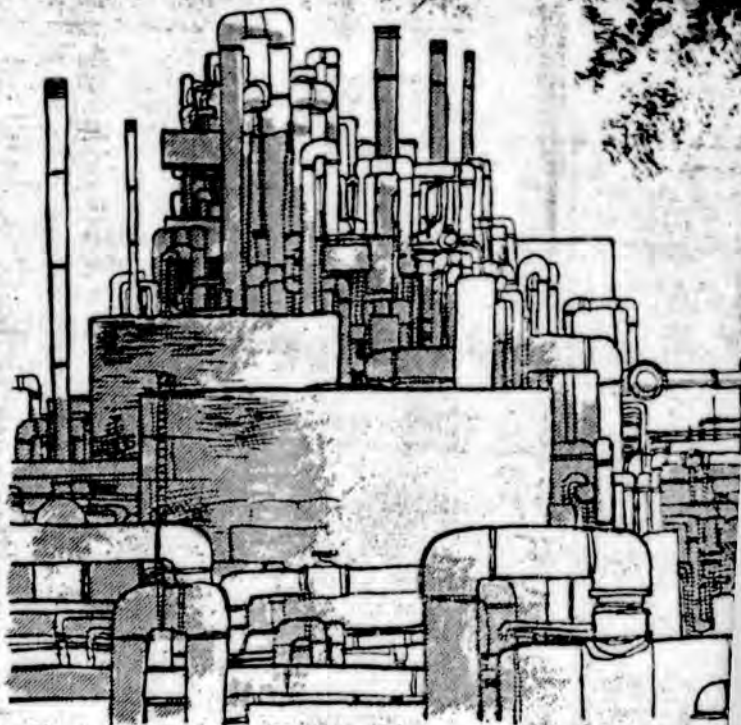
But what about home mortgages? Those get tighter every year, and with the way the national economy is going no long-term solution is in sight. We've asked AGSOC supporters if their plan could include home mortgages and they indicate that it could, but they hadn't considered it as much as the big development projects.

Maybe they should consider it more. Then they might get some small individual contributions to balance out those big corporate donations, and they would get some support too.

The initiative petition can't be rewritten now, but if the initiative forces legislative action next year then some kind of home mortgage program should be written in as a required part of the AGSOC investments.

Lunar land freeze

MAXWELL THEODORE DRAKE FOR CHICAGO TRIBUNE



The same

WASHINGTON—Out in Las Vegas, Nev., about two years ago I heard Ronald Reagan deliver a speech. As everybody knows, Reagan is a very good speaker. I thought it worthwhile to take careful notes.



Tom Braden

Which I did. I came home with four long yellow sheets covered with writing and when I looked the writing over I found that it consisted entirely of anecdotes, mostly stories about small businessmen caught up in the red tape and unconscious brutality of big government.

They were funny anecdotes too, funny because, of course, the audience did not consist of the victimized. Taken all together the anecdotes spelled out the following message: "Government is bad for you."

I didn't write anything about the speech because the anecdotes would have required too much space in the retelling and the message, while never explicitly stated, seemed to me simple-minded.

But just the other day, I heard Reagan speak and to my astonishment he gave the same

exactly the same thing to an existing building in the State of Georgia, by naming it after JOHN J. FLYNT, Jr., who is retiring from Congress this year. It adds no cost. It has passed the House of Representatives. The number of the bill is H.R. 13187.

I would ask the Senator, so we may have a very clear understanding and not run into the same problem we have just discussed, that the Senator amend his unanimous-consent request so that it will be in order also to bring up H.R. 13187 under exactly the same conditions, immediately following the passage of his bill.

Mr. BAKER. Mr. President, reserving the right to object, I would be entirely agreeable to that under the same conditions, and I would be agreeable to doing it en bloc.

Mr. JOHNSTON. Mr. President, I amend my request by asking that the Flynt bill, which is—

Mr. NUNN. H.R. 13187.

Mr. JOHNSTON (continuing). Be considered en bloc, under the same terms and conditions, with H.R. 15314, and that both of those bills now be considered under the same terms.

The PRESIDING OFFICER (Mr. STONE). The Chair would observe that the Chair needs a copy of the Flynt bill in order for the Chair to operate on it.

Is there objection? Without objection, it is so ordered.

The Clerk will report the two bills.

The legislative clerk read as follows:

An act (H.R. 13514) to name a certain Federal building in Shreveport, Louisiana, the "Joe Waggoner Federal Building".

An act (H.R. 13187) to designate the United States Post Office and Federal Building in Griffin, Georgia, the "John J. Flynt, Jr. Federal Building".

The PRESIDING OFFICER. Pursuant to the order, the question is on the passage of the two bills, en bloc. Is there objection? Without objection, the two bills are considered and passed.

Mr. JOHNSTON. I move to reconsider the vote by which the bills were passed.

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

The motion to lay on the table was agreed to.

The PRESIDING OFFICER. The Senator from Wyoming had been seeking recognition.

REVENUE ACT OF 1978

The Senate continued with the consideration of the conference report.

Mr. GRAVEL. Mr. President, will the Senator yield?

Mr. HANSEN. I yield.

GENERAL STOCKOWNERSHIP PLANS

Mr. GRAVEL. Mr. President, I would like to take a moment to compliment the Senate on one provision of this bill. This tax bill goes far toward stimulating the much needed growth of capital in our economy. But, there is one provision in this bill, a provision which I am proud to say was added by the Senate, which

addresses the question of who will own this new capital.

The Joint Economic Committee estimated in 1974 that 1 percent of our population owned 25 percent of our wealth and more than 50 percent of all corporate stock. Studies indicate that these concentrations of wealth have not changed significantly in 50 years despite all our efforts at income redistribution and amelioration of poverty. The amendment regarding general stockownership plans in this bill is a significant step toward broadening the ownership of American wealth.

Leadership on the issue of broadening capital ownership has long and ably been carried by my colleague and friend, the chairman of the Finance Committee. His work in the area of employee stock ownership plans has laid the foundation for Federal policy on expanded capital ownership. Following in his footsteps I sought to extend the concept of broadened capital ownership beyond the employer/employee relationship. The general stock ownership plan legislation contained in this bill is an important step in that direction. I would like to thank Chairman Long for his help in seeing these provisions adopted and to thank my fellow Finance Committee members who were supportive of my efforts.

There are a number of questions which my colleagues have put to me over the past few months and I would like to include some explanation of these issues for the Record.

First. What is a general stockownership corporation and how is it organized?

A general stockownership corporation would be formed either by act of a State legislature or by statewide referendum and each resident would be issued a share of stock. The residents would not be charged for their stock and would receive it free and clear. The corporation would borrow money to invest in profit-making ventures with the loan secured by the assets and, if necessary, by a State guarantee. Through this method the citizens of a State would become owners of capital. The earnings from the GSOP investments would be used to retire the loan and the balance distributed to the shareholders.

Second. What sort of technical requirements must be met in order to establish a general stock ownership corporation?

The bill authorizes States to establish privately owned GSOC's for the benefit of their citizens. A GSOC is a private corporation chartered by an act of a State legislature or by statewide referendum with a charter providing for first, the issuance of at least one share of stock to each eligible individual who does not elect within 1 year from the date of issuance not to receive such share; second, restrictions on transferability of shares (a) to nonresidents, (b) to an individual owning more than 9 shares or (c) until the earliest to occur of 5 years from issuance, death, or failure to meet the State residency requirements. The GSOC must be chartered after December 31, 1978 and before January 1, 1983 and may not own more than 20 percent of any subsidiary corporation. GSOC investments are not limited, but a

GSOC may not acquire a business from an unwilling seller through the State's power of eminent domain. This limitation does not apply to the State's power to acquire a right-of-way for a particular project, but precludes the involuntary sale of a business to the GSOC.

Third. What does the legislation mean when it refers to stock being distributed to "eligible individuals?"

An eligible individual is any individual who is a resident of the chartering State as defined in the State's enabling legislation so long as the definition is consistent with constitutional principles.

Fourth. GSOC's are entitled to taxation in a unique manner. What is the special tax treatment of these corporations?

GSOC's may elect to be exempt from Federal income taxation. The shareholders of an electing GSOC will report their proportionate share of the GSOC's taxable income on their Federal individual income tax returns. The election, made in a manner to be determined by regulation, is effective for the taxable year for which made on a timely filed return. The election may be terminated with the consent of the Secretary of Treasury. It would be appropriate for the Secretary to consent to revocation for a taxable year where the tax liability of GSOC shareholders significantly exceeds cash distributions. Once the election is terminated the GSOC is subject to the normal Federal income tax and may not reelect. The taxable year of an electing GSOC shall end October 31, unless the Secretary of Treasury consents to a different taxable year.

A GSOC will compute its taxable income in the same manner as other corporations, but is not eligible for a dividends received deduction nor any tax credits. The GSOC is entitled to a 10-year carryover of any net operating losses. An audit adjustment resulting from an Internal Revenue Service final determination will be reflected in the GSOC's taxable year in which such adjustment is made and not the taxable year to which it relates. The amount of such adjustment will be subject to an interest charge in an amount computed as though the income had been taxed to a nonselecting corporation.

Fifth. The corporation itself does not pay Federal income tax, but the income of the corporation is taxed to the shareholders?

Yes, each shareholder will include in his gross income his daily prorated share of the GSOC's taxable income. The shareholder will also be entitled to his pro-rata share of the GSOC investment credit and liable for any recapture computed at the corporate level. Income, credits and recapture will be included in the shareholder's gross income and reported on his return for the taxable year in which or with which the GSOC's taxable year ends. The income will be treated as ordinary income to the shareholders and will not be eligible for either the partial dividend exclusion—section 116—or the maximum tax on earned income. The shareholders of the GSOC will not be eligible to report any portion of a GSOC net operating loss on their returns and neither the corporation nor the

shareholders will be entitled to the foreign tax credit on taxes paid by the GSOC.

Sixth. What about the shareholder's basis in his stock?

Shareholders will increase the tax basis of shares of GSOC stock to the extent they report income from the GSOC. Shareholders not required to file returns will increase the tax basis of shares to the extent they were attributed income from the GSOC. Distributions from the GSOC out of previously taxed income will decrease the tax basis of such shares.

Seventh. What about distributions of the stock itself. Will the shareholder be taxed upon receipt of the stock and will he receive a basis in his share at the time of receipt?

If the shares are distributed before any investment has been made by the GSOC, the shares will be treated as having a zero value as of the date of receipt. Therefore, no income would accrue to the shareholder upon receipt and no tax liability would be generated. If investments have been made, the valuation of the shares should be made on a net asset basis so that if the GSOC investment were 100 percent leveraged, the shares distributed would have zero value and no income would accrue. If the shareholder receives his shares free of tax, he would have a zero basis in his stock at the time of receipt.

Eighth. If the GSOC shareholders are taxed on the income of the corporation, how do they receive this income and what is the treatment of distributions?

Distributions from a GSOC's taxable income previously taxed to a shareholder will be treated as a tax-free distribution. Any distribution in excess of such previously taxed income will be taxed in the same manner as a distribution from a regular corporation—section 301(c). Such distributions will first be treated as a tax-free reduction in basis to the extent thereof with any distribution in excess of basis treated as income from the sale or exchange of a capital asset. A GSOC will be required to distribute 90 percent of its taxable income to its shareholders by January 31 of the next succeeding year. To the extent a GSOC fails to meet this distribution requirement, a tax equal to 20 percent of the difference between the required distribution and the actual distribution is imposed on the GSOC. The amount of such tax is allowed as a deduction to the GSOC for the year in which it is paid.

Ninth. Are there any special filing requirements for GSOC's?

GSOC's are required to file Federal income tax returns meeting the timing requirements of regular corporate returns and showing information reported to each shareholder. GSOC's are also required to provide each shareholder a form 1099 showing the shareholder's—first, pro-rata income from the taxable year; second, tax-free distributions for the year; third, tax treatment of other distributions; fourth, amount of any investment credit or recapture for such year; and fifth, amount withheld for Federal income tax purposes. Regulations implementing the reporting requirements and other provisions of sub-

chapter U should be given priority in light of the limited time within which GSOC's may be chartered.

Tenth. If the GSOC distributes all of the shareholder's portion of the GSOC earnings, what is to prevent the shareholder from spending this money prior to tax time and being left with a tax liability and no cash?

GSOC's must withhold an amount equal to 25 percent of every distribution made to their shareholder except shareholders who, under regulations issued by the Treasury, certify that they are non-taxpayers. The amount of such withholding will be allowed as a refundable credit to the shareholders.

Eleventh. Will the GSOP really be a breakthrough in the battle to broaden capital ownership. If so how will we know?

GSOC's are required to file annual reports with the Treasury summarizing their operations for each year. As the primary sponsor of the GSOC provisions I intend that these reports include studies of the effect of the GSOC on distribution of income and wealth, the level of transfer payments made or required, the social and demographic profiles of GSOC shareholders, the level of economic understanding of GSOC shareholders, and possible beneficial revisions to the GSOC legislation. The bill also requires the staff of the Joint Committee on Taxation to undertake a study of the operation and effect of GSOC's on capital formation, income and capital distribution, competing businesses, integration of the corporate and personal income tax, and the workability of the dividend withholding system. Through these studies I hope we can quantify the effect of GSOC's on expanding capital ownership. I would also like to see the Joint Committee address the broader question of capital ownership in our society and suggest to the Congress a system for annual measurement of our progress in broadening the ownership of capital in America.

Mr. HANSEN, Mr. President, I know that Senators are very weary from the long stint we have all put in here. I could not help thinking, though, as I have been listening to the criticism that has been registered at this bill, and many very justifiable criticisms have been made, that it just seems to me as though we need to get this bill into perspective.

May we have order, Mr. President?

The PRESIDING OFFICER. The Senate will be in order. The Chair requests that Senators and staff members conversing withdraw from the Chamber. The Senate will be in order.

The Senator from Wyoming.

Mr. HANSEN, Mr. President, I think we need to get this bill into perspective. It is not everything, by any means, that everyone would want. There are very many laudable goals and objectives that have been expressed and endorsed either by the House or by the Senate, or by both, that are not contained in the bill; but I think we would be derelict if we failed to note what has been accomplished.

I first want to salute my colleague, the chairman of the Finance Committee,

for having done an almost impossible job in scheduling hearings upon the various parts of this bill, and calling into the capital city of the Nation expert witnesses, who testified on the economy, who had good, sound, advice to give as to ways in which the tax laws could be changed in order to make our tax laws more responsive to the needs of the Nation and its economic health.

The PRESIDING OFFICER. If the Senator will suspend momentarily, the Senate will be in order.

The PRESIDING OFFICER. Will the Senator suspend for a moment?

The Senator from Wyoming.

Mr. HANSEN, Overall, I think we can mark a real milestone. We turned the whole thrust of tax reform around from what it was less than 2 years ago, after having heard from experts, after having heard from former Cabinet officials, former Secretaries of the Treasury, and others. I think a lot has been accomplished.

It is easy to criticize, but let us not forget that there are some things in this bill that ought to be underscored, remembered, and spoken about as we leave here and go out following the sine die adjournment of this session.

New tax cuts of \$18.7 billion for calendar year 1975 compared to \$16 billion in the House bill and \$29 billion in the Senate bill have been written into law, assuming that bill is signed by the President.

This is an individual tax cut of \$13 billion for the American people. The personal exemption is increased from \$750 to \$1,000. The earned income credit is simplified and enlarged.

Unemployment compensation. This bill phases out the exclusion for unemployment compensation for single people with incomes over \$20,000 and for married couples with income over \$25,000. For the first time we have said we are going to blow the whistle on what couples can receive or what single people can receive in the way of overall income and still draw, without being subjected to any tax, unemployment compensation benefits.

The corporate tax rate has been cut under the terms of this bill from 48 to 46 percent. That is going to be a real help to a lot of businesses which try to generate more capital.

The investment tax credit is made permanent. The limit on the amount of tax which can be offset by the investment credit is increased from 50 to 90 percent.

The credit is increased for pollution control facilities and is expanded to farm cooperatives.

The bill contains a new targeted jobs credit and an expansion of existing WIN and welfare recipient tax credits. These will encourage businesses to hire welfare recipients, needy youths, needy Vietnam veterans, and others.

The bill increases the percentage of capital gains excluded from income from 50 to 60 percent.

The bill provides a once in a lifetime exclusion for up to \$100,000 of capital gains on the sale of a principal residence by someone aged 55 or over. The carry-

MIKE GRAVEL
ALASKA

United States Senate

WASHINGTON, D.C. 20510

October 26, 1978

The Honorable Mike Colletta
Chairman, Budget and Audit Committee
Alaska State Senate
P. O. Box 3188
Anchorage, Alaska 99501

Dear Mike:

I am pleased to inform you that the Federal legislation required for the formation of the first General Stock Ownership Plan was included in the final version of the tax bill (H.R. 13511) which cleared the Congress last week.

I have taken the liberty of enclosing a number of items which may be of interest to you. These materials regarding the recently passed GSOP legislation include:

1. Washington Post front page article of Sunday, October 22, 1978
2. Finance Committee report on GSOPs
3. Floor statement from the Congressional Record of Saturday, October 14, 1978
4. Title VI of H.R. 13511, the GSOP legislation

I hope that you will take the time to review these items. The Kelso firm is hard at work preparing its recommendations to the State and I expect to see this project move ahead quickly.

Thank you for your interest in this subject; and if you have any questions regarding the recently passed legislation, please feel free to contact me.

Sincerely,



Mike Gravel

MG/jg

Enclosures

The Washington Post

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SUNDAY, OCTOBER 22, 1978

Alaska Inc.: An Economic Experiment

Senator's Plan Would Distribute State's New Wealth to Citizens

By William Greider

Washington Post Staff Writer

Alaska, a state where pioneering is still a daily reality, wants to launch a grand experiment in economic democracy—distributing new wealth to all its citizens, giving each an owner's share in Alaska's bountiful energy development.

If the scheme works, every Alaskan—men, women, children—will hold stock shares in huge capital investments such as the Trans-Alaskan oil pipeline or the proposed natural gas pipeline or a future petrochemical complex. Every year, citizens would each receive dividend checks of several hundred dollars or more and, every year, their share of equity interest would grow.

In addition to spreading cash among the citizens, the idea might produce political benefits for the oil companies. If people have a personal stake in the profits, the public may be more sympathetic when private enterprise complains about government regulation and taxation.

Is the capitalist revolution upon us?

The "general stock ownership plan" (GSOP) is the brainchild of Sen. Mike Gravel (D-Alaska), who derived the idea from the economic philosophy of Louis Kelso, a prophet of broadened capital ownership for workers. Last week, without any fanfare, the federal tax-law changes necessary for the venture were enacted by Congress in its omnibus tax bill, now awaiting the president's signature.

"This idea has floated around for years and nobody has taken it seriously," Gravel said. "But wait until the day when the first dividend checks go out to every citizen of Alaska. When the long green touches their hands, you will see a revolution begin."

Gravel, his enthusiasm getting somewhat ahead of events, predicts the Alaskan venture will alter American politics and economics in profound ways, as other states rush to copy the model. The senator sells it as the alternative to welfare-state liberalism, as the way "to build a constituency for capitalism."

The potential political effects are almost as intriguing as the presumed economic benefits. Gravel's plan would make all citizens into minority partners with the major oil companies, a fact that could greatly alter public opinion on issues such as state taxation of energy ventures. If a citizen holds a personal stake in energy profits, albeit a small one, he or she may not like the idea of the state government increasing its taxes on those profits in order to finance public programs.

In the meantime, the state government of Alaska has not yet committed itself to do anything beyond studying the idea.

The legislature has placed Louis Kelso's San Francisco investment firm under a \$180,000 contract to draw up the blueprint for this economic creature—a state-chartered corporation owned by everyone, empowered to borrow money, perhaps with a credit guarantee from the state, and to invest the money in private business ventures. Earnings from the venture would pay off the loan and the leftover profits would be distributed every year as dividends to each of the 405,000 citizen stockholders.

For starters, Gravel thinks the GSOP corporation might buy out British Petroleum's 16 percent share in the oil pipeline. Owned jointly by eight oil companies, the pipeline is already carrying North Slope crude oil south for distribution. BP has expressed an interest in selling its investment, valued at \$1.5 billion, and the senator's staff calculates that, when the pipeline is at full capacity, BP's share of the revenue would run about \$406 million a year.

This would be enough for the GSOP corporation, according to Gravel, to cover the operating costs plus the annual debt payments and still leave about \$158 million a year for distribution in dividends.

That means about \$390 per person. Nobody will get rich on \$390, but a family of four would have four dividend checks coming every year, or \$1,560. This could make a real difference to a poor family, Gravel reasons, offsetting some of the government obligations to provide welfare and subsidized services.

Since the value of an oil pipeline depreciates as it ages, the citizen stock would presumably be worth considerably less than \$1.5 billion when the debt is finally paid off in 15 or 20 years. After five years, however, a citizen could sell his or her share for the going price.

To avoid concentrated ownership, nobody could hold more than 10 shares.

Each share of stock would have a single vote to elect the officers of the GSOP corporation, who in turn would have 16 percent worth of influence over the pipeline company itself.

Among other things, the Alaska legislature has to decide who qualifies as a "citizen." One idea is to set a cutoff date of Jan. 1 this year, so the state would not be flooded with new immigrants seeking a share of stock.

Down the road a way, Gravel envisions several layers of citizen investment on a grander scale—another stock issue to help finance the multi-billion-dollar gas pipeline expected to be built in the 1980s, another to share in a vast petrochemical complex envisioned for the Kenai Peninsula. If Gravel's wish list were to become reality over the next decade, Alaskans would be drawing modest second incomes in addition to their wages—a collection of dividend checks.

At this point, the reader of normal intelligence is probably rolling his eyes and wondering if Sen. Gravel and the Alaska legislature have gone bonkers, not to mention the U.S. Congress, which has authorized the experiment. It all sounds too good to be true. Where is the hidden catch? And who pays the bill for this redistribution of wealth?

That is approximately the reaction that Gravel encountered last March when he first proposed the scheme to the state legislature and, again, this summer when he tried it out on the Senate Finance Committee. With a little persuasion from Sen. Russell B. Long (D-La.), the committee chairman and an advocate himself of broadened ownership, the Congress decided to let Gravel try out his mini-revolution.

Long has said privately that, if Gravel's idea works, and it may or may not, it would become the most significant item in the 1978 tax legislation.

The heart of the scheme is credit, the power to borrow money. As Gravel and Kelso see the world, ordinary people, even poor people, could accumulate wealth in the same way that well-to-do people make their assets grow, if the government will intervene. A person who has sufficient assets or earnings to guarantee his or her credit can borrow money to make investments, pledging to pay back the loan with the new income expected from the investments.

If the venture is a success, the person winds up with new capital that paid for itself, but nobody calls this process a "giveaway." It's called "risk-taking" in the free enterprise system.

Gravel's notion is that government, which in effect aggregates the assets of all citizens, can provide a mechanism for extending a share of credit to everyone—a chance to buy something based on its anticipated future earnings.

That concept is the essential novelty of Gravel's scheme. Beyond that point, the proposition works more or less like ordinary business transactions, with the same tax benefits, the same risks. The citizen-owned corporation would enjoy the same tax treatment as a partnership or a certain corporation with a limited number of stockholders (known as "Subchapter S" Corporations). The GSOP would be exempt from paying corporate income tax on its own earnings, but it would have to distribute at least 90 percent of its profits every year to shareholders who would each pay individual income tax on the money. The GSOP could not, however, pass through losses, so its shareholders could not use it as a tax shelter.

The Treasury Department objected to Gravel's original version because he had tucked in additional, more exotic "tax benefits." When the tax experts studied his final proposal, however, they concluded that the U.S. Treasury would lose little or nothing.

Gravel contends the federal government will actually collect more revenue under his plan because the profits now collected by British Petroleum, for instance, are "sheltered" from taxation by various provisions of the tax code. If some of that profit goes directly to individuals, it could yield as much as \$40 million in income taxes, Gravel claims.

If the GSOP decided to buy BP's share, it would have to go to a friendly banker somewhere, presumably on Wall Street, and ask to borrow the \$1.5 billion needed. The banker would make a calculation on whether it is a good risk or not. If the pipeline looked as if it wouldn't "pay out" as handsomely as the company's projections, then the GSOP would either be turned down or be forced to pay high-risk interest rates that might kill the whole idea.

But, if the Trans-Alaskan pipeline

is such a good deal, how come British Petroleum wants to get out of it? That question leads into arcane subjects where only experts tread with confidence—pipeline economics, corporate debt structure and optimum rates of return for oil companies.

British Petroleum, which has expressed no more than an informal interest in selling, has complained about its low earnings from the pipeline so far, which suffered from an explosion and shutdown last year. It is the only major partner that doesn't also own a share of the North Slope oil field. The state of Alaska, like Exxon and Arco and the others, does own production shares in the oil field.

"If you own a share of the oil field," said John Gore, BP's Washington representative, "it's economic to own a share of the pipeline. If you don't hold a share of the oil field, it doesn't look so good."

BP has one of the highest debt-equity ratios among petroleum majors and some think the company would like to extract its investment from the Alaskan pipeline so it can spend the money closer to home—drilling more oil wells in Britain's North Sea fields.

In any case, one reason the pipeline looks less attractive to the British company today is that the state government of Alaska has been fighting the oil companies over how much the pipeline can charge to move the crude oil. The state collects a severance tax on all oil pumped in Alaska, but transportation costs are deducted from the tax—so a higher pipeline fee means less tax revenue for the state government and vice versa.

This is a political hook that could have important implications for the future development of energy projects.

Right now, the oil companies are asking federal regulators for a pipeline tariff of \$8.35 per barrel, while state tax officials insist that a fee of \$4.68 is all that can be justified. For the state treasury, the difference represents about \$140 million a year in severance tax revenue. But, if Alaskan citizens owned BP's share, the higher tariff would deliver an additional \$106 million to their citizen-owned corporation.

Question: Would Alaskans prefer a lower tariff that sends more tax money to the state capital or a higher tariff that adds more money to their own dividend checks? The political message from the citizens could very well be: Get off the backs of the oil companies.

Sen. Gravel claims this possibility is one of the major benefits of his proposal. "You set in motion a conflict between the citizens and the government," he said, "and you give the citizen a handle for seeing what the government is doing."

Alaska Revenue Commissioner Sterling Gallagher, originally skeptical about Gravel's proposal because of its tax implications, is now a supporter. He agrees this political tension is likely, but he sees that as healthy. In any case, Gallagher doesn't think the GSOP would go forward with the

pipeline purchase until the tariff issue is settled conclusively by the Federal Energy Regulatory Commission.

"It's hard for people to tell what government is doing for them," Gallagher said. "If there is wealth in the state—public wealth—I think we should distribute it to the people and let them decide how to use it."

Citizen ownership, in Gravel's argument, is an alternative to state socialism—a way to distribute the benefits of corporate capitalism without nationalizing private enterprises and turning over their management to politicians and bureaucrats. For several years, Alaska has been contemplating whether the state government should acquire shares of the new energy venture, so Gravel sees the GSOP approach as an alternative to state ownership.

Construction of the huge natural gas pipeline, for instance, still depends upon raising the capital, and some industry officials believe it can't be done without government participation of some kind, either direct investment or by loan guarantees.

If government is going to share in the risk-taking, Gravel thinks it makes more sense to pass on the benefits to individual citizens, rather than the public treasury.

In many ways, Alaska is a unique laboratory for this idea. It has a very small population and a promising, undeveloped future. But Gravel and Gallagher, among others, think the GSOP model can be widely copied in other states—as provided by the tax legislation—and applied to certain types of ventures seeking new capital, such as natural resource projects or public utilities.

Gravel likes to suggest that Potomac Electric Power Co., which sells electricity to metropolitan Washington, could be forced to obtain its new capital from a corporation owned by all of Pepco's customers, from the very poor to the very rich. Nobody would make a fortune, but it would take a little of the pain out of rate increases.

Despite Gravel's probusiness rhetoric, some conservatives are still offended by the idea of "giving" equity to people who haven't paid anything for it. In the Senate Finance Committee, Sen. John Danforth (R-Mo.) asked how he could explain this to his constituents, and Gravel responded rather tartly, considering that Danforth is an heir to the Ralston-Purina fortune.

"Here is how you explain it to the people of Missouri," Gravel replied.

"You say, if you are a citizen of Missouri and you inherited \$10 million, you are well off and you got it for nothing and that is okay in our capitalist society... so we are going to fix it so that you can do like the wealthy people—go borrow money on your net worth and take that money and put it into something and let that simply pay the cost of the loan and then pay you wealth thereafter. I think the people of Missouri would jump up in the air and say, 'Hosanna! Somebody finally is letting us have a piece of the action.'"

REVENUE ACT OF 1978

Report of the Committee on Finance

United States Senate

H.R. 13511

J. General Stock Ownership Corporations

(Sec. 201 of the bill)

Present law

Under present law, there are no special provisions relating to the establishment of a private corporation for the benefit of the residents of a State.

Reasons for change

The committee believes that many citizens should have a greater ownership stake in the private enterprise system, and that this would lead to better understanding of the system and would encourage individuals to invest in other business enterprises. Also, in the case of individuals now receiving various forms of transfer payments from Federal, State, or local governments, the receipt of dividend income from a General Stock Ownership Corporation (GSOC) would, to some extent, reduce the need for such payments. The committee believes that an experimental program permitting States to form such private corporations for the benefit of their citizens may enable the Congress to study a method of replacing transfer payments with dividend income.

Explanation of provisions

General.—Under the committee bill, a State would be authorized to establish a GSOC for the benefit of its citizens. It is anticipated that the GSOC would be authorized to borrow money to acquire business enterprises. The cash flow from the operation of the business would be used to pay the loan, and the corporate revenues would be distributed to the GSOC shareholders (i.e., the citizens of the State).

Definition of GSOC.—The bill provides that a corporation must meet certain statutory tests in order to be treated as a GSOC. First, the corporation must be chartered by an official act of the State legislature or by a State-wide referendum. Second, the GSOC's corporate charter must provide for the issuance of all authorized shares to eligible individuals provided that at least one share is issued to each eligible individual, and such eligible individual does not elect within one year after the date of issuance not to receive such share, and provides for certain restrictions on the transferability of the share. The transfer restriction must provide that the share cannot be transferred until the earliest to occur of (1) the expiration of 5 years from issuance (2) death or (3) failure to meet the State's residency requirements. In no event may shares of stock of a GSOC be transferred to nonresidents. Also, an individual may not acquire more than 9 shares by purchase. Third, the charter must provide that the GSOC is empowered to invest in properties (not including properties acquired by it or for its benefit through the right of eminent domain). Fourth, the GSOC may not be affiliated with any other corporation. Fifth, the GSOC must be organized after December 31, 1978, and before January 1, 1984. An eligible individual is any individual who is a resident of the chartering State as of the date specified in the corporate charter. A State may define a resident for purposes of its GSOC so long as such definition is consistent with constitutional principles.

Election.—A GSOC must make an election to obtain the special statutory treatment provided for by the amendment. The election is effective for the taxable year for which it is made on a timely filed tax return. The manner in which the election is to be made would be determined by regulations. The election once made is irrevocable unless terminated with the consent of the Secretary of the Treasury.

Effect of election.—The effect of the election would be to exempt the corporation from Federal income taxation. Instead, the shareholders of the GSOC would report their proportionate part of the GSOC's taxable income on their Federal individual income tax returns.

Treated as a private corporation.—A GSOC would be treated as a private corporation.

Computation of GSOC income.—The GSOC would compute its taxable income in the same manner as a regular corporation with certain modifications. The GSOC would not be eligible for a dividends received deduction nor any tax credits.

Net operating loss deduction.—The shareholders of a GSOC would not be eligible to report any portion of a GSOC net operating loss on their individual income tax return. Instead, the GSOC would be entitled to a 10-year carryover of any net operating losses.

Investment tax credit and recapture of investment tax credit.—Under the bill, shareholders of the GSOC would be entitled to their pro-rata share of the GSOC's investment tax credit. The shareholders would also be personally responsible for any recapture of such investment tax credit. Neither the corporation nor its shareholders would be entitled to the foreign tax credit.

Taxation of shareholders.—Under the bill, each shareholder would include in his gross income his daily prorated portion of the GSOC's taxable income. Such income would be included in the shareholder's gross income for the taxable year in which or with which the GSOC's taxable year ends. The income in the hands of the shareholder would be treated as ordinary income and would not be eligible for either the partial dividend exclusion (sec. 116) or the maximum tax of earned income.

Shareholders would increase the tax basis of shares of stock in the GSOC to the extent they reported income from the GSOC. Distributions from the GSOC out of such previously taxed income would decrease the tax basis of such shares.

Taxation of GSOC distribution.—Under the bill, distributions from a GSOC's taxable income previously taxed to a shareholder would be treated as a tax-free distribution. Any distribution in excess of such previously taxed income would be taxed in the same manner as a distribution from a regular corporation (sec. 301(c)).

Audit adjustments and amended tax returns.—Any audit adjustment resulting from an Internal Revenue Service determination would be reflected in the GSOC's taxable year in which such adjustment is made (and not the taxable year to which it relates). The amount of such adjustment would be subject to an interest charge in an amount computed as though the income had been taxed to a nonelecting corporation.

Reporting requirements.—Under the bill, a GSOC would be required to file a Federal income tax return and a computer-coded data showing information reported to each of its shareholders. The corporate tax return would be required to meet the same timing requirements as a regular corporation. In addition, a GSOC would be required to give each shareholder a Form 1099. The Form 1099 would report (1) the shareholder's pro rata income for the taxable year, (2) tax-free distributions for the year, (3) the tax treatment of other distributions, and (4) the amount of any investment tax credit and recapture thereof for such year, and (5) any amounts withheld for Federal income tax purposes.

Distribution requirements.—A GSOC would be required to distribute 90 percent of its taxable income to its shareholders by January 31 of the next succeeding year. To the extent a GSOC fails to meet this distribution requirement, a tax equal to 20 percent of the deficiency (i.e., the difference between the required distribution and the actual distribution) would be imposed on the GSOC. The amount of such tax would be allowed as a deduction to the GSOC for the year in which it is paid.

Withholding requirements.—The bill requires the GSOC to withhold an amount equal to 25 percent of every distribution made to its shareholders. The amount of such withholding would be allowed as a refundable credit to the shareholder. The Treasury would be authorized to issue regulations providing a certification procedure for individuals who are nontaxpayers under which they may be exempted from the withholding requirement.

Studies.—It is expected that a study would be made of the effect GSOC's have on competition with regular private corporations. It is also anticipated that a study would be made of the GSOC as a form of full corporate integration.

Taxable year end of GSOC.—The bill requires a GSOC to adopt a taxable year end of October 31. It is anticipated that most GSOC's would elect an October 31 year end. This would enable them to close their books and meet their shareholder reporting requirements by January 31 of the next succeeding year.

Effective date

The provision applies to corporations chartered and organized after December 31, 1978.

Revenue effect

The revenue cost of the proposal is expected to be negligible during the next few years. However, the long-run cost could be substantial.



United States
of America

No. 168—Part IV Congressional Record

PROCEEDINGS AND DEBATES OF THE 95th CONGRESS, SECOND SESSION

Vol. 124 WASHINGTON, SATURDAY, OCTOBER 14, 1978 No. 168—Part IV

Senate

GENERAL STOCKOWNERSHIP PLANS

Mr. GRAVEL. Mr. President, I would like to take a moment to compliment the Senate on one provision of this bill. This tax bill goes far toward stimulating the much needed growth of capital in our economy. But, there is one provision in this bill, a provision which I am proud to say was added by the Senate, which addresses the question of who will own this new capital.

The Joint Economic Committee estimated in 1974 that 1 percent of our population owned 25 percent of our wealth and more than 50 percent of all corporate stock. Studies indicate that these concentrations of wealth have not changed significantly in 50 years despite all our efforts at income redistribution and amelioration of poverty. The amendment regarding general stockownership plans in this bill is a significant step toward broadening the ownership of American wealth.

Leadership on the issue of broadening capital ownership has long and ably been carried by my colleague and friend, the chairman of the Finance Committee. His work in the area of employee stock ownership plans has laid the foundation for Federal policy on expanded capital ownership. Following in his footsteps I sought to extend the concept of broadened capital ownership beyond the employer/employee relationship. The general stock ownership plan legislation contained in this bill is an important step in that direction. I would like to thank Chairman LONG for his help in seeing these provisions adopted and to thank

my fellow Finance Committee members who were supportive of my efforts.

There are a number of questions which my colleagues have put to me over the past few months and I would like to include some explanation of these issues for the RECORD.

First. What is a general stockownership corporation and how is it organized?

A general stockownership corporation would be formed either by act of a State legislature or by statewide referendum and each resident would be issued a share of stock. The residents would not be charged for their stock and would receive it free and clear. The corporation would borrow money to invest in profit-making ventures with the loan secured by the assets and, if necessary, by a State guarantee. Through this method the citizens of a State would become owners of capital. The earnings from the GSOP investments would be used to retire the loan and the balance distributed to the shareholders.

Second. What sort of technical requirements must be met in order to establish a general stock ownership corporation?

The bill authorizes States to establish privately owned GSOC's for the benefit of their citizens. A GSOC is a private corporation chartered by an act of a State legislature or by statewide referendum with a charter providing for first, the issuance of at least one share of stock to each eligible individual who does not elect within 1 year from the date of issuance not to receive such share; second, restrictions on transferability of shares (a) to nonresidents, (b) to an individual owning more than 9 shares or (c) until the earliest to occur

of 5 years from insolvency, death, or failure to meet the State residency requirements. The GSOC must be chartered after December 31, 1978 and before January 1, 1983 and may not own more than 20 percent of any subsidiary corporation. GSOC investments are not limited, but a GSOC may not acquire a business from an unwilling seller through the State's power of eminent domain. This limitation does not apply to the State's power to acquire a right-of-way for a particular project, but precludes the involuntary sale of a business to the GSOC.

Third. What does the legislation mean when it refers to stock being distributed to "eligible individuals?"

An eligible individual is any individual who is a resident of the chartering State as defined in the State's enabling legislation so long as the definition is consistent with constitutional principles.

Fourth. GSOC's are entitled to taxation in a unique manner. What is the special tax treatment of these corporations?

GSOC's may elect to be exempt from Federal income taxation. The shareholders of an electing GSOC will report their proportionate share of the GSOC's taxable income on their Federal individual income tax returns. The election, made in a manner to be determined by regulation, is effective for the taxable year for which made on a timely filed return. The election may be terminated with the consent of the Secretary of Treasury. It would be appropriate for the Secretary to consent to revocation for a taxable year where the tax liability of GSOC shareholders significantly exceeds cash distributions. Once the election is terminated the GSOC is subject to the normal Federal income tax and may not re-elect. The taxable year of an electing GSOC shall end October 31, unless the Secretary of Treasury consents to a different taxable year.

A GSOC will compute its taxable income in the same manner as other corporations, but is not eligible for a dividends received deduction nor any tax credits. The GSOC is entitled to a 10-year carryover of any net operating losses. An audit adjustment resulting from an Internal Revenue Service final determination will be reflected in the

GSOC's taxable year in which such adjustment is made and not the taxable year to which it relates. The amount of such adjustment will be subject to an interest charge in an amount computed as though the income had been taxed to a non-electing corporation.

Fifth. The corporation itself does not pay Federal income tax, but the income of the corporation is taxed to the shareholders?

Yes, each shareholder will include in his gross income his daily prorated share of the GSOC's taxable income. The shareholder will also be entitled to his pro-rata share of the GSOC investment credit and liable for any recapture computed at the corporate level. Income, credits and recapture will be included in the shareholder's gross income and reported on his return for the taxable year in which or with which the GSOC's taxable year ends. The income will be treated as ordinary income to the shareholders and will not be eligible for either the partial dividend exclusion—section 116—or the maximum tax on earned income. The shareholders of the GSOC will not be eligible to report any portion of a GSOC net operating loss on their returns and neither the corporation nor the shareholders will be entitled to the foreign tax credit on taxes paid by the GSOC.

Sixth. What about the shareholder's basis in his stock?

Shareholders will increase the tax basis of shares of GSOC stock to the extent they report income from the GSOC. Shareholders not required to file returns will increase the tax basis of shares to the extent they were attributed income from the GSOC. Distributions from the GSOC out of previously taxed income will decrease the tax basis of such shares.

Seventh. What about distributions of the stock itself. Will the shareholder be taxed upon receipt of the stock and will he receive a basis in his share at the time of receipt?

If the shares are distributed before any investment has been made by the GSOC, the shares will be treated as having a zero value as of the date of receipt. Therefore, no income would accrue to the shareholder upon receipt and no tax

Liability would be general. If investments have been made, the valuation of the shares should be made on a net asset basis so that if the GSOC investment were 100 percent leveraged, the shares distributed would have zero value and no income would accrue. If the shareholder receives his shares free of tax, he would have a zero basis in his stock at the time of receipt.

Eighth. If the GSOC shareholders are taxed on the income of the corporation, how do they receive this income and what is the treatment of distributions?

Distributions from a GSOC's taxable income previously taxed to a shareholder will be treated as a tax-free distribution. Any distribution in excess of such previously taxed income will be taxed in the same manner as a distribution from a regular corporation—section 301(c). Such distributions will first be treated as a tax-free reduction in basis to the extent thereof with any distribution in excess of basis treated as income from the sale or exchange of a capital asset. A GSOC will be required to distribute 90 percent of its taxable income to its shareholders by January 31 of the next succeeding year. To the extent a GSOC fails to meet this distribution requirement, a tax equal to 20 percent of the difference between the required distribution and the actual distribution is imposed on the GSOC. The amount of such tax is allowed as a deduction to the GSOC for the year in which it is paid.

Ninth. Are there any special filing requirements for GSOC's?

GSOC's are required to file Federal income tax returns meeting the timing requirements of regular corporate returns and showing information reported to each shareholder. GSOC's are also required to provide each shareholder a form 1099 showing the shareholder's—first, pro-rata income from the taxable year; second, tax-free distributions for the year; third, tax treatment of other distributions; fourth, amount of any investment credit or recapture for such year; and fifth, amount withheld for Federal income tax purposes. Regulations implementing the reporting requirements and other provisions of subchapter U should be given priority in light of the limited time within which

GSOC's may be chartered.

Tenth. If the GSOC distributes all of the shareholder's portion of the GSOC earnings, what is to prevent the shareholder from spending this money prior to tax time and being left with a tax liability and no cash?

GSOC's must withhold an amount equal to 25 percent of every distribution made to their shareholder except shareholders who, under regulations issued by the Treasury, certify that they are non-taxpayers. The amount of such withholding will be allowed as a refundable credit to the shareholders.

Eleventh. Will the GSOP really be a breakthrough in the battle to broaden capital ownership. If so how will we know?

GSOC's are required to file annual reports with the Treasury summarizing their operations for each year. As the primary sponsor of the GSOC provisions I intend that these reports include studies of the effect of the GSOC on distribution of income and wealth, the level of transfer payments made or required, the social and demographic profiles of GSOC shareholders, the level of economic understanding of GSOC shareholders, and possible beneficial revisions to the GSOC legislation. The bill also requires the staff of the Joint Committee on Taxation to undertake a study of the operation and effect of GSOC's on capital formation, income and capital distribution, competing businesses, integration of the corporate and personal income tax, and the workability of the dividend withholding system. Through these studies I hope we can quantify the effect of GSOC's on expanding capital ownership. I would also like to see the Joint Committee address the broader question of capital ownership in our society and suggest to the Congress a system for annual measurement of our progress in broadening the ownership of capital in America.

GENERAL STOCK OWNERSHIP PLANS: Title VI, Sec. 601, H.R. 13511

TITLE VI—GENERAL STOCK OWNERSHIP CORPORATIONS

SEC. 601. ESTABLISHMENT AND TAXATION OF GENERAL STOCK OWNERSHIP CORPORATIONS AND THEIR SHAREHOLDERS.

(a) IN GENERAL.—Chapter 1 (relating to normal taxes and surtaxes) is amended by adding at the end thereof the following new subchapter:

"Subchapter U—General Stock Ownership Corporations

"Sec. 1391. Definitions.

"Sec. 1392. Election by general stock ownership corporation.

"Sec. 1393. Corporation taxable income taxed to shareholders.

"Sec. 1394. Rules applicable to distributions of electing general stock ownership corporations.

"Sec. 1395. Adjustments to basis of stock of shareholders.

"Sec. 1396. Minimum distribution.

"Sec. 1397. Special rules applicable to earnings and profits of an electing general stock ownership plan.

"Sec. 1391. DEFINITIONS.

"(a) GENERAL STOCK OWNERSHIP CORPORATION.—For purposes of this subchapter, the term 'general stock ownership corporation' (hereinafter referred to as a 'GSOC') means a domestic corporation which—

"(1) is not a member of an affiliated group (as defined in section 1504), and

"(2) is chartered and organized after December 31, 1978, and before January 1, 1984;

"(3) is chartered by an act of a State legislature or as a result of a State-wide referendum;

"(4) has a charter providing—

"(A) for the issuance of only 1 class of stock,

"(B) for the issuance of shares only to eligible individuals (as defined in subsection (c));

"(C) for the issuance of at least one share to each eligible individual, unless such eligible individual elects within one year after the date of issuance not to receive such share;

"(D) that no share of stock shall be transferable—

"(i) by a shareholder other than by will or the laws of descent and distribution until after the expiration of 5 years from the date such stock is issued by the GSOC except where the shareholder ceases to be a resident of the State;

"(ii) to any person other than a resident individual of the chartering State;

"(iii) to any individual who, after the transfer, would own more than 10 shares of the GSOC;

"(E) that such corporation shall qualify as a GSOC under the Internal Revenue Code;

"(5) is empowered to invest in properties (but not in properties acquired by it or for its benefit through the right of eminent domain).

For purposes of this subsection, section 1504 (a) shall be applied by substituting '20 percent' for '80 percent' wherever it appears.

"(b) ELECTING GSOC.—For purposes of this subchapter, the term 'electing GSOC' means a GSOC which files an election under section 1392 which, under section 1392, is in effect for such taxable year.

"(c) ELIGIBLE INDIVIDUALS.—For purposes

of subsection (a), the term 'eligible individual' means an individual who is, as of a date specified in the State's enabling legislation for the GSOC, a resident of the chartering State and who remains a resident of such State between that date and the date of issuance.

"(d) TREATED AS PRIVATE CORPORATION.—For purposes of this title, a GSOC shall be treated as a private corporation and not as a governmental unit.

"(e) STUDY OF GENERAL STOCK OWNERSHIP CORPORATIONS.—The staff of the Joint Committee on Taxation shall prepare a report on the operation and effects of this subchapter relating to GSOC's. An interim report shall be filed within two years after the first GSOC is formed and a final report shall be filed by September 30, 1983.

"SEC. 1392. ELECTION BY GSOC.

"(a) ELIGIBILITY.—Except as provided in section 1393, any GSOC may elect, in accordance with the provisions of this section, not to be subject to the taxes imposed by this chapter.

"(b) EFFECT.—If a GSOC makes an election under subsection (a) then—

"(1) with respect to the taxable years of the GSOC for which such election is in effect, such corporation shall not be subject to the taxes imposed by this chapter and, with respect to such taxable years and all succeeding taxable years, the provisions of section 1396 shall apply to such GSOC, and

"(2) with respect to each such taxable year, the provisions of section 1393, 1394, and 1395 shall apply to the shareholders of such GSOC.

"(c) WHERE AND HOW MADE.—An election under subsection (a) may be made by a GSOC at such time and in such manner as the Secretary shall prescribe by regulations.

"(d) YEARS FOR WHICH EFFECTIVE.—An election under subsection (a) shall be effective for the taxable year of the GSOC for which it is made and for all succeeding taxable years of the GSOC, unless it is terminated under subsection (f).

"(e) TAXABLE YEAR.—The taxable year of a GSOC shall end on October 31 unless the Secretary consents to a different taxable year."

"(f) TERMINATION.—The election of a GSOC under subsection (a) shall terminate for any taxable year during which it ceases to be a GSOC and for all succeeding taxable years. The election of a GSOC under subsection (a) may be terminated at any other time with the consent of the Secretary, effective for the first taxable year with respect to which the Secretary consents and for all succeeding taxable years.

"SEC. 1393. TAXABLE INCOME TAXED TO SHAREHOLDERS.

"(a) GENERAL RULE.—The taxable income of an electing GSOC for any taxable year shall be included in the gross income of the shareholders of such GSOC in the manner and to the extent set forth in this subsection.

"(1) AMOUNT INCLUDED IN GROSS INCOME.—Each shareholder of an electing GSOC on any day of a taxable year of such GSOC shall include in his gross income for the taxable year with or within which the taxable year of the GSOC ends the amount he would have received if, on each day of such taxable year, there had been distributed pro rata to its shareholders by such GSOC an amount equal to the taxable income of the GSOC for its taxable year divided by the number of days in the GSOC's taxable year.

"(2) TAXABLE INCOME DEFINED.—For purposes of this section, the term 'taxable income' of a GSOC shall be determined without regard to the deductions allowed by part VIII of subchapter B (other than deductions allowed by section 248, relating to organizational expenditures).

"(b) SPECIAL RULE FOR INVESTMENT CREDIT.—The investment credit of an elect-

ing GSOC for any taxable year shall be allowed as a credit to the shareholders of such corporation in the manner and to the extent set forth in this subsection.

"(1) CREDIT.—There shall be apportioned among the shareholders a credit equal to the amount each shareholder would have received if, on each day of such taxable year, there had been distributed pro rata to the shareholders the electing GSOC's net investment credit divided by the number of days in the GSOC's taxable year.

"(2) NET INVESTMENT CREDIT.—For purposes of this paragraph the term 'net investment credit' means the investment credit of the electing GSOC for its taxable year less any tax from recomputing a prior year's investment credit in accordance with section 47.

"(3) RECAPTURE.—There shall be apportioned among the shareholders of a GSOC, in the manner described in paragraph (1), an additional tax equal to the excess of any tax resulting from recomputing a prior year's investment credit in accordance with section 47 over the investment credit of the GSOC for its taxable year.

"SEC. 1394. RULES APPLICABLE TO DISTRIBUTIONS OF AN ELECTING GSOC'S

"(a) SHAREHOLDER INCOME ACCOUNT.—An electing GSOC shall establish and maintain a shareholder income account which account shall be—

"(1) increased at the close of the GSOC's taxable year by an amount equal to the GSOC's taxable income for such year, and

"(2) decreased, but not below zero, on the first day of the GSOC's taxable year by the amount of any GSOC distribution to the shareholders of such GSOC made or treated as made during the prior taxable year.

"(b) TAXATION OF DISTRIBUTIONS.—Distributions by an electing GSOC shall be treated as—

"(1) a distribution of previously taxed income to the extent such distribution does not exceed the balance of the shareholder income account as of the close of the taxable year of the GSOC, and

"(2) a distribution to which section 301(a) applies but only to the extent such distribution exceeds the balance of the shareholder income account as of the close of the taxable year of the GSOC.

"(c) DISTRIBUTIONS NOT TREATED AS A DIVIDEND.—Any amounts includible in the gross income of any individual by reason of ownership of stock in a GSOC shall not be considered as a dividend for purposes of section 116.

"(d) REGULATIONS.—The Secretary shall have authority to prescribe by regulation, rules for treatment of distributions in respect of shares of stock of the GSOC that have been transferred during the taxable year."

"SEC. 1395. ADJUSTMENT TO BASIS OF STOCK OF SHAREHOLDERS.

"The basis of a shareholder's stock in an electing GSOC shall be increased by the amount includible in the gross income of such shareholder under section 1393, but only to the extent to which such amount is actually included in the gross income of such shareholder.

"SEC. 1396. MINIMUM DISTRIBUTIONS.

"(a) GENERAL RULE.—A GSOC shall distribute at least 90 percent of its taxable income for any taxable year by January 31 following the close of such taxable year. Any distribution made on or before January 31 shall be treated as made as of the close of the preceding taxable year.

"(b) IMPOSITION OF TAX IN CASE OF FAILURE TO MAKE MINIMUM DISTRIBUTION.—If a GSOC fails to make the minimum distribution requirements described in subsection (a), there is hereby imposed on the GSOC a tax equal to 20 percent of the excess of the amount required to be distributed over the amount actually distributed.

"SEC. 1397. SPECIAL RULES APPLICABLE TO AN ELECTING GSOC.

"(a) **GENERAL RULE.**—The current earnings and profits of an electing GSOC as of the close of its taxable year shall not include the amount of taxable income for such year which is required to be included in the gross income of the shareholders of such GSOC under section 1393(a).

"(b) **SPECIAL RULE FOR AUDIT ADJUSTMENTS.**—

"(1) **TAXABLE INCOME.**—Taxable income of an electing GSOC shall, in the year of final determination, be increased or decreased, as the case might be, by any adjustment to taxable income for a prior taxable year.

"(2) **INVESTMENT CREDIT.**—The investment credit of an electing GSOC shall, in the year of final determination, be increased or decreased, as the case might be, by any adjustment to the net investment credit for a prior taxable year.

"(3) **METHOD OF MAKING ADJUSTMENTS.**—An electing GSOC shall include in gross income for the year of an adjustment the amount described in paragraph (1) and shall take into account the adjustment described in paragraph (2), and shall be liable for payment of interest in the amount that would have been payable by the GSOC under section 6601 (relating to interest on underpayment, nonpayment or extensions of time for payment, of tax) or receivable by the GSOC under section 6611 (relating to interest on overpayments) if such GSOC had been a corporation other than an electing GSOC."

(b) **TECHNICAL AMENDMENTS.**—

(1) **NET OPERATING LOSS DEDUCTION.**—Paragraph (1) of section 172(b) (relating to net operating loss carrybacks and carryovers) is amended by adding at the end thereof the following new subparagraph:

"(H) In the case of an electing GSOC which has a net operating loss for any taxable year such loss shall not be a net operating loss carryback to any taxable year preceding the year of such loss, but shall be a net operating loss carryover to each of the 10 taxable years following the year of such loss."

(2) **INCOME TAX COLLECTED AT SOURCE.**—Section 3402 (relating to income collected at source) is amended by adding at the end thereof the following new subsection:

"(r) **EXTENSION OF WITHHOLDING TO GSOC DISTRIBUTIONS.**—

"(1) **GENERAL RULE.**—An electing GSOC making any distribution to its shareholders shall deduct and withhold from such payment a tax in an amount equal to 25 percent of such payment.

"(2) **COORDINATION WITH OTHER SECTIONS.**—For purposes of sections 3403 and 3404 and for purposes of so much of subtitle F (except section 7205) as relates to this chapter, distributions of an electing GSOC to any shareholder which are subject to withholding shall be treated as if they were wages paid by an employer to an employee."

(3) **ADJUSTMENTS TO BASIS.**—Section 1016 (a) (relating to adjustments of basis) is amended by redesignating paragraph (23) as (22) and by inserting after paragraph (20) the following new paragraph:

"(21) to the extent provided in section 1395 in the case of stock of shareholders of a general stock ownership corporation (as defined in section 1391) which makes the election provided by section 1392; and"

(4) **RETURN OF GENERAL STOCK OWNERSHIP CORPORATION.**—Subpart A of part III of subchapter A of Chapter 61 (relating to information returns) is amended by adding at the end thereof the following new section:

"SEC. 6039B. RETURN OF GENERAL STOCK OWNERSHIP CORPORATION.

"Every general stock ownership corporation (as defined in section 1391) which makes the election provided by section 1392 shall make a return for each taxable year,

stating specifically the items of its gross income and the deductions allowable by subtitle A, the amount of investment credit or additional tax, as the case may be, the names and addresses of all persons owning stock in the corporation at any time during the taxable year, the number of shares of stock owned by each shareholder at all times during the taxable year, the amount of money and other property distributed by the corporation during the taxable year to each shareholder, the date of each such distribution, and such other information, for the purpose of carrying out the provisions of subchapter U of chapter 1, as the Secretary may by regulation prescribe. Any return filed pursuant to this section shall, for purposes of chapter 66 (relating to limitations), be treated as a return filed by the corporation under section 6012. Every GSOC shall file an annual report with the Secretary summarizing its operations for such year."

(c) **CLERICAL AMENDMENTS.**—

(1) The table of subchapters for chapter 1 is amended by adding at the end thereof the following:

"SUBCHAPTER U.—General stock ownership plans."

(2) The table of sections for subpart A of part III of subchapter A of chapter 61 is amended by adding at the end thereof the following:

"Sec. 6039B. Return of general stock ownership corporation."

(d) **EFFECTIVE DATE.**—The amendments made by this section shall apply with respect to corporations chartered after December 31, 1978, and before January 1, 1984.

Courtesy of
**YOUR SENATOR
MIKE GRAVEL**

THE
FINANCED CAPITALIST PLAN

A
LEGISLATIVE PROPOSAL
BY
SENATOR MIKE GRAVEL

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INTRODUCTION

The capital requirements of our economy will double in the next twenty years. This new capital will represent the growth of productive capacity in American industry. Our present economic system will insure that the bulk of this new capital will belong to those who own most of our capital today. The internal generation of capital and the use of debt financing for corporate expansion inhibits the broadening of capital ownership.

One of the greatest challenges facing us is to provide more Americans with a share of the fruits of our economic system. Congress has often directed its efforts toward the creation of jobs so that through labor our citizens can share in our economic bounty. But income from labor is an unsure thing, and health or technology may intervene to terminate the laborer's job. When a laborer loses his job our economic system is put to its severest test: where will this person find the money to survive? The best aid we have been able to develop is the transfer payment. But, like all of us, the unemployed laborer, the social security recipient, the working poor--all resent charity. Government transfer payments, like all forms of charity, result in a loss of economic independence.

The loss of economic independence in America has grown at a frightening rate. Transfer payments funded through federal programs such as Welfare, Supplemental Security Income, Social

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Security, and military retirement threaten to bury us financially. Our citizens groan under the enormous tax burdens required to fund these programs. Yet, we have no answer for their cries, no remedy but "more of the same." We are moving away from our roots in capitalism, from our belief in the power of free enterprise and the independence of the individual. We are creating a system whereby we take from the rich to maintain the poor. We are becoming a socialist society. Eventually, the confrontation must come between the last vestiges of capitalism and the new society we are creating. That confrontation will mark the end of the individualist in America.

We may yet be able to save ourselves from our own folly. We may be able to improve the economic independence of our people and stop our slide into socialism. We may be able to spread the wealth of our country to the poor instead of merely transferring to them income enough to survive. In the past Congress has focused on the creation of jobs for those with insufficient incomes. But jobs are not our fundamental concern--it is lack of income. Perhaps we can create a system whereby the expansion of our capital plant and equipment can provide capital rather than job related income for many who have never had such income before.

The immense capital requirements of our economy in the coming years will provide the opportunity for the great masses of poor

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and middle income Americans to become owners of capital. This capital can generate a second income for them. We can develop a program which would build capital ownership into those who have never owned capital before and at the same time rapidly expand the formation of investment capital in America. But before I lay out such a program, let us digress for a moment and make some observations about the formation of capital in our present economy.

If we are to meet the capital requirements of our economy in the coming years, drastic steps need to be taken. Our investment in plant and equipment is the lowest of the industrialized world. In order to remain competitive we must expand our capital investment. Savings have been the traditional source of capital. Savings might take the form of personal savings accounts, corporate retained earnings, or government budget surpluses. Our economists have always thought increased savings required decreased consumption. Since savings were thought to be the source of capital, to increase our capital formation we would have to reduce our consumption. Many present plans for capital formation would compel the American people to save more by reducing their consumption. But most Americans would like to consume even more of their income than they do now. Increases in consumption bring increases in the standard of living, something which we all desire.

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It is my belief that the consumption vs. savings trade-off can be broken. Savings for capital expansion need not come out of current income. We need not reduce our standard of living to increase our capital position. Our capital investment may be financed out of future income by borrowing for capital growth. Normal consumer borrowing requires the reduction of future spendable income as we pay off the loan. The payments to retire the loan reduce future income. This may be viewed as saving out of future income.

If all we could accomplish for the participant were to shift savings from the past to the future, reducing future spendable income instead of current spendable income, nothing would be gained. If, however, the borrowed funds are invested in income producing property and the income is used to retire the loan, no reduction in spendable income is required. The participant is in the same financial position before and after the loan is made. However, the capital position of the participant is improved and this improvement comes without a decrease in spendable income. Once the loan is repaid the investor begins to enjoy the income from his capital investment, a supplement to whatever his other income may be. Simultaneously with this increase in the wealth of the investor we have provided investment capital to industry for the creation of new plant and equipment, the expansion of the economy and the resulting increase in available jobs.

A CAPITAL FORMATION PLAN

I propose a new approach to capital expansion which would diffuse ownership of new capital to those who have not previously reaped the benefits of capital ownership. The plan does not rely on the traditional concepts of saving. It is based on the distinction between saving from current income and saving from the future earnings of borrowed funds. In simple outline the plan will guarantee loans to purchase corporate stock, with this new capital used to pay for the expansion of plant and equipment in American industry. The funds will flow into industry through the purchase of corporate stock. This stock will be held as security for the loan and dividends will be used for repayment. After the loan is retired the investor will receive dividend income. The plan provides investment capital while developing an alternate source of income for those who historically have depended upon their labor alone.

The plan should be tested on a limited scale to determine its effect on individuals, corporations, government and the economy. In each of five consecutive years, \$800 million will be made available to participants in amounts of \$20,000 per family unit. \$800 million represents approximately 1% of the non-residential fixed private net investment of American industry for calendar

year 1977, using national income accounting figures for depreciation. In comparison, this sum is about 10% of the total loans guaranteed by the Federal Housing Administration during fiscal year 1975 and less than 5% of the loans guaranteed by the Small Business Administration during 1976. Under these restrictions the test program would involve about 40,000 participants per year for five years.

THE PARTICIPANTS

The participant will be eligible for federal guarantee of a loan, not to exceed \$20,000, used for the purchase of new corporate stock. The proceeds of the new issue will be used by the corporation to finance capital expansion. Participants will be drawn from a cross section of American society. They will be chosen at random from four target groups: the blind and disabled, low income working poor, middle income taxpayers, and social security recipients. Geographic diversity of participants will be emphasized. The experience of these four groups will give valuable insight into how such a program would be received by the public and would allow for a fair evaluation of the program's successes and failures.

The participant will receive notification of his eligibility by mail. The notification letter will suggest that he contact his banker or financial advisor regarding the matters discussed. The notice of eligibility will be followed up by telephone and personal contact by the local social services agency explaining the program and offering assistance to the participant.

THE SECURITIES

The participant may acquire a loan only for the purchase of a new type of corporate stock. The stock, referred to as Full Return Stock, will be preferred as to dividends and will have its share of corporate earnings distributed to the holders not less than quarterly. The corporation must distribute currently the earnings per share attributable to the Full Return Stock. The corporation will be allowed to retain a reasonable percentage of the earnings on the Full Return Stock as a reserve for contingencies. For example, assuming no reserve is withheld, if the corporation earned \$2,000 and had outstanding 100 shares of common stock and 100 shares of Full Return Stock the holders of the Full Return Stock would receive a dividend of \$10 per share.

Since part of the corporation's earnings can be attributed to retained earnings, all of which derive from less than full

distribution to common stockholders, some adjustment must be made in order to prevent dilution of the common stockholder's interest. In order to prevent this dilution of the common stock the corporation will receive a dollar for dollar credit against income taxes for dividends distributed to Full Return Stockholders.

Full Return Stock may be issued by any corporation filing regular disclosure statements on the federal or state level. The stock will be subject to all Securities and Exchange Commission and state securities regulations. Private offerings may not be made to individuals but may be sold without registration to eligible mutual funds. No corporation will be allowed to issue in excess of the greater of 1% of the corporation's capital growth or \$2,000,000 worth of Full Return Stock in any single corporate fiscal year.

The corporation will be required to distribute the full per share earnings of the Full Return Stock so long as the stock remains in the hands of the original owner. Upon transfer by gift or inheritance the stock will continue to have a full claim on earnings. However, if the stock is sold or transferred for consideration it loses its preference on earnings and reverts to ordinary common stock. This mandatory conversion upon sale will decrease the value of the stock, encouraging its retention in the family group. For estate tax purposes the stock will be

valued at its common stock value rather than through use of an income stream approach. This will minimize the chance of a forced sale by the estate.

To provide investment flexibility and spread the investment risk the investor will be eligible to purchase shares of mutual funds investing solely in Full Return Stock. Such funds will be required to pass through all dividends except those amounts required for reasonable costs of administration. An investor holding mutual fund shares will be restricted from transferring those shares except by gift or inheritance. The shares may only be sold to the fund itself and at a price equal to the common stock value of the mutual fund shares. Any such repurchase will be at the option of the fund.

THE FINANCING

Local banks, savings and loans, credit unions, insurance companies and trust companies will be authorized to loan the participant up to \$20,000 for the purchase of Full Return Stock or for shares of a mutual fund holding only such stock. As security for repayment the borrower will execute a promisory note and the lender will retain a security interest in the stock. The stock will be held in escrow until the loan is retired.

The loan will be non-recourse so that upon default the lender may not collect any deficiency from the investor. If default occurs the lender will have the right to foreclose the loan and sell the stock, applying the proceeds to the remaining principal balance of the loan. Any deficiency upon default and sale of the stock will be insured by a new federal agency, the Capital Development Insurance Corporation, to the extent of 75% of the original principal balance. The Capital Development Insurance Corporation will be a self liquidating insurance corporation funded through a nominal charge against the dividends paid on insured stock.

Dividends on the stock will be paid through the escrow to the lender in amortization of the loan. Since dividends may vary in timing and amount, no prepayment penalty will be allowed and interest will be computed on the remaining principal balance. Until 25% of the balance has been amortized all dividends will be applied against the loan. Thereafter the investor may elect to receive 25% of the dividends until 50% of the balance has been amortized. When 50% of the loan balance has been retired the investor may elect to receive 50% of each dividend payment. When the remaining principal balance reaches 25% of the initial loan the participant may receive 75% of each dividend with the remaining 25% going toward retirement of the loan. The participant may elect not to receive any or all of the incremental payment

steps, thereby accelerating the retirement of the loan. Based on average pretax corporate earnings of 16% and an interest rate of 4% the loan would be retired as follows:

- 1) If the participant received each incremental payment the loan would be retired in 16 years.
- 2) If the participant waived the final 25% incremental payment the loan would be retired in 12 years.
- 3) If the participant waived the final two incremental payments the loan would be retired in 10 years.
- 4) If the participant waived all the incremental payments and elected to use all dividends for amortization of the loan until retired it would take 8 years to pay off the loan.

The investor may sell the stock in escrow subject to the approval of the lender. Sale of escrowed stock will be subject to the same restrictions as the sale of Full Return Stock generally. If escrowed stock is sold the proceeds of the sale must be reinvested in Full Return Stock with the new stock retained in escrow on the same basis as the stock sold. Once the stock is released from escrow the investor will have the unrestricted right to sell it and retain the proceeds. However, in order to prevent speculation in Full Return Stocks, full payout of dividends will be required only while the stock is in the hands of the original investor or those who acquire the stock from him by gift or inheritance.

The investor and the lender will have discretion as to which stocks or mutual fund shares to purchase. Since the bank or other lender will rely on the stock as security for repayment of the loan, the lender will have authority to veto the investor's selection.

The program is designed to allow the private sector maximum flexibility in dealing with this new type of investor. The operation will require the cooperation of local social service personnel, bankers and other lenders, stock brokers and financial advisors, and trust or escrow companies. I believe that the mechanics of these relationships can be worked out by the parties involved and that several viable methods may be developed which would be superior to a single legislated method. Similar problems were solved by banks and brokerage firms in developing relationships to handle investor directed Individual Retirement Accounts.

FEDERAL RESERVE DISCOUNT

The notes acquired by the lending institutions will be discounted with the Federal Reserve Bank. This discount will be kept to a minimum, not more than the cost of administration to the Federal Reserve. With the normal profit to the lending bank this should generate an interest rate to the borrower of 4% or

less. By discounting to the Federal Reserve we can experiment with the creation of new money for capital investment. It is my belief that financing capital growth through expansion of the money supply is not inflationary in the long run. Through the use of an expanded money supply we can purchase new capital equipment and repay the capital investment (reducing the money supply again) through the increased earnings generated by the new capital.

The concept underlying this proposal is the creation of new money to finance capital expansion. We create new money constantly. The current Federal Reserve Bank target for expansion of the money supply is 5-7% per year. But, we have no direction for this expanding money supply. What I am proposing is to put new money into the hands of those who have never had effective access to capital before. This is not a giveaway program, or a welfare program; the great bulk of the money will be repaid.

In order to expand the money supply this program must operate through the federal reserve system. The Federal Reserve Bank, through reserve requirements for member banks and open market operations, fixes the growth in the money supply. If cooperation of the Federal Reserve Bank is not developed or mandated the Bank can thwart the purposes of the plan by restricting the money supply to prevent the desired expansion. Thus, it may be necessary

to restrict the Federal Reserve Bank's activities in such a way that the Bank cannot take the effects of the plan into account when establishing reserve requirements or open market operations.

Some thought was given to financing this program through the Department of Treasury and the federal budgetary process. However, financing of the program through Treasury would not be a fair test of the concept. In order to support the federal deficit, Treasury borrows from individuals and organizations through the sale of Treasury Bills and other government securities. To finance this program in such a manner would be simply to shift the existing savings, represented by the borrowed money, into production. It would be yet another scheme for capital formation through savings.

CONCLUSION

The plan I have proposed is revolutionary and needs careful study. Continuing social and economic review of the plan's operation will be undertaken. These studies will be funded through the Capital Development Insurance Corporation with fees paid out of dividends on the insured stock. An annual report to Congress will be prepared discussing the operation of the plan.

This is a modest program to test a proposal holding great promise for our nation. The program would simultaneously increase the income of our citizens and our investment in capital plant and equipment. It would provide dividend income to those whose incomes have been limited to wages. It would expand the industrial capital of our economy and improve the job market for the American worker. By raising Americans' incomes through new jobs and dividends we increase the buying power of consumers. Increased buying power will generate a more rapidly expanding economy with new jobs and new demands for capital.

This program holds out the promise of non-job related income for many Americans. It does this in a manner consistent with our fundamental concepts of free enterprise. It does not take from the rich and give to the poor as so many of our present programs do. It is not another income transfer scheme. The plan simply provides the structural framework within which poor and middle income Americans can do what the rich have always done-- borrow to finance capital investment and repay the loan out of the earnings. The plan does not transfer wealth. It does insure that the ownership of new wealth will be diffused throughout the population.

It is my hope that this program will prove to be a great boon to America. Through this mechanism we not only can help our economy grow more rapidly, but we also can spread the ownership

Page Sixteen

of that new growth to a whole new class of property owners. If this program proves successful in its modest form, expansion of the concept may be undertaken at a rate limited only by economic prudence and the constraints of the capital demands of our economy.

AMORTIZATION SCHEDULE FOR PAGE 11 NUMBERS

Assumptions: 16% Corporate Profits
Full Distributions Quarterly
4% Loan Interest Rate

YEAR	NO DISTRIBUTION	25% DIST TO SH	25/50% DIST	25/50/75% DIST
1	17566.33	17566.33	17566.33	17566.33
2	14992.93	14992.93	14992.93	14992.93
3	12355.29	13167.41	13167.41	13167.41
4	9610.19	11267.51	11267.51	11267.51
5	6753.24	9296.29	9490.23	9490.23
6	3779.91	7238.67	8252.64	8252.64
7	685.42	5097.23	6964.63	6964.63
8		2868.53	5624.13	5624.13
9		549.03	4229.04	4631.04
10			2777.11	4007.62
11			1266.03	3358.78
12				2683.51
13				1980.75
14				1249.32
15				488.10
16				
17				

of Representatives and to the Committee on Finance of the Senate a report on the effectiveness of the changes made by this title in the tax treatment of capital gains of individuals and corporations in stimulating investment and increasing the rate of economic growth. The report shall also include an analysis of the effects these changes had on employment growth and on income tax revenues.

TITLE VI—GENERAL STOCK OWNERSHIP CORPORATIONS

SEC. 601. ESTABLISHMENT AND TAXATION OF GENERAL STOCK OWNERSHIP CORPORATIONS AND THEIR SHAREHOLDERS.

(a) IN GENERAL.—Chapter 1 (relating to normal taxes and surtaxes) is amended by adding at the end thereof the following new subchapter:

"Subchapter U—General Stock Ownership Corporations

"Sec. 1391. Definitions.

"Sec. 1392. Election by general stock ownership corporation.

"Sec. 1393. Corporation taxable income taxed to shareholders.

"Sec. 1394. Rules applicable to distributions of electing general stock ownership corporations.

"Sec. 1395. Adjustments to basis of stock of shareholders.

"Sec. 1396. Minimum distribution.

"Sec. 1397. Special rules applicable to earnings and profits of an electing general stock ownership plan.

"Sec. 1391. DEFINITIONS.

"(a) GENERAL STOCK OWNERSHIP CORPORATION.—For purposes of this subchapter, the term 'general stock ownership corporation' (hereinafter referred to as a 'GSOC') means a domestic corporation which—

"(1) is not a member of an affiliated group (as defined in section 1504), and

"(2) is chartered and organized after December 31, 1978, and before January 1, 1984;

"(3) is chartered by an act of a State legislature or as a result of a State-wide referendum;

"(4) has a charter providing—

"(A) for the issuance of only 1 class of stock.

"(B) for the issuance of shares only to eligible individuals (as defined in subsection (c));

"(C) for the issuance of at least one share to each eligible individual, unless such eligible individual elects within one year after the date of issuance not to receive such share;

"(D) that no share of stock shall be transferable—

"(i) by a shareholder other than by will or the laws of descent and distribution until after the expiration of 5 years from the date such stock is issued by the GSOC except where the shareholder ceases to be a resident of the State;

"(ii) to any person other than a resident individual of the chartering State;

"(iii) to any individual who, after the transfer, would own more than 10 shares of the GSOC;

"(E) that such corporation shall qualify as a GSOC under the Internal Revenue Code;

"(5) is empowered to invest in properties (but not in properties acquired by it or for its benefit through the right of eminent domain).

For purposes of this subsection, section 1504 (a) shall be applied by substituting '20 percent' for '80 percent' wherever it appears.

"(b) ELECTING GSOC.—For purposes of this subchapter, the term 'electing GSOC' means a GSOC which files an election under section 1392 which, under section 1392, is in effect for such taxable year.

"(c) ELIGIBLE INDIVIDUALS.—For purposes

of subsection (a), the term 'eligible individual' means an individual who is, as of a date specified in the State's enabling legislation for the GSOC, a resident of the chartering State and who remains a resident of such State between that date and the date of issuance.

"(d) TREATED AS PRIVATE CORPORATION.—For purposes of this title, a GSOC shall be treated as a private corporation and not as a governmental unit.

"(e) STUDY OF GENERAL STOCK OWNERSHIP CORPORATIONS.—The staff of the Joint Committee on Taxation shall prepare a report on the operation and effects of this subchapter relating to GSOC's. An interim report shall be filed within two years after the first GSOC is formed and a final report shall be filed by September 30, 1983.

"Sec. 1392. ELECTION BY GSOC.

"(a) ELIGIBILITY.—Except as provided in section 1393, any GSOC may elect, in accordance with the provisions of this section, not to be subject to the taxes imposed by this chapter.

"(b) EFFECT.—If a GSOC makes an election under subsection (a) then—

"(1) with respect to the taxable years of the GSOC for which such election is in effect, such corporation shall not be subject to the taxes imposed by this chapter and, with respect to such taxable years and all succeeding taxable years, the provisions of section 1396 shall apply to such GSOC, and

"(2) with respect to each such taxable year, the provisions of section 1393, 1394, and 1395 shall apply to the shareholders of such GSOC.

"(c) WHERE AND HOW MADE.—An election under subsection (a) may be made by a GSOC at such time and in such manner as the Secretary shall prescribe by regulations.

"(d) YEARS FOR WHICH EFFECTIVE.—An election under subsection (a) shall be effective for the taxable year of the GSOC for which it is made and for all succeeding taxable years of the GSOC, unless it is terminated under subsection (f).

"(e) TAXABLE YEAR.—The taxable year of a GSOC shall end on October 31 unless the Secretary consents to a different taxable year."

"(f) TERMINATION.—The election of a GSOC under subsection (a) shall terminate for any taxable year during which it ceases to be a GSOC and for all succeeding taxable years. The election of a GSOC under subsection (a) may be terminated at any other time with the consent of the Secretary, effective for the first taxable year with respect to which the Secretary consents and for all succeeding taxable years.

"Sec. 1393. TAXABLE INCOME TAXED TO SHAREHOLDERS.

"(a) GENERAL RULE.—The taxable income of an electing GSOC for any taxable year shall be included in the gross income of the shareholders of such GSOC in the manner and to the extent set forth in this subsection.

"(1) AMOUNT INCLUDED IN GROSS INCOME.—Each shareholder of an electing GSOC on any day of a taxable year of such GSOC shall include in his gross income for the taxable year with or within which the taxable year of the GSOC ends the amount he would have received if, on each day of such taxable year, there had been distributed pro rata to its shareholders by such GSOC an amount equal to the taxable income of the GSOC for its taxable year divided by the number of days in the GSOC's taxable year.

"(2) TAXABLE INCOME DEFINED.—For purposes of this section, the term 'taxable income' of a GSOC shall be determined without regard to the deductions allowed by part VIII of subchapter B (other than deductions allowed by section 248, relating to organizational expenditures).

"(b) SPECIAL RULE FOR INVESTMENT CREDIT.—The investment credit of an elect-

ing GSOC for any taxable year shall be allowed as a credit to the shareholders of such corporation in the manner and to the extent set forth in this subsection.

"(1) CREDIT.—There shall be apportioned among the shareholders a credit equal to the amount each shareholder would have received if, on each day of such taxable year, there had been distributed pro rata to the shareholders the electing GSOC's net investment credit divided by the number of days in the GSOC's taxable year.

"(2) NET INVESTMENT CREDIT.—For purposes of this paragraph the term 'net investment credit' means the investment credit of the electing GSOC for its taxable year less any tax from recomputing a prior year's investment credit in accordance with section 47.

"(3) RECAPTURE.—There shall be apportioned among the shareholders of a GSOC, in the manner described in paragraph (1), an additional tax equal to the excess of any tax resulting from recomputing a prior year's investment credit in accordance with section 47 over the investment credit of the GSOC for its taxable year.

"Sec. 1394. RULES APPLICABLE TO DISTRIBUTIONS OF AN ELECTING GSOC'S

"(a) SHAREHOLDER INCOME ACCOUNT.—An electing GSOC shall establish and maintain a shareholder income account which account shall be—

"(1) increased at the close of the GSOC's taxable year by an amount equal to the GSOC's taxable income for such year, and

"(2) decreased, but not below zero, on the first day of the GSOC's taxable year by the amount of any GSOC distribution to the shareholders of such GSOC made or treated as made during the prior taxable year.

"(b) TAXATION OF DISTRIBUTIONS.—Distributions by an electing GSOC shall be treated as—

"(1) a distribution of previously taxed income to the extent such distribution does not exceed the balance of the shareholder income account as of the close of the taxable year of the GSOC, and

"(2) a distribution to which section 301(a) applies but only to the extent such distribution exceeds the balance of the shareholder income account as of the close of the taxable year of the GSOC.

"(c) DISTRIBUTIONS NOT TREATED AS A DIVIDEND.—Any amounts includible in the gross income of any individual by reason of ownership of stock in a GSOC shall not be considered as a dividend for purposes of section 118.

"(d) REGULATIONS.—The Secretary shall have authority to prescribe by regulation, rules for treatment of distributions in respect of shares of stock of the GSOC that have been transferred during the taxable year."

"Sec. 1395. ADJUSTMENT TO BASIS OF STOCK OF SHAREHOLDERS.

"The basis of a shareholder's stock in an electing GSOC shall be increased by the amount includible in the gross income of such shareholder under section 1393, but only to the extent to which such amount is actually included in the gross income of such shareholder.

"Sec. 1396. MINIMUM DISTRIBUTIONS.

"(a) GENERAL RULE.—A GSOC shall distribute at least 90 percent of its taxable income for any taxable year by January 31 following the close of such taxable year. Any distribution made on or before January 31 shall be treated as made as of the close of the preceding taxable year.

"(b) IMPOSITION OF TAX IN CASE OF FAILURE TO MAKE MINIMUM DISTRIBUTION.—If a GSOC fails to make the minimum distribution requirements described in subsection (a), there is hereby imposed on the GSOC a tax equal to 20 percent of the excess of the amount required to be distributed over the amount actually distributed.

"SEC. 1397. SPECIAL RULES APPLICABLE TO AN ELECTING GSOC.

"(a) **GENERAL RULE.**—The current earnings and profits of an electing GSOC as of the close of its taxable year shall not include the amount of taxable income for such year which is required to be included in the gross income of the shareholders of such GSOC under section 1393(a).

"(b) **SPECIAL RULE FOR AUDIT ADJUSTMENTS.**—

"(1) **TAXABLE INCOME.**—Taxable income of an electing GSOC shall, in the year of final determination, be increased or decreased, as the case might be, by any adjustment to taxable income for a prior taxable year.

"(2) **INVESTMENT CREDIT.**—The investment credit of an electing GSOC shall, in the year of final determination, be increased or decreased, as the case might be, by any adjustment to the net investment credit for a prior taxable year.

"(3) **METHOD OF MAKING ADJUSTMENTS.**—

An electing GSOC shall include in gross income for the year of an adjustment the amount described in paragraph (1) and shall take into account the adjustment described in paragraph (2), and shall be liable for payment of interest in the amount that would have been payable by the GSOC under section 6601 (relating to interest on underpayment, nonpayment or extensions of time for payment, of tax) or receivable by the GSOC under section 6611 (relating to interest on overpayments) if such GSOC had been a corporation other than an electing GSOC."

(b) **TECHNICAL AMENDMENTS.**—

(1) **NET OPERATING LOSS DEDUCTION.**—Paragraph (1) of section 172(b) (relating to net operating loss carrybacks and carryovers) is amended by adding at the end thereof the following new subparagraph:

"(H) In the case of an electing GSOC which has a net operating loss for any taxable year such loss shall not be a net operating loss carryback to any taxable year preceding the year of such loss, but shall be a net operating loss carryover to each of the 10 taxable years following the year of such loss."

(2) **INCOME TAX COLLECTED AT SOURCE.**—Section 3402 (relating to income collected at source) is amended by adding at the end thereof the following new subsection:

"(r) **EXTENSION OF WITHHOLDING TO GSOC DISTRIBUTIONS.**—

"(1) **GENERAL RULE.**—An electing GSOC making any distribution to its shareholders shall deduct and withhold from such payment a tax in an amount equal to 25 percent of such payment.

"(2) **COORDINATION WITH OTHER SECTIONS.**—For purposes of sections 3403 and 3404 and for purposes of so much of subtitle F (except section 7205) as relates to this chapter, distributions of an electing GSOC to any shareholder which are subject to withholding shall be treated as if they were wages paid by an employer to an employee."

(3) **ADJUSTMENTS TO BASIS.**—Section 1016 (a) (relating to adjustments of basis) is amended by redesignating paragraph (23) as (22) and by inserting after paragraph (20) the following new paragraph:

"(21) to the extent provided in section 1395 in the case of stock of shareholders of a general stock ownership corporation (as defined in section 1391) which makes the election provided by section 1392; and."

(4) **RETURN OF GENERAL STOCK OWNERSHIP CORPORATION.**—Subpart A of part III of subchapter A of Chapter 61 (relating to information returns) is amended by adding at the end thereof the following new section:

"Sec. 6039B. **RETURN OF GENERAL STOCK OWNERSHIP CORPORATION.**

"Every general stock ownership corporation (as defined in section 1391) which makes the election provided by section 1392 shall make a return for each taxable year,

stating specifically the items of its gross income and the deductions allowable by subtitle A, the amount of investment credit or additional tax, as the case may be, the names and addresses of all persons owning stock in the corporation at any time during the taxable year, the number of shares of stock owned by each shareholder at all times during the taxable year, the amount of money and other property distributed by the corporation during the taxable year to each shareholder, the date of each such distribution, and such other information, for the purpose of carrying out the provisions of subchapter U of chapter 1, as the Secretary may by regulation prescribe. Any return filed pursuant to this section shall, for purposes of chapter 66 (relating to limitations), be treated as a return filed by the corporation under section 6012. Every GSOC shall file an annual report with the Secretary summarizing its operations for such year."

(c) **CLERICAL AMENDMENTS.**—

(1) The table of subchapters for chapter 1 is amended by adding at the end thereof the following:

"SUBCHAPTER U.—General stock ownership plans."

(2) The table of sections for subpart A of part III of subchapter A of chapter 61 is amended by adding at the end thereof the following:

"Sec. 6039B. Return of general stock ownership corporation."

(d) **EFFECTIVE DATE.**—The amendments made by this section shall apply with respect to corporations chartered after December 31, 1978, and before January 1, 1984.

TITLE VII—TECHNICAL CORRECTIONS OF THE TAX REFORM ACT OF 1978

SEC. 701. TECHNICAL AMENDMENTS TO INCOME TAX PROVISIONS AND ADMINISTRATIVE PROVISIONS.

(a) **AMENDMENTS RELATING TO RETENTION OF PRIOR LAW FOR RETIREMENT INCOME CREDIT UNDER SECTION 37(e).**—

(1) **CLARIFICATION THAT SPOUSE UNDER AGE 65 MUST HAVE PUBLIC RETIREMENT SYSTEM INCOME.**—Paragraph (2) of section 37(e) (relating to election of prior law with respect to public retirement system income) is amended by striking out "who has not attained age 65 before the close of the taxable year" and inserting in lieu thereof "who has not attained age 65 before the close of the taxable year (and whose gross income includes income described in paragraph (4)(B))".

(2) **CLARIFICATION THAT QUALIFYING SERVICES MUST HAVE BEEN PERFORMED BY TAXPAYER OR SPOUSE.**—Subparagraph (B) of section 37(e) (4) (defining retirement income) is amended by inserting "and who performed the services giving rise to the pension or annuity (or is the spouse of the individual who performed the services)" after "before the close of the taxable year".

(3) **DISREGARD OF COMMUNITY PROPERTY LAWS.**—Subsection (c) of section 37 (relating to election of prior law with respect to public retirement system income) is amended—

(A) by redesignating paragraph (8) as paragraph (9) and by inserting after paragraph (7) the following new paragraph:

"(8) **COMMUNITY PROPERTY LAWS NOT APPLICABLE.**—In the case of a joint return, this subsection shall be applied without regard to community property laws."

(B) by striking out "paragraph (8)(A)" in paragraph (4)(B) and inserting in lieu thereof "paragraph (9)(A)"; and

(C) by striking out "paragraph (8)(B)" in paragraph (5)(B) and inserting in lieu thereof "paragraph (9)(B)".

(4) **EFFECTIVE DATES.**—

(A) The amendments made by paragraphs (1) and (2) shall apply to taxable years beginning after December 31, 1975.

(B) The amendments made by paragraph

(3) shall apply to taxable years beginning after December 31, 1977.

(b) **AMENDMENTS RELATING TO THE MINIMUM TAX.**—

(1) **SPECIAL RULES FOR MINIMUM TAX IN THE CASE OF SUBCHAPTERS CORPORATIONS AND PERSONAL HOLDING COMPANIES.**—

(A) Paragraph (1) of section 57(a) (relating to adjusted itemized deductions) is amended by striking out "An amount" and inserting in lieu thereof "In the case of an individual, an amount".

(B) The last sentence of section 57(a) (relating to items of tax preference) is amended by striking out "Paragraphs (1), (3), and" and inserting in lieu thereof "Paragraphs (3) and".

(2) **DIVISION OF \$10,000 AMOUNT AMONG MEMBERS OF CONTROLLED GROUPS.**—Subsection (b) of section 58 (relating to members of controlled groups) is amended to read as follows:

"(b) **MEMBERS OF CONTROLLED GROUPS.**—In the case of a controlled group of corporations (as defined in section 1563(a)), the \$10,000 amount specified in section 58 shall be divided among the component members of such group in proportion to their respective regular tax deductions (within the meaning of section 56(c)) for the taxable year."

(3) **COMPUTATION OF ADJUSTED ITEMIZED DEDUCTIONS IN THE CASE OF ESTATES AND TRUSTS.**—Paragraph (2) of section 57(b) (relating to computation of adjusted itemized deductions in the case of estates and trusts) is amended to read as follows:

"(2) **SPECIAL RULES FOR ESTATES AND TRUSTS.**—

"(A) **IN GENERAL.**—In the case of an estate or trust, for purposes of paragraph (1) of subsection (a), the amount of the adjusted itemized deductions for any taxable year is the amount by which the sum of the deductions for the taxable year other than—

"(i) the deductions allowable in arriving at adjusted gross income,

"(ii) the deduction for personal exemption provided by section 642(b),

"(iii) the deduction for casualty losses described in section 165(c)(3),

"(iv) the deductions allowable under section 651(a), 661(a), or 691(c), and

"(v) the deductions allowable to a trust under section 642(c) to the extent that a corresponding amount is included in the gross income of the beneficiary under section 662(a)(1) for the taxable year of the beneficiary with which or within which the taxable year of the trusts ends,

exceeds 60 percent (but does not exceed 100 percent) of the adjusted gross income of the estate or trust for the taxable year.

"(B) **DETERMINATION OF ADJUSTED GROSS INCOME.**—For purposes of this paragraph, the adjusted gross income of an estate or trust shall be computed in the same manner as in the case of an individual, except that—

"(i) the deductions for costs paid or incurred in connection with the administration of the estate or trust, and

"(ii) to the extent provided in subparagraph (C), the deductions under section 642(c),

shall be treated as allowable in arriving at adjusted gross income.

"(C) **TREATMENT OF CERTAIN CHARITABLE CONTRIBUTIONS.**—For purposes of this paragraph, the following deductions under section 642(c) (relating to deductions for amounts paid or permanently set aside for charitable purposes) shall be treated as deductions allowable in arriving at adjusted gross income:

"(i) deductions allowable to an estate,

"(ii) deductions allowable to a trust all of the unexpired interests in which are devoted to one or more of the purposes described in section 170(c)(2)(B),

"(iii) deductions allowable to a trust which is a pooled income fund within the meaning of section 642(c)(5),

Sen. Colletta -

I was under the
impression the legislature
is in charge of this
from here on out -

Milt

Natives To Save Millions

Gravel Explains Tax Breaks For Alaskans

By SUSAN ANDREWS
Times Staff Writer

The tax bill passed by Congress includes two provisions of special interest to Alaska: corporate tax exemptions for general stock ownership corporations and tax breaks to Alaska native corporations.

The Internal Revenue Service had ruled that startup costs to organize the native corporations could not be counted as expenses and that exploration money spent by oil companies to help natives in their land selections had to be treated as income.

The action by Congress removes both burdens, Alaska's Sen. Mike Gravel said Monday.

He said the congressional action saves the corporations from being taxed on \$29 million in startup costs and exploration expenses. That will mean tax savings on "hundreds of millions" of dollars of future exploration expenses, he said.

Regarding the general stock ownership plan, the tax bill provides a five-year experiment to see whether corporations set up under such a plan can work.

"It's the most significant thing in the tax bill, if it works," Gravel said.

Gravel is proposing that residents of Alaska — not the state — use the plan to purchase a share of the trans-Alaska oil pipeline and other energy projects in Alaska.

Income from the projects would be paid out directly to Alaskan stockholders in the form of dividends.

Gravel said the "GSOC" (General Stock Ownership Corporation) isn't yet being called the "Gravel Stock Ownership Corporation." But, he said, "That will come."

The bill requires that 90 per cent of the net income of the corporation must be paid out each year. The corporation would not be taxed but the shareholders would pay federal income taxes on their dividends.

A provision of the bill is that the corporation would be required to withhold 25 percent of each shareholder's dividends to be paid to the Internal Revenue Service, just as employers are required to withhold federal taxes from employees' salaries.

Net losses wouldn't flow through to the shareholders but could be carried forward 10 years by the corporation.

The Legislature has negotiated a \$180,000 contract with consultant Louis Kelso of San Francisco to come up with a proposed general stock ownership plan for Alaskans.

Gravel and Gerry Gauche, the tax expert on Gravel's staff, will meet with Kelso later this week in San Francisco.

Gravel said they also will meet with British Petroleum officials there in regard to the possibility of using the new plan to purchase BP's interest in the trans-Alaska oil pipeline.

Kelso is working on a plan that can be used for any investment. However, Gravel said he is concerned that people will expect too much. "I am very concerned about the beginnings," he said. "If it is done wrong, we could lose the philosophical approach and the economic benefits" from the plan.

There are some projects the plan should not invest in, he said, such as "anything marginal."

He said the \$2 billion gas conditioning plant at Prudhoe Bay and the \$12 billion North Slope natural gas pipeline are "guaranteed" projects that the plan could be used for "once we get the thing going."

"The first thing is to invest in the oil line," he said. The senator suggested that Alaskans first purchase BP's 15.84 percent interest and then Union Oil's 1.66 percent interest.

Gravel plans to be visit London in December to work with BP officials. He also is in touch with them in Washington, D.C., he said.

Gauche said Kelso has laid out a work outline of things that need to be considered between now and the end of December, when he will use the information to develop his recommendations to the Alaska Legislature. His report is expected the first of February, he said.

Kelso and members of his staff were in Washington working with Gravel's staff on the federal tax legislation, Gauche said.

Anchorage Times

October 24, 1978

STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

October 26, 1978

FINANCE DIVISION
POUCH WF-STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3795

MEMORANDUM

TO: Senator Mike Colletta
Representative Jim Duncan
Kelso Study Directors

FROM: Milt Barker *MB*
Fiscal Analyst

SUBJECT: Kelso Study

Enclosed is the Conference Committee language relating to GSOC's contained in the tax bill, H.R. 13511, passed by Congress. The bill has not yet been signed by the President.

A GSOC would be a tax-exempt corporation chartered by a state. Ownership requirements would be:

- (1) GSOC stock can be issued only to individuals who are residents of the state at the time of chartering and remain so until issuance.
- (2) Residents born or immigrating after the date of chartering could only receive stock if an original shareholder is willing to transfer or sell his stock (except for inheritance or leaving the state, no transfers are allowed during the first five years after issuance).
- (3) Generally speaking, no individual may hold more than 10 shares, although conceivably there could be issuance of more than 10 to charter members.
- (4) There is no requirement for issuance of an equal number of shares to all charter residents although each resident must receive at least one share

- (5) Although Sec. 1391(a)(4)(D)(i) apparently envisions residents who leave the state disposing of their stock, there technically is no requirement that they do so.

A GSOC could only hold less than 20% of another corporation. However, any earnings by such a subsidiary corporation would be liable for corporate income taxes. A GSOC could only shelter earnings from the corporate income tax by direct investment in projects, partnership or joint venture arrangements, or possibly organizational consolidation of another corporation after acquiring 100% ownership.

Shareholders would be taxed on their pro-rata share of the corporation's taxable income after being allowed a pro-rate share of any corporate investment tax credits. Shareholders would incur this tax liability regardless of whether the corporation actually distributes any of its earnings to shareholders. The corporation would be assessed a penalty of 20% on any amount less than 90% of its taxable income that it failed to pay out.

Also enclosed is a description of an individualized stock ownership plan, "The Financed Capitalist Plan," similar to the ideas expressed in the attached letter of September 7. Critical comments on this type of plan are contained in Mr. Kelso's letter of September 26, attached.

As Mr. Kelso pointed out, the main problem at this point is lack of federal corporate income tax exemption for this type of plan. Senator Gravel's bill, S. 3223, would have overcome this problem. However, what we got, as an amendment to the tax bill, is federal tax exemption only for a state-chartered corporation. This corporation (GSOC) could hold up to 20% of other corporations, but the other corporations would have to file separate returns and their earnings would not be tax-exempt.

Apparently, the U. S. Department of the Treasury was unwilling to have the existing corporate income tax base eroded as could have occurred under S. 3223. By comparison, the attached plan would limit tax-exemption of earnings for ordinary corporations to a special kind of stock (Full Return Stock) which can be issued only in limited amounts--the greater of 1% of a corporation's capital growth or \$2,000,000 in any year (page eight).

Senator Mike Colletta
Representative Jim Duncan

-3-

10/26/78

Also enclosed is the October 6 work plan of Kelso & Co. from which you can see that the study will be tailored to GSOC concept which has now received Congressional approval.

Also of interest may be the attached clipping from the Anchorage Times which indicates Senator Gravel is pursuing the possible purchase of BP's share of TAPS.

MBB:pw

cc: Representative Steve Cowper
Members, Budget & Audit Committee
Representative Terry Gardiner

J. General Stock Ownership Corporations

(Sec. 201 of the bill)

Present law

Under present law, there are no special provisions relating to the establishment of a private corporation for the benefit of the residents of a State.

Reasons for change

The committee believes that many citizens should have a greater ownership stake in the private enterprise system, and that this would lead to better understanding of the system and would encourage individuals to invest in other business enterprises. Also, in the case of individuals now receiving various forms of transfer payments from Federal, State, or local governments, the receipt of dividend income from a General Stock Ownership Corporation (GSOC) would, to some extent, reduce the need for such payments. The committee believes that an experimental program permitting States to form such private corporations for the benefit of their citizens may enable the Congress to study a method of replacing transfer payments with dividend income.

Explanation of provisions

General.—Under the committee bill, a State would be authorized to establish a GSOC for the benefit of its citizens. It is anticipated that the GSOC would be authorized to borrow money to acquire business enterprises. The cash flow from the operation of the business would be used to pay the loan, and the corporate revenues would be distributed to the GSOC shareholders (i.e., the citizens of the State).

Definition of GSOC.—The bill provides that a corporation must meet certain statutory tests in order to be treated as a GSOC. First, the corporation must be chartered by an official act of the State legislature or by a State-wide referendum. Second, the GSOC's corporate charter must provide for the issuance of all authorized shares to eligible individuals provided that at least one share is issued to each eligible individual, and such eligible individual does not elect within one year after the date of issuance not to receive such share, and provides for certain restrictions on the transferability of the share. The transfer restriction must provide that the share cannot be transferred until the earliest to occur of (1) the expiration of 5 years from issuance,

¹ This rule applies to an election made under either subdivision (i) or (ii) of Treasury Regulations § 1.761-2(b) (2), relating to the method of electing not to be treated as a partnership.

(2) death or (3) failure to meet the State's residency requirements. In no event may shares of stock of a GSOC be transferred to nonresidents. Also, an individual may not acquire more than 9 shares by purchase. Third, the charter must provide that the GSOC is empowered to invest in properties (not including properties acquired by it or for its benefit through the right of eminent domain). Fourth, the GSOC may not be affiliated with any other corporation. Fifth, the GSOC must be organized after December 31, 1978, and before January 1, 1984. An eligible individual is any individual who is a resident of the chartering State as of the date specified in the corporate charter. A State may define a resident for purposes of its GSOC so long as such definition is consistent with constitutional principles.

Election.—A GSOC must make an election to obtain the special statutory treatment provided for by the amendment. The election is effective for the taxable year for which it is made on a timely filed tax return. The manner in which the election is to be made would be determined by regulations. The election once made is irrevocable unless terminated with the consent of the Secretary of the Treasury.

Effect of election.—The effect of the election would be to exempt the corporation from Federal income taxation. Instead, the shareholders of the GSOC would report their proportionate part of the GSOC's taxable income on their Federal individual income tax returns.

Treated as a private corporation.—A GSOC would be treated as a private corporation.

Computation of GSOC income.—The GSOC would compute its taxable income in the same manner as a regular corporation with certain modifications. The GSOC would not be eligible for a dividends received deduction nor any tax credits.

Net operating loss deduction.—The shareholders of a GSOC would not be eligible to report any portion of a GSOC net operating loss on their individual income tax return. Instead, the GSOC would be entitled to a 10-year carryover of any net operating losses.

Investment tax credit and recapture of investment tax credit.—Under the bill, shareholders of the GSOC would be entitled to their pro-rata share of the GSOC's investment tax credit. The shareholders would also be personally responsible for any recapture of such investment tax credit. Neither the corporation nor its shareholders would be entitled to the foreign tax credit.

Taxation of shareholders.—Under the bill, each shareholder would include in his gross income his daily prorated portion of the GSOC's taxable income. Such income would be included in the shareholder's gross income for the taxable year in which or with which the GSOC's taxable year ends. The income in the hands of the shareholder would be treated as ordinary income and would not be eligible for either the partial dividend exclusion (sec. 116) or the maximum tax of earned income.

Shareholders would increase the tax basis of shares of stock in the GSOC to the extent they reported income from the GSOC. Distributions from the GSOC out of such previously taxed income would decrease the tax basis of such shares.

Taxation of GSOC distribution.—Under the bill, distributions from a GSOC's taxable income previously taxed to a shareholder would

be treated as a tax-free distribution. Any distribution in excess of such previously taxed income would be taxed in the same manner as a distribution from a regular corporation (sec. 301(c)).

Audit adjustments and amended tax returns.—Any audit adjustment resulting from an Internal Revenue Service determination would be reflected in the GSOC's taxable year in which such adjustment is made (and not the taxable year to which it relates). The amount of such adjustment would be subject to an interest charge in an amount computed as though the income had been taxed to a nonelecting corporation.

Reporting requirements.—Under the bill, a GSOC would be required to file a Federal income tax return and a computer-coded data showing information reported to each of its shareholders. The corporate tax return would be required to meet the same timing requirements as a regular corporation. In addition, a GSOC would be required to give each shareholder a Form 1099. The Form 1099 would report (1) the shareholder's pro rata income for the taxable year, (2) tax-free distributions for the year, (3) the tax treatment of other distributions, and (4) the amount of any investment tax credit and recapture thereof for such year, and (5) any amounts withheld for Federal income tax purposes.

Distribution requirements.—A GSOC would be required to distribute 90 percent of its taxable income to its shareholders by January 31 of the next succeeding year. To the extent a GSOC fails to meet this distribution requirement, a tax equal to 20 percent of the deficiency (i.e., the difference between the required distribution and the actual distribution) would be imposed on the GSOC. The amount of such tax would be allowed as a deduction to the GSOC for the year in which it is paid.

Withholding requirements.—The bill requires the GSOC to withhold an amount equal to 25 percent of every distribution made to its shareholders. The amount of such withholding would be allowed as a refundable credit to the shareholder. The Treasury would be authorized to issue regulations providing a certification procedure for individuals who are nontaxpayers under which they may be exempted from the withholding requirement.

Studies.—It is expected that a study would be made of the effect GSOC's have on competition with regular private corporations. It is also anticipated that a study would be made of the GSOC as a form of full corporate integration.

Taxable year end of GSOC.—The bill requires a GSOC to adopt a taxable year end of October 31. It is anticipated that most GSOC's would elect an October 31 year end. This would enable them to close their books and meet their shareholder reporting requirements by January 31 of the next succeeding year.

Effective date

The provision applies to corporations chartered and organized after December 31, 1978.

Revenue effect

The revenue cost of the proposal is expected to be negligible during the next few years. However, the long-run cost could be substantial.

1 (a) *IN GENERAL.*—Chapter 1 (relating to normal taxes
2 and surtaxes) is amended by adding at the end thereof the
3 following new subchapter:

4 **“Subchapter U—General Stock Ownership**
5 **Corporations**

“Sec. 1391. Definitions.

“Sec. 1392. Election by general stock ownership corporation.

“Sec. 1393. Corporation taxable income taxed to shareholders.

“Sec. 1394. Rules applicable to distributions of electing general
stock ownership corporations.

“Sec. 1395. Adjustments to basis of stock of shareholders.

“Sec. 1396. Minimum distribution.

“Sec. 1397. Special rules applicable to earnings and profits of an
electing general stock ownership plan.

6 **“SEC. 1391. DEFINITIONS.**

7 **“(a) GENERAL STOCK OWNERSHIP CORPORATION.—**

8 For purposes of this subchapter, the term ‘general stock own-
9 ership corporation’ (hereinafter referred to as a ‘GSOC’)
10 means a domestic corporation which—

11 “(1) is not a member of a affiliated group (as de-
12 fined in section 1504), and

13 “(2) is chartered and organized after December
14 31, 1978, and before January 1, 1984;

15 “(3) is chartered by an act of a State legislature
16 or as a result of a State-wide referendum;

17 “(4) has a charter providing—

18 “(A) for the issuance of shares only to eligi-
19 ble individuals;

20 “(B) for the issuance of at least one share to
21 each eligible individual, unless such eligible indi-

1 *vidual elects within one year after the date of is-*
2 *suance not to receive such share;*

3 *“(C) that no share of stock shall be transfer-*
4 *able—*

5 *“(i) by a shareholder other than by will*
6 *or the laws of descent and distribution until*
7 *after the expiration of 5 years from the date*
8 *such stock is issued by the GSOC except*
9 *where the shareholder ceases to be a resident*
10 *of the State;*

11 *“(ii) to any person other than a resident*
12 *individual of the chartering State;*

13 *“(iii) to any individual who, after the*
14 *transfer, would own more than ten shares of*
15 *the GSOC;*

16 *“(D) that such corporation shall qualify as a*
17 *GSOC under the Internal Revenue Code;*

18 *“(5) is empowered to invest in properties other*
19 *than properties acquired by it or for its benefit through*
20 *the right of eminent domain.*

21 *“(b) ELECTING GSOC.—For purposes of this sub-*
22 *chapter, the term ‘electing GSOC’ means a GSOC which*
23 *files an election under section 1392 which, under section*
24 *1392, is in effect for such taxable year.*

1 “(c) *ELIGIBLE INDIVIDUALS.*—For purposes of sub-
2 section (a), the term ‘eligible individual’ means an individual
3 who is, as of a date specified in the State’s enabling legisla-
4 tion, a resident of the chartering State and who remains a
5 resident of such State.

6 “SEC. 1392 *ELECTION BY GSOC.*

7 “(a) *ELIGIBILITY.*—Except as provided in section
8 1393, any GSOC may elect, in accordance with the provi-
9 sions of this section, not to be subject to the taxes imposed by
10 this chapter.

11 “(b) *EFFECT.*—If a GSOC makes an election under
12 subsection (a) then—

13 “(1) with respect to the taxable years of the corpo-
14 ration for which such election is in effect, such corpo-
15 ration shall not be subject to the taxes imposed by this
16 chapter and, with respect to such taxable years and all
17 succeeding taxable years, the provisions of section
18 1396 shall apply to such corporation, and

19 “(2) with respect to the taxable years of a share-
20 holder of such corporation, the provisions of sections
21 1393, 1394, and 1395 shall apply to such shareholder.

22 “(c) *WHERE AND HOW MADE.*—An election under
23 subsection (a) may be made by a GSOC in such manner as
24 the Secretary shall prescribe by regulations.

1 “(d) YEARS FOR WHICH EFFECTIVE.—An election
2 under subsection (a) shall be effective for the taxable year of
3 the corporation for which it is made and for all succeeding
4 taxable years of the corporation, unless it is terminated, with
5 respect to any such taxable year, under subsection (e).

6 “(e) *TERMINATION.*—A GSOC which has made an
7 election under subsection (a) may terminate such election at
8 any time with the consent of the Secretary.

9 "SEC. 1393. CORPORATION TAXABLE INCOME TAXED TO SHARE-
10 HOLDERS.

11 “(a) *GENERAL RULE.*—The taxable income of an
12 electing GSOC for any taxable year shall be included in the
13 gross income of the shareholders of such corporation in the
14 manner and to the extent set forth in this subsection.

15 “(1) AMOUNT INCLUDED IN GROSS INCOME.—
16 Each person who is a shareholder of an electing
17 GSOC on any day of a taxable year of such corpora-
18 tion shall include in his gross income for his taxable
19 year the amount he would have received if, on each
20 day of such taxable year, there had been distributed
21 pro rata to its shareholders by such corporation an
22 amount equal to the taxable income of the corporation
23 for its taxable year multiplied by a fraction the numer-
24 ator of which is one and the denominator of which is
25 the number of days in the corporation's taxable year.

1 “(2) *TAXABLE INCOME DEFINED.*—For purposes
2 of this section, the term ‘taxable income’ of a GSOC
3 shall be determined without regard to—

4 “(A) the alternative tax allowed by section
5 1201 (relating to treatment of capital gains of cor-
6 porations), and

7 “(B) the deductions allowed by part VIII of
8 subchapter B (other than deductions allowed by
9 section 248, relating to organization expendi-
10 tures).

11 “(b) *SPECIAL RULE FOR INVESTMENT CREDIT.*—
12 The investment credit of an electing GSOC for any taxable
13 year shall be allowed as a credit to the shareholders of such
14 corporation in the manner and to the extent set forth in this
15 subsection.

16 “(1) *CREDIT.*—There shall be apportioned among
17 the shareholders a credit or additional tax equal to the
18 amount each shareholder would have received if, on
19 each day of such taxable year, there had been distrib-
20 uted pro rata to the shareholders the electing GSOC’s
21 net investment credit multiplied by a fraction the nu-
22 merator of which is one and the denominator of which
23 is the number of days in the corporation’s taxable
24 year.

1 “(2) *NET INVESTMENT CREDIT.*—For purposes
2 of this paragraph the term ‘net investment credit’
3 means the investment credit of the electing GSOC for
4 its taxable year less any tax from recomputing a prior
5 year’s investment credit in accordance with section 47.

6 “SEC. 1394. *RULES APPLICABLE TO DISTRIBUTIONS OF ELECT-*
7 *ING GSOCs.*

8 “(a) *SHAREHOLDER INCOME ACCOUNT.*—An electing
9 GSOC shall maintain a shareholder income account which
10 account shall be—

11 “(1) increased at the close of the corporation’s
12 taxable year by an amount equal to the corporation’s
13 taxable income for such year, and

14 “(2) decreased, but not below zero, on the date of
15 any distribution to the shareholders of such corporation
16 by the amount of any such distribution.

17 “(b) *TAXATION OF DISTRIBUTIONS.*—Distributions by
18 an electing GSOC shall be treated as—

19 “(1) a distribution of previously taxed income to
20 the extent such distribution does not exceed the balance
21 immediately prior to such distribution of the sharehold-
22 er income account, and

23 “(2) a distribution to which section 301(a) ap-
24 plies but only to the extent such distribution exceeds

1 the shareholder income account balance immediately
2 prior to such distribution.

3 **"SEC. 1395. ADJUSTMENT TO BASIS OF STOCK OF, AND INDEBT-**
4 **EDNESS OWING, SHAREHOLDERS.**

5 *"The basis of a shareholder's stock in an electing*
6 *GSOC shall be increased by the amount required to be in-*
7 *cluded in the gross income of such shareholder under section*
8 *3, but only to the extent to which such amount is included in*
9 *his gross income on his return (unless under section*
10 *6012(a)(1) the shareholder is not required to file a return).*

11 **"SEC. 1396. SPECIAL RULES APPLICABLE TO EARNINGS AND**
12 **PROFITS ELECTING GSOC.**

13 **"(a) REDUCTION FOR TAXABLE INCOME TAXED TO**
14 **SHAREHOLDERS.—***The accumulated earnings and profits of*
15 *an electing GSOC as of the close of its taxable year shall be*
16 *reduced to the extent that its taxable income for such year is*
17 *required to be included in the gross income of the sharehold-*
18 *ers of such corporation under section 1393(a).*

19 **"(b) CURRENT EARNINGS AND PROFITS NOT RE-**
20 **duced BY ANY AMOUNT NOT ALLOWABLE AS DEDUC-**
21 **TION.—***The earnings and profits of an electing GSOC for*
22 *any taxable year (but not its accumulated earnings and prof-*
23 *its) shall not be reduced by any amount which is not allowa-*
24 *ble as a deduction in computing its taxable income (as pro-*
25 *vided in section 1393(a)(2)).*

1 “(c) *SPECIAL RULE FOR AUDIT ADJUSTMENTS.*—

2 “(1) *TAXABLE INCOME.*—Taxable income of an
3 electing GSOC shall, in the year of final determina-
4 tion, be increased or decreased, as the case might be,
5 by any adjustment to taxable income for a prior tax-
6 able year.

7 “(2) *INVESTMENT CREDIT.*—The net investment
8 credit of an electing GSOC shall, in the year of final
9 determination, be increased or decreased, as the case
10 might be, by any adjustment to the net investment
11 credit for a prior taxable year.

12 “(3) An electing GSOC shall include in taxable
13 income for the year of an adjustment described in sub-
14 section (b) or (c) and shall be liable for payment of an
15 amount of interest that would have been payable by the
16 GSOC under section 6601 (relating to interest on un-
17 derpayment, nonpayment or extensions of time for pay-
18 ment, of tax) or receivable by the GSOC under section
19 6611 (relating to interest on overpayments) if such
20 GSOC had been a corporation other than an electing
21 GSOC.”

22 (b) *TECHNICAL AMENDMENTS.*—

23 (1) *NET OPERATING LOSS DEDUCTION.*—Para-
24 graph (1) of section 172(b) (relating to net operating

1 *loss carrybacks and carryovers) is amended by adding*
2 *at the end thereof the following new subparagraph:*

3 *“(H) In the case of an electing GSOC which has*
4 *a net operating loss for any taxable year such loss*
5 *shall not be a net operating loss carryback to any*
6 *taxable year preceding the year of such loss and*
7 *shall be a net operating loss carryover to each of*
8 *the 10 taxable years following the year of such*
9 *loss.”*

10 *(2) INCOME TAX COLLECTED AT SOURCE.—Sec-*
11 *tion 3402 (relating to income collected at source) is*
12 *amended by adding at the end thereof the following*
13 *new subsection:*

14 *“(r) EXTENSION OF WITHHOLDING TO GSOC DIS-*
15 *TRIBUTIONS.—*

16 *“(1) GENERAL RULE.—An electing GSOC*
17 *making any distribution to its shareholders shall*
18 *deduct and withhold from such payment a tax in an*
19 *amount equal to 25 percent of such payment.*

20 *“(2) COORDINATION WITH OTHER SECTIONS.—*
21 *For purposes of sections 3403 and 3404 and for pur-*
22 *poses of so much of subtitle F (except section 7205) as*
23 *relates to this chapter, distributions of an electing*
24 *GSOC to any shareholder which are subject to with-*

1 *holding shall be treated as if they were wages paid by*
 2 *an employer to an employee."*

3 (3) *ADJUSTMENTS TO BASIS.*—Section 1016(a)
 4 *(relating to adjustments of basis) is amended by*
 5 *redesignating paragraph (23) as (22) and by insert-*
 6 *ing after paragraph (20) the following new paragraph:*

7 *"(21) to the extent provided in section 1395 in*
 8 *the case of stock of, and indebtedness owing, share-*
 9 *holders of a general stock ownership corporation (as de-*
 10 *finied in section 1391) which makes the election pro-*
 11 *vided by section 1392; and".*

12 (4) *RETURN OF GENERAL STOCK OWNERSHIP*
 13 *CORPORATION.*—Subpart A of part III of subchapter
 14 *A of Chapter 61 (relating to information returns) is*
 15 *amended by adding at the end thereof the following*
 16 *new section:*

17 *"SEC. 6039B. RETURN OF GENERAL STOCK OWNERSHIP CORPO-*
 18 *RATION.*

19 *"Every general stock ownership corporation (as defined*
 20 *in section 1391) which makes the election provided by section*
 21 *1392 shall make a return for each taxable year, stating spe-*
 22 *cifically the items of its gross income and the deductions al-*
 23 *lowable by subtitle A, the names and addresses of all persons*
 24 *owning stock in the corporation at any time during the tax-*
 25 *able year, the number of shares of stock owned by each share-*

1 holder at all times during the taxable year, the amount of
 2 money and other property distributed by the corporation
 3 during the taxable year to each shareholder, the date of each
 4 such distribution, and such other information, for the purpose
 5 of carrying out the provisions of subchapter U of chapter 1,
 6 as the Secretary may by regulation prescribe. Any return
 7 filed pursuant to this section shall, for purposes of chapter 66
 8 (relating to limitations), be treated as a return filed by the
 9 corporation under section 6012."

10 (c) *CLERICAL AMENDMENTS.*—

11 (1) The table of subchapters for chapter 1 is
 12 amended by adding at the end thereof the following:

"SUBCHAPTER U.—General stock ownership plans."

13 (2) The table of sections for subpart A of part III
 14 of subchapter A of chapter 61 is amended by adding at
 15 the end thereof the following:

"Sec. 6039B. Return of general stock ownership corporation."

16 (d) *EFFECTIVE DATE.*—The amendments made by this
 17 section shall apply with respect to corporations chartered
 18 after December 31, 1978, and before January 1, 1984.

19 **TITLE III—PROVISIONS PRIMARILY**
 20 **AFFECTING BUSINESS INCOME TAX**
 21 **Subtitle A—Corporate Rate Reductions**



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GENERAL STOCK OWNERSHIP PLANS

Mr. GRAVEL. Mr. President, the United States is the world's wealthiest Nation. Our net national worth has tripled since 1925 and now stands at over \$6 trillion. This growth has been dramatic, but we should be concerned that a quarter of this growth, nearly \$1 trillion of capital expansion, is owned by 1 percent of the population. This is the same 1 percent of our population which controlled 25 percent of our national wealth in 1925 and which today owns over half of all privately held corporate stock and more than 60 percent of all bonds.

Concentrations of wealth are not bad per se, but do create serious problems when many Americans find their labor income insufficient and must rely on Government subsidies for survival. In such a situation it is incumbent upon policymakers to review and correct structural defects which prevent the great majority of citizens from sharing in the Nation's growth.

There is continuing concern over the concentration of wealth in our economy. The Joint Economic Committee has recommended that the broadening of capital ownership be adopted as a national goal. Secretary of the Treasury Blumenthal and other Treasury officials have expressed concern over this concentration as well. But, in spite of this "gnashing of teeth" over the issue, little of substance has been accomplished. The great bulk of our national wealth is still controlled by a very few.

One of our greatest legislative failures is that we have not significantly broadened the ownership of American wealth during the past 50 years. In spite of all our income transfer programs and massive Federal deficits 25 percent of our wealth is still owned by 1 percent of the people. It would be a tragedy indeed if, through our own negligence, the future expansion of our capital stock is similarly concentrated. If it can be said in the year 2000 that 1 percent of our population controls 25 percent of our wealth it will be a great American tragedy and it will be our fault. The failure to insure broader participation in the economy will be laid at our doorstep and the epitaph of the capitalist system may well read, "In failing the people they themselves were doomed to failure."

IT TAKES MONEY TO MAKE MONEY

The old adage, "It takes money to make money," holds more than a grain of truth. To a great extent new wealth is a function of existing wealth. Wealth is generated either through credit or saving. Savings are invested to create new capital while debt may be used in the same way with the earnings of the investment amortizing the loan.

The poor and middle classes are precluded from accumulating wealth through either of these means. Because of our failure to provide access for the less affluent in our society to either existing wealth or debt for the generation of new wealth they are locked into their present status. The great bulk of our citizens cannot save enough from their incomes to generate capital wealth, they must consume what they earn. Neither can they finance new wealth through credit because that requires a guarantee for repayment. The lender needs assurances of repayment if the investment fails to throw off sufficient income to amortize the debt. Existing wealth performs this function for the rich, but the poor have no guarantee to support debt financed access to new wealth. The key to new wealth for the vast majority of Americans is the capacity to guarantee debt. I have structured a program which allows the citizens of a State, acting through their State government, to avail themselves of the guarantee power of the State itself to provide access to new wealth.

I want to emphasize at the beginning that this plan is not one designed to transfer the ownership of existing wealth. I do not propose to play Robin Hood, taking from the rich and giving to the poor. I do propose that more Americans be allowed access to the new wealth required by the future expansion of our economy. I am offering a vehicle through which we can involve all our citizens in the process of generating new productive capacity. By bringing more people into the capital formation process we also allow more people to share in the fruits of that capital, increased income.

ESOP'S: A FIRST STEP

Employee stock ownership plans were developed more than 20 years ago under the pension provisions of the Internal Revenue Code. They have recently received congressional attention and sup-

port beginning with the Pension Reform Act in 1974. In addition to its pension potential, the ESOP also provides a means for the diffusion of capital ownership. Through an ESOP employees can use the corporation's credit to guarantee their leveraged purchase of the company for which they work.

Under an ESOP the employer company establishes a tax exempt pension trust with its employees as beneficiaries. A loan to the trust is guaranteed by the company. The loan proceeds are used to purchase employer stock on behalf of the employees. The debt is repaid by the trust out of pension contributions made to the trust by the employer corporation. The employee receives the stock held for him by the trust either when he retires or terminates his employment.

The ESOP is a very important and useful device for spreading capital ownership, but its scope is severely limited. ESOP's are not available to those Americans who are not employed by corporations sponsoring such plans. Although some 10 million employees are covered by these plans we have neglected the welfare of hundred of millions of Americans. I would like to propose a program offering some opportunity for other Americans to share in our capital growth. My program is a parallel to the ESOP which would be available to all Americans.

THE GENERAL STOCK OWNERSHIP PLAN

Today I urge the adoption of legislation to enable the adoption by States of general stock ownership plans. This proposal finds its origins in the ESOP. It is designed to parallel the tax treatment of ESOP's while expanding the category of eligible individuals beyond the employees of a single company. As with the ESOP the key feature of the GSOP is a tax-exempt trust. However, the GSOP trust is sponsored by a State government with eligibility open to all residents of the State. Payments to the trust are deductible to corporations and tax free to the trust. The trust is required to distribute all its income annually either in repayment of debt or as dividends to the trust participants, the citizens of the State.

Before discussing the operation of GSOP's I should emphasize that the GSOP is not a vehicle for State ownership. In fact, the concept is offered as an alternative to State ownership. In Alaska we have been discussing the possibility of an Alaska State equity interest in the proposed gas pipeline. While such an investment is an exciting opportunity I am concerned about State ownership of private business. Under existing law it would be possible for the State government to make such an investment and pass the profits through to its citizens either in services or tax reductions.

However, I think it is important that ownership in such investments be held by the people directly rather than through the State government. Direct ownership

puts spending decisions in the hands of the consumers. State ownership tends to concentrate both economic and political power in the same hands, an unhealthy combination. In addition bureaucratic spending decisions are not always consistent with the needs or desires of the people. Therefore, I think the people of the State should hold direct ownership of any equity interest the State chooses to make in private business. The GSOP can accomplish this goal by using the credit of the State to acquire interests on behalf of the State's citizens.

THE GSOP AT WORK

The GSOP provides an additional and expanded vehicle for capital diffusion. It creates a means for the transfer of what would otherwise be government-owned interests directly to the people. It can be used for the ownership of any revenue producing government project from a sports complex to a power plant. The GSOP puts the profits of operating these essentially private sector enterprises back into the hands of the people where they belong.

To form a GSOP the sponsoring government forms a GSOP trust and appoints trustees. Based on revenue and financial projections, and perhaps a guarantee by the sponsoring State government, the trust borrows money in the private market to make investments. In order to provide for allocation of ownership interests within the trust investment is limited to corporate stock. If the target project is one which is to be initiated by the GSOP a corporation is formed to hold the assets themselves.

Within the GSOP trust the newly acquired stock is allocated one share each to persons who have resided in the State for at least a year who choose to participate. All residents are eligible regardless of age and new residents may apply for participation once they have fulfilled the 1 year requirement. The stock of the corporation allocated to the trust participants is voted by them so that control of the investment is in the hands of the citizens and not the sponsoring State government.

The loan to the trust used to finance the purchase of stock must be repaid through the use of the investment proceeds. The corporation makes payments to the trust for this purpose which are deductible to the corporation up to its full taxable income. The trust, however, cannot accumulate income and must distribute out what it receives from the corporation either as loan payments, operating expenses or dividends to the participants. Cash dividends to participants are treated as dividends on corporate stock and taxed accordingly. Since this dividend amount is deductible to the corporation when paid to the trust we have effectively eliminated the double tax on corporate earnings.

The GSOP trust is designed not only to provide income for the participants, but to provide actual capital ownership

as well. Without access to the GSOP stock the participant would be like the spendthrift nephew whose uncle provides a trust from which he can only receive the income. Despite his extreme need he cannot sell off the trust assets to pay his gambling debts and avoid the malice of his creditors. I believe that there are a minimum of never-do-well nephews in our society and that most Americans are capable of making their own spending and capital allocation decisions.

Without providing for direct ownership of the stock a plan such as the one I propose would be unduly paternalistic. Therefore, the GSOP trust must, upon request, distribute the stock held for a participant to him after 5 years of participation. Distribution of the stock to the participant will not preclude continuing integration of the corporate tax so long as the corporation continues to make its dividend payments through the trust. The stock is not taxed upon distribution to the participant, but if the participant sells the stock the proceeds are taxed as ordinary income. In addition to the tax consequences upon a sale of the GSOP stock no person may own more than 10 shares of any corporation's GSOP stock.

WHAT CAN A GSOP MEAN

In working with the GSOP concept I became curious as to what such a program might mean to individuals participating in the program. Using Alaska as an example I turned to our oil pipeline since State participation was being sought in the comparable gas pipeline. British Petroleum owns a 15.85-percent interest in the oil pipeline and their revenue and cost figures are available through testimony before the Federal Energy Regulatory Commission. Assuming a purchase price of \$1.5 million with 100-percent financing through tax-exempt bonds over 20 years at 5.5 percent interest this asset could produce \$500 annually in 1973 dollars for every citizen of the State of Alaska and more than \$300 annually after the debt is retired; \$2,000 per year for a family of four is a substantial amount for citizens in parts of Alaska where median income is less than \$3,000 per year.

I am not suggesting that GSOP's are appropriate for all State owned and operated activities or that they constitute the whole solution to the problem of capital concentration. However, they can and will provide an additional tool available to assist the broad mass of Americans to participate in capital ownership. Mr. President, I would ask unanimous consent that my bill be reprinted in the RECORD.

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

S. 3223

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. GENERAL STOCK OWNERSHIP TRUSTS.

Subsection (c) of section 501 of the Internal Revenue Code of 1954 (relating to list of exempt organizations) is amended by adding at the end thereof the following new paragraph:

"(22) A general stock ownership trust which is established in writing by the United States or the government of a State or a political subdivision of a State exclusively for the purpose of broadening stock ownership and integrating the corporate income tax by purchasing, receiving, holding, pledging, and distributing securities (within the meaning of section 251(b)) of one or more corporations, and which is empowered to receive, hold, and distribute amounts paid to the trust by corporations whose securities are held by the trust (or trust participants) and incur, amortize, and guarantee indebtedness in furtherance of the trust purposes, but only if the trust—

"(A) provides for participation by all residents of the sponsoring jurisdiction as of the date each such resident completes at least 12 consecutive months of residency within the jurisdiction,

"(B) provides for the allocation of one share of each issue of securities held by the trust to the account of each participant (within the meaning of section 251(b)) as of the last day of the trust year in which the individual initially becomes a participant in the trust in a manner which does not discriminate among such participants on the basis of race, sex, age, income, or ownership of property,

"(C) provides that each participant has a nonforfeitable right to any stock allocated to his account, but that no stock allocated to a participant's account may be distributed to the participant from that account before the last day of the trust year next following the trust year of the participant's death or, if earlier, the last day of the trust year next following the later of—

"(i) the participant's completion of 5 years of participation in the trust, or

"(ii) the participant's attainment of 18 years of age,

"(D) provides that all amounts received by the trust will be distributed not later than the due date for the filing of the trust's information return under section 6033 for the trust year in which such amounts are received,

"(F) provides that no person may purchase or otherwise acquire except by gift or devise from any participant directly or indirectly more than ten shares of any security held by or upon which dividends are distributed through the trust, and

"(G) meets such other requirements as the Secretary may be regulation prescribe."

SEC. 2. INCOME TAX TREATMENT OF DISTRIBUTIONS FROM GENERAL STOCK OWNERSHIP TRUSTS.

Securities (as defined in section 251(b) of the Internal Revenue Code of 1954) transferred to a participant or to the account of a participant in a trust described in section 501(c)(22) of the Internal Revenue Code of 1954 shall not be considered income of the participant under the Internal Revenue Code of 1954 until such time as the participant sells or exchanges such a security. Amounts paid by the trust in connection with securities held by the trust in the account of a participant shall not be considered income of the participant under the Internal Revenue Code of 1954 until actually received by the participant and, at such time, shall be

treated, for purposes of such Code, as dividends.

SEC. 3. CORPORATE DEDUCTION FOR AMOUNTS PAID TO GENERAL STOCK OWNERSHIP TRUSTS.

(a) In General.—Part VIII of subchapter B of chapter 1 of the Internal Revenue Code of 1954 (relating to special deductions for corporations) is amended by adding at the end thereof the following new section:

"SEC. 251. AMOUNTS PAID TO A GENERAL STOCK OWNERSHIP TRUST.

"(a) GENERAL RULE.—In the case of a corporation there shall be allowed as a deduction an amount equal to the amount paid for the taxable year by such corporation to a trust described in section 501 (c) (22), not in excess of the amount determined by multiplying the corporation's net taxable income (determined without regard to any deduction allowable under this section) by a fraction, the numerator of which is the total number of shares of the corporation's securities held by the trust (including shares held by participants in the trust which were acquired, other than by purchase, from the trust) and the denominator of which is the total number of shares of the corporation's securities outstanding. Amounts paid to the trust not later than the date established by law for filing the corporation's return of tax for a taxable year, including any extension thereof, shall be treated as paid for that taxable year.

"(b) DEFINITIONS.—For purposes of this section and sections 4975(c) (4) and 501(c) (22) —

"(1) Distributed.—The term 'distributed' means actually paid to the participants of the trust, paid as ordinary and necessary expenses of trust operation, or paid in retirement of debt principal and interest incurred in furtherance of the trust's purposes.

"(2) Participant.—The term 'participant' means any individual for whom an account is maintained under a trust described in section 501(c) (22), for whose benefit allocations are made under the trust, and to whom benefits are distributed from the trust, and any individual who succeeds to the interest of a participant in a transaction in which gain is not recognized.

"(3) Securities.—The term 'securities' means common stock issued by a corporation with voting power and dividend rights no less favorable than the voting power and dividend rights of other common stock issued by the corporation."

(b) CLERICAL AMENDMENT.—The table of sections for such part is amended by adding at the end thereof the following new item:

"Sec. 251. Amounts paid to a general stock ownership trust."

SEC. 4. FAILURE TO DISTRIBUTE.

Section 4975(c) of the Internal Revenue Code of 1954 (relating to prohibited transactions) is amended by adding at the end thereof the following new paragraph:

"(4) Special rule for general stock ownership trusts.—It shall be a prohibited transaction within the meaning of this section for a trust described in section 501(c) (22) to fail to distribute all amounts transferred to it as required by section 501(c) (22) (E)."

SEC. 5. EXEMPTION OF GENERAL STOCK OWNERSHIP TRUSTS FROM TAX ON UNRELATED BUSINESS INCOME.

Section 511(a) (2) of the Internal Revenue Code of 1954 (relating to organizations subject to tax) is amended by inserting 'or in

section 501(c) (22)" after "section 501(c) (1)".

SEC. 6. ELIGIBILITY FOR INDUSTRIAL DEVELOPMENT BONDS.

Section 108(b) (3) of the Internal Revenue Code of 1954 (relating to exempt persons) is amended by adding at the end thereof the following new subparagraph:

"(C) an organization described in section 501(c) (21)."

SEC. 7. EFFECTIVE DATE.

The amendments made by this Act, and the provisions of section 2 of this Act, shall apply with respect to taxable years beginning after December 31, 1978.



Sen. Mike Gravel:

Farming the Ocean

The fishery resource in Alaska is one of the finest in the world, and the fishing industry has always been a fundamental part of our state's economy.

Important as it has been in the past, however, the potential for this industry in the coming decades is almost mind-boggling. Through aquaculture and the planned harvest of fish, the resource base can be dramatically expanded at the same time the catch rises significantly.

Food from the sea is, in fact, half of a two-part axis that I believe has become crucial to the economy of the United States: the energy-food axis. Alaska is in a unique position with regard to both parts of this axis.

But it is time now to move to take advantage of the state's full fisheries potential. For while there is no question that the possibilities are enormous, it is also true that in the past this resource has been taken too much for granted. And today, despite the great potential, some Alaska fisheries are in trouble.

Why do I believe the fishing industry may become crucial to America's economy? Because evidence suggests that seafoods may have to fill a coming gap in the nation's agricultural output.

The United States' rise to industrial preeminence has come through its abundance of energy-related and agricultural resources.

Today's situation is a variation on that same theme. America's productivity depends on energy, especially petroleum. And as this resource has grown scarcer and more expensive, it is largely the nation's agricultural

product that has paid the higher energy prices. This happens especially through food exports, which hold in line the U.S. balance of trade.

But, as chairman of the Senate subcommittee on water resources, I have learned that America may well be entering an extended period of relative agricultural scarcity. Meteorologists have told the committee that today's Western drought may well be only the beginning of a 20-year dry weather cycle.

If this is true, the United States will not be able to maintain its huge yearly agricultural yield. The U.S. balance of trade, and with it economic security, would be imperilled.

What could take the place of lost agricultural exports?

I believe the potential of seafoods is so great that they could fill this gap. A world in need of protein can turn to the

What's YOUR opinion? Write to:

Senator Mike Gravel

United States Senate

Washington, DC, 20510

sea. Aquaculture should join agriculture as an equal partner in food production.

In retrospect, it seems amazing that so little has been done to actively husband the fishery resource. Man has cultivated crops and livestock for millennia -- but in the harvest of seafoods, he seems still to be virtually in the berry-picking stage.

If my guess is right, Alaska and her resources will soon become vital to the U.S. economy in a way not even yet appreciated. Alaska's food resource will join her petroleum resource in importance.

This can only happen, however, if the sea is farmed as deliberately and as carefully as the land has been farmed.

Alaska is likely to find itself in a position of leadership in aquaculture. The potential is not yet well understood in the nation as a whole.

But Alaskan leadership would be completely appropriate. Our role in the future production of seafood through aquaculture can justify every effort that is made now to bring this future to realization.



Sen. Mike Gravel:

Nuclear Power Insurance

The reactor incident at Three Mile Island in Pennsylvania has finally drawn widespread attention to the staggering damages that could be suffered in the event of a nuclear core meltdown. If the worst had indeed happened in Harrisburg, it is clear that the losses would have been in the tens of billions of dollars.

But even with the Three Mile incident behind us, it is still not widely known that in a nuclear accident of this magnitude, it is the people who live and work in the vicinity of the reactor who would in essence be paying those damages. This is because of the provisions of a law known as the Price-Anderson Act.

Under Price-Anderson, the utilities that operate reactors and the companies that build reactors have limited liability in the event of a catastrophic accident. Even though a meltdown may cause economic dislocation amounting to tens of billions, liability for the accident is limited to \$560 million.

This situation came about because in the 1950's, when nuclear power looked like a bright hope for our country, the utilities and the manufacturers decided that the unknowns of nuclear energy were too great. They would not "go nuclear" unless they were protected from lawsuits which, in the worst accidents, could actually bankrupt them.

Congress was anxious to see nuclear energy used for peaceful purposes. The most enthusiastic advocates even claimed that nuclear generated electricity would be "too cheap to meter" -- a prediction that has fallen rather short of the mark.

So the Price-Anderson Act was passed, in order to get the industry started. Until enough experience in nuclear power was accumulated, Congress said, it would agree to suspend the normal rules of liability. The nuclear industry

could proceed without fear of bankruptcy in the event of a nuclear catastrophe.

It was clear that two promises were implicit in this arrangement: first, that if an accident took place, Congress itself would pay the price; and second, that the Price-Anderson limitation on liability was temporary.

In 1975, when this "temporary" Act was once again before the Congress for reauthorization, I argued that it was time for the nuclear industry to assume full liability for its activities. Enough experience had been accumulated for the industry and its insurers to decide whether the risks were adequately balanced by the benefits. It was time to normalize the liability situation in the nuclear industry.

In addition, I argued, the continued lack of full liability could well be contributing to less-than-thorough attention to safety considerations by the utilities and the manufacturers.

Although Congress did not accept these arguments, and Price-Anderson was reauthorized, I feel that events since 1975 have tended to prove that I was correct and that the limitation on liability should be ended. Consequently, I have once again offered legislation holding the nuclear industry fully liable in the event of an accident whose damages exceed \$560 million.

Liability for our activities is the natural and traditional manner of instituting checks and balances in hazardous industries. We need for the nuclear industry to be subject to this time-tested discipline.

There are three basic reasons for this:

First, and most obvious, a company which knows it will pay for the losses it may cause is more likely to take the steps necessary to prevent those losses.

Second, liability is self-regulating. In the nuclear industry, government regulation has an important place. But there is no real substitute for self-regulation by the industry itself. The burden for safety belongs on the industry.

Finally, the only people who really know whether nuclear power is safe are the engineers in the industry. Full liability has the effect of making those who know best decide whether we should "go nuclear." Frankly, if nuclear power is as safe as the industry would have us believe, then full liability should not be in the least unsettling to them.

Under my bill, the basic liability situation is normalized by making the nuclear industry fully responsible for its actions. I believe this is the only way we can make the correct, informed decision on nuclear power.



Sen. Mike Gravel:

Abuse of Power

Since last October, I have been arguing that time is on our side in winning a satisfactory D-2 bill in the Congress.

Last year, we were facing a tidal wave of sentiment in favor of huge wilderness withdrawals in Alaska. It appeared to me that our chances for good legislation could only improve if the momentum of the environmentalist onslaught were broken.

Today I feel I can show that my assessment was correct, and that Alaska now is making gains in the Congress that were all but unthinkable only a few months ago.

First, there was the general election last November. A pronounced conservative trend was established, and the 96th Congress has already demonstrated that it will look less favorably on environmentalist demands.

In addition, world events have altered the picture, especially where oil is concerned. With the collapse of Iran and with serious discussion of gasoline rationing, the nation is again sensitive to our need for domestic petroleum reserves.

Only North Slope oil has kept the United States from slipping into an import deficit that would be even worse than what we have had for the past several years. And Alaska still contains some of the best oil and gas prospects under the American flag. Much of this oil-potential land is involved in the D-2 debate.

Many people who were willing to lock away Alaska land while they were comfortable will think again when they are faced with gasoline rationing.

More specifically, the Interior Committee in the House of Representatives has overpowered its chairman, Rep. Morris Udall, to report out a bill that is much more balanced than Udall's own HR 39. The new bill is similar to last year's "compromise" -- which means that what looked

last year like "the best Alaska could get" is now our starting point. Improvements will be needed on the new bill -- but they can be won.

And even more significant, I believe, are the findings of the current Cambridge Report. Cambridge, which is a highly-respected polling company, surveys 1,500 households every three months on current public policy questions.

In its most recent poll, the company found strong public resistance to prohibiting development on public lands before exploring for energy and mineral resources. A half to two-thirds of the respondents consistently said federal wilderness lands should be explored and, in most cases, made available for development. In fact, 45 per cent said the U.S. has already set aside enough wilderness -- against only 35 per cent who said more should be withdrawn.

The important thing about the poll is that it shows the occurrence in the House Interior Committee was not a mere fluke. National sentiment opposes locking up natural resource lands -- and respected, independent polls are beginning to broadcast that message to politicians.

Finally, I believe that even the President's excessive withdrawals under the Antiquities Act can work to Alaska's advantage in the long run.

Congress never meant for the President to use the Act in the sweeping way Carter did last year. And members of Congress will recognize the danger of Carter's action as a precedent, if it is allowed to stand.

Under the Constitution, only Congress is to make public lands policy. But if a President can use the Antiquities Act for withdrawals essentially as he pleases, then Congress will lose this exclusive authority.

I have written legislation which would limit the power of the President under the Antiquities Act, and I anticipate wide support in Congress, especially among senators and representatives from the West. They will recognize the danger of the Alaska precedent, and I think they will agree that no matter what happens with D-2, this precedent must not be allowed to stand.

In addition to that, however, our strongest allies in the D-2 fight will be those who understand that the real issue is not "development versus conservation" but abuse of power.

(Copies of Senator Gravel's legislation and the Cambridge poll are available from his office: 3121 Dirksen building, U.S. Senate, Washington, DC, 20510.)



Sen. Mike Gravel:

Report on GSOC

This month, a document is being delivered to the Legislature in Juneau which, I feel, may alter the economic history of Alaska and even the United States.

It is the report by Mr. Louis Kelso on the potential for a General Stock Ownership Corporation in Alaska.

Mr. Kelso is an investment banker who lives and works in San Francisco. He is also a visionary, a man who is not afraid to trumpet the virtues of capitalism -- but who sees, too, that our system is not really living up to its promise, that it is not generating the wealth and the high standard of living that it might -- and that it certainly is not conferring its benefits as widely across the population as it should.

Louis Kelso is also a close friend, and the delivery of this report has personal meaning for me.

I first met Mr. Kelso in the late summer of 1976. He was in Washington to work with Sen. Russell Long, Chairman of the Finance Committee and a long-time acquaintance of Kelso's. Sen. Long was interested in Kelso's proposals for broadening the ownership of wealth -- without resorting to state socialism and without taking the property of those who are already well-off.

Sen. Long was responsible for enacting into law the Employee Stock Ownership Plan (ESOP) that Kelso had devised. This law provides tax advantages for employers who sell their business to the employees. In 1976, Kelso was in Washington to work on further incentives for employee ownership.

In my first meeting with him, and again some months later, we talked long beyond the hour that had been scheduled. He told me about the success of the ESOP program -- a number of successful ESOPs were operating in Alaska, he said, including the Fairbanks News-Miner and Yukon Office Supply.

But his ideas for spreading the benefits of capital ownership went far beyond ESOPs. Another program, Consumer Stock Ownership Plan (CSOP), had also already been proven successful. And his most ambitious idea, the General Stock Ownership Plan, remained to be tried. It would be complicated and probably politically difficult, at first, because of its novelty.

But the idea was not entirely new to me. In a much less precise form, I had discussed the same goals for our economic system in my book *Citizen Power*. Now I was

talking with someone who not only shared these goals, but who was a successful investment banker and had devised the financial means to achieve the goals.

Basically, Kelso believed, it is true that under the capitalist system the rich do get richer, and wealth becomes overly concentrated. But at the same time, capitalism and free enterprise constitute the world's most dynamic and successful economic system. How to preserve the dynamism, but spread its benefits more widely?

Mr. Kelso pointed out that wealthy individuals add to their wealth by *borrowing* money to reinvest. Then their new investment pays back the money they borrowed. They typically are not investing their own money -- but it is their wealth which makes it possible for them to borrow and make profitable investments.

More to the point, a number of persons can do the same thing by pooling their resources in a corporation.

Why, Kelso wondered, couldn't an even larger number of people (everyone in a state, for example) form a corporation, achieve the necessary creditability essentially through their numbers -- and enjoy the same result?

That result, in a word, would be "a piece of the action" -- ownership for every person in productive, profit-making enterprise. And it would happen without expense to these new owners of capital, because the "seed money" for the corporation would be borrowed, just as wealthy individuals and corporations can borrow, against the future income from the investment of the money.

In short, what this constitutes is a way to spread the *new* wealth that is created as our economy grows -- but without resorting to socialism or state control of private enterprise.

I have been working for two years on implementing this concept, with the help of many in addition to Kelso -- notably Lawrence Klein, the University of Pennsylvania economist, and representatives of American Telephone and Telegraph, Dow Chemical and the American Stock Exchange.

It gradually became clear to me that Alaska itself might be the best ground for a General Stock Ownership Corporation, because of the capital-intensive nature of our potential resource industries -- and, too, because we already have the closest thing to a GSOC: the Regional Native Corporations.

My amendment authorizing GSOCs passed in last October's tax bill. Under the measure, special tax benefits are now available for GSOCs. And, though many details remain to be addressed, the time appears to be right to try this new financial device.

Mr. Kelso's report addresses many of these details -- and it outlines how an Alaskan GSOC could work.

Now it's up to the Alaska legislature to set up the corporation and enlist every Alaska resident as a shareholding owner of productive capital. It could happen as early as this session.

And I believe it should.



Sen. Mike Gravel:

McKinley Or Denali?

It is North America's greatest peak. It is the centerpiece of the Alaskan interior.

But what is its name?

Before Europeans had discovered America, the mountain was called Denali -- "the great one."

Then in 1896, a prospector came out of the "wonderful wilderness," and the first news he heard was of the nomination of William McKinley. The prospector had spent more days then he'd cared to with two outspoken champions of free silver. The prospector, like McKinley, favored the gold standard.

So the prospector got back at his long-winded friends. He named the great mountain he had seen after McKinley.

Did he really expect the name to stick? Was it just an ironic joke? It's not clear now.

But a movement to restore the name "Denali" began in the 1920s, and today it has gathered momentum. The U.S. Board on Geographic names is now in the process of considering the change, holding hearings in Washington and Alaska.

The name change is not uncontroversial. Among the groups on record against it are the Chambers of Commerce in Anchorage, Kenai and Palmer, as well as the city of Cordova and the Alaska Visitors Association.

An important argument against the change is the expense of altering maps and other reference materials.

N.C. Banfield of Juneau wrote to me: "I am opposed to outdating the atlases, gazetteers, encyclopedias and geography books of the world by changing names simply because some local group desires to have a name which reflects its culture."

Richard H. Garvin, general manger of American Sightseeing of Alaska, has a similar view: "This name has been established nationally and internationally to everyone within the travel industry. There are books, brochures,

voluminous papers, articles and periodicals that address themselves to the name of 'Mt. McKinley.' "

It seems to me, though, that the production of new reference materials, not to mention Alaskan travel literature, is rapid enough that the change of name would not, of itself, cause much extra expense.

In addition, it is not just one group that seeks the change. The Alaska Legislature has asked for it (the vote was 13-4 in the Senate and 24-9 in the House), as have Governor Hammond and the state Geographic Board.

And the Department of Interior, seeking public comment on the change, found 59 per cent of Alaskan adult respondents wanted the change, and 63 per cent nationwide.

This poll found that "people living in the immediate area of the mountain generally support the name change." And interestingly for the tourist industry, most of those who had traveled in the state approved of the change.

Some interesting comments on the proposal came from school pupils who responded to the Interior Department poll:

One wrote: "It isn't fair to take its name away after it's had it so long."

Another: "McKinley is the name of a man; Denali is a mountain."



Congressmen from Ohio oppose the change, since President McKinley came from that state. But this seems to me a good reason to change the name. President McKinley had little to do with Alaska.

A resolution from the city of Cordova says a reason to preserve the present name is because "the ambition of mountain climbers from all over the world has been to conquer 'Mt. McKinley.' " But did they wish to conquer it because it was "McKinley" -- or because it was "the great one?"

Frank J. Gold of Fairbanks put it well: "Denali was the name of the highest mountain in North America for many more years than the nation has existed; the fact that it was named for McKinley appears to be little more than an accident. The request from the people of Alaska, by legislative resolution and via the mails, should be considered and honored."



Sen. Mike Gravel:

Alaska Water Power

One of Alaska's vastest and most valuable resources is an easy one to overlook. I'm speaking of water.

A third of the freshwater runoff of the entire nation is found in our state. The Yukon River is North America's third largest.

Perhaps most important, more than half the hydroelectric potential remaining in America is found in Alaska.

Alaska is already tagged an "energy state." From the sale of its oil, it should accumulate significant wealth. But even as we export our non-renewable petroleum, our own great water resource gives us an energy option most states don't have.

With hydroelectric power, we can build a clean, renewable base of energy production that would put the state's economy on an exceptionally stable and low-cost foundation.

Hydropower is not subject to embargo. Its fuel, the natural cycle of water, is self-renewing. Its costs are almost entirely in the initial dam construction, leaving the power that is produced free from inflationary pressures. And with care in the selection of sites, hydropower can be the most environmentally benign of large energy sources.

The most promising of Alaska's large hydro sites is on the Sustina River about halfway between Fairbanks and Anchorage. Planning is underway now for a two-dam power project there which would be the largest in North America.

It would consist of a 635-foot concrete dam at Devil Canyon, 15 miles east of the Alaska Railroad at Gold Creek, and an 810-foot earthfill dam at the Watana site 31 miles upstream from Devil Canyon.

The combined capacity of the dams would be 1,568

megawatts. Together they would generate an average 6.91 billion kilowatt hours per year, more than 60 per cent of the power needs projected for the railbelt area (Fairbanks to Seward) in 1990.

Construction of the Sustina Project will follow the same pattern as traditional Army Corps of Engineers dams. An initial survey of the site has been made. The next step, called Phase I, involves advanced engineering and design, environmental impact statements and a cost/benefit economic analysis. Then, if these prove favorable, construction would begin, perhaps as early as 1980.

The financing of the Sustina Project is not to be traditional, however. Instead of being paid for by the federal government, the dams would be financed by the state through the sale of bonds.

Under traditional financing, projects must return to Congress year after year for money to pay current expenses. This means the projects are subject to political whims which cause the funding to be uneven, and this in turn slows the projects and brings about cost overruns.

As chairman of the Water Resources Subcommittee, I have seen many federally funded dams suffer these consequences of the appropriations process. Furthermore, federal funding for water projects has been declining for years, and this trend is likely to continue.

Knowing the Sustina Project could not be built in a timely manner under the traditional financing methods, I developed the state-financed plan.

The Corps of Engineers will act as a contractor for the state in planning and building the project. The government guarantees the Corps' work. In addition, should Phase I produce a "no go" decision, the government reimburses the state for Phase I costs.

The state gets the best of two worlds. It has the federal guarantees of a traditional project. But when the dams are finished, it will be the state, rather than the federal government, which will own them.

And through a state power authority created by last year's legislature, the low-cost electricity produced by Sustina can be used to equalize electricity prices throughout the state -- meaning reliable, low-cost electricity for all Alaskans.

A full report on the Sustina Project is available from Senator Gravel, 3121 Dirksen Building, U.S. Senate, Washington, D.C. 20510.



Sen. Mike Gravel:

Statehood and Compromise

Since last October, when my threat to filibuster put an end to the so-called "compromise" D-2 bill, I have heard the reactions of many Alaskans, both in favor of what I did, and opposed.

The majority, among those who have talked to me, supported my action. But there is some feeling, too, that I should have let the "compromise" pass, that it "was the best we could get" — and that I am to blame for President Carter's use of the Antiquities Act.

I think the disagreement comes down to three questions:

- Did the "compromise" protect Alaska's interests?
- Was the "compromise" the best bill Alaska could get?
- Was the "compromise" preferable to designation of National Monuments by the President?

My belief is that Alaska is better off without the "compromise" bill, even given the President's action — and in fact, events since October have made me more convinced of this view, not less so.

Let me explain by addressing the three questions:

First of all, Alaska's interests were not adequately protected under the "compromise." Instead of getting specific protection for the state's economic future, the "compromise" placed crucial decisions either in the hands of Washington's bureaucrats or in the hands of future Congresses. And either way, as the "compromise" was written, it was clear that when the time came for decision, Alaska would come out the loser.

In particular, we needed **specific** guarantees for our timber industry and for potential mineral development — and most important, since it is crucial to so much of Alaska's economic future, we needed guarantees for access.

What, precisely, did the "compromise" bill do in these areas?

TIMBER -- It has been said that the "compromise" guaranteed enough timber to maintain the existing industry in Southeast (520 million board feet per year.) Yet, if we read the fine print in the bill, the fact is that the "compromise" practically guaranteed the impossibility of harvesting the needed amount.

In order to reach 520 m.b.f., it would likely be necessary to approve timbering in a number of so-called Special Management Areas — and under the "compromise," approval for timbering in these areas would require a concurrent resolution from both houses of Congress within 60 days of recommendation by the Secretary of Agriculture.

Even assuming that the Secretary would make the necessary recommendation (and that's unlikely enough), the requirement for a congressional resolution virtually assures that timbering in the Special Management Areas would never take place.

You cannot look at the D-2 vote in the House of Representatives last year and believe Alaska would win that kind of resolution. And for that matter, any such resolution could be stopped by as few as one or two senators.

So the necessary 520 m.b.f. probably would not be available under the "compromise" bill. The "guarantees" that it provided were empty ones.

MINING -- The most important mining development in the state now is the Quartz Hill molybdenum find near Ketchikan. It is thought to be the second-largest known molybdenum deposit in the world.

Some say this prospect is moribund because of President Carter's withdrawals. But in fact, U.S. Borax, with valid existing rights in place, can continue its exploration program as scheduled for the next several years.

The company was denied a permit to build a road for exploration activities; however that decision was not related to the Carter-Udall withdrawals. But meantime, the same Washington bureaucrats who decided against the road would have been given even greater powers under the "compromise" to delay or destroy the Quartz Hill project.

The "compromise" singled out the Quartz Hill mine to be subject to a variety of regulations "to assure that mining will, to the maximum extent possible, be consistent with protection of the scenic, scientific, cultural and other resources of the area." Naturally, the "compromise" calls for "reasonable" regulations. But the fact is that regulations of this scope could be used (and, I think in this case, would be used) to make the potential mine an uneconomic prospect.

In addition, Park Preserve boundaries in the "compromise" bill were drawn to come close enough to the Quartz Hill site to potentially subject the site to extremely harsh air quality standards.

So it is not true that the mine has been killed by the President's withdrawals — rather, under the "compromise," it could have been regulated to death from Washington.

ACCESS -- The idea that the "compromise" bill guaranteed access across federal conservation units is simply ludicrous. The "compromise" provided two ways to permit access. In the case of wildlife refuges, the Secretary of Interior could issue a right-of-way if he determined that it "would be compatible with the purposes for which the (refuge) was established and the Secretary of Transportation (where appropriate) determines there is no economically feasible and prudent alternative route and mode of access."

The only "guarantee" in the compromise is the right to appeal the Secretary's decision to the President and the courts — not, in fact, a guarantee at all.

And in the case of parks or wilderness, under the "compromise," right-of-way would require the approval of both houses of Congress and the Interior Secretary and the President. In a word, guaranteed non-access.

Access is a key to Alaska's economic future, and to lose the right of access to our state and private land is, in effect, to lose those lands altogether. Access under the "compromise" was a sham.

The second question is — Was the "compromise" bill the best Alaska could get?

And the answer is probably — Yes, the best we could get in 1978.

Our position was run over last year in the House of Representatives. After that vote, environmentalists had no reason to truly compromise. And they didn't.

The so-called "compromise" bill was a ruse. Instead of



Sen. Mike Gravel:

Changes Needed in 1934 Law

In the mid-1930's, the arrival of universal telephone service and nationwide radio broadcasting looked like a revolution in communications. Today we can look back at that period, with its switchboards and vacuum tubes, and know that the revolution had hardly begun.

And even today, change in communications continues to be among the most dramatic in all the spectrum of technological advance. If anything, the pace of change in this technology is still accelerating — and we can anticipate that the industry 45 years hence will be even more different from today's than today's is from that of the 1930's.

And yet, the industry continues to be governed by a law that was written in those first days of radio and telephone networks — when computers were primitive, television was only on the drawing boards, and satellites were hardly even conceivable.

That law is the Communications Act of 1934. It established the regulatory structure (including the Federal Communications Commission) which has governed access to U.S. airwaves, overseen the growth and service of the telephone industry, and to some extent limited the impact and potential of the technology that is increasingly available to us.

Under the leadership of Rep. Lionel Van Deerlan of California, a complete revision of the Communications Act is now underway.

This is no small task: for starters, there are 150 volumes of regulations and interpretations that have been written to implement and update the 1934 Act. In addition to that, the industry itself has been shaped by that Act, and with billions of dollars now invested in this structure, change is difficult — technically, financially, and not least, politically.

The theme of Rep. Van Deerlan's work is deregulation, at least where the pressures of market competition will serve by themselves to ensure good service. An important corollary thrust in his legislation is to give more rein to advances in technology, allowing these to enter markets more freely, relying more on the profit motive and less on government regulators to decide which technologies are worthwhile and when.

Here are some of the highlights of Van Deerlan's proposal:

- *Abolish the FCC. Regulatory and policy-making functions would be separated into two new boards. Regulation would be reduced.*
- *"Deregulation" of radio and television. Licenses would be granted for an indefinite period instead of being subject to renewal by FCC.*
- *New limitations on ownership of broadcast stations: no more than five radio and five TV stations under one owner; no more than three TV stations in top-50 markets under one owner. However, current owners would not have to divest.*
- *"Spectrum Use Fees," with proceeds paying for regulatory functions as well as providing support for public broadcasting through a telecommunications fund.*
- *No regulation of cable television.*
- *Require monopoly carriers to divest equipment manufacturing arms (ie. AT&T and Western Electric).*
- *A Universal Service Compensation Fund to assure affordable telephone rates and the availability of phone service in high-cost rural areas. This would be financed by access charges on carriers using local exchange facilities.*

I feel that Alaska stands to benefit considerably from a new Communications Act which is written along these lines. In particular, the technological advances which are available will be helpful for us.

In the past, I have found that the investment of the communications industry in one generation of technology has tended to slow down the introduction of a new and better generation. And the FCC has sometimes operated as the instrument in this obstructionism.

Alaska suffered in particular because it was investment in the Lower 48 that was preventing us from getting the technology -- especially satellite service -- that promised to lift us out of a very primitive condition of communications. We could, in fact, have had satellite service years before we finally got it.

But we have to be sure, too, that a provision like the Universal Service Compensation Fund remains in the new Act. Although satellites have brought great improvements, service to the Alaskan Bush remains probably the most difficult in the nation to maintain and pay for.

Bush residents have as great a right to good phone and broadcast service as the apartment dwellers of New York City -- and perhaps an even greater need for it. This right must be protected.

A revised version of Rep. Van Deerlan's bill is due soon, and legislative action is also coming up in the Senate. I will be watching the legislation with Alaska's needs in mind.



Sen. Mike Gravel:

Lower Alaska Taxes

The federal government has long recognized the significant difference in the cost of living in Alaska.

Federal employees in the state receive up to a 25 per cent Cost of Living Allowance. And the Office of Management and Budget defines the poverty level in Alaska at 25 per cent above the level set for the Lower 48 states.

Nevertheless, tax law so far has failed to take into account the higher prices in the non-contiguous states. I introduced a bill this month, S.1978, which is meant to correct this inequity by raising the standard deduction for residents of Alaska and Hawaii.

The idea behind the bill involves the current tax treatment of the poor.

For more than a decade, Congress has expressed its intent to avoid collecting income taxes from those whose earnings are below the poverty level. The standard deduction and personal exemptions are set at rates that are meant to insure that there will be no income tax liability for the poor.

But the deduction and exemption rates are the same throughout the 50 states -- even though the government officially recognizes the significantly higher costs of living in Alaska and Hawaii.

My bill would allow a higher standard deduction for the residents of these two states. In Alaska, the standard deduction would be set 25 per cent higher than the level in the contiguous states; for Hawaii residents, the increase would be 15 per cent.

So the standard deduction for Alaskans (compared with the Lower 48 rate) would look like this:

-- for joint returns, \$4,000 (\$3,200 in the Lower 48)

-- for individual returns, \$2,750 (\$2,200 in the Lower 48)

-- for couples filing separately, \$2,000 each (\$1,600 in the Lower 48).

In addition, the rate per dependent would be \$950 in Alaska, up from \$750 in the contiguous states.

The primary need for this bill lies with Alaskans who live under the poverty level: They deserve the same

**What's YOUR opinion? Write to:
Senator Mike Gravel
United States Senate
Washington, DC, 20510**

protection from taxation which is afforded the poor in the Lower 48.

But the provisions would apply to everyone in the state, helping all Alaskans to meet the high costs of living in the nation's largest state.

I am a member of the Senate Finance Committee, which will review this proposal, and I will be pushing for serious consideration of this kind of tax relief for Alaska and Hawaii.

Copies of S.1978 are available. Write Mike Gravel at 3121 Dirksen Building, U.S. Senate, Washington, D.C. 20510.



Sen. Mike Gravel:

Against Gun Control

Many times over the past decade, Congress has been presented with proposals for gun control and gun registration. In each instance, Congress has turned away laws which would have infringed on Americans' right, under the Second Amendment, "to keep and bear arms."

It was especially shocking, therefore, when the Bureau of Alcohol, Tobacco and Firearms (BATF) proposed last March to institute gun registration through regulation, essentially ignoring the will of the Congress.

My mail since then has reflected most Alaskans' intense interest in and firm opposition to gun control.

J.L. Gilfillan of Valdez wrote: "This is my first letter to an elected official, as I have always felt that I, as most Alaskans, could get by without anyone's help. In this matter we need your help . . . to halt this unauthorized registration."

Rodney Anderson of Soldotna: "With BATF's proposed plan, it would tend to make one believe we were heading towards a form of government similar to a police state or country!"

Frances Leffler of Fairbanks: "I feel strongly that gun control will in no way prevent crime."

A telegram from the Alaska Federation of Natives also stated opposition:

"Firearms are an integral part of the Native lifestyle and cultural hunting background. Increasing the current firearm restrictions will only hinder the American people."

Many of the letters expressed particular anger at the way BATF overrode Congressional intent.

Robert Couch of Palmer said: "Firearms registration

has been repeatedly defeated in the legislature, and this should clearly dictate that a bureau has no business creating it on its own."

Rieta Walker of Homer: "I think this is just a sneaky way to enact (by regulation) a gun registration law."

L.C. Walters of Wasilla: "Let us get on with items that are good for the people and stop trying to shove gun registration down our throats in these disguised forms."

Many writers also saw the connection between gun registration and big, paternalistic government. They questioned the "low" cost estimates put forth by BATF.

Dr. George Hansen of Anchorage wrote: "I fail to understand how the BATF can undertake a new task such as this without increasing their manpower needs and spending more money."

Lee Allen of Palmer: "Millions of dollars would be spent to computerize the purchases of honest citizens. The only guns not subject to instant recall would be those used by criminals."

A particularly telling account came from the owner of Great Northern Guns in Anchorage, Joseph Andreis:

"The burden of paperwork will be tremendous. For me, these new rules will mean four reports a year with each report containing as many as or more than 600 guns. I will have to hire someone just to tabulate and type out this list . . . I will also have to set up a new bookkeeping system to accommodate the new 14-digit serial numbering system."

I agree that BATF's proposed rules should be rejected. Any one of four reasons would suffice alone:

(1) Constitutionality -- the Second Amendment is unequivocal

(2) Impropriety -- Congress, not BATF, should make national policy

(3) Expense -- Americans feel that government is getting too big

(4) Ineffectiveness -- this scheme will not prevent crime.

Therefore, I have cosponsored Senate Concurrent Resolution 79, which expresses the Senate's objection to the proposed rules. More than half the Senate is expected to cosponsor, making it unlikely that BATF will pursue its plans to institute "backdoor gun registration."