G.C.
(no action should be taken – this was sent by Nunley)

Armstrong, John

Mr. John Armstrong
Chairman, Texas Animal Health
Commission
1020 Sam Houston State Office Building
Austin, Texas 78701

April 18, 1983

Dear Mr. Armstrong:

This Department has closely followed the efforts of the Texas Animal Health Commission to enforce its brucellosis regulations against Mr. R. J. Nunley. While we believe that the Commission has diligently pursued and will continue to pursue the enforcement of its brucellosis program in the State courts and the State legislature, it appears this effort is losing its momentum.

This Department has a responsibility to prevent the interstate dissemination of brucellosis. The Commission's inability to carryout fully its responsibilities in the joint State-Federal Brucellosis Eradication Program mandates that this Department seriously consider action to protect the other States from the dissemination of brucellosis from Texas. In this regard, it appears that the only viable option available to this Department, to meet our legislative mandate, is to impose and enforce a quarantine of the State of Texas.

In view of the support this Department has had from the Commission and Texas cattle producers, the quarantine was not imposed earlier. However, unless the Commission is able to participate fully in the joint State-Federal Brucellosis Eradication Program, the risk with respect to the dissemination of brucellosis will require that this Department quarantine the State of Texas.

We would be happy to have your views and comments before we take such action.

Sincerely,

/s/ James O. Lee, Jr.
Acting Administrator

THE WHITE HOUSE
WASHINGTON

2-8-83
10:30 a.m.

George E. Barnes
305-467-0633
524-8789 (o)

Sent letter & chart to JAB, dated 2-6-83 → please call when arrives for further corrections.

2-10
Done - JWC will call on Friday

2-24
Sent copies of two most recent letters to Chapoton at Treasury to respond to on behalf of JAB, w/ copy to us.

THE WHITE HOUSE

WASHINGTON

February 24, 1983

MEMORANDUM FOR BUCK CHAPOTON

FROM: Jim Cicconi

SUBJECT: Correspondence from George E. Barnes

Attached are copies of two of the most recent letters Jim Baker has received from George Barnes as a result of a conversation they had during the President's Chicago trip. Mr. Barnes proposes the reinstatement of stock transfer taxes, and is opposed to withholding on dividends.

I would appreciate it if you would please respond to Mr. Barnes' proposal on behalf of Mr. Baker, with a copy to our office.

Thank you for your help.

Memorandum from GEORGE E. BARNES
Partner

2-11-83

Memo to James Cicconi

Please substitute attached table in which it raises the tax rate on tax-free exchanges, etc. from 25% from 20%. Though higher rate justified since 45% or $4.50 is the documentary tax on real estate transfers.

In U.S. Steel acquiring Maraton last year, the government was out $11,855,000 at the .47% former rate.

Thanks
Geo E Barnes
2100 So Ocean Lane
Ft Lauderdale FL 33316

Mr. Barnes' Florida business phone:
305-524-8789

Dial long distance toll-free
800-621-4477 outside Illinois
800-972-5566 within Illinois
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February 6, 1983
2100 South Ocean Lan
Florida, Ft.Lauderda

Mr. James Baker,111
Chief, White House Staff
White House
Washington, D. C.

Partners
George E Barnes
Harry A. Baum
William B. Hummer
Philip Wayne Hummer
Harry Flagg Baum
F. Girard Schoettler
John D. Carroll
Robert H. Chase
William A. Rogers
Robert F. Kahlfeldt
Philip M. Burno
Joseph A. Piekarczyk
G. Ted Becker
Steven R. Becker
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Max E. Binz II
Wayne Hummer
Family Trust

Dear Mr. Baker:

You really started something when you asked me for the dollars involved to the Treasury in the re-enactment of transaction taxes on securities sold and issued.

It was possible to secure the annual sales of mutual funds and new corporate issues this past week. For the year 1982, the dollar volume figure with the additions of other markets has increased to over $4 trillion which would swell the Treasury revenues to approximately $3 billion, without considering stock and bond sales of all privately owned corporations. Also, I have not resarched the volume of securities changing ownership through consolidations, tax-free exchanges and barter transactions. Conceivably, this would bring the revenue take to $5 billion, or more.

There is no reason in the world why commodity transactions should not carry a similar tax, especially with the options flourishing. Therefore, it is my hope that the President will include them. There will be hues and crys but this can be overcome by providing no holding period or leaving it at three (3) months. He should be concerned anyway about the wide fluctuations in the market places caused by inability to sell. Besides, it would greatly add to the Treasury revenues in encouraging individual investors to return to the market place.

Whether you realize it or not, the present dollar volume is largely made up of tax-free transactions of foundations, pension funds, profit sharing groups and others enjoying tax immunity. Further, it is imperative that early steps are taken to broaden the sources of Treasury revenues and not just add to the tax on gasoline, telephone, income taxes and the like. Such increases are self defeating insofar as revenues are concerned. They are responsible for the shift to shelters. In my 53 years in the bus- I never saw the time when there were so many free-riders.

In searching for new revenues, it is paramount that the tax collection costs be considered. A good example is withholding which if not repealed will cost this nation a minimum of $5 billion annually to administer. Now that the administration has done so much in extending reporting to 90% of investment income, there is no justification whatsoever for withholding. This should come from the lips of the President in order to make amends with the entire populace including minors with savings accounts.

I thought of including provision for real estate in a tranaction tax, but I found that that a neighbor of mine bought $450 in documentary stamps this past week on a $100,000 sale or $4.50 per thousand versus $.50 for stocks under our proposal and $250 for a capital change.

Mr. Baker, it is my suggestion that your office conduct some fact finding with the Treasury before the subject goes on the table. I have made no provision for exemptions to make the law easy to administer. That is why withholding would not work and it would end up a disaster.

No doubt the exchange market specialists had a lot to do with the repeal of the law after it had been on the books for many years. It seems strange that in 1966, the technical change would have increased their transfer tax cost by 40%, and they did not even to show up in Washington. We carried the ball from Chicago as you will see from the Midwest Stock Exchange bulletin.

In the event the floor broker who makes markets for the public finds such costs work a hardship, there is reason to allow him to deduct his cost from his individual income tax. This would result in exempting the specialist who buys and sells all day long without causing the industry any computer and market problems.

For your information, the former rates were 4¢ per hundred on stocks, 5¢ on bonds, 4¢ on mutual funds, and 11¢ on all other new issues. Applying these former rates to 1982 dollar volume, the present loss to the Treasury is $2 billion on publicly held securities alone. It would appear that the mutual fund interests had a good lobbyist to pay 4¢ while other securities were paying 116. This is a lot of money to annually throw down the drain.

As I indicated to you in Chicago, it is vital to change President Reagan's image that he only thinks of helping the rich. We think our proposals are made to order to accomplish this as a means to bring the National Budget in better balance and aid our recovery as well.

I will be glad to make myself available for any conferences to expedite the foregoing. Thank you for your continued interest.

Cordially,

George E. Barnes

George E. Barnes
Senior Partner

B.

Copies:
Senator Charles H. Percy
Senator Pete Wilson
Enclosures

[illegible] REAGAN'S PROPOSED TRANSFER OF OWNERSHIP AND

ISSUANCE TAX ON

SECURITIES, COMMODITIES, OPTIONS [illegible] AND BARTER TRANSACTIONS

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Re-enact a transfer tax of .05% on the actual value of the certificates, contracts on bonds or stocks that are sold or transferred, including options, rights, and warrants. (Formerly 4¢ per share from 1/58 to 1/66.)

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February 9, 1983

Mr. James Baker, III
Chief, White House Staff
White House
Washington, D.C. 20500

Dear Mr. Baker:

Our senior partner, George E. Barnes, has made some slight changes on his proposal for President Reagan to consider on security transactions. A copy of which is enclosed. The principal change is the proposed tax on mergers and tax-free exchanges. A memorandum is also enclosed showing the governments revenue opportunities on the re-enactment of such taxes. Since time if of the essence, I am sending this material to you by Federal Express mail.

Please make any response to Mr. Barnes at:

Mr. George E. Barnes
2100 South Ocean Lane
Fort Lauderdale, FL 33316

Sincerely,

WAYNE HUMMER & CO.

Jo Ann Egan

Jo Ann Egan
Secretary to George E. Barnes

Serving investors since 1931

PRESIDENT REAGAN'S PROPOSED TRANSFER OF OWNERSHIP AND ISSUANCE TAX ON SECURITIES, COMMODITIES, AND ALL FORMS OF OPTIONS

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Exemptions - There shall be no tax imposed on stock borrowed or return thereof and transactions of wholesale dealers and floor specialists to preserve close markets.

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TRANSFER OR EXCISE TAX ON RECAPITALIZATIONS, MERGERS, TAKEOVERS, AND BARTER TRANSACTIONS:

A new issuance and/or transfer tax of 20¢ on each $100 of actual value or major fraction thereof shall be imposed. This higher rate is justified to catch up to numerous tax-free exchanges on all forms of property and bartered transactions. It is vital to the nation that steps are taken to discourage monopolistic trends.

EXAMPLES OF IMPOSITION OF NEW TRANSFER AND ISSUANCE TAXES

	Amount of Tax		
Amount involved on sale, transfer, exchange or barter	5¢ Rate Per $100*	10¢ Rate Per $100*	20¢ Rate Per $100*
One Thousand	$ .50	$ 1	$ -
Ten Thousand	5	10	-
One Hundred Thousand	50	100	200
One Million	500	1,000	2,000
Ten Million	5,000	10,000	20,000
One Hundred Million	50,000	100,000	200,000
One Billion	500,000	1,000,000	2,000,000
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FOR THE YEARS 1981 and 1982

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SECURITY & NAME OF MARKET	1981 (000 omitted)	1982	TREASURY REVENUE PRIOR RATES	PROPOSED RATES	%
BONDS					
N.Y.S.E. BONDS	$ 4,829,539	$ 6,027,745	$ 3,013,823	$ 3,013,823	.05
AMEX BONDS	1,266,181	1,817,861	908,941	908,941	.05
CORP. BONDS - off Ex. (Est. 10 X Ex. Vol.)	60,957,200	78,456,260	39,228,130	29,228,130	.05
NEW GOVT. ISSUES	203,000,000	190,000,000	none	none	.00
GOVT. - Off the Board (Est. 1% Debt)	1,100,000,000*	1,150,000,000*	-	575,000,000	.05
NEW ISSUES OF CORP. BONDS & NOTES (Est. not completed '82)	47,120,481	47,120,481	51,722,529	47,120,481	.11P .10N
NEW ISSUES OF MUNICIPALS (Not completed '82)	80,577,000	80,577,000	no tax	no tax	.00
TOTALS	$1,497,750,401	$1,553,999,347	$ 94,873,423	$665,171,375	
NEW ISSUES OF MUTUAL FUNDS	$ 472,183,000	$ 626,011,011	$250,404,404	$626,011,011	.04P .10N
SHARES & OPTIONS					
N.Y.S.E. STOCKS	$ 389,268,600	$ 488,396,300			
AMEX STOCKS	26,384,779	20,731,254			
ILL REGIONAL EXCHANGES	23,742,754	67,763,587	.04%		.05
M. EXCHANGE OPTIONS	14,289,000	14,380,000			
TOTALS	$ 453,685,133	$ 591,271,141	$236,508,456	$295,635,540	.05
NASDAQ - Over the Counter Stocks	$ 71,056,938	$ 84,188,651	$ 33,675,460	$ 42,094,326	.04P .05N
OVER THE COUNTER TRANSACTIONS (not cleared by NASDAQ) (Est. 25%)	17,764,234	21,047,163	8,418,865	10,526,300	.04P .05N
NEW ISSUES - Corp. Stocks	1,143,749,000	1,305,355,000	1,435,890,000	1,305,355,000	.11P .10N

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STOCK SALES OF ALL PRIVATELY HELD CORPORATIONS (not available) - nevertheless a large revenue producer.

P-Prior
N-New

TOTALS	$1,232,570,172	$1,389,543,614	$1,477,984,325	$1,357,975,626
GRAND TOTAL:	$3,656,178,706	$4,160,825,113	$2,059,770,608	$2,294,793,552

Wayne Hummer & Co.
Members New York Stock Exchange
George E. Barnes, Senior Partner

wh Memorandum from GEORGE E. BARNES
Partner

2-11-83

Memo to James Cicconi

PLEASE SUBSTITUTE ATTACHED TABLE IN WHICH I RAISED the tax RATE ON TAX-FREE EXCHANGES, ETC., FROM .25% from .20%. THOUGHT HIGHER RATE JUSTIFIED SINCE 45% or 4.50 is the DOCUMENTARY TAX ON REAL ESTATE TRANSFERS.

IN U.S. STEEL ACQUIRING MARATON LAST YEAR, the government was out $11,850,000 at the .04% former rate.

Thanks

Geo E Barnes
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Ft Lauderdale Fl 33316

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It was possible to secure the annual sales of mutual funds and new corporate issues this past week. For the year 1982, the dollar volume figure with the additions of other markets has increased to over $4 trillion which would swell the Treasury revenues to approximately $3 billion, without considering stock and bond sales of all privately owned corporations. Also, I have not researched the volume of securities changing ownership through consolidations, tax-free exchanges and barter transactions. Conceivably, this would bring the revenue take to $5 billion, or more.

There is no reason in the world why commodity transactions should not carry a similar tax, especially with the options flourishing. Therefore, it is my hope that the President will include them. There will be hues and crys but this can be overcome by providing no holding period or leaving it at three (3) months. He should be concerned anyway about the wide fluctuations in the market places caused by inability to sell. Besides, it would greatly add to the Treasury revenues in encouraging individual investors to return to the market place.

Whether you realize it or not, the present dollar volume is largely made up of tax-free transactions of foundations, pension funds, profit sharing groups and others enjoying tax immunity. Further, it is imperative that early steps are taken to broaden the sources of Treasury revenues and not just add to the tax on gasoline, telephone, income taxes and the like. Such increases are self defeating insofar as revenues are concerned. They are responsible for the shift to shelters. In my 53 years in the bus- I never saw the time when there were so many free-riders.

In searching for new revenues, it is paramount that the tax collection costs be considered. A good example is withholding which if not repealed will cost this nation a minimum of $5 billion annually to administer. Now that the administration has done so much in extending reporting to 90% of investment income, there is no justification whatsoever for withholding. This should come from the lips of the President in order to make amends with the entire populace including minors with savings accounts.

I thought of including provision for real estate in a tranaction tax, but I found that that a neighbor of mine bought $450 in documentary stamps this past week on a $100,000 sale or $4.50 per thousand versus $.50 for stocks under our proposal and $2.50 for a capital change.

Mr. Baker, it is my suggestion that your office conduct some fact finding with the Treasury before the subject goes on the table. I have made no provision for exemptions to make the law easy to administer. That is why withholding would not work and it would end up a disaster.

No doubt the exchange market specialists had a lot to do with the repeal of the law after it had been on the books for many years. It seems strange that in 1966, the technical change would have increased their transfer tax cost by 40%, and they did not even to show up in Washington. We carried the ball from Chicago as you will see from the Midwest Stock Exchange bulletin.

In the event the floor broker who makes markets for the public finds such costs work a hardship, there is reason to allow him to deduct his cost from his individual income tax. This would result in exempting the specialist who buys and sells all day long without causing the industry any computer and market problems.

For your information, the former rates were 4¢ per hundred on stocks, 5¢ on bonds, 4¢ on mutual funds, and 11¢ on all other new issues. Applying these former rates to 1982 dollar volume, the present loss to the Treasury is $2 billion on publicly held securities alone. It would appear that the mutual fund interests had a good lobbyist to pay 4¢ while other securities were paying 11¢. This is a lot of money to annually throw down the drain.

As I indicated to you in Chicago, it is vital to change President Reagan's image that he only thinks of helping the rich. We think our proposals are made to order to accomplish this as a means to bring the National Budget in better balance and aid our recovery as well.

I will be glad to make myself available for any conferences to expedite the foregoing. Thank you for your continued interest.

Cordially,

George E. Barnes

George E. Barnes
Senior Partner

B.

Copies:
Senator Charles H. Percy
Senator Pete Wilson
Enclosures

"The Good Old Days"

By Oscar M. Beveridge

One day not long ago, an eight-lane bridge across the Hudson River in New York, seldom slowed by traffic even on the busiest weekend, experienced the worst jam in its history at 3 o'clock on a midweek afternoon.

Traffic experts researched this tie-up exhaustively. Finally and reluctantly they came to the conclusion that there was no ready explanation. It was only a phenomenon, caused merely by the fact that tens of thousands of people wanted to cross all at once.

Nothing like it had been seen before or has been seen since.

As the Great Depression begins to assume its perspective in history, more and more businessmen are coming to

(Turn to "DAYS" page 6)

Vol. 3, No. 2 | The Midwest Stock Exchange News | September 1958

Barnes Wins Battle for Fair Transfer Tax

Here is a story of outstanding service to the brokerage fraternity above and beyond the call of duty.

It's the story of George E. Barnes, immediate past chairman of the MSE board (1955-1957), senior partner of Wayne, Hummer & Co., and author of the money involved commission rate structure adopted by the nation's stock exchanges.

* * *

In late 1955, the Treasury Department proposed to Congress that a technical change be made from par value to market value as a base for imposing a stamp tax on the sale, transfer and issuance of securities. This was a step forward which most brokerage leaders had long desired.

In the spring of 1956, the House passed a straight 5¢ per $100 of market value with no ceiling. (At the time, the existing tax was 5¢ on par value under $20 and 6¢ on par value over $20).

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(Turn to "BARNES" page 8)

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NIPSCO is one of America's most highly regarded public utilities and has an enviable profits record. Earnings per share have increased every year from $2.18 in 1950 to $3.03 in 1957. For the first half of this year, the 46 year old gas and electric firm earned $1.71, compared with $1.70 in the comparable 1957 period.

The company currently is paying 50¢ a quarter. Total dividend in 1957 was $1.97 and $1.83 in 1956.

NIPSCO, which serves an estimated population of 1½ million people, derives about 58% of its operat-

(Turn to "NIPSCO" page 5)

OPENING KICK-OFF — Robert C. Wilson, Midwest floor specialist (white coat), readies his "book" August 21 anticipating first trade in NIPS, new issue exclusively listed on Midwest. On hand to mark the event are (l. to r.) Edde K. Hays, vice president of Dean Witter & Co., specialist member firm, Dean H. Mitchell, NIPSCO president, Wilson and James E. Day, Exchange president.

EDITORIAL COMMENTARY

Carrot or Stick?

The SEC Finally May Be Getting Its Priorities Straight

SINCE THE heyday of Joseph P. Kennedy (whose term of office ran only from July 2, 1934, to Sept. 23, 1935), those who have served on the Securities & Exchange Commission can boast a number of claims to either notoriety or fame. On the first count, we can cite the SEC Commissioner who filed no income tax returns, as well as the one who lied five times to a grand jury. More typically, former Commissioners have gone on to greater things: chief executive officer of a huge public utilities holding company, or head of the New York Stock Exchange. Among this distinguished company, over a nearly 50-year span, Roberta S. Karmel (a Commissioner from Sept. 30, 1977, to Feb. 1, 1980) on several grounds stands alone. She was, of course, the first woman named to the SEC. During her tenure, she disagreed time and again with the findings of both her colleagues and the agency staff, in the process earning a well-deserved reputation as both a dissenter and a maverick. Now she has written a book (Simon & Schuster, $20.75) that seems designed to clinch both titles: *Regulation by Prosecution—The Securities & Exchange Commission Versus Corporate America.*

* * *

Mrs. Karmel's sweeping indictment of the SEC will come as no surprise to readers of *Barron's*, which interviewed her at length in December 1979, shortly before she returned to private life. In the course of a far-ranging discussion, she explained the reasoning behind her lonely—and principled—position. Addressing the then-hot issue of punishment by publicity, one of the agency's favorite devices, she stated: "It creates an administrative procedure that really isn't in the statutes. My dissents have really all been on a few subjects. If you want to cut it down to one theme, they're all in areas where I think the Commission has gone beyond what I believe the statutes really authorize us to do. . . . If you push what you can really do right up to the line, or maybe try to go a little beyond it, one day you're going to go ☆too far."

Six months after she resigned to take up her partnership with a Wall Street law firm, Mrs. Karmel disclosed her plans to write a book and expanded on her former theme. Some of the SEC underlings, she told a reporter, "didn't like the way I cramped their style." She took a caustic view of staffers who felt that "you've got to protect the investor in the same way you protect someone who buys a washing machine." Then came the bottom line. The securities laws, said the ex-Commissioner, should be changed "to inject a mandate for the SEC to pay more attention to capital formation."

These cogent arguments (and others) are doubtless set forth at length in her book, which, despite the stiff offering price, ought to become a best-seller on the title alone. After all, in the parlance of our trade, it isn't every day that woman bites dog. And in some ways, notwithstanding the shift in the political climate and a change in top personnel, the Commission is still doing business at the same old doctrinaire stand. Undaunted by its perennial failure to dent the practice, the SEC persists in pressing its assault on insider trading (for the time being, the bear market has proven far more effective on this score than the widely ignored Rule 10b-5). Despite repeated rebuffs, it keeps trying to penetrate Swiss banking secrecy. In the past, we have written scores of editorials critical of the agency and its works, and we confidently expect to continue to do so in the future.

This, however, is not one of them. On the contrary, we are glad to seize on the imminent appearance of *Regulation by Prosecution* to point up how far in the opposite direction the SEC (now that the former Chief of the Division of Enforcement has taken an official oath of silence) has gone, and how fast. For openers, the agency has determined not to pursue one indefensible, if headline-grabbing, case after another. Thus, after years of fruitless litigation, which some lawyers believe far exceeded the bounds of propriety, the SEC last autumn signed an agreement (not a consent decree) with Gulf & Western which was tantamount to finding it not guilty as charged. More recently, despite howls of protest from disgruntled staffers, the Commission decided not to proceed against Citicorp for alleged misconduct in handling foreign exchange transactions. Equally significant, in a move which must have jolted a legion of investigative reporters, it moved to uncover, and presumably plug, the official source which illegally leaked the story. Shades of Stanley Sporkin!

Perhaps more to the point, under a chairman with decades of experience in the brokerage business, the SEC has opted to shoulder some responsibility for capital formation (or at the very least, in the words of top honcho John Shad, to take "some of the rocks out of the stream to let the river go"). Toward this end, it has lowered the net capital requirement imposed on securities firms, thereby freeing up hundreds of millions of dollars for productive purposes. It has eased the rules that previously restricted private sales of securities by smaller companies to unworkably narrow bounds. Most far-reaching of all, it has just unveiled, albeit on an experimental basis, new procedures which allow 1,300 of the nation's largest companies to sell their stocks and bonds to the public much more cheaply and on a moment's notice. "Shelf registration," as it's called, promises to bring major changes, largely for the better, to both Wall Street and Main Street. For those who bear the burdens, a carrot instead of a stick.

Along the way, some over-reaching bureaucrats, and ugly regulatory practices, have taken quite a beating. Early in the Reagan Administration's salad days, a transition team on the SEC, while paying lip service to its "integrity and efficiency," came down hard on the necessity for change. Among other recommendations, the team urged the agency to decentralize its operations, curtail its burdensome disclosure requirements, and shift its enforcement thrust from "meaningless" activity aimed at minor infractions to a crackdown on big-time lawbreakers. The Reaganites also urged greater emphasis on lowering barriers to the "free accumulation and formation of capital." And getting down to the nitty-gritty, it proposed a drastic slash in the SEC's budget. In the event, the reformers had to settle for less. The budget remained intact and, indeed, continues to climb. But Stanley Sporkin took the hint and left, finding refuge from the jungle out there with a former boss. His position has been filled by a less doctrinaire and abler lawyer: as noted, the agency itself now is headed by someone who understands how markets work.

What a difference. Instead of dispensing—with the connivance of media accomplices—rough injustice by press release, or winning a spate of inconsequential consent decrees, the SEC lately has zeroed in on what it views as gross violators of the securities laws, notably in the realm of inside-trading abuses. Dubious or borderline cases have either been settled or wisely not brought. Thus, after five years of fruitless litigation, which succeeded in making black headlines and smearing its victims but got nowhere in court, the agency last fall dropped all charges against Gulf & Western and its top corporate officers, and settled for barely a slap on the wrist. (A critical account of the case, which roundly condemns the behavior of Sporkin's Enforcement Division, recently appeared in *The American Laywer*. It was called, appropriately enough, "The Gulf & Western SEC Fiasco.")

Similarly, for reasons it viewed as persuasive—unproven allegations, non-material amounts involved, statute of limitations and unclear law—it opted to take no action against Citicorp "for not disclosing alleged foreign exchange trading improprieties." The decision infuriated some Sporkin holdovers and soulmates, who, in an excess of zeal, leaked word of the confidential proceedings, a clear-cut act of illegality which triggered what strikes us as a long-overdue investigation of the Commission's staff. Even the SEC, after all, isn't above the law.

* * *

Legalities aside, the changing of the guard has also brought a welcome reordering of regulatory priorities. In the name of so-called corporate governance—bureaucratic buzzword for putting the alleged social responsibilities of private enterprise ahead of the need to make a buck and stay in business—former Chairman Harold Williams channeled the agency's clout behind all kinds of proposals, the bottom line of which would have been to tie management's hands and cripple its ability to compete. No longer. Today the official thrust is all toward encouraging capital investment by small and big business alike. Hence, as noted, without the expense of registration, small ventures now may sell $500,000 worth of securities (up from $100,000) per year to an unlimited number of well-heeled investors. In turn, through the new "shelf registration," Fortune 500 companies, to judge by their unanimous acclaim, will find it easier and cheaper to raise capital. Stanley Sporkin has come in out of the cold. Thanks to the new spirit now abroad in his old agency, perhaps the same will hold true of corporate America.

—Robert M. Bleiberg

BARRON'S MAILBAG

ON TARGET

To the Editor:

Robert M. Bleiberg's editorial in the Feb. 1 issue, "Tax on Interest, Dividends Smack of Alice in Wonderland," hits the nail right on the head. It is another attempt to inflict on taxpayers a more modest withholding tax on investment income, despite the fact that it will not work in creating too many problems for both taxpayer and government.

Withholding works in Japan because it is an optional tax on investment income which need not be reported in tax returns. Besides, there are more effective ways to catch up with the $22 billion annual unreported investment income on tax returns by simply requiring the reporting of bearer or coupon interest by Paying Agents, the same as dividends and other forms of income.

In not reporting coupon interest annually of clients, banks and brokers are subject to extra costs of computer reruns to eliminate such reporting to the IRS. Bank over-the-counter payments on coupons now disclose ownership with the requirement of a coupon envelope, which is forwarded to the Paying Agent. The gross lack of compliance results when this information is consigned to the wastebasket instead of reported, the same as dividends and bank interest.

It is really depressing to see the Treasury staff return, time after time, to this completely discredited concept. Somebody is not doing his homework, and that includes the Secretary of the Treasury and the Commissioner of Internal Revenue.

GEORGE E. BARNES
Senior Partner,
Wayne Hummer & Co.
Chicago

* * *

INVESTMENT RARITIES RESPONDS

To the Editor:

Normally I let a sick story die in its own misery, but this one hit me in the breadbasket, and I just couldn't let David Federman get away with it unscathed.

I don't know where Mr. Federman comes from, but he does have a knack for the negative, and his prowess for searching out former and present disgruntled employes is uncanny.

What's wrong with diversification into securities when the urgency for capital preservation wanes and the hard-asset market softens? And if you're going into it cautiously, what's wrong with training young, new brokers to do it that way?

What's wrong with a gem auction to liquidate inventory at a loss? Depart-

Continued on Page 49

COMPARATIVE DOLLAR VOLUME OF SECURITY TRANSACTIONS

FOR THE YEARS 1981 and 1982

Showing revenue opportunities in the re-enactment of Transfer and Issuance transaction taxes on sales of stocks, bonds, options and mutual funds. This record of the dollar volume in all markets was prepared at the suggestion of Senator Charles H. Percy and James A. Baker, III, Chief of the White House Staff.

SECURITY & NAME OF MARKET	YR. 1981 (000 omitted)	YR. 1982 (000 omitted)	TREASURY REVENUES PRIOR RATES	TREASURY REVENUES PROPOSED RATES	%
BONDS					
N.Y.S.E. BONDS	$ 4,829,539	$ 6,027,745	$ 3,013,823	$ 3,013,823	.05
AM. EX. BONDS	1,266,181	1,817,861	908,941	908,941	.05
CORP. BONDS - Off. Ex. (Est. 10 X Ex. Vol.)	60,957,200	78,456,260	39,228,130	29,228,130	.05
NEW GOVT. ISSUES	203,000,000	190,000,000	none	none	.00
GOVT.-Off the Board (Small) (Est. 1% Debt)	1,100,000,000*	1,150,000,000*	-	575,000,000	.05
NEW ISSUES OF CORP. BONDS & NOTES (Est. not completed '82)	47,120,481	47,120,481*	51,722,529	47,120,481	.11P / .10N
NEW ISSUES OF MUNICIPALS (Not completed '82)	80,577,000	80,577,000	no tax	no tax	.00
TOTALS	$1,497,750,401	$1,553,999,347	$ 94,873,423	$ 665,171,375	
NEW ISSUES OF MUTUAL FUNDS	$ 472,183,000	$ 626,011,011	$ 250,404,404	$ 626,011,011	.04P / .10N
SHARES & OPTIONS					
N.Y.S.E. STOCKS	$ 389,268,600	$ 488,396,300			
AM. EX. STOCKS	26,384,779	20,731,254			
ALL REGIONAL EXCHANGES	23,742,754	67,763,587	.04%		.05
AM. EXCHANGE OPTIONS	14,289,000	14,380,000			
TOTALS	$ 453,685,133	$ 591,271,141	$ 236,508,456	$ 295,635,540	.05
NASDACK - Over the Counter Stocks	$ 71,056,938	$ 84,188,651	$ 33,675,460	$ 42,094,326	.04P / .05N
OVER THE COUNTER TRANSACTIONS (Not cleared by NASDACK) (Est. 25%)	17,764,234	21,047,163	8,418,865	10,526,300	.04P / .05N
NEW ISSUES - Corp. Stocks	1,143,749,000	1,305,355,000	1,435,890,000	1,305,355,000	.11P / .10N
SHARES & OTHER SECURITIES ISSUED UNDER Mergers, Exhanges, Sales & Barters		(not available)			.04P / .25N
STOCK SALES OF ALL PRIVATELY OWNED CORPORATIONS		(not available)			.04P / .05N
TOTALS	$1,232,570,172	$1,389,543,614	$1,477,984,325	$1,357,975,626	
GRAND TOTAL:	$3,656,178,~~076~~ 706	$4,160,825,113	$2,059,770,608	$2,294,893,552	

P = Prior
N = New

Wayne Hummer
Members New York Stock Exchange
George E. Barnes, Senior Partner

AA
Take a look at stock transfer mat.. I talked w/ Barnes by phone. Pl draft short resp. to this.
Thanx
J

To Cicconi - FYI 1/28 MOT

Dial long distance toll-free
800-621-4477
800-972-5566 (Illinois)
Local calls 431-1700

yne Hummer & Co. 175 West Jackson Boulevard • Chicago, Illinois 60604

January 26, 1983
2100 South Ocean Lane
Fort Lauderdale, Fl 30016

Mr. James A. Baker, 111
Chief of White House Staff
The White House
Washington, D. C. 20509

Dear Mr. Baker:

This is to confirm the dollar figures about which you inquired in Chicago and given by phone yesterday to your staff member Jim Cidony.

The dollar volume of more than 3 trillion for 1982 do not take into consideration capital changes and transfers of all privately owned corporations as well as those made privately comprising family gifts. Also, the shares of investment trust shares are not included along with oil programs.

Moreover, it would not be equitable to enact such transfer taxes on security transactions without including commodities as a means of getting rid of the tremendous burdens of withholding.

I am enclosing a letter addressed to President Reagan, containing a break down of the income potential from various segments of the security industry. I neglected to include provision for Commodity options but will have them available within a few days.

With the inclusion of commodities, there is estimated income of Five (5) billion annually and with conservative costs of another five billion to administer withholding, the President would have a lot to talk about in saving the taxpayers Ten (10) billion dollars.

I have kept this program for the President within these four walls except for Chuck and yourself. Any hues and cries from the commodity people could be quickly solved if the President went on record with favoring a three months long-term holding period. Besides, it would bring about better stabilization of prices as well as increased revenues to the Treasury.

It is my hope that the enclosed memorandum to the President and this letter reaches you in time to be considered in the President's Budget message.

Cordially yours,

George E. Barnes
George E. Barnes,
Senior Partner

B.

January 25, 1983

Hon. Ronald Reagan
President of the United States
Washington, D. C.

Re: INCREASE IN TREASURY REVENUE OPPORTUNITIES IN THE REENACTMENT OF SECURITIES & COMMODITIES TRANSFER AND ISSUANCE TAXES FOR FEDERAL BUDGET AND DEBT REDUCTION PURPOSES

Dear Mr. President:

Below is a recapitulation of the dollar volume of securities sold of record in the established markets in 1981 and 1982 and the issuance of new securities made at the suggestion of Senator Charles H. Percy and your chief of staff, James A. Baker, III,for the purpose of determining the revenue opportunities of reinstating excise taxes.

DOLLAR VOLUME		Year 1981	Year 1982	
N.Y. Stock Exchange	stock sales	$389,268,600,000	$488,396,300,000	
" " " "	gov't bonds	33,599,000,000	21,170,000,000	
" " " "	corp. bonds	681,237,000,000	681,237,000,000	(E)
	Total	$1,104,104,600,000	$1,190,803,300,000	
Am. Stock Exchange	stocks	26,384,779,496	20,731,254,471	
" " "	options	14,289,000,000	14,380,000,000	
" " "	corp. bonds	301,226,000	325,145,000	
" " "	gov't bonds	964,955,000	1,492,736,000	
	Total	$ 41,939,960,496	$ 36,929,135,471	
Regional Stock Exchange bonds & stocks		$23,742,754,000	$29,678,442,000	(E)
N.A.S.D. Off-board reported volume		$71,056,938,000	$84,188,651,000	
New issues - S.E.C. (Sales)		$1,143,749,000,000	$1,305,355,000,000	

(E) not available - conservative estimate.

Sales or issuance of stocks and bonds of privately owned corporations	Not available	Not available
Private transfers to Family members and others	" "	" "
Sales of Investment Trust Shares and bonds, oil programs not included above	" "	" "

TOTAL DOLLAR VOLUME (EXCLUDING UNAVAILABLE SOURCES ABOVE)	$2,384,593,252,496	$2,646,954,528,471
INCREASE IN FEDERAL REVENUES-REENACTMENT OF THE ACCOMPANYING TABLE *	$ 2,907,223,000	$ 3,288,521,546

*(Based on 5¢ per $100 or fraction thereon on stocks and bonds; 2-1/2¢ on bonds due in less than a year; 10¢ per $100 - new bond and stock issues; 20¢ per $100 - mergers, changes in capital and tax-free exchanges)

ANNUAL ESTIMATED MINIMUM INCREASE IN FEDERAL REVENUES WITH PRIVATELY OWNED COMPANIES AND COMMODITY SALES INCLUDED	$5 Billion Dollars

Respectfully submitted,

George E Barnes

George E. Barnes, Senior Partner
WAYNE HUMMER & CO.
175 W. Jackson Blvd.
Chicago, Illinois 60604

(See Page 2)

"The Good Old Days"

By Oscar M. Beveridge

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(Turn to "DAYS" page 6)

Midwest Stock Exchange News

Vol. 3, No. 2 — The Midwest Stock Exchange News — September 1958

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Trends...from the FR Bulletin

American corporations have turned in an admirable financial performance recently. Although current assets in the aggregate went down about 1 per cent in the past year, current liabilities were cut 5 per cent. This resulted in a substantial increase in net working capital—from $111.0 billions in the first quarter of 1957 to $114.8 billions in the comparable 1958 period.

* * *

Increased use of credit has probably been the most important development in the financing of durable goods over the postwar period. In recent years, more than 60 per cent of new car buyers used credit, compared with roughly 50 per cent during 1951 and 33 per cent during 1948.

"BARNES . . ."

(Continued from page 1)

board, he alerted all members of the Midwest Stock Exchange to the fact that the proposed increase might well increase the tax on public transactions as much as 40%.

Within a matter of days, George Barnes and Jess Halsted, legal counsel for the Exchange, were in Washington pointing out the inequities to the Joint Committee on Taxation and to the Treasury Department.

In November, 1956, after the usual Congressional adjournment, the Midwest Stock Exchange along with other groups were given opportunities to state their views preliminary to reintroduction of the legislation. Again, George Barnes was the only one to appear in person before the committee. Apparently unconcerned, the rest wrote out their views.

In December, 1956, the full Ways & Means Committee adopted the acceptable .04% rate with a 6¢ ceiling. Later, the Senate approved the .04% rate but removed the ceiling.

Back to Washington went Barnes and Halsted, again alarmed by the no ceiling provision. This was essential, George Barnes was convinced, to protect all markets—both now and in the future. Calls were made on all the Senators and Representatives who composed the joint conference group, quietly but firmly pressing the point for ceiling.

When an objection was raised that the ceiling would cost the Treasury badly needed revenue, George came up with a reliable estimate that the loss would be less than $200,000 a year. He was all alone in insisting on the ceiling. But he won out.

The bill that finally passed effective Jan. 1, 1959 is a tribute to the thoroughness and fair-mindedness with which conference members of the Congress acted when advised of all the facts. It provides for a tax of .04% on stock transfers, and also provides that no transaction, no matter how high the price per share, will have to pay a tax of more than 8¢ per share. It exempts odd lot purchases by the public from such tax.

Barnes

Now all parties are happy. The Treasury, which currently collects $16,700,000 a year under existing rates, will have its take increased between 15 and 20 per cent overall.

Some rates will be lower, while others will be higher. But the earlier proposal would have increased taxes over 40% and would have tended to dry up the markets in higher priced issues.

The brokerage fraternity should be happy because its transactions will now be taxed on a realistic basis, instead of an artificial (par value) basis. It will save substantially on tax computing time and on clerical time. It should encourage corporations to set par on securities more in relation to real value.

It is a tremendous tribute to the hard work of George Barnes. George, in turn, speaks in glowing terms of the help he received from Jess Halsted, particularly in knowing legislative procedure so thoroughly.

Devoted Over 700 Hours

A Wayne Hummer partner provided the information that George spent over 700 hours in the past three years on this project. He must have told his story 65 times to at least that many key people. He traveled extensively and carried on voluminous correspondence, contacting other exchanges and individuals in the securities business.

It must have been heartwarming for George to have learned of the action taken by the executive committee of the Midwest Stock Exchange at its last meeting. A resolution was passed citing him for services far beyond the call of duty to the industry and to the Exchange.

Mr. Baker:

It is apparent from the Treasury estimates in 1958 of only $16,700,000, an error was made. There was no way that they would know the volume of stamps used by brokers and others to accommodate their clients, and the volume of stamps attached to certificates before they could be transferred on privately held stock.

Our proposed rate on stocks is only 1¢ per $100 of value more than 25 years ago - 1¢ less on new issues. It breaks my heart to think of the loss the Treasury has taken in terminating this tax on the present volume of tax-free exchanges, in particular.

There is a lot of gold in them their hills, $ 5 Billion annually if commodities are included.

January 25, 1983 GEB

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR JAMES A. BAKER, III

FROM: Jim Cicconi

SUBJECT: Stock Transfer Tax

You asked about this subject after a conversation during the Chicago trip.

According to Treasury, the stock transfer tax was enacted during World War I and was abolished in 1965 (not by ERTA). In its last year, the stock transfer tax raised $153 million. A temporary excise tax similar to it was effective in 1973, but brought in only $85 million.

A very rough guess would be that such a tax would today bring in about $1 billion, but not much more.

Aileen

Fyi.... also from George Barnes.

← Note! I have not responded yet.

How about some guidance once you've spoken to him? Appears that JAB does not want to get involved

Dial long distance toll-free
800-621-4477
800-972-5566 (Illinois)
Local calls 431-1700

Wayne Hummer & Co. 175 West Jackson Boulevard • Chicago, Illinois 60604

January 20, 1983

Mr. James A. Baker, III
Chief of Staff
The White House
Washington, D.C. 20500

Dear Mr. Baker:

It was good of you to show interest in the confidential tax material for President Reagan. I had only given it to Chuck. What I have endeavored to accomplish is to change the President's image of favoring the rich.

As you know, this couldn't be further from the truth as it was the opposition party that gave the most support in reducing the ceiling rate on investment income from 70% to 50%. For this, we have Representative Rostenkowski to thank.

As I indicated last evening, I would like to have some contact with the tax staff of Senator Howard Baker's office in order to demonstrate that withholding is for the birds, especially so after the Treasury has set up long-delayed reporting of coupon interest.

I am leaving today for my winter headquarters in Fort Lauderdale, 2100 S. Ocean Lane Fort Lauderdale, FL 33316 (305/524-8789). I would appreciate it if you would let me know if you would like to have some revenue figures on the reinstatement of transfer taxes. It should be easy to secure these figures from the annual published dollar volume of all markets as well as new issues and the non-taxable exchanges through mergers and so forth.

No? wouldn't but don't write him that.

It was a great evening and my guests, the Shaw's from Dixon, were especially excited to meet the President, since he was Eustace Shaw's swimming coach and he delivered papers for their 147-year-old family-owned newspaper, the Dixon Evening Telegraph.

I am grateful to Senator Percy's Chicago staff in arranging for me to sit at your table. I have advised Chuck that I turned over these new tax ideas to you to help us repeal withholding, for which there was a precedent in 1962 (see enclosed testimony).

Serving investors since 1931

Cordially,

WAYNE HUMMER & CO.

G. E. Barnes

George E. Barnes
Senior Partner

cc: Senator Charles Percy

wh Memorandum from GEORGE E. BARNES
Partner

1/20/83

Mr Baker:

Thought Pres Reagan may not have been advised that his good friend Floyd Bailey of Peru, Indiana passed away Monday. As I recall, he and Mrs Bailey were recent White House guests.

Geo Barnes

Dial long distance toll-free
800-621-4477 outside Illinois
800-972-5566 within Illinois
Local calls 431-1700

WAYNE HUMMER & CO. 175 West Jackson Boulevard, • Chicago, Illinois 60604
Members New York, American and Midwest Stock Exchanges

United States of America

Congressional Record

PROCEEDINGS AND DEBATES OF THE 87th CONGRESS, SECOND SESSION

Vol. 108 WASHINGTON, FRIDAY, MAY 25, 1962 No. 84

Senate

FRIDAY, MAY 25, 1962

WITHHOLDING TAXES ON INTEREST AND DIVIDENDS

Mr. DIRKSEN. Mr. President, I ask unanimous consent to have printed in the RECORD a well-reasoned, documented statement on the withholding of taxes on dividends and interest, prepared by George E. Barnes, representing the Midwest Stock Exchange, filed with the Committee on Finance; a letter which Mr. Barnes addressed to the Secretary of the Treasury; and two articles on the same subject, one published in the Chicago American, and the other in the Chicago Daily News.

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

Hon. C. DOUGLAS DILLON,
Secretary of the Treasury,
Treasury Department, Washington, D.C.

DEAR MR. SECRETARY: Almost a year ago, on May 23, 1961, to be exact, I called your attention to a most misleading set of statistics in the Treasury Department's presentation to the Congress of its tax program. This concerned the erroneous allegation that the 4-percent dividend credit and $50 exclusion reduced the percentage of the so-called double tax only 8 percent for a low-income individual shareholder while the percentage benefit was 41 percent for a high-income shareholder, when, as a matter of fact, tax savings under the 4-percent dividends received credit, disregarding the $50 exclusion, is 20 percent for dividends received by a small holder and only 4.4 percent for a person in the top income bracket.

It is indeed most disturbing to see you recently reintroduce to the Committee on Finance of the U.S. Senate the same set of statistics which are most misleading. Therefore, it is my hope that you will not fail to make an immediate correction. Also, I have been even more disturbed and surprised that you have approved giving the impression to the Congress and the public at large in your addresses that our citizens are cheating and chiseling taxes from dividends to a gross extent.

As you very well know, each and every annual dividend payment of $10 or more is conscientiously reported to you by corporations (most corporations report dividends on Form 1099 regardless of the amount). If there is any cheating taking place on dividend payments, you know just where it is happening and have every facility to enforce collections with the information at hand. Moreover, this is not a responsibility or prerogative to be shifted from Government to private enterprise.

Representing the Midwest Stock Exchange, I prepared and mailed earlier in the week a rather full statement on the impact of withholding on dividends and interest. I would appreciate your examining this statement most carefully. A copy is enclosed.

I have now had an opportunity to examine table 1 "Estimated dividend income of individuals not accounted for on tax returns for 1959," contained in your statement of April 2, 1962, to the Committee on Finance of the U.S. Senate to support a dividend gap of $840 million not reported by individuals. I find there is an obvious sizable discrepancy in this figure due to your underestimating at $880 million the total amount of dividends received by pension funds and other nontaxable organizations. For example, your estimates of $380 million dividends received by corporate pension funds is wholly unrealistic. The New York Stock Exchange reported in its 1959 survey $11.1 billion holdings of New York Stock Exchange listed stocks by such nontaxable institutions as of December 31, 1959. Based on a median yield of 3.8 percent for all New York Stock Exchange dividend paying listings for 1959, the payments would be $411.8 million, without any consideration to holdings of issues traded on other exchanges, bank, insurance and other over-the-counter issues and stocks of privately owned companies.

For colleges, foundations and other nontaxable organizations, the New York Stock Exchange reported $12.9 billion holdings of New York Stock Exchange listed stocks as of December 31, 1959, on which the dividends would aggregate $490.2 million, and compare with your estimate of $500 million, without any regard for other holdings mentioned above, and the fact that these tax-free organizations hold substantial amounts of preferred stocks on which the returns are relatively higher. Also, there has been a substantial shareownership of private corporations turned over to tax-free family foundations.

Inasmuch as only 58 percent of all dividend disbursements for the year of 1959 were made by New York Stock Exchange listed companies, it is safe to assume that these nontaxable organizations received their proportionate share of other dividend payments. Therefore, total holdings of stocks of these institutions is estimated to be $41.4 billion

$$\frac{100}{58} \times 24 \text{ billion}$$

on which the gross dividends for 1959 would aggregate approximately $1.6 billion based upon 95 percent holdings of common stocks returning 3.8 percent and 5 percent of holdings in preferred stocks returning 5.1 percent.

This accounts for $720 million of the estimated unreported dividend gap claimed by your office of $840 million. As I emphasized in the statement to the Committee on Finance of the U.S. Senate, there is an increasing amount of stocks being placed in the names of minors which would account for a sizable total of annual dividends not subject to tax.

May I please have the courtesy of an early reply for the reason that it is my plan to file a supplementary statement with the Committee on Finance to call the attention of its members to this continuing reliance on obviously erroneous statistics.

Cordially yours,

GEORGE E. BARNES.

CHICAGO, ILL.

STATEMENT OF GEORGE E. BARNES, REPRESENTING THE MIDWEST STOCK EXCHANGE, FILED WITH SENATE FINANCE COMMITTEE, APRIL 1962

As a student of Federal income tax legislation for the past 40 years, I have never been so gravely concerned, as now, over the proposal to withhold taxes on interest and dividends under chapter 25 of H.R. 10650, for the reason that it is an open invitation to fraud—corporate and individual—would impose completely needless hardships on people who can least afford them, and would be more likely to shrink net revenues to the Government than to increase them.

I appreciate very much the oportunity to file this statement. It is based upon long experience in preparation of income tax returns, filing hundreds of claims, and dealing with customers in the banking and investment business and also serving on National and State tax committees. For the record, I am senior partner of Wayne Hummer & Co., Chicago, past chairman of the Midwest Stock Exchange and a working director and member of the executive committee of the Suburban Trust & Savings Bank, Oak Park, Ill.—and I might add that my views have the support of my bank, as well as the Midwest Stock Exchange.

For your information, my first studies of Federal income taxes were initiated in 1918 when I prepared up to 1,000 individual returns as a public service in behalf of the banking institution which I served as auditor. For a number of years, the Chicago collector of internal revenue annually acknowledged by letter my service to a community of 25,000, then without Internal Revenue agents to help the taxpayers.

I still prepare from 75 to 100 returns each year for friends and business acquaintances, in order to keep abreast of the regulations and to be generally helpful in an increasingly complex and complicated field.

It has also been a source of satisfaction to me that the Congress has adopted, on more than one occasion, tax proposals that I submitted, which the record will indicate. I mention my personal interest and experience in Federal tax matters for the reason that only this past week, I had an experience with the Internal Revenue Service that vitally concerns the subject at hand in connection with examination and audit of a 1960 individual tax return which I prepared.

In a return which reported $31,700.85 in dividend income, the examining agent had no 1099 information returns to audit the dividend items, numbering 65. Individual dividend payments ranged from 76 cents to $4,151.25. He asked the taxpayer to produce any copies that had been saved by him from the individual companies. Further, I cannot recall any time in the past 5 years an examining agent having before him for audit purposes forms 1099, regularly furnished the Internal Revenue Service at great expense by corporations and others.

In the reporting of dividends and interest, which all companies so cooperatively carry out, we already have an effective means and basis to collect taxes. In this connection, it is gratifying to know that the Commissioner of Internal Revenue is taking steps to provide improved audit procedures through computer data processing, and I would like to see it extended to interest payments below $600.

May I make very clear to you that since the end of World War II, because of what amounts to continuance of an excess profits tax as high as 91 percent on individual incomes (although the corporate excess profits tax was repealed), it has been the practice of parents to make periodic gifts to children and grandchildren, to lower the heavy burden of income and estate taxes. This has been facilitated by the passage, by every State of the Union, of a "Gifts to Minors Act," making it easier for parents to make gifts of securities and cash.

But even prior to this innovation, thousands and thousands of transfers were made to children in the form of savings accounts and securities, to ease the tax burden and make a better education available. If the facts were known, a good portion of unaccounted for interest and dividends claimed by the Treasury would not be subject to income taxes. It will be of interest to you that one of our clients recently transferred about $3,000 in stock to each of 21 grandchildren and five children. Incidentally, this category alone would create a vast number of taxpayers to whom the Government would be obliged to make refunds under the proposed legislation.

There are undoubtedly illegal or suspect sources which fail to report certain dividend and interest income. But it will be found that those who are engaged in legitimate businesses and professions generally report these items very conscientiously.

The Treasury's estimate that there is a 91 percent compliance of dividend reporting in income tax returns is highly credible, and when the tremendous volume of dividend payments to elderly people and minors not subject to income taxes is considered, this is a remarkable percentage, probably without equal anywhere else in the world.

Now I would like to list what appear to be, from my experience, the basic faults of the withholding provision of H.R. 10650.

Basic faults of interest and dividend withholding under chapter 25 of H.R. 10650:

Basic fault No. 1: Unjustified overwithholding of taxes.

Basic fault No. 2: Inefficiency, waste, and duplication imposed upon Government, business, and taxpayers to administer withholding.

Basic fault No. 3: A large segment of interest payments not covered by withholding.

Basic fault No. 4: Impractically and complication would cause a multiplication of administrative problems and serious interruption in operations of our security markets.

Basic fault No. 1: Unjustified overwithholding of taxes.

From my long experience in dealing with small stockholders and savings depositors, I am confident a large portion of the unjustly withheld taxes under the legislation would not be recovered, because of either ignorance or fear of making out a claim for refund incorrectly, or belief that it would cost more in time than the refund is worth. This is something to fear, inasmuch as it has been estimated that 8 million stockholders would be subject to overwithholding and the impact would fall most severely on those who can least afford it for these reasons:

Interest on savings accounts: The American Bankers Association took a sample survey last year of 300 commercial banks, which indicated a very large concentration of small savings accounts. It is interesting to note from this survey that two-thirds of the savings accounts in the reporting banks paid less than $15 in annual interest. Still another 15 percent paid annual interest from $15 to $45. If you will project this sampling to the 52 million savings accounts in the Nation, there are close to 35 million savings accounts in commercial banks alone earning interest of less than $15 a year. Need any more be said that this legislation would unjustly deprive thrifty people of their full earnings on their savings and result in untold losses and inconveniences? It is highly questionable whether most of these people would bother about refunds, and—by not doing so—they would incur losses.

Dividends on stocks: A 20-percent withholding rate is substantially more than the actual tax for the average shareholders for the following reasons:

1. The proposed plan does not consider the $50 annual dividend exclusion. For example, 25 percent of the shareholders of American Telephone & Telegraph receive less than $50 annually, and 50 percent of all these shareholders would be ineligible for quarterly refunds and would have to wait up to a year to get their money back.

2. There is no allowance made for the 4-percent dividend credit to individuals, which reduces the effective rate from 20 to 16 percent.

3. There is no provision for the 85-percent dividend credit on dividends received by another corporation. In other words, 20 percent would be withheld on dividends to other corporations, compared to an actual tax liability of 7.6 percent on large corporations in the 52-percent bracket, and only 4.5 percent for the small corporations paying a 30-percent rate.

4. The proposal to withhold on dividends and interest has been confused with wage and salary withholding, where proper allowances are made for marital, dependent, and medical deductions as well as age and retirement income credits. Even in the case of prolonged illness, wage withholding payments cease on the first $100 weekly compensation.

5. Tax-exempt organizations—such as churches, youth and character building agencies, welfare agencies, universities, corporate and union pensions funds—may not claim exemption from dividend withholding under the plan. In other words, these organizations would be obliged to loan money to the Government without interest return each year by having 20 percent of their paymens retained by paying corporations. These organizations, which operate on close budgets mainly from contributions and income from their investments, can ill-afford to have their income reduced. Your atention is called to the fact that 8.7 percent of all ownership in publicly owned corporations is held by tax-exempt organizations, such as not-for-profit instiutions and corporate pension funds.

6. The 20-percent withholding rate is unrealistic and is not geared to the actual liability of taxpayers of all types or a reasonable approximation thereof. For example, a person receiving $5,500, and claiming the standard deduction, would have a total tax liability of only $800, compared to withholding of $1,100. Retired taxpayers with extra medical deductions would be very adversely affected.

7. Banks, insurance companies, and other financial institutions receiving a high portion of their gross income from Government and corporate bond interest seldom retain 20 percent of their gross income after operating expenses. Consequently, they would be subject to a larger withholding than the could absorb (after credits for wage with holding and social security taxes), withou impairment of working funds, and liquidit would thereby be vitally affected.

Basic fault No. 2: Inefficiency, higher cost waste, and duplication imposed upon Government, business, and taxpayers in orde to administer withholding.

The taxpayer as well as the Governmen would have no evidence or receipt for payments, which would result in total confusion. There would be required extensive an costly investigations and audits on the par of the Internal Revenue Service of all payer of interest and dividends to verify amount not withheld, as well as records of corporations and banks to verify validity of million of claims. Therefore, the plan contain many possibilities for loss to the Treasur due to inefficiency and/or fraud on the par of payers of interest and dividends. Recipients could well have a feeling of distrust, i the absence of any assurance or notificatio that tax payments were made. It is claime that it will be a simple matter for a perso to receive a refund by merely filling out postcard or form and sending it to Uncl Sam. This statement is irresponsible, inasmuch as all cases where the Internal Revenue Service has no record of income-tax filings or payments would require a specia investigation before the claim could be paid Otherwise, it would be the same as giving th public a blank check to draw on the Government, which irresponsible people could abus without detection, for the simple reason tha it would be impossible under the proposal t support claims with any individual record of amounts withheld. This is the complete answer to quick refund advocates.

It would present a colossal problem fo banks and savings institutions to determine the tax status of each depositor, and the execution of this would invade the private affairs of citizens and shift the burden an responsibility of tax collections from Government to private institutions. Eventually these added administrative costs would b paid by the thrifty. It is estimated that th very minimum out-of-pocket expenses o the bank that I represent, to administer th withholding program, would be $1 per account. The postage on one mailing and return to 12,000 depositors, carrying saving balances aggregating $17,436,408, would b about equal to the total annual compensation provided of about 10 cents per account— for the privilege of holding funds temporarily. It is calculated that indirect supervisory costs to the bank for administerin the program would also be substantial. Th is contrary to the adequate compensatio representations made by the Treasury.

Reporting of income on form 1099 by corporations and individual payers of interes and dividends provides the best means t insure maximum enforcement at minimu costs and confusion to business and Government. In my opinion, the outer limit of responsibility by business should be confine to providing regular informational repor to the Internal Revenue Service. You wi always find that business firms are anxiou to cooperate. The recent introduction computer data processing by the Commissioner of Internal Revenue, to achieve mo efficient audits and enforcement, is mo welcome in this connection. Withholdi would only add waste and duplication this efficient effort.

Basic fault No. 3: A large segment of interest payments is not covered by withholding.

There is no withholding of interest mortgages and private loans. This represents a much larger amount than interes payments on corporate bonds. The effect withholding on owners of corporate a Government bonds would be to discrimina against them in favor of private lende

This would force tax-exempt organizations and many individuals not subject to tax into other forms of investment that may not be so desirable or liquid. There could be a pronounced and adverse effect on the Treasury's savings bond program.

Basic fault No. 4: Impracticality and complication would cause a multiplication of administrative problems and serious interruption in operations of our security markets.

The problems of banks, trust companies and investment firms resulting from elimination or curtailment of use of shares in the names of a nominee, or what are known as "street certificates", would be staggering, since no exception is made and the full 20 percent is withheld under this legislation. As an example, banks and brokers acting as nominee usually receive one check from each corporation for a dividend payment, and the individual accounts are credited with the proceeds as the ownership appears, largely by automatic computers. If arbitrary withholdings are made, irrespective of the tax status of individual accounts, it would be necessary to register each certificate in the owner's name and process a multitude of additional items and checks by manual operations. With added costs to both banks and investment dealers occasioned by tax withholding, there would be no alternative than to increase service and/or commission costs to offset the burden.

Street certificates in many respects are the same to investment dealers and brokers as currency is to banks. Just as banks use currency to make change, so do street certificates facilitate transfers and deliveries of securities to customers or brokers and investment dealers. Also, it is not generally appreciated that street certificates, or nominee holdings, are used daily to make deliveries and settlements where security items of the seller do not reach the stock exchange clearing corporations on the contract date for one reason or another, because of distance or delays. There are also daily instances of street certificate substitutions for "not good delivery" items, comprising certificates in the names of corporations, trustees, estates and other nonnegotiable form, to expedite and facilitate daily settlements between buyer's and seller's broker. It should be obvious that the market machinery would be seriously clogged and impeded in case street certificates were eliminated or curtailed.

Under the proposal, all Government bond (excluding series E bonds) and corporate bond interest payments would be subject to 20 percent withholding, with no exceptions for individual and taxable corporate investors. This means that in the case of bond transactions, it would be necessary for the buyer to withhold from the seller 20 percent of any accrued interest to date of sale, since they would be obliged to pay 20 percent of the full coupon or payment on the next interest date.

This would impose many problems for bond dealers and banks. Investors would tend to delay transactions until the exact semiannual or annual interset payment date and create an accumulation of transactions with which banks and dealers in bonds could not cope.

It should be obvious that these withholding provisions would cause serious interruptions and instability of normal market operations in our bond markets. Even some taxable organizations such as banks and other large bond investors would wish to avoid overpayment of taxes by acquiring bonds between semiannual interest dates. Bond transactions would be further complicated whenever the seller is a tax-exempt organization, such as a church, school or charitable organization, inasmuch as buyers would object to making an outlay of 20 percent withholding tax on the full coupon when collected. For example, purchase from a tax-exempt organization of $100,000 par value U.S. Treasury 4-percent bonds 5 days before the interest would mean the buyer would pay the seller accrued interest of $1,956.04, but would collect only $1,600 ($2,000 less 20 percent)on the interest date, and would thus be required to resort to claims to recover the funds.

Conclusion: I could continue at length in regard to other complications and taxpayer problems to support opposition to withholding provisions of H.R. 10650. On the other hand, there can be no argument with the basic premise that each citizen should carry his fair and equitable share of the tax burden. On that premise, a minority of earlier witnesses have argued—with complete sincerity I am sure—that withholding of dividend and interest income is a desirable step toward tax equality.

Such witnesses, however well meaning, obviously have not had an opportunity to study the implications of the pending withholding proposal, or they fail to grasp its destructive potential. On balance, I believe that the principle as proposed is demonstrably inequitable, administratively impractical and wholly undesirable. Briefly and bluntly, its enactment would not encourage tax equality. But it would take us deep into the area of discriminatory self-defeating taxation in its most virulent form with consequent and perhaps crippling impairment of and respect for our entire basic revenue collecting processes.

[From Chicago's American, May 1, 1962]

THAT $840 MILLION DIVIDEND TAX GAP IS CALLED PHONY

(By Hal Thompson)

Congress is being kidded by Secretary of the Treasury Dillon into believing that a withholding tax on interest and dividend payments is necessary to collect $840 million in unreported dividend taxes. This charge was made by George E. Barnes, senior partner of Wayne Hummer & Co., and former chairman of the Midwest Stock Exchange.

In a press conference held in the board of governors' room of the midwest exchange, Barnes labeled the contention of the Treasury Secretary that $840 million in dividend taxes are going uncollected as being based on erroneous information. In fact he maintains that no gap exists between actual dividend tax payments and the sum which the Secretary estimates is due the Government.

The $840 million figure which the Secretary infers the Government is being cheated out of annually in the nonpayment of taxes on dividends actually represents nontaxable income, Barnes stated.

DIFFERENT TOTALS

Which incomes are nontaxable? Barnes pointed out that groups which fall in this category include pension funds, churches, foundations, colleges, and welfare funds.

Now as a matter of fact, Barnes revealed he had advised the Treasury Secretary in a letter he was placing in the mails, such nontaxable income really amounts to around $902 million annually and not the $840 million figure.

The former Midwest exchange chairman presented statistics based on a 1959 New York Stock Exchange survey in support of his contention that the Treasury Secretary was using grossly misleading and erroneous statistics in his efforts to obtain congressional approval of the proposed 20-percent withholding tax on dividends and interest.

This survey showed that nontaxable organizations held $24 billion of New York Stock Exchange stocks in 1959. Of this total $11,100 million was held by corporate pension funds and $12,900 million was held by college, religious, and welfare funds.

Based on a 3.8 percent median yield, such investments should have netted corporate funds that year $411,800,000 in dividend income and the second group of nontaxable organizations $490,200,000 in dividend income. Thus the total nontaxable dividend income was $902 million, a sum which, of course, the Government has no tax claims to.

Barnes also presented other data tending to prove that the Government was presently collecting most of its taxes on dividend income. He pointed out that in 1959 5,948,378 dividend taxpayers reported dividend income; of this total 781,696 paid no taxes because their total income was too low.

ACCURATE FIGURE

Now in 1959, 6 million we'd say was a fairly accurate figure for the total number of individual stockholders in this country. The fact that all of them reported dividend income and most paid taxes on it we submit is pretty good proof that our present system of collecting such taxes is working rather effectively.

Barnes' statistical attack on the Treasury's logic in this issue we believe shoots it full of holes.

If there is no $840 million shortage in taxes as the Secretary alleges then why is a withholding tax on dividends and interest necessary and "in the public interest" at this time?

Before the Senate finally acts on this measure which already has passed the House we suggest that it look carefully into Barnes' allegations.

To this columnist they seem irrefutable.

[From the Chicago Daily News, May 2, 1962]

CATCHING THE TAX CHEATS

Proponents of withholding taxes on dividends and interest have been nailed on one misrepresentation and accused, very plausibly, of another. The agent for this was George E. Barnes, Chicago broker, before the Senate Finance Committee.

The original administration bill was amended to permit exemptions from withholdings upon the filing of an affidavit that no tax would be owed. This was represented as the cure for the charge that many widows and elderly couples, although owing no taxes on such income, would have to wait a year to recover money withheld.

Mr. Barnes points out that the real problem of overwithholding would remain. Among numerous examples, he cited the case of a retired couple whose income is $6,000 a year. Their taxes would be $600, but $1,200 would be withheld. The figures show that for any income up to $19,000 a year from such sources, withholding would be greater than taxes owed.

The basis for the effort to withhold taxes on dividends and interest is the estimate of Secretary of the Treasury Dillon that $840 million in dividends is unreported and therefore untaxed each year. Mr. Barnes cites a 1959 study by the New York Stock Exchange showing that tax-exempt institutions—colleges, pension funds, and the like—owned securities worth $24 billion listed on that exchange alone.

This sum would yield about $900 million in dividends, fully accounting for the gap reported by Secretary Dillon.

If one is reluctant to conclude that a Cabinet officer would attempt to bolster his case with phony statistics, he might recall the case of Defense Secretary McNamara in the recent steel imbroglio. President Kennedy solemnly announced that Mr. McNamara had calculated that a 3.5-percent boost in steel prices would cost the Defense Department a billion dollars a year. Since the Defense Department spends about $35 billion a year for material, the figure was obviously reached by applying 3.5 percent across the board.

The Department, however, buys uniforms and paper, rubber and aluminum, and thousands of other things not made of steel. The estimate emerges as the wildest exaggeration.

It is easy to prove the hardship that withholding of taxes on dividends and interest would impose on people, as well as the gigantic and expensive chore that it would impose upon business and financial institutions. Unless the fact of extensive tax cheating can be demonstrated conclusively, the case for withholding collapses. Right

Average Executive
Reading Time: 6 min.

The Unreported $16 Billion In Investment Income

Our wartime double taxation structure restricts capital investment, but at the same time the government is losing legitimate tax revenues on investment income because of inadequate reporting procedures.

by George E. Barnes
senior partner
Wayne, Hummer & Co.

BASED ON the thesis that improved tax compliance is the best way to reduce the tax burden on investment income for everyone, I have devised a very simple plan for the Treasury to collect billions of dollars in taxes due, but not paid, on some $16 billion in annual income from investments owned by individuals.

It sometimes seems to taxpayers that the Internal Revenue Service must have eyes in the back of its collective head to implement the zeal with which it uncovers sources of taxable revenues. But the truth of the matter is there are large segments of unreported income throughout the economy—bearer interest coupons are a good example—on which no federal income taxes are paid.

IRS Study

This has concerned the IRS to such an extent that it recently published an elaborate study calculated to show the estimated extent of the shortfall in various areas of the economy.

Although, no doubt, the IRS is working hard in an effort to track down unreported sources of income on which federal taxes should be paid, it would need a small army of additional field personnel even to begin to make a dent in reducing the amount of un-

reported income of the self-employed or stemming from lottery winnings or pensions and annuities.

While it is true that because of withholding, 97% to 98% of wages and salaries were properly reported on 1976 tax returns, the year on which the study was based, there are many other areas which fail to show anything close to full compliance.

For example, the IRS study calculates that only 60% to 65% of rents and royalties are reported on tax returns, while the self-employed reveal only 60% to 64% of capital gains. Just 70% to 75% of alimony, lottery winnings, prizes and awards were reported. The study rounded out the breakdown by calculating that 84% to 88% of income from pensions, annuities, estates and trusts was duly recorded. For dividends the figures were 84% to 92%, which does represent good compliance, no doubt because of stockholder reporting requirements on the part of corporations. Taxpayers seem to fear and tremble about accounting for any income that is reported to the IRS. Therefore, there is no better device for tax compliance than reporting.

Increased Bartering

Moreover, the IRS has been monitoring very closely the rise in popularity of bartering in recent years. There are now in existence hundreds of barter clubs which enable individuals to exchange legal services for a new roof or a dental plate, or for two weeks in a Florida condominium in the wintertime. There are some estimates that place the total value of bartering at several billion dollars annually.

While the job of the IRS may be difficult in materially reducing the gap in nonreported income from some income of the underground economy, the self-employed, gambling winnings and others, there is a way of catching up with many offenders sooner or later by taking some simple compliance steps.

These steps were submitted by me in behalf of my firm recently for study in special hearings called by the Committee on Ways and Means at the request of President Carter to consider a formerly discredited withholding tax on interest and dividends to increase

Treasury revenues and as an anti-inflation tax measure. This request of the President is based primarily on collection of the nonreported income taxes claimed by the Treasury on investment income.

Overwithholding Problem

In my testimony, I emphasized again and again that any withholding plan, no matter how low the rate, results in overwithholding and there could be as many investors filing for refunds as paying taxes. This is because a large number of low and medium income recipients of dividends and interest otherwise would not have to file a return at all, except to claim a refund. It would be a hardship for such persons to be deprived of the use of the 15% withheld during the year. For example, an elderly couple with income from social security plus $8,600 from interest and dividends would pay an income tax of $137 at 1979 rates but would have to wait a long time for a refund of the $1,290 withholding tax of which they had been deprived during the preceding year.

The problems of withholding on interest and dividends seem insurmountable, with dependence on business to collect taxes together with the duplication of effort and deprivations of income.

For example, it would be a nightmare to think what would be involved by the insolvency of a collecting agent or an abuse of the tax funds. If banks and savings and loans were permitted to withhold and only remit annually, there would be an apparent loss to the depositor of interest rightfully belonging to the recipient. Another problem area would be dividends containing a portion which is a *return of capital*, not ascertainable until after the close of the year.

As a reminder, I stated that at one time it was impossible to redeem or cash in bearer coupons and bonds without an accompanying Ownership Information Certificate. It was required that these certificates be filed with the paying agent who in turn reported to the Federal Reserve Bank. We presented and thoroughly discussed with the House Ways and Means Committee and, subsequently, with Donald Lubick, assistant secretary in charge of national tax policy at the Treasury Department, and his staff a similar reporting plan for reinstatement on Form 1087 for all coupon and bond redemptions. It should be realized that nonreporting of income from coupon corporate and government bonds, on which there are and will continue to be hundreds of billions of dollars outstanding in bearer form for many years, amounts to a big shortfall of revenue collecting.

No Big Change

Such simple reporting by paying agents is no different from what all corporations are now required to furnish shareholders, with copies to the IRS, on dividend reporting. If the IRS taxpayer's computer record did not jibe with his income tax return, there would be enormous tax recoveries for Uncle Sam.

It is not general knowledge that corporate paying agents of interest coupons now receive on coupon envelopes full information to report annually to the IRS and the recipient; but they are not required to do so. Therefore, it would be only a simple matter for paying agents to file annual reports of this coupon interest on Form 1087, the same as dividends. Coupon bonds held by broker and bank nominees carry the full information of ownership of coupon redemptions but make no annual reporting of any kind. In fact, bank and broker nominees would find it less burdensome to report such bearer coupon interest since it now requires computer reruns to exclude this annual reporting to the IRS.

The only additional chore resulting from this bearer interest system would be on the paying agents. Since banks acting as paying agents are compensated for their efforts, they should welcome the opportunity to increase their revenues from the additional reporting service for corporations, states, cities, and income recipients.

For compliance in other important areas, the IRS could share this reporting on coupon and bond redemptions with the individual states (like Illinois, with an income tax) as well as serve as a tangible verification of both federal and state inheritance returns later. This is the area where the IRS would eventually catch up with the cheaters, to whom I referred earlier, for back income taxes as well.

In concluding, I would be remiss if I did not point out *that our steep-graduated-double taxation structure, a carryover from two world wars, encourages capital to hide and seek shelters.* Most certainly, we cannot expect savings and investments to come out of hiding, for example, by continuing the present maximum tax rate of 46% on corporate income or 54% after taxes, and 70% on individuals, leaving a tax take of 83.8% for Uncle Sam and only a miniscule 16.2% (70% x 54%), exclusive of any state and local income taxes, for those who supply the risk capital. With the continuance of disincentives like this, we can only expect more foreign-made goods on our shelves, more foreign cars on our highways and more of our own people out of work and on welfare.

Unrealistic Wartime Rates

It is indeed ironical that we gave both West Germany and Japan after World War II, as well as West Germany after World War I, monies and know-how for reconstruction and modernization of their plants and equipment for the benefit of their shareholders and at the same time overlooked the best interests of stockholders at home. Moreover, it is political and simply not productive of government revenues to try to keep wartime excess profits tax rates in times of peace.

Fortunately, there are leaders in Washington with whom we have been working closely these past few months, both Democratic and Republican, who are now recognizing what is needed, and there are more legislators on the way to remove the tax discrimination against those who save and invest. The United States is at the bottom of the ladder in its savings with which to supply capital to industry, as compared to other nations (U.S. 4.5%, Germany 14.6%, Japan 20.1%), and will remain so until our war tax structure is repealed. □

Reprinted from December 1980 issue of

COMMERCE

CHICAGOLAND VOICE OF BUSINESS AND INDUSTRY

United States Senate
COMMITTEE ON FOREIGN RELATIONS
WASHINGTON, D.C. 20510

October 11, 1982

Mr. George E. Barnes
Wayne Hummer & Co.
175 West Jackson Boulevard
Chicago, Illinois 60604

Dear George:

Thank you for your recent correspondence.

As you know, I agree with you completely on the issue of withholding federal tax on interest and dividend income. I so admired your letter to Don Regan that I requested that it be printed in the Congressional Record. I am enclosing some copies which I thought you might wish to distribute.

I am pleased that you have also contacted the major Exchanges and hope you will keep me informed of their reaction. This would be helpful to me in continuing to deal with this new legislation.

Warm personal regards,

Chuck

Charles H. Percy
United States Senator

CHP:brk
Enclosures

United States of America

Congressional Record

PROCEEDINGS AND DEBATES OF THE 97th CONGRESS, SECOND SESSION

Vol. 128 WASHINGTON, WEDNESDAY, SEPTEMBER 29, 1982 *No. 132—Part II*

Senate

INTEREST AND DIVIDEND WITHHOLDING

Mr. PERCY. Mr. President, the recently enacted tax bill—the Tax Equity and Fiscal Responsibility Act of 1982—contains a controversial section requiring the withholding of interest and dividend income.

The debate on this matter was heated in the Senate and opponents of the provision, including myself, sought to remove it from the legislation. Unfortunately we did not succeed and the Senate chose, by a vote of 48 to 50, to leave this section in the bill.

Since the Congress passed this legislation, I have heard from many constituents who are opposed to withholding. One of the most eloquent and carefully reasoned letters I have received on this came from Mr. George Barnes of Chicago.

Mr. Barnes is an expert on capital markets and a long-time partner in Wayne Hummer & Co. in Chicago, one of the foremost brokerage houses in that city. I have always respected his advice on matters pertaining to capital markets and believe he has made a good case in his letter.

Mr. President, I ask unanimous consent that Mr. Barnes' letter be printed in the RECORD at the close of my remarks.

Mr. Barnes points out in his letter that Congress enacted a withholding provision in 1962 but repealed it before it went into effect. Mr. Barnes was instrumental at that time in bringing about the change in the law, and I commend his letter to my colleagues.

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

WAYNE HUMMER & CO.
Chicago, Ill., September 3, 1982.

Hon. DONALD T. REGAN,
Secretary of the Treasury,
Washington, D.C.

DEAR DON: The purpose of this letter is to point out the need for immediate repeal of the withholding provisions to provide geater compliance in the recent tax package passed by Congress and to ask for your support. Also, it should be of grave concern to you that the combination of withholding of investment income and the registration of new securities would tie the financial community into knots, in delayed deliveries, paperwork, and confusion with all the various exceptions and exemption.

It is most unfortunate that it is not fully realized that these provisions could not be more devastating in the Administration's plans to shrink big government and to continue confidence in our tax system. The increase in revenue would be de minimus—if that, and the cost outlays of government and business firms would be beyond our comprehension in shifting tax collections to others.

There is precedent for repeal in that both the House and Senate passed a 20 percent withholding tax in 1962 and then reversed their positions after it was disclosed to the Joint Conference Committee that (1) there was no sizable gap in dividend reporting claimed by the Treasury, (2) over-withholding would result in as many investor filing claims for refunds as those filing tax returns and, (3) taxes would be withheld twice on bonds bought or sold between interest dates. This makes withholding impractical, unworkable and unnecessary.

Withholding does not solve the compliance problem since its provisions apply mainly to presently registered securities and to future issues of fixed interest securities, and do not take into consideration billions and billions of outstanding corporate and government bearer securities which Treasury figures show constitute the largest gap of unreported income. We have been endeavoring to correct this gap for a decade or more through the extension of annual reporting of bearer interest income, the same as dividends. There is a 96.7 percent compliance on bank interest and dividends. Withholding cannot possibly increase this rate of compliance.

It is incredible to provide bonds to be registered in the future since it would not only destroy their marketability to readily buy and sell, but would adversely affect the growth of our economy by restricting capital formation. (It now takes from two to three months for the Federal Reserve Bank to register bonds in our client's name or have them unregistered for sale). It is only feasible to provide that future public issues of debt obligations carry optional registration provisions.

As the former head of a stock exchange firm, you can readily understand how difficult it will be for brokers, banks and others to see if withholding applies—it applies to certain investments and not to others and it applies to certain individuals and not to others. In short, it would create a real administrative monster for all concerned, and the numerous exceptions would drive us crazy. Speaking of closing loopholes, such exceptions would make it possible for a taxpayer to own stock in an unlimited number of corporations or maintain bank accounts returning less than $150.00 each year and entirely escape withholding.

However, I have always maintained that the biggest weakness of withholding is over-withholding. I am not one to ask a client or a shareholder to wait as long as 16 months for his tax refund check, when all the income is needed on which to live. It is equivalent to the taxpayer loaning money to the government or allowing banks to hold it without interest.

Withholding works in Japan because it is optional with the taxpayer, and the income on which the tax has been withheld is not reportable in tax returns. In other words, they favor and encourage capital formation, whereas your new withholding plan works just in reverse. Also, you cannot very well justify withholding on investment income just because there is withholding on wages, with only one withholder. Moreover, the withholding plan on investment income is mandatory regardless of business losses and other deductions. This is not true of wage withholding.

You may not recall that a bi-partisan majority of the 96th Congress voted 401 to 4 against withholding as recently as April 19, 1981. I mention this because hearings as recent as last year should forestall any further extensive public hearings.

I would like to think that the extension of time in the effective date of withholding was changed to July 1, 1983 to give time for the consideration of repeal.

Since taxpayers fear and tremble where income is reported to the IRS, there is no more effective way to provide adequate compliance, and I would hope that, in lieu of withholding, consideration would be given to reporting by institutions when interest coupons are cashed, which I have proposed to the Treasury previously. In a conference with the Treasury staff, acquiescence was given, provided the banks and brokers would agree to it. Bank and broker nominees would welcome this since they now go to the burden and expense of computer reruns to omit such annual reporting of interest to the IRS.

May I hear from you so that I will know that repeal is being given your attention. The sooner that Congress acts, the better to save the government, corporations, brokers and others the gigantic cost of preparing for withholding and shifting part of the load of tax collections to others than government.

Respectfully submitted,

GEORGE E. BARNES,
Senior Partner,
Wayne Hummer & Co.

Department of the Treasury

Office of the Secretary

to: Jim Cicconi

room: ________ date: 1/21

As promised, attached is the information sheet on the mythical stock transfer tax.

AA

Pl see me about this. Thanks

JC 1/24

1-28-83

Per JWC, file with JC memos

David L. Chew
Executive Assistant
to the Secretary
room 3408
phone 566-5901

Fact Sheet on
Federal Stock Transfer Taxes

There is not presently nor has there been since 1965 a Federal stock transfer tax. Some states, however, have imposed such a tax. There was a Federal excise tax on stock transfers (originally enacted during World War I) which was significantly revised in the Excise Tax Technical Changes Act of 1958 (P.L. No. 85-859) effective January 1, 1959. This Act generally imposed (among other Federal excise taxes) documentary stamp taxes on (a) issuance of (i) capital stock (10 cents per $100 (4 cents per $100 in the case of stock in regulated investment companies) of the actual value of stock issued) and (ii) certificates of indebtedness (11 cents per $100 of the face value of indebtedenss issued); (b) sales or other transfers of (i) capital stock (generally 4 cents per $100 of actual value sold or transferred) and (ii) certificates of indebtedness (5 cents per $100 of face value on each sale or other transfer); and (c) conveyences of realty (55 cents per $500 of the consideration or value for which realty is conveyed). These excise taxes were repealed as of January 1, 1966 by the Excise Tax Reduction Act of 1965 (P.L. 89-44). The Committee Reports estimated that the annual revenue from all of these excise taxes at that time was $153 million.

In addition, there was a temporary excise tax (the interest equalization tax) added by the Interest Equalization Tax Act (P.L. No. 88-563) which was effective as of July 19, 1963 and which after several extensions expired on June 30, 1974. This tax was designed to bring the cost of capital raised in the U.S. market by foreign persons more closely into alignment with the costs prevailing in markets in other industrialized countries and to aid the U.S. balance of payments position. Basically, the interest equalization tax was a tax (varying in rates of up to 22.5 percent of the actual value of securities transferred) on the acquisition by a U.S. person of a debt obligation of a foreign obligor or stock of a foreign issuer, which is acquired from a foreign person. When last extended to June 30, 1974 by the Interest Equalization Extension Act of 1973 (P.L. No. 93-17) the Committee Reports estimated the annual revenue gain at $85 million.

f

Barreto Hector

Cicconi handle

Hector Barreto

September 7, 1983

Mr. James A. Baker III
Chief of Staff and
Assistant to the President
The White House
Washington, DC 20550

Dear Mr. Baker:

Please accept my warmest appreciation for assisting the U.S. Hispanic Chamber of Commerce with the president's visit to our National Convention in Tampa. You have again proven your friendship and commitment to the Hispanic community. We are honored by your visit to our convention.

Mr. Barker, as the president directed, I am writing to establish a convenient time for us to meet. The purpose of the meeting will be to follow-up in more detail the topics of concern that I raised with the president while he was in Tampa. The topics are as follows:

> Agenda for meeting with Defense Secretary Weinberger. mtg w/ NSC
>
> Discuss USHCC plan for bringing together Hispanic business leaders to meet with cabinet officials to participate in the President's Economic Recovery Program. will do directly
>
> Discuss with you ways the USHCC can more effectively provide you with qualified candidates for senior federal positions. Set up w/ Personnel Done 10/2

Once again, Mr. Baker, I would like to thank you for your invaluable assistance with the president's visit to our convention. I look forward to hearing from you in the near future.

Your friend,

Hector Barreto

Hector Barreto
President

HB:eag

United States Hispanic Chamber of Commerce

rec'd
10/13

THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA

1957 E Street, N.W. • Washington, D.C. 20006 • (202) 393-2040 • TWX: 710-822-9406 AGC WSH

October 10, 1983

Mr. James W. Cicconi
Special Assistant to the President
The White House
Washington, D. C. 20500

Dear Jim:

Enclosed is a follow up letter to our October 5 meeting, and a copy of same intended for Mr. Baker.

Sincerely,
Hubert Beatty

Hubert Beatty
Executive Vice President

Beatty & West

= Wendell Gunn reviewing copy of letter, will call back.

THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA

1957 E Street, N.W. • Washington, D.C. 20006 • (202) 393-2040 • TWX: 710-822-9406 AGC WSH

RICHARD S. PEPPER, *President* JAMES D. PITCOCK, JR., *Senior Vice President* VERNIE G. LINDSTROM, JR., *Vice President*

LARRY F.C. CHING, *Treasurer* HUBERT BEATTY, *Executive Vice President*

October 10, 1983

Mr. James W. Cicconi
Special Assistant to the President
The White House
Washington, D. C. 20500

Dear Mr. Cicconi:

As follow up to our October 5 meeting with you, Mr. Baker, and Mr. Rollins, we provide the following additional information regarding the Small Business set-aside program, the Small Business 8(a) program, minority business enterprise subcontracting programs and their cumulative and oppressive impact on open unrestricted competition in construction procurement.

Overview

The construction industry is a highly competitive and open industry dominated by small family-owned businesses that work close to home in a fairly well defined geographic area. Construction is not dominated by a few firms, but by vigorous competitive bidding among many. That is, federal construction contracts generally must be awarded through competitive bidding procedures to the lowest responsible bidder. This procedure assures intense competition within the industry, and assures that the project will be completed at the most economical cost to taxpayers. These factors make the construction industry one of the last true bastions of the free enterprise system.

This bastion, however, has been under a concerted, non-stop attack for some time from government imposed specifical preference procurement programs. These special preference procurement programs are contributing to the demise of the open competitive bid system in construction. Specifically, the small business set-aside program, the small business 8(a) program, and minority-business enterprise subcontracting programs are eliminating open competition, and increasing costs to the taxpayers.

Statistics provided by the Federal Procurement Data System on Federal construction contracts reveal the following:

- 60% of all Federal construction contract actions (contracts, change orders, amendments, additions) were unavailable for open, unrestricted competition in FY 1981.

- o 57% of all Federal construction contract actions were unavailable for open, unrestricted competition in FY 1982.
- o 62% of Federal construction contract actions within the Department of Defense were unavailable for open, unrestricted competition in FY 1981, and 61% were unavailable in FY 1982.
- o 77% of Federal construction contract actions within the Naval Facilities Engineering Command were unavailable for open, unrestricted competition in FY 1981 and 75% were unavailable in FY 1982.
- o 43% of Federal construction contract actions within the Army Corps of Engineers were unavailable for open unrestricted competition in both FY 1981 and FY 1982.

These contract actions were unavailable for open, unrestricted competition due to the SBA set-aside and SBA 8(a) programs. As shockingly high as these figures are, they do not include the further restrictions on competition engendered by minority business enterprise subcontracting programs.

<u>The Small Business Set-Aside Program</u>

The Small Business set-aside program requires federal procuring agencies to remove individual contracts and classes of contracts from the open competitive system and "set them aside" for restricted exclusive bidding by small business firms as defined by SBA regulations. There is no limit on the size of contract that can be set-aside for such restrictive bidding.

These set-asides are artificial props which do little but limit competition and increase the cost of public work construction. The characteristics of the construction industry are such that qualified contracting companies of all sizes are assured ample opportunity to obtain their "fair share" of federal outlays. Under open, unrestricted competition the smaller contractor secures more of the smaller contracts without any preferential treatment. There are, however, situations because of proximity to work, specialized requirements or many other circumstances, when it is more economical for a medium size or large size contractor to perform a contract and it would, therefore, likely be the low bidder. In denying these firms the opportunity to bid on set-aside contracts; the government is interfering with the free market system and increasing the cost of construction to the public.

The Small Business Act requires that small businesses receive a "fair proportion" of the total purchases and contracts for property and services for the government. The Defense Acquisition Regulations have defined "fair proportion" to mean 100 percent or very close to it. The DAR regulations require that <u>all</u> construction contracts of $2 million or less be automatically unavailable for open unrestricted competion (set-aside), and contracts over $2 million should also be unavailable if it can be expected that offers will be received from two responsible small businesses and award will be made at a "reasonable price." Given this broad language and the fierce competition in the industry today due to poor market conditions, a government contracting officer has little flexibility and can literally decide to not allow any contracts to be bid on an unrestricted, open competitive basis.

The small business set-aside program has significant costs to the government and the taxpaying public. A 1976 Report of Consultants to the Chief of Engineers (Army Corps of Engineers) on Small Business set-asides (dredging) found the following "...the low bids received under unrestricted advertisements were 9 percent lower than those received under set-asides..." When projected to the total volume of small business set-asides government-wide in FY 1982 ($2.9 billion), the "penalty cost" for restricted bidding and award under the set-aside program was over $260 million.

Small Business 8(a) Program

Under the SBA 8(a) program, the SBA and a federal procuring agency agree to remove a contract from the open unrestricted competitive bid system and sole-source negotiate the contract with a "socially and economically disadvantaged small business firm."

Between 1968 and 1983, the SBA, through regulation, utilized the 8(a) contracting program to channel some $10.2 billion in federal procurement contracts to 4,977 participating "socially and economically disadvantaged" firms. The theory underlying the program is that a disadvantaged firm, once awarded one or more set-aside contracts by various federal agencies in cooperation with the SBA, and having taken advantage of SBA management and technical assistance, would eventually be able to stand alone, compete successfully, and survive in the free enterprise system.

Just the opposite has occurred. The SBA 8(a) program, designed around a "protected market" for selected disadvantaged firms, has proven to be a dismal failure. According to data contained in a GAO Report (April 8, 1981), only 4 percent or 166 of the 4,598 MBE firms participating in the 8(a) program between 1968 and 1980 graduated. An earlier GAO Report on firms that did graduate found that only 33 showed a positive net worth. There has been little, if any, improvement in the 8(a) success rate since this data was compiled.

While the 8(a) negotiation process generally precludes any comparison with prices available through open competitive bidding, we have had several instances brought to our attention wherein procurement agencies decided that the 8(a) firm's offer was too high and consequently solicited bids through the open competitive bid system thus allowing valid cost comparisons:

		Savings Through Open Competitive Bidding
Highway relocation, Elephant Butte, Idaho (Federal Highway Admin.)	The 8(a) negotiated price was $3,024,000; the low competitive bid was $2,355,000.	$669,000 or 22%
Environmental test facility, Yuma, Arizona, (Army Corps of Engineers)	The 8(a) price was $1,839,872; the low bid was $1,558,884.	$280,988 or 15%
Flood wall project, Delta, Louisiana, (Army Corps of Engineers)	The 8(a) price was $416,000; the low bid was $188,950.	$227,050 or 55%
Water supply project, Riverton, Wyoming (Bureau of Reclamation)	The 8(a) price was $580,000; the low bid was $353,812.	$226,188 or 39%

The $1.4 million saved on these four projects represents only a small fraction of the tax dollars that could be saved on federal construction projects if the 8(a) program were taken out of federal construction procurement.

Minority Business Enterprise Programs

By law and regulation, federal construction contract awarding agencies implement a variety of Minority Business Enterprise goal and quota programs, such as the recently instituted 10% MBE quota program (Section 105(f)) contained in the Surface Transportation Assistance Act of 1982. Under these programs a stated amount of public construction work is mandated to be awarded to minority business firms.

Programs such as these literally waive open unrestricted bidding. Under these programs, states --contrary to the dictates of their own procurement laws -- may be unable to award contracts to the lowest bidder. By their very definition, these programs result in prime contractors having to award subcontracts on other than a low-bid basis and states and the federal government having to award contracts on other than a low-bid basis.

Any law or regulation that assigns a portion of a market to a particular group, in essence, legalizes monopoly. These minority business programs are no exception. In 1979, the Comptroller General of the United States performed an analysis of one of these programs (January 16, 1979, B-126652) and found "The price quotes of minority firms averaged about 9 percent higher than normal prices."

Over and above the increase in project costs, the public must bear other detriments associated with these programs.

The zeal of regulatory agencies in imposing MBE goals and quotas without a regard for the availability and capability of firms to meet them creates a situation which not only invites, but also commands, abuse.

Inflexibility in implementing Congressional intent, as in the case of the Surface Transportation Assistance Act of 1982, creates an inexorable pressure on states and contractors alike to meet program and project quota demands or face the prospect of losing either project funds or the award of contracts.

Another of the unforeseen impacts of prior MBE programs, an impact which will be exacerbated under new legislation such as the Surface Transportation Assistance Act of 1982, is the closing of existing markets and the resulting loss of business to existing non-MBE firms now unable to compete due to legislative and regulatory requirements.

Because the overwhelming number of MBE firms exist in those areas where initial capitalization requirements are minimal, e.g., landscaping, guardrail installation, hauling and grading, efforts by states to meet MBE program quotas result in the award of a disproportionate number of construction contracts to firms operating in these areas because there are not enough qualified MBE firms available to meet the demand for other types of construction work.

This, in turn, works an unfair hardship on existing firms which engage in those same fields of endeavor. Established landscaping or hauling firms are now being foreclosed from bidding on the very type of work which sustained them over the years due to the fact that the law has, in effect, exclusively reserved such work for MBE firms under set aside programs or because prime contractors can no longer accept quotes from existing non-MBE firms because they must meet MBE subcontracting requirements mandated for the award of a contract.

The overwhelming majority of firms required to absorb this burden are small businesses, usually family-owned or newly-formed and struggling to stay alive in the construction industry. These are the very firms which other governmental programs are designed to aid and protect. There seems to be little value and great cost associated with maintaining government programs which produce totally contradicting effects.

Conclusion

Open, unrestricted competition in federal construction procurement has served the nation's taxpayers well. Taxpayers have the right to be assured that their tax monies are being spent in the most efficient and economic manner possible. Open unrestricted competition in federal construction procurement has always given that assurance.

Special preference procurement programs -- notably the SBA set-asides, SBA 8(a), and minority business enterprise programs -- are changing all that. Through over-zealous advocacy and misguided implementation, these programs have for too long eliminated open unrestricted competition in federal construction procurement.

In order to restore open unrestricted competition to federal construction procurement and reduce federal construction costs to the government and the taxpaying public, the small business set-aside program, the small business 8(a) program and minority business enterprise subcontracting programs must be eliminated from application in the construction industry.

At a minimum, the problems engendered by these special preference programs can be reduced by the following actions:

Small Business Set-Aside Program - Revision of the Defense Acquisition Regulations requirements for small business set-asides, an overall reduction in all agency's "goals" for utilization of the small business set-aside program, and placing a $2 million limit on the size of a construction contract which can be set-aside.

Small Business 8(a) Program - Limiting the number of 8(a) contracts in construction and placing a $2 million limit on the size of a construction contract which can be used in the 8(a) program.

Minority Business Enterprise Program - Revision of the Department of Transportation implementing regulations for the 10% MBE provision of the Surface Transportation Assistance Act of 1982 to eliminate the reverse discrimination results in the award of subcontracts now inherent in the regulations.

We urge that a meeting be held, under the auspices of your office, with the SBA administrator and the Secretary of Transportation to discuss the necessary revision of the special preference procurement programs under their jurisdiction.

Sincerely,

Hubert Beatty

Hubert Beatty
Executive Vice President

cc: James A. Baker, III, Chief of Staff and Assistant to the President
Richard S. Pepper, President
Doug Pitcock, Sr. Vice President

From the desk of
DAVID A. BRODY

1/6/83

Dear Jim:

Here is a copy of our letter to Ed Meese concerning our invitation to the President.

I'll call you on Monday with the information you requested.

Anti-Defamation League of B'nai B'rith

1640 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20036
202 857-6663

THE WHITE HOUSE

WASHINGTON

January 10, 1984

MEMORANDUM FOR FREDERICK J. RYAN, JR.

FROM: JAMES W. CICCONI

SUBJECT: Invitations to Jewish Events

Attached is a letter to Ed Meese from Nathan Perlmutter conveying an invitation for the President to address the National Commission meeting of the Anti-Defamation League of B'nai B'rith. Since I did not recall a discussion of this invitation in the scheduling meeting, I thought I would forward it to you directly.

This meeting will be held in New York City from May 31 through June 3, and would provide an excellent forum for the President to address issues of concern to the Jewish community. This audience might also be receptive to a speech on civil rights in general.

In speaking with David Brody of the Anti-Defamation League regarding their invitation, I also asked him about Yeshiva University. He indicated that acceptance of an honorary degree from Yeshiva would be well received in the Jewish community, and that he was confident the President would be treated in a courteous manner if such an event were scheduled.

Thanks.

cc: Jack Courtemanche

David Brody

ADL

Anti-Defamation League of B'nai B'rith

Nathan Perlmutter
National Director

823 United Nations Plaza
New York, N.Y. 10017

December 16, 1983

Mr. Edwin Meese III
Counselor to the President
The White House
Washington, DC 20500

Dear Mr. Meese:

Thank you so much for your time which we warmly appreciated.

To recap:

We would consider it a great honor if the President would address the annual National Commission meeting of the League.

We will be convening in New York at the Regency Hyatt on May 31st through June 3rd. At this point, our flexibility is such that we can schedule it for dinner or lunch. We are confident that the President's appearance would be very well received and that it would provide him with a fitting opportunity to bespeak the causes of civil rights and peace in the Middle East.

I welcomed your response to our suggestion that the Administration emphasize that the racial quota system is a virulent form of racism and that opposition to the quota system is, in fact, support of genuine civil rights.

By thusly taking the offensive in behalf of genuine civil rights, proponents of the quota system will be forced to get out from under the camouflage of "affirmative action."

continued . . .

I was very pleased this morning to see that a propos our conversation on UNESCO, even The New York Times wrote an editorial supportive of the possible withdrawal.

Once again, with warm appreciation and all good wishes,

Cordially,

Nathan Perlmutter
National Director

NP/ra

P.S. - Since talking with you yesterday, I saw the enclosed from the National Review. It encapsulates the political theme of my remarks.

enclosure

FROM THE DESK OF

MICHAEL F. BUTLER

June 15, 1983

TO: Mr. James W. Cicconi
Special Assistant to the President
and to the Chief of Staff
The White House
Washington, DC 20500

You might pass this on to Muffie Brandon's successor or to Mike Deaver or whomever looks after these things.

Attachment

AA —
I'll just file this.
I'd rather not get
into it. Thanks.
J.

ANDREWS & KURTH

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June 13, 1983

PERSONAL AND CONFIDENTIAL

The Honorable Selwa Roosevelt
Chief of Protocol
U.S. Department of State
2201 C Street, N.W.
Washington, DC 20520

Dear Lucky:

You may recall that a few months ago I mentioned to you that the Administration might get some benefit by inviting to a state dinner the chairman and chief executive officer of International Paper Company, Dr. Edwin A. Gee. International Paper has sales in excess of $4 billion and over the years has been the leading paper company in the world. More importantly, Dr. Gee is a very strong supporter of the Reagan program. As just one example, he was a member of the Business Roundtable but resigned from it in 1981 to protest the position it took in opposition to the Reagan tax program. Our firm knows Dr. Gee and his wife quite well and one of my partners told me that he regarded Dr. Gee as one of the finest gentlemen he had ever met. Although I haven't talked with him about it (indeed he knows nothing of this letter), I know he would be enormously pleased and appreciative to be invited.

In the possibility it will be useful in deciding which event to invite him to, International Paper is a substantial exporter to Japan, the United Kingdom and The Netherlands. It has major plants in Colombia, Israel, Japan, Italy, France and Spain. Finally, I enclose a brief summary of Dr. Gee's career for your file.

Very truly yours,

Michael

Michael F. Butler

Enclosure

Edwin A. Gee

Chairman and Chief Executive Officer

International Paper Company

Dr. Edwin A. Gee was elected president and a member of the board of directors of International Paper Company in April, 1978. He was elected chief executive officer in September, 1979, and chairman of the board in February, 1980.

Dr. Gee's association with International Paper followed a distinguished 30-year career with the DuPont Company, during which he managed key operations of the company in the fiber, chemical, and environmental fields. At the time of his election as president of International Paper, Dr. Gee was a senior vice president of DuPont, and a member of the executive committee and the board of directors. He also served as chairman of the company's environmental quality and strategic planning committees.

Dr. Gee is a member of the board of directors of American Home Products Corporation, and Air Products and Chemicals, Inc. His professional memberships include the executive committee of the American Paper Institute, the National Academy of Engineering, the American Chemical Society, the American Society of Metals, the American Institute of Mining and Metallurgical Engineers, the American Institute of Chemical Engineers, the Delaware Society of Professional Engineers, the Directors of Industrial Research, Sigma Xi honor society, and the Alpha Chi Sigma chemistry fraternity.

Born February 19, 1920, in Washington, D.C., Dr. Gee received a bachelor of science degree and a master of science degree from George Washington University in 1941 and 1944, respectively. He earned a doctor of philosophy degree in chemical engineering in 1948 from the University of Maryland, and in June, 1982 received an honorary doctor of laws degree from Moravian College.

Dr. Gee was assistant chief metallurgist of the Bureau of Mines in Washington, D.C., prior to joining DuPont in 1948. During this period he became recognized as one of the country's authorities on titanium metal.

Following a number of technical and marketing assignments, he was named director of the development department in 1963, in charge of new ventures looking toward corporate diversification. He was appointed general manager of the photo products department in 1968. He was elected a member of the board of directors in December, 1969, and became a vice president and member of the executive committee in January, 1970. In January, 1972, he was designated a senior vice president.

In March, 1973, he was appointed by the President of the United States to the National Commission on Water Quality established under the Federal Water Pollution Control Act of 1972. He also served as chairman of the visiting committee of the National Bureau of Standards and as a member of the national materials advisory board of the National Research Council, the advisory panel on materials in the Office of Technology Assessment, and the Bi-National Advisory Council on Research and Development. He is currently serving on the industrial advisory committee of the University of Virginia.

Dr. Gee has provided leadership in community, church, and youth affairs. He has served as a member of the board of directors of the YMCA in Delaware. He was a trustee and treasurer of the trustees of the Episcopal Diocese of Delaware. In recognition of Dr. Gee's outstanding efforts in providing public service to the community, he received the 1982 Industry Week excellence in management award.

Dr. Gee married the former Genevieve Riordan in 1944, and they have three sons, John Michael, William Stanton, and David Stephen.