

Drug file
July 26, 1972

in proposed ("revenue shifting") has been adapted from the system now in effect in Canada for the division of personal income tax collections between the Dominion and the provincial governments. It involves a substitution of a sharing of the Federal personal income tax base and collection facilities for a sharing of the Federal government's revenues. Its effect is to shift to the states a portion of the personal income taxes now collected by the Federal government.

The revenue shifting concept, which can accomplish the main objectives of the Administration's proposal while avoiding its weaknesses, requires legislation which will

(1) effect an across-the-board reduction in Federal personal income tax rates of "X" per cent, "X" being the percentage required to reduce estimated collections for Federal use by the amount of the revenue which is to be shifted to the states;

(2) direct the Internal Revenue Service to collect on behalf of each state from its residents an additional amount equivalent to "Y" per cent of the Federal tax collection, "Y" being the percentage required to equal the amount of revenue to be shifted to the states.

(3) authorize each state to direct the IRS to reduce, increase or eliminate the amount of the state share to be collected on its behalf;

(4) require that tax returns for the Federal and state tax collections be made on a single or joint form in which it is clearly indicated which portion of an individual's tax is being raised on behalf of the Federal government and which on behalf of the state.

D. Illustration of "Revenue Shifting" Mechanics:

The overall objective of the Administration's proposal is to increase state and local revenues by \$5 billion without increasing the existing burden on taxpayers. The revenue shifting proposal can achieve this objective in the manner described below, based on the Tax Foundation's estimate that the Federal government will collect \$93.7 billion in personal income taxes in FY 1972.

1. Federal personal income tax rates are reduced by 5.34 per cent thereby reducing the personal income tax yield by \$5 billion. This will reduce the total Federal personal income tax collections to \$88.7 billion nationally.

2. In addition to the personal income taxes which it is to collect for the federal government, the IRS is directed to collect on behalf of each state (unless such state otherwise directs) an additional increment which in the aggregate would result in the distribution to the states of \$5 billion. Based on this illustration, this would mean that IRS would collect an increment of 5.6 per cent above the amount collected on behalf of the Federal government.

3. Assuming no state specifically directs otherwise, the collection of this 5.6 per cent increment above the personal income taxes collected by the IRS for the purposes of the Federal government would result in a distribution to the states of \$5 billion.

4. Under this proposal, an individual state would be able to authorize the IRS to collect more or less than the 5.6 per cent increment from its residents. Thus a state which elected not to have IRS collect any taxes on its behalf could, in effect, provide a 5.34 per cent tax cut for its residents. On the other hand, another state which is particularly hard pressed for revenue could elect to authorize the IRS to collect more than the increment as an alternative to increasing its sales tax, for example.

E. Advantages of the "Revenue Shifting" Alternative:

1. Because the states have the power to direct IRS to increase, reduce or eliminate the amount to be collected on their behalf, they retain full responsibility for and au-

thority over the taxation of their citizens for state and local needs. No precedent is set for Federal "bail-outs" for states which may have overextended themselves."

2. Because the personal income tax form filed with the Internal Revenue Service will specify how much of the tax is being collected for the Federal government and how much for the state, the taxpayer is spared the illusion that money transferred by IRS to his state is somehow Washington's money and not his money.

3. The states are enabled to share to a greater extent in what has been the Federal government's personal income tax base; and, in addition, they are provided with the convenience and economy of utilizing the existing Federal tax collection machinery.

4. The revenue shifting proposal avoids making the states dependent on the Federal government for another substantial source of income, and therefore avoids the danger of ultimate Federal dictation. Once the plan is in operation, its cost to the Federal government will be negligible, amounting as it will to just the cost of transferring to each state the amount collected on its behalf. Thus the system, once established, would not be endangered by future Congressional economies.

5. It eliminates the invisible subsidies which, under the Revenue Sharing proposals, are paid to some, often "low tax effort" states at the expense of the more urban, industrialized states which are currently experiencing the most critical need for funds.

NARCOTICS AND THE WAR IN SOUTHEAST ASIA

Mr. PROXMIRE. Mr. President, there are many many reasons why the United States should get out of Vietnam. First and foremost, after more than 40,000 American dead and the expenditure of far more than \$100 billion, there is nothing to be gained from further aid to the South Vietnamese. If they are unable to fight for themselves now, they never will be able to do so.

But there is now a further and more urgent reason. Thousands of American servicemen have been "hooked" on drugs while fighting there. Furthermore, key regions in Southeast Asia are now the centers for much of the drugs that are coming into the United States.

Just as Congress has been told year after year that the war is going well and each day we see how weak and helpless our allies are without our military protection so we have also been told that the battle against drugs has the active and sincere cooperation of our Southeast Asian allies. But it now appears from the evidence presented to my Subcommittee on Foreign Operations and from a series of articles in the New York Times by Seymour Hersh, that our allies in Southeast Asia are harboring a major and growing source of drugs which addict our servicemen and which are sold to our youth at home. I believe that the drug problem alone is sufficient reason to get out of the war and out of Southeast Asia. And now is the time to do it. The war in Southeast Asia is not worth a single drug addicted American.

Critics of our involvement in Southeast Asia have often pointed to the adverse domestic consequences of our military activities there. Our economy continues to suffer from the inflation first

renewal, rural regeneration, and environmental protection are postponed. Reforms in our welfare system, our tax structure, and our system of revenue distribution are sacrificed on the altar of foreign military priorities.

But Mr. President, to me the most bitter consequence of this war is the cruel and callous way in which the interests of our own people are disregarded. The evidence has been mounting over the last 2 or 3 years that a major cause of our drug problem has its foundation in and has been exacerbated by the war in Vietnam.

ISSUE RAISED WITH SECRETARY ROGERS

When I have raised this issue with Secretary of State Rogers and other administration spokesmen as chairman of the Foreign Operations Subcommittee, they have assured me that the Governments of Thailand, Laos, and South Vietnam are cooperating fully in the battle against international drug traffickers. Nelson Gross, senior advisor to the Secretary of State and coordinator for international narcotics matters, in a letter to me claimed that the "Governments of Southeast Asia are not engaged in drug trafficking. Indeed, the Governments of Laos, Thailand, and Vietnam have committed themselves and are actively engaged in countering the drug problem in their respective countries." That is what he wrote.

INTERNAL MEMO DENIES PUBLIC OPTIMISM

The administration's public optimism does not square with their nonpublic assessments. Seymour Hersh pointed out in a New York Times article on July 24, 1972 that the administration is quite pessimistic about controlling drug production and distribution from these countries. Mr. Hersh quoted a February 21, 1972 report prepared by the Central Intelligence Agency, the State Department, and the Defense Department as saying that narcotics control was unlikely "because the governments in the region are unable and, in some cases, unwilling to do those things that would have to be done by them if a truly effective effort were to be made." Hersh also reported that the document says that the basic problem results from "corruption, collusion, and indifference at some places in some governments, particularly Thailand and South Vietnam."

Paradoxically, the administration has tried to publicly discredit and contradict similar charges when they were presented to my subcommittee by Mr. Alfred McCoy. They failed to reveal a similar conclusion reached by their own agencies.

Why is there such a difference between the administration's public story, on the one hand, and the administration's internal reports, on the other? It certainly appears to be true that control of narcotics in Southeast Asia has taken a backseat to the administration's war policy.

WAR POLICIES NOT WORTH SUFFERING AND BROKEN LIVES

Mr. President, I must reject this kind of policy and I shudder at the suffering and broken lives it has brought about. We may have as many as 560,000 young Americans who are addicted to heroin, and as many as 100,000 addicted veter-

ans who are now or will be flooding our woefully inadequate treatment and rehabilitation facilities. How can we possibly condone the continued poisoning of our youth in the name of military priorities? How can we tell mothers and fathers that their children's lives have been hopelessly ruined because the Vietnam war has had a far higher priority than control of narcotics? Have Americans become so hardened by years of death and destruction that they will even tolerate the flow of narcotics because it might displease our allies? I hope and pray that the answer is no.

Nothing should be more important than preventing dangerous drugs from falling into the hands of our children. President Nixon proclaimed, a little more than 1 year ago, that drug abuse was our No. 1 domestic problem. I call for a genuine commitment by the Nixon administration to ending narcotics production and traffic in Thailand, Laos, and South Vietnam. The sensitivity of these alleged allies is not worth a broken life. What heroin is doing to this country is far more serious than any military danger we face in Southeast Asia. It is time that we make the drug traffic our No. 1 foreign policy priority.

Mr. President, I ask unanimous consent to insert the article by Seymour Hersh in the RECORD at this point as part of my remarks.

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

REPORT TO UNITED STATES SEES NO HOPE OF HALTING ASIAN DRUG TRAFFIC
(By Seymour M. Hersh)

WASHINGTON, July 23.—A Cabinet-level report has concluded that, contrary to the Nixon Administration's public optimism, "there is no prospect" of stemming the smuggling of narcotics by air and sea in Southeast Asia "under any conditions that can realistically be projected."

"This is so," the report, dated Feb. 21, 1972, said, "because the governments in the region are unable and, in some cases, unwilling to do those things that would have to be done by them if a truly effective effort were to be made."

The report prepared by officials of the Central Intelligence Agency, the State Department and the Defense Department noted that "the most basic problem, and the one that unfortunately appears least likely to any early solution, is the corruption, collusion and indifference at some places in some governments, particularly Thailand and South Vietnam, that precludes more effective suppression of traffic by the governments on whose territory it takes place."

The report sharply contradicted the official Administration position and Government intelligence sources say its conclusions are still valid today. In May, Secretary of State William P. Rogers told a Senate subcommittee that "we think all the countries are cooperating with us and we are quite satisfied with that cooperation."

Similarly, Nelson G. Gross, Senior Adviser to the Secretary of State and Coordinator for International Narcotics Matters, testified before Congress in June on the subject of narcotics smuggling that "the governments of Thailand, Laos and Vietnam have already joined us in the fight and, while we have a long way to go, we feel that during the past year some real progress has been achieved."

All officials concerned with the drug problem acknowledge that

agencies, under personal prodding from President Nixon, have begun an intensive effort to stem the international narcotics traffic. But critics contend that the effort is far less effective today than Administration officials say it is.

CRITICS' CHARGES BACKED

Two leading critics of what they allege to be the Government's laxness in stopping the flow of narcotics are Representative Robert H. Steele, Republican of Connecticut, and Alfred W. McCoy, a 26-year-old Yale graduate student who has written a book on narcotics in Southeast Asia. The New York Times reported Saturday that Mr. McCoy's allegations concerning the C.I.A. and the drug traffic had been the subject of an intense and unusually public rebuttal by the agency.

The Cabinet-level report, made available to The Times, buttressed many of the charges made by the two critics, particularly about the pivotal importance of Thailand to the international drug smugglers. Thailand is also a major Air Force staking area.

STEELE HINTED AT PAYOFFS

In a report on the world heroin problem last year, Mr. Steele wrote that "from the American viewpoint, Thailand is as important to the control of the illegal international traffic in narcotics as Turkey. While all of the opium produced in Southeast Asia is not grown in Thailand, most of it is smuggled through that country."

Mr. Steele's report, filed with the House Committee on Foreign Affairs, noted that many American citizens had established residence in Bangkok, and had moved into the narcotics trade. The report added that the inability of the United States to have a few notorious States to have a few smugglers deported had led some intelligence officials to conclude that the men were paying Thai officials for protection.

Mr. McCoy said in testimony before Congressional committees last month that hundreds of tons of Burmese opium passed through Thailand every year to international markets in Europe and the United States and that 80 to 90 per cent of the opium was carried by Chinese Nationalist paramilitary teams that were at one time paid by the C.I.A.

There are a number of opium refineries along the northern Thai border, he said, and much of the processed high-quality heroin is shipped by trawler to Hong Kong.

THAI-U.S. AGREEMENTS CITED

"Even though they are heavily involved in the narcotics traffic," Mr. McCoy testified, "these Nationalist Chinese irregular units are closely allied with the Thai Government." He said that Thai Government police units patrol the northern border area and collect an "import duty" of about \$2.50 a pound of raw opium entering Thailand. All this activity, he said, is monitored by United States intelligence agencies.

Mr. Gross, the State Department's adviser on international narcotics, said in his Congressional testimony that "During the past year the Thais have increased their efforts in the drug field with United States and United Nations Assistance." He cited two agreements, signed in late 1971, calling for more cooperation and more long-range planning between Thai and United States officials to stamp out the trade.

"Based on all intelligence information available," Mr. Gross testified, "the leaders of the Thai Government are not engaged in the opium or heroin traffic, nor are they extending protection to traffickers." He added that the top police official in Thailand had publicly stated that he would punish any corrupt official.

The cabinet-level report, submitted to the

cotics Control, asked "highest priority" for suppression of the traffic by Thai trawlers, noting that each trawler "would represent something like 6 per cent of annual United States consumption of heroin."

The report said that the trawler traffic should have priority because "it is possible to attack the Thai trawler traffic without seeking the cooperation of Thai authorities and running the attendant risk of leaks, tip-offs and betrayals."

After such a seizure, the report said, the United States Embassy in Bangkok could "repeat with still greater force and insistence the representations it has already often made to the Government of Thailand" for more effective efforts "to interdict traffic from the north of Thailand to Bangkok and also the loading of narcotics on ships in Thai harbors."

At another point in the report, a general complaint was voiced. "It should surely be possible to convey to the right Thai or Vietnamese officials the mood of the Congress and the Administration on the subject of drugs," the report said. "No real progress can be made on the problem of illicit traffic until and unless the local governments concerned make it a matter of highest priority."

Representatives Steele, Lester L. Wolff, Democrat of Nassau County, and Morgan F. Murphy, Democrat of Illinois, have sponsored legislation that would cut off more than \$100-million in foreign aid to Thailand unless she took more action to halt the production and traffic of heroin. Their measure cleared the House Foreign Affairs Committee on June 21 and is included in the Foreign Assistance Act, now pending.

THE TROUBLED AEROSPACE INDUSTRY

Mr. ROTH. Mr. President, many sectors of American industry face severe problems which must be met in the 1970's: Production costs continue to rise while highly dedicated and technologically advanced foreign competition squeezes on traditional U.S. markets. Perhaps one of the most troubled of all is the U.S. aerospace industry; the problems which they face are unique because of their heavy dependence on Government funds to sustain them. Over managed and over facilitated, these large corporations, which burgeoned in the 1960's, face a problem in trimming down to meet reduced military spending and reduced airplane orders by airline customers, as well as finding some way to reduce the costs of their products.

The aerospace industry is the backbone of our national security and must be kept strong. But, in this case strength does not derive from size, but from the quality of technology which can be brought to bear, and the efficiency with which a product can be produced. The rapid buildup of the industry in the 1960's caused the dilution of managerial and technological excellence, the results of which have been graphically demonstrated by a myriad of program cost overruns caused by less than excellent management.

The legacy of overcapacity of the industry was the subject of some concern during the debate over the Lockheed loan guarantee. It seemed apparent at that time that the market would not profitably support three domestic producers of large jet transports. Lockheed had placed itself in such a precarious position that