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Parliament that a "global campaign" was necessary for democracy's survival and growth. He urged a coordinated effort by the major Western democracies, not only to foster democracy elsewhere but to rejuvenate the commitment to democracy within Western societies.

The promotion of democracy poses risks. Democracy reflects a specific historical experience and no one should expect all democracies to develop the same way. The promotion of democracy may look to some like interference in another country's domestic affairs. Also, proponents of democracy sometimes attempt to establish democratic institutions in countries that lack the social and economic structure to support them. Democracies function best where there is a pluralistic structure of private enterprise, educational institutions, labor unions, and other professional and interest groups. Furthermore, there is need for caution in supporting individuals who claim to back democracy. Sometimes these same leaders later adopt anti-democratic methods.

The U.S. already has taken significant steps to promote the spread of democratic values. In 1983, Congress established the National Endowment for Democracy, which seeks to promote and support initiatives from the two major U.S. political parties, labor organizations, business groups, and university foundations. It also assists the work of other government-supported offices like the U.S. Information Agency, the Voice of America, and Radio Free Europe.

Political party foundations in several Western countries have also assisted the growth of democracy through their support of counterpart political parties in southern Europe and Latin America. U.S. political parties are not as ideological as their European counterparts, but they are also beginning to promote and assist the development of political parties in countries struggling to strengthen their democratic systems. Coordinated policies supported by several countries will have a greater chance of success, and can give support to all democratic parties in a nation rather than just one.

U.S. development assistance can also help strengthen democratic institutions. Many democracies now face serious debt problems and their survival will depend in part on how we can help them through this period. Several other democratic countries have significant development assistance programs. These programs help address social and economic deprivation and help nurture political and cultural institutions that enhance democracy. To realize these goals, the U.S. needs to reassess the present imbalance in its aid program favoring military assistance, which does little to foster the emergence of domestic conditions favoring democracy.

Another step the U.S. and its sister democracies can take is to respect the political independence and territorial integrity of sovereign states. Promoting the overthrow of governments because their principles and system do not conform to democratic ideals will not aid the cause of democracy. Democratic governments will help their cause most by following accepted international rules and using the tools of diplomacy.

Finally, the most important step we can take to assist democracy is to live up to our own ideals. Democratic societies are on trial before the world as they address equal opportunity in education and employment, and such issues as drugs, crime and other less attractive aspects of free and individualistic societies. They are rightly judged not just by the freedoms and opportunities they provide for the most capable, but also by the compassion they show to those least able. Each step taken by democracies to

make their societies a better place to live will serve as proof of the value of democratic government.

THE SHOE TAX BECKONS

HON. PHILIP M. CRANE

OF ILLINOIS

IN THE HOUSE OF REPRESENTATIVES

Wednesday, September 4, 1985

Mr. CRANE. Mr. Speaker, by September 1, President Reagan has to make a decision in regards to the International Trade Commission's (ITC) recommendation to impose quotas on imported footwear. I recently co-signed a bipartisan congressional letter to President Reagan urging him to take into consideration the interests of the American public as a whole and reject the footwear quotas.

The effect that the quotas would have on American families, especially the elderly and the low-income consumers, must be weighed into this decision. Quotas would slap a hidden tax on consumers that would drive up shoe prices, costing consumers billions of extra dollars and they would restrict the freedom that Americans enjoy of purchasing whatever shoes they want and can afford. Over half the shoes sold in America retail for under \$15 and they are virtually all imported. Quotas cost money—and the people who would pay the price of protectionism would be those least able to afford it.

The ITC estimates that the shoe quota would cost the U.S. consumer \$50,000 per year for each \$14,000 a year job that is saved. In terms of overall dollars, it would result in at least a \$1.5 billion per year extra burden on the American consumer. Mr. Speaker, in this case, the cost of restraints is too high and the benefits to the domestic shoe manufacturing industry too negligible to warrant any such action.

I am submitting the following article from the New York Times, appropriately titled, "The Shoe Tax Beckons." Although the quotas would be aimed at protecting the domestic shoe industry, they would be doing so by in effect adding an extra tax to the current price of shoes. The article follows.

THE SHOE TAX BECKONS

The U.S. International Trade Commission, yielding to pressure, recommends quotas that would reduce imports of shoes sharply and drive up their price. President Reagan must now decide whether consumers should finance this remedy, saving American jobs at an annual cost of \$50,000 each.

Shoes offer a model study in what's wrong with protectionism, and why it's so hard to stop.

Manufacturing inexpensive shoes requires only simple machinery and abundant low-cost labor. That is why Brazil, South Korea, Taiwan and other low-wage countries produce most of the shoes sold in the United States. Their competition has forced American manufacturers to retrench, closing two-thirds of their plants in the last 15 years. Many of the remaining plants are profitable only because they produce high-quality shoes, whose style is more important than price and whose main competition comes from high-cost factories in Europe.

Competition ought to determine the future of the industry, allowing smarter, more flexible domestic producers to find their niche in a market dominated by low-cost third-world producers. Indeed, the growth of the American economy depends on its gradual shift from low-wage, labor-intensive to high-wage, high productivity industries that can sustain rising living standards.

What's good for most Americans, of course, isn't necessarily good for those who own or work in shoe factories. Of the remaining U.S. producers, the most marginal couldn't possibly survive open world competition. Even the most productive would benefit from protection. From the Carter Administration they got temporary quotas on imports from Taiwan and Korea, briefly halting the industry's decline. To the shoe makers' dismay, President Reagan chose to interpret "temporary" to mean just that; quotas were allowed to lapse in 1981.

Last year the International Trade Commission, an independent Federal agency, denied the shoe makers' petition for import relief, citing the high profitability of the more modern shoe companies. So the industry went back to work the new-fashioned way: lobbying Congress. That changed the commission's mind, and for an obvious reason. The shoe makers speak with a single voice and can point to job losses in 48 states. Thus their influence in politics far exceeds their importance to the economy. The Senate Finance Committee insisted that the Trade Commission reconsider.

This time around the commissioners voted 4 to 1 for a plan that would limit imports to 60 percent of the market saving an estimated 26,000 jobs. By the reckoning of the one dissenting commissioner, that would cost consumers \$1.28 billion a year, three times the wages of those 26,000 workers.

To resist, President Reagan may need more than arguments. Though plainly devoted to free trade, he has already yielded expensive import relief to the clothing, steel and motorcycle industries. A nation benefiting from open trade needs to offer something better than protectionism to workers and communities caught in the tides of industrial change. But that is a policy problem that Washington has never taken seriously.

LET'S IMPROVE OUR COUNTER-INTELLIGENCE CAPABILITY

HON. WM. S. BROOMFIELD

OF MICHIGAN

IN THE HOUSE OF REPRESENTATIVES

Wednesday, September 4, 1985

Mr. BROOMFIELD. Mr. Speaker, our Government must do more to expand and professionalize our Nation's counterintelligence programs. Congress has been supportive of this effort and has made additional resources available. Given the dramatic rise in espionage directed against our Government and the private sector, much more needs to be done to counter this growing threat to America's security. I want to share some views on this important issue from the Washington Post with my colleagues in the House.

While all Americans are both worried and disturbed about the recent Walker spy case, it is important to realize that our Government can do more to limit the spying activities of foreign intelligence services in this country. It is incredulous

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that the Federal Bureau of Investigation, the agency responsible for counterintelligence operations in the United States, is undermanned in the counterintelligence area. I understand that the counterespionage capabilities of other agencies in our Government could be upgraded with the introduction of more resources to include additional personnel specializing in this important area.

A key element of this question is limiting the number of foreign intelligence operatives in the United States. While it is possible for the FBI to monitor the movements of some Soviet intelligence personnel assigned to their Embassy in Washington, hundreds of Soviet personnel assigned to the United Nations Secretariat in New York have free access to all States and cities in the United States. Among United Nations employees, the large Soviet delegation has the reputation of not doing much official United Nations work. They apparently spend a lot of time, however, traveling around the United States literally siphoning up valuable intelligence information. It is understood that the Soviets collect so much information that they have real difficulties in sorting, processing and collating much of it. Fortunately, Congress is moving ahead and passing legislation designed to limit the number of Soviets who are assigned to their Embassy and to their U.N. delegation.

With these concerns in mind, I commend the following article to my colleagues in the House. Obviously, we cannot do enough to protect America's security. The time for action is now.

CONGRESS, AGENCIES CLASH OVER
COUNTERINTELLIGENCE
LAWMAKERS CALL ADMINISTRATION EFFORTS
WEAK

(By Charles R. Babcock)

In the spring of 1984, Sen. Malcolm Wallop (R-Wyo.) received a certificate naming him an "honorary counterintelligence specialist" in the Central Intelligence Agency. The award was said to be in recognition of his efforts to establish a semiautonomous core of career counterintelligence (CI) specialists in the agency.

Wallop, then chairman of the Senate Intelligence budget subcommittee, was neither honored nor amused.

"The CIA ridiculed the career specialist by giving me the award," he said in an interview. "It was designed in total cynicism, with little boys laughing behind doors."

So he wrote, and Congress approved, language in the classified intelligence agencies' authorization bill report for fiscal 1985 requiring the CIA to reestablish CI as a career service. It still has not been done, he and other intelligence sources say.

Doing something about counterintelligence has been a hot topic since accusations in May that alleged spy John A. Walker Jr. and others for years had passed U.S. Navy secrets to the Soviets. To Wallop and other critics, the Reagan administration's inaction on the "CI specialist" mandate reflects a broader lack of commitment to improving the nation's ability to protect secrets from foreign agents.

"This country," Wallop said, "has virtually zero counterintelligence capability."

He argued that the CIA's counterintelligence system is inadequate because the officers now working in it will someday rotate

out to work for other officers whom they may have investigated or whose operations they may have challenged. The result, Wallop said, is a too casual effort, in which the tough questions are not asked about the credibility of agents, operations or even technical systems.

Although few others are so critical, interviews with current and former intelligence officials suggest that the Reagan administration's strong words about counterintelligence have often been matched only by half-steps.

President Reagan said in a radio speech in June that "we've developed a list of things to be accomplished in the counterintelligence and security areas." He has signed two secret directives to study and act on the counterintelligence problem, but little of substance has been accomplished because of bureaucratic resistance, several sources said. A separate directive to revamp personnel security policies has been languishing without action for more than a year.

Funding for more FBI counterintelligence agents—who are responsible for counterespionage operations in the United States—has been added to recent budgets, but only over the objections of administration budget officers. There are now about 1,200 CI agents in the FBI, sources said. But they are still outnumbered, and squads of inexperienced clerks have been used for years to help keep track of potential foreign agents in at least four major cities.

Administration spokesmen declined to speak on the record about the counterintelligence issue. But several members of Congress did. Rep. Lee Hamilton (D-Ind.), chairman of the Permanent Select Committee on Intelligence, said "sometimes it takes a strong blow across the snout," such as the Walker case, to get the administration and Congress to focus on a problem. "Politicians, including myself, are responding to it," he said.

The broad definition of counterintelligence means protecting the nation's documents, communications and secret facilities from penetration. To most people, however, counterintelligence means the stuff of spy novels, the American agent trying to stop the KGB from recruiting a U.S. spy or catching a spy in place.

The main responsibility is split between the CIA, which keeps track of foreign intelligence agents overseas, and the FBI, which does the same in the United States.

Hamilton and Sen. Patrick J. Leahy (D-Vt.), vice chairman of the Select Committee on Intelligence, said long-term solutions are required, in addition to the increased use of polygraphs and imposing the death penalty on military personnel for peacetime espionage, the two measures passed by Congress so far.

Hamilton said the least expensive and most important step to protect national secrets would be enforcing the "need to know" policy. "A security clearance shouldn't entitle anyone to see anything. Someone should have access only if he needs it for his job."

A theme in much of the criticism is that counterintelligence is not viewed as a path to career promotion at the CIA or FBI, or the State Department, where security has long been a low priority.

Rep. Dave McCurdy (D-Okla.), chairman of the House intelligence oversight subcommittee that has been holding closed hearings on counterintelligence, said he feels the biggest security problem is at the State Department. He said CIA Director William J. Casey had accepted a recommendation by an internal CIA commission to give more independence to the CI staff there. "It's fine-tuning at CIA," McCurdy said. "It's trying to stop a flood at State."

He cited recent reports of bugged typewriters in the U.S. Embassy in Moscow and the hiring of foreign personnel in the embassy. "The Soviets (employees) have the run of the first five floors of our embassy in Moscow," he said. "It's ridiculous."

Hamilton said, "The Soviets do have extraordinary technical skills to penetrate our embassies and secure buildings and a Pinkerton guard from the local plant just isn't aware of what he's up against. Training and skills are critical. People have to be schooled in the techniques of modern espionage."

The Senate Intelligence committee, for example, reported earlier this year that a Soviet facility at Glen Cove, N.Y., is believed to be intercepting so many U.S. telephone and telex messages that it requires the shipment of tons of material to Moscow each year. The National Security Agency has embarked on a major program to provide more scrambler phones for the nation's military and intelligence communications systems.

Rep. Andy Ireland (R-Fla.), also a member of the House committee, blamed the lack of concerted action on "bureaucratic inertia. Sometimes there are so many facets of a problem people are mesmerized into doing nothing."

The administration's uneven record on counterintelligence seems, at least in part, the result of longstanding and deeply felt differences about the best way to counter foreign spying here and abroad.

Melvin Beck, a CIA agent who shadowed KGB agents in Havana and Mexico City in the 1960s and has written a book about it, said he thought the experience was unglamorous and silly. Installing a microphone in a KGB officer's apartment resulted only in hours of tapes about his family life, not his spying, he said. "It's all a big game for both sides."

Counterintelligence is also an emotional issue because it amounts at times to spying on colleagues in a secret world where relationships must be based on trust. Mention of the name James J. Angleton, deposed a decade ago as chief of the CIA's counterintelligence staff, still generates controversy because of accusations that he unfairly wrecked the careers of some CIA officers he suspected of being Soviet moles.

In 1980, then-Director Stansfield Turner convinced Congress to approve a special fund to compensate CIA officers considered victimized by Angleton. Angleton supporters argue that any steps he recommended were approved by his superiors.

Wallop and others say an environment must be created in which intelligence information can be challenged and all potential security risks assessed. "There's an inherent dislike on the part of intelligence professionals to be second-guessed," Wallop said, adding that the CIA needs "the skeptical guy on the block."

Wallop said his ideas for changing counterintelligence at the CIA weren't easy to sell to the Senate Intelligence committee because of the Angleton legacy. "It was so easy for (Deputy CIA Director) John McMahon to talk Bill Casey out of my idea of multidisciplinary analysis on the basis of Jim Angleton, which was totally irrelevant. To Bill's credit he later came around to the argument I was making. But when it was first presented Angleton was thrown up."

The first Reagan presidential directive to take action on the CI front was drafted by the National Security Council staff in 1981. But some senior career intelligence officials lobbied to change the order to a study, sources said.

NSA, which intercepts foreign communications and attempts to break the coded

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messages of other nations, opposed suggestions that it had not rigorously addressed the possibility the Soviets were passing false information through its technical collection systems. NSA's reluctance may come about because billions of dollars and careers are invested in U.S. technical systems, Wallop said.

When the study was completed, a new action order was drafted. As a result, a new national intelligence officer for deception was created in late 1983. A former head of the CIA's overhead photo interpretation center, R.P. (Hap) Hazard, was picked for the job. But executive branch and congressional sources said that little else was done.

When the directives failed to get much action, Wallop led the fight to write part of the counterintelligence agenda into the fiscal 1985 intelligence authorization bill. Besides the CI career specialty, he got the votes to order the agencies to set up units to conduct "multidisciplinary counterintelligence analysis."

Usually in intelligence work, an intercepted communication or agent report that tends to confirm something in satellite photography would be taken as corroboration and, the more varied the sources, the more credence the conclusion would be given. The multidisciplinary counterintelligence approach would look at the same material for signs that it had been intentionally planted.

One intelligence official familiar with the idea said the CIA does make a good-faith effort to look for deception but often can't find the evidence. "Some things you just have to believe or you will put a caveat on everything you say and then you might as well go out of business," he said.

Wallop said, "The two things in the '85 budget, the career slot and the multidisciplinary analysis are still not effective creations . . . To date the effort has been accommodation rather than commitment. It simply cannot succeed as an accommodation."

Wallop added that recent congressional attempts to strengthen counterintelligence "are literally cosmetic, absent a more serious effort. The death penalty is not a counterintelligence policy. It can clearly be useful as a deterrent and it satisfies the national mood to be outraged . . . But it still isn't at the core of the problem."

The best way to aid the FBI is not simply to increase the number of counterintelligence agents, several experts agreed, but to try to shrink the problem by cutting the number of Soviets in this country or putting greater restrictions on their travel.

An amendment sponsored by Leahy and Sen. William S. Cohen (R-Maine) to make Soviet and U.S. diplomatic missions more equal in size was passed by Congress late last week. So was a proposal by Sen. William V. Roth Jr. (R-Del.) to limit the travel of Soviet nationals who work for the U.N. secretariat in New York.

Roth, a member of the intelligence committee, said that with 4.3 million Americans with security clearances "the best choke point is on the other side—better control of those on the Soviet side." He noted that the committee issued a report in May charging that 200 of the 800 Soviet U.N. employees were intelligence officers.

"The good news," Leahy said, "is that as a result of the Walker case and others, people are actually focusing on this and the administration and Congress will look for long-term solutions."

IT COULD COST, NOT PAY

HON. ROY DYSON

OF MARYLAND

IN THE HOUSE OF REPRESENTATIVES

Wednesday, September 4, 1985

Mr. DYSON. Mr. Speaker, the following article appeared in the News American on Monday, July 29, 1985. I feel it is worth repeating.

At first blush the Senate's proposal to impose a \$5 per barrel tax on imported oil sounds like a great revenue raiser—and a way to reduce the national deficit. It's estimated that the fee and the resultant increased costs on refined products would yield about \$20 billion over the next three years.

Right away there is a problem with the White House, because President Reagan still is insisting that the way to cut the deficits is not to raise taxes but to reduce federal spending. The president hasn't reacted to the Senate's proposal so far, but a senior White House official said it would take "a big horse pill to get him to swallow this."

But the Senate's proposal has a number of economists concerned about the overall negative impact on the economy.

For one thing, some economists claim, the higher tax on energy would affect industry as well as motorists and homeowners, and there would be a resultant slower growth in the gross national product, offsetting much of the gain from the increased taxes. Also, oil prices have come down, and if they come down further inflation likely would fall and real economic growth would increase. Faster growth would in turn increase Federal revenues.

There is a further concern that with the \$5 fee increasing the price of crude oil and natural gas in the United States but not in other countries the domestic oil industry would be placed in an unfavorable competitive position with other parts of the world.

Other economists have found these arguments, debatable, but the point is that the Senate, in what appeared to be an easy way to raise revenues, has opened by an economic Pandora's Box.

It may be President Reagan will reject the proposal outright. But if he doesn't it would behoove the Senate to take a far deeper look into the possible results before going ahead.

HIGH TECHNOLOGY ACTIVE BUSINESS ACT OF 1985

HON. FORTNEY H. (PETE) STARK

OF CALIFORNIA

IN THE HOUSE OF REPRESENTATIVES

Wednesday, September 4, 1985

Mr. STARK. Mr. Speaker, on Wednesday, July 31, 1985, I introduced the High Technology Active Business Act of 1985, which was designed to eliminate problems associated with the imposition of personal holding company tax on small software companies. Because of the interest that this legislation has generated, I am printing in the RECORD a detailed description of that legislation.

DETAILED DESCRIPTION OF THE "HIGH TECHNOLOGY ACTIVE BUSINESS ACT OF 1985"

I. Treatment for Personal Holding Company Tax Purposes of Computer Software Royalties Derived by Active Businesses (Sec. 2 of the Act).

A. Basic Problem: Imposition of the Personal Holding Company Penalty Tax on Closely-Held Software Companies.

The basic problem is that small software development companies often possess the characteristics that can trigger application of the personal holding company penalty tax provisions:

(i) The stock of the company is generally held by relatively few shareholders who participate directly in the software development; and

(ii) Once developed, the corporation's software product is transferred to others by means of a license to a particular computer manufacturer or other customer or via a so-called "box-top" license to the public (under which the retail customer agrees to the license merely by opening the wrapper of the software package). The use of a license is necessary to protect the developer's proprietary interest in the software. This form of transfer has been viewed by the I.R.S. as giving rise, at least in many cases, to passive royalty income deemed to be personal holding company income. See Private Letter Ruling 8450025 (September 7, 1984). However, these companies clearly are engaging in active, ongoing business activities, including the development of new and improved software and maintenance activities with respect to existing software products.

The personal holding company penalty tax provisions were adopted to prevent the incorporation of passive investment activities at a time when corporate tax rates were significantly lower than the top individual rates. Accordingly, the application of the personal holding company provisions to software development companies conducting substantial active, ongoing business operations produces an unintended and extremely harsh result.

B. Exclusion for Computer Software Royalties Derived by an Active Business.

The Act adds a new exclusion from the definition of personal holding company income for computer software royalties that are derived by the corporation from the active conduct of a trade or business.

C. Standard for Computer Software Royalties from an Active Business.

For purposes of the new exclusion, computer software royalties will be treated as derived from the active conduct of a trade or business if the corporation satisfied the following objective tests:

(1) The royalties must be attributable to computer software that has been:

(a) Developed, manufactured, or produced (in whole or substantial part) by the corporation in connection with a trade or business; or

"Developed, manufactured, or produced" is intended to include software that has been created by the corporation and software that has been purchased from another person for inclusion in a software or combined hardware-software product of the corporation.

"In connection with a trade or business" is intended to mean software that the corporation has developed or acquired for use in a present or future business, so as to include software that has been developed during the corporation's start-up phase.

"Corporation (or its predecessor)" is intended to reach the case in which the software is developed by a partnership that converts into a corporation once development has been completed and marketing is to