

In addition, S. 2097 provides for the development by a strategy council and promulgation by the President of a comprehensive, coordinated, long-term national strategy for all drug abuse programs and activities conducted, sponsored, or supported by any department or agency of the Federal Government. Members of the strategy council will be the Director of the Special Action Office, the Attorney General, and the Secretaries of HEW, State, and Defense.

Mr. JAVITS. Mr. President, S. 2097, the Drug Abuse Office and Treatment Act of 1971, reported today by the Government Operations Committee, responds to an undeniable, long-standing failure in government organization and operation—resulting in a crippled and ineffectual response to the critical national drug abuse problem. Drug abuse research, treatment, education, and prevention will all benefit in that important treatment modalities of all kinds, including methadone maintenance, will be considered and evaluated centrally.

The bill as reported, represents a major, bipartisan compromise reached after extensive negotiations over a period of many weeks between the White House, the Attorney General and Senators RIBICOFF, MUSKIE, HUGHES, PERCY, GURNEY, and myself. I commend all parties to this compromise for their determined effort to reach such broad agreement on a sensitive issue of singular national importance. I particularly commend our distinguished chairman, Senator McCLELLAN for his leadership in developing this legislation.

In proposing S. 2097, the administration has put a high priority upon the marshalling of existing and new resources in a genuinely innovative effort to improve our performance in dealing with this intrinsically complex problem.

If our drug abuse programs at the Federal level are going to receive wide public support, we must have an intelligent, coordinated, and consistent drug policy at the national level. The largest, single obstacle to the achievement of that objective has been the fragmentation of effort in drug abuse control among so many Federal and local agencies, each of them jealously guarding its independent prerogative and authority.

The Special Action Office proposed in this bill—under the able direction of Dr. Jerome H. Jaffe—is intended to overhaul the capacity of the total government to integrate and coordinate the Federal role in this area. We will now be able to consider seriously how we can go about changing public attitudes toward drugs, and developing realistic social controls. Hopefully, we may yet be able to have a significant impact upon the treatment and rehabilitation problems now overwhelming the Nation's health and social welfare agencies.

The bill has been referred to the Labor and Public Welfare Committee where several important additional provisions within the jurisdiction of that committee will be considered. As ranking Republican member of that committee, and as author, with the Senator from Iowa (Mr. HUGHES), of the provisions that will be added to the bill, I am confident that they will be acted upon expeditiously. The further assistance of Senator

HUGHES, who has long provided outstanding leadership in this field will be invaluable as our committee and the Senate considers this critically important legislation.

Mr. McCLELLAN. Mr. President, I am proud of S. 2097 and the efforts of my distinguished colleagues—particularly Senators RIBICOFF, MUSKIE, PERCY, and JAVITS—in processing this very comprehensive bill to fight drug abuse. That this measure was reported unanimously today from our committee in my judgment bespeaks its merits and the effective role all of our Members feel it will play in leading our Nation's attack on the evils of illicit drug use.

We badly need the coordination and direction this bill will provide in our fight to eradicate illegal narcotics activity. I am confident this legislation will help us to combat trafficking in drugs and hopefully restore to useful life thousands of those who have been victimized and enslaved through the use of such instruments of destruction.

The illicit drug traffickers and the victims of drug addiction cause an untold amount of suffering not only to the users and their families—but also to the social, political, and economic fabric of our Nation. S. 2097 will help us to move promptly and bring to bear the full weight and impact of our resources against this insidious enemy.

We must prevent drugs from crippling more of our youth—both civilian and military—and from crippling the future of this great land. The money called for in S. 2097—\$202 million over the present and next 3 fiscal years—is a modest investment, indeed, if we can overcome the costly horrors this menace has already wrought in America, and hopefully rehabilitate many of those who have suffered in its grasp. We must take positive action now to eliminate this threat lest it escalates beyond control.

ENROLLED BILLS SIGNED

The PRESIDENT pro tempore announced that on today, November 17, 1971, he signed the following enrolled bills, which had previously been signed by the Speaker of the House of Representatives:

H.R. 4729. An act to amend section 2107 of title 10, United States Code, to provide additional Reserve Officers' Training Corps scholarships for the Army, Navy, and Air Force, and for other purposes;

H.R. 7072. An act to amend the Airport and Airway Development Act of 1970 to further clarify the intent of Congress as to priorities for airway modernization and airport development, and for other purposes; and

H.R. 11418. An act making appropriations for military construction for the Department of Defense for the fiscal year ending June 30, 1972, and for other purposes.

INTRODUCTION OF BILLS AND JOINT RESOLUTIONS

The following bills and joint resolutions were introduced, read the first time and, by unanimous consent, the second time, and referred as indicated:

By Mr. CURTIS:

S. 2864. A bill to amend the Agricultural Act of 1970 to authorize the Secretary of Agriculture to make, for purposes of farm

production history, appropriate adjustments in the per acre yield of farms on which production has increased substantially as the result of the introduction of irrigation on such farms. Referred to the Committee on Agriculture and Forestry.

By Mr. HATFIELD:

S. 2865. A bill to amend the Social Security Act to provide for partial general revenues financing of benefits under title II thereof, to make social security benefits subject to income taxation, to permit individuals covered under certain other retirement programs to elect not to be covered under social security, and to provide for the financing from general revenues of the health insurance programs established by parts A and B of title XVIII of such Act. Referred to the Committee on Finance.

By Mr. HARTKE (for himself, Mr. COOK, Mr. CRANSTON, Mr. HANSEN, Mr. HUGHES, Mr. RANDOLPH, Mr. STAFFORD, Mr. TALMADGE, and Mr. THURMOND):

S. 2866. A bill to amend title 38 of the United States Code to liberalize the provisions relating to payment of dependency, death pension, and for other purposes; and

S. 2867. A bill to amend title 38 of the United States Code to liberalize the provisions relating to payment of dependency and indemnity compensation. Referred to the Committee on Veterans' Affairs.

By Mr. BIBLE:

S. 2868. A bill for the relief of Antoine Georgios Andriopoulos. Referred to the Committee on the Judiciary.

By Mr. HARTKE:

S. 2869. A bill to provide for the inclusion in printed media advertising and upon bills of a conspicuous statement of a cigarette health warning; and

S. 2870. A bill to provide for regulation of business franchises, to require a full disclosure of the nature of interests in business franchises, to provide for increased protection of the public interest in the sale and operation of business franchises, and to provide for fair competition in the negotiation of franchise agreements. Referred to the Committee on Commerce.

By Mr. HUMPHREY (for himself, Mr. BAYH, Mr. BENTSEN, Mr. BROOKE, Mr. CASE, Mr. CRANSTON, Mr. HARRIS, Mr. HART, Mr. HATFIELD, Mr. JAVITS, Mr. KENNEDY, Mr. MCGEE, Mr. MONTOMERY, Mr. MONDALE, Mr. MOSS, Mr. MUSKIE, Mr. NELSON, Mr. PELL, Mr. STEVENSON, Mr. TUNNEY, and Mr. WILLIAMS):

S.J. Res. 177. A joint resolution relating to the publication of economic and social statistics for Spanish-speaking Americans. Referred, by unanimous consent, to the Committee on Labor and Public Welfare.

STATEMENTS ON INTRODUCED BILLS AND JOINT RESOLUTIONS

By Mr. HATFIELD:

S. 2865. A bill to amend the Social Security Act to provide for partial general revenues financing of benefits under title II thereof, to make social security benefits subject to income taxation, to permit individuals covered under certain other retirement programs to elect not to be covered under social security, and to provide for the financing from general revenues of the health insurance programs established by parts A and B of title XVIII of such act. Referred to the Committee on Finance.

FINANCING REFORM OF SOCIAL SECURITY MEDICARE

Mr. HATFIELD. Mr. President, I am bringing to the desk a bill to amend the Social Security Act.

Mr. President, an index of the history

of any civilization is how it takes care of its elderly. In our society, we have provided social security since 1935—albeit somewhat behind the first social security legislation which originated in Bismarck's Germany in 1881. Still, for us it was a noble experiment. Virtually all Americans have grown to love and support the social security system. However, the system has become so encumbered with changes since its inception that few really know how it works, and even fewer would attempt to criticize it. Yet, there are upon examination, many shortcomings of the present system, some of which I would like to focus on today.

Today, social security is neither social nor security. It is not social in that all society does not equally participate. Nor is it security in that some are excluded, many are paid too little to retire on, and the trust fund concept is a sham that has little relationship to the insurance principles.

Let me first elaborate on the social part of social security. That is, who pays for the retirement of the elderly? As it now stands, as emphasized by the President's 1971 Advisory Council on Social Security and by the reports of the Brookings Institution, the social security system represents a transfer of income from lower and middle-income workers to the elderly unemployed. Social security contributions that support the system are not really insurance premiums, they are taxes. In fact, young workers could get three times the benefits from a private plan for such a level of contributions. They are taxes on the wage of workers—currently the first \$7,800 of earnings, but to rise to the \$10,200 level in 1980, and \$14,000 by 1986 in the House-passed bill (H.R. 1). The current 5.2-percent tax on wages up to this level is matched by an equal amount from employers. But as the Brookings Institution has shown, this additional tax is really also paid by workers because employers shift this tax back to workers by lower wages—or fewer jobs.

This means that the social security tax is now the most important tax for all workers earning under \$10,000 per year. Next year, its total cost to the \$10,000 worker will exceed that of his income tax. Under the existing bill this will be a 15-percent tax on the earnings of a \$10,000 man by 1977, a far cry from the original measure 36 years ago that placed each employee and employer 1 percent of the first \$3,000 of wage earnings. The social security contributions, the payroll tax, have become the second most important tax in the American system—approaching \$50 billion, and only to the income tax. But, the point here is that this tax falls on lower and middle-income wage earners because the tax rate rises to about 15 percent this year and \$10,200 next year. It is at zero on all nonwage income—dividends, rent, interest, and thus, the original concept of insuring the retired wage earner on a contributory basis is negated.

It is established that the social cost of caring for the elderly is borne in part by the retired wage earner on a contributory basis is negated.

VII—2621—Part 32

of lower and middle-income working people, let us now turn to the security aspect of social security. More than 27 million Americans receive social security benefits. More than 90 percent of Americans are covered by the system. But how does the system work in providing security?

Surely, for some recipients, \$100 a month is not a sufficient pension on which to live.

Surely, for the wealthy the social security benefits are not really needed, nor for that matter, even taxed.

Surely, for some, they do not represent work actually done. It is possible to qualify for social security by having had shares in oil lease operations that are defined as self-employed income.

Surely, for others, that growing number who choose to work after 65 and add to the national product, there are no social security benefits even though they might have paid social security taxes all their working lives and are still taxed after 65 on their current incomes.

And surely, there is no vast trust fund to pay out pensions for the future—the trust fund is only \$36 billion, about 1 year's payments—for the payments are primarily financed by taxes on the working generation. And that is the critical point. To run the social security system as a private pension scheme is a myth recognized by social security experts. To put the system on a true actuarial basis would mean generating a fund equaling \$200 billion by 1986 and nearly \$1 trillion—equal to our current GNP—by the year 2025. To maintain this myth in the law means much higher payroll taxes now on the current generation. In fact, social security taxes would be falling, rather than increasing, if it were recognized that the most appropriate way to run a social security system is on a pay-as-you-go system. This is how many European countries are doing it—it is also the way it should be done here. The present system is based on the totally unrealistic assumption that wages will not rise over the next generation—and thus tax rates now have to grow higher over the years to pay for the greater cost of pensions in the future. This really means that the unified Federal budget tends to get more and more financial support from wage taxes on the lower- and middle-income groups, rather than from our traditional progressive tax sources, such as the income tax. Indeed, while the income tax rate is falling, the social security rate is rising. The fellow making just under \$200 a week will see his social security tax payments rise from \$405 to \$755 by 1977, while his income tax payments are scheduled to fall. This also means that the fall in the income tax payments by the rich—for some the rate has fallen from 91 percent to 50 percent—is really being subsidized by higher payroll taxes on lower- and middle-income workers.

WHAT SHOULD BE DONE?

Recognizing that taking care of the elderly is a social responsibility of the rich as well as the middle- and lower-income workers; and

Recognizing that benefits should flow to all Americans in adequate amounts to sustain a decent living standard;

I propose the following recommendations:

First, social security taxes and payments should be on a purely pay-as-you-go basis to avoid the overtaxing of the current working generation. Anyone who has studied this subject knows that it is always the current generation of workers that must provide for those not able to work. It is unfair to use a payroll tax to finance other current projects of the Government which can and should be paid for by traditional progressive tax measures based on the ability to pay;

Second, the social security benefit system should be separated from medicare with respect to financing, while medicare would continue to be administered by the Social Security Administration. Medicare would be financed by general tax revenues which would significantly lower the burden on the wage earners who are presently bearing the financial responsibility for it;

Third, the payroll tax should be made optional to the worker as long as he or she is a member of an insurance or pension program of at least comparable magnitude in his or her judgment. This is only fair in that private insurance and pension plans now offer more incentive than would the Federal plan on a free market. And the goal is security in one's old age; and

Fourth, the first \$100 per month of social security benefits should be financed out of the general revenue, not the payroll tax. Today, an individual can be eligible for benefits of a program into which he has paid very little, the burden falling on the other wage earners contributing to social security. If it is accepted that an individual is entitled to benefits that are not related to how much he has contributed to social security, then the middle and lower wage earner should not have to bear the primary responsibility.

This plan could both spur recovery—by across-the-board payroll increase for workers to spend—and fight inflation by cutting labor costs of unit production as well as to revive business profits. It would increase employment and help the American balance of payments in competing with imports, while making exports more competitive. The new burden of social security would be more equitably distributed than the old burden of disproportionately taxing the lower and middle income workers.

Mr. President, I ask unanimous consent that the text of the bill be printed in the RECORD at this point.

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

S. 2865

A bill to amend the Social Security Act to provide for partial general revenues financing of benefits under title II thereof, to make social security benefits subject to income taxation, to permit individuals covered under certain other retirement programs to elect not to be covered under social security, and to provide for the financing from general revenues of the health insurance programs established by parts A and B of title XVIII of such Act

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

FINANCING FROM GENERAL REVENUES OF FIRST \$100 OF SOCIAL SECURITY BENEFITS

SECTION 1. Section 201 of the Social Security Act is amended by adding at the end thereof the following new subsection:

"(i) In addition to any monies appropriated, pursuant to the preceding provisions of this section, for any fiscal year to the Federal Old-Age and Survivors Insurance Trust Fund and to the Federal Disability Insurance Trust Fund, there is authorized to be appropriated to each such Fund in or with respect to each fiscal year, commencing with the fiscal year ending June 30, 1973, an amount equal to the amount of the expenses (other than administrative expenses) of each such Fund which are attributable to payments from such Fund, during such fiscal year, of monthly insurance benefits under this title to individuals (excluding, in determining the amount of such expenses incurred with respect to any individual, so much of any monthly insurance benefit of such individual as exceeds \$100)."

ELECTIVE EXEMPTION FROM SOCIAL SECURITY COVERAGE BY INDIVIDUALS COVERED UNDER CERTAIN OTHER RETIREMENT PROGRAMS

SEC. 2. (a) (1) Section 210 of the Social Security Act is amended by adding at the end thereof the following new subsection:

"SERVICES EXCLUDED UNDER ELECTION MADE BY INDIVIDUAL COVERED BY QUALIFIED RETIREMENT PROGRAMS

"(p) Notwithstanding the provisions of subsection (a), the term 'employment' shall not include any service with respect to which an election under section 3121(r) of the Internal Revenue Code of 1954 applies."

(2) Section 211(a) of such Act is amended—

(A) by striking out "and" at the end of paragraph (8);

(B) by striking out the period at the end of paragraph (9) and inserting in lieu thereof "; and"; and

(C) by inserting after paragraph (9) the following new paragraph:

"(10) There shall be excluded any income (and related items) with respect to which an election under section 1402(i) of the Internal Revenue Code of 1954 applies."

(b) (1) Section 1402(a) of the Internal Revenue Code of 1954 (relating to definition of net earnings from self-employment) is amended—

(A) by striking out "and" at the end of paragraph (9);

(B) by striking out the period at the end of paragraph (10) and inserting in lieu thereof "; and"; and

(C) by inserting after paragraph (10) the following new paragraph:

"(11) there shall be excluded any income (and related items) with respect to which an election under subsection (i) applies."

(2) Section 1402 of such Code (definitions relating to tax on self-employment income) is further amended by adding at the end thereof the following new subsection:

"(i) ELECTION OF EXEMPTION BY INDIVIDUALS COVERED BY QUALIFIED PROGRAMS.—

"(1) IN GENERAL.—Any individual who at the close of his taxable year is covered by a qualified retirement program (as defined in section 3121(r)) may, at his option, in such manner and form and at such time as the Secretary or his delegate shall by regulations prescribe, elect to be exempt from the tax under section 1401 for such taxable year. An election made by an individual for any taxable year under this paragraph shall be irrevocable (and may not be subsequently changed by amendment of such individual's return for such year or otherwise).

"(2) APPLICABILITY OF ELECTIONS.—An election made by an individual under paragraph (1) shall apply with respect to all income derived during the taxable year for which it is made from every trade or business car-

ried on by such individual (and with respect to all deductions attributable to each such trade or business and any distributive shares of income or loss therefrom), and shall be effective with respect to any payments of estimated tax for the taxable year under section 6153 which fall due after it is made.

"(3) REQUIREMENT OF SIMULTANEOUS ELECTION WITH RESPECT TO EMPLOYMENT.—No election may be made for any taxable year under paragraph (1) by an individual who during such year performed service which constituted (for would but for an election under section 3121(r) constitute) 'employment' for purposes of chapter 21 unless such individual also makes an election with respect to all such service under section 3121(r); and, under regulations prescribed by the Secretary or his delegate, the election under paragraph (1) shall also include or be accompanied by such an election under section 3121(r)."

(c) Section 3121 of such Code (definitions under Federal Insurance Contributions Act) is amended by adding at the end thereof the following new subsection:

"(r) SERVICE EXCLUDED UNDER ELECTION MADE BY INDIVIDUAL COVERED BY QUALIFIED RETIREMENT PROGRAM.—

"(1) IN GENERAL.—For purposes of this chapter other than for purposes of the taxes imposed by section 3111, the term 'employment' shall not include any service with respect to which an election under paragraph (2) applies.

"(2) ELECTION OF EXEMPTION.—

"(A) IN GENERAL.—Any individual who at the close of his taxable year (which shall be determined in the manner provided by section 211(e) of the Social Security Act) is covered by a qualified retirement program may, at his option, in the manner provided in subparagraph (C), elect to be exempt from the tax under section 3101 for such taxable year. An election made by an individual for any taxable year under this paragraph shall be irrevocable (and may not be changed by amendment of such individual's return for such year or otherwise).

"(B) APPLICABILITY OF ELECTION.—An election made by an individual under this paragraph shall apply with respect to all service performed by such individual during the taxable year for which it is made which would constitute 'employment' for purposes of this chapter but for this subsection.

"(C) MANNER OF ELECTION.—An election by an individual under this paragraph to be exempt from the tax under section 3101 for any taxable year may be made only by filing a claim (which must be included in or accompany an election made under section 1402(i) (1) in the case of an individual who is described in section 1402(i) (3)) for a special refund of such tax under section 6413(d), by means of a credit against the income tax on account thereof under section 31(b) for such taxable year or otherwise.

"(3) MEANING OF 'QUALIFIED RETIREMENT PROGRAM'.—

"For purposes of this paragraph (and for the purposes of section 1402(i)) a 'qualified retirement program' means a program designed to provide, for workers covered thereunder, retirement, survivor and disability benefits which the Secretary of Health, Education, and Welfare determines to be comparable in value to the retirement, survivor, and disability benefits provided to individuals covered by the insurance program established by title II of the Social Security Act. An individual shall be deemed to have been covered by a qualified retirement program at the end of his taxable year only if he made (or had made on his behalf) contributions to, and was covered by, such program for all of the months of such year."

(d) (1) Section 6413 of the Internal Revenue Code of 1954 (special rules applicable

to certain employment taxes) is amended by redesignating subsection (d) as subsection (e), and by inserting after subsection (c) the following new subsection:

"(d) SPECIAL REFUNDS ARISING OUT OF EXEMPTIONS BASED ON COVERAGE OF QUALIFIED RETIREMENT PROGRAM.—

"(1) IN GENERAL.—If an employee described in section 3121(a) (2) (A) receives wages from one or more employers for services performed during the taxable year, such employee shall be entitled (subject to the provisions of section 31(b)) to a credit or refund of any amount of tax, with respect to such wages, imposed by section 3101 and deducted from the employee's wages (whether or not paid to the Secretary or his delegate).

"(2) NOTIFICATION TO SECRETARY OF HEALTH, EDUCATION, AND WELFARE.—The Secretary or his delegate shall promptly notify the Secretary of Health, Education, and Welfare of each special refund allowed under this subsection."

(2) Section 6413(c) of such Code (relating to special refunds) is amended—

(A) by inserting "Based on Multiple Employment" after "Refunds" in the heading; and

(B) by inserting after "during such year" where it appears in clause (D) of paragraph (1) the following:

"(after the application of section 3121(r) (1) in any case to which it applies)."

(e) Section 31(b) of such Code (relating to credit for special refunds of social security tax) is amended—

(1) by inserting "or 6413(d)" after "section 6413 (c)" in paragraph (1); and

(2) by inserting after "to which paragraph (1) applies" in paragraph (2) the following:

"and which represents a special refund allowable under section 6413(c)."

(f) Section 205(c) (5) (F) (i) of the Social Security Act is amended by inserting after "information returns" the following: "elections made under sections 1402(i) and 3121(r) of the Internal Revenue Code of 1954."

(g) The amendments made by this section shall apply only with respect to taxable years beginning after the date of the enactment of this Act.

FINANCING OF MEDICARE PROGRAMS FROM GENERAL REVENUES

SEC. 3. (a) (1) Section 1401 of the Internal Revenue Code of 1954 (relating to rate of tax on self-employment income) is amended—

(A) by striking out subsection (b) thereof; and

(B) by striking out "(a)" at the beginning of such section.

(2) (A) Section 3101 of such Code (relating to rate of tax on employees) is amended—

(i) by striking out subsection (b) thereof; and

(ii) by striking out "(a)" at the beginning of such section.

(B) Section 3111 of such Code (relating to rate of tax on employers) is amended—

(i) by striking out subsection (b) thereof; and

(ii) by striking out "(a)" at the beginning of such section.

(3) Section 6051(c) of such Code (relating to statements required to be furnished by employees by employers) is amended by striking out the last sentence thereof.

(4) (A) The amendments made by paragraph (1) shall be effective in the taxable years beginning after December 31, 1971.

(B) The amendments made by paragraph (2) (A) shall be effective with respect to wages received after December 31, 1971.

(C) The amendments made by paragraph (2) (B) shall be effective with respect to wages paid after December 31, 1971.

(b) (1) Section 1832 of the Social Security Act is amended by adding at the end thereof the following new subsection:

"(i) There are authorized to be appropriated to the Federal Hospital Insurance Trust Fund for each fiscal year (commencing with the fiscal year ending June 30, 1972) such sums as may be necessary to assure a sufficiency of monies in such Fund to permit the making of such payments therefrom as are authorized by law. Any funds authorized to be appropriated to such Fund by this subsection for any fiscal year shall be in addition to any funds authorized to be appropriated for such year to such Fund under any other provision of law."

(2) (A) Section 1837 of such Act is amended by adding at the end thereof the following new subsection:

"(f) Notwithstanding any other provision of this title, if, for any month, any individual is entitled to the insurance benefits provided under part A, such individual shall be deemed to be enrolled in the insurance program established by this part for such month and to be entitled to the benefits provided under such program."

(B) Section 1839(c) of such Act is amended by adding at the end thereof the following new sentence: "The preceding provisions of this subsection shall not be applicable to any individual deemed, under section 1837(f), to be enrolled in the insurance program established by this part."

(C) Section 1840 of such Act is amended by adding at the end thereof the following new subsection:

"(j) For purposes of this part, any premium owed by an individual, who is deemed (under section 1837(f)) to be enrolled for any month in the insurance program established by this part, shall be deemed to have been timely paid."

(D) Section 1844(a) of such Act is amended—

(i) in paragraph (1), (I) by inserting "(disregarding from such aggregate any premiums deemed to be paid under section 1840(f))" immediately after "Trust Fund"; and (II) by striking out "and" at the end thereof;

(ii) in paragraph (2), by striking out the period at the end thereof and inserting in lieu of such period "; and"; and

(iii) by adding after paragraph (2) the following new paragraph:

"(3) A Government contribution equal to 200 per centum of the aggregate of the premiums deemed to be paid under section 1840 (f)."

(E) Section 1844(a) of such Act is amended—

(i) in paragraph (1), (I) by inserting "(disregarding from such aggregate any premiums deemed to be paid under section 1840(f))" immediately after "Trust Fund"; and (II) by striking out "and" at the end thereof;

(ii) in paragraph (2), by striking out the period at the end thereof and inserting in lieu of such period "; and"; and

(iii) by adding after paragraph (2) the following new paragraph:

"(3) A Government contribution equal to 200 per centum of the aggregate of the premiums deemed to be paid under section 1840 (f)."

(F) Section 1844(a) of such Act is amended—

(i) in paragraph (1), (I) by inserting "(disregarding from such aggregate any premiums deemed to be paid under section 1840(f))" immediately after "Trust Fund"; and (II) by striking out "and" at the end thereof;

(ii) in paragraph (2), by striking out the period at the end thereof and inserting in lieu of such period "; and"; and

(iii) by adding after paragraph (2) the following new paragraph:

"(3) A Government contribution equal to 200 per centum of the aggregate of the premiums deemed to be paid under section 1840 (f)."

(G) Section 1844(a) of such Act is amended—

(i) in paragraph (1), (I) by inserting "(disregarding from such aggregate any premiums deemed to be paid under section 1840(f))" immediately after "Trust Fund"; and (II) by striking out "and" at the end thereof;

(ii) in paragraph (2), by striking out the period at the end thereof and inserting in lieu of such period "; and"; and

(iii) by adding after paragraph (2) the following new paragraph:

"(3) A Government contribution equal to 200 per centum of the aggregate of the premiums deemed to be paid under section 1840 (f)."

(H) Section 1844(a) of such Act is amended—

(i) in paragraph (1), (I) by inserting "(disregarding from such aggregate any premiums deemed to be paid under section 1840(f))" immediately after "Trust Fund"; and (II) by striking out "and" at the end thereof;

(ii) in paragraph (2), by striking out the period at the end thereof and inserting in lieu of such period "; and"; and

(iii) by adding after paragraph (2) the following new paragraph:

"(3) A Government contribution equal to 200 per centum of the aggregate of the premiums deemed to be paid under section 1840 (f)."

(I) Section 1844(a) of such Act is amended—

(i) in paragraph (1), (I) by inserting "(disregarding from such aggregate any premiums deemed to be paid under section 1840(f))" immediately after "Trust Fund"; and (II) by striking out "and" at the end thereof;

(ii) in paragraph (2), by striking out the period at the end thereof and inserting in lieu of such period "; and"; and

(iii) by adding after paragraph (2) the following new paragraph:

"(3) A Government contribution equal to 200 per centum of the aggregate of the premiums deemed to be paid under section 1840 (f)."

Mr. President, in the 1969 committee report the chairman of the committee and the chairman of the Consumer Subcommittee, said that—

Cigarette advertising in the broadcast media has been by far the most offensive means of cigarette promotion to the public health community, particularly because of the defenselessness of young people against the impact of radio and television.

Today, cigarette advertising is off the airwaves as a result of congressional action.

In 1969, it was said that advertising in newspapers and magazines "can perform a socially useful function by disclosing relative tar and nicotine levels."

Today, that function is generally being performed by the manufacturers.

In 1969, it was pointed out that without a warning in advertising, "the public will have no meaningful defense, even against a massive onslaught of print advertising employing themes designed to obscure the medical verdict against cigarette smoking."

Mr. President, my bill would achieve all of the goals called for in 1969 to protect the American consumer and would preclude a deception which might well provide an unwarranted competitive advantage where none should exist.

By Mr. HARTKE:

S. 2870. A bill to provide for regulation of business franchises, to require a full disclosure of the nature of interests in business franchises, to provide for increased protection of the public interest in the sale and operation of business franchises, and to provide for fair competition in the negotiation of franchise agreements. Referred to the Committee on Commerce.

FRANCHISE FAIR DISCLOSURE ACT

Mr. HARTKE. Mr. President, the recent proliferation of franchises and the ever-increasing possibility that many citizens may be damaged permanently by the gross misrepresentations of franchisors has made it quite clear that the time has come for the Federal Government to protect individuals against exploitation by unscrupulous franchise corporations. We find ourselves in a situation where would-be small businessmen are ruined before their businesses ever get underway.

The franchise business is growing at an ever-increasing rate. Today there are over 40,000 franchises that did not exist just 5 years ago. Recent years have seen burgeoning franchise sales records. For example, in 1969-70, the sale of franchises reached an estimated \$90 billion per year, with an estimated 1,000 franchisors and some 500,000 franchisees operating nationwide. This mammoth marketing system now represents some \$100 billion in retail sales annually. In light of these circumstances, there are no acceptable statutes or uniform codes that regulate the behavior of the franchisor-franchisee relationship in what has become one the Nation's largest industries.

The Franchise Fair Disclosure Act, is an attempt to provide State and local governments with a basic outline and standard of procedure. We must remember that while franchising as a market-

ing method is not new on the American financial stage, the recent phenomenal growth is. Therefore, legislation is needed to bring order to this field and to control its enormous growth while such statistical information is developed. My bill will accomplish this goal.

Likewise, Mr. President, legislation is needed to protect the individual. In many cases, persons who enter into a franchise agreement have invested their savings in anticipation of promised earnings. We are dealing here with a great American dream—a man's wish to operate his own business and benefit from the enterprise's success. Unfortunately, in far too many cases, dreams are crushed and life earnings lost to disreputable franchise corporations.

As the scope and intensity of involvement becomes broader, there is a shift in the success of the enterprise from the corporation to the franchisee. Too often, prospective buyers of a franchise are misled by such advertisements or brochures which read "no experience necessary" or "we provide everything." In many cases, experience may be quite helpful, and the franchisor does not supply everything as the advertisement indicated. The time has come for a comprehensive bill to protect the buyer of a business, as well as to ensure the integrity of the franchise industry.

Mr. President, the bill I propose would compel all franchise operations in the United States—including the District of Columbia and U.S. Territories—to be registered with the Federal Trade Commission—FTC.

The FTC would be empowered to review all applications for registration to determine if the franchisor has acted in good faith in his efforts to produce fair and full disclosure of all facts directly or indirectly related to the franchise operation. Registration would also act as a bank for collecting statistical data on franchising. The disclosure of these facts would be made to all franchisees and to the FTC, except in cases where the Commission has seen fit to exempt disclosure.

Exemption from disclosure is permissible under the provisions of this bill if the franchisor has demonstrated himself to be of solid financial standing and has operated at least 25 franchises over a specified period. The Federal Trade Commission, however, would have the power to require franchisors of this latter type to file fair and full disclosure statements.

The bill provides that the disclosure statement shall contain such information as the Commission may require by law, and any other information the Commission may request of the franchise corporation. The disclosure statement would include: Disclosure of the franchisor's name and State of incorporation; the names, addresses, and biographical data concerning each of the franchisor's directors and principal officers; a statement as to whether the franchisor or any of its directors or officers has been involved in certain legal or quasi-judicial proceedings; and a series of statements concerning franchise fees, costs, and obligations.

The disclosure statement set forth in this bill will protect the individual, and at the same time insure future progress in the franchise industry. For too long,