

INDUSTRIAL DEVELOPMENT BONDS

Mr. DENNEY. Governor, I was quite interested in your testimony on page 3 with reference to the tax exemption industrial development bonds. I know that you and your staff are aware of the fact that the FEC also has a proposed regulation to remove the exemption of political subdivisions. And it seems to me we are getting into the program here where the Federal Government is trying to say the political subdivisions have come to Washington to get your financing. And this bothers me.

Now, you say on page 3 that you are aware of the indiscriminate use in industrial development bonds and you support appropriate action to prevent these abuses. Now, I take it that you do feel that the industrial development bonds to a certain limitation should have a tax-exempt status, because it helps especially in rural areas, small communities, to bring industry in.

Could you comment about what appropriate action would you support to prevent these abuses?

(Mr. Dorn assumed the Chair.)

Governor ROCKEFELLER. Well, I think the basic concept of the tax-exempt bond is that it should be used for a State or local governmental purpose, and not just to help a private industry get a competitive advantage over another industry, that it must be for some clear objective, that is an objective accepted by the people as a purpose, social purpose. For instance, you have a slum area where there is high unemployment to help attract an industry back into that area where they can give blue collar employment, where the people are now being supported by welfare relief.

Mr. DENNEY. In other words, industrial development bonds would set up industry in areas where there is unemployment, then it has a definite basic purpose in our financial structure?

Governor ROCKEFELLER. Yes.

Mr. DENNEY. Is it not true also, and I suppose your staff has studied this, that we are violating a constitutional decision where we are saying that one political subdivision cannot tax another? Here we are considering legislation that should be in the Ways and Means Committee, rather than here, and we are saying that the Federal Government will tax a political subdivision bonds, and to me this is absolutely contrary to the very basic constitutional question that has been the rule of law in this country since its founding.

I appreciate your coming here, Governor.

Mr. DORN. Thank you.

Mr. McDONALD.

Mr. McDONALD. Governor, the members of this committee are well aware of the good work that you have accomplished for New York in this water pollution problem. We are very pleased that you have come here today and shared your experience with us.

CONCEPT OF FEDERAL SYSTEM INVOLVED

Governor ROCKEFELLER. You are very kind. I appreciate the opportunity. I think this is a very important question, that is both in relation