United States of America

Congressional Record

PROCEEDINGS AND DEBATES OF THE 104th CONGRESS, FIRST SESSION

Vol. 141 WASHINGTON, WEDNESDAY, FEBRUARY 1, 1995 No. 20

Senate

(Legislative day of Monday, January 30, 1995)

The Senate met at 9:30 a.m., on the expiration of the recess, and was called to order by the President pro tempore [Mr. THURMOND].

PRAYER

The Chaplain, the Reverend Richard C. Halverson, D.D., offered the following prayer:

Let us pray:

*I exhort therefore, that, first of all, supplications, prayers, intercessions, and giving of thanks, be made for all men; For kings, and for all that are in authority; that we may lead a quiet and peaceable life in all godliness and honesty. For this is good and acceptable in the sight of God our Saviour * * *.*—1 Timothy 2:1–3.

Eternal God, Lord of history, Ruler of the nations, with grateful hearts we anticipate the annual national prayer breakfast to be held tomorrow morning. We pray that You will govern every detail of that significant event. As this microcosm of the world gathers—from every State in the Union and from more than 150 nations—make Your presence felt, and guide each participant.

We pray for a special blessing upon President and Mrs. Clinton, Vice President and Mrs. Gore, and all those from the executive, legislative, and judicial branches of Government who are present, that they may be specially blessed and strengthened. We pray for Thy blessing upon the heads of state from a number of nations who will be present.

Grant, mighty God, that this will not be just an event soon forgotten, but that it shall become a tidal wave of prayer for the Nation and the world.

In the name of the Lord of Lords and the King of Kings. Amen.

RECOGNITION OF THE ACTING MAJORITY LEADER

The PRESIDENT pro tempore. The acting majority leader is recognized.

SCHEDULE

Mr. LOTT. Mr. President, the time for the two leaders has been reserved. There will be a period for morning business until 11:30 a.m. with Senators to speak for not to exceed 5 minutes each with the exception of the following Senators: Senator GRAHAM for 20 minutes, Senator HARKIN for 15 minutes, Senator BRADLEY for 15 minutes, Senator BENNETT for 15 minutes, Senator MURKOWSKI for 15 minutes, Senator DORGAN for 10 minutes, and Senator GRAMS of Minnesota, 10 minutes.

At 11:30 the Senate will resume consideration of House Joint Resolution 1, the constitutional balanced budget amendment.

Mr. President, since there is no Senator seeking recognition at this particular moment, I do observe the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mr. LOTT. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER (Mr. FRIST). Without objection, it is so ordered.

Mr. LOTT. Mr. President, I understand, by an understanding that has been reached, Senator HATFIELD will share in the time Senator GRAHAM of Florida has been designated, and Senator HATFIELD is here and ready to proceed.

MORNING BUSINESS

The PRESIDING OFFICER. Under the previous order there will now be a period for the transaction of morning business not to extend beyond the hour of 11:30 a.m., with Senators permitted to speak therein for not to exceed 5 minutes each.

Under the previous order, the Senator from Florida is recognized to speak for up to 20 minutes.

Mr. GRAHAM. Mr. President, it will be my intention to yield a portion of my time to my colleague and cosponsor of the legislation we will be introducing today, Senator HATFIELD.

(The remarks of Mr. GRAHAM and Mr. HATFIELD pertaining to the introduction of S. 308 are located in today's RECORD under ''Statements on Introduced Bills and Joint Resolutions.'')

The PRESIDING OFFICER (Mr. INHOFE. Under the previous order, the Senator from Iowa is recognized to speak for up to 20 minutes.

FEDERAL RESERVE WILL RAISE INTEREST RATES AGAIN

Mr. HARKIN. Mr. President, it is widely rumored that the Federal Reserve will raise interest rates today for the seventh time in the past year. Hard-working Americans all across this country can only hope that the Fed will give a second thought to an unnecessary and destructive action. The Federal Reserve is an independent and powerful fourth branch of Government—a branch of Government, I might add, that is unelected and essentially unchecked by reasonable examination.

While I disagree with Alan Greenspan's policies, I must give him credit for a superb ability to manipulate the press and many others, including many Members of Congress. Somehow, Mr. Greenspan has created an aura of naturalism, a feeling that his actions are somehow preset by immutable economic realities, some form of the invisible hand operating there that causes

● This ''bullet'' symbol identifies statements or insertions which are not spoken by a Member of the Senate on the floor.

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us to do things that we cannot change. In fact, his position is based on a conservative ideology that favors the long-term interest of bondholders and bankers but shows little sympathy for hard-working, middle-income families.

In fact, his policies are specifically intended to force a significant number of breadwinners out of work and into the unemployment lines. In fact, I read in the paper the other day that Mr. Greenspan, in testimony, was saying that unemployment rates were coming down and they were approaching a 5.4-percent rate of unemployment, and he thought that was getting too low, that unemployment ought to be higher than that. That is his feeling. That is where he is coming from.

Thus, the Federal Reserve's policies are designed to keep millions of Americans out of work, in spite of the fact that the law which governs them specifically provides that the Federal Reserve is to balance the goal of maximizing production and employment with the goal of keeping prices stable and moderating long-term interest rates.

Mr. President, as I said earlier, the Federal Reserve has already raised interest rates six times over the past year. As a result, the prime rate increased from 6 to 8.5 percent, a 41-percent jump in interest rates in just 1 year. These actions by the Fed amount to a bill to the American taxpayers for $107 billion over 5 years—$713 per taxpayer. Why this bill? It is a bill to pay the resulting higher interest costs to service the Federal debt.

The Federal Reserve's repeated interest rate hikes have also had an important negative effect on Americans. They have cost nearly every business in the country large sums in higher interest rates.

In addition, the average buyer of a new house will pay an extra $158 per month on a fixed rate mortgage—that is nearly $1,900 a year, more than enough to prevent many Americans from attaining a key component of the American dream, owning your own home. Millions of other American families are being forced to pay more on their adjustable rate home mortgages, more on their bank loans, and more for interest rates on their cars and on their credit card balances.

Even more significantly, the six, and now probably seven, increases in interest rates will and are, in fact, designed to, eliminate jobs. Federal Reserve officials do not use those terms, although Mr. Greenspan came close to it in testimony the other day. But that is clearly their intent. Their intent is to keep unemployment high. They want to artificially slow the economy down and reduce the number of available jobs. In many cases, that will mean that people will be fired.

In other cases, that will mean that a job will not be there for someone looking for work. It will mean that families with breadwinners actively looking for work will not have their basic needs met. The financial strain on those families will cost both economic and psychological damage.

It also means an increase in the welfare roles. Some of us have been working hard to fix our broken welfare system. It is failing both the taxpayers and those who rely on it. But a key to welfare reform that works is the availability of good jobs. I think all of us agree that we want to move people from welfare to work and to self-sufficiency; that is, all but perhaps those on the Federal Reserve Board. Their recent penchant for raising interest rates in order to keep the unemployment rate up will make ending welfare as we know it impossible.

Why would the Federal Reserve want to do that? Well, there is an economic concept called nonaccelerating inflation rate of unemployment. This concept says that when unemployment falls below a certain level, it becomes harder to find employees, then it is easier to demand higher wages and wages will rise. Some economists think that the natural rate of unemployment in the United States—the point where lower unemployment will cause inflation—is about 6 percent. This, obviously, is what Mr. Greenspan believes.

The Fed's principal justification for its six increases in interest rates has been their fear of rising inflation. Well, let us take a look at that.

Last year, the Consumer Price Index, the CPI, went up a meager 2.7 percent, exactly the same rate of inflation as in 1993. If you take out the more volatile food and fuel costs, the rate increased by just 2.6 percent, the lowest rate of inflation since 1965. And, on top of that, Mr. Greenspan believes that the CPI was actually overstating inflation, as he says, by anywhere from 0.5 to 1.5 percent.

Mr. Greenspan has been talking a lot about this lately. He said it in testimony before a congressional committee.

Well, if he were right about the CPI being overstated by that much—and I have my doubts about that—then Mr. Greenspan has pushed a huge burden on our economy when even he believes that inflation has been under 2 percent a year over the last 3 years.

So Mr. Greenspan cannot have it both ways. He cannot say, on the one hand, we have to raise interest rates because inflation is threatening and, on the other hand, come before a committee of Congress and say that inflation has been overstated and it is really not as high as it has been; it really has been lower than that. He cannot have it both ways.

And yet, we now have interest rates going up for the seventh time in 1 year. Again, an ideology that says we have to reward the long-term bondholders but forget about our Main Street businesses; forget about our farmers; forget about our homeowners and young people wanting to buy a house; forget about people buying a car on time; people paying off college students loans. All of this goes up, not to mention, again, the fact that these rate increases have stuck the American taxpayer with an additional $107 billion tab to pay increased interest costs on the national debt.

For Alan Greenspan to push these further destructive increases in interest rates on the American people, while saying that inflation has been running at less than 2 percent, to me is the height of hypocrisy. Mr. Greenspan, as I said, cannot have it both ways.

I also note that the Fed Chairman recently indicated in testimony before the Finance Committee last week that he thinks there is likely to be a slowdown in the economy in the coming months. But he said that, ''I see it as crucial that we extend the recent trend of low and hopefully declining inflation in the years ahead.''

Well, Mr. President, we need balance between the need to fight inflation and the need to keep our economy moving. The law, as I read it, requires a balance. But, right now, there is no balance. There is an imbalance.

All of the Fed's weight is now toward the single goal of cutting any possibility of rising inflation in the future. That is wrong, and I believe it is very likely going to send our economy into a recession.

Robert Eisner, a respected professor at Northwestern University, made an excellent analogy, comparing the economy with a patient with clogged arteries. ''The patient would have a longer and better life by exercising and expanding the capacity of his heart and circulation system,'' Eisner said. ''But what Dr. Greenspan has done, I think unwisely, is simply to put the patient to bed.''

Well, Mr. Greenspan talks about the dangers of large deficits on the economy. And I agree with him on that point. We do need to keep our deficits coming down. But his push to higher interest rates is adding to the deficit—hugely. Higher Federal interest payments will add $107 billion to the Federal deficit over the next 5 years. This totally wipes out more than 20 percent of the deficit reduction achieved by our economic recovery package of 1993.

It is almost as if Mr. Greenspan does not want to see the efforts that we took here to reduce the deficit succeed. He is wiping out all of those gains that we have made to reduce the deficit.

There is considerable reason to believe the idea that inflation will automatically rise because the unemployment rate has fallen below 6 percent is wrong. Things have changed. Wages are more closely tied to productivity increases. And, there is a greater ability to move manufacturing overseas if the price of producing many items in the United States rises.

There have also been large changes in the retail sector. The large increase in discount stores is putting greater downward price pressures on the entire system. There is a growing willingness of consumers to use non-brand-name

products, also creating a real difficulty of manufacturers and retailers to raise prices.

Some people also see a new culture developing in many manufacturing areas which places considerable pressure on suppliers to avoid cost increases and to develop new, lower cost methods of producing goods. To some extent, gains in computer designs are providing methods to accomplish that goal. Productivity seems to be covering a significant share of the wage increases that are occurring.

I would also note, Mr. President, that wage and salary costs have only increased by about 3 percent in 1994. A significant part of that is covered, as I said, by increases in productivity. So, wage costs were—considering productivity—less than the inflation rate in 1994. I want to repeat that because it is very important to note this. Wage costs were, when we consider the increase in productivity, less than the inflation rate in 1994.

So, Mr. President, economic theories that may have proven true in the 1950's or 1960's or 1970's may not be useful today. I believe that Mr. Greenspan is living in the past. Companies that have recently hired large numbers of employees do not seem to need to pay higher wages. Lands' End hired 2,200 people for the Christmas season, Sears hired 40,000 Christmas workers, but they saw no increase in wage levels. MCI, which hires 10,000 to 15,000 people a year, also has not been pushed to raise wages.

So where, I ask, is this inflation that the Fed has been expecting and warning about? Mr. Greenspan says if we do not act now, it will come. The Fed says it takes a long time for the pain of their interest rate increases to work their way through the economy to cause the economy to slow down; that is, to interpret that, to cause enough people to be laid off and fired for enough unemployed people to stay that way. I may agree with that. It may take from 6 to 18 months for that to happen.

Is it logical, I ask, to rush forward with a seventh increase in interest rates when we have not even seen the impact of the earlier increases? Since the Fed Chairman believes inflation has been running at less than 2 percent, I believe we could take a very small risk of a slight increase in inflation in order to limit the likelihood that the economy will take a serious plunge into recession and far higher unemployment. I would think it would be far more prudent to wait to increase interest rates any more.

In fact, Mr. President, I believe that from the actions taken by the Fed with this recent increase in interest rates, we may be seeing in the next year a severe downturn in the economy in 1996. We might think of the height of interest rates as a mountain, and as the speed of the rate increases, remains high, and the height grows, the cliff on the other side, the deep valley into which the economy may fall, will become more painful.

I think it is past time for the Federal Reserve to pull back its bulldozer. Let the economy work through the interest rates already put in place. Then, after that has happened, we can consider further action. That is the way to get a soft landing for the economy that we all want, rather than having it tossed off a cliff. I believe that is exactly what may happen next year.

There have already been a few signs of a slowdown in the economy. Total construction fell by 7.7 percent in December, the largest decline of the year. Construction is very sensitive to interest rates. Housing fell by 8 percent; again, very sensitive to interest rates. Personnel income rose nicely in December, by 0.7 percent, but consumer spending went up by only 0.2 percent.

This morning, the leading economic indicators showed a slim 0.1 percent gain. These are signs that economic growth is near its peak. This is not the time to further burden the economy with higher interest rates. The Federal Reserve and the Open Market Committee should be balanced in its views and actions. It should not be led by ideological zeal on one single factor, inflation, and, I might say, the veiled threat of inflation. There should also be a concern for the well-being of manufacturers and farmers and main street businesses and American families and homeowners and car buyers.

So, Mr. President, I strongly urge the Federal Reserve to hold the line on interest rates, limit the damage they have already done to our economy, and give us some good news today and say they are not raising interest rates a seventh time.

Mr. President, I yield the floor. I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. THOMAS. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered. The Senator from Wyoming is recognized for 5 minutes.

BALANCED BUDGET AMENDMENT

Mr. THOMAS. Mr. President, I come to the floor to talk about the subject that is before the Senate this week, and I suppose next week and possibly the week after, the balanced budget amendment. I think we will have extended debate, probably longer than we need, some of which will be to talk about options, some of which will be to talk in real debate about differences in view, but much of it will simply be designed, I think, to delay action on what I think to be a very important issue. So, it will be difficult to focus on new information.

It seems to me there is a very basic question that has to be asked first, before all the detail is entered into and that is, is it morally and fiscally responsible to spend more than we take in? I think that is the question that most Americans ask of their Government: Can we continue to spend more than we take in? Is it morally wrong to spend more than we take in, to transfer that debt to someone in the future? I think Americans ask, is it fiscally responsible to continue to spend more than we take in? The answer, obviously, ''is no,'' it is not morally responsible, it is not fiscally responsible. So, that is the basic question. And most everyone would answer that the same.

Then we get into a great debate about how we do it. I support a balanced budget amendment. I believe very strongly that it needs to be done. I believe very strongly that it has worked in the States. What are the arguments against it? We hear them time and time again. One of them is it is not needed. The evidence is it is needed. This Congress has not balanced the budget. It has not balanced the budget in 26 years and only balanced it five times in 50 years.

So the evidence is that, sure, we can balance the budget. The fact is that Congress does not. The fact is, it is a little easier to say we like the programs; if we can put it on the credit card, we will do it. If we have to pay for it, it is a different matter. Then it is a matter of setting up priorities. Then it is a matter of a cost-benefit ratio, and we hear, ''Here is what it costs. Here is the value.'' The decision may be different than saying ''Here is the value. We do not have to pay for it now.''

Some say it is not needed. I suggest that the evidence would indicate that it is. Some say we already have the tools; we can do it this year. Certainly, that is true. Again, the evidence shows that that has not happened. It is very difficult. I am persuaded that there needs to be a constitutional discipline to balance the budget on a continuing basis.

Some say it is too strict, it is too confining. It does not need to be. There are arrangements that in case of emergencies—some say in case of war—it can be changed, of course. It can be changed by a vote or supermajority vote or written into the amendment that it is changed under certain circumstances.

Again, I say to Members that almost all of the States in this country have balanced budget amendments. In my State of Wyoming it is in the constitution, and it is not troublesome for that reason. We heard an extended argument earlier this week on how courts and judges would be deciding. The evidence does not show that in the area where we have had a balanced budget amendment in the States. The courts do not do the budgeting. That is, I think, not a good reason for not moving forward.