

In fact, the people who made the forecast said that number only has a 10-percent chance of coming true; a 45-percent chance there will be more money, a 45-percent chance there will be less money.

That forecast was made about 10 weeks ago now. What has happened in the interim? The economy has weakened. We have a jobless report today that suggests quite dramatic weakening in the economy. So do we bet there is going to be more money or less money? I would say all the signs are there is going to be less money. That puts us in grave danger of going back into deficit, going back to the bad old days of raiding every trust fund in sight.

I say to you, the thing that is most wrong about that approach is that in the 1980s we had time to recover. This time, if we get it wrong, there is no time to recover. The baby boomers start retiring in 11 years, and all of these things that have been working in our favor start to turn the other way. There is not a Member of this body who does not know that is true.

I just hope that before we vote on this budget, people will think carefully about the implications, and they will think carefully about the risks, and they will think carefully about the danger of going back into deficit, back into debt, just before the baby boomers start to retire; and we know these surpluses of today turn into massive deficits tomorrow. That would just be a serious mistake.

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

The ACTING PRESIDENT pro tempore. The clerk will call the roll.

The senior assistant bill clerk proceeded to call the roll.

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 President, I ask unanimous consent the order for the quorum call be rescinded.

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered.

Mr. GRAHAM. Mr. President, I ask unanimous consent to speak for up to 15 minutes as in morning business.

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered.

#### THE ECONOMY

Mr. GRAHAM. Mr. President, we have been receiving a disturbingly consistent and an increasingly high volume of bad economic news. Even what appeared to be good news at its base is bad news.

In today's Washington Post, is an article—and I ask unanimous consent that this and the other articles to which I will refer be printed in the RECORD immediately after my remarks.

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered.

(See exhibit 1.)

Mr. GRAHAM. There was considerable enthusiasm a couple of weeks ago when the Federal Reserve Board reduced interest rates for short-term interbank borrowings by .5 percent. Today, we learn why the Federal Reserve Board acted in that manner in an unusual format between its regularly scheduled meetings.

The background is that the Federal Reserve Board Chairman, Alan Greenspan, had, for weeks, directed the Federal Reserve staff to closely track company earnings announcements and business executives' comments about their plans for such things as capital spending.

Staff members have been working the phones, asking companies specific questions about their future intentions. What the Federal officials and the staff found out by early April was a disturbingly sour attitude among corporate executives, suggesting that many of them were hunkering down, concentrating on cutting costs and slashing investment plans. The policy planners concluded that quick Federal Reserve Board action was needed to try to break the psychological mindset lest it undermine the drag we pick up in economic growth later this year. Many Federal officials are hoping there will be a turnaround and that this action was necessary in order to turn that hope into reality.

Unfortunately, today we have received some additional bad economic news. To quote from the report of the New York Times:

The Nation's unemployment rate shot up by 4.5 percent in April, the highest level in 2.5 years. Businesses slashed their payrolls by the largest amount since the recession of 1991.

The Labor Department report of Friday—today—was the freshest evidence that the economy, which started to slow in the second half of the last year, continues to weaken. The increase of .2 percentage points in the unemployment rate marks the second straight month the jobless rate had gone up. In March, it had ticked up by 4.3 percent. April's rate was the highest since October of 1998 when unemployment also stood at 4.5 percent.

Similar reports are in today's online news reports from USA Today, the Washington Post, all of which I have submitted for the RECORD.

Nobody likes to talk about bad news. I think what we need to be talking about now is common sense.

What are likely to be the consequences of this accumulation of bad news? I am afraid the consequences will include a further assault upon consumer confidence, which has already declined precipitously, and a further assault on the willingness of consumers to undertake serious expenditures. We know that about two-thirds of our economy is predicated on consumer

spending. As the willingness of consumers to spend is undermined by the kind of bad news they received this morning, that will have an immediate and significant adverse effect on our economy.

How have we been reacting—we Members of Congress and the new administration—to this bad news? In my judgment, we have been responding inadequately. We have been responding based on a denial of the changes that are occurring in our economy and an unwarranted commitment to pursue the ideas that were the product of a different economic era.

I believe we should be seriously looking—not only looking but acting—to provide new levels of economic assurance to the American people and the economic capability to take advantage of that reassurance. We should immediately institute a tax stimulus designed to encourage consumers to increase their spending and, therefore, begin to counter the softening consumer demand in our economy.

Unfortunately, the tax stimulus has been the stepchild of tax policy. Why has it been the stepchild? I think, first, it has been the stepchild because there has been an undue commitment to policies that were developed in another time.

I remember a statement made by President Bush, which was a statement made to indicate his constancy, his degree of unwavering support, for his \$1.6 trillion tax plan. That statement started with the fact that the President indicated when he first announced his tax plan during the winter of 1999, in preparation for the 2000 Iowa caucus, that he first proclaimed his commitment to a \$1.6 trillion plan and that commitment had continued throughout the Republican primary process, the Republican Convention, and the general election, and has continued until that date in February of 2001.

What has happened is that while the plan has continued to be the same from the winter of 1999 to the now almost summer of 2001, the economic stage has changed. Stagehands have come on the stage and removed the booming stock market, which in the winter of 1999 was giving us almost daily new highs in stock market prices. The stagehands have also removed what was almost an all-time low in unemployment and replaced it with the unemployment circumstance we find today, which is 4.5-percent unemployment, up three-tenths in just the last 60 days. We also have replaced the gross domestic product, which had been running at rates of 5 or 6 percent, with one in which we now are approaching an anemic 2-percent growth rate in our GDP.

The second stage, which began in the late winter of this year, was that at least we started with the rhetoric that we were interested in tax stimulus, but

no change in the tax plan. We were saying the same plan that had been developed in the winter of 1999, which was defined as a plan to give a rebate, refund, to the American people for excessive taxes—that the same plan now was relabeled as being a tax stimulus.

There was a glimmer of hope. That glimmer of hope occurred just within the last few days when we heard that the conference committee that was working on the melding of the House and Senate budget resolutions was proposing that there be a \$100 million tax stimulus and that that tax stimulus was to start immediately. That glimmer of hope was quickly shattered, because now we see that in the conference report on the budget resolution, there is no \$100 billion for a tax stimulus—the \$100 billion was folded into the \$1.25 billion overall tax cut. A tax cut of \$1.25 trillion over 10 years has now absorbed the \$100 billion that was supposed to be the tax stimulus and has grown. So we have a tax reduction proposal in the budget resolution of \$1.37 billion, but no specific tax stimulus.

Another source of disappointment is that in the budget resolution that passed the Senate, we were talking about two tax bills between now and October 1. There would be one in mid-May and another one prior to September 30. That raised the hope, and there was some public comment that that first tax bill would be the tax stimulus bill; it would be the means by which we would respond rather than passively observe that accumulation of very troubling economic news. That, too, has now been eliminated in that the budget resolution apparently will only call for a single tax bill. It is being suggested that tax bill should be basically the winter of 1999 tax bill with minor modifications.

I am discouraged and disappointed at the current state of affairs, but I am hopeful there will be a new day. Maybe that hope can be found in the fact that we learned late last night that the conference report on which the House was supposed to have voted and which we were assumedly going to be debating some today and again on Monday and vote on Tuesday was deficient; that there were, in fact, two pages of the conference report that were mysteriously missing.

The hope is those two pages are the two pages that contain some commitment toward an intelligent tax stimulative policy. If that is not the case, then it is incumbent on us to come to our senses and to take constructive action before it is too late.

I analogize the situation we are in to a business which has just learned there is going to be built in close proximity a gasoline tank farm. The business owner is looking at his insurance policy and asking the question: Given the fact that I am now going to have a

heightened risk of a fire in the neighborhood in which my business is located, would it not be prudent to acquire some additional fire insurance?

We are getting the message that there is additional vulnerability in our economic neighborhood, and would it not be prudent under these circumstances for us to buy some additional insurance, an insurance policy against recession or an insurance policy against a deepened, prolonged recession?

I believe, just like the business person, yes, it would be prudent for us to do so. I suggest in doing so we should reexamine the proposal that will soon be before us and say, first, it is not prudent to be attempting to pass one gigantic tax bill, most of which benefits do not occur until 5 years from now; rather, what we should be doing is passing immediately an economic stimulus tax bill which will deal with the No. 1 economic challenge to this Nation and most of our people, and that is how to provide some additional economic encouragement and sense of hope for Americans at a time of a sliding economy, increasing unemployment, and declining gross domestic product.

I believe that first tax bill we pass should have the following characteristics: It should be an immediate tax bill. It should be front loaded with substantial benefits available immediately after enactment.

The President's original tax bill had only \$187 million of tax benefits in the calendar year 2001. I believe we need to have a substantial tax cut of at least \$60 billion in 2001 and in each successive year. We need to place that tax cut primarily in the hands of all American families through a reduction in their withholding tax. This would result in the greatest likelihood that tax cut would, in fact, be used to stimulate demand.

This plan needs to be simple. We are about to consider what will be a very complicated plan, a plan that will have multiple provisions, most of which will not have a significant economic impact until after the year 2005.

I believe we need to have a simple, straightforward plan which will have an impact immediately. The proposal Senator CORZINE and I have developed which we submit as meeting these characteristics will be accomplished by taking a recommendation of President Bush, which is that we add a new bracket to our income tax code, and that be a bracket at the 10-percent level—that the first taxable dollars earned by Americans would be at a 10-percent rather than a 15-percent level.

The President's suggestion should be modified in two regards. First, the 10-percent bracket, as he has suggested it, will not go into full effect until the year 2006. We suggest it ought to be in full effect as of January 1, 2001.

Second, his proposal is limited to the first \$6,000 of earnings for an individual and the first \$12,000 for a married couple. We increase those numbers to \$9,500 for an individual and \$19,000 for a married couple. The effect of that is to provide a \$60 billion tax stimulus reflected through reductions in withholding taxes and immediately available to the American people.

We offer this as a commonsense solution to a very serious and disturbing set of economic changes that are occurring. We offer this as a means of providing to the American people the kind of support the Federal Government can and should be providing at this time. We offer it as a statement that we are not so disconnected from the lives of Americans that we are unable to appreciate the anxiety which many of our fellow citizens are suffering and the opportunity we have to provide a constructive and immediate source of relief.

I suggest that we, the Members of Congress, are about to be tested. Are we isolated, stuck on some plan that is now almost 2 years out of date, or are we engaged with the American people; that we appreciate the implications of the declining economy to their lives, and we are prepared to act in a way that will give them the confidence that will, in turn, be beneficial to all Americans because it is their confidence converted into actions in the marketplace which have the best chance of beginning to place some concrete under our economy and begin to lift us out of this series of declines.

We are going to be tested. Next week is going to be the testing date. I hope this Congress will receive positive grades on the report card we are going to be issued because if we fail to do so, and if that tank farm of declining economic statistics explodes this summer or fall, the question is going to be asked of us: What did you do when you had the opportunity to buy an economic insurance policy to help avoid this consequence? We do not want to say we were blind and deaf to the circumstances of the American people and failed to act.

I hope this news, as disappointing and distressing as it is, will serve as a shock signal to this Congress to act and next week we will show that we have heard the alarm.

I thank the Chair.

EXHIBIT NO. 1

[From the Washington Post, May 4, 2001]

FED'S LEGWORK LED TO QUICK RATE CUT  
FIRMS SURVEYED BEFORE APRIL SURPRISE

(By John M. Berry)

When Federal Reserve policymakers surprise financial markets with an unexpected change in interest rates, investors and analysts often wonder, "What do they know that we don't?" Usually, the answer is nothing.

But when the Fed caught the markets off guard on April 18 with a half-percentage-point reduction in short-term interest rates,

Fed Chairman Alan Greenspan and other central bank officials did have some vital, privately gathered information that convinced them an immediate rate cut was needed.

The chairman had expressed concern earlier this year that businesses, worried about falling profits in a sluggish economy, might cut their spending on new plants and equipment so much that they would prolong the slump and forestall an eventual rebound in growth. Anecdotal evidence reaching the Fed suggested that could be the case.

To get a better reading, Greenspan had for weeks directed Fed staff to closely track company earnings announcements and business executives' comments about their plans for such capital spending. Some staff members also had been working the phones, asking companies specific questions about their spending plans.

What Fed officials and the staff found by early April was a disturbingly sour attitude among corporate executives that suggested many of them were hunkering down, concentrating on cutting costs and slashing investment plans. The policymakers concluded that quick Fed action was needed to try to break that psychological mind-set lest it undermine the gradual pickup in economic growth later this year that many Fed officials expect. And the officials decided they could not wait until their next regular meeting, scheduled for May 15.

So on April 18, Greenspan convened an 8:30 a.m. conference-call meeting of the Federal Open Market Committee, the Fed's top policymaking group. That group lowered the Fed's target for overnight interest rates by half a percentage point, to 4.5 percent. In a separate action, the Fed board reduced the discount rate, the interest rate financial institutions pay when they borrow directly from one of the Fed's 12 regional reserve banks, by the same half-point.

This picture emerges from interviews with sources who spoke on the condition of anonymity, Wall Street analysts and public comments by several Fed officials.

The Fed's moves surprised financial markets, for two reasons.

First, the most recently published economic statistics suggested that, while the U.S. economy was still weak, some sectors had begun to improve. Some private forecasters had even begun to revise their predictions for growth upward modestly.

Second, several presidents of the regional Fed banks had made recent speeches noting the signs of improvement, which the markets interpreted as suggesting that urgent action on rates was not needed.

For some investors and analysts, the clincher came from William Poole, president of the St. Louis Federal Reserve Bank, on April 10. After a speech in Dyersburg, Tenn., Poole told reporters that the Fed's target for overnight rates should be changed only at the FOMC's eight regularly scheduled meetings each year, except in "compelling" circumstances.

"There are compelling times when quick action is necessary, but this is not one of them," Poole asserted.

Remarks the same day in a speech by Jack Guynn, Poole's counterpart at the Atlanta Federal Reserve Bank, also implied a desire to act at regularly scheduled meetings rather than at other times. And two weeks earlier, Anthony Santomero, president of the Philadelphia Fed, had said, "I do not think the Fed should routinely take policy actions for the sole purpose of boosting expectations or merely to affect confidence."

A few weeks earlier, at its March 20 meeting, the FOMC had cut its rate target by half a point and hinted clearly that it might cut rates again if necessary before the May meeting. In the statement, the committee said that, given the weak and uncertain economic outlook, "when the economic situation could be evolving rapidly, the Federal Reserve will need to monitor developments closely."

The FOMC had used similar wording in an announcement after its mid-December meeting, intending to signal that it would consider making a rate cut before its next regular meeting. But more market participants did not pick up that signal and were therefore very surprised when the Fed lowered its rate target by half a point on Jan. 3. The re-appearance of that language in March initially convinced many investors and analysts that another reduction was likely during the long eight-week period between the March and May meetings.

But as April wore on, and the tone of new economic data improved a bit and some Fed officials suggested no Fed action was in the offering, market expectations for a rate cut evaporated.

So when the Fed moved on April 18, some analysts concluded that Fed officials must have decided that a rate cut would have a greater impact if it came as a surprise to investors and business executives. If that were the case, then the president's remarks must have been part of a coordinated plan intended to mislead market participants, the analysts said.

To most Fed officials, the notion of coordinating statements of all the policymakers is almost laughable. Public statements by one policymaker or another often leave others in the group shaking their heads. That clearly was the case when Poole so specifically ruled out an inter-meeting move.

Furthermore, historically there has always been a certain tension between Fed officials in Washington and the 12 Federal Reserve Bank presidents scattered across the country. Some of that tension has involved issues of who has what powers within the system, which is largely dominated by the chairman.

The bank presidents carefully guard their limited independence, even to the point of rarely conferring with one another on monetary policy outside of formal meetings. Some of the presidents do send drafts of the speeches to Washington, where the Fed board and staff read them and may make some suggestions for changes. But there is no attempt to coordinate statements and the presidents are free to ignore suggestions.

This geographic separation contrasts with the weekly Fed board meeting in Washington, usually on Monday mornings, at which reports on the state of the economy are presented by the staff and discussed by the board members. Fed officials would not discuss the extent to which the reserve banks' presidents were apprised of the board staff's findings as it gathered up details of corporate announcements and made telephone inquiries about business investment plans.

Nor has there been any public indication of whether there were any dissents registered during the April 18 conference call. The minutes of that meeting, along with those from the preceding regular FOMC session March 20, will be released two days after the upcoming May 15 meeting.

The Fed's announcement following last month's unexpected rate cut highlighted the policymakers' concerns about business attitudes and spending plans, and mentioned

other uncertainties about consumer spending and the demand for U.S. exports. After noting some of the same positive economic signs the bank presidents had mentioned in their speeches, the FOMC said:

"Nonetheless, capital investment has continued to soften and the persistent erosion in current and expected profitability, in combination with rising uncertainty about the business outlook, seems poised to dampen capital spending going forward. This potential restraint, together with the possible effects of earlier reductions in equity wealth on consumption and the risk of slower growth abroad, threatens to keep the pace of economic activity unacceptably weak. As a consequence, the committee agreed that an adjustment in the stance of policy is warranted during this extending intermeeting period."

In addition to economic worries, the condition of the stock market likely helps explain some of the timing of the April rate cut.

While Greenspan and other Fed officials maintain they are not in the business of targeting stock prices, they readily acknowledge that the market can have a significant impact on the economy and that does concern them. For example, the weakness in the stock market over the past year is a factor in business investment decisions because the market can be a source of inexpensive funding for new plants and equipment.

But if investors were still driving stock prices downward—as appeared to be the case until the first part of April—a surprise rate cut might have had little impact on the market. Like an intervention in foreign exchange markets to affect the value of a currency, officials felt it would be better to wait until the market appeared to have hit bottom and was on its way up.

As the market began to improve during the week before the rate cut, another factor came into play—Easter. The market was to be closed on Friday, April 13, and was to close early the day before, and under such circumstances trading volume is usually low. So if one goal, likely a subsidiary one, was to give the market a boost, the following week was probably a better bet.

Now, of course, attention has turned to what the Fed will do May 15. Most analysts expect a further reduction in the target for overnight rates, by either a quarter of a point or a half-point. The latter would bring the rate target down to 4 percent, its lowest in seven years.

Some analysts think the Fed will stop at 4 percent, whether it gets there in one step or two. That could well be the case since a significant member of Fed officials believe economic growth will gradually improve in the second half of the year, though they generally stress the uncertainty of the outlook. A smaller group of analysts thinks the economy will prove stubbornly weak and that the target for overnight rates will bottom out at 3.5 percent.

But with rates as low as they are likely to be after May 15 and only six weeks until the subsequent FOMC meeting in late June, a third surprise rate reduction between meetings this year can be only a very remote possibility.

[From the Washington Post, May 4, 2001]

WALL STREET FEELS LABOR PAIN

(By Jessica Doyle Belvedere)

The government released fresh evidence this morning the U.S. economy continues to weaken.

The April employment report handed Wall Street a bag of bad news. The labor market

showed the steepest job losses in over a decade as the unemployment rate vaulted to a high not seen since October 1998.

Non-farm payroll jobs plunged 223,000, re-buffing expectations of a gain of 21,000 and pushing the unemployment rate to 4.5 percent, up from 4.3 percent in March. That is the highest jobless rate since October 1998 and higher than the consensus 4.4 percent forecast. Meanwhile, average hourly earnings rose 0.4 percent.

Manufacturing was the hardest hit sector of the economy, as employment fell 104,000 in the ninth consecutive monthly decline and the largest since August. The report also showed that job losses were widespread. However retail and government operations added to their payrolls.

Wall Street is particularly tuned into this morning's report since the labor market is a key driver of consumer confidence, which in turn impacts spending patterns. With the economy weakening since last summer, consumers may curtail spending, which accounts for two-thirds of economic activity. Thus far, consumer spending has been resilient and helped to buoy the overall economy.

The report also raises the stakes that the Federal Reserve will make another aggressive interest rate cut later this month. The Fed has acted four times this year to stimulate the flagging economy.

Gerald D. Cohen, Senior Economist at Merrill Lynch believes the Fed will cut rates by 50 basis points at its May 15th, and by August fed funds will stand at 3.5 percent. "We still don't think the economy is going into recession. Spending has softened but it will be ok. The Fed will help spur growth when the rate hikes come on line. And enough sectors are holding up that they will keep the economy from slipping into a recession."

Wall Street is bearing the brunt of the weaker-than-expected reading. As of 9:50 a.m. EDT, the Dow Jones industrial average had fallen 104 points or nearly 1 percent. Meanwhile, the Nasdaq dropped 48 points, or 2.19 percent, after losing 3.4 percent on Thursday.

The drumbeat of anemic labor data continued Thursday, prompting investors to question the odds of an economic rebound, and therefore an earnings rebound in the latter half of the year.

Thursday's report on the labor market showed new claims for unemployment benefits rose by 9,000 to 421,000 for the week of April 28. The report's 4-week moving average, with smoothes out statistical blips, rose to 405,000, the highest level of unemployment claims since October 1992. Additionally, a job-placement firm that tracks layoffs reported that businesses in April announced plans to eliminate 165,600 jobs, a record in the survey's 8-year history.

Another economic indicator proved troubling to investors. The non-manufacturing portion of National Association of Purchasing Management's monthly report fell to a reading of 47.1 percent in April from 50.3 percent in March. Any reading below the 50 percent benchmark signals economic contraction, and the gauge indicated that the economic downturn may be broadening.

[From the Wall Street Journal, May 3, 2001]  
FED FINDS SLOWDOWN IS WIDESPREAD IN U.S.

(By Greg Ip)

WASHINGTON.—Despite a flurry of upbeat news, the economy's worst days may not be behind it after all.

The Federal Reserve's latest report on regional economic conditions offered little evidence that the slowdown is over. "Almost all

districts report a slow pace of economic activity in March and early April," the Fed said yesterday. "Labor-market tightness has eased in almost every district."

The report, known as the beige book, summarizes economic conditions in the 12 Federal Reserve districts and is used by policy makers to determine monetary policy. The policy makers meet next on May 15.

To be sure, much of the news lately has been positive. The economy grew at a 2% annual rate in the first quarter, double expectations; in April, stocks had one of their best months in years; and the latest signs from manufacturing suggest the sector is bottoming out. Yesterday, the Commerce Department said factory orders rose 1.8% in March from February, seasonally adjusted, thanks mostly to transportation.

On closer inspection, however, the picture is less comforting. While consumer spending was surprisingly resilient in the first quarter, it weakened as the quarter progressed. In March and April, a key variable in the spending equation—employment—worsened.

Last Friday's report on first-quarter gross domestic product "is telling you what's going on outside your window over the past few months. It's not a good leading indicator," said Lakshman Achuthan, managing director at the Economic Cycle Research Institute in New York. By contrast, initial claims for unemployment insurance "are going the wrong way fast," he said. Claims topped 400,000 in late April, the highest in five years and up 44% from a year earlier.

Mr. Achuthan noted that while the National Association of Purchasing Management's index of manufacturing activity rose a touch in April from March, the employment portion fell. That suggests job cuts are broadening.

Yesterday's Fed report said that retail sales, after weakening in March, picked up in April. But this may have been due to "Eastern sales and better weather," according to businesses in the Dallas district. The beige book found housing demand remained firm, but auto sales were more mixed. "Almost across the board . . . districts note that higher gas prices appear to have reduced demand for new SUVs, luxury vehicles and trucks."

In the St. Louis district, layoffs have hit both the Old and New Economy alike: steel, timber, electronics, plastics and high-tech companies. In the Boston district, discount retailers said that "demand has softened because their lower-income customers are facing a fuel-price squeeze."

Still, the fact the economy grew as much as it did in the first quarter does suggest improved prospects for avoiding a recession, which is often defined as two consecutive quarters of declining GDP.

"Much of the inventory correction is behind us, as the ratio of real inventories to private final sales has now fallen back to the level of the first half of the last year," noted forecasting firm Marcconomic Advisers LLC of St. Louis, which said it is more comfortable with its relatively upbeat forecast. It also cited a number of positives: The Fed cut interest rates half a percentage point April 18; stocks are recovering; and a tax cut is more likely.

Federal Reserve Bank of San Francisco President Robert Parry said yesterday that he "seriously doubts" that the nation's economy will plunge into a recession, given the Fed's four rapid and aggressive rate cuts this year. Separately, the Federal Reserve Bank of Chicago said its gauge of business activity had improved to a level suggesting the likelihood of recession had fallen.

The economy has benefited from the fact that consumer spending held up while businesses slashed inventories. Consumer spending may weaken now, but inventory cutting is less likely to compound that. "Production and demand are kind of weaving around each other, and if you keep getting that you probably won't have a recession," said Edward McKelvey, senior economist at Goldman Sachs. "The bid intellectual battle is more, 'How firm a recovery can you expect?'" Stock and bond markets are anticipating a solid recovery, but "we think the economy is in for an extended period of sluggishness."

One of the factors likely to keep growth anemic is cuts to capital spending. Though business investment in equipment fell less than expected in the first quarter, there is no turnaround in sight. Technology shares have rallied, but more on hopes that the sector has hit bottom than actual signs of increased demand. Semiconductor prices, for example, have actually weakened in recent weeks, suggesting those hopes are premature.

#### FACTORY ORDERS

Here are the Commerce Department's latest figures for manufacturers in billions of dollars, seasonally adjusted:

	Mar. (p) 2001	Feb. (r) 2001	Percent- age chg.
All industries .....	370.52	363.83	+1.8
Durable goods .....	206.29	199.37	+3.5
Nondurable goods .....	164.23	164.47	-0.1
Capital-goods industries .....	72.57	65.70	+10.5
Nondefense .....	61.38	58.87	+4.3
Defense .....	11.20	6.83	+63.9
Total shipments .....	366.51	365.05	+0.4
Inventories .....	490.85	493.70	-0.6
Backlog of orders .....	597.79	593.78	+0.7

p—Preliminary. r—Revised.

[From the New York Times, May 4, 2001]

#### UNEMPLOYMENT RATE RISES TO 4.5% IN APRIL

WASHINGTON (AP).—The nation's unemployment rate shot up to 4.5 percent in April, the highest level in 2½ years. Businesses slashed their payrolls by the largest amount since the last recession in 1991.

The Labor Department report Friday was the freshest evidence that the economy—which started to slow in the second half of the last year—continues to weaken.

The increase of 0.2 percentage point in the unemployment rate marked the second straight month the jobless rate had gone up. In March, the jobless rate ticked up a notch to 4.3 percent. April's rate was the highest since October 1998, when unemployment also stood at 4.5 percent.

Both the increase in the unemployment rate and the cut in jobs surprised many analysts. They were predicting that the unemployment rate would rise to 4.4 percent and that businesses actually would add jobs during the month.

Businesses cut their payrolls in April by 223,000 jobs, the largest reduction since February 1991, when payrolls fell by 259,000. It was the second month in a row that businesses trimmed their payrolls. In March, payrolls fell by 53,000, according to revised figures, a smaller reduction than the government previously reported.

In April, job losses were widespread except in retail and government, which added to their payrolls.

The unemployment numbers follow the Federal Reserve's surprise interest rate cut by one-half point last month—the fourth reduction this year in the Fed's campaign to ward off recession. Analysts have said further rate cuts are likely at the central bank's May 15 meeting.

With unemployment expected to continue inching up, some economists worry that consumers might rein in spending and further weaken the struggling economy.

Consumer spending accounts for two-thirds of all economic activity and has helped buoy the economy during the downturn.

Some companies are coping by sharply cutting production, leading to reductions in workers' hours and overtime, and forcing thousands of layoffs.

The New York Times announced this week that it would cut 100 jobs after already laying off 100 people at its online unit and offering buyouts to other employees. That followed recent announcements at Morgan Stanley, Honeywell International Inc., LM Ericsson and Texas Instruments Inc.

Friday's report showed that manufacturing, which has been bearing the brunt of the economic slowdown, continued to hemorrhage, losing a huge 104,000 jobs last month. Declines since June have totaled 554,000 and two-thirds of those job losses have occurred in the past four months.

Construction, which had been adding jobs over the last several months, lost 64,000 jobs in April. The government said the drop may reflect in part heavy rains over part of the country. The construction and housing businesses have remained healthy during the economic slowdown—a key force in keeping the economy out of recession.

Business services cut 121,000 jobs in April. Temporary employment services experienced another sharp decline of 108,000 last month, and have lost 370,000 jobs since September.

Seasonal hiring in amusement and recreation services and hotels was well below normal last month, with unemployment declines of 30,000 and 13,000, respectively.

Average hourly earnings, a key gauge of inflation, rose by 0.4 percent in April to \$14.22 an hour. That matched the gain in March. The length of the average workweek was unchanged at 34.3 hours in April.

The PRESIDING OFFICER (Mr. KYL). The Senator from New Hampshire.

Mr. GREGG. Mr. President, I will speak about the education bill.

Mr. BYRD. Will the Senator yield?

Mr. GREGG. I yield to the Senator from West Virginia.

Mr. BYRD. About how long will the Senator speak, so I know when to return.

Mr. GREGG. I say to the Senator, I will probably speak 15 to 20 minutes.

Mr. BYRD. I thank the Senator.

#### BETTER EDUCATION FOR STUDENTS AND TEACHERS ACT—Continued

Mr. GREGG. Mr. President, we have discussed at considerable length the educational issues that have been brought forward by the BEST bill, which is the proposal that came out of the Health Committee I serve on, chaired by Senator JEFFORDS from Vermont, and ranking member Senator KENNEDY from Massachusetts. We talked a lot about policy and the fact this bill moves the policy forward to try to reform our school systems in a number of ways. It does not necessarily go as far as some Members would like, but it is progress in areas which are in significant need of progress.

I have had a chance to speak about the need for more choice, the need for basic themes such as being child centered, flexibility, has academic achievement as its goal especially for low-income kids, and it has accountability standards to make sure the academic standards are met.

I have spoken on a number of specific issues such as how to deal with teachers, how it improves the capacity of local school districts to do more to get and keep good teachers and hire good teachers.

I will speak about the issue of the funding in this bill and the funding question generally because there has been a lot of discussion especially from the other side of the aisle about how inappropriate the funding levels are that the President has proposed to support the educational reforms he has requested.

When I hear these representations from the other side of the aisle, I am not so sure they come to the table—not to be too aggressive—with clean hands on the issue. The issue of funding education in this country, especially things such as special education, has been debated for the last few years and it has been the Republican side of the aisle that has significantly increased the commitments to educational funding. I think it is appropriate to review the history of where we are in the area of funding.

First, it is most important to point out the equation for better education is not more dollars equal better education. Over and over again it has been shown, in study after study, that more dollars do not produce better education. The key to better education is a much more complex formula than some would have Members believe. Those who suggest we put more dollars in and we get better education are wrong. The key to education is a formula that involves, No. 1, parental involvement; No. 2, good teachers; No. 3, good principles; No. 4, local control over the curriculum and how the schools teach; and probably No. 5 on the list, dollars. It is a mixture of these factors and other factors, of course—facilities and things like that—but primarily it is a very complex formula. It is not just more dollars means better education.

A number of studies have shown this relative to local dollars and State dollars. Regarding Federal dollars spent, the statistics are especially startling. We have had a Federal program in place now for over 30 years, the purpose of which was to raise the level of academic achievement of especially low-income children. That is what we were focusing on as a Federal Government. Regrettably, our success in this area has been singularly poor. This chart reflects this. We have spent \$120 billion on title I, which is directed at low-income children. Yet the score levels of

our kids who meet this category of educational support has remained absolutely flat for all intents and purposes in reading and math. The spending has gone up dramatically, but the score levels of these children has been flat.

In fact, the average child who comes from a low-income family today, who is in the fourth grade, reads at two grade levels below a peer in that class. That is true not only for the fourth but fifth and sixth, and naturally they fall back as they go into the eighth, ninth, and tenth grade to the point where this group of kids, low-income families and especially minority families from urban areas, are graduating at less than a 50-percent rate from high school, even though we spent all this money.

One thing we know for sure is that putting money into the problem has not resolved it. The issue is, What should we do? We need to reform the system. That is what the President has suggested. Through a lot of hard negotiation and aggressive effort on the part of both sides of the aisle, with Senator KENNEDY and Senator JEFFORDS taking the lead, we have been successful coming forward with a bill which in some ways significantly reforms the system, although it leaves out key elements I would like to see, but it is still a major step in the right direction, especially once the bill is amended by the underlying agreement which was reached between the chairman and the ranking member and other people who negotiated.

Reform is critical if you get something for the dollars spent. Dollars are not the only issue.

Let me simply say the representation by the other side that this administration is not willing to commit the dollars to support reform is inconsistent with the history of what has happened over the last few years and who has been willing to fund what. If you look at the amount of funding which President Clinton suggested we put into the educational system over the 8 years of his administration, recognizing for the first 4 years of his administration he has the deficit, the average amount spent, the average increase, was about 3.3 percent. The biggest increase he suggested in any given year was 3 years ago when he suggested 8 percent. But generally, his increases have been proposed at around 4 percent, 3 percent, 2 percent in the area of spending for education.

President Bush has suggested an increase of 11 percent in his budget, twice, three times what President Clinton proposed in any budget over the last 8 years. He has suggested, and he has made an offer to the other side which would represent a 50-percent increase in spending in title I specifically, the single largest increase ever proposed in this program by a factor of 10, by my calculations.