SENATE—*Friday, June 14, 1996*

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

PRAYER

The Chaplain, Dr. Lloyd John Ogilvie, offered the following prayer:

Almighty God, Sovereign of this Nation, and Lord of our lives, we thank You for outward symbols of inner meaning that remind us of Your blessings. The sight of our flag stirs our patriotism and dedication. It reminds us of Your providential care through the years of our blessed history as a people, but it also reminds us of our role in the unfinished and unfolding drama of the American dream. But it also gives us a reminder of the privilege we share of living in this land.

Today, on Flag Day, we repledge our allegiance to the flag and recommit ourselves to the awesome responsibilities You have entrusted to us. May the flag that waves above this Capitol remind us that this is Your land and we are accountable to You.

Our flag also gives us the bracing affirmation of the unique role of this Senate in our democracy. We praise You for the men and women You have called to serve at this strategic time in history. May they experience fresh strength and vision. Renew the drumbeat of Your spirit calling them to march to the cadences of Your righteousness. We ask for Your blessing on President Clinton and Vice President GORE. God bless America. Amen.

RECOGNITION OF THE MAJORITY LEADER

The PRESIDENT pro tempore. The able majority leader, Senator LOTT, is recognized.

SCHEDULE

Mr. LOTT. Thank you, Mr. President. Today, there will be a period for morning business until the hour of 12 noon, with Senators permitted to speak for up to 5 minutes each. Several Senators have requested additional time to speak, and they are as follows: Senator COVERDELL, or his designee, 90 minutes; Senator BINGAMAN for 15 minutes; Senator MURKOWSKI for 15 minutes; Senator KEMPTHORNE for 10 minutes; Senator DASCHLE, or his designee, for 20 minutes.

At 12 noon today, the Senate will resume executive session and debate the nomination of Alan Greenspan to be Chairman of the Federal Reserve System. Under the consent agreement reached yesterday, the vote on the Greenspan nomination will occur on Thursday, June 20, at 2 p.m. No rollcall votes will occur during today's session, so there can be full discussion of this nomination. However, the Senate may be asked to consider any legislative matters that can be cleared for action.

As a reminder for all Senators, at 10 a.m. on Tuesday, June 18, the Senate will begin consideration of S. 1745, the Department of Defense authorization bill.

I yield the floor, Mr. President.

MORNING BUSINESS

The PRESIDENT pro tempore. Under the previous order, there will now be a period for the transaction of morning business, with Senators permitted to speak therein for up to 5 minutes each, with the exception of the following Senators: Senator COVERDELL, or his designee, for 90 minutes; Senator BINGAMAN for 15 minutes; Senator MURKOWSKI for 15 minutes; Senator KEMPTHORNE for 10 minutes; and Senator DASCHLE, or his designee, for 20 minutes.

Mr. COVERDELL addressed the Chair.

The PRESIDENT pro tempore. The distinguished Senator from Georgia is recognized.

Mr. COVERDELL. Mr. President, as I understand it, the time this morning between 9:35 and 11 o'clock is assigned to me or my designee?

The PRESIDENT pro tempore. The Senator is correct.

HEALTH CARE REFORM

Mr. COVERDELL. Mr. President, this past Monday while I was on the Senate floor, I suggested that there should be a relevance between what public policyholders say in the pursuit of seeking higher office and what they do if they are fortunate enough to achieve that.

In particular, I was alluding to the promise that this administration made to middle America that it would significantly lower the tax burden on the American middle class, the vast majority of our American citizens, but, in fact, by August of the first year in office, they had totally reversed that promise and had, in fact, increased taxes at historical proportions, resulting in most American working families today having a higher tax burden, having less of their paychecks in their checking accounts than at any time in American history.

But the administration made another promise that it did try to keep, in all credit. They promised to revise the health care system in the United States. Indeed, when they came before the American people, their proposal was to totally federalize or take American medicine and have the American Government take it over.

So what that meant was that the Federal Government would increase to unprecedented proportions, that a new entitlement would be created that would be larger than any entitlement in American history, including Social Security, that 17 percent of the American economy would be taken over by the Government, and for the first time, Mr. President, the Government would control over half the American economy.

I can remember saying at the time, as a kid, I never believed that it would be possible for me to be in the U.S. Senate debating whether or not the Government should control over half the American economy. But, indeed, that is what we were doing just 2 years ago.

It was a very elaborate system that controlled every aspect of medicine. By the time the debate was over, Mr. President, the American people had defeated President Clinton's health care proposals. By the time the final cast was set, less than one-third of the American people supported the idea. Over two-thirds opposed it, because they saw it for what it was, a massive explosion in the growth of our Government, a massive incursion into the personal affairs of every American citizen and family and business and community, an enormous and explosive cost.

Mr. President, at the time we were debating this proposal, often those of us, such as myself, were asked, "Well, what would you do?" We talked about targeted reform. We talked about making benefits more portable so that they could move with the employee and we could put an end to this job lock where a person who developed a medical problem could not move from one job to another because they would not have been able to keep their insurance.

We talked about making the insurance marketplace more friendly. We talked about making it more possible for people to obtain insurance. We talked about making it a guaranteed issue, all of these targeted reforms that we thought would modestly change the marketplace and make it easier for uninsured people to gain insurance.

Mr. President, this Senate and the House have both fulfilled that promise. They have done exactly that. They

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

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have passed health reform that eliminates job lock. It allows an ambitious worker to leave a job and move to a better one without losing health coverage. It allows the self-employed to deduct on their taxes 80 percent of their health insurance premium. This is an egregious—an egregious—error in the workplace. If you work for a large company, your health premiums are deductible, they are tax deductible. If you work for yourself, they are not. This corrects it. It allows the small business with 50 or fewer employees or the self-employed to have tax-free medical savings accounts.

We have been joined by Senator GRAMM, the senior Senator from Texas, who wants to speak on this subject. But let me just say that the designers of massive Government control of the health system are blocking this reform proposal through parliamentary means. They are refusing to allow the conferees to be selected. It is because they do not want the product of medical savings accounts, which allows the worker or the citizen to create a savings account to help them manage health costs, to lower health costs, to give them more freedom in the health care system. They do not like that. So they have systematically blocked these reforms that the Nation overwhelmingly supports.

I find it a bit unusual that the last vestige of those who want to make the Government consume over half our economy, who want to run every aspect of our personal lives by controlling medicine and every doctor and every hospital, every cure that you may or may not want to use, just cannot abide the idea of allowing citizens this product to make choices on their own. I will come back to this subject in a bit. We have been joined by the senior Senator from Texas. I yield up to 10 minutes to the Senator from Texas.

Mr. GRAMM addressed the Chair.

The PRESIDING OFFICER (Mr. BOND). The Senator from Texas.

Mr. GRAMM. Mr. President, let me thank our dear colleague from Georgia. I want to say a few words on another subject, but let me address the subject at hand first. Let me say to our dear colleague from Georgia, I do not think he ought to be surprised.

I believe that the final battle for the rights of man, the final determination of whether freedom, both economic and political freedom, will survive and prosper on this planet is not going to be determined on the frozen tundra of Russia, it is not going to be determined by debate in the Kremlin; it is going to be determined right here on the floor of the United States Senate.

I try to make a distinction because I think Americans get confused about what freedom is. Freedom is not just the right to get up and criticize the Government. Freedom is not just the right to exercise political choices. Freedom is the right to exercise economic choices. Freedom is the right to buy the products you choose. Freedom is the right to spend your own money which you have earned by the sweat of your own brow. That is what we are talking about here today.

I think probably most people are totally confused about what this debate is. Our Democratic colleagues are hoping they are. Because what this debate is all about is freedom. There are some Members of the U.S. Senate who are for it and there are some Members of the U.S. Senate who, in its economic manifestation of the right of people to choose what kind of health insurance they want, are against it.

Senator KENNEDY and the Democrats are saying, in holding up the conference on a health care bill that passed the Senate 100 to 0—100 to 0—he is saying that he is opposed to it because if we go to conference with the House to work out our differences, medical savings accounts could end up in the bill.

What are medical savings accounts? What we are talking about here is simply the right of people to choose between buying a low-deductible health insurance policy, which for a family of four costs about $4,200 a year, where the insurance company starts paying almost immediately if somebody in your family gets sick. That is conventional health insurance. It has one big problem, and that is, once you are sick, you are spending somebody else's money. You have no incentive to be conscientious. Costs are exploding.

Just imagine if you went to the grocery store, and you had a grocery insurance policy. For everything you put in your basket, the grocery insurance policy paid 95 percent of it. You would eat differently, and so would your dog. But what would happen is, grocery insurance would explode in cost. That is exactly what has happened in health insurance.

What we are trying to do is to let people, especially young people who do not have much money, buy a new kind of health insurance policy that would have a higher deductible. You could buy a Blue Cross-Blue Shield policy, with a $3,000 deductible, for about $2,200 a year rather than the $4,200 a year you are paying for by buying the comprehensive low-deductible policy.

Why $2,000 less? Because a lot of that is, for all practical purposes, prepaid medicine. What we are proposing is that people be able to take that $2,000 they save and put it into a tax-free savings account and use it to pay deductibles. But the magic, almost magical power of it, is that if they do not use the money for medical purposes, they get to keep it. So unless they get very sick, 92 percent of American families would never spend beyond their medical savings account in a year. So unless they get very sick, they have an incentive to be cost conscious because they are spending their own money.

Here is the point. We are not trying to make people buy medical savings accounts. There is nothing in our proposal that makes anybody buy it. What we are trying to do is to let them do it. This is about freedom.

Senator KENNEDY and the Democrats claim, "Oh, this program only helps rich people." Have you ever noticed that everything Democrats are against supposedly helps rich people? They did not want to cut taxes on working families, a $500 tax credit per child, because they say that helps rich people. If they want to raise taxes, of course, they claim they are taxing only rich people.

In any case, do rich people care about this? What difference does it make to rich people whether they buy a low-deductible or high deductible policy? By definition, if you are rich, you have a lot of money. It cannot make possibly any difference.

But let me tell you who it makes a difference to. I have a son who just turned 23 years old. He is off my insurance policy. For the first time in his life, he is trying to decide how he is going to get health insurance and how he is going to buy it. He is as healthy as most 23-year-old males and females are. Why not allow him to buy a high-deductible policy and take the savings, put them into a medical savings account and build up a nest egg to go to graduate school, or to try to start a business, or to buy a home when he gets married?

When we debated this subject before, I had quotes from two so-called rich people who use medical savings accounts. One of them was a united mine worker, because the United Mine Workers Union has medical savings accounts, but they do not get fair tax treatment on them. They have to pay taxes on them. The other was a part-time bus driver. They were arguing they ought to be treated fairly, and I agree with them and not with the Senator from Massachusetts, who is objecting to letting us appoint conferees and bring this bill up.

The second argument is, well, look, this helps young people and healthy people. Who does not have health insurance? Basically, young healthy people are not buying health insurance because, A, they do not think they need it right now and, B, they cannot afford it. Why not have a policy available that may not be used by everybody, but that will be used by young people so that they can buy basic coverage. The Democrats' solution is to guarantee that they can buy insurance in the future once they get sick rather than now when they are young and healthy, but at the cost of charging everybody else higher rates.

We need medical savings accounts, and this is about freedom. The Democrats want the Clinton-type health care bill. That is what they want. And they know medical savings accounts move us toward private family decisions. They want Government decisions. That is what this debate is about, and if you believe in freedom, you are with us.

INTERNATIONAL DEPARTURE TAX

Mr. GRAMM. Now, I want to turn to another subject. The President has put out a new list of savings measures, and among the savings measures is an international departure tax increase—$2.3 billion of savings. Now, you might ask, what does a tax increase have to do with savings? The answer is, nothing. We have, in this administration, a new language where everyday words are changed into new words and they have nothing to do with each other. But this is basically a proposal to raise taxes on international travel by imposing a $10 per passenger tax on everybody buying a round-trip ticket in international travel, coming to the United States and going back, or leaving the United States and coming back. Now, if you have Americans traveling, some people assume they must be rich. So you want to tax them. So I am not going to get into that argument. I think it is absurd. We know that not everybody who travels internationally is rich.

Let me talk about the 42,983,000 foreigners who come to the United States. Well, you might say, why not tax them? They cannot vote here, so why not tax their money while we have them? What do they come here for? Well, they come here to invest, to create jobs, and to be tourists. In fact, as tourists, they spent $76.485 billion last year. Why, I ask, should we be trying to raise barriers against people who want to come to Atlanta, or who want to come to Houston or who want to go to San Antonio to see the Alamo? Why should we want to raise barriers to people who want to come and see where great Americans come from, like South Carolina, and who came to the Alamo to defend freedom—especially when they are spending $76.485 billion on the trip? To save my life, I do not understand that.

We did a little check in asking just one hotel manager that we happened to be having a conversation with, who works for Marriott Hotels in Houston, what percentage of the people staying in his hotels, on an average night, are foreign nationals. He estimated that 40 percent of the people staying in Marriott Hotels in Houston are foreign nationals. Now, why would we want to discourage all these people from coming to America to spend money? Well, it is interesting that by a fairly conservative estimate, in international tourism alone, this tax would cost us twice as much as the Government is claiming to collect. I know some people will make an argument that these people who would make this money from international tourism will squander it. They will spend it on their children, they might go to Disneyland, they might invest in some private business; and that the Government, collecting half as much money from this tax as these private citizens would earn, will spend it wisely—on the National Endowment for the Arts or the Legal Services Corporation—but not getting into those arguments, I am opposed to this departure tax increase.

I want people to come to America. I want people from all over the world to come here and see the Alamo and see the Capitol and get to know our country and understand, personally, its greatness, get to know Texans and Americans, and bring that $76 billion a year with them and spend it here.

This is a poorly designed tax that will cost us jobs. It is a bad idea. I just want to remind people that taking the whole travel industry in America, we have almost a million people employed—about 960,000 people—because of international travelers. In fact, hundreds of thousands of people are going to come, for example, to Atlanta to the Olympics. People are coming to many different places around our country. My view is, let them come, let them spend their money when they get here. But the idea of erecting barriers to them coming, to collect a tax, it seems to me, is foolhardy and should be rejected.

This is part of something bigger. The Securities and Exchange Commission now collects twice as much in their taxes on securities as it spends to run the SEC. None of this money the President calls savings through this new tax would go to support the Federal Aviation Administration—not one penny of it. It would go to fund Government programs in general. We have fees on the transportation of hazardous materials that began as a relatively low figure. It is now $300. It was initially applied to trucks, railroads, and barges hauling things like crude petroleum. It is now being applied in Texas to 10,000 independent oil producers, who do not even transport the crude oil themselves. The administration has proposed to raise it to as much as $5,000 a year and collect as much as $50 million out of my State just from independent oil producers. Why? Because these increased fees could be used as taxes to fund Government in general. They would not be used for the purposes they were set out for. Just like this gasoline tax we have been trying to repeal, which is not going to build roads, it is going to general revenue.

My view is—and I will conclude on this—when you collect taxes on gasoline, motor fuel, it ought to go to roads. When you collect taxes on airline tickets, it ought to go to the FAA to build airports, to support the infrastructure. What is happening in this administration is all these fees are being raised because they want to spend the money and they want to hide the tax. This departure tax increase on airline tickets is wrong. I wanted to come down today to say I am opposed to it, and I do not intend to see it become the law of the land.

I thank my colleague from Georgia. When all those millions of tourists coming through Atlanta and spend all that money, remember, I did not want to erect the barrier.

(Mr. INHOFE assumed the chair.)

Mr. COVERDELL. Mr. President, I see the Senator from Missouri appears to be requesting up to 5 minutes. I yield up to 5 minutes to the Senator from Missouri.

Mr. BOND. I thank my colleague from Georgia. I particularly commend my good friend from Texas for pointing out what we in the Midwest, as well as the Southwest, feel so strongly about, which is that when you raise fees on people who use highways, it is not pleasant. But when they go to highways, we can understand what they are being used for. If you raise fees on people who generate hazardous waste, if it goes to clean up hazardous waste, that is a reasonable argument. But when it goes to the general revenue fund, permits spending and overspending in many areas, it is a real problem.

FEDERAL RESERVE NOMINEES

Mr. BOND. Mr. President, the reason I rise today, I want to address a couple of related subjects, things that we are working on, and they have to do with some of the debates that have been going on about the nominees for the Federal Reserve.

I have the pleasure of having as one of my constituents a fellow Missourian, Dr. Laurence Meyer, who has been nominated to the Federal Reserve Board. When we get to the discussions of the Federal Reserve nominations next week, I want to make the case very strongly that Dr. Meyer has justly earned a reputation as a leading economist. He has played a key role in the development and expansion of the economics department of Washington University. He has been recognized repeatedly by faculty, students, by the public at large, and by his own colleagues as a leader in these fields. His is an excellent nomination. I also say that we are very fortunate that the President has proposed renomination and he has agreed to accept the current Chairman of the Federal Reserve Board, Chairman Alan Greenspan. During his 8-year tenure, economic performance through

administrations, Republican and Democrat, has been outstanding because inflation has been kept under control.

Again, I want to address more of Chairman Greenspan's accomplishments later on. But I want to straighten out a couple of misconceptions that have been raised by others on this floor yesterday in their debates about the Federal Reserve. They seem to think that growth in this country is slow because of the Federal Reserve. Mr. President, the Federal Reserve job, as the chief monetary regulator, is to deal with monetary policy. Monetary policy can be a brake or an accelerator, but it is not the essential engine that drives the economy of this country. That is fiscal policy and the opportunity for this economy to grow. We have had a major hit to the engine of our economy. It is a hit that has happened over the years in terms of running up the deficit. This deficit has been out of control. We have raised $5 trillion worth of debt that sits on the backs of our children, our grandchildren, and future generations, and it serves as a great drag on the economy right now.

In addition, in 1990 and 1993, we put heavy burdens of taxes on the productive sector—taxes on savings and investment, taxes particularly that hit the small businesses that I have the pleasure of serving on the Small Business Committee.

Yesterday, you would have thought that taxes and deficits did not matter, that slow growth was the only burden that was the legacy of the Federal Reserve Board. Well, that is not true. The Federal Reserve has kept inflation under control. We need to deal with the deficit. Then we need to deal with taxes that discourage investment and savings.

That is why the third nominee for the Federal Reserve is important. Dr. Rivlin is currently the Director of the Office of Management and Budget. She has presented, on behalf of the President, a measure, the budget of the President of the United States, so that when the Congressional Budget Office scores it and applies a trigger the Congressional Budget Office said is necessary to get to a balance in 2002, they can claim that under the Congressional Budget Office scoring and applying the trigger that the budget will get to balance in 2002.

The problem is, as I have outlined on this floor before, I, in the role as chairman of the appropriations subcommittee, have asked the agencies that would be forced to make those cuts in future years how they plan to make them, and they have been advised by the Office of Management and Budget that they are not serious about it.

Mr. President, as I have pointed out, we have addressed letters to Dr. Rivlin, questions as to whether the administration is serious about balancing the budget. Do they have a second set of books that has cuts in a lot of other agencies? The Veterans' Administration has told us they are exempt; EPA, NASA, the agencies that I have spoken to have said the cuts are not going to fall on them. Where are they going to fall? Are we serious about the deficit?

We are waiting to hear whether the Office of Management and Budget honestly believes it can implement and will begin planning for the reductions in spending necessary to balance the budget.

That, in my view, will depend upon how I vote, at least for one, on the confirmation of the Budget Director to be a Member of the Federal Reserve Board.

I thank the Chair. I yield the floor.

Mr. COVERDELL. Mr. President, it is my understanding that the Presiding Officer has some business before the Senate. I am going to suggest the absence of a quorum so I might relieve the Chair.

The PRESIDING OFFICER. The clerk will call the roll.

The bill clerk proceeded to call the roll.

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

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

Mr. INHOFE. Mr. President, I have a couple of comments to make about the comments that were made previously by the Senator from Texas. Before that I have a little bit of business to take care of of a different nature.

THE NATIONAL ENVIRONMENT EDUCATION ACT

Mr. INHOFE. Mr. President, yesterday I introduced legislation to reauthorize the National Environment Education Act. I am joined by most of the members of the Environment and Public Works Committee and will probably have all of those Members as cosponsors of this legislation in a very short time.

The reason I am doing this is that there has been a lot of criticism that we are getting that there is too much emanating from Washington on our environmental laws and environmental education. People have said we are brainwashing our children. I feel that the better way to do this is to have this money going to the local level so that the curriculum can be determined by the local level.

I can remember several scary stories about students coming home from school in the Northwest who happened to be sons or daughters of people working in the lumber industry saying that it is sinful to cut down any tree, and this type of thing. This is the type of thing that has to be stopped. I believe the only way we are going to be able to successfully do this is to reauthorize this legislation so that the safeguards are built in that anything that is used in the education of our young people has to be based on scientific facts and not just the normal scare type of things that we have been getting. So I believe we will be able to control this program.

This, incidentally, was introduced at the same time by Congressman KLUG in the House of Representatives.

Mr. President, yesterday I introduced legislation to reauthorize the National Environmental Education Act. I am joined by my colleagues Senators CHAFEE, LIEBERMAN, FAIRCLOTH, KEMPTHORNE, MOYNIHAN, and REID. And I am joined on the House side by my colleague, Congressman SCOTT KLUG of Wisconsin, who introduced an identical bill in the House yesterday.

This bill will reauthorize the educational efforts at the National Environmental Education and Training Foundation and the EPA's Office of Environmental Education. These programs support environmental education at the local level. They provide grant money and seed money to encourage local primary and secondary schools and universities to educate children on environmental issues.

With the importance of the environment and the continuing debate on how best to protect it, it is vital to educate our children so that they truly understand how the environment functions.

Over the last few years environmental education has been criticized for being one-sided and heavy-handed. People have accused environmental advocates of trying to brainwash children and of pushing an environmental agenda that is not supported by the facts or by science. They also accuse the Federal Government of setting one curriculum standard and forcing all schools to subscribe to their views. This is not how these two environmental education programs have worked, and I have taken specific steps to ensure that they never work this way. In fact, this legislation will prevent this from happening.

The programs that this act reauthorizes have targeted the majority of their grants at the local level, allowing the teachers in our community schools to design their environmental programs to teach our children, and this is where the decisions should be made. In addition, the grants have not been used for advocacy or to lobby the Government, as other grant programs have been accused of doing.

This legislation accomplishes two important functions. First, it cleans up the current law to make the programs run more efficiently. And second, it places two very important safeguards in the program to ensure its integrity in the future.

I have placed in this bill language to ensure that the EPA programs are balanced and scientifically sound. It is important that environmental education is presented in an unbiased and balanced manner. The personal values and prejudices of the educators should not be instilled in our children. Instead we must teach them to think for themselves after they have been presented with all of the facts and information. Environmental ideas must be grounded in sound science and not emotional bias. While these programs have not been guilty of this in the past, this is an important safeguard to protect the future of environmental education.

Second, I have included language which prohibits any of the funds to be used for lobbying efforts. While these programs have not used the grant process to lobby the Government, there are other programs which have been accused of this and this language will ensure that this program never becomes a vehicle for the executive branch to lobby Congress.

This bill also makes a number of housekeeping changes to the programs which are supported by both the EPA and the Education Foundation which will both streamline and programs and make them more efficient.

The grants that have been awarded under this program have gone to a number of local groups. In Oklahoma alone such organizations as the Stillwater 4-H Foundation; Roosevelt Elementary School in Norman, OK; Oklahoma State University; the Kaw Nation of Oklahoma; and the Osage County Oklahoma Conservation District have received grants for environmental education under these programs.

This is an important piece of legislation, and I hope both the Senate and the House can act quickly to reauthorize these programs.

MEDICAL SAVINGS ACCOUNTS

Mr. INHOFE. Mr. President, I think that the senior Senator from Texas articulated the MSA environment that we are in right now with the health bill in a very accurate way. But I believe that he overlooked one thing. I agree with him that we have a system that has a built-in disincentive to save or to get services, medical services and health care services, that would be less expensive. I am not any different than anyone else. I suggest that you are probably the same way, Mr. President. Once you pay your deductible and you are in the course of a year, you are going to go out and get any kind of health services that you need if it does not cost you anything. So you have something built into the system.

I cannot think of any other service or product in America where you would have a system built in that encourages you to pay more. I have heard some percentages of savings ranging between 40 and 60 percent if we could have MSA's.

But the one thing the Senator from Texas did not mention was that it also provides another benefit to those individuals because, if someone is between jobs or if someone gets fired from a job, this offers portability. It is a fund that can be drawn upon, or, if there is a catastrophic illness, this can be used for that. It is just beyond me. I have not been able to think of one logical argument that the Senator from Massachusetts, Senator KENNEDY, had against MSA's. I could see perhaps some doctors objecting to it because, obviously, people are going to be more cost conscious and are not going to be getting services they do not need. Ironically, though, I am proud of the medical community. I have yet to have one doctor tell me that he did not want to have MSA's. They are not opposing it even though they are the only group I could think of who possibly would lose some financial advantage by a system going in place.

So I am hoping that we will be able to get this. I cannot believe that our entire health program is being held hostage just because of the medical savings account, something that benefits everyone—all Americans, young, old, rich, poor—everyone equally.

TROOPS IN BOSNIA

Mr. INHOFE. Mr. President, I want to repeat something in perhaps a little bit of a different way that I mentioned yesterday because we talked about a lot of things on this floor that are very significant, such as our health delivery system and such as the deficit. But our Nation's defense perhaps is the most significant subject that we could have to talk about.

I was so dismayed and shocked yesterday when I read what the President was saying through Secretary of Defense William Perry that we now are going to leave our troops over in Bosnia for a period longer than the 12 months that they agreed to.

I am on the Intelligence Committee and the Senate Armed Services Committee. I can tell you that at the time this happened, I could not believe that we were sending troops into a warring area with an exit strategy that was geared to time, 12 months, as opposed to events. I do not know of any time in history that this has been the case.

So during the October 17 Senate Armed Services Committee meeting and several other meetings, and on the floor, we talked about the fact that we did not believe it was going to be a 12-month operation. I asked specifically Secretary Perry, as well as other people asking him in the same meeting—one was Senator ROBB from Virginia and one was Senator BINGAMAN from New Mexico—"Are you absolutely committed to bringing the troops home in 12 months?" The answer was always, "Yes, we are committed." It was hard for me to believe that could be possible.

So I went over to the northeast sector of Bosnia where we were planning at that time to send our troops. When I got there and went up to the northeast sector, finding out no other American had been up there, I found out from General Haukland, from Norway, who was in charge of the U.N. troops of that sector, that, in fact, it was laughable.

I said, "Are you aware that our troops are coming back in 12 months?" He said, "You mean in 12 years?" That is when he drew this analogy, when he said putting the troops in there is like putting your hand in water, and you leave it there for 12 months and take it out and nothing has changed; it is still there.

So we are making a longer term commitment than the President of the United States promised the American people. I can tell you right now, I stood right here on December 13 of last year when we had the resolution of disapproval that was authored by the junior Senator from Texas and myself, Senator HUTCHISON and myself. We lacked four votes of passing a resolution of disapproval. Mr. President, we would have had those four votes and many more if the American people had known, and if the Senators in this Chamber had known, that it was going to be a long-term proposition.

Right now it does look like it is open-ended. We could talk about the cost of it, we could talk about the mission, but the point is, they told us something that they knew was not true on December 13, at the time they passed the program to send American troops over into an area we have no vital security interest in.

I am not saying, "I told you so." I am just saying, it was so obvious at the time and everyone is on record and the President is on record and John Shalikashvili, Chairman of the Joint Chiefs of Staff, is on record and Secretary Perry is on record, all of them assuring it was going to be 12 months, and now we know it is not going to be 12 months.

As I said yesterday, we have to serve notice on the administration that when they try to extend that time, we in this Chamber will do everything we can to support our troops who are over there, but they are going to have a fight in keeping our troops over there for an undetermined period of time.

THE BUDGET

Mr. INHOFE. Mr. President, if I could have just a minute or so more, I want to mention the budget resolution that

was passed yesterday. I did not like it. I did not say anything about it at the time. I have to say publicly, on the record, now, the only reason I did support it is I think that is the only way we could have anything at all for defense.

There is a very distinguished House Member from Oklahoma, Congressman WATTS. I think he feels the same way, that this is the only way we can do it. It is not a lean enough budget. It is not one that is as good as I would like. But, nonetheless, we went ahead and passed it.

I think that brings up the other point, and that is our discussion last week on the balanced budget amendment. I do not know how people can have such a change of heart. I think there are six Democrat U.S. Senators who openly supported the balanced budget amendment to the Constitution in 1994, and they voted for it. This is the resolution that they voted for in 1994, Senate Joint Resolution 41, and they turned right around and actively opposed the same exact language in a balanced budget amendment that failed to pass by a couple of votes last week. They tried to say it was different. They said this had the Nunn amendment that addressed judicial review.

I would like to read something into the RECORD, just to make sure no one tries to use that to make people think this is not the same resolution that they voted for 2 years ago and then voted against this last week. This is right out of the RECORD, Senator NUNN speaking. He said:

> Mr. President, as I noted last Thursday, adoption of the balanced budget amendment to me is very important, but I also noted that without a limitation on judicial review, a limitation which was accepted during our 1994 debate, when offered by Senator Danforth of Missouri, we could radically alter the balance of powers among the three branches of government that is fundamental to our democracy.

So those Senators that we actively debated with, those very honorable Senators from West Virginia and North Dakota and Kentucky—these are exactly the same thing. I think maybe it was a mistake that was made. A better way to approach this would be to come up and say, "We did make a mistake, I did not know it was the same thing," and perhaps we would have a chance, still, of passing a balanced budget amendment to the Constitution. Because until we do this, until it is in the Constitution so we do not have any choice, we are going to continue to play this game where we are going to put all of our cuts in the outyears and we are not going to be able to pass a balanced budget.

A balanced budget amendment is the only other way, and I hope those six Senators who voted for and supported a balanced budget amendment in 1994 would reconsider. With those votes, we would be able to pass one and send it to the States for three-fourths of the States to ratify. I have no doubt in my mind they would ratify it in a very short period of time.

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

The PRESIDING OFFICER. The clerk will call the roll.

The bill clerk proceeded to call the roll.

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

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

Mr. COVERDELL. I commend the Senator from Oklahoma for bringing up the issue of Bosnia creep. I am not going to talk about it, but I am sure we are going to hear a lot about that in the near term. Not only is the time in which the troops are there being expanded, but the mission is being expanded as well.

If you remember, during all the testimony when that decision was being made, it was a very narrow mission. Now we are talking about chasing down war criminals, expanding the mission significantly, as well as the time.

I have to tell you that I never felt it possible that you could have a 12-month commitment, moving a division like that into an area. It sounded like you would spend the first 6 months getting there and the second 6 months leaving. So I am not surprised by this dilemma that we found ourselves in.

HEALTH CARE REFORM

Mr. COVERDELL. Mr. President, I want to go back, if we might, to this issue we are confronted with on health care reform. The situation we are in is this. There are three motions that must be approved in order to get the conferees selected, and they are all debatable and can be filibustered. The Senator from Massachusetts has suggested to us that the filibuster would be put into play.

So, in a sense, he is blocking the ability for a conference to come together and deal with legitimate health care reform.

It has not been mentioned here this morning, but it needs to be mentioned that the administration has a hand in this, too. The administration, for whatever reason—and the Senator from Oklahoma is just as baffled as I—does not like medical savings accounts.

We know that medical savings accounts will lead to an increase of those insured among the young. As the Senator from Texas said, young people sometimes feel immortal, and the cost of health insurance is very high, taxes are high, savings are down and people look for things they can do without. Young people feel, "Well, this is something I can do without."

So by putting a product such as the medical savings account into the marketplace, we know that what will happen is that many of these uninsured will take advantage of this opportunity, this unique product.

The other point I want to make about MSA's is for a large number of people who use them, they will increase their disposable income, because those premiums that are not utilized for health purposes are in the checking account of the person, not somewhere up here in the bowels of the Treasury or in an insurance company's coffers. It is in the family's checking account. So they have access and will have access to financial resources that they can use to pursue their own dreams.

Here we have a situation where the President and First Lady came forward with a massive takeover of medicine by the Government. It would have created the largest entitlement in world history, which I have always found puzzling, because it was right at the same time all of us, including the President, was being told that entitlements are out of control. We have had a report that Social Security, Medicare, Medicaid, Federal retirement, and the interest only on our debt will consume 100 percent of the U.S. Treasury within a decade. And their response to that was to create a new entitlement, the largest one.

America took a look at that—new entitlement, massive Government spending, new taxes, more intrusion by the Government, more dominance over our lives on very personal matters—and they said, "No, we don't want that." And it went down in flames.

Frankly, there is a lot of conjecture about what the 1994 elections were all about. I, frankly, think it was a referendum on that health takeover by the Government. I think that had as much to do with the change in the Congress. Americans said, "Now, look, we're not for a greater Federal Government. It is already too big."

Then we come to the 104th Congress, and in response to that, recognizing there are issues that need addressing in health care in our country, we put forward a new proposal.

We eliminated job lock to allow workers to move from one job to the other without losing their insurance. We have addressed the absolutely incredulous situation where an employee who works for a company has their insurance premiums deducted, but if they happen to work for themselves, they cannot. What kind of nonsense is that? So we corrected that.

We created these medical savings accounts so more people would have access to the marketplace of insurance, so that they could save money.

We allow tax deductions for long-term health care, and we fight fraud and abuse. It is a very, very sound proposal that accomplishes the fact of letting more people keep their insurance, more people get their insurance, and we create a friendly workplace for insurance.

There comes the third point. The principal advocates for Government health insurance do not want this to become law, they do not want medical savings accounts—the administration and the Senator from Massachusetts—something that 80 percent of the American public want, so they are going to filibuster it. They are going to block it. I guess they are hoping that maybe fortunes will change and they will have another opportunity to come back and foist that big-Government-health-run program on America again.

These elections do have consequences. I think this proposal that is hung up by the opposition of Senator KENNEDY and the White House is exactly what America is asking for. I think America will take note of blocking this opportunity.

I see, Mr. President, we have been joined by the Senator from Arizona. I believe he has asked for up to 20 minutes. So I yield 20 minutes to the Senator from Arizona.

Mr. KYL. Thank you, Mr. President. I thank the Senator from Georgia.

The PRESIDING OFFICER. The Senator from Arizona is recognized.

THE WASHINGTON TAX TRAP

Mr. KYL. Mr. President, a few weeks ago, I received a letter from Jerry Harbin of Phoenix, AZ, one of my constituents. Mr. Harbin works two jobs, his wife works another job, and they earn a modest income between them. The Harbins, who are in their mid-fifties contacted me because they are worried, worried that because so much of their earnings are eaten up by taxes, they have been unable to save for retirement. They are two, among many people, who I hear from every day telling me how difficult their lives are right now and how fearful they are about what the future has in store.

Why is it, Mr. President, that so many families, like the Harbins, are struggling just to keep their heads above water? Why is it that Americans seem to be working harder and working longer, and yet they have less to show for it? Why is it that more people have to take two jobs just to make ends meet?

The answer, I think, can be summarized in three words: The tax trap. The tax trap. It is really very simple to explain. The harder you work, the more taxes Washington makes you pay; the more taxes you have to pay, the longer and harder you have to work. Only Washington ends up with more. As Jerry Harbin put it, people are working themselves into early graves just to pay for Government programs that are not working.

Think about what the tax trap has done to society, to families, to working parents. As another one of my constituents, Mike Barry, of Scottsdale put it, and I quote from a letter:

> We have the greatest nation in the world and probably the highest standard of living, and yet because we don't have the willpower and discipline to make the tough decisions to get our "checkbook" in order, we are risking our future and the future of our children.

Mr. President, Americans were once the most optimistic people on Earth, but that seems to be changing. In the America my parents knew, if you worked hard and you played by the rules, you had enough money left over from your paycheck to put something away for the future and still have enough for the little extras in life, and that is what the American dream was all about. It was about making a decent life for ourselves and securing a prospect for a better life for our children.

Why is it, then, for the first time in our Nation's history that an entire generation seems to be losing confidence in the future? It was not that long ago that the largest investment most people ever thought about making was buying a home. If they worked hard and saved, they could buy a house, live the American dream.

But today that dream is out of reach for many families. Many people are now sending more to the tax collector than they spend on food, clothing, and shelter combined. Let me say that again. They are paying more in taxes than they spend on food, shelter, and clothing. There is nothing left over to save for a new home. Some people, like Margaret Bonghi of Phoenix, are really caught in the middle. They cannot afford to buy and they do not qualify for assistance of any kind, and yet they cannot afford to rent either. After taxes, there is nothing left over for her to save.

Here are the figures, Mr. President. In 1948, Federal taxes took about 3 percent of the average family's income. But today, almost half of what people earn goes to the Government in one form or another—half. The tax trap keeps families from buying their own homes. It hurts young people, like 18-year-old Jarrod Wilson in Phoenix, who is very much upset about how much of his earnings are taken by the Government and wasted. He is scared about how much of his paycheck he will be able to keep in years to come.

High taxes are a worry for working women who are trying to balance a career with family obligations. Children are put in day care because both parents have to work just to have enough left over after taxes to pay their bills.

For decades, now, Washington has assured people that it can solve every problem with new spending or some kind of new program. It raised taxes, promised more, but few problems were really solved. So it raised taxes again, and the Government grew even bigger. We now have a bureaucracy that includes 160 different job training programs; 240 different education programs; 300 economic development programs; and 500 urban aid programs. Have all of these programs really made Americans better off?

A recent audit of the Labor Department found that about $305,000 was spent for each participant placed in a training-related employment program in Puerto Rico for about 90 days. The beneficiaries of this program were hired to perform the menial tasks that they had wanted to escape from by participating in the training program in the first place. So the program not only failed to train people for better jobs, it wasted millions in tax dollars that hard-working families could have spent on real needs.

Can Washington really afford all of these programs? It can if it continues to raise people's taxes. President Clinton was not in office 100 days before he proposed the largest tax increase in the Nation's history, taking more of people's hard-earned incomes, again, to expand the size and the scope of the Federal Government.

By comparison, Republicans spent the first 100 days last year trying to cut spending and cut taxes only to have President Clinton veto our balanced budget and tax relief bill in the end.

Did you ever wonder why President Clinton and the Democrats in Congress have been asking people to sacrifice a little more so Washington could spend a little more? Why? Should we not demand that Government be more careful with people's money?

It should not surprise anyone that more and more families find it difficult to make ends meet, that more and more people are forced to live from paycheck to paycheck, and that too many Americans want to put something away for the future but cannot, that almost everyone feels the squeeze from rising prices and higher taxes. Keep in mind that the cost of the Clinton administration's policies to the typical family is $2,600 a year in higher taxes and lower earnings.

What then is so wrong about asking Government to live within its means so that people can earn more, keep more and do more for themselves and their families? What is wrong with fixing problems that are broken, dismantling programs that are unnecessary and giving the benefit back to working Americans in the form of lower taxes?

I know there are some in Washington who say we cannot afford a tax cut if we are serious about balancing the budget. They seem to view the economy as a zero-sum game. It is a line of

reasoning that says no one can ever do better unless someone else does worse. If you cut one person's taxes, then they say you have to raise someone else's taxes. It is like trying to divide a pie into ever more slices, satisfying no one in the process.

Some of us think that we should try to make every American better off; that we want to grow the economy, in effect, to make a bigger pie so that all Americans can do better.

That is what happened during the years that Ronald Reagan was President, when income tax rates were cut 25 percent across the board for everybody. Real median family income grew every year but one, between 1982 and 1989, rising $4,564, or 12.6 percent. That is real median family income. It rose over $4,500.

Inflation virtually disappeared by 1986 which, of course, protected all Americans, but particularly senior citizens on fixed incomes. Because the economy was so much healthier, tax revenues to the Treasury increased between $60 billion and $80 billion a year. So actually lower tax rates resulted in higher tax revenues to the Government.

How can that be? It is the same thing that happens when the manager of a local department store schedules a sale and he cuts the price of the products that he sells. He does not do it to lose money, he does it to sell more goods. The store takes a smaller profit on each item, but the increased volume of sales more than makes up for the lower prices when the store counts its receipts at the end of the day.

The same thing happens in taxes. President Reagan cut taxes 25 percent across the board, something that helped to spawn the longest peacetime expansion of our economy in the history of the country. By the end of President Reagan's second term in office, real gross national product had risen by more than 4 percent. Nearly 19 million new jobs were created, over 85 percent of which were full-time jobs in occupations with average annual salaries of over $20,000 a year.

Interest rates fell, and as a result of the healthy and growing economy, revenues to the Treasury increased, as I said, between $60 and $80 billion every year.

That kind of growth was not unique to the Reagan years. It was typical of the economy's performance during other tax-cutting periods. For example, President John Kennedy proposed even bigger proportionate tax rate reductions than President Reagan's. Income tax rates were reduced in the 1960's from a range of 20 to 91 percent to a range of 14 to 70 percent. Revenues to the Treasury rose 66 percent by 1969.

Under Gov. Pete duPont's administration in Delaware in 1979, the top State income tax rate was cut from 19.8 percent to 7.1 percent. By 1993, State revenues had doubled, employment increased 36 percent, and welfare caseloads fell by 40 percent.

The high-tax policies of the 1990's have had just the opposite effect. Real median family income has declined $2,108, or 5.2 percent. Since the beginning of 1995, the economy has only grown at an annual rate of about 1.6 percent. More than a third of the new jobs that have been created have gone not to people just entering the workplace or just getting off welfare, but to people who had to take an extra job just to make ends meet. Interest rates, which had declined during most of 1995, are now rising again after President Clinton vetoed the balanced budget and the tax relief package that the Congress had sent him.

In fact, until Congress forced President Clinton to get serious about limiting Federal spending last year, deficits were forecast at $200 billion a year in the foreseeable future, despite record-high taxes. What that proves is that a sluggish economy and overspending, not a lack of revenue, are the real causes of the Nation's deficit problem.

Mr. President, some economists have proposed yet another round of income tax rate cuts to stimulate economic growth and to put more money back into people's pockets. Others have suggested that more limited relief, like a $500-per-child tax credit or a tax credit for educational expenses, would do more good. As Grover Norquist, who is head of Americans for Tax Reform, recently said, paraphrasing, I think, Mae West, "All tax cuts are good tax cuts, and even bad tax cuts are good tax cuts." In other words, just about anything we do to leave more money in people's pockets is a good thing.

But the benefit of an across-the-board tax cut, I think, is that it reaches out to all Americans. It treats everyone alike, and everyone therefore would benefit. It says to the American people that we trust them to spend their money in ways that is best for themselves and their families. It would allow people to keep more of every dollar earned from their extra effort in the workplace no matter what kind of work they do, or from their extra investment, no matter what kind of investment they may make.

The broad nature of such a tax cut applying to all forms of work and investment ensures that effort and capital are steered to the most productive activities in the economy, instead of other activities that the Government deems the most important, through targeted tax credits or deductions.

It also seems to me to provide the fairest kind of tax relief. Everyone would be treated the same. Tax rates would be cut 15 percent across the board, boosting take-home pay and relieving a major source of anxiety among people in middle and low incomes.

Notably, a 15-percent tax rate would take revenues as a share of gross domestic product back to where they were before President Clinton took office—to 19.2 percent from the current 20.4 percent—effectively repealing the Clinton tax increase.

Mr. President, I want to conclude by suggesting that an across-the-board tax cut is probably the best way to stimulate the economy, the best way to boost take-home pay, the best way to create new jobs and, in turn, the best way to provide more revenue to the Treasury in order to balance the budget.

I hope that Bob Dole and President Clinton will bring this debate to the American people during this upcoming campaign so that perhaps a consensus can develop among the American people during the next several months, so that when the new President takes office, the new Congress comes into office next January, we will feel some mandate to put the will of the people into action, to provide for an across-the-board tax cut that can benefit us all, allow us all to keep more of our income to spend as we think best for our family, but also, as a result of the increase in economic growth, to provide more revenues to the Treasury, to provide for the needs of the people through Government and provide for a balanced budget.

That is the benefit of an across-the-board marginal income tax cut. I hope that both candidates and those in public policy positions will seriously consider this proposal as perhaps the best single thing that we can do for the people that we represent, the people of America.

Mr. COVERDELL addressed the Chair.

The PRESIDING OFFICER. The Senator from Georgia.

Mr. COVERDELL. Mr. President, I commend the Senator from Arizona for his very fine remarks. I think he is right on target. You know, it is just beyond comprehension that an American family today would work from January 1 to July 3 for the Government.

I said to somebody the other day, and I say to the Senator from Arizona, that July Fourth has taken on a new meaning. The irony of it is that it is the first day that a working citizen, a laborer, can keep their paycheck. All the rest of them they gave away to the policy wonks and the government bureaucrats and policymakers, from their own local communities to the Federal Government, the Federal Government being the big bully on the block.

Imagine, Thomas Jefferson would be stunned that this situation is confronting labor, that over half their wages are consumed by the government. That means, in a sense, half their freedom has been——

Mr. KYL. Will the Senator yield?

Mr. COVERDELL. Yes.

Mr. KYL. The Senator said it just exactly right. Independence Day takes on a new meaning. We are finally independent. We can keep the money we raise and spend it on our own families instead of funding government programs.

Mr. COVERDELL. The Senator from Arizona is absolutely correct. The American people know this is out of balance. They know it. You can ask any segment, and they will say that they ought to work from January 1 to about March 1, about 25 percent. So it is double what the American people are paying, which is, of course, why the administration promised to lower it.

But the incredulous thing is, they did the exact reverse and gave us the highest tax increase in American history and therefore have created this enormous weight, this enormous economic burden on every working family, no matter their age or circumstance across our land.

I do commend the Senator from Arizona and notice we have been joined by the distinguished Senator from Tennessee. I yield up to 10 minutes to the Senator from Tennessee.

Mr. FRIST. Thank you, Mr. President.

The PRESIDING OFFICER. The Senator from Tennessee.

Mr. FRIST. Mr. President, I come to the floor today to join my distinguished colleague from Georgia, and having just heard the remarks, which are right on target, from my colleague from Arizona, addressing this issue of taxation, where the country is going and what we can do about it.

Mr. President, America was once the most optimistic nation on the face of this planet, but that is not the case anymore. Today, thanks in large measure, I believe, to the incredible tax burden that is placed on the backs of the American people, Americans have lost not only faith in Government, but they have lost all hope in the future and that the future will be better in some way than the past.

You know, when my parents were growing up, America was a place where, if you worked hard and you played by the rules, you could earn enough to support your family and still have a little something left over to put away for the future, and maybe even have a little bit to buy those little extra special things in life. That was what the American dream was all about. But for most American families today, the American dream is becoming nothing but a nightmare.

When I was a child growing up, the largest single expense that family had was their home. It is no longer the case. That largest single expense is the tax bill. Today, Americans send more each year to the tax collector than they spend on food and on clothing and on shelter.

In 1950, it took just a fraction of our income to go towards our taxes. Today, almost half of everything they earn, the American family earns, goes to the Government in some form or the other—almost half of everything they earn. No matter what they do, they cannot get ahead. The harder they work, the more taxes Washington takes out of their pockets. The more taxes they have to pay, the harder they work. That is what we mean when we say we are caught in a tax trap. Washington ends up with more, but American families end up with less.

Mr. President, the American dream was also about generational improvement, about believing that our children would have more opportunities, more choices and a better life than their parents. And, indeed, in America, they should have. Why is it, then, that for the first time in our great country's history, an entire generation of Americans have lost hope and lost confidence in the future? Why? How is it that we have lost that vision, that belief in unending dreams and in limitless possibility? The answer is simple: Taxes.

Mr. President, for decades Washington has told America that everything is OK. But, at the same time, Washington has spent our children's inheritance and undermined their future. For decades, Government not only spent more than it took in, but spent that money unwisely. Just to pay for what? A growing Washington bureaucracy, a bureaucracy that has created and encouraged overlapping programs—over 160 different job training programs, over 240 education programs, over 300 economic development programs, over 500 urban aid programs.

How does Washington pay for all of these overlapping programs? By raising taxes through the roof. It should not surprise anyone that more and more American families find it harder and harder to make ends meet, that more and more American families are forced to live from one paycheck to the next paycheck, that too many Americans want to put something away for the future, but they simply cannot, that almost every single American feels squeezed by rising prices, higher taxes, and stagnant wages.

Yet, Mr. President, while in the first 100 days of the new Republican Congress we spent our time trying to cut taxes, to give tax relief to that American family, Mr. Clinton spent his first 100 days in office trying to take more of America's hard-earned dollars. Against unanimous Republican opposition, President Clinton imposed the largest tax increase in the history of this country—$265 billion, to be exact. Yet, he still expects Americans to save more and to give more, in spite of this tax increase. No wonder most Americans have lost hope. It is the Clinton crunch. It is stagnant wages and higher and higher taxes. That is what the American taxpayer feels.

I repeat, the Clinton crunch is hurting America every day. The Clinton crunch is hurting the American citizen every day. The price of Mr. Clinton's tax trap is high. It not only costs the typical American family $2,600 in higher taxes and lower earnings, but we also pay the price of less savings, less investment and a less certain future. That is why, as we travel around our various States from community to community, we hear that the American people are afraid. They are afraid that they are not going to be able to afford that interest on their children's college loan. They are afraid they are not going to be able to afford to buy that first home. Why? Because interest rates are too high. They are afraid they are not going to be able to pay off their own accumulating debt. They are afraid that they will have nothing saved by the time they retire.

Well, it is time to end the tax trap, and we can end the tax trap. It is time we gave the American people some well-deserved tax relief. It is time we return their power, that we return their influence, that we return their own earnings over to them and their futures. And it is time we, once again, encouraged economic growth, encouraged opportunity, encouraged wages, encouraged savings, and returned that hope and that optimism that is so characteristic of the American people.

Mr. President, Government and bureaucracies did not make America great. People made America great, people who worked hard, who saved for the future, who saved and invested for their children, who made the world a better place for that next generation, for their children, for their grandchildren. That is what made America great.

Our goal, the Republican goal, is to end the tax trap. Our goal is to help Americans not only earn more money but keep more of what they earn, so they can do more for themselves, do more for their families, do more for their communities, so they can save more for their children and their future, and so they can give more to that collection box on Sunday.

Yes, that is the legacy our parents and grandparents left to us. It is the legacy that all Americans inherited from our Founding Fathers. Let us not be the first generation who fails to pass that legacy on.

Mr. President, I thank the Chair and yield the floor.

Mr. COVERDELL. Mr. President, I appreciate the remarks of the Senator from Tennessee. He is on target, as usual.

HEALTH CARE REFORM

Mr. COVERDELL. Mr. President, let me just say that, again, I want to close by talking about the fact that this Congress, the 104th, the Senate and House, has done remarkable work in bringing to the country some relief in the insurance marketplace for health insurance.

We heard, in the last Congress, about the large number of people who are disadvantaged in the insurance marketplace and that they lose their insurance if they change jobs. The costs are too high. A lot of young people do not have insurance, or somebody who has had a medical problem has difficulty getting insurance. We oppose vehemently the idea of a new massive Government takeover to run every aspect of everybody's decisions—families and persons.

Well, the principal advocates for a Government takeover of health care are now telling us that it is simply unacceptable that they are going to use medical savings accounts, which is a new opportunity in the marketplace. The President and the Senator from Massachusetts have keyed in on that and said, no, that cannot be in the marketplace. They are so opposed to this concept that they are going to block everything, leave the uninsured uninsured, leave the person who cannot move from one job to another unable to do that, let the person sitting out here—I met one of them just last week—who cannot get insurance because of a preexisting condition. Too bad. Let the self-employed, who cannot deduct their cost for insurance—they cannot deduct it like somebody who works for a company—too bad, we do not like medical savings accounts, even though the vast number of Americans do. So we are going to block it all, we are going to filibuster this election of conferees to bring a reasonable health care solution to the country to the table. No, America, you cannot have it because the new leadership and Senator Dole on our side wants this new product called medical savings accounts. So if it cannot be their way, it will not be any way.

If you really want to get to the bottom line, I think that they would be just as fine to let it go, not let this come into place, so we can come back with a new match of Government proposal after the next election.

Mr. President, what do folks think about these medical savings accounts? Here is a quote: "Today I would like to appeal to President Clinton to please support the MSA issue. Nearly 3 years ago, we went to an MSA plan, and it has been very helpful to us."

Is this one of those rich people they talk about? No, it is Penny Blubaugh, secretary and part-time bus driver for the Danville, OH, local school district. She is asking the Senator from Massachusetts and the President to let this go through, saying that it has been helpful to her. She would like others to take advantage of it.

Here is another one: "An amendment to the health care package has been offered to add a medical savings account provision. The United Mine Workers have a similar provision in our current contract that is anticipated to produce a significant savings to our previous insurance." This is a quote from a letter to PAUL SIMON of Illinois from Dan Reitz, political director of United Mine Workers' State chapter in Illinois. That does not quite fit the picture of this so-called rich beneficiary.

"Mr. President, we believe MSA's will be a huge benefit to the American public. MSA's are not a partisan issue. Democrats supported MSA's in the 102d and 103d Congress, and we support them in this Congress because they are a good idea. That increases access, controls costs, and offers options." That is in a letter to President Clinton from Democrat Congressmen BOB TORRICELLI and ANDY JACOBS of New Jersey and Indiana.

Well, the list goes on and on, Mr. President. They have talked about—the Senator from Massachusetts and the White House—that it only benefits the wealthy and the healthy. But in truth, regarding the experience of 2,000 companies with MSA's, a recent study by the Rand Corp. shows that MSA's appeal to those of all income levels and would attract those of all health conditions, including the chronically ill. In fact, I was at a press conference and a press interview, and one of the persons there supporting this had fought off what might have been a terminal illness. So it is just inappropriate to characterize this as just serving the wealthy and the healthy.

Mr. President, I see the hour of time which I control has expired. I will just close by saying I hope that the White House will implore the Senator from Massachusetts to allow us to proceed with the health care reform that helps bring insurance to small businesses, to small farmers, people looking for some relief, people who are looking for a friendlier work environment in order to obtain health insurance. The Senator from Massachusetts has it all bottled up. The Senator from Massachusetts has it all bottled up, and that means millions of Americans are bottled up. It is time to bring this to an end and let these reforms became part of the American workplace.

I yield the floor.

Mr. MURKOWSKI addressed the Chair.

The PRESIDING OFFICER. The Senator from Alaska.

Mr. MURKOWSKI. I wish the Chair a good morning, and my colleague from Georgia. I enjoyed his reflection on health care.

ENVIRONMENTAL IMPROVEMENT TIMBER CONTRACT EXTENSION ACT OF 1996

Mr. MURKOWSKI. Mr. President, I am going to speak on another subject but it is equally important to my State, and that the introduction by myself along with Senator STEVENS and Congressman YOUNG of a piece of legislation known as the Environmental Improvement Timber Contract Extension Act of 1996. I introduced the bill late yesterday, and I did not have an opportunity to speak on it.

This particular piece of legislation would provide for timber contract extension. The bill would extend for 15 years the long-term timber sale contract on the Tongass National Forest between the Forest Service and the Ketchikan Pulp Corp. which is a subsidiary of Louisiana Pacific. This extension would provide Ketchikan Pulp with a stable timber supply over a sufficient length of time to amortize the cost of a new environmentally improved pulp mill. Improvements and energy efficiency equipment would be installed at a cost of somewhere between $150 million and $200 million.

It is interesting to reflect that when this mill was first built back in the mid-fifties the total cost of the mill was somewhere in the area of $55 million. In any event, Ketchikan Pulp Corp.'s situation is extremely unique because all of its timber comes from the national forest. In my State of Alaska there is no State forest of any consequence in southeastern Alaska, and the only private timber that is available is owned by the Native regional corporations.

We also have a unique difference in that we have in the Tongass people who live in the forest in the towns of Ketchikan, Juneau, Wrangell, Petersburg, Sitka, Haines, Skagway are all in the forest, and were in the forest before the forest was created. And the theory was when the Nation's largest national forest was created there would be sufficient timber set aside for the modest industry that was in existence. We have seen some changes in that policy.

So I am introducing this bill as a result of, first, the important role that Ketchikan Pulp plays in the social, economic, and environmental vitality of southeastern Alaska; two, the strong bipartisan support within our State for this action; three, the record from the two field hearings which I held last month in southeastern Alaska in Juneau and Ketchikan which overwhelmingly supports the introduction of this legislation; fourth, the realization that the performance of the Forest Service strongly indicates that without some congressional intervention the Ketchikan Pulp mill will not survive without an adequate supply of timber.

Let me elaborate on each of these factors because they are important.

Let me describe the nature of the southeast forest in the Tongass. Thirty percent of our timber is dead or dying. It is old growth, virgin timber. But as with any living thing there is a process of growing, maturing, and then the death of the trees begin. The theory of utilizing these trees which have reached their maturity and are in the process of dying is the forest process of evolution which is associated with timber development. So what we have is a product that is only suitable for wood fiber, and as a consequence there is a justification for the pulp mill. Without the pulp mill, the lumber mill would be less profitable and the pulp would have to be exported creating virtually no jobs in my State.

So let me share with you what the forest told us about the evolution and the importance of the contract with southeastern Alaska as of May 28 at the oversight hearing in Ketchikan:

The long-term contracts in Alaska which required the construction and operation of manufacturing facilities such as sawmills and pulp mills facilitated the establishment of a timber industry in Southeast Alaska.

Prior to the 1950's, economic conditions in Southeast Alaska were characterized as boom-bust. Federal government employment, mining and salmon processing were the economic mainstays. After World War II, mining was essentially gone, leaving a small local timber industry and commercial fishing in the natural resources sector. Both the timber and commercial fishing industries were subject to market swings from year to year and were seasonal in terms of employment. The United States favored the expansion of the timber industry through several long-term timber sales on the Tongass National Forest to stabilize employment in Southeast Alaska.

Making the best use of the timber on the Tongass required having suitable markets for both high and low quality timber and species. The markets were largely export markets in the Pacific Rim and were somewhat limited by the need to use most of the timber for pulp. The Forest Service advocated the use of long-term sales to establish a pulp industry that would bring greater economic diversity to the region and more year-round employment. If successful, more service and trade establishments were expected to follow—creating greater tax bases, which would provide opportunities for improved services, such as schools, water, fire protection, and the like. For all of this to come together, however, the Forest Service had to guarantee a long-term, stable timber supply to attract outside capital investment.

I found this testimony compelling, Mr. President. The Forest Service witnesses recounted the decisions of their predecessors back at the time right after the war in the late 1940's. Far-sighted people recognized the nature and the importance of the resource and planning for an environmentally and economically secure future. The Forest Service recognized that, as a sole owner of land and timber, it controlled the economic and environmental vitality of the region.

What is the situation today? Why has it changed? Today Ketchikan Pulp Corp.'s operations directly or indirectly provide about 25 percent of the total annual employment wages in Ketchikan. Ketchikan Pulp Corp.'s municipal real estate and sales tax generated about $13.6 million in revenues in 1992.

More broadly, the southeastern Alaska timber industry is the dominant contributor to real estate development in Ketchikan. More than 25 percent of all the households are timber dependent, and the typical timber employee can purchase more than 90 percent of the existing housing units. Ketchikan Pulp comprises more than 50 percent of the total borough's industrial assessed valuation.

I might add, Mr. President, that this is the only year-round manufacturing plant in our State of Alaska. So its importance cannot be understated.

We have tourism and fishing that are also important to the economy. But we need all of our basic industries—timber, fishing, and tourism—in that part of the State to maintain the healthy economy in the region. Quite simply, without some stability of timber supply, the economies of the region generally, and Ketchikan specifically, are in trouble.

Perhaps that is why the proposal to extend the KPC contract has received broad, bipartisan support from elected officials throughout the State. Earlier this year, the Alaska Senate voted 18 to 1 to support a resolution urging the Congress to extend the contract. The Alaska House voted 34 to 3 to support the same measure. These are extraordinary margins of support.

I will submit the resolution for the RECORD at this time, and ask it be printed in the RECORD.

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

SENATE JOINT RESOLUTION NO. 40 IN THE LEGISLATURE OF THE STATE OF ALASKA

Whereas, for the last 40 years, the timber industry operating on national forest land in Southeast Alaska has been the largest private employer in Southeast Alaska; and

Whereas the United States Forest Service strategy for creating permanent year-round employment through a timber industry in Southeast Alaska has been to offer long-term contracts to attract pulp mills to use, and add value to, low-grade and by-product materials from timber harvesting; these pulp mills serve as a market for pulp logs and chips from the sawmills in Southeast Alaska; and

Whereas pulp mills assure full utilization and protect forest health by using that significant portion of the Tongass National Forest that consists of dead, dying, and overmature timber; and

Whereas, since passage of the Tongass Timber Reform Act of 1990 (TTRA), a pulp mill and a major sawmill have closed, and more than 40 percent of the timber industry has been lost due, in part, to the failure of the United States Forest Service to make available the approximately 420,000,000 board feet per year needed to meet the jobs protection promises made by those who sought passage of the TTRA, all of which has created severe social and economic harm to the timber industry, its workers, and timber-dependent communities in Southeast Alaska; and

Whereas another of the reasons for the closure of the Sitka pulp mill was the adverse economic impacts of unilateral changes to its long-term contract made by the TTRA, those unilateral changes also adversely impact the economics of the Ketchikan Pulp Company (KPD) contract; and

Whereas KPC, which obtained a long-term contract to help create year-round jobs in Southeast Alaska, is the sole remaining pulp mill in Alaska, a major employer in Southeast Alaska, and the market for pulp logs and chips from all the other sawmills in Southeast Alaska; and

Whereas the loss of the KPC pulp mill would lead to the loss of the entire industry now operating on the Tongass National Forest with devastating social and economic effects on families and communities throughout Southeast Alaska; and

Whereas KPC pulp mill faces an uncertain future, not of its own making, as a result of the continuing log shortage created by the failure of the United States Forest Service to meet its volume and requirements under KPC's contract and the TTRA, as a result of the adverse economic impacts to its long-term contract caused by the unilateral TTRA changes, and as a result of the requirement that more than $155,000,000 in capital expenditures be made over the next few years to meet new and ever changing federal environmental standards and operating needs; and

Whereas, as a matter of economic common sense, KPC cannot make all the necessary expenditures without the federal government extending its contract for a sufficient period to amortize those expenditures, without an adequate supply of timber, and without modifying those portions of the unilateral TTRA contract changes that have adversely impacted the contract's economics; and

Whereas the legislature finds that an additional 15 years is a minimum reasonable period to extend the KPC's timber sale contract to allow such amortization and to provide opportunities for value-added alternatives that maximize the number of jobs and assures environmentally sound operations; and

Whereas the legislature finds that sufficient timber must be made available to maintain the KPC contract, to provide 100,000,000 board feet for the contracts to small business, and to reopen the Wrangell facility and a by-product facility in Stika; be it

Resolved, That the Alaska State Legislature respectfully urges the Alaska delegation in Congress and the Governor to take all steps necessary, this year, to extend the Ketchikan Pulp Company long-term contract for an additional 15 years and modify those portions of the contract which the TTRA unilaterally impacted, because such an extension and modification are critical to the environmental, social, and economic well-being of the Tongass National Forest timber workers, their families, and timber-dependent communities in Southeast Alaska and because such an extension is in the public interest of the State of Alaska; and be it further.

Resolved, That the Tongass National Forest should be managed for a healthy and diversified economy for the benefit of all users, including value-added forest products, commercial and sport fishing, seafood processing, tourism, subsistence, sport hunting, and

local businesses that provide goods and services; and be it further.

Resolved, That the Alaska State Legislature also respectfully urges the Alaska Congressional Delegation, the Governor, and the United States Forest Service to take action this year to assure that sufficient timber be made available as part of any revision of the Tongass Land-Use Management Plan to maintain the Ketchikan Pulp Company contract, to provide 100,000 board feet for small business contracts, and to reopen the Wrangell facility and a by-product facility in Sitka.

Copies of this resolution shall be sent to the Honorable Bill Clinton, President of the United States; the Honorable Daniel R. Glickman, Secretary of the U.S. Department of Agriculture; the Honorable Bruce Babbitt, Secretary of the U.S. Department of the Interior; the Honorable Newt Gingrich, Speaker of the U.S. House of Representatives; the Honorable Strom Thurmond, President Pro Tempore of the U.S. Senate; and to the honorable Ted Stevens and the Honorable Frank Murkowski, U.S. Senators and the Honorable Don Young, U.S. Representative, members of the Alaska delegation in Congress.

Mr. MURKOWSKI. Further, the Governor joined in, offering his support for congressional action to extend the contract. In a May 23 letter to me, Gov. Tony Knowles informed me that the State of Alaska supports a KPC contract extension, contingent on KPC's agreement with the following five principles: to protect the environment, Alaska jobs, and other forest users; and to utilize the Tongass Land Management Planning [TLMP] process and value-added processing techniques. I am pleased to say that these conditions have been agreed to by KPC and are included in the compromise legislation I have introduced today. I will include the Governor's letter for the RECORD.

I ask unanimous consent that it be printed in the RECORD as well.

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

STATE OF ALASKA,
OFFICE OF THE GOVERNOR,
Washington, DC, May 23, 1996.

Hon. FRANK MURKOWSKI,
U.S. Senate, Washington, DC.

DEAR SENATOR MURKOWSKI: On behalf of Governor Tony Knowles, I hereby submit, for the hearing record, the attached letter from the Governor to Mr. Mark Suwyn, Chairman of Louisiana-Pacific Corporation, concerning a possible contract extension for the Ketchikan Pulp Company (KPC).

As the attached letter indicates, the State of Alaska supports a KPC contract extension, contingent on KPC's agreement with the following five principles: to protect with environment, Alaska jobs, and other forest users; and to utilize the Tongass land Management Planning (TLMP) process and value-added processing techniques. The State's support for a contract extension, however, leaves for the federal public process to resolve the issues of volume, contract duration, and pricing structure.

With respect to the TLMP process, which we understand you are also having hearings on, the State continues to provide information and comments to the United States Forest Service in an effort to develop a management plan for the Tongass that is based on sound science, prudent management, and meaningful public participation.

In addition to this letter for the record, the State plans to be represented at the hearings by Veronica Slajer, of the Department of Commerce and Economic Development, who will be in attendance to listen to the testimony of the witnesses. As we informed your staff earlier, Ms. Slajer will not be testifying at the hearings, but the State is interested in learning about what others think about these issues so that the State can incorporate these thoughts in the formulation of State policy.

Thank you for considering the State's views.

Sincerely,

JOHN W. KATZ,
Director of State/Federal Relations and Special Counsel to the Governor.

Mr. MURKOWSKI. After receiving these views from the legislature and the Governor, I scheduled two oversight hearings on May 28 and May 29 in Ketchikan and Juneau, respectively. What I heard at these hearings was overwhelming support for the legislature's resolution, the Governor's action, and the extension of the KPC contract. I heard from tourism interests, bankers, and fishermen who supported the contract extension. While not unanimous, the preponderance of testimony offered over the 2 days—and I might add there were demonstrators who marched in Ketchikan, as well as in Juneau. Most of them, I am pleased to say, wanted to extend the contract—a larger portion, of course, in Ketchikan. These people recognize that there is no alternative source of timber available.

Last, I am introducing this legislation today because I have finally lost confidence in the ability of the Forest Service to provide a stable and sustainable supply of timber for southeast Alaska. Over the past few years, the agency has fallen further and further behind in keeping a working timber sale pipeline. This problem has worsened despite the efforts of Senator STEVENS to provide the agency with additional funding for timber sale preparation. Consequently, more than half of the operating mills in southeast Alaska have closed their doors during the last few years during this administration's watch. KPC is the last remaining pulp mill in the State. We only have the one.

This situation is absolutely critical. The Tongass is our Nation's largest national forest. Yet the level of economic activity associated with the production of forest products is very small, and sinking. We have only one pulpmill and a few scattered sawmills left. Employment in the industry has fallen 40 percent since 1990. New Yorkers burn more wood in their fireplaces and stoves than we harvest in southeast Alaska each year. Yet we have the largest of all our national forests.

In its May 28 testimony, the Forest Service acknowledged that the contract with Ketchikan Pulp Co. [KPC] has played an important role in the development of Alaska's resources in southeast. Given this admission, one would think that the Forest Service would want to see the mill stay. One would expect the Forest Service to weigh in in favor of a contract extension. But not so.

In very disappointing testimony, the agency maintained that the terms of the existing contract provide that all obligations and requirements of the long-term contract must be satisfied on or before June 30, 2004. In response to questions about any future obligations past that date, the agency insisted that it has none—none. This testimony was offered even though the preamble to the contract discusses a commitment to a permanent economic base.

On the question of whether Congress should extend the contract, the Forest Service testified that a long-term commitment of resources through a timber contract could further affect the flexibility of management on the Tongass—I do not know what that means, but I have an idea—and, further, that we are committed to completing the revision of the Tongass land management plan before we begin any discussion of future long-term commitments to timber related industries in Southeast. Yet in response to questions, the agency witnesses could not tell me: First, whether such commitments could be made within the latitude provided by the range of alternatives in the draft TLMP; second, whether additional National Environmental Policy Act analysis would be required; or third, whether such commitments would actually be precluded by the selected alternative of the final plan. The testimony was extremely unsettling. It convinced me that either the Forest Service and/or the administration would like to see the KPC mill go away.

They have apparently no interest in seeing KPC invest $200 million to pioneer chlorine-free manufacturing technology that could benefit environmental control efforts nationwide. I think this is also tragic.

Mr. President, the simple facts are that without the contract extension KPC will be unable to amortize the required capital investments for environmental improvements, and it will go away. The company's new CEO also testified on May 28. He was refreshingly, if not reassuringly, frank. He said:

In the very near future, we have to decide whether to continue the large investments required to make KPC viable or whether the losses currently being inflicted by the inappropriate implementation of the contract can be carried any longer. Now, we are going to make that decision relatively soon. This is not an issue for the year 2003. This is a 1996 issue and decision.

We will make that decision, first of all, based on just to keep running today we must

have the Forest Service meet the intent of the long-term bilateral contract, including the volume and pricing provisions. And, then, secondly, to continue to invest at the rapid rate that we are right now, millions of dollars per quarter, this revised version of the long-term contract must be extended a minimum of 15 years at an offering level of 192 million board feet per year.

The people of KPC and the thousands of people who have worked with us have met its—their contractual obligations to develop the economy and provide permanent, year-round employment for Southeast Alaska. We want the government to meet its contractual obligation to provide a sufficient volume of economically viable timber in a timely fashion.

Some in southeast Alaska suggest that the region does not need the KPC pulpmill to have a successful and sustainable timber industry. What is needed, in their opinion, is to eliminate the monopoly contract and develop more small, value-added manufacturing facilities.

This is wishful thinking. The independent mill witnesses at our hearings indicated that the lack of a stable timber supply will preclude any additional investments in southeast Alaska. The manufacture of pulp is a higher value added process than any of the alternatives suggested by opponents of the pulpmill. The loss of the pulpmill will destabilize the industry and the infrastructure of the region, and have a chilling effect on future industry investments. Available capital will migrate to other regions.

Mr. President, I cannot stand idly by and watch the town of Ketchikan die. I will not. I have introduced and ask respectful consideration of, the Environmental Improvement Timber Contract Extension Act. A copy of the bill and a section-by-section analysis was included.

I yield the floor.

The PRESIDING OFFICER. The Senator from New Mexico, under a previous order, has a period of 15 minutes under his control.

The Chair recognizes the Senator from New Mexico.

USE THE DISASTER RESERVE OF GRAIN

Mr. BINGAMAN. Mr. President, I will try to talk for a few minutes here to alert my colleague and anybody watching about the importance of a Senate resolution which I submitted, along with Senators DASCHLE and DOMENICI and PRESSLER and LEAHY. That is Senate Resolution 259. It was agreed to by unanimous consent. I call on the Secretary of Agriculture to give that resolution very serious consideration.

The resolution simply states that it is the sense of the Senate that the Secretary of Agriculture should use the disaster reserve of grain, which is under his authority, to alleviate the distress of livestock producers. This should be done in the most efficient manner practicable, including cash payments from the sale of commodities that are in the disaster reserve.

The disaster reserve currently has about 44 million bushels of grain. The Secretary of Agriculture has two choices, essentially, as to how to proceed in compliance with the resolution. He can transport the grain from the Midwest, where it is currently stored, to the southwest, where that grain is needed.

Of course, this kind of an option would be time consuming; it would be inefficient. The other alternative, and that is what we urge in our resolution, is that he could sell the grain on the open market and use the proceeds from the sale as cash payments to livestock producers who are in the most distress. This action would provide significant relief to ranchers in New Mexico and in many other States.

Mr. President, the resolution I have referred to represents one of several efforts that we have made to provide immediate assistance to livestock producers. Those in the livestock industry cannot wait for the normal period that it takes to pass legislation in this Congress.

Many people have had to sell their cattle because they could not afford to feed those cattle. To bring a calf to market today, to get it up to the weight where you can bring it to market, a rancher is required to spend about $350 on grain. Under the present circumstances, he could be expected to sell that calf for $200 or less. That, of course, does not make sense. Many ranchers have had to sell their entire herds now, at this point, when the price of cattle is at a near all-time low.

A rancher from Quay County in my State on the east side of New Mexico reported that semis loaded with cattle have had to wait up to 18 hours to be unloaded at the slaughterhouse in Hereford, TX. The cattle that remain on the range are in poor health.

Twenty-two of the thirty-three New Mexico counties have been declared disaster drought areas. Farmers in these counties, in many cases, have had to plow their fields into large clods to keep the wind from blowing precious topsoil away.

Without question, the current hardships affect the entire community. In certain areas of New Mexico, banks are having to let ranchers and farmers pay only interest on their loans.

This drought has also started an early fire season with very devastating results in my State. As of May 5, fires had burned 162,000 acres of Federal land in the two States of Arizona and New Mexico. This figure is twice the area burned in the entire year of 1995. As a result, in our State, fireworks have been banned statewide.

Part of my State did receive rain in the last 2 days. However, as welcome as that rain is, it is clearly not enough. We have talked to various extension offices around New Mexico, and the indications are that the amount of rain received was very sparse and widely distributed. In Chaves County, the extension office indicated that they received one-tenth of an inch of rain in areas that are usually farmed, and even less than that in grazing areas.

The normal rainfall from January until the present time is about 2 inches. In Eddy County, in the southeast part of our State, they reported they had a few drops of rain a few days ago. Roosevelt County, on the east side of New Mexico, had one-half inch in the town of Portales, but less out in the county. Lincoln County indicated that there was some rain in Carrizozo, none out in the rest of the county.

Mr. President, let me show a chart which I think makes the case much better than a description by me could make. This is the Palmer drought index, which is the primary way in which people in the weather predicting business and weather analysis business determine the extent of the drought that is being experienced.

This is a map as of May 25 of this year. It is the most recent map. Though the map was made on June 4, it is valid for the period up through May 25.

This shows that the blue, or turquoise areas on the map are those which are considered moist, by normal standards.

The yellow areas—and you can see much of the Northeast is having a moist season so far this year—the yellow areas are normal.

The tan areas are moderate.

The reddish areas are severe drought.

And then the purple areas are listed as extreme drought.

You can see the very large area throughout the Southwest that is listed as experiencing extreme drought conditions under this map. Most of my State, most of Arizona, much of California, much of Nevada are listed in extreme drought conditions. Mr. President, this is not a modest problem; it is a very serious problem for the State.

We have seen some measures taken to deal with this hardship, but they are not enough. The President has announced some actions, but I believe we must pursue all avenues available. For this reason, I continue to encourage the Senate to take up and to pass a bill that I introduced on May 13, S. 1743, the Temporary Emergency Livestock Feed Assistance Act of 1996. We requested the Secretary of Agriculture to give us his comments on that bill, and I have a letter from him, which I ask unanimous consent be printed in the RECORD following my remarks.

The PRESIDING OFFICER. Without objection, it is so ordered.

(See exhibit 1.)

Mr. BINGAMAN. Mr. President, let me read two or three sentences from that. The Secretary of Agriculture, in this letter dated the 12th of June, says:

The Department of Agriculture supports the concept and intent of the proposed legislation as a means to provide some form of assistance to livestock producers who cannot receive assistance under either crop insurance or the Noninsured Crop Disaster Assistance Program, as the administration proposed in legislation submitted to Congress last year in formulating the 1996 farm bill.

He goes on to say:

The extension proposed in S. 1743 could be operated through the current LFP policy and procedure with very limited changes. Therefore, if the legislation were enacted, it could be implemented in a very short timeframe.

Under the bill, Mr. President, the producers who have suffered at least a 40-percent loss of feed production would be able to apply for assistance through their local farm service agency. The livestock eligible would be cattle, sheep and goats.

The old program was funded through the Commodity Credit Corporation. This bill changes that funding mechanism. S. 1743 targets $18 million from the Cottonseed and Sunflower Seed Oil Export Assistance Program. If market conditions remain the same, we are informed that these funds will go unspent this year unless we use them for the purpose that we have designated in S. 1743.

Mr. President, we now have 16 cosponsors for this legislation. It is a very impressive bipartisan group of cosponsors: Senators DASCHLE, DOMENICI, BAUCUS, GRAMM, DORGAN, GRASSLEY, EXON, HATCH, HARKIN, INHOFE, JOHNSTON, KYL, FEINSTEIN, PRESSLER, HUTCHISON, and KASSEBAUM are all cosponsors of the legislation with me. I urge other Senators to join us in this legislation.

This bipartisan bill will give immediate relief to the livestock industry. I know there are some in this body who hesitate to resurrect a program that was eliminated in the recently enacted farm bill, but let me point out that S. 1743 addresses many of the reasons that the program was eliminated and corrects the problems.

Several provisions have been placed into the bill to guard against some of the abuses that had been pointed out in the program previously. For example, a rancher must have owned or leased the livestock covered in our proposed legislation for at least 180 days. If the rancher has not owned or leased the livestock for the required time, there are certain exceptions that the Secretary would have to approve. This will ensure that additional livestock are not purchased for the sole purpose of benefiting from this program.

Also there is language that allows the Secretary to determine the quantities of forage sufficient to maintain livestock based on the normal carrying capacity of the land. The language is intended to discourage anyone from overstocking the land above the carrying capacity and receiving assistance for that effort.

Further, S. 1743 would not revive the program indefinitely. This bill proposes to allow the program to exist only through 1996. That year, of course, is essentially half over. The practical effect of S. 1743 is that it would provide short-term assistance for the livestock industry until adequate rain does come.

S. 1743 differs significantly from the livestock feed program in regard to how it is funded. We have identified $18 million that will go unspent this fiscal year. The old program was funded through the Commodity Credit Corporation. We do not upset any of the funding mechanisms created in the newly enacted farm bill. Instead we spend money that otherwise would be returned to the Treasury.

As I have stated, Mr. President, the livestock industry in my State and in much of the Southwest needs immediate relief. Until the livestock industry receives some immediate assistance, I ask the Senate to continue moving ahead with Senate bill 1743. Given the choice of whether this $18 million is to be used for drought emergency or returned to the Treasury, I believe the choice is clear, given the crisis that we face.

Mr. President, as I indicated a week or so ago speaking on the floor on this same subject, we cannot legislate rain. But we can legislate some measure of relief during this time of crisis. We should do so. I urge my colleagues to join me in doing so. Mr. President, I yield the floor.

EXHIBIT 1

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, DC, June 12, 1996.

Hon. JEFF BINGAMAN,
U.S. Senate, Senate Hart Building, Washington, DC.

DEAR JEFF: This is in response to your request for comments regarding S. 1743, a bill "To provide temporary emergency livestock feed assistance for certain producers, and for other purposes."

S. 1743, basically mirrors the Livestock Feed Program (LFP) that was suspended, for crop years 1996 through 2002, by the Federal Agriculture Improvement and Reform Act of 1996, signed on April 4, 1996, with two exceptions: (1) eligible livestock, which the proposed legislation limits to cattle, sheep, and goats; and (2) funding. Funds for the expired program originated in the Commodity Credit Corporation, whereas the proposed legislation specifies that the Secretary of Agriculture shall use not more than $18 million that otherwise would have been made available to carry out the cottonseed oil and sunflowerseed oil export assistance programs established under section 301(b) of the Disaster Assistance Act of 1988.

The Department of Agriculture (USDA) supports the concept and intent of the proposed legislation as a means to provide some form of assistance to livestock producers who cannot receive assistance under either crop insurance or the Noninsured Crop Disaster Assistance Program (NAP), as the Administration proposed in legislation submitted to Congress last year in formulating the 1996 Farm Bill. The extension proposed in S. 1743 could be operated through the current LFP policy and procedure with very limited changes. Therefore, if the legislation were enacted, it could be implemented in a very short timeframe.

The long-term Palmer Index, as of May 11, 1996, indicates that extreme drought currently is occurring in parts of Arizona, California, New Mexico, Nevada, Texas, and Utah. The Palmer Index also shows that severe drought is occurring in parts of Arizona, Colorado, Kansas, New Mexico, Oklahoma, Texas, and Utah.

USDA would support S. 1743 if it were modified so that benefits under the proposed legislation would be made available only to those producers who are not eligible to receive assistance under NAP or crop insurance. If careful consideration is not given to eligibility criteria, the $18 million funding provided for the legislation will be inadequate. NAP assistance on privately-owned land is available for seeded forage and for native forage. On Federal or State-owned lands, NAP assistance is available only for seeded forage. Vegetation occurring naturally without seeding is considered native forage. Seeded forage is defined as acreage which is mechanically seeded with grasses or other vegetation at regular intervals, at least every 7 years, in accordance with good farming practices.

Because LFP benefits may fluctuate frequently during the feeding period, it would be advisable to provide for a 30-day sign-up period in order to make an early determination of potential expenditures and to issue advance payments accordingly.

The requirements in section 6, of the proposed bill, Report on Use of Disaster Reserve for Livestock Assistance, are extraneous, and need not be included. the Administration is quickly developing a mechanism for distributing the Disaster Reserve stocks and will announce it very soon.

The Office of Management and Budget advises that there is no objection to the presentation of this report from the standpoint of the Administration's program.

Sincerely,

DAN GLICKMAN,
Secretary.

Mr. KENNEDY addressed the Chair.

The PRESIDING OFFICER. The Chair recognizes the Senator from Massachusetts.

Mr. KENNEDY. Mr. President, I understand that the leader has some 20 minutes of time?

The PRESIDING OFFICER. The Chair advises the Senator from Massachusetts that is correct.

Mr. KENNEDY. I yield myself 12 minutes of the leader's time.

The PRESIDING OFFICER. The Chair recognizes the Senator from Massachusetts.

Mr. KENNEDY. I thank you.

MEDICAL SAVINGS ACCOUNTS

Mr. KENNEDY. Mr. President, the House and the Senate Republican compromise on medical savings accounts is

a capitulation to House Republicans who are more interested in creating an issue and serving a special interest constituency than in passing a bill.

I listened with interest to speeches this morning that accused the Democrats of blocking health reform by not agreeing to the appointment of conferees. This kind of claim cannot pass the truth-in-advertising test. Let us look at the record. Medical savings accounts was defeated by the full Senate. The health insurance reform bill passed the Senate by 100 to 0 without medical savings accounts—100 to 0 without medical savings accounts.

When the majority leader attempted to appoint conferees, he proposed a stacked conference—a degree of tilting unprecedented in the last three conferences. His only goal was to assure the bill that came out of the conference included this bill-killer provision. The Democrats will not consent to this abuse of congressional procedures. And we will continue to fight to pass a bill the President can sign, a bill that will improve health insurance, not ruin it.

We are ready to talk to the Republicans anywhere, any time. We do not need a conference to work out this legislation, if the Republicans are willing to compromise. But we will not agree to a conference that has the sole goal of assuring the death of this bill by including in it an unacceptable provision rejected by the Senate.

Let us be clear about who is blocking health reform. Health reform passed the Senate 100 to 0. It was a clean, bipartisan bill. If it were passed by the House today it would be signed by the President tomorrow. The American people are tired of partisan bickering. They want us to pass the bill that passed the Senate with unanimous support. The American people deserve to have insurance reform enacted. The House Republicans should not be trying to kill it by insisting on an extreme partisan agenda.

Medical savings accounts have become the Trojan horse that could destroy health insurance reform. This untried and dangerous proposal does not belong in the consensus insurance reform bill. It has already been rejected by the Senate. A bill containing it cannot be enacted into law and signed by the President.

Democrats and the White House have offered a fair compromise which would provide for a controlled and limited test of the MSA concept to see if it should be expanded. But the House Republican leadership has said that it will be their way or no way. As Majority Leader ARMEY said yesterday, "I will not give up [on] medical savings accounts," and he dared the President to veto the bill. The latest Republican proposal clearly reflects this partisan strategy.

The Republican leadership pretends their proposal is a fair attempt to deal with concerns about medical savings accounts. But it is nothing of the kind.

Under their proposal, medical savings accounts could be sold to all small businesses and the self-employed immediately. This opens MSA's to a massive market, consisting of more than 40 million workers, one-third of the Nation's entire labor force. This is hardly a controlled, limited test.

Even more serious, experts agree that the small business sector of the health insurance market is the most vulnerable to the disruption that medical savings accounts would cause. The joint tax committee concluded that the sales of medical savings accounts would be concentrated in small and medium-sized firms.

The proposal would clearly go beyond the bounds of what is acceptable, even if it stopped there. But it does not. After 3 years in which medical savings accounts are sold in this vast market, the accounts would be expanded to everyone. Only if both the House and Senate voted to stop the expansion would it be prevented. Rather than evaluation by an impartial body, the evaluators would be chosen by the chairmen of the Finance and the Ways and Means Committees, both strong proponents of MSA's. This is not a test. It is a travesty.

There are other objectionable aspects of this compromise. It sets a deductible that is $5,000 per individual and $7,500 per family, far beyond the means of working families. Instead of capping the obligations to people who finally meet the deductible, it allows the insurance company to subject them to further unlimited costs that the insurer is not obligated to cover.

Do we understand that? We are talking about a $5,000 deductible. Then after an individual reaches that $5,000 deductible, additional deductibles or co-payments can be added on.

So, Mr. President, we have to ask ourselves, what working family is going to be able to afford that per year? What senior citizen? What group of Americans would be able to afford that? Only a very small number of Americans would be able to afford to pay those costs. And they would be the wealthiest individuals and obviously the healthiest, the ones that do not believe they would have any kind of health care needs over the course of a year.

Beyond these problems, there is no guarantee under the Republican proposal that the company cannot cancel your policy, or cannot establish a lifetime ceiling on benefits or a yearly limit. We had the debate here on the floor, on the Jeffords' amendment which would have prohibited lifetime limits. The debate over this issue was brought to everyone's attention earlier this year when one of our leading film actors, Christopher Reeve, had that tragic horseback riding accident. And he had one of the best insurance policies available. And then he reached the limit on benefits under his insurance policy. And that company said, "No more. We're not going to pay any more."

If this proposal were enacted and tax benefits were provided, there is nothing to prohibit insurance companies from establishing a very low ceiling on benefits. Nothing—no provision, no explanation. None of the proponents of MSA's has guaranteed that we will not have any kind of limit or that MSA's will take care of all the catastrophic needs. That has not been mentioned and has not been suggested, has not been justified. Not one Republican has stated that, "Well, if we provide this program, and we give the tax benefits, then insurance companies are not going to cancel your policy." Of course they are going to be able to cancel it. Of course they are going to be able to cancel it.

So, Mr. President, these are some of the points that need to be examined before we give additional kinds of tax benefits for the development and marketing of MSA's.

It is no accident that the leading proponents of medical savings accounts are insurance companies, like the Golden Rule Insurance Co., which has been one of the worst abusers of the current system. They give millions of dollars to political candidates to try to get this business opportunity into law.

The Golden Rule's record is, in particular, so shameful that Consumer Reports rank them near the bottom of all companies because of its inadequate coverage and frequent rate increases and readiness to cancel policies. The Golden Rule Insurance Co. is the primary proponent of this whole program of medical savings accounts. This is why Consumer Reports has been so critical of this company—because of the inadequate coverage, the frequent rate increases, and the cancellation of policies. Golden Rule was effectively run out of the State of Vermont because of poor performance. It was run right out because of misrepresentations.

When the Golden Rule Insurance Co. withdrew from Vermont because it was unwilling to compete on a level playing field created by the State's insurance reform, Blue Cross and Blue Shield took over their policies. They found that one in four policies included fine print laden with unfair provisions. Sometimes arms, backs, breasts, even skin were written out of coverage.

Newborns were excluded unless they were born healthy. It is an interesting fact that about 85 to 90 percent of all the medical complications to newborns happen in the first 10 days. Look at

some of the fly-by-night insurance companies and they will say, "We provide comprehensive coverage for newborns except for the first 10 days."

How many expectant mothers, prior to the time they become pregnant and get up to speed in terms of this wonderful opportunity of giving birth, understand that 80 percent of childhood abnormality comes within that first 10 days? Very few. But the insurance company understands it. Golden Rule understood it. Remember, they are the primary sponsors of medical savings accounts.

The strongest opponents of the medical savings accounts are organizations representing working families, senior citizens, consumers, and the disabled, who have the most to lose if the current system of comprehensive insurance is destroyed. We know whose voices should be heard when Congress decides this issue—not the voices of the greedy special interests, but the voices of those who depend on adequate insurance to get the care they need at a price they can afford.

It is very interesting who is on which side during the course of this debate. On the one side of medical savings accounts is Golden Rule, the primary contributor to political candidates that support that concept. Golden Rule is also one of the worst abusers of the system that we are trying to address in the underlying bill, dealing with preexisting conditions and portability.

Who is on the other side? Working families, seniors, consumers, middle-income families. They have the most to lose with skyrocketing increases in their insurance premiums. As the medical savings accounts draw the healthiest and the wealthiest individuals out of the system, the premiums of working families are going to continue to increase.

The great danger of medical savings accounts is that they are likely to raise the health insurance premiums through the roof and make insurance unaffordable to large numbers of citizens. They will discourage preventive care and raise health care costs. They are a multibillion dollar tax giveaway to the wealthy at the expense of working families and the sick, and their costs could balloon the deficit by tens of billions of dollars.

The Joint Tax Committee estimated there would be 1 million individuals who would take advantage of medical savings accounts. It would cost the Treasury $3 billion over 10 years for 1 million people. The Republican proposal presented to us, allegedly as a compromise, would make 43 million Americans eligible for it. If it is $3 billion for 1 million people, it does not take a genius to figure out that we are risking adding tens of billions of dollars to the deficit with this untested and untried program.

The most troubling aspect of the medical savings accounts is the risk that they will destroy the insurance pool and price conventional insurance out of sight for millions of Americans.

Leading newspapers all over America have editorialized strongly against medical savings accounts. I will read some excerpts from their comments, and I ask unanimous consent to have printed in the RECORD the full text of editorials at the conclusion of my remarks.

The PRESIDING OFFICER. Without objection, it is so ordered.

(See exhibit 1.)

Mr. KENNEDY. On May 8, Robert Samuelson of the Washington Post wrote:

> MSAs are mostly an untested concept . . . If MSAs are as good as claimed, let them prevail as a stand-alone measure after a full debate . . . If Republicans let their ideological fantasies obstruct their useful legislation, they risk being attacked ruthlessly. And they will deserve it.

The point mentioned here, if MSA's are as good as they say they are, let us pass the Kassebaum-Kennedy bill today, and then we can debate MSA's and medical malpractice later. We can do that and have a good debate, and let the chips fall where they may. Why hold this bill hostage?

On June 6, 1996, a Los Angeles Times editorial states:

> Large, national consumer groups . . . have argued reasonably that the MSA provision being pushed primarily by House Republicans with the backing of the American Medical Association would encourage the wealthy, who could afford to pay high deductibles, to opt out of low-deductible or comprehensive plans, thus raising the costs for everyone else, and could tempt the presumably healthy to avoid wellness checkups that might save them money in the short term but could raise their medical costs down the line . . .

The New York Times on Thursday, May 30, 1996 says:

> Demonstration projects of an untested idea make sense.

The Dallas Morning News says:

> Medical savings accounts represent special-interest legislation activities at their worst. What this country needs is major reform that guarantees full health care coverage to everyone, not another junk insurance plan. Medical savings accounts are a bad idea.

That was the Dallas Morning News.

The Baltimore Sun, April 25, writes:

> Senator Dole would be well advised to drop this idea [of medical savings accounts] which is in the House bill, rather than make it a veto-bait amendment that would wreck prospects for any health care reform this year.

The Washington Post on June 3 writes:

> In fact, the effect [of medical savings accounts] would be to fracture the insurance market; the healthy, for whom the savings account would have greatest appeal, would no longer be in the pool to help pay the bills of the sick, whose costs would rise.

Mr. President, that is a sampling of editorials from around the country, North, South, East, West, all raising serious, serious problems with regard to an untested and untried idea.

Now, the first rule of medicine is: Do no harm. We could say, why not go ahead and take the bill that passed this body by 100 to 0, and pass it again rather than trying to add this poison pill—this idea that is risky, untested, and has the potential to be so costly in terms of the deficit and what it might do to the health insurance system. That is our position. It is a reasonable position. The American people are coming to understand that.

To those who genuinely believe medical savings accounts offer an improvement in the health care system, I say we should work together to devise a fair test of the concept that will not put millions of American families at risk. The American people's hopes for insurance reform should not be held hostage to a partisan special interest agenda.

Over time, we are very hopeful that given the importance of this legislation, we can still pass it in the remaining weeks of this Congress. As I have stated many times, this legislation, crafted by Senator KASSEBAUM, represented the common ground that came out of the debate in 1994 over a more comprehensive health program. It passed unanimously out of our committee. I think it was probably the only major piece of legislation that passed unanimously out of our committee and unanimously in the U.S. Senate.

The time is here for broad, broad support for health insurance reform that will help Americans across this country. Why risk it with an untested and untried idea? Why risk it? Why risk jeopardizing successful completion of this health insurance reform that will make such a difference to the 25 million Americans who have some disability and to the tens of millions of Americans who are moving and changing their jobs? This bill provides portability.

Why risk a concept that Democrats and Republicans alike are strongly committed to? That is what the issue is before the Senate. I am very hopeful that common sense and the needs of the American people will be put first and we will still be able to pass this very good bill that has been sponsored by our distinguished colleague, the Senator from Kansas, Senator KASSEBAUM.

EXHIBIT 1

[From the Washington Post, May 8, 1996]

DUBIOUS CRUSADE FOR MEDICAL SAVINGS ACCOUNTS

(By Robert J. Samuelson)

Just why some Republicans have chosen Medical Savings Accounts (MSAs) for their latest crusade is a mystery known only to them. Some issues assume symbolic meaning well beyond their practical significance—the minimum wage, for example. Its mainly liberal advocates wrongly portray it as an important way of reducing poverty. Medical

savings accounts are a similar phenomenon. Their mainly conservative supporters see them as a bold way to control health costs and expand patient choice. All this is dubious.

Judgments must be hedged because, unlike the minimum wage—where there's ample experience—MSAs are mostly an untested concept. They would allow people to combine a catastrophic health insurance policy with an annual tax-exempt contribution (made either by employers or by individuals) into an MSA. People would use their MSAs for normal health expenses (checkups, colds, minor injuries) and rely on insurance for crises. This, the theory holds, would inspire cost consciousness. Americans would shop for doctors and hospitals with the lowest prices and best care.

On their face, MSAs are not a nutty idea. If we were starting a health insurance system, they might make sense. One basic problem of the present system is that comprehensive insurance made almost everyone indifferent to costs. Patients wanted the best care. Doctors and hospitals benefited financially by maximizing care. Arguably, the health cost spiral might have slowed if insurance had covered only expensive disasters.

But we aren't starting from scratch. Government policies have created a different system. Tax subsidies encouraged companies to provide workers comprehensive insurance. The subsidy is the exclusion of the employer's insurance contribution from taxes. Suppose a company buys $4,500 of insurance for each worker; the workers don't pay taxes on that $4,500. In 1995 these subsidies cost the Treasury $59 billion. And of course, there's Medicare and Medicaid for more than 65 million elderly and poor. As a result, most Americans have broad insurance and like it.

This is why tax-free MSAs, if offered, might not attract many takers. Congressional Republicans have twice tried to create MSAs; first for Medicare recipients in legislation vetoed by President Clinton; and now for the under-65 population in the House version of the Kassebaum-Kennedy bill, which would protect workers against insurance loss. The Congressional Budget Office projected that 2 percent of Medicare recipients would switch; for the under-65 population, the congressional Joint Committee on Taxation put usage at about one percent.

If accurate, these estimates mean that MSAs wouldn't do much to cut costs or expand choice. Moreover, the basic theory may be flawed. Buying health care is not like buying groceries. With their money at stake, people may not rush to the doctor at the first sniffle; and competitive pressures might trim prices for some routine services. But 70 percent of health spending stems from 10 percent of seriously sick Americans. These people have heart attacks, AIDS or complicated pregnancies. Catastrophic insurance would cover these costs; MSAs wouldn't matter.

The explosion of "managed care" has also undermined MSAs' potential. Competition has already come to the health care market in the form of massive groups of buyers and sellers—companies, local governments, health maintenance organizations—haggling over prices, coverage and quality. At least temporarily, this has dramatically slowed health spending. MSAs embody a different philosophy of cost control. Individuals wouldn't have much clout in today's medical market.

What's the fuss then? If MSAs wouldn't matter much, why not authorize them and be done with it? The main reason for caution is that all the predictions of modest usage could prove wrong—and if MSAs became hugely popular, they could radically change the health care system. Under today's insurance system, the premiums of younger and healthier workers subsidize the higher health spending of less healthy middle-aged and older workers. MSAs would, in theory, enable millions of younger workers to opt out of this invisible subsidy.

They could take the cheaper catastrophic coverage and keep the unused portion of their MSAs as tax-free saving to be withdrawn at age 59½. A mass defection of younger workers could have a devastating effect on the premiums of older workers. A study by the Urban Institute estimates that if 20 percent of workers switched to MSAs, premium costs for those sticking with comprehensive insurance would rise almost 60 percent. Just what would happen then is anyone's guess. Businesses might abandon comprehensive insurance or lower workers' salaries to pay for it.

Cross subsidies and managed care (which many MSA advocates dislike) are legitimate subjects of debate. But we should not unleash a health care upheaval simply as an afterthought. If MSAs are as good as claimed, let them prevail as a stand-alone measure after a full debate. Right now, they're simply hitchhiking on other health care legislation. (The same objection also applies to a rider on the Senate-passed Kassebaum-Kennedy bill: the requirement that mental health benefits be included with insurance. No one knows the consequences of this; it could be immensely expensive.)

The political puzzle is why so many Republicans are obsessed with MSAs. There's no public clamor for them. Portraying them as a truimph of individualism over government control is a rhetorical delusion. MSAs are simply another government health care subsidy in a system already swamped with them. Like other subsidies, MSAs would channel and constrict people's freedom. The funds in these accounts, for example, could not easily be used to buy "managed care" policies.

Yet again Republicans seem to be falling into a self-made trap. The White House cited MSAs as one reason for rejecting the congressional plan to curb Medicare spending. And now the president has threatened to veto the Kassebaum-Kennedy bill if it authorizes MSAs, even though the bill's main feature—protecting workers with "preexisting" health conditions against losing insurance—have wide support. If Republicans let their ideological fantasies obstruct useful legislation, they risk being attacked ruthlessly. And they will deserve it.

[From the Los Angeles Times, June 6, 1996]

U.S. DESERVES THIS HEALTH REFORM—CONGRESS SHOULD FIND A WAY TO SAVE KEY LEGISLATION

That the Kennedy-Kassebaum health Insurance Reform Bill passed 100 to 0 in the U.S. Senate on April 23 was no fluke. Both Republicans and Democrats knew it incorporated the best and most pragmatic elements of the ambitious Clinton health reforms that crashed in 1994, reforms that would limit exclusions still existing in more than half of all Americans' health insurance policies and that would make health coverage portable so workers would not lose their insurance if they changed or left their jobs.

The bill enjoys the support of both President Clinton, who applauded it in his State of the Union address in January, and Senate Majority Leader Bob Dole, who as recently as Tuesday said he would like a reasonable facsimile of it passed before he retires from office next week.

Nevertheless, many on Capitol Hill say the bill is doomed because of the failure of House and Senate members to nail down a workable compromise. Progress has been made in recent days on two key provisions, dubbed NEWAs and parity. House members have informally agreed to drop their insistence on exempting small insurance pools called NEWAs (multiple employer welfare arrangements) from state regulation. This is good news for consumers, because otherwise MEWAs would not have to comply with state mandates that require plans to offer such essential procedures as mammography screenings and newborn infant care.

The other compromise has been on so-called parity, the Senate bill's requirement that mental illnesses be covered as fully as physical health conditions. The new language instead simply calls for more study. Given the Senate bill's fuzzy definition of what constitutes "mental illness," there is certainly a need to look at studies before drafting further legislation.

The real stickler is medical savings accounts, or MSAs. These would allow Americans covered by high-dedcutible "catastrophic" insurance (a deductible of $1,500 for individuals, $3,000 for families) to make tax-free contributions to private accounts and either use that money to pay medical expenses or roll it over into IRAs or pension plans.

The basis idea behind the MSAs is sound: to encourage ordinary citizens to assume some of the responsibility for the country's spiraling health care costs (expected to reach $1 trillion by the end of this year). But large, national consumer groups like Citizen Action have argued reasonably that the MSA provision, being pushed primarily by House Republicans with the backing of the American Medical Assn., would encourage the wealthy, who could afford to pay high deductible, to opt out of low-deductible or comprehensive plans, thus raising the costs for everyone else, and could tempt the presumably healthy to avoid wellness checkups that might save them money in the short term but could raise their medical costs down the line.

The only politician on the Hill powerful enough to persuade the Republicans to accept a compromise on MSAs—such as Sen. Edward Kennedy's notion of testing them in key states—is Dole. The presumptive Republican presidential candidate has much to gain from marshaling his formidable negotiating skills, for he insisted on a workable compromise when it became clear that Clinton's health care bill was doomed. The presdient stands to gain as well, for in his State of the Union address he declared passage of a compromise health bill a top priority. Both have much to lose if they don't get behind this bill in the coming week, but given the bill's indispensable provisions, the sorest loser may be the average American.

[From the New York Times, May 30, 1996]

MR. DOLE'S HEALTH-CARE TASK

Bob Dole says he wants to pass health-care reform before he steps down as majority leader and leaves the Senate next month. The task will not be easy. Bills passed by the House and Senate would perform a valuable service by requiring insurers to offer coverage to workers who lost or quit their jobs, a requirement known as portability, though

nothing in these modest bills guarantees that coverage would be affordable for individual workers. But Congress is hung up over three ideology-laden provisions added to one bill or the other. Mr. Dole has yet to resolve the wrangling.

The House bill would enshrine a favorite conservative remedy, the so-called medical savings accounts. The bill would provide a tax break for money deposited into these special accounts and the money would be used to pay routine medical bills. The owners of these accounts would cover their large medical bills by buying a high-deductible, or catastrophic, policy.

Proponents say the accounts will discourage wasteful care because individuals will be aware of each dollar they spend. But the accounts will probably do little to discourage waste because an overwhelming percentage of medical expenditures are accounted for by the 15 percent or so of the population that rack up huge bills and therefore are well beyond the deductible of their catastrophic policies. Even worse, medical savings accounts will siphon healthy patients out of the market for traditional coverage, leaving a concentrated pool of sick applicants who will be forced to pay sky-high rates for ordinary coverage.

Mr. Dole knows he cannot push the savings accounts, which conservatives love as a government-free solution to health reform, past a Presidential veto. Some in his party are willing to settle on a demonstration project. Demonstration projects of an untested idea make sense. But President Clinton ought to be wary. For a demonstration project to provide a valid test, it would need to last at least six years—enough time to watch how healthy people who own the accounts react when they become sick. Will they junk catastrophic coverage? will they save money after sick years balance out healthy years? Will they forgo preventive care, driving them to high-cost specialists? Shorter periods would not suffice because more than 85 percent of the population are healthy at any one time and would not need to dip far into their tax-subsidized deposits.

Another obstacle to compromise concerns purchasing pools, a sensible way for small employers to join to negotiate discounts with hospitals and physicians. The Senate would encourage such small-employer pools, but keep them under strict state regulation. The House bill would unwisely create loopholes through which small employers could escape government oversight, even state monitoring of solvency and grievance procedures.

The third obstacle is the Senate's well-meaning provision to require insurers to cover mental illness on a par with other conditions. Americans do need adequate coverage of mental illness. But the hastily adopted provision would create major economic problems that will probably doom the measure to defeat. The provision is likely to boost insurance costs by as much as 10 percent and drive employers to drop coverage of 400,000 workers.

The Senate is right that health-care policies should include adequate coverage of mental illness. But the proper way to achieve that goal is for Congress to appoint a commission to come up with a cost-effective package of federally defined basic health benefits. Piecemeal mandates, conceived in haste, are likely to produce unintended adverse consequences.

The only bill that has a realistic chance of passing Congress and getting past the White House is one that sticks close to the Senate bill but forgoes mental-health parity until another day. This is an obvious compromise for Mr. Dole to seize.

[From the Dallas Morning News]

NO CURE-ALL, MEDICAL SAVINGS ACCOUNTS PRESENT A FLAWED SOLUTION

(By Lisa McGiffert)

Two time-tested adages come to mind when I hear about medical savings accounts:

If it sounds too good to be true, it probably is.

The devil is in the details.

Empowering people to make their own health care choices and cutting wasteful spending are worthwhile goals. But medical savings accounts are a misguided attempt at health care reform.

Although the concept being proposed to lawmakers stands to enrich the coffers of some major insurance companies, it has the potential to limit access to health care for millions of Americans and to cost taxpayers billions of dollars.

Medical savings accounts will provide little help to the vast majority of families that are excluded from insurance because of preexisting conditions or modest means.

Nevertheless, the idea is being sold by insurance lobbyists as a market-based solution for controlling health care costs. It is attracting attention both among Texas lawmakers and in Congress.

In Texas, the state Senate Economic Development Committee is studying the potential benefits and liabilities of medical savings accounts. In Washington, Rep. Bill Archer, R-Houston, is authoring legislation on medical savings accounts.

In a typical medical savings account, a person purchases an individual catastrophic insurance policy (as opposed to a group policy) with a high deductible of, say, $3,000. To pay for health care expenses below that amount, the individual sets up a tax-free medical savings account. After the deductible is met, the catastrophic policy—which can have struck limitations on coverage—becomes effective.

Medical savings accounts also can be offered by employers, who fund the employee's account and pay for the catastrophic coverage. If you are fortunate enough not to incur medical expenses, you can roll over the year-end account balance, tax free, into the new year. Or you can pocket it, pay taxes on the money and use it for other purposes.

But medical savings accounts aren't the magic pills envisioned by their promoters. Quite the contrary, they run counter to good health insurance principles.

Good health policies should:

Be available and affordable. Medical savings accounts target mostly young, healthy subscribers leaving other health insurance plans with a pool of more expensive subscribers. Some individuals and small employers in those other plans could be forced to terminate their coverage due to the resulting cost increases.

Even people who choose medical savings accounts run the risk of higher costs. Individuals who gamble on being healthy and guess wrong could face higher health costs after their accounts are depleted and before the catastrophic coverage kicks in or if they need services that are excluded by the plan.

Offer full benefits with proper consumer protections. Medical savings accounts will be exempt from all mandated state benefits that guarantee protections to consumers, such as requiring policies to include newborns during their first 31 days of life and to cover complications of pregnancy just like any other illness.

Most medical savings account legislation hasn't specified what the policies should cover, opening the door to stripped-down, low-value plans. What's more, medical savings accounts will move more people from group policies into individual policies, leaving them with the least consumer-friendly of insurance products.

Be easy to administer. Most medical savings accounts allow administrative fees for managing the accounts, making them incrative for insurers and bankers but a poor deal for consumers. Under one proposal, consumers could be charged 10 percent of the amount in their medical savings accounts.

Offer a good value for the premium dollar. The sellers of catastrophe insurance plans are betting that medical savings accounts will deliver healthy profits. That is a good bet, considering that only about 12 percent of adults spend more than $5,000 per year on health care. Most medical savings account holders never will have the kind of "catastrophic illness" their high deductible insurance plan covers.

Medical savings accounts represent special-interest legislation at it worst. They have been subject of extraordinary lobbying efforts in state legislatures and Congress. That an idea as flawed as this has gone so far with lawmakers is a tribute to the power of money and influence. What this country needs is major reform that guarantees full health care coverage to everyone, not another junk insurance plan.

Medical savings accounts are a bad idea.

[From the Baltimore Sun, Apr. 25, 1996]

ANOTHER CHANCE FOR HEALTH CARE REFORM

Not since Dorothy skipped up the yellow brick road has Kansas presented anyone quite as appealing as its junior senator, Nancy Landon Kassebaum. As she moves toward the close of a distinguished 18-year legislative career, Senator Kassebaum is cosponsor (along with Democrat Edward M. Kennedy) of a sensible first-step reform of the nation's health care system.

Senate passage of the Kassebaum-Kennedy measure by a rare 100–0 vote reflects strong popular backing. It would be unforgivable if this measure were encrusted in conference committee with amendments that would lead to its defeat or veto. Mrs. Kassebaum set the right course when she voted against additions she herself favors.

Americans should spurn complaints that her bill fails to achieve the grandiose transformation proposed by the administration in 1993. President Clinton now acknowledges he "set the Congress up for failure" by seeking to do too much too soon and by "dissing" Republican alternatives that would have gone much further than the Kassebaum-Kennedy measure.

Of more immediate concern, however, is whether Kansas' senior senator, presidential hopeful Bob Dole, will also overreach by not sticking with the Nancy Kassebaum approach. He's on the conference committee; she is not.

The Senate bill is neither incremental nor inconsequential. Some 25 million Americans are caught in "job lock"—fearful of quitting their jobs because they cannot take their health insurance with them or because they have an existing medical condition that could lead to the denial of a new policy. The

pending legislation would guarantee the "portability" of such insurance coverage. It would also increase the tax deduction for health insurance costs incurred by some 17 million self-employed.

Against Mrs. Kassebaum's advice, the Senate tacked an amendment to her legislation that would require health insurance coverage of mental as well as physical ailments. This is a laudable concept—one that will someday materialize—but it has drawn fierce opposition from a cost-conscious business community.

Far more partisan is a Republican proposal to allow tax deductions for so-called medical savings accounts. Senator Dole was humiliated last week when five GOP senators combined with Senate Democrats to defeat his effort to add this to the Kassebaum-Kennedy bill. Senator Dole would be well advised to drop this idea, which is in the House bill, rather than make it a veto-bait amendment that would wreck prospects for any health care reform this year. He should, in short, skip along on Nancy Kassebaum's road to realism.

[From the Washington Post, June 3, 1996]

SENATOR DOLE'S FINAL BUSINESS

Bob Dole has only a few days left in the Senate. How will he spend them? He said last month that he hoped before stepping down to stage one more vote on a balanced budget amendment to the Constitution, even though it's pretty clear that the proposition would fail—as well it should. He has also said that he would like to see to enactment of the so-called Kassebaum-Kennedy health insurance bill, meant to help people keep their coverage when they fall ill or are between jobs.

The latter surely is the better use of his remaining time. The balanced budget amendment is show horse legislation—a deceptive, destructive proposal whose likely effect would be less to balance the budget than to weaken the structure of government by entrenching minority over majority role. The health insurance bill would allow Mr. Dole to leave the Senate having, fittingly, as his last act, accomplished something substantive instead. The bill is a modest step only. It mainly would help the already insured, and not so much with the crushing cost of insurance as by preserving their eligibility for it. But that's a useful thing to do. It's exactly the kind of constructive compromise with which Mr. Dole should want to seal his congressional career.

To make it into law, however, the bill needs to be kept clean. That means stripping out three provisions, two of which would be downright harmful and one of which would confer a benefit without sufficient examination of its costs.

The first is a House-passed proposal to subsidize so-called medical savings accounts. Instead of buying conventional health insurance, people would be allowed to accumulate cash tax-free to pay their routine medical bills. The notion is that the country would be better off if people were buying health care more carefully with what they regarded as their own money; the shift from insurance to savings accounts would, according to this view, help to hold down costs. But in fact the effect would be to fracture the insurance market; the healthy, for whom the savings accounts would have greatest appeal, would no longer be in the pool to help pay the bills of the sick, whose costs would rise. Mr. Dole supports the idea, a favorite of conservatives, but the president has rightly said he would veto a bill that contained it; it should be struck.

The second provision, also in the House bill, would allow insurance pools created to help small businesses and others cut their costs escape state regulation. The pools are a good idea, but not the escape from scrutiny. Among much else, they too should be kept from serving only the healthy and further fragmenting the insurance market. Finally, the Senate bill includes a requirement that insurance plans treat mental and physical illnesses essentially the same; they could no longer "discriminate" against the mentally ill by imposing tighter limits on the one than on the other, as most do now. Even health care economists who would like to confer the benefit warn that the effect would be to add to both the cost of insurance and the number of uninsured. The proposal is better intentioned than it is thought through.

Maybe Mr. Dole can't broker a clean bill like this in the time he has left, and perhaps he doesn't want to. But if he doesn't, it isn't clear who later will. The reputation he has always cherished is that, in the end, he gets things done. Here's a last one well worth doing.

Mr. KENNEDY. Mr. President, I withhold the remainder of our time.

DEMOCRACY IN CAMBODIA

Mr. THOMAS. Mr. President, I come to the floor today as the chairman of the Subcommittee on East Asian and Pacific Affairs to discuss what in my view is the continuing deterioration of the democratic process in Cambodia.

In October 1991, the signing of the Paris peace accords ended years of devastating civil war in Cambodia and started that country on the road to instituting a democratic civil society. Cambodia's leaders agreed to support a democratic resolution of the country's longstanding civil war, to protect and advance human and political rights and fundamental freedoms for its citizens, and to begin the difficult task of rebuilding the economy and civil institutions. The U.N. transitional authority in Cambodia [UNTAC], established to implement the accords, supervised the withdrawal of Vietnamese troops from Cambodia, repatriated over 350,000 refugees, and oversaw the first free national elections in 1993. The constitution adopted in September 1993 established a multiparty democracy, committed the Government to hold new elections by 1998, required that Cambodia recognize and respect human rights as defined in the U.N. Charter, the Universal Declaration of Human Rights, and other relevant international agreements and treaties.

The transformation was not without its costs. The United States and other donor countries and the United Nations spent an estimated $2.8 billion implementing the accords and subsequent elections. United States assistance to Cambodia alone since the mid-1980's has totaled more than $1 billion. Beginning in fiscal year 1994, the U.S. Agency for International Development [AID] planned on providing about $111 million over 3 years. The AID mission in Phnom Penh planned to spend $8 million to help the Government plan for national elections, and has programs in place to improve the functioning of the National Assembly and the legal system.

Yet despite all of this work by both the donor countries and the people of Cambodia, I am still concerned that Cambodia's nascent democracy is showing some signs of being under attack. First, the country faces some serious obstacles to holding national elections by 1998. As noted in a February 1996 GAO report on Cambodia, and I quote:

Cambodia's constitution requires that the government hold national elections by 1998. However, the country currently lacks the electoral framework (laws, regulations, an independent commission) and resources (both human and financial) needed to hold elections. Although U.S. and other foreign officials estimate that creating such a framework will take considerable time and involve many difficult political decisions, little has been accomplished so far. In late 1995, the Cambodian government began drafting an electoral law. Discussion at a late October 1995 seminar, sponsored partly by the U.S. Agency for International Development (USAID), explored the relative advantages of different types of electoral systems. By December 1995, the government still had not completed a draft electoral law and was falling behind a proposed timetable for holding elections in mid-1998.

Event	Timing
Draft national election law	November 1995 (not met).
Interior Ministry reviews draft law	December 1995 (not met).
Co-Prime Ministers review draft law	January-February 1996.
Draft law submitted to the National Assembly.	Spring 1996.
Natinal Assembly enacts law	Summer 1996.
Implement new law (create an election committee, issue regulations, train workers, educate voters).	1997.
Hold national elections	May 1998.

Source: Pre-election technical assessment for Cambodia prepared by the International Foundation for Electoral Systems, August 1995.

According to U.S. and other foreign officials, Cambodia lacks the human and financial resources needed to hold an election on the scale of the one held by the United Nations in 1993. The U.N. electoral assistance unit could help plan and organize the elections, but this would require a significant financial commitment from the international community. Although some international assistance may be provided, such as election monitors, some U.S. and other foreign officials doubt that the international community will support a costly, large-scale operation to help conduct the elections.

The Cambodian government currently appoints local officials but has proposed holding local elections in 1996 or 1997. Some U.S., other foreign government, and Cambodian officials support holding local elections because they would introduce democratic practices at the local level. Other such officials oppose holding local elections because they would divert limited financial and human resources from the task of holding national elections and/or because antidemocratic government officials could use local elections as evidence of democratic progress and then cancel national elections.

While preparations for the logistical framework to support the elections is

lagging, there is also concern that even if the elections are held in 1998 it is doubtful that they would be free and fair. As the GAO report notes:

The Interior Ministry is drafting the election law and may be responsible for organizing the elections. Ministry deliberations and work are not open to public oversight and participation, and the Ministry played a role in the violence and intimidation before the 1993 elections.

According to some U.S. and other foreign government officials, nongovernmental organizations (NGO), and others, the Cambodian government cannot ensure that parties could campaign without violent intimidation and that voters would feel free from retaliation. The United Nations Transitional Authority in Cambodia (UNTAC) was unable to control key government ministries before the 1993 elections, and the Cambodian People's Party (CPP) used some of them to sponsor violence against its political opponents. Some foreign officials and reports point out that CPP still controls the Interior Ministry and its internal security forces, plus the armed forces. Several NGOs report that fear of politically motivated violence is a key issue for members of the National United Front for an Independent, Neutral, Peaceful, and Cooperative Cambodia (FUNCINPEC) and the Buddhist Liberal Democratic Party (BLDP) but not for CPP members.

In commenting on a draft of this report, the Department of State noted that Prime Minister Ranariddh has proposed establishing an independent, neutral commission under the King to control the police and armed forces during the elections to prevent them from intervening in the elections. However, we question the effectiveness of such a commission in controlling the police and armed forces when UNTAC, with over 20,000 personnel, was unable to control them before the 1993 elections.

Recently, the friction between the two main political parties—FUNCINPEC and the CPP—has come to the forefront. As my colleagues know, in order to bring an end to the civil war these two parties entered into a power-sharing agreement whereby members of both parties occupy the most important political posts in the Government. Recently, the First Prime Minister Prince Ranariddh—the head of FUNCINPEC—complained that Second Prime Minister Hun Sen and members of his party were failing to abide by an earlier agreement that power should be shared at all levels of government. Ranariddh spoke of withdrawing his party from the Government, in response to which Hun Sen threatened to use military force to deter protests against the Government and any dissolution of the National Assembly. It seems clear that the term "political strength" in Cambodia will continue to refer to the number of guns a particular party has.

Besides the obvious disruptive effects this interparty friction is having within Cambodia, it is also complicating its external affairs. To illustrate, Cambodia's drive to join ASEAN is being held up because the other member nations consider a key criterion for being admitted to the regional grouping to be political stability—something of which the other countries presently consider Cambodia to be short.

The GAO report continues by noting that voters lack widely available resources of accurate information about the elections, particularly radio; and that political parties other than the CPP are weak and lack a unified leadership:

UNTAC officials knew that providing Cambodian voters with accurate information was essential for free and fair elections. Consequently, guaranteeing fair access to the media—especially radio, because most Cambodians are illiterate and television stations have limited broadcast areas—for all political parties was an essential element of UNTAC's pre-election strategy. Several studies conclude that the 1993 elections probably could not have taken place or succeeded without the flow of information provided largely by "Radio UNTAC." Unfortunately, Cambodia currently lacks widely-available media sources of accurate information. Although more than 30 newspapers operate in Cambodia, they have limited nationwide distribution and the quality of their news reporting is unreliable. Also, the government tightly controls broadcast media licenses, limiting opposition parties' access to radio and television. For example, a BLDP official told us that the government had turned down the party's application for a radio station license. Moreover, as discussed later, the government has grown increasingly intolerant of dissenting opinions. USAID's strategy for promoting democracy in Cambodia recognizes the media's weaknesses; one of its objectives is to increase media access and professionalism. In commenting on a draft of this report, the Department of Defense said that, despite restricted access to the media, outspoken government critics still may be able to generate popular support and influence the elections.

With the possible exception of CPP, Cambodian political parties lack the leadership, organization, and financial resources to conduct effective national campaigns, according to U.S. and other foreign officials and reports and other documents we reviewed. Over a decade of single-party rule has given CPP the opportunity to build a solid party structure (largely indistinguishable from the government bureaucracy) at the provincial, district, communal, and village levels. Meanwhile, U.S. officials and NGOs indicate that FUNCINPEC and BLDP have weak party structures at these levels and are further weakened by political infighting. Given their weak party structure and disunity, several NGOs and others conclude that the parties will be unable to compete effectively in future elections.

USAID plans to provide training to strengthen the capabilities of all political parties to participate in the election. However, several observers suggested that CPP, with its generally better organization and structure, might benefit disproportionately from such training. Several U.S., other foreign government, and NGO officials questioned the wisdom of providing training to strengthen any of the existing parties because they are undemocratic and authoritarian. USAID officials said that they plan to fund training for grassroots civic organizations instead of established political parties. The National Democratic Institute suspended political party training in Cambodia in 1995 but plans to work with other NGOs to train election monitors and educate voters.

The major political parties are already beginning to gear up for the race. A recent report in the Cambodia Times noted that Second Prime Minister Hun Sen has made several tours of the countryside "presenting gifts of rice, foodstuffs and krama [Cambodian scarves presented as welcoming gifts] * * * the Cambodian People's Party [which Hun Sen heads] has also carried out many projects to build schools and irrigation canals and [has] dug numerous wells in the provinces." The FUNCINPEC Party led by Prince Ranariddh, in response to the surge in the CPP's popularity, has begun to make similar moves. At the end of last month, both parties complained that programs broadcast on Television Kampuchea slighted them in favor of their opponent. What worries me, Mr. President, is that without a strong framework in place, electioneering in Cambodia may devolve back into the situation which existed before 1991 where political strength depended on the number of guns a party had rather than the number of seats in the Assembly.

In addition, the report paints a pessimistic view of the development of the adherence to human rights:

Cambodia has ratified and agreed to abide by all major international agreements guaranteeing human and political rights, for example, the International Covenant on Civil and Political Rights. Yet the current government has made limited progress since late 1993 in meeting the basic international human rights standards contained in these agreements. Indeed, some U.S., other foreign governments, and Cambodian officials and NGOs conclude that Cambodia's human rights situation worsened during 1995.

According to human rights NGOs, the United Nations Center for Human Rights (UNCHR) office in Phnom Penh, and USAID documents, Cambodian military and police forces continued to violate human rights frequently during the past 2 years. These sources reported numerous cases of extortion, beatings, robberies, and other violations by soldiers and police. USAID and Cambodian officials and others noted that this problem touches on the larger issue of desperately needed reforms of the Cambodian bureaucracy, including the provision of adequate pay for police, military, and other government officials to reduce or eliminate low-level corruption, which currently is endemic.

According to human rights NGOs, UNCHR, some U.S. and Cambodian officials, and USAID documents (1) few Cambodians had received due process or fair trials in the past 2 years; (2) prosecutors and judges lacked basic training and skills for properly investigating, preparing, presenting, and deciding cases; and (3) trained public defenders remained scarce. They also said that official corruption was widespread and growing, undermining the rule of law, and that the government had resisted some legislators' attempts to introduce anti-corruption legislation in the National Assembly.

Human rights NGOs and UNCHR told us that Cambodia's prisons remain overcrowded and still fall short of meeting basic international and humanitarian standards for the treatment of prisoners. In late 1994, NGOs reported that they found a secret government

prison where prisoners were tortured and denied basic human needs. According to the Department of State, this prison was closed in 1994.

Finally, in the area of political rights, recent Government actions indicate increasing official intolerance for dissent from both inside and outside the Government. This intolerance has a predictable chilling effect on efforts to improve the Government's effectiveness and reduce corruption. For example, as I noted on the floor on June 22, one outspoken member of the National Assembly—Sam Rangsi, a frequent critic of the Central Government—was expelled after attacking Government corruption and several others have been threatened with expulsion if they speak out.

Prince Norodom Sirivut, a member of the royal family and political opponent of Hun Sen, was charged and convicted in absentia in February of plotting to kill the latter. The trial was seen by legal and human rights observers as evidence that Cambodia's judiciary is controlled by politics.

On May 2 of this year, the Government ordered all political parties except the four represented in the National Assembly. While aimed primarily at Sam Rangsi's Khmer Nation Party, a party formed after Sam was expelled from the FUNCINPEC because he disagreed with the party leadership, the order affects 16 parties that were legally registered for the 1993 election but won no seats in the Assembly. Recent attempts by the KNP to open offices in outlying districts were met with armed police forces which closed the offices down.

As I noted on September 5, the Government closed some newspapers and prosecuted several members of the press, enacted restrictions on press freedoms, and tightly controlled broadcast licenses. Several members of the press critical of the Government have been beaten or killed. Non Chan, editor of the Samleng Yuveakchon Khmer, was gunned down in broad daylight in Phnom Penh. Ek Mongkol was also shot and wounded in broad daylight. At the end of May, unidentified assailants assassinated opposition newspaper editor Thun Bunli. Thun was editor of the newspaper Oddamkeakte Khmer, a frequent critic of the CPP. Thun's funeral procession, consisting of members of Sam Rangsi's KNP, was broken up by hundreds of police armed with shock batons and assault rifles. The Government attempted to muzzle the press further by criticizing an existing journalists' association and pressuring members to join a competing association formed and controlled by the Government.

In addition, the co-Prime Ministers attempted to close the UNHCR office in Phnom Penh in response to its criticism of human rights abuses, but later backed down under international pressure. In May, the Interior Ministry also ordered provincial authorities to produce reports on the past and current activities of local and international aid agencies, religious organizations, and associations.

Mr. President, I appreciate that we cannot expect the development of a perfect democratic system in Cambodia overnight. I also do not want the Cambodian Government to feel that I am somehow denigrating the strides it has made. But the problems cropping up in Cambodia are not related to the more esoteric nuances of democracy, they are the basic building blocks: a free press, an independent judiciary, and the like. Statements by some members of the Government—most notably Hun Sen—that we have no business butting in or being concerned about their lack of progress overlook one important point: as one of the major financial donors responsible for the continuing operation of the country, we do indeed have a role to play. I agree with the State Department; if Cambodia continues its downward spiral, the United States and other donor nations should reconsider the amount and extent of our financial aid.

Mr. President, I also continue to be concerned about an issue that brought me to the floor on July 21 last year: the trading in Cambodian timber across the Thai-Cambodia border. Cambodia shares a lengthy and relatively uninhabited border with Thailand. The entire region consists primarily of heavily forested jungle; formerly, 76 percent of Cambodia's 176,520 square kilometers of land area was covered by forest. That amount, however, has declined dramatically over the last 15 years due to increased commercial harvesting of timber. The loss has been especially pronounced in western Cambodia, where a handful of foreign firms are responsible for a majority of the deforestation.

As I noted last year:

These companies purchase concessions from the Cambodian government, and theoretically make payments to the government based on the amount of cubic meters of timber felled. The timber is then exported over the Thai border, either by boat or overland on dirt roads built expressly for that purpose by the companies, where they are collected at places called rest areas before being sent further on into Thailand. According to both Thai and Cambodian regulations, the logger/exporter must secure a certificate of origin from the Cambodian government, a permit from the Thai embassy in Cambodia, and permission from the Thai Interior Ministry to import the logs into Thailand.

There is one more party, however, that plays a major role in the logging: the Khmer Rouge. Led by the infamous Pol Pot, the KR controlled the government of Cambodia from 1975 to 1979. During that time, it was directly responsible for the genocide of more than one million Cambodians in the "Killing Fields." Since the 1991 UN peace agreement established a democratic government in Cambodia, the KR has been relegated to the role of a rebel guerilla force. Although the government has made some inroads in combatting the KR, including implementing a somewhat successful amnesty program, the KR remains a strong force in the western khet of Battambang, Pursat, Banteay Meanchey and Siem Reap. Despite the campaign being mounted against them, though, they still receive a steady flow of food, military supplies, and currency sufficient to pay their 10,000 to 20,000 man militia; and therein lies the connection to the timber trade and the Thai military.

Over the past several years, the press has consistently reported that the Thai military has been providing assistance and support to the Khmer Rouge. The links between the two are longstanding. Beginning in 1979, Thailand acted as a funnel for Chinese-supplied arms being transshipped to the KR—apparently in return for an end to Chinese support for rebel Thai communists in northern Thailand. Since then, the evidence suggests that the Thai have regularly supplied the KR with logistical support and materiel. In return for this support, Thai business interests and certain government sectors have benefitted from access to timber and gem resources within that part of Cambodia along the Thai border controlled by the KR. Their interest is sizeable; in 1993, the U.S. Embassy in Thailand estimated that Thai logging companies had some $40 million invested in timber concessions in KR-held areas.

It is from the sale of these resources that the KR acquires funds sufficient to continue its reign of terror in Cambodia. The process is actually quite simple. Foreign companies interested in harvesting timber in western Cambodia purchase official lumber concessions from the government in Phnom Penh. Having dealt with the de jure government, however, the companies must then deal with the de facto government in western Cambodia: the KR. The companies pay the KR for the right of safe passage into KR-held territory, to fell the timber, and to transport it out to Thailand safely. The present going rate of payment to the KR per cubic meter is between 875 and 1000 baht, or between $35 and $40. It is estimated that the weekly income [in 1995] to the KR from timber carried across just two of the many border points [was] around $270,000, with total monthly income to the KR estimated at between $10 and $20 million.

Once felled and placed on the back of trucks, the logs are driven across the Thai border. That crossing, however, is not without its costs. The Thai military—the Marines, actually—controls a 4-mile wide strip along the Thai side of the border, and in order to negotiate it the logging trucks must pass through guarded checkpoints where, it appears, payments in the form of "tolls" or bribes are made to Thai concerns.

The Thai have consistently, albeit often disingenuously, denied any ties to the KR or to the timber trade. Each round of denials, however, is soon followed by press reports and concrete evidence to the contrary. For example, in 1994 Thailand officially "closed" its border with Cambodia partly as a result of the murder of more than twenty Thai timber workers by the KR and partly as a result of international criticism. In a press statement made shortly thereafter, Maj. Gen. Niphon Parayanit, the Thai commander in the region, stated flatly that the border was closed, that the military had severed all links with the KR, and that "there [was] no large-scale cross-border trade going on." The official denials . . . continued . . . including one . . . by Prime Minister Chuan noted in

the May 26 [1995] edition of the Bangkok Post.

Despite these denials though, and despite a Cambodian ban on logging, credible eyewitness reports from members of the London-based group Global Witness fully confirm[ed], in my opinion, that the trucks are still rolling across the Thai border. If—as the Thai military alleges—it is not involved in the timber trade either directly or by turning a blind eye to the shipments, I can think of no other explanation than that the military personnel in the border zone are completely incompetent. One of the more heavily travelled timber roads in the border zone, one that according to my information is in daily use even as I speak, is within sight of one of the Thai Marine camps. Nor can the central Thai government claim ignorance; Global Witness [in 1995] brought to light a timber import permit signed by the Thai Interior Minister.

Mr. President, I stated that continuing Thai support for the KR—in this or any manner—concerned me greatly for several reasons. First and foremost, the financial support the trade afforded to the KR continued to allow it to survive thereby seriously endangering the growth and continued vitality of the nascent Cambodian democracy. That system, as I have noted today, is having enough trouble getting off the ground and running smoothly without having to deal with the KR insurgency. Second, Thailand's actions ran counter to its obligations under the 1991 peace accord and served to undermine it. Finally, the clandestine nature of the timber extraction has removed it from the control of the Cambodian Central Government. It was subsequently free to continue without regard to any regulations aimed at limiting the amount of timber taken, preventing serious ecological damage, ensuring sustained growth, or protecting the lives and livelihoods of the local populace.

Unfortunately, Mr. President, since my statement last year the situation has only gotten worse. Workers from Global Witness returned to Thailand in November and December 1995, and once again since then, have furnished my staff with completely credible evidence that the trade continues unabated. They have furnished me with photographs, documentary evidence, and the precise locations of several timber staging areas on the Thai side of the border. They have even acquired one of the passes issued by the KR to drivers of the logging trucks that drive in from Thailand. The Phnom Penh Post, as recently as April, has run a series of articles detailing the illicit timber trade. Instead of taking the time of the Senate by reciting the evidence in detail, I would direct my colleagues to two Global Witness reports: "Corruption, War and Forest Policy: The Unsustainable Exploitation of Cambodia's Forests" issued in February 1996; and "RGC Forest Policy and Practice: The Case for Positive Conditionality" issued in May of this year.

Mr. President, if a significant effort not made as promised by the Thai Government to fully investigate and then stem the cross-border trade and their dealings with the KR, then I would find myself placed in the position of calling on our Government to abide by that provision of Public Law No. 103-306 requiring that the President shall terminate assistance to any country or organization that he determines is assisting the KR either directly or indirectly through commercial interaction. I intend to send the Secretary of State a copy of my statement today, and ask him to respond in writing as to the administration's position on this issue.

NEW LEADERSHIP IS NEEDED AT THE UNITED NATIONS

Mr. PRESSLER. Mr. President, this fall, the United Nations will select its chief executive, the Secretary General. Under U.N. rules, the U.N. Security Council recommends a candidate who is subject to the approval of the entire General Assembly. As a member of the Security Council, the United States obviously has an important role in this process.

It is my understanding that the current Secretary General, Mr. Boutros Boutros-Ghali has indicated that he may seek reelection to another 5-year term. With all due respect to the Secretary General, I do not believe it is in our Nation's interest, nor the overall interests of the United Nations, that Mr. Boutros-Ghali be given a second term. Indeed, the United States should make clear early on that it will not support Mr. Boutros-Ghali this fall. For the sake of the future credibility of the United Nations, it is in our Nation's best interests for the United States to actively support a candidate for Secretary General who is committed to a major management overhaul of the United Nations. Mr. Boutros-Ghali is not.

I often speak of the need for U.N. reform, but I must confess most of my criticism has been of the Boutros-Ghali administration. Most would agree that U.S.-U.N. relations are at an all-time low. The American people's confidence in the United Nations has declined.

This is unfortunate. I support the United Nations. I served twice as a Senate delegate to the United Nations. I want to see the United Nations work. The fact is, it doesn't work. The problems with the United Nations are many, but the first and primary solution is sound management reform at the United Nations. I'm speaking of clear, concise, honest budgeting; systems to root out waste, fraud, and abuse; adequate protections for whistleblowers; and more streamlined, efficient operations.

Instituting these reforms will require a major change in U.N. philosophy. Since its founding, the United Nations has been run largely by career diplomats. Tough fiscal management is not their style. Diplomats train for the grand world of treaties and receiving lines, not the grubby world of balance sheets and bottom lines.

Mr. Boutros-Ghali reflects that basic philosophy. He has demonstrated antipathy at best, hostility at worst, toward reform proposals. One need only ask our former Attorney General, Richard Thornburgh, who served as the United Nations Undersecretary General for Administration and Management in 1992. Mr. Thornburgh took his mission seriously. He sought to institute major management reforms at the United Nations. He encountered no support from the Secretary General. When Mr. Thornburgh submitted a scathing report on U.N. mismanagement, the Secretary General refused to publish it and sought to have all known copies of it shredded.

Mr. Boutros-Ghali certainly has tried to take credit for a number of reform initiatives. For the first time, the U.N. has a so-called inspector general—the Office of Internal Oversight Services [OIOS]—which was established in 1994. He also may claim to have reduced unnecessary staff and produced the first no-growth budget in U.N. history. These are victories of mind, not of substance.

Let's give credit where credit is due. The mere existence of the OIOS office and the attempts to achieve budget and management reforms were due largely to a combination of the following: increased media scrutiny of U.N. waste and abuse, strong congressional pressure, and tough reform advocates within the U.S. mission and certain other member nations.

A close examination of the so-called reforms instituted at the United Nations show that the Secretary General is engaging more in a public relations embrace of reform, while keeping real reform at arm's length.

First, I urge my colleagues to look closely at the OIOS office—the so-called U.N. inspector general. It has no authority to rid waste, fraud, and abuse, which inspectors-general in Federal departments and agencies have. The fact is the OIOS office is weak in terms of authority, and lacks the resources and the support needed from the Secretariat to do its job effectively. It cannot investigate all areas of U.N. operations. Member states do not have full access to IG reports and investigations. The IG can make recommendations for reform, but it's up to the U.N. Secretary General to act on the recommendations.

Second, the Secretary General has stated that he has reduced the number of Under Secretaries General and Assistant Secretaries General. However, he has increased the numbers of and the budget for equivalent-level special envoys. Chances are he's playing musical chairs with his senior staff. He's

changing the titles on the chairs, when he should be removing the chairs and the people sitting in them.

Third, the Secretary-General's claim to have cut U.N. staff by 10 percent, or nearly 1,000 positions, also is smoke and mirrors. About 750 of these slots currently are vacant and will go unfilled on a month-to-month basis. The Secretary General refuses to permanently eliminate these positions. The roughly 200 other positions to be cut are clerical positions that the U.N. already planned to eliminate when it passed its budget last year. What the Secretary General did not point out is that his budget adds 125 professional positions, which typically cost 40 percent more than the clerical positions to be eliminated.

Fourth, the United Nations much heralded 2-year, no-growth budget is not living up to its billing. The goal was to cap budget spending at $2.608 billion over 2 years. Any new expenses not anticipated or budgeted would require corresponding offsets in order to stay under the $2.608 cap. The Secretary General already is months behind in submitting a proposal of budget reductions needed to stay under the cap. Most important, the United Nations is not even halfway through its budget cycle and already the Secretary General has indicated that the United Nations may not be able to stay under the budget cap. In fact, the U.S. Representative for Reform and Management appeared before the United Nations Fifth Committee last month and stated the U.S. delegation's concern with the Secretary General's latest budget report: it "implies an inability to stay within the $2.608 billion budget level * * *"

Finally, I must take issue with statements made by the Secretary General that the United Nations current financial problems are due to the failure of the United States to make good on its U.N. payments. Unfortunately, the Secretary General is confusing the disease's symptoms with its causes. Yes, the United Nations is in a financial crisis. However, it's a crisis of the United Nations own making.

For more than a decade, beginning with the great work of the Senator from Kansas, NANCY KASSEBAUM, the U.S. Congress has made U.N. reform a high priority. U.N. leadership has fought this effort. That leaves Congress little choice but to use our leverage as the single largest U.N. contributor to achieve U.N. reform goals. It's a tough approach. It's not the one I would prefer using, but it is the only means currently available to us, and it has had some success.

I want to see the United States make good on our current U.N. debts. That can't happen without a clear, substantive reform agenda in place at the United Nations. It's worth the wait. Frankly, it's far better to hold a portion of our taxpayer dollars here in Washington until reforms are achieved, rather than send them down a black hole of waste, fraud and abuse. Yes, we in Congress have an obligation to support the U.N., but our first obligation is to the American taxpayer. Our taxpayers deserve to know that their money is being managed prudently and effectively by the U.N. leadership. That is not being done.

Mr. President, a fresh approach, a fresh perspective on U.N. leadership with an emphasis on responsible management practices is needed. Real reform at the United Nations will not occur without an overall fundamental change in the management philosophy at the United Nations. This fact was noted in the U.N. IG's first report, which noted that "while the need for * * *. structural reform is widely acknowledged, the energy to bring it about is in short supply."

What that means is the United Nations needs tough, well-trained administrators at all levels of management. That's particularly true in peacekeeping missions, where waste and abuse traditionally is high. I'm not suggesting more U.N. bureaucracy. The United Nations either should train those currently within the United Nations who have the skills and the desire to be tough administrators, or replace the less effective ones with people with the experience to do the job.

In short, what is required is a complete management overhaul at the United Nations. Like any organization, the tone and direction in management starts at the top. I hope the Clinton administration recognizes this. The United States needs to make clear that we seek a real, fundamental change in U.N. leadership. New leadership just may be the sparkplug the United Nations needs to restore its credibility in the eyes of Congress and the American people.

Again, I support the United Nations. If managed effectively, the United Nations can be a sound, cost-effective investment in the advancement of global economic development, human rights, and world peace. I hope the intense criticism of management practices in recent years will jar the United Nations members to realize that sound management is vital to the United Nations long-term credibility. Management reform cannot by itself ensure that the United Nations will be both credible and successful, but without it, it does not stand a chance. New leadership is needed.

TRIBUTE TO COL. WILLIAM B. LOPER, U.S. ARMY, ON THE OCCASION OF HIS RETIREMENT

Mr. THURMOND. Mr. President, today, June 14, is the 221st birthday of the U.S. Army, a military force that has distinguished itself repeatedly throughout the history of this great Nation. Victories in battles from our War for Independence to the Persian Gulf war were successful only because of the stellar soldiers that serve selflessly and bravely in the Army of the United States. I rise today to pay tribute to a man who is a fine soldier and a friend to many of us in this Chamber, Lt. Col. William B. Loper, as he prepares to bring his active duty career to an end.

Colonel Loper began his career more than 24 years ago when he pinned on the gold bars of a second lieutenant and the crossed muskets of the infantry. A product of Washington, DC's Georgetown University and the Reserve Officer Training Corps, Bill Loper was well educated, prepared, and trained for his ensuing career as an Army officer. His tours of duty included stints as an adjutant and Chief of Records for the 25th Infantry Division; as a personnel adviser in Pennsylvania; as the Secretary of the General Staff for the 19th Support Command, located in Korea; and ultimately, back to the District of Columbia where he was an assignments officer at the Army Personnel Center, and executive officer in the Army Legislative Liaison Office, where most of us have come to know him.

During his tenure in the Legislative Liaison Office, Colonel Loper has worked hard to represent the interests of the Army to Members of Congress, as well as tirelessly working to assist Senators, Representatives, and their staffs, in dealing with defense matters as well as constituent concerns and issues. I do not think any of my colleagues would disagree with my assessment of Colonel Roper, he is an individual who has always been prompt, responsive, and sensitive to the needs and requests of Members of Congress, and he has presented a positive and impressive image of the Army during the course of his duties here.

Mr. President, service and dedication to duty have been two hallmarks of Colonel Loper's career. He has served our Nation and the Army well during his years of service, and we are grateful for all his efforts and sacrifices in the defense of the United States. I am sure that everyone who has worked with Colonel Loper would want to join me in wishing him health, happiness, and success in the years to come.

TRIBUTE TO THE U.S. ARMY ON THE OCCASION OF ITS 221ST BIRTHDAY

Mr. THURMOND. Mr. President, the U.S. Army was born 221 years ago today on a village square in Cambridge, MA when a group of colonials mustered together to form an army under the authority of the Continental Congress. As

this force went on to confront the Redcoats at Lexington, and to ultimately defeat the British in 1783, it is no exaggeration to say that the birth of the Continental Army resulted in the birth of our Nation. More than 2 centuries later, both the United States and its Army are recognized throughout the world as being unequaled, and I rise today to salute the Army on its birthday.

The history of our Nation and our Army are intertwined, and the battle streamers of that service stand not only as testament to the courage, fortitude, and abilities of those who served in the Army, but chronicle the evolution of the United States. The Army was present when the shot heard around the world was fired, and in Yorktown when the British surrendered, not only admitting defeat to the Americans, but validating that we were a free and separate nation. It was Lewis and Clark, two Army officers, who explored the unknown west before that region became territories and states. It was the Army that entered Mexico City, and our victory in the war with Mexico helped to expand our southwestern borders. At Bull Run, Antietam, Gettysburg, and dozens of other blood stained battlefields, it was the soldiers of one American army fighting the soldiers of another American army for the very future of this Nation. In Havana and the Philippines, the American Army fought Spanish imperialism, and at Verdun, Doughboys battled German imperialism. Army Air Corpsmen lost their lives on that Day of Infamy that began World War II, and dogfaced GI's battled the Nazis, the Fascists, and the Imperial Japanese in North Africa, Sicily, Normandy, Arnhem, and throughout the Pacific. In the early days of the cold war, American soldiers dug in on the southern tip of Korea, creating the Pusan perimeter and holding the line against the advancing North Koreans, and it was American soldiers who stormed the walls at Inchon to turn the tide of the Korean conflict in favor of the United Nations. In the Ia Drang Valley, and in countless firefights in nameless locations throughout the jungles, mountains, and rice paddies of Vietnam, American soldiers valiantly fought to help the fledgling nation of South Vietnam become a democracy; and in Grenada, Panama, and Kuwait, the American Army deposed tyrants and brought terror-filled regimes of dictators to an end.

In its 221 years of history, the U.S. Army has distinguished itself time and time again, and though many things have changed about the Army, the quality and dedication of its soldiers has remained unwavering. The men and women who wear the Army green are individuals who willingly bear many sacrifices so that their countrymen may remain safe, secure, and free. Too few of us ever take the time to think of the soldiers patrolling the demilitarized zone of the Korean Peninsula where there is always the chance that hostilities may break out; or of the soldiers stationed on the Sinai, where they help to ensure the peace between Egypt and Israel remains strong; or of the young paratrooper at Fort Bragg who is ready to deploy to anyplace in the world at a moment's notice. To these soldiers the phrase "Duty, Honor, Country" is more than a collection of mere words, it is the creed by which they live their lives, and we are indeed fortunate for their dedication and selflessness.

For more than 30 years, it was American soldiers who faced down the Soviets across the Iron Curtain, and when democracy and individual rights ultimately triumphed over communism and collective subjugation, it was thanks in large part to the vigilance of the thousands of soldiers who served on the front lines of the cold war. With the fall of the Communist bloc, the threats to the United States have changed, and the Army is redefining its mission. The Army must now be prepared to respond to regional crises, carry out humanitarian missions, and peacekeeping roles, as well as to be prepared to deal with terrorists and rogue nations. Rest assured, however, that with whatever task that the Army of the United States of America is charged, it will complete its assignment successfully, and it will remain the best trained and best equipped force in the world.

Mr. President, if the soldiers of the Continental Army could see their late 20th century brothers and sisters in arms, they would be amazed at the differences between the Minuteman and the soldier of Force XXI. Rifled muskets have given way to selective fire, magazine-fed weapons systems that allow soldiers to see in the dark and fire a multitude of munitions. The horse cavalry has been replaced by the Bradley fighting vehicle, a weapons platform that has the firepower of the divisions of old; and Army helicopters that comprise one of the largest air forces in the world, now transport and support with supplies and firepower the infantry. Combined, all these elements guarantee the success and superiority of the American Army and that wherever it goes, our soldiers will persevere over any foe. I am pleased to have this opportunity to celebrate the history of the U.S. Army, to thank those soldiers who have served in the past and who serve today, and to assure my colleagues that our Army will always stand ready to defend our citizens and our Nation from all who threaten us, just as they have for the past 220 years.

THE VERY BAD DEBT BOXSCORE

Mr. HELMS. Mr. President, at the close of business yesterday, Thursday, June 13, 1996, the Federal debt stood at $5,139,481,774,943.05.

On a per capita basis, every man, woman, and child in America owes $19,389.23 as his or her share of that debt.

SOUTH DAKOTANS LEAD EFFORT TO GET TO THE BOTTOM OF LOW CATTLE PRICES

Mr. DASCHLE. Mr. President, the Advisory Committee on Agricultural Concentration has submitted its final report to Secretary of Agriculture Dan Glickman. The committee has been investigating the relationship between concentration in the livestock processing and packing industry and the record low prices in the cattle market. It did a tremendous job identifying the problems facing our Nation's livestock producers, and its recommendations have been widely praised within the agricultural community.

The success of the advisory committee was in no small measure attributable to its membership. The panel consisted of 21 individuals from across the country who represent a cross section of the livestock industry. It included farmers, ranchers, meat packers, processors, poultry growers, retailers, and economists.

While all committee members should be commended for their determination to get to the bottom of the livestock concentration issue, I want to single out for special mention the two members from South Dakota: Herman Schumacher and Tyrone Moos.

Herman Schumacher, who served as vice-chair of the advisory committee, lives in Herried, SD. He owns and operates the Herried Livestock Auction, is past president of the South Dakota Livestock Auction Markets Association, and is part owner of a cattle feedlot.

Without question, Herman is one of the most tenacious and persuasive advocates for cattle producers I have ever met. He understands American agriculture and never stops looking for ways to address problems facing farmers and ranchers. Herman's expertise and leadership were instrumental to the development of the committee's consensus findings and recommendations. In addition, he helped craft additional minority views that are more prescriptive than the consensus views in outlining responses to problems identified in the report.

Tyrone Moos is a grain and livestock producer from Philip, SD, who also serves as director of the Harvest States Cooperative. Tyrone's expertise in both grain and livestock issues were invaluable to the committee's deliberations.

One focus of the committee's review was the impact of concentration in the agricultural transportation industry. The century-old problem of insufficient

access to rail cars contributes to the determination of the final price a producer receives for his or her commodities, and Tyrone's experience helped shape the committee's findings in this area. Additionally, Tyrone's influence was evident in the tone and substance of the final recommendations for both the consensus and minority views sections of the report.

When Agriculture Secretary Dan Glickman called to solicit Herman's and Tyrone's service on this important committee, it would have been easy for them to decline the invitation. The commitment and sacrifice asked of them was significant.

The Department of Agriculture did not offer compensation, not even for travel expenses. But it did ask for a significant commitment of time. Herman, Tyrone and their colleagues served countless hours on the panel's work—time that could have been spent looking after their own business interests or with their families.

The advisory committee's inquiry directed needed attention to the serious problem of stagnating cattle prices, provided insights on the nature of that problem and offered recommendations for what might be done about it. Farmers and ranchers in South Dakota and elsewhere should be thankful for that effort.

The work of the Advisory Committee on Agricultural Concentration is done. It is now up to our Nation's policymakers to evaluate the panel's findings and act on its recommendations. I look forward to taking the baton passed on by Herman Schumacher and Tyrone Moos, and I thank them for pointing the way to a solution to the problem of concentration in agriculture.

ISRAELI ELECTION ABOUT DEFINITION OF PEACE

Mr. MACK. Mr. President, the campaign for Israel's first directly elected Prime Minister not only brought a victory for Benjamin Netanyahu but a defeat for the mistaken idea that peace can only be defined from a liberal perspective.

While two well-qualified candidates with different ideologies each articulated their vision for the country, many in the American media—those who reported on the campaign and the experts journalists chose to interview—hid behind stereotypes and missed the real point of the election. At its very core, the campaign was not about whether there should be peace but how to define it.

The American media told us the issue was simply this: Shimon Peres, the liberal, wanted peace. Benjamin Netanyahu, the conservative, didn't. Implied in this ridiculous statement is the wrong assumption that only liberals understand peace.

In the days since the election, the American media aren't quite certain how to characterize Mr. Netanyahu. When Mr. Netanyahu recently expressed his desire for Israel to continue to seek peace with its Arab neighbors—a position he has advocated all along—a Washington Post story identified him as "kinder and gentler."

The media's failure to understand Benjamin Netanyahu and his conservative principles of real peace—real security underscores the differences in how liberals and conservatives view foreign policy.

The left believes peace is simply the absence of conflict. To achieve peace, the left will do whatever is necessary and in many cases give up whatever is necessary simply to maintain the peace.

Conservatives believe peace without freedom is false. Only through the guiding principle that freedom is the core of all human progress can a nation build a lasting peace. After all, what is peace without freedom? What is peace if it means living in constant fear? In Cuba and China today, there is peace, but certainly no freedom.

When any nation builds its foreign policy on a foundation of freedom, democracy, justice, and human rights, true peace and hope will inevitably prevail.

During the 1980's, the left and the media soundly criticized Ronald Reagan and Margaret Thatcher when their policies boldly stated that negotiations with the Soviet Union must be carried out from a position of strength and security . . . not appeasement.

History proved them right. Freedom won. The Berlin Wall—a symbol of tyranny and oppression—crumbled and communism was replaced by capitalism.

Even if many in the American media apparently believe in the ludicrous claim that appeasement leads to peace, Israeli Jews—a majority of whom voted for Netanyahu—correctly understand that protecting freedom is essential to preserving peace.

In his analysis of the election, A.M. Rosenthal of the New York Times said it best when he wrote: "the majority was not voting against peace—the very idea is idiocy—but for the hope that Mr. Netanyahu and a Likud-led coalition might create a peace they could trust while they slept, not just while they stood at arms."

In a region where Israel's neighbors have vowed its destruction, where thousands of missiles in other countries are pointed at Israel's cities, where well-financed terrorists threaten to murder and frighten Israel's citizens, appeasement through weakness will only invite more violence, more bloodshed and inevitably a loss of freedom and peace.

We all want peace for Israel—a shining jewel of democracy in a region where freedom is often unwelcome. Choosing the best road for achieving that peace is the task that awaits Benjamin Netanyahu. He understands—as well as the overwhelming majority of Israeli Jews who voted for him—that only when Israel is secure, can Israel truly be free and at peace.

NATIONAL ENDOWMENT FOR THE ARTS

Mr. PELL. Mr. President, at this time when the fiscal year 1997 appropriations level for the National Endowment for the Arts is being determined, I would like to illustrate the importance of the arts to the education of our children and to the growth of the local economy through two examples from my home State of Rhode Island.

The May 23 issue of Nature describes the Starting With the Arts [SWAP] Program for 96 first-graders in four Pawtucket, RI, classrroms. The program is based on the internationally recognized Kodaly curriculum that emphasizes musical and visual arts skills. After 7 months, the SWAP children scored better in math than their counterparts who had standard classes—and equally well in reading—even though their kindergarten scores indicated that they were behind. At the end of second grade, math comprehension and problem-solving skills were highest in students who received 2 years of the special program, next best in those who had 1 year, and worst in those who received the standard curriculum.

The findings of a nationwide survey on the attitudes of Americans toward the arts, conducted by Louis Harris and released this month, found that 9 in 10 Americans believed that when children get involved in the arts in school, they "become more creative and imaginative," "develop skills that make them feel more accomplished," and "learn to communicate well." Over 8 in 10 Americans also feel that exposure to the arts "helps young people develop discipline and perseverance" and helps them "to learn skills that can be useful in a job." The Pawtucket youngsters confirm these beliefs.

My second example stems from a 2-hour public forum organized as part of the 16th International Sculpture Conference in Providence last week. At this meeting, numerous civic, cultural, and business leaders came forward to show how the arts have served to stimulate the economic revival of downtown Providence. What is happening in Rhode Island is happening nationally. Nonprofit arts organizations create nearly $37 billion in economic activity in the United States every year, and support 1.3 million American jobs.

The arts are one of the best and the cheapest ways of improving the economy. The arts stimulate business development, spur urban renewal, attract

new businesses, and improve the overall quality of life in our cities and towns. Roger Mandle at the Rhode Island School of Design has repeatedly demonstrated the importance of design to both the economy and greater ease in every day life. Existing and available cultural resources are frequently cited as one of the prime reasons businesses select to move to a community. The arts can literally turn a community or neighborhood around.

One of the best illustrations of the impact of the arts on the economy is tourism, and tourism is the fastest growing economic market in the United States today. In Providence, the Providence Performing Arts Center and Trinity Square Repertory Company have brought countless audiences to their theaters, with many people spending money on restaurants, shops, parking, and the like that would not do so otherwise without the presence of the arts. Recent discussions among the museums in the downtown area have led to the exciting concept of a Museum Mile connecting these cultural institutions through a collective effort in marketing, fundraising, parking, transportation. The result will attract visitors from all over the country to Providence. When the arts is good, more people are employed, and more taxable income generates more revenue for our State and local municipalities.

There are more artists per square mile living in Providence than in any other city in the United States, and this number is likely to increase with the passage of proposed State legislation that would provide State income and sales breaks to artists living or working in the central business district. One bill would exempt these artists from paying sales tax on plays, books, musical compositions, paintings and sculpture. A second bill would provide these artists with a personal tax exempt. The Rhode Island House Finance Committee has voted its approval. In praising the effort, Mayor Vincent A. Cianci, Jr. states: "These bills, while supporting our artists and arts, promote economic development and tourism and will create a more dynamic synergy among the Arts and Entertainment District, Capital Center and the Province Place mall."

Mr. President, I urge my colleagues to consider these examples from Rhode Island, to understand the far-reaching positive impact of the arts on both education and economy, and to join together in a bipartisan effort to appropriate $136 million for the National Endowment for the Arts as requested by administration. It is important that this agency is funded sufficiently to be able to continue its worthwhile and extremely effective endeavors to improve the quality of life for all Americans.

The recent Harris Poll referenced above shows that Federal support for the arts remains solid and strong. Surprisingly, Harris also found that a 61 percent majority of Americans—to 37 percent saying "no"—would be willing to be taxed $5 more in order to pay for Federal financial support for the arts. Fully 86 percent of all American adults are exposed to the arts in the course of a year. These people believe the arts to be important and would sorely missed them if they were not there.

SENATE PAGES—SPRING CLASS OF 1996

Mr. DASCHLE. Mr. President, today the Senate bids farewell to a group of young men and women who have served as U.S. Senate pages for the spring semester.

These young people have been witnesses to vigorous debates on a number of issues of national significance—truly spirited debates. Just this past week, they watched as Senate Dole gave his final speech as a U.S. Senator.

We in the Senate appreciate all that they did to serve the needs of this body—and those needs were many. The Senate pages serve a very valuable and important role in the day-to-day workings of the Senate, and we very much thank them for their work.

As these young people return to their respective communities, it is my hope that they will take with them a better understanding of how this Government works, and understand the necessity of working together to achieve a common goal. Perhaps someday, one or more of them will return as Members of the U.S. Senate.

To the pages, on behalf of myself, the majority leader and all Members of the Senate, we wish you well, good luck in the years ahead, and we say thank you.

I ask unanimous consent that a list of the names of the pages of the spring class of 1996 be printed in the RECORD.

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

U.S. SENATE PAGES—SPRING CLASS OF 1996

Tracy R. Clark, Vermont.
Christie M. Curtis, New Jersey.
Janelle D'Ambrosio, New York.
Ford P. Dvidson, Washington State.
Abigail David, Virginia.
Carl Kean, Arkansas.
Autumn Fredericks, Mississippi.
Elisabeth Hagadorn, Michigan.
Richard Hutchinson, South Dakota.
Thad Larson, South Dakota.
Brooke Lawyer, Mississippi.
J. Wesley McCleave, Alabama.
Evan Meyer, Indiana.
Elizabeth Reaves, Vermont.
Joshuah Roberts, Arkansas.
Dorothy Robinson, Delaware.
Heidi Sann, Massachusetts.
Devin Sullivan, Montana.
Alyssa Thornburg, Pennsylvania.
Jennifer Wilking, Wyoming.

LAKOTA FUND GROUND BREAKING

Mr. DASCHLE. Mr. President, I want to talk briefly about the tireless efforts being undertaken by a local nonprofit organization in South Dakota to improve the severe economic conditions on the Pine Ridge Indian Reservation.

Over the years, numerous national press articles have documented the Pine Ridge Indian Reservation as one of the most impoverished areas in the country. The arid nature of the land lends little to farming and ranching. Banks, department stores, paved roads, and even safe drinking water are not to be taken for granted. Even amidst the stark majesty of its landscape, the vibrant tourism industry of western South Dakota remains a whisper of promise. Quite simply, on the Pine Ridge Reservation, the basic economic infrastructure that we all take for granted, struggles to exist.

Ten years ago, a group of Pine Ridge residents, dedicated to improving their local economy, created a peer lending program called the Lakota Fund. After forming partnerships with private foundations and Federal agencies for seed money, this unique program began processing loans for economic enterprise on the reservation. It mandated enrollment in financial and business training courses and required groups of loan recipients to cosign for each others' loans. This unique lending approach, emphasizing trust over credit, created a strong sense of teamwork in the area that has enabled many budding entrepreneurs to realize their dreams.

Before participating in the program, one young woman was unable to fulfill her dream of buying a house for her family. However, after successfully starting her own business and repaying her loan to the Lakota Fund, she was able to purchase a home, thanks to the establishment of a good credit record.

There are many more individual success stories, but the true success of the Lakota Fund has transcended the accomplishments of any one individual. It has affected the entire community.

Over the years, the Lakota Fund has loaned nearly $1 million to over 250 small business men and women. Of these loans, less than 10 percent have failed.

When the Lakota Fund began 10 years ago, the town of Kyle had only one grocery store and one convenience store. Today, with the Lakota Fund's help, Kyle is home to a cafe, two video rental stores, a flower shop, a tire repair shop, and a multitude of other businesses. These ongoing success stories are testament to the vision of the Lakota Fund's creators and staff. They knew that as each new business would bring new jobs, so would each new job sustain and improve the hope for financial independence.

I have learned a great deal from the Lakota Fund's success. It has strengthened my belief that economies are built through partnerships. It has proven that Federal agencies such as the Economic Development Administration and the Small Business Administration can work together with community leaders to provide the financial support needed to make sound investments in local economies. And it has clearly demonstrated the important roles that exist for private foundations in supporting new business ventures.

But most importantly, these efforts are shining examples that successful change can begin at the local level, that good things can be done when people work together, and that dreams can be reached where hope is allowed to grow.

Mr. President, on June 20 of this year, the Lakota Fund will celebrate the ribbon cutting of their new foundation headquarters. This building, which was constructed through financial partnerships with the Economic Development Administration, Norwest Bank, and other notable private organizations, will house the offices of the Lakota Fund and will provide retail space for existing clients as well as training facilities for new loan applicants.

This day will also celebrate the opening of the Tribal Business Information Center, a joint Small Business Administration venture that will work with the Lakota Fund to assist in the further development of the local economy.

I would like to recognize the efforts of the Lakota Fund's staff for the hard work and commitment that was necessary to see these two projects through to fruition. In particular, I would like to personally honor the hard work and dedication of Elsie Meeks. As the former executive director of the Lakota Fund, Elsie has long been an impassioned voice for economic development in the Pine Ridge community. Her foresight and determination have made the Lakota Fund a national example of how trust among people can affect positive economic change.

Still, I would be remiss if I did not emphasize that much more work needs to be done. The success of the Lakota Fund and the creation of the Tribal Business Information Center are but two small steps on a much longer journey to sustained economic growth on the Pine Ridge Reservation.

Under the local guidance of organizations such as the Lakota Fund, I am confident we can continue to maximize our resources and forge stronger relationships between the public and private sector. And, with responsible leadership in Congress, we can reward the priorities of economic growth by emphasizing Federal programs that promote partnership and local control.

FISCAL YEAR 1997 GOP BUDGET RESOLUTION

Mr. KERREY. Mr. President, I rise today to briefly discuss my opposition to the fiscal year 1997 budget resolution.

In voting against the balance budget amendment last week, I stated that I did not believe Congress needed a mechanism in the Constitution to balance the budget and that I believed Congress had the will to reach a balanced budget on its own. If nothing else, I can say that at least my colleagues across the aisle proved me right on that point.

However, I voted against this budget proposal because I am in considerable disagreement with the way they propose we achieve budgetary balance.

Their budget resolution, passed yesterday on a party-line vote, calls for discretionary spending cuts to programs vital to our Nation's future—like education and research—while offering a tax cut that forces larger and deeper cuts to Medicare and Medicaid. But more important, Mr. President, this budget does nothing—nothing—to fundamentally reform our entitlement programs which continue to consume a bigger portion of the Federal budget each year. I also point out that this resolution raises the deficit for the first time since the Clinton administration took office.

Mr. President, I support the goal of a balanced budget and have fought, am fighting and will continue to fight to achieve it. Recently my colleagues and I—Senators SIMPSON, BROWN, NUNN, and ROBB—proposed a provision that would have reformed long-term entitlements. Mind you, we did not tinker around the edges, but instead took on some serious budgetary dilemmas without using gimmickry or short-term measures as a solution.

For our efforts we received 36 bipartisan votes—unprecedented support for this type of long-term entitlement reform. Our proposed changes to current laws would have caused taxpayers very little concern in the short-term as these changes would be phased in and have no effect on anyone over the age of 50 and would save the Nation billions of dollars in the long term. As well, the Senate recently voted on the centrist budget plan, which addressed a number of budgetary problems including long-term entitlement reform, and provided a balanced budget in seven years. This plan garnered 46 bipartisan votes—22 Democrats and 24 Republicans.

I only wish my colleagues on the other side of the aisle chose a similar path.

A balanced budget by 2002, which this resolution offers, is still of little solace because it ignores the most important fiscal challenge we face: the rapid growth in entitlement spending over the next 30 years.

I cannot stress enough the year on which we ought to be focused is not 2002, but 2008, when the baby boomer generation begins to reach eligibility age for retirement. This will place a severe strain on the Federal budget. Our biggest fiscal challenge is demographic, not political, and the budget before us does not address it.

Unfortunately, and conveniently, this demographic challenge is kept from our view by a budgeting process that discourages long-term planning. A six-year span is completely inadequate when the most difficult budget decisions we need to make deal with problems we will face 20, 25, and 30 years down the road, when the aging of our population propels entitlement spending out of control. The most important recommendation of the Bipartisan Commission on Entitlement and Tax Reform was that we begin to look at the impact of budgets over 30 years rather than just 5 or 7. The reason is that our country looks very different, and our current budgets look very different, viewed over that span.

We can see the trend even in the short term. Entitlement programs—which included Social Security, Medicare, Medicaid, and Federal retirement—will consume 66 percent of the budget this year. By 2002, it will be 73 percent. By 2005, the number is 78 percent. Those numbers are straight from CBO, and if we project further, Mr. President, we see that by 2021, mandatory spending and interest on the national debt will consume every dollar we collect in taxes. By 2013, we will be forced to begin dipping into the surplus in the Social Security Trust Fund to cover benefit payments, a practice that will go on for not more than 16 years before the trust fund goes into the red.

These trends have to do with the simple fact that our population is getting older while our work force gets smaller. My generation did not have as many children as our parents expected, and, as a consequence, the system under which each generation of workers supports the preceding generation of retirees simply will not hold up.

Indeed, Mr. President, long-term entitlement reform coupled with a reasonable reduction in spending would alone reduce interest rates and bring balance to the budget.

The result is a question of fairness between generations. Today there are roughly five workers paying taxes to support the benefits of each retiree. When my generation retires there will be fewer than three. Unless we take action now, the choice we force upon our children will be excruciating: Continue to fund benefits at current levels by radically raising taxes on the working population or slash benefits dramatically.

In 1981, Congress—backed by the Reagan administration—passed a tax-

cut for the American people hailed as a boon to the national economy and a panacea for combating an overreaching Government. However, the tax cuts proposed and passed were coupled with unrivalled Government spending, which created the enormous deficits we now confront in this body daily. Nobody believed in 1981 or 1982—save a small few—that what was happening was the creation of large, grave deficits the likes of which this country had never seen, even after the then Majority Leader Howard Baker at the time called this budgetary strategy a "river boat gamble."

Mr. President, until Congress can agree on a budget that addresses the unsustainable growth of entitlement programs and avoids gimmickry and short-term fixes, anything else is simply a river boat gamble.

I will continue to oppose resolutions such as the one we voted on yesterday because I do not wish to commit our Nation's fiscal integrity and the hopes of future generations to a gamble, no more than I would try to balance my family's checkbook by heading to the slot machines with a pocket full of quarters. This Nation and our children deserve better.

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

The PRESIDING OFFICER (Mr. KYL). The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

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

The PRESIDING OFFICER. Without objection, it is so ordered.

EXECUTIVE SESSION

NOMINATION OF ALAN GREENSPAN TO BE CHAIRMAN OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. REID. Mr. President, it is my understanding that the matter now before the Senate is the nomination of Alan Greenspan to the Federal Reserve.

The PRESIDING OFFICER. The Senator is correct. The clerk will report.

The bill clerk read as follows:

Alan Greenspan, of New York, to be Chairman of the Board of Governors of the Federal Reserve System for a term of four years.

The Senate resumed consideration of the nomination.

The PRESIDING OFFICER. The Senator from Nevada.

Mr. REID. Mr. President, I like my colleagues, take my responsibility very seriously as to whether or not I support nominations made by the President. During the time that I have served in the Senate, most of that time has been under Republican Presidents. I always took the fact that they made the nomination something that I should, if I could, support. I felt that way for Republicans. I feel the same way for a Democratic President.

As a result, my decision today, while it may not be earthshaking in nature, has been quite difficult. It was after great deliberation that I concluded I can not support the nomination of Alan Greenspan. He has rendered great service to the country. But I think the time has come for new leadership. We need to look at what is taking place at the Fed not only regarding its monetary policy but also internal management. I think that we need to send a message to the American public that what is going on in the Federal Reserve Board is not good.

As a result of that, I have indicated I will not support the nomination of Alan Greenspan, a nomination that has been submitted to the Senate of the United States by a Democrat, Bill Clinton.

Mr. President, many suggest that if the Federal Government operated more like the private sector we would rid ourselves of waste and inefficiency. While that generalized statement is probably true—that we would get rid of a lot of waste and inefficiency, if we operated more like the private sector—that is not absolutely true. It has merit. I subscribe to that belief, and I think that we should keep that statement in mind when we consider the reappointment of Chairman Greenspan to the Fed.

For example, if the shareholders of a bank—and if the President of that bank operated as a multimillion dollar enterprise—suddenly found in that banking operation that there was a fund, a slush fund, a rainy day fund, as the Fed looks to it, without anyone's knowledge, would the shareholders vote for reappointment of that President? The answer is obviously no. They would want probably an opportunity for the President of that bank to explain himself. Yet, those who are insisting on a vote in the affirmative for Chairman Greenspan are asking us to accept what the Fed has done without any explanation. I personally cannot do that.

According to the General Accounting Office report that I requested, along with Senator DORGAN, the Federal Reserve Board is operating with a number of problems. But one is that the General Accounting Office found that there is a $3.7 billion fund. Some refer to it as a rainy day fund, and others have referred to as a slush fund.

The purpose of it, they say, is to make sure that if there are ever any losses that they are covered.

Well, for 79 years the Fed has been in existence. They have never had a loss. There has been no explanation why they have this fund maintained. It is fair to assume that, when it comes to deficit reduction, the chairman's rhetoric is inconsistent with his actions.

The Government was literally shut down last year for a billion dollars here, a billion dollars there. For $3.7 billion we would not have had a Government shutdown.

The report raises a number of legitimate questions about the fiscal management within the Federal Reserve System. Important questions should have been answered prior to now and certainly prior to voting for confirmation of this Chairman. This study was requested because no close examination of the Fed operations had ever been conducted. .

I offered legislation on a number of occasions calling for the audit of the Federal Reserve System. These requests for legislation were promptly thrown in file 13. They never went anyplace. The Fed is untouchable. Well, after this study I do not think they should be untouchable, because some of the questions that people asked have been answered in this report.

In fact, does the Federal Reserve System run its own shop with no oversight by anyone? The answer is yes. As I said, there has never been a close examination of the Fed's operations until this study was conducted. The General Accounting Office did a good job. The report is sizable in nature. This is a draft of the report. I understand that on Monday the 17th, they are going to submit their final report. This is done the way the General Accounting Office always does their work. They do a draft report and they show it to the people that requested the report and then they submit it to the body that is being investigated. It will be interesting to see how the Fed has responded to some of these questions. I think, interestingly enough, their responses do not answer all of the questions raised in the report.

Since they are a taxpayer-financed entity, I believe it was necessary to shed greater light on the Fed's operation and so I asked the General Accounting Office to do this. In today's constrained budget environment, Congress needs to be informed, and well informed, on all activities that affect Government's finances. Certainly the national banking system, the Federal Reserve System, is something we should have a better handle on. That, in part, is why we requested this study of the Fed.

Much of the study focuses on activities occurring under Mr. Greenspan's watch and the policies he oversaw. He has been there a long time. He cannot blame what has gone on on someone else. He is the chief administrative officer. He is the person we look to for guidance. He is the person, when we have a problem with our national banking system, we call in to Congress.

It is my understanding that the General Accounting Office stands by all of its findings in the preliminary report, and I am sure that is the case. Since this report was submitted there have been other interesting things to develop. One of the most interesting, is a recent round of stories in the Los Angeles Times. They have done some very good work on what is going on in part of the world of the Fed.

An executive at the San Francisco Fed confirms the fact that there are accounting practices at the bank in California that are in real question. For example, according not only to the LA Times, but the Wall Street Journal—which certainly we cannot say is a foe or of the Fed. According to the Wall Street Journal, the Los Angeles Federal Reserve Branch appears to have problems counting its money. This has been confirmed by an executive at the San Francisco Fed. This executive asserts that employees were "forcing balances that did not add up, so that reports sent to the Fed board would appear normal."

We are not talking here about how to do your weekly balancing of your checking account. We are talking of almost $200 million. Apparently this enormous management lapse that took place over a period of more than a year has not been questioned by anyone in authority at the Fed. It occurred in one of the most basic and critical functions that the Federal Reserve System has, and that is tracking the level of currency in circulation. The error was said at this point to be about $178 million. The Fed and the Chairman do not bear this loss, the taxpayers bear this loss.

The bottom line is we now have before us another story of Fed mismanagement, under the guidance and leadership of Alan Greenspan. It begs us to question why this body is willing to reward such poor oversight with, in effect, expeditious confirmation.

I have to say that I very much appreciate the initial action of the new majority leader. Senator LOTT has allowed 3 days to debate this. That is very good. My only question would be whether we should have done it before the final report of the General Accounting Office. But I commend and applaud the new majority leader for allowing ample time to talk about this issue. The fact we are talking about this, I think, will lead to a better understanding of how the Fed acts.

There have been good discussions these past 2 days by the junior Senator from Iowa, Senator HARKIN, and the junior Senator from North Dakota, Senator DORGAN, about fiscal policy. I am not going to dwell a lot today on fiscal policy. Senators HARKIN and DORGAN have done a good job on that. What I want to talk about, though, is where they spend 93 percent of their money.

You see, at the Fed, only about 7 percent of their money is spent on fiscal policy, setting policy. Ninety-three percent of it is running this national bank we have. I believe we as a Congress have the responsibility to look at that 93 percent and I believe appropriate that money for that 93 percent. It is often said that Greenspan puts the brakes on our economy. I think it might be time to put the brakes on his nomination, slow it down, review all the facts that are being brought to our attention, including the situation we have in the Los Angeles Fed.

There are some who say there is no need for an independent audit. An annual audit is fiscally sound policy.

Can you imagine a bank not having an annual audit? Can you imagine the central banking system of the United States of America not having an annual independent audit? We do not have one. I believe it would instill greater public confidence in our banking system and it would allow people to understand more what is going on.

Let us talk about increased cost. The Fed, while the rest of Government is cinching down and spending less, the Fed's operating costs have increased steadily and substantially. In 1988, just a few years ago, the cost of the Fed was $1.36 billion. In 1994, some 5 years later, it was $2 billion. And it has gone up every year since then. We do not have those final figures. Operating costs for the Federal Reserve have grown at more than twice the rate of inflation. Fed operating costs jumped 50 percent between 1988 and 1994. It increased at a rate greater, of course, than overall Federal discretionary spending, which we are trying to rein in. Overall Federal discretionary spending increased during this period of time at a very minuscule rate. But not the Fed, they jumped 50 percent. The greatest increases were bank supervision, personnel costs and data processing. The report makes it clear the Fed could do more to increase its own cost consciousness. They could do a better job of holding back the cost of Government.

What is interesting is what the Fed did while its own costs were rapidly outpacing inflation. The Fed was urging fiscal restraint for the rest of the country. I think it is interesting to talk about what happened in the pre-Greenspan years with economic growth, and what happened in the Greenspan years.

The green, the lower indicators on this graph, shows that the Greenspan years have not been good years. In spite of the tight controls we have had by the Fed, economic growth has not been good under Chairman Greenspan.

Salary costs. The GAO clearly has pointed out that the Fed's salary has been out of whack with the rest of society. The cost of salaries in 1994 alone amounted to over $1 billion dollars. This constituted about 79 percent of the Fed's personnel compensation cost. From 1988 to 1994, the Fed salaries increased by 44 percent—44 percent. Salaries of some of the Reserve Bank presidents are even greater than the Chairman's salary.

Mr. President, these salaries might attract more people to Government, but they certainly will not attract more people to good Government. Most taxpayers would find the fact that 120 top-level Fed officials earned more in 1994 than the Chairman did a bit excessive. It just does not make sense. Why should bank executives make more than the Chairman of the Federal Reserve Board?

From 1988 to 1994, the last numbers we have and what the General Accounting Office had to look at, the cost of Fed employee personnel benefits increased by 89 percent—89 percent. The General Accounting Office found the Fed's benefits were generous compared to those of Government agencies with similar responsibilities, and that is an understatement.

The GAO found the Fed provides additional benefits to some select officials. For example, bodyguards, home security systems, chauffeured home-to-office transportation.

Travel is really interesting. Although it constitutes a small portion of the Fed's operating expenses, these expenses have had the highest growth, 85 percent. Travel expenses increased significantly more, to say the least, than Federal Government travel expenses.

As the Presiding Officer knows, to try to get members of the administration or Government agencies to come to our States is very hard because they do not have travel money. Very important issues in a State where they need to come and take a look, a lot of the agencies have trouble doing it.

I asked the head of the Environmental Protection Agency to come to Las Vegas. I thought it was a very important meeting. She could not come, even though she badly wanted to, because of travel restrictions, her budget is so tight. Part of this, of course, is grossly exaggerated when you recognize the Fed's travel expenses went up almost 100 percent.

The Fed's travel expenses, when you limit it strictly to their traveling and nothing else, increased 66 percent. When Board members travel, Mr. President, they travel in style. No uniform style, but they travel in style. Some of the districts are allowed to be reimbursed on a per diem basis. Others are reimbursed on actual-cost basis. There is no rhyme nor reason. It is according to what they want to do.

So what I am saying is, they have, in fact, an unlimited expense account. I do not know where else in Government

there is anything like that. I do not think anyplace.

Because the policies vary from bank to bank, these costs could easily be contained by a uniform, more taxpayer-friendly policy. The General Accounting Office points this out as well.

Also, we have a double standard, the General Accounting Office has found, and this clear double standard is practiced by the Federal Reserve System. At the Fed's encouragement, we have taken significant steps toward eliminating the deficit. In fact, I can remember Mr. Greenspan saying a year or so ago the most important thing we can do is reduce the deficit, and at times, these steps have been extremely painful, often requiring downsizing, budget cuts, and elimination of various programs, programs that some of us believed in and liked a lot. We had to cut and whack those so we could meet our budget reduction steps.

We have done a pretty good job. This will be the fourth year in a row where we have reduced the deficit. Four years in a row, the first time since the Civil War we have done that. We have not reduced it, perhaps, enough, but 4 years in a row where we had a reduced deficit. That is good.

While the rest of the Government underwent necessary belt tightening, the Fed enjoyed a smorgasbord of growth. What is a smorgasbord of growth? I do not know if that is a word people know anymore. It is something they had in Nevada to get people to come to the casinos. They would have this vast array of food that would cost not very much money. People could come and gorge themselves, if they wished, on different foods.

That is, in effect, what we have had with the Fed. They have had a smorgasbord of growth. They have had everything they wanted. They have gorged themselves. While the Federal Government's overall staffing level declined, the Fed's staffing level increased by some 4 percent.

The bulk of this growth occurred in largely the white-collar supervision and regulation area. The largest decrease in staffing occurred in the area of services to financial institutions, a blue-collar area where we need more help.

From 1988 to 1994, the Federal Reserve salary costs increased by 44 percent.

In the area of travel expenses, as I have already said, the Fed increased by 66 percent. Again, this could easily be remedied by bringing the Fed under the same travel rules as the rest of the Federal Government. It appears to be a classic case of, "Do as I say, don't do as I do."

It is important to look beyond the comparison of Federal Government. During this same period, while many commercial banks were downsizing, downsizing everything—their operations generally—the Fed's costs were steadily increasing. All over the country we have had banks, in order to be competitive on an international basis, consolidating. There have been cutbacks.

I know and the Presiding Officer knows that in my State and his State, there have been banking employees who have lost their jobs because of downsizing. Not with the Fed. I say not only commercial banks are downsizing, the Federal Government is downsizing. While all this has been going on, the Fed has been upsizing.

But prior to this study, we did not know that. I think it is clear from the GAO report that poor internal management and questionable spending practices are the order of the day at the Fed.

Personnel benefits vary, travel reimbursement varies, procurement and contracting practices are not always done on a competitive basis. Indeed, the report raises questions of favoritism and conflict of interest.

Again, the bigger issue is whether the taxpayers are getting the most cost-effective use of their money. I think the answer is clearly no.

Again, there were rapidly increasing expenditures between 1988 and 1994. Personnel compensation increased by some 54 percent. Equipment and software expenditures increased by 85 percent. Building expenditures increased by 34 percent. Again, travel expenses increased by 66 percent. There is very little incentive to keep these expenditures under control; in fact, in most places, none. The Fed is not subject to the same cost reduction pressures that are affecting both public agencies and private sector firms, and I believe they should be.

I repeat, Mr. President, I am not here today to belabor fiscal policy set by the Fed. Others have done that. I want to talk about the 93 percent of the money that they spend that has nothing to do with setting monetary policy. And that 93 percent we should have some control over. There should be appropriated moneys for the 93 percent. They should fund their operation and their expenses from current revenue.

They are not subject to the same cost reduction pressures that affect both public agencies and private-sector firms.

If there were ever an example of a Federal agency, an activity of the Federal Government—call this organization whatever it might be—that needed some sunlight, this is an organization that needs some sunlight.

The Fed is not funded through congressional appropriations, so we really have no idea how much they are spending, and on what. We only have large categories. Also, unlike private firms, the Fed does not have a profit incentive to lower costs and increase efficiency.

What about the $3.7 billion slush fund? The Fed is part Government agency, part private bank. Its primary mission is to support a stable economy, not to make a profit. However, the profits generated by the system are to be returned to the taxpayers. Over the years the Fed has pocketed away $3.7 billion in taxpayer money.

Mr. President, take for example—and I have come to this floor and criticized the budget that the majority has pushed forward on a number of issues. But the one area I have talked about a lot is what is happening to our National Park System. If we had $1 billion in our great national Treasury, we could take the gems that we have set up around the United States in the National Park System—we only have one in Nevada; but the State of Arizona has a number, the State of Utah has a significant number, Western States have a number of parks—we could replenish, refurbish those parks. We are closing certain parts of our park system to visitors because we cannot maintain them. We need more money. We could take part of this $3.7 billion and replenish our park systems, refurbish them, modernize them.

That is only one example, out of scores we could use, where this money could be used, rather than there in a so-called rainy-day fund that Mr. Greenspan and others have set up.

The Fed claims this quietly held fund is necessary to cover system losses. But as I have said before, in 79 years the Fed has never operated at a loss. It cannot because that is how they operate. The surplus increased 79 percent in the 1988–94 period. At the very least, the taxpayers have a right to have this returned to the Treasury.

We continually hear encouragement from the financial markets to reach a balanced budget agreement. And we should do that. If the budget negotiators had this money, we could certainly make $3.7 billion progress in that direction.

So I conclude, Mr. President, by saying that the Senate is endowed with this tremendous responsibility that we have in the nomination process.

If the reports we are now receiving concerned activities at a cabinet agency, that they had a $3.7 billion slush fund, that their travel expenses have increased 66 percent, that there were 120 people making more money than the President of the United States, and on and on, with the questions that I have raised today, we would be real upset at that cabinet officer.

We should be also upset with Chairman Greenspan because the reports we are receiving now concerning activities

at the Fed show that there is tremendous mismanagement taking place. There needs to be more oversight.

What we are doing today is being asked to reappoint an individual who, in my opinion, is under a cloud. I believe that the burden is on the nominee to come forth, address these issues, address them squarely, and provide this body with a full and satisfactory response.

Again, I recognize the awesome responsibility we have. I understand the importance of this position. I know the nomination has been sent forward by the President of my own party. But in good conscience, I cannot vote to confirm Alan Greenspan. I think there are too many problems. I believe, Mr. President, that the Fed needs to be looked at with a microscope.

We did not look at them with anything. They are running amok. They have no guidance or supervision from the Congress. We should appropriate that 93 percent, the moneys they use every year to operate. There is no reason they cannot be as fiscally sound in management policy as they are asking the rest of the country to be. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The bill clerk proceeded to call the roll.

Mr. BYRD. 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.

FLAG DAY

Mr. BYRD. Mr. President, it was 219 years ago today that the Continental Congress formally designated June 14 as Flag Day. So, today, we recognize this anniversary of Flag Day, going back to the time when, as I say, the Continental Congress formally designated the Stars and Stripes as the flag of our country. We honor the symbol of the Nation when we honor the flag.

In these days of new-fashioned values and new-fangled technology, we most often forget the old-fashioned patriotism that made this country great.

We are a vast nation and we glibly speak of our form of government as a democracy. It would be impossible for a government of a nation that is so sprawling as is the United States of America to be a democracy in the raw and purest sense. This is a republic, a republic. We pride ourselves on our democratic processes but we loosely, very loosely talk of ours as a democracy. It is a republic. And there is a difference.

We are a vast nation, becoming more and more diverse in population, language and custom with each passing year, and we would do well to remember often and salute one of our greatest unifying standards, the Stars and Stripes, the American flag.

I have not heard anyone speak of this as Flag Day on the floor today. There may have been someone who has addressed the subject already. I would be very pleased to find that to have been the case. I hope that everyone will display our flag throughout the weekend and remember all that flag means, remember all that it has meant to generations of Americans who have fought and bled and died so that the rest of us can enjoy freedom.

Freedom, unfortunately, cannot be entirely inherited by a nation or a people, any more than children can fully inherit knowledge and courage from their parents. Each generation must learn to understand and to rededicate itself to the pursuit of freedom. That is one reason why Flag Day is so important—why all of our national holidays should be emphasized. We must, most certainly, halt in our confident strides toward the future and take a long and serious look at the core of our beliefs. When we show to our neighbors and our friends that we believe in America—that we are active citizens and proud of the fact that we have been so blessed—we perpetuate our core principles and solidify our unity as a nation.

So, today I would hope that we would be a little old-fashioned, and rededicate ourselves to freedom and to the glorious red, white and blue that, no matter how sophisticated we all may think we have become, should always make our hearts pound and put that lump in our throats as that flag goes by.

No, we have become too new-fashioned, sophisticated, forgetting that when we came into this world we came emptyhanded and when we leave this world we will leave it emptyhanded.

Alexander conquered the then-known world, but he left it emptyhanded. There is the story that he was buried in a coffin with his hands hanging outside the coffin to demonstrate that one leaves the world, no matter how much of it he has conquered, how successful he has been, how prosperous he was blessed to become—when he leaves the world he leaves it emptyhanded.

So, with all of our thin veneer of sophistication, it might be well to pause and reflect upon the fact that when we leave this world we will leave it emptyhanded. And it is good, sometimes, for Senators to remember that when they leave this Chamber for the last time they will be remembered for about 10 days. I have been around here a long time. I have seen men and women come and go, great in their prime, they thought—and others thought—but soon forgotten.

So I like to do things the old-fashioned way and I like to remember the flag in the old-fashioned way. So let us, today, rededicate ourselves to an appreciation for and a respect for the Stars and Stripes.

When Americans look at their flag, if they stop and think, they see all that is dear to their hearts about America. They think of the heroes who shed their blood for our country. They think of Nathan Hale, who was executed as a spy in the year 1776, who regretted that he had only one life to give to his country.

They think of John Paul Jones; of James Lawrence, who said, "Don't give up the ship."

They think of Francis Marion the "Swamp Fox," Nathanael Greene, George Washington at Valley Forge.

They think of all those men and women down through the array of decades who gave everything, gave their lives, who sacrificed for our country. When they see that flag, oh, it is just a piece of cloth, a bunting, but it is far more. It represents the history of this Republic. It is older than the Republic itself: Flag Day, dating back, as I say, to the year 1777, 10 years before the Constitution was written, which established this Republic.

They think of all that is good and noble and great about this country when they see that flag. They should think of it. It should remind us of this country's glorious history, of the good deeds that America has performed, of how she has shared her wealth, her treasure, her blood that others might have freedom.

And wherever they may travel, whatever ocean or sea they may cross, the sight of that symbol—the red, the white, the blue—our flag, brings to the heart the thoughts of home.

That flag is the symbol of all of the dreams that we have had and that we may have about America. Let us remember it on this Flag Day—the symbol of America the Beautiful.

Henry Van Dyke said it best in his poem: "America for Me":

'Tis fine to see the Old World, and travel up and down,
Among the famous palaces and cities of renown,
To admire the crumbly castles and the statues of the kings,—
But now I think I've had enough of antiquated things.

So it's home again, and home again, America for me!
My heart is turning home again, and there I long to be
In the land of youth and freedom beyond the ocean bars,
Where the air is full of sunlight and the flag is full of stars.

Oh, London is a man's town, there's power in the air;
And Paris is a woman's town, with flowers in her hair;

And it's sweet to dream in Venice, and it's great to study Rome;
But when it comes to living, there is no place like home.
I like the German fir-woods, in green battalions drilled;
I like the gardens of Versailles with flashing fountains filled;
But, oh, to take your hand, my dear, and ramble for a day
In the friendly western woodland where Nature has her way!
I know that Europe's wonderful, yet something seems to lack!
The Past is too much with her, and the people looking back.
But the glory of the Present is to make the Future free,—
We love our land for what she is and what she is to be.
Oh, it's home again, and home again, America for me!
I want a ship that's westward bound to plough the rolling sea,
To the blessed land of Room Enough beyond the ocean bars,
Where the air is full of sunlight and the flag is full of stars.

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

The PRESIDING OFFICER. The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

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

The PRESIDING OFFICER. Without objection, it is so ordered.

NOMINATION OF ALAN GREENSPAN, OF NEW YORK, TO BE CHAIRMAN OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

The Senate continued with the consideration of the nomination.

Mr. HARKIN. Mr. President, let me begin by commending my good friend, the Senator from Nevada, Senator REID, for his diligence and hard work in examining the Federal Reserve's operations. Senator REID has worked with the GAO to look into the Federal Reserve's business practices.

Some startling examinations have been uncovered because of the efforts of Senator REID and Senator DORGAN. I must say the information that they have uncovered is startling. I urge my colleagues to carefully review all that the Senator from Nevada has said today, both regarding the nomination before us and the logic of considering future legislation that might go to these questions.

Massive management lapses appear to be going on—accounting errors, excessive costs of operation, a multibillion dollar slush fund and other oversights. There are many, many important questions that Senators REID and DORGAN have uncovered, with the GAO's help. They are to be commended for asking the GAO for this investigation.

As I said the other day, Mr. President, the Federal Reserve is not a separate branch of Government like the executive branch or the judiciary. But even so, we have the power of the purse strings. Even if the executive branch squanders money, and things like that, we look at it. We have hearings. We look into that and we take action.

We should also do that with the Federal Reserve. I will not stand here and say that all of the items uncovered by the GAO are something that requires us to take a certain action right now. But certainly they warrant further investigation. I hope that we will fulfill our obligations to follow through on those GAO reports. We will be having more to say about that next week, to look at the operations of the Federal Reserve and perhaps make some changes in the law on how the Federal Reserve operates.

Again, I repeat, the Federal Reserve System is a creature of Congress. It exists only because Congress enacted a law to erect a Federal Reserve System. Obviously, Congress has the right, the power, the duty and the obligation to change and alter that law to fit different times and circumstances or to make the Federal Reserve, I believe, more accountable to the American people.

So I just want to commend Senator REID for his diligent work in this area.

Mr. President, I rise on the second day of debate on the nomination of Alan Greenspan as Chairman of the Federal Reserve Board. As I have said many times, this is a critically important nomination that deserves the Senate's full consideration. The Federal Reserve Chairman is widely recognized to be the single most important economic decision maker in the country—let me repeat that—the single most important decision maker, in terms of our economy, more important than the President, more important than 535 Members of Congress.

It is the obligation and the duty of this body to thoroughly review and debate the record and policies of any nominee to this vital post.

We started this 3-day debate yesterday. At that time, I outlined my concerns about the record of Alan Greenspan, both as Chairman of the Council of Economic Advisers in the 1970's and as Chairman of the Federal Reserve from 1987 to the present time.

As I said yesterday, this is not about personalities. It is about policies. It is about laying the facts on the table and taking an objective view of the Greenspan record. This debate is not really about one man; it is about a much larger issue that touches the lives of every American family.

Yes, there are a lot of complicated economic terms and intricate statistics and charts that we have talked about and that we will talk about some more. But we should not get lost in the complexities.

Perhaps one of the reasons we do not debate more often than we do economic policy and Federal Reserve policies and nominations that come to the Board, and their views, is because economics is, as they say, the dismal science. Sometimes it is hard to cut through all of the data and charts and the statistics.

But, again, when you strip it all away, strip away the complexities, it boils down really to this. When you get to the heart of it, what we are really talking about is very simple, fundamental things. We are talking about real people, individuals and their families, trying to make a payment on their house, or trying to buy a house, trying to buy a new car, families trying to work with their bank to get the funds to put in next year's crop, if they are farmers, or maybe to get a loan to operate their small business for next year.

That is what this debate is about. It is about wages, about how much will our working people make in the next year? It is about families. That is why we are having this debate. That is why I insisted on this debate. This debate is about raising the living standards and real wages of hard-working Americans. That, I believe, stands as our primary economic challenge.

But the policy of the Federal Reserve under Chairman Greenspan has stood in the way. Under current law, the Federal Reserve is obligated to conduct a balanced monetary policy so as to reconcile reasonable price stability with full employment and strong, stable economic growth. But the Federal Reserve, led by Mr. Greenspan, job growth and the living standards of average Americans have been sacrificed in the blind pursuit of inflation control. The Greenspan Fed has raised interest rates, not when inflation was at the door, but when it did not even threaten. In 1994, in the midst of seven straight interest-rate increases, Chairman Greenspan himself acknowledged there was little evidence of rising inflation.

Mr. President, the decisions of a Fed Chairman affect every pocketbook and every family budget in America. The decisions of this Chairman have cost American families lost income, lost opportunities.

The essential fundamental question I believe boils down to this: Why will Alan Greenspan not give working families a raise? That is really what it boils down to. The Greenspan Fed has stifled economic growth and the incomes of

average Americans. Interest rates have been kept artificially high and middle-class families and businesses have been forced to pay the price. It is time for the Federal Reserve to pursue a more balanced policy based on raising economic growth and increasing jobs, alongside continued vigilance against inflation.

America ought to have a forward-looking Fed Chairman who recognizes the importance of expanding opportunities for our economy and our people in today's global market. We need strong leadership, committed to higher growth and incomes, fuller employment, and lower, more stable interest rates to improve the quality of life for average Americans.

We have not gotten that with Mr. Greenspan. There is what I call a common thread in the thinking and the actions and the policies of Mr. Greenspan over the years. It did not start yesterday. It will not end tomorrow or next week. Ripe from his days as chairman of the Counsel of Economic Advisers up to today, Mr. Greenspan has consistently shown the same two tendencies: First, he often misjudges the signs of an oncoming recession; second, he does not act decisively enough to pull the economy out of the recession because of his fear of inflation. The bottom line is that Chairman Greenspan has a long history of focusing solely on inflation to such an extent that all focus on expanding our economy has been lost.

The mindset today is that 2 percent growth is acceptable, the economy cannot grow any faster, maybe 2.5 percent at the maximum, but we cannot have the 3 percent growth of the 1970's or the 4 percent growth of the 1960's. That is the mindset. I ask, why? What is wrong with America? Is productivity going up? Are people working harder than ever? We are getting new products on the markets, the information revolution has hit us all over this country. We have all kinds of new inventions and devices, labor saving devices, not to mention pharmaceuticals and drugs to help make our lives better. We have the information revolution, computers, even in education—all of this lending itself to a robust America, ready to go. That is the America I see out there, an America that wants to work, that wants to grow, that wants to give families a better deal, that wants to raise the wages of our working families, yes, that wants to reduce unemployment. That is the America that is out there.

If this harness is kept on by the strict monetary policies of the Federal Reserve, that inherent ability of America to grow will be stifled. Thus, I say that what is happening at the Fed is a disservice to all of America, to us in our generation and certainly to the next and future generations who require our economy to grow for their education, for their livelihood, and for their jobs in the next century and beyond.

Yesterday, I had an opportunity to explore in detail much of Mr. Greenspan's previous labor. I displayed a chart that showed Mr. Greenspan's record as Chairman as compared to others. It is dubious, at best. I went back to the Fed Chairman Mr. McCabe from 1948 to 1951, William McCheseny Martin, Mr. Burns, Mr. Miller, Mr. Volcker and now Mr. Greenspan. I pointed out our real growth in the country during their terms. You see 6.1 percent, 3.6 percent, 3.3 percent, 4.5 percent; and it is lower under Volcker, 2.5 percent, and under Greenspan, 2.2 percent. Looking at Mr. Volcker, he came in facing a 13.2 inflation rate before he started, and he cut it in half during his term. In bringing that down, we had a low growth rate, but still, it was 2.5 percent. Look at Mr. Greenspan, inflation before he came in was 4.1 percent, lower than almost at any time in any of these previous tenures. He has only reduced inflation to 3.2 percent—about 25 percent. Mr. Volcker cut it in half. Look at Mr. Greenspan's growth rate—2.2 percent.

Using a comparison analysis, Mr. Greenspan's stewardship at the Fed is lacking, compared to those who came before him. That 2.2 percent growth rate is abysmal when you look at the growth rates under previous Chairmen. If he had high inflation rate and then cut it in half, maybe you could accept low growth. But I find it difficult to accept this low of a growth rate with minimal reductions in inflation—4.1 percent to 3.2 percent. Look at how Greenspan compares to the past.

I said yesterday, people say, "Well, our economy has matured. We cannot grow like we did in the 1950's or 1960's or 1970's. We cannot grow at that rate anymore." The recent efforts of the Federal Reserve have reminded me of the invention of the wheel. The people who invented the wheel they probably said, "We have the wheel. We do not need anything else." I bet they were happy with the wheel, and they thought that was the best thing, and they thought they did not need anything else.

Those who say that America's economy has matured and we cannot grow at this rate I believe are saying the same thing. It reminds me of the person who once said, maybe the head of the Patent Office said, "Everything that can be invented has been invented. There will not be any new inventions." That was about 80 or 90 years ago. Well, our economy can grow a lot faster. That is why we are having this debate. We can bring more people into the labor force.

In addition, I also discussed yesterday Mr. Greenspan's misguided and ill-advised policy recommendations to President Ford that deepened our country's recession in the mid-1970's. The record shows Mr. Greenspan cost jobs and further weakened our economy. I also discussed Mr. Greenspan's forecasting record as a private economist in the early 1980's. As I pointed out yesterday, he was wrong on inflation. He was wrong on interest rates. He was wrong on bond issues. Then chairman of the Banking Committee, Senator Riegle, pointed out in Mr. Greenspan's 1987 confirmation hearings:

> You had an opportunity to be a forecaster with Greenspan and O'Neil. As you know, you put your forecast to a direct test in the private sector. The fact is that the firm only survived a few years.

And according to a Forbes article of April 20, 1987, in 1985, his full first full year of business, O'Neil and Greenspan turned in one of the least impressive records of all pension funds advisers.

In 1990, Mr. Greenspan was again way off in his economic forecasts, as I pointed that out yesterday. On October 2, 1990, at an Open Market Committee hearing meeting, Mr. Greenspan had this to say is from the minutes of that meeting.

> I still think we're in a situation in which there are forecasts of thunderstorms, and everyone is saying, "Well, the thunder has occurred and the lightning has occurred and it's raining," but nobody has stuck his hand out the window. And the point is, it isn't raining. The point is, as best I can judge, that the third quarter GNP figures in the green book are not phony. I think they are relatively hard numbers. They can get revised. They are put down more and more, but the economy has not yet slipped into a recession.

Now, that was in October 1990.

I want to note that the recession began in July 1990—a month before Iraq invaded Kuwait. Yet, in October, Mr. Greenspan was still saying it is not raining out. I want to note that Mr. Greenspan's forecast improved after that. On December 18, 1990, Mr. Greenspan said confidently, "At some point, we are going to come out of this." So between October 2 and December 18, Mr. Greenspan found out it really was raining, but it was much too late. He said, "At some point, we are going to come out of this." He was right. The recession officially ended in March 1991. So, Mr. President, that is the record. Those are the facts.

Today, I want to focus on a few more important aspects of the Greenspan record. I will zero in on the Greenspan rate increases of 1990 and 1994. First of all, I think I am going to refer to this now, and then I will come back to it later. Many times, I talk to people and say, "Do you know that, in 1 year, from February 1994 to February 1995, Mr. Greenspan had seven rate increases in the Federal funds rate? He raised those interest rates 100 percent." People look at me like I came from another planet. They say, "No, of course not, nobody raises interest rates 100 percent." I said, "Yes, he did."

Mr. President, here are the figures. In February 1994, the Federal funds rate was 3 percent; in February 1995, 6 percent. Well, that is 100 percent. It is a doubling any way you look at it. That was in 1 year, from February 1994 to February 1995. From February 1995 until today—we are talking about almost 16 months—what has happened? Interest rates have only come down three-quarters of a point, to 5.25. That is still way higher than they were in February 1994. This is what is causing the stagnation in America and what is causing wages to be stagnant. This is what is causing the slow growth in our economy.

I want to spend a little more time, also, discussing unemployment, something called the nonaccelerating inflationary rate of unemployment, or NAIRU. Perhaps this is one of the reasons nobody wants to debate economic policy. You get these kinds of terms—NAIRU.

Let us discuss NAIRU and see if we can strip away all the fancy talk and see what it is all about. Let us begin with the words of Robert Eisner, a former president of the American Economics Association, when he said, "Neither the fiscal stimulus of structural budget deficits, nor the monetary stimulus directed at reducing unemployment in the United States have yet caused permanently accelerating inflation, or much inflation at all."

I am going to repeat that. "Neither the fiscal stimulus of structural budget deficits, nor the monetary stimulus directed at reducing unemployment in the United States have yet caused permanently accelerating inflation, or much inflation at all. Most of the inflation of the postwar period has come from supply shocks—chiefly, the great run-up of petroleum prices in the 1970's and early 1980's."

Now, we talked about this nonaccelerating inflation rate of unemployment. That means that, well, if you bring unemployment down too far, then employers will have to bid up the wages. By bidding up the wages, that will cause price increases because they have to pay higher wages, and that causes a round of inflation. Many economists simply do not agree with that. That is what Mr. Eisner is saying. He is saying, nothing that monetary policy has done to reduce unemployment has permanently caused accelerating inflation. I believe Mr. Eisner is right. But that fear of inflation is the driving force of the Federal Reserve today, and, particularly, Mr. Greenspan.

He has become "Mr. Chairman Slow Growth," "Chairman Stagnant Wages," and "Chairman Unemployment Is Good for America." Mr. Greenspan has an economic philosophy that simply does not focus on the problems of average people. We are seeing an interesting pattern at the moment. The 30-year bond, and many other interest rates, have been rising for several weeks, and many bond market leaders have been wringing their hands about the possibility of rising inflation. But the economy, at this moment, does not give much indication of accelerating inflation.

Our economy can be much more vibrant without the threat of inflation. It can expand. Unlike Chairman Greenspan, I do not see that as a bad thing to be stopped. Our economy ought to expand and grow, and unemployment ought to come down and, yes, wages ought to go up.

Some people talk about a 4-percent growth for the quarter that we are in right now. Well, it initially came out that we had a 2.8 percent growth for the first quarter of this year. All the articles said that was incredible, booming growth, 2.8-percent. It was later revised to 2.3 percent. I do not think that is booming growth at all. I am told most economists see growth in the second half of the year at a far slower pace.

I am going to paint with the same brush both the administration and the Federal Reserve. I believe the administration is accepting too low a growth rate, a bit over 2 percent. I believe that has been fostered and bolstered by the Federal Reserve, which also sees growth at around 2 percent.

Here we are, Mr. President, 348,000 jobs were created last month when half a million started to look for work, showing that our work force can indeed grow. As you said, we are straining. It is out there. People want to work. Productivity is going up. We want to get out there and work. But despite this kind of good economic news—that is, that more people are looking for work and that our economy is going to grow a little bit—we continue to hear the drumbeat of gloom and doom from the Federal Reserve and from the barons of the bond market.

Now, again, I suppose that maybe Mr. Greenspan himself, and his supporters, would say he does not have a choice. If the Federal Reserve does not raise interest rates, then the bond market will see that the Federal Reserve lacks the will to fight inflation, they will dump bonds and flee the market, and long-term interest rates will skyrocket. That is what they say. A lot of bond traders repeat that refrain. But I point out that they repeat that refrain because of the actions taken by Mr. Greenspan over the last several years.

Mr. President, I believe that a balanced Federal Reserve policy would not see a long-term climb in bond rates—that is, if we had a balanced policy. If that was reiterated and distinctly spelled out, I do not think we would see a long-term climb in bond rates. You get the long-term climb in bond rates because, if there is good news in the economy, the bond traders rush in to dump the bonds because they believe that Mr. Greenspan is going to slap on higher interest rates right away. That is what they believe, so they react accordingly.

I know this may sound kind of confusing, but when you get right down to it, it is really, again, very simple. It has to do with whether or not we will have a balanced policy of growth and low unemployment, alongside a policy of fighting inflation.

Let me read an article in the February 5 New York Times by Lewis Uchitelli. He is talking about the Federal Reserve that voted to raise interest rates when they did it for the seventh time in a year back in 1995. In keeping interest rates high, he talked about how this speared inflation. He goes on to say,

> In this ritualistic dialog between the Fed and the bond market, which everyone pretends is not happening, the reason for the Fed's existence is sometimes overlooked. Aside from fighting inflation, the Fed's mission, specified by Congress, is to keep the economy growing and Americans employed. That goal can get lost in any dialog with the bond market, which puts slowing the economy to fight inflation ahead of putting the unemployed to work.

There you have it. You cannot say it any better than that. Yet, Congress has stipulated in law that the Federal Reserve is to also fight unemployment and to take that into account.

We have a bill in the Banking Committee that would take out of the law the provision that says the Fed should take into account unemployment in making its decisions and should only then look at inflation. Well, it is before committee, but I do not think it will get past the floor.

Mr. Greenspan has indicated support for that approach. He has indicated support for legislation that would take out of the law a requirement that the Fed look at unemployment in making its decisions. Well, again, I talk about his mindset and his philosophy—his economic philosophy. I do not believe anybody ought to be Chairman of the Federal Reserve who supports a policy of ignoring unemployment and only focusing on inflation in setting their policy.

I would like to read a short statement again from the business sector of our country, a statement by the National Association of Manufacturers. The first was on June 11, 1996. This is 5 days ago. This is from the National Association of Manufacturers:

> The decline in producer prices, after several months of rapid increases, confirms that inflation is not a threat. The spike in wholesale prices during the first 5 months of 1996 was caused mainly by the relative price of energy. Excluding the volatile food and energy components, the core rate of inflation was consistently lower.

Some energy prices, such as gasoline, are now leveling off while others, such as heating oil, are declining. Energy prices should decline even more later in the year as Iraqi oil comes onto the market. This decline will put downward pressure on both the producer and consumer price indexes in coming months. For the year as a whole, producer prices should rise only about 2.8 percent.

These favorable inflation numbers mean that the Federal Reserve has no reason to raise interest rates at their July meeting. The Federal Reserve should hold rates where they are and reserve the option of lowering later in the year.

Yet, we have heard all kinds of hints and comments made by members of the Federal Reserve that, indeed, rates will go up in July.

A group called the Business Council, a group of chief executives of 100 of the largest corporations in our Nation, did a recent survey which is reported in the May 18 New York Times. Nearly half of them stated that it was harder to raise prices in their industry than it was 6 months ago. Only 9 percent said it was easier. So over half of them said it was harder to raise prices.

Almost all of the respondents urged the Federal Reserve to stimulate the economy by lowering rates. The article quoted John Walsh, the CEO of the General Electric Co., as saying: "We do not see industrial prices or labor pressures driving inflation upward."

Mr. Greenspan did not see the terrible recession and skyrocketing unemployment in late 1974 as he advocated fiscal restraint as President Ford's chief economic adviser. Mr. Greenspan did not see the recession in 1990. And what did Mr. Greenspan see? He saw inflation in some tea leaves in 1994 when he doubled the interest rates from 3 percent to 6 percent in one year. From February 1994 to February 1995, he doubled the interest rates. Low inflation. He so indicated that himself.

Is this the balanced kind of approach that we want from a Chairman of the Federal Reserve? I say no. We need someone who has more of a balanced approach. We need someone who will give the economy a chance to grow, who will give Americans a chance to increase their incomes so as to have a better life.

If inflation starts to rise, then, yes, it is responsible to raise rates and do it in a timely and effective manner. But America does not need a low growth Chairman of the Fed who slams his foot on the economic brakes because of some mirage of inflation that may take place in the future.

Mr. President, I wanted to revisit the topic of Mr. Greenspan's actions concerning the 1990 recession. I spoke about that yesterday. I spoke about it earlier, when in October 1990, as the minutes now reveal, because—again, I want to point this out. By law, the minutes of the Federal Open Market Committee are kept sealed for 5 years. I hope we can revisit that at some time. I do not believe they should be sealed for 5 years—maybe a year, but certainly not 5 years. But now, in looking at the minutes of the 1990 meeting of the FOMC, we find in October Mr. Greenspan saying that—well, to paraphrase it: "We hear the thunder, we hear the lightning. People say there is thunder and lighting, but we stuck our hand out the window and it is not raining," in response to whether or not we are in a recession.

The fact is, the recession started in July 1990. This is October 1990. Mr. Greenspan says we are not in a recession. It was not until December 1990 that Mr. Greenspan finally admitted, 6 months later, that we were in a recession.

So we had the recession of 1990. Mr. Greenspan finally recognized it. His response, "Well, sometime we will come out of it." How does the recovery from that recession compare to the other recessions that we have had since the end of World War II? The Greenspan Fed was very late in moving to lower interest rates to create a more accommodating policy and lift us out of that recession, and that was harmful to the recovery.

This is a pretty busy chart. Again, maybe this is one of the reasons we do not engage in economic policy discussion around here more, because sometimes it does get confusing. But, again, it is really simple when you strip it away. What this chart shows is the percent decline in interest rates following the bottom of a recession. In other words, you get into a recession, you cut interest rates to stimulate the economy, and get out of the recession.

How fast do you cut the interest rates to get out of a recession? Here we see that, in the recessions of 1960, 1969, 1957, 1973, and 1981, we see dramatic drops in interest rates to get us out of those recessions. For example, in the 1957 recession interest rates declined by 50 percent in 5 months—5 months. Here is 1973. In 1960 there was a 50 percent decline in about 12 months; the same in 1981. In all these times we came out of a recession in a fairly short period of time. Why? Because the Fed Chairmen took action to stimulate the economy, get our people back to work, reduce unemployment, and get us out of the recession.

Let us look at the recession of 1990. That is this flat line over here. We do not get a 50 percent cut in interest rates until almost 34 months, almost 3 years after the depth of that recession. So, again, I have been comparing Mr. Greenspan's actions with those of other Fed Chairmen since World War II. I compared earlier GDP growth. Now I am comparing his actions recovering from a recession, compared to other times. It was too slow, too timid, too much of a struggle, to get out of that recession. It is too long a period of time. And what that means is that families are hurt, people are unemployed, and the economy starts building in a slower rate of growth than what we otherwise need. I believe that is also what is affecting us even yet today. So, you can see he was much too timid in reducing those interest rates.

Let me read an article by the Nobel laureate economist, Paul Samuelson, who is a professor at MIT. It appeared in the September 1993 issue of "Challenge" magazine. It is titled "Leaning Against What Inflationary Wind?"

The U.S. economy is not on the verge of overheating at present. If and when the changes, it will be a good time to pump gently on the brakes. That time is not now.

Mr. Samuelson goes on to say:

After a dozen years of structural budget deficits and low private sector saving by U.S. families and corporations, economic history and economic science concur in the diagnosis that monetary policy rather than fiscal policy should be the major macroeconomic weapon for assuring a healthy 1993–96 recovery and for restoring the share of capital formation in the American economy.

I will repeat that. What Mr. Samuelson is saying is that monetary policy has to be the engine, rather than fiscal policy. Why? Because we have these huge budget deficits. There is little we can do. And we have years of low savings rates. We do not have that pool to draw on. So it has to be monetary policy.

Mr. Samuelson goes on to say.

The last five years will go down in the textbooks of economic history as a period of disappointing performances by central banks. America's central bank, the Federal Reserve, began the decade of the 1980s with a stellar report card. Under Chairman Paul Volcker, from 1979 to 1982, remarkable progress was made in wringing out of our economy the double-digit stagflation that had built up in the 1970s. Then in 1982 and 1983, as I shall describe for its peculiar relevance today, the Fed fires up the American locomotive in a prudent way, leading the United States and the global economies into a needed expansion.

What Mr. Samuelson is saying, basically, is that—he says—he talks about the Bundesbank.

In particular, the revered Bundesbank has brought on unified Germany a serious recession that it never expected to occur. Outside of Germany, directly and indirectly, the bias of the Bundesbank toward preoccupation with inflation to the neglect of real growth and unemployment has led to a lasting slump for Common Market and other European countries. In the end, the dream of a Maastricht Treaty that would unify the European economy was dashed by Bundesbank intransigence. Unemployment rates in Spain, Italy, and Ireland soared. Waiting upon the German credit expansion that never came, Britain, Italy, and Spain were forced out of the European Monetary Union. Countries like France that accommodated the Bundesbank have been penalized by double-digit unemployment rates. Sweden, with its interest rate forced temporarily up to a 500 percent annual rate in order to have the

Kroner look the Mark in the eye, is a spectacle no sage ever expected to see again in the modern world. . . .

Where an Italy or a Spain face genuine international constraints, Japan's wounds have been self-inflicted and gratuitous. And in wounding herself, Japan has also wounded the U.S. bilateral imbalance with Japan, contributing significantly to the puny 0.7 of 1 percent annual rate of American real GDP growth in the 1993 first quarter. Where it not for involuntary piling up of inventory accumulation, our final real GDP would actually have been declining in 1993's first quarter.

I did not mean to get bogged down in that, but really what he is talking about is he is talking about what the Bundesbank did in Germany in terms of focusing only on inflation and ignoring what is happening with unemployment and growth. Then he goes on to say:

Alas, the Federal Reserve has shared in this central bank saga of acting too little and too late against macroweakness on Main Street, U.S.A. It can be said, soberly and with statistical significance, that the defeat of George Bush in 1992 and the Republican disappointments in the Senate and the House are the direct result of Federal Reserve misdiagnosis of the seriousness of the 1990–92 state of U.S. demand.

Again, Main Street, USA, has not, in town meetings, given the Federal Reserve such a mandate to do what they have done. Nor has a committee of the two Houses, nor a majority vote in either of the Houses. This is Mr. Samuelson:

I believe this to be important not as a matter of history or of general philosophy. It is important because the money market has every reason to believe—even without leaks to the press after Open Market Committee meetings—that this Federal Reserve (the only one we have) is only too prone to (1) engineer higher short-term interest rates, or (2) countenance such higher rates (a) at the first signs of a healthy real recovery—say, a 3.25 percent (annual) growth rate for two successive quarters, or (b) at the first signs of some acceleration of price-level indexes.

Mr. Samuelson, I think I said it correctly. Basically it is important, not as a matter of history or philosophy, it is important to America because the Federal Reserve is prone to, No. 1, engineer higher interest rates, or, No. 2, countenance such high interest rates at the first sign of a healthy recovery, if we go anywhere above—he said up to 3.25 percent, but it looks as if we go over 2.5 percent they are ready to slam on the brakes.

(Mr. MACK assumed the chair.)

Mr. HARKIN. Mr. President, the minority staff of the Joint Economic Committee prepared some charts that I think are illustrative of what has been wrong with Mr. Greenspan's leadership at the Federal Reserve.

The first chart simply shows the speed by which the Federal Reserve lowered rates. I already went over that chart. I am going to put that back up because it goes with these other charts.

Again, this first chart shows the speed at which the Federal Reserve reduces interest rates to get us out of recession. Going all the way back to 1957, the Fed acted very strongly to reduce interest rates. But in 1990, coming out of that recession, Chairman Greenspan did not act decisively and, thus, interest rates stayed abnormally high.

Here is another chart. Let's see how fast the economy recovered. This is sort of the flip side of that last chart. This shows the growth of payroll employment from the bottom of the recession compared to those previous years going back to World War II.

So here is the bottom of the recession; here is coming out of it. In the previous seven recessions, we see employment gaining rapidly. In fact, the average of the past seven, in the first 2 years after the depth of a recession, we have employment gains of over 7-percent growth.

What happened after the 1990 recession? Here is Mr. Greenspan: We had no growth, no growth for almost 13, 14 months; negative growth. And then, finally, we came out a little bit, and after 24 months, we had about 1 percent growth in employment coming out of that recession. Again, my point being that Mr. Greenspan, first, did not recognize we were in a recession; second, when it became apparent we were in a recession, he acts too timidly to bring us out of that recession.

On the other hand, if inflation is threatening, the brakes are slammed on at the first sign of a hint of inflation, not real inflation, but the threat of inflation. But when it is jobs and unemployment, well, we can linger for a while. The result is a very dismal record in getting employment back up after a recession. One year after a recession—1 year after a recession—basically no jobs at all.

The third chart that I have shows another related fact, change in the unemployment rate. In the other seven recessions, we see considerable improvement in lowering unemployment, the proportion of the work force without jobs. That, unfortunately, was not the case for the 1990 recession.

On average, for the seven recessions prior to 1990, the unemployment rate dropped about 20 percent off the rate at the end of each recession, and we see that here. There was a tremendous reduction in unemployment in the last seven previous recessions.

What happened after the 1990 recession? Instead of going down, we went the wrong direction. Unemployment actually went up. It came down a little bit and leveled off after a couple of years, but still not back at even the rate at which unemployment was at the height, or I should say the depth, of the recession.

So we were going the wrong way. We had very little recovery at all. Again, we need to have a balanced policy that says, "My gosh, if we are going to recover from a recession, we have to reduce unemployment." We did in all the previous seven, but not in the one in 1990. Again, my point being that Mr. Greenspan acted too timidly and not in the right direction to get that unemployment down.

So now I return to where I started today, and that is the 1994–95 period. We have a recession. Mr. Greenspan does not act decisively enough. We linger with high unemployment, we linger with low growth, no new jobs added, and then we come in to 1993, 1994, 1995.

It has been almost axiomatically accepted around here and in America that if we lower the budget deficit, interest rates will come down. That is almost like a mantra that we all enunciate all the time: "If we can reach a balanced budget, interest rates will come down and that will save the American people a lot of money." "Reduce that budget deficit and we'll get the interest rates down." Well, OK.

In 1993, the first year of the Clinton administration, bold action was taken to reduce the deficit. Now, you can argue about whether it was a tax increase and all that. We can get into that, and we can debate that, too. The fact is that the deficit started coming down. It started coming down—actually, I will even give President Bush credit—actually, the deficit started coming down in late 1992 and early 1993. Part of that had to do some with Bush and his policies; some of it had to do with the fact when Clinton came in, the President and the Congress started talking about a budget that would begin cutting the deficit. Based on that, we thought interest rates would come down.

The budget was passed that year and started to go into effect in October 1993. So in October 1993, the budget that we passed went into effect. The deficit started to accelerate down. In 2 years, the deficit was cut by over 40 percent in 2 years. It is now down—well, right now I can say compared to when Mr. Clinton came into office, the budget deficit is about 60 percent less. The budget deficit is coming down. You would think if the deficit is coming down, surely interest rates must come down, too. But after passing the budget of 1993, we kept our deficit coming down. Mr. Greenspan, in February of 1994, started raising interest rates seven times in one year, from 3 to 6 percent. As our deficit was coming down, Mr. Greenspan was raising our interest rates.

My point is that it is not axiomatic, it is not absolutely certain that if we reach a balanced budget we will have lower interest rates. We will have lower interest rates if, and only if, we have a Federal Reserve System, and a Chairman, that will respond to those actions and reduce those interest rates as the deficit comes down.

Obviously, there have to be other factors. When I say that even if we have a balanced budget and we have inflation that they should not raise interest rates—of course not, the Federal Reserve should respond to that. If we have inflation threatening, if inflation is there, yes, they have to put on the brakes.

I am just saying in this period of time, we had no inflation threatening, we had high rates of unemployment, underemployed people in America, low wage growth, wage stagnation, we had a reducing deficit and we had a Chairman of the Fed raising interest rates. Please, somebody explain that to me. It defies logic. It can only happen if the philosophy that Fed Chairman has is that if he sees a mirage in the distance of the threat of inflation, he must raise interest rates.

I believe that does our country a disservice because we have the capacity to grow in America. We have the capacity to grow. We have people who want to work. As I said, 348,000 jobs were created last month; but 500,000 people went out and looked for a job. People want to go to work. Businesses want to expand. Just read the article from the National Association of Manufacturers. Businesses want to expand. They want to grow. But the policies of the Federal Reserve System is keeping that from happening.

To truly understand the Fed's 1994 seven consecutive rate increases, we have go back to the summer of 1993. Mr. Greenspan announced that he was abandoning the M2 indicator. I am not going to get into that. That is why we get into all these arcane economic terms. But he said he was abandoning the M2 indicator in favor of "real interest rates." Despite the fact that this M2 indicator fell short of its midpoint targets in 6 consecutive years, giving indications of a possible recession, Mr. Greenspan instead feared that long-term rates were too low in comparison to short-term interest rates.

As Mr. Greenspan noted in his September 1, 1993, testimony, short-term rates were nearly zero, and long-term rates were much higher. According to Mr. Greenspan, "This configuration indicates to market participants that short-term real rates will have to rise as the headwinds diminish if substantial inflationary imbalances are to be avoided." That was his testimony before the House Subcommittee on Economic Growth and Credit Formation, September 1, 1993.

OK. So for 1993, the Fed predicted a GNP rise of 2.5 percent and 2.5 to 3.25 percent for 1994. Despite the low projected growth rates and the fact that 8 million people were unemployed and another 4 million were involuntarily employed part time, Mr. Greenspan feared inflationary pressures because of this discrepancy between short-term and long-term rates.

According to Prof. James Galbraith, this was the only justification for rate increases in 1994 and 1995. According to Mr. Galbraith, three points in Greenspan's February 22, 1994, Humphrey-Hawkins written testimony, made 3 weeks after Mr. Greenspan initiated the first of seven rate increases, clearly show that the Fed could not have raised rates on inflation-fighting policy grounds alone.

No. 1, Mr. Greenspan said, "On the inflation front, the deterioration evident in some indicators in the first half of 1993 proved transitory." No. 2, there was no clear evidence that expansion in 1993 was excessive and was going to carry over to 1994. This is Mr. Greenspan's testimony. No. 3, inflation had been falling, as Mr. Greenspan himself even noted.

I am going into this because it has been said that this increase by Mr. Greenspan in interest rates and keeping them high—it has only come down a quarter of a point since February 1995—is because of the threat of inflation. But in Mr. Greenspan's own words and in his written testimony, he basically says there was not inflation.

No. 1, Mr. Greenspan said, "On the inflation front, the deterioration evident in some indicators in the first half of 1993 proved transitory"—transitory, not long term.

But for the year as a whole, 1993, the Consumer Price Index rose 2.75 percent, the smallest increase since the big drop in oil prices, since 1986. Broader inflation measures covering purchases by businesses as well as consumers rose even less. Again, these were transitory, not permanent, developments.

The second point, there was no clear evidence that expansion in 1993 was excessive and was going to carry over to 1994.

Again, Mr. Greenspan's own testimony: "Nonetheless, markets appear to be concerned that a strengthening economy is sowing the seeds of an acceleration of prices later this year by rapidly eliminating the remaining slack in resource utilization." However, he went on to say, "But it is too early to judge the degree of the underlying economic strength in the early months of 1994."

Wait a minute. Mr. Greenspan, in his testimony, says, "* * * markets appear to be concerned that a strengthening economy is sowing the seeds of an acceleration of prices later this year." However, he says, "But it is too early to judge the degree of the underlying economic strength in the early months of 1994."

In February 1994, he starts raising interest rates, when he says "it is too early" to judge it. That is why I say, Mr. Greenspan raises interest rates, slams on the economic brakes, not when inflation is threatening, but when, in the distant horizon, he sees a mirage of possible inflation. That does a disservice to our country.

Many of the indicators at that time gave little evidence of rising inflation.

An editorial in the March 14, 1994 Business Week, made it clear that Mr. Greenspan had gone too far in his rate increases.

Since Greenspan raised short-term interest rates by 25 basis points . . .

That was the first of seven increases—

Long bonds rates have risen nearly twice as much, jumping to about 6.8%. Instead of soothing the savage beasts at the bond market, the Greenspan move appears to have induced a frenzy.

What has gone wrong, and how can it be fixed? It's tempting to say—

This is the article from Business Week I am quoting here—

It's tempting to say that Greenspan's preemptive strike against inflationary expectations was wrong from the start.

Worse, Greenspan added to confusion in the markets by admitting that the conventional monetary measures were no longer reliable and that he was turning to more exotic measures, including that "arcane metal," gold.

What is going on here? Business Week says, "Not so," in terms of his preemptive strike against inflationary expectations, because they are saying there was not any inflation.

What really spooked the markets was his subsequent confession that he believed monetary policy had been too loose, too long.

Monetary policy had been too loose for too long.

The markets inferred that Greenspan's strike was only the first in a series of attacks against inflation. Market players around the world concluded that the Fed would push interest rates much higher in the months ahead.

Business Week was right on the mark, because in the weeks and months ahead, that is exactly what Mr. Greenspan did. This, again, is according to Business Week. This is not my judgment. Business Week, in their editorial said, what spooked the markets was not really a preemptive strike against inflation since there was little threat of inflation.

Let us go back to these charts.

Mr. Greenspan, according to Business Week, says that he thought that monetary policy had been too loose for too long.

This is 1993.

Here is the recession, as I pointed out, of 1990, which he did not see until we were 6 months into it. Then, as Fed Chairman, he has a responsibility to try to get us out of that recession by lowering interest rates.

As I pointed out, this is what happened in the previous seven recessions. In each of these instances, interest rates came down as much as 50 percent in 5 months, 50 percent in 12 months.

Mr. Greenspan did not reduce interest rates 50 percent until 30 months out—about 31 months out, to be correct about it. That takes us up to about 1993, I guess. Yet he says the monetary policy was "too loose for too long," and thus starts tightening up and raising interest rates.

"Business Week" was right, in March 1994. They expected him to keep raising it, and, quite frankly, he did.

"Worse," they go on, "Greenspan added to confusion in the markets by admitting that the conventional monetary measures were no longer reliable and that he was turning to more exotic measures," of the economy, "including that 'arcane metal,' gold."

Mr. President, last year in testimony before the Banking Committee in response to a question by Senator SARBANES, Mr. Greenspan admitted that, yes, he would be in favor of returning to the gold standard. Now, he admitted that he would probably be the only vote on the Federal Reserve to do that, but that was his philosophy.

Perhaps we ought to have debate about that. I wonder how many Senators here would like to have a vote on returning to the gold standard. How many votes do you think that would get here on the Senate floor? I do not know if we would get any. I do not know if anybody really feels we ought to return to the gold standard. Maybe that was OK in the past, but we live in a different world. This is a global economy. We have turned away from using the gold standard as a basis. I am just saying the Fed Chairman's philosophy is locked into that. He admitted it as recently as 1 year ago.

There was little justification for the rate increases. The economy quickly reacted in a predictably negative way. Instead of nipping inflation to help the markets, the seven rate increases threw the market into a tailspin. Perhaps one of the most telling indicators was that unemployment for years preceding 1994 was above the assumed NAIRU. Here we come again to the non accelerating inflation rate of unemployment that I talked about earlier, that the Fed seems to be looking at. Prior to 1994, this was above the widely-assumed limit of 6 percent. In 1991 unemployment was 6.7 percent, in 1992 it was 7.4 percent, and in 1993 unemployment was 6.8 percent. Yet somehow he says we have to raise interest rates.

The third and final point about why the 1994 rate increases were unnecessary was this: The threat of inflation had been falling. To say again, the threat had actually been falling. Again, here is Mr. Greenspan in his February, 1995 Humphrey-Hawkins testimony:

Fiscal and monetary policy are important among those forces and have contributed to the decline in inflation expectations in recent years along with decreases in long-term interest rates. The actions taken last year to reduce the Federal budget deficit have been instrumental in this regard.

That was a very interesting statement by Mr. Greenspan last year.

There are two points that need to be made here. First, I do not necessarily disagree with him about discarding M2 as an indicator in favor of real interest rates. What we do have a concern about is M-2 showed that the money supply was shrinking and the economy might be slowing. Instead of focusing on other indicators that might show a slowing of the economy, Mr. Greenspan grasped on to real interest rates. The discrepancy between short and long-term rates was evident and could be clearly used as a justification for raising rates. That is what he said.

Second, it should be clarified and reinforced that Mr. Greenspan and the Fed labeled the rate increases as a preemptive strike and not a reaction to accelerating inflation that would have clearly justified an increase in interest rates.

Let me read the July 10, 1995, article from "U.S. News & World Report" by Mortimer Zuckerman. In his July 10, 1995, editorial, he says:

Ouch! The squeeze is back. In May 101,000 jobs disappeared. The workweek for most Americans is falling while the number of people filing claims for unemployment is rising. Don't blame it on the business cycle: The current slump is the handiwork of the Federal Reserve Board, an institution that is signally failing the nation. The Fed raised short-term interest rates seven times in roughly a year, doubling their levels and whacking key rate-sensitive industries such as housing and autos. Boom, the robust expansion of '94 has turned into the stagnation of mid-'95.

Why, you may ask, did the Fed do this? It surely was not responding to inflation. Unit labor costs, the basic fuel of inflation, grew by less than 1 percent last year (and actually fell by 2.3 percent in manufacturing). Inflation at the retail level has been running at 3 percent or less for three years, the best performance in three decades—and the experts, including Fed Chairman Alan Greenspan, believe even that is overstated by as much as a full percentage point because of statistical flaws.

Now, I'm reading from the U.S. News & World Report, July editorial, by Mortimer Zuckerman.

No, what the Fed had in mind was an attack on inflationary expectations—the notion that, if left unchecked, the economic buoyancy of late 1993 would surge into '94 and lead to rapidly increasing prices rather than to rapidly increasing jobs.

The economic buoyancy, this is the economic buoyancy that Mr. Zuckerman is talking about, not an economic boom, but at least we are talking about getting better. Too slow, but by 1993, 3 years out from the recession, we were finally starting to get a little bit better.

Mr. Zuckerman goes on:

Overlooked or simply ignored were several mitigating factors—that major corporations were still laying off tens of thousands of employees . . .

As I mentioned, the unemployment rate for 1993 was 7.4 percent. That was up from the year before. Again, another example of the Federal Reserve not fighting unemployment by failing to reducing interest rates after the last recession. Also overlooked was "that real wages for most Americans were declining, that a true world economy had radically altered the ways and means of production."

Now, what was supposed to be a "soft landing" to slower growth is fast turning into something else. Real retail sales, the most important factor in our economy, dropped at an annual rate of 1.9 percent in the first two months of the second quarter. . . Consumer confidence plunged a dramatic 9 percentage points in the past month. . . .

The latest Fed failure underlines its mismanagement of the monetary side of the economy over the past five years.

These are not my words. These are the words of Mr. Zuckerman, editor of "U.S. News & World Report."

In the last decade of the 20th century, too little, too late, seems to be engraved in its institutional seal. In 1989, it sowed the seeds for the recession of 1990-91, then slowed the recovery by not easing up quickly enough.

Again, evidenced by that chart.

"Is the Fed flying blind?" Mr. Zuckerman asks.

You have to wonder. Its view is that the sustainable level of economic growth is 2.5 percent. But the notion that any growth rate above this level would cause an increase in the rate of inflation through shortages of labor, materials and manufacturing capacity, is questionable. The Fed underestimates the actual rise in manufacturing capacity put in place and overestimates the dangers of wage inflation given the historic shift in the balance of bargaining power between management and labor, the large number of people working part time or on temporary jobs and the continued corporate restructuring. Beyond that, economic globalization has provided the United States with additional capacity and cheap labor to expand production without price increases.

Mr. Zuckerman says:

We can have growth higher than 2.5 percent and an unemployment rate lower than 6 percent and still not have an inflationary surge. In the 1960's, after all, we had an unemployment rate of 4.8 percent with an average inflation of only 2.3 percent. The Fed should review its performance in the '60's and '80's. Five years into the expansion of the '60's, when growth seemed to stall, the Fed moved rapidly and cut interest rates by 2 full points, extending the expansion to a record nine years. The 1980's expansion turned into the second longest in postwar history, again because the Federal Reserve cut rates when it first spotted signs of economic weakness in 1984 and 1986.

That was under Chairman Volcker.

Mr. President, in sum, the rate increases in 1994 and 1995 can be interpreted as another example of Mr. Greenspan searching for excuses to raise rates as a justification to eliminate inflation.

Again, I am going to refer to this chart as often as I can. The American people ought to know this. In 1 year, February 1994 to February 1995, he doubled interest rates. Since February 1995, to this date—actually to June 1996—they have only come down 3 quarters of a point, with no inflation threatening.

The Associated Press story reported November 12, 1994:

Economists representing interests from labor unions to big corporations accused the U.S. Central Bank on Friday of pursuing an ill-advised monetary policy by fighting a phantom inflation threat to appease bond traders on Wall Street. Lawrence Chimerine—I am sorry if I mispronounced the name—the chief economist at the Economic Strategy Institute, a business-backed think tank in Washington, DC, said that long-term interest rates have risen faster since February of 1994 when the Federal Reserve started its increases than at any other time in U.S. history.

Any further ratcheting up of interest rates really runs the risk of overkill and a recession.

That was said on November 12, 1994. I believe there were two other rate increases after that period of time.

It should be noted that the Fed raised rates—I am sorry, it was 3 days after this story was written, and again in February 1995—two more times. In the aftermath of the rate increases, the Investors Business Daily had this to say about Mr. Greenspan's efforts. This is an editorial in Investors Business Daily, dated April 17, 1995:

If former Defense Secretary, Robert McNamara, can own up to his horrendous errors on Vietnam, why can't Federal Reserve Chairman Alan Greenspan end his misguided campaign against inflation?

The McNamara memoir published last week . . . is a stunning admission of failure. He confesses that his over-reliance on numbers and failure to understand the human consequences of his actions led to the tragedy we know today as Vietnam.

McNamara was one of the postwar "whiz kids" who thought they'd elevated management to a science. The former President of Ford Motor Company, he thought his number-crunching expertise, statistics, and arcane mathematical formulae were all he needed to "manage" a war.

Pride? Arrogance? Some failures can't be described with mere words. The bottom line on that Vietnam "strategy" is some 58,000 names on a black wall in Washington, DC, and continued tyranny in Southeast Asia.

We were struck by McNamara's admission of error because his fascination with data is shared by Fed Chairman Greenspan—who is waging a long, costly and misguided war of his own. Like McNamara, Greenspan is arrogantly using his numbers expertise to fight the last war—the 1970's battle against inflation.

And just as McNamara's antiseptic "body counts" seemed to blind him to both the failure and the human costs of his plan for winning the war, Greenspan seems to miss the costs to the real economy—jobs, incomes, goods and services—of his campaign against phantom inflation.

We've heard all the arguments for continuing the battle: The U.S. is enjoying the best of all possible worlds, with rapid growth and low inflation. The Fed appears to have engineered a "soft landing"—

How many times we have heard that phrase?

in which the economy drops gently onto a long, slow glidepath of steady, noninflationary expansion.

We don't buy it.

I am still quoting from Investors Business Daily.

As the last recession showed, a soft landing can very easily turn into a crash landing, or a victory into a rout.

After seven interest rate hikes in a little over a year, the Fed is flirting with disaster. Businesses—as opposed to coupon-clippers—are plainly worried.

Monetary policy in this country is controlled by bond traders who live in high-rises and are completely out of touch with reality.

The words of a radical? Hardly. Jerry Jasinowski, the president of the National Association of Manufacturers, said that six months ago, before the last two rate hikes. Others in business echo his comments.

The signs of a slowdown are now widespread. Retail sales are weak, auto sales are declining, durable goods orders have rolled over, new-home sales have tanked, money supply is headed south and the index of leading economic indicators is signaling sluggish growth at best.

. . . As most economists know, it takes six months to two years for the full effects of a Fed tightening to be felt. The Fed's recent tightening binge—an unprecedented doubling of rates in just 13 months—probably won't finish hitting home until 1996.

Meanwhile, inflation remains nowhere to be seen—despite the constant fears of bond market vigilantes who believe jobs, prosperity and hyperinflation are somehow linked.

That was Investors Business Daily, and that was in 1995. Similar to 1974, when the WIN—the whip inflation now—policy helped inflation along by raising taxes on oil, the interest rate increases in 1994 may have made it more difficult to actually fight inflation in the future because they raised the price of obtaining a car loan, home mortgage, or a student loan. The 1994 increase failed on all counts, including even Mr. Greenspan's. According to the University of Denver economist, Randall Wray, "The Fed's policy shift after February 1994 was a resounding failure by Mr. Greenspan's own criteria. Long-term rates immediately rose. The Fed's action led to a run out at the long end of the market, causing an estimated $1 trillion loss." Thus, long-term rates have been high because the market quite correctly feared other rate increases and not because of high expected inflation. Once these became reality, the bond market plummeted and stock prices experienced volatility because additional rate hikes were feared.

He went on to note that real economic growth for 1994 turned out to be less than the bottom of the Fed's predicted range. By the end of 1995, the economy was growing at a rate less than 1 percent. As data accumulated that the economy was slowing, the Fed reversed course and lowered short-term rates by one-quarter of 1 percent three times. Thus, we get down to 5.25 percent.

There is little evidence to suggest that small reductions would have any significant effect on the economy. However, the frequent interventions were sufficient to keep the markets guessing.

In late February of this year, Greenspan sent shock waves through the markets when he suggested that policy might tighten, but he was forced to immediately clarify his position by indicating that policy was likely to loosen. But there is more.

In a January 2, 1995, editorial in the Washington Post, Mr. Gerome Weinstein of Columbia University observed that six increases in interest rates in less than a year suggest that Mr. Greenspan has forgotten that the economy does not change course quickly or easily. An interest rate change can be expected to take about 18 months to work its way through the complexity of the economy before it has a lasting effect. Six increases in 11 months would suggest that Mr. Greenspan and the Fed are impatient.

Mr. President, why do I go through all of this? Why have I cited all of these economists—Mr. Zuckerman of U.S. News & World Report, Mr. Jasinowski of the National Association of Manufacturers, and a host of other writers? Why go into all of this? Because, as I have said many times, there is a common thread that ties Mr. Greenspan's actions together as we have seen again and again and again from his days as Chairman of the Council of Economic Advisers to the present.

Mr. Greenspan has consistently shown the same two tendencies. First, he misjudges the signs of an oncoming recession. Mr. Greenspan often comes to the correct economic conclusions but way, way too late.

Chief economist David Jones stated that Greenspan is so preoccupied with arcane numbers, he tends to miss big trends. As a result, he often makes the right moves but at the wrong time. Timing is not his strong suit.

According to U.S. News & World Report editor Mortimer Zuckerman, Alan Greenspan and his board at the Federal Reserve make ladies who read tea leaves pretty hot. The Fed foresaw a dangerous boom in 1989, tightened interest rates, and got a long recession instead.

The second aspect of the common thread throughout Mr. Greenspan's adult life is that he does not act decisively enough to pull the economy out of recessions because of his inordinate fear of inflation.

Again, let us go back. Remember the 1974 whip inflation now plan, the WIN plan. As Chairman of the Council of Economic Advisers, Mr. Greenspan designed an economic plan that raised taxes, worked to limit consumption, and resulted in an unemployment rate of 9 percent. According to Mr. Zuckerman, the same held true in 1991. I quote:

Having rushed to that wrong conclusion—

The dangerous boom of 1989.

they dithered for so long in correcting it that we did not come out of the recession until 1991–1992. In 1994, when recovery was really starting to happen, they went back to their tea leaves and got in the ratchet reflection mode, again battling a phantom inflation, an inflation they admitted was not there. It was an expectation.

Editorial, August 7, 1995, U.S. News & World Report.

Again, what I talk about is the mirage on the horizon of possible inflation. In fact, Mr. Greenspan even seems to publicly ignore statistics that might indicate that he does not need to raise rates to fight inflation. For example, in his Humphrey-Hawkins testimony on February 27, 1995, Greenspan did not read the most optimistic portion of his prepared remarks. I want to comment on that.

There were prepared remarks that Mr. Greenspan had. But in his testimony of February 27, 1995, he kind of skipped over it. Here is what it said.

These developments do not suggest that the financial tender needed to support the ongoing inflation process is in place.

An amazing statement by Mr. Greenspan, someone who has just raised interest rates—doubled over a year, seven rate hikes. In February 1995, at the end of the last rate hike, he says in his written testimony that:

These developments do not suggest that the financial tender needed to support the ongoing inflation process is in place.

What is going on here, Mr. President? Mr. Greenspan, in his written testimony, says that it is not there, that the financial tender needed to support the ongoing inflation process is not there. We have high interest rates.

Again, I am referring to the crucial 1995 Humphrey-Hawkins testimony and Greenspan's rejection of the idea that the economy's potential for the sustained growth rate was much above the current level of about 2.5 percent.

Here again are Mr. Greenspan's own words.

But while most analysts have increased their estimates of America's long-term productivity growth, it is still too soon to judge whether that improvement is a few tenths of a percentage point annually or even more, perhaps moving us closer to the more vibrant pace that characterized the early post-World War II period. It is fair to note, however, that the fact that labor and factory utilization rates have risen as much as they have in the past year or so does argue that the rate of increase in potential is appreciably below the 4 percent growth rate of 1994.

Again, that is his testimony before the Banking Committee of February 22, 1995.

So, Mr. President, a common thread is misjudging what is happening and then mishandling how to pull us out of the recession because of his absolute fear of inflation.

Mr. President, I think what we see here is a Fed Chairman whose economic philosophy—again, I say this with all due respect. I hold no personal animus at all toward Mr. Greenspan. People speak of him in highly glowing terms. I have had, as far as I know, only one meeting with him in my life in my office, when he was gracious enough to ask for a meeting. He came down to my office. Several of us met in our office with him, several Senators.

It was a fascinating discussion. We were just kind of getting into it when the bells rang and we had to go vote. But I believe our job as Senators is not to approve people, to put them into a position simply because they may be nice people or they have a lot of friends or they move in acceptable social circles.

Our job, I believe, especially in this important position, Chairman of the Federal Reserve Board, is to look at the record of the person who is nominated to fill that position. What has been that person's economic record? How accurate have they been in the past? What is their philosophy? And, especially, we must ask those questions if it is a person who has been Chairman of the Fed and seeks to be renewed in that position.

I think we, in this body, have been too prone to just rubberstamp those nominees who have come to us for positions on the Federal Reserve Board, and especially as Chairman.

I will admit, in all candor and frankness, that I voted for Mr. Greenspan, on one occasion, to be in the Fed. I will admit, in all candor, I did not look at the record all that much either. But this time, with what has happened in 1993, 1994, 1995, with the efforts of this administration to reduce the deficit and the efforts of this Congress, and I speak of both Republicans and Democrats, in biting the bullet—oh, we may have our differences on where to trim and what to cut, but I think basically Members of this Congress have worked hard to reduce the deficit. And I believe the administration has, too. More needs to be done.

The administration has acted courageously to reduce the size of the Federal Government. But if what we are rewarded with is the Chairman of the Fed keeping interest rates unduly high, keeping the economy from growing, then perhaps our work will be in vain.

We have the potential to grow in this country. Everyone that I know sees it out there. It does not take an economist to go out on Main Street, to go in our businesses, to talk to working families, to know that that pent-up energy is there, that ability is there.

You can use the figures, and they are there. They show this: Our manufacturing sector is ready to go; small business is ready to move; our average working families are ready for a wage increase, which they need and can use, and which need not be inflationary. The size of the labor force can grow substantially in the future. But, I am sorry to say, the Chairman of the Fed is not allowing that to happen.

I yield the floor and suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The bill clerk proceeded to call the roll.

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

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. HARKIN. Mr. President, I just have one more item I want to cover. It should not take me more than maybe 10 minutes, I hope, and then I will be finished with my statement for today. I know others wanted to know about that. I understand there are some problems. I want to be as accommodating as possible.

I want to cover, however, just briefly, for the record, the issue of NAIRU. I said earlier today I was going to get into that, and I want to talk about NAIRU, the nonaccelerating inflation rate of unemployment, and what it is and why it seems to have such a hold on us.

So what is NAIRU? Let me just read some comments, and I will get into NAIRU for a few minutes. Dana Mead, the chief executive of Tenneco and chairman of the National Association of Manufacturers, had it right when he said that "NAIRU is to economics what the Nehru jacket is to fashion—outdated."

Robert Eisner, professor emeritus at Northwest University, whom I quoted earlier today several times, argues that one can actually reduce inflation by keeping unemployment under its natural rate.

He developed this argument in an article entitled "Our NAIRU Limit." That was in the American Prospect magazine, spring of 1995. I thought I would quote a little of it to talk about NAIRU and what it is.

First of all, Mr. Eisner says, starting his article:

We mustn't have it too good. Too much growth—too little unemployment—is a bad thing. These are not the idle thoughts of economic nail-biters; they are the economic policy of the United States. After real growth of

domestic product hit 4.5 percent in the last quarter of 1994 and unemployment dipped to 5.4 percent in December—

Guess what?

the Federal Reserve moved on February 1 to raise interest rates for the seventh time in less than a year. Why? To slow a too rapid rate of growth and stop or reverse the fall in unemployment. Why do that? To fight inflation.

Ordinary people may wonder. . .

Hard nosed economic analysts and business leaders are also raising questions. They point to technological advances and downsizing in U.S. industry and suggest that productivity and output potential may well be rising more rapidly than the 2.5 percent long-term growth rate that Greenspan and others think marks the outer limit for economic growth. Furthermore, as people lose old, high-paying jobs and look desperately even for lower-paying employment—

We know how true that is—

there is slack in the labor force. Perhaps most important, increasing globalization and world competition may limit the ability of American firms to raise prices and workers to push for higher wages.

These heretical observations have so far failed to dent the dominant dogma haunting economic policy. The central tenet of that dogma is a concept familiarly known among economists as the NAIRU—the "nonaccelerating-inflation-rate of unemployment." While unknown to the general public, the NAIRU has become one of the most powerful influences on economic policy this century. My recent work, however, shows that even on the basis of a conventional model used to estimate the NAIRU, there is no basis for the conclusion that low unemployment rates threaten permanently accelerating inflation. And, according to an alternative model more consistent with the data, inflation might actually be lower at lower unemployment levels than we are experiencing today.

The basic proposition of the NAIRU is simple: Policymakers cannot use deficit spending or an increase in the money supply to reduce unemployment below some "equilibrium" rate, except at the cost of accelerating inflation.

The concept of the NAIRU, derived from Milton Friedman's notion of a "natural rate of unemployment," rejects the assumed trade-off between unemployment and inflation described by the Phillips curve, named after A.W. Phillips, an innovative economist from New Zealand.

Thus, according to the NAIRU, fiscal or monetary policies aimed at reducing unemployment would leave us like a dog chasing its tail. If policy were aimed at keeping total spending sufficiently high to keep unemployment below its "natural rate," inflation would rise more and more rapidly.

In this view, the only way to reduce unemployment, except possibly in the short run, is to change conditions affecting the supply of labor—for example, by cutting the minimum wage, reducing or eliminating unemployment benefits, or upgrading the skill of workers.

On the contrary, he says, that we ought to be trying to reduce unemployment, not only by supply-side measures, but by ensuring that the economy is not starved for adequate aggregate demand or productivity for increasing public investment.

NAIRU—Non-Accelerating Inflationary Rate of Unemployment, which we are shackled by it.

Later in his study, Eisner goes on to replicate CBO's August 1994 economic and budget outlook and comes to a very important conclusion. And I quote:

It takes still higher unemployment to break the back of inflation. But high enough unemployment does eventually turn inflation negative. . .

The low-unemployment paths shown, however, offer quite a different picture. At 5.8 percent unemployment, contrary to Alan Greenspan's fears, there is no accelerating inflation. By the end of the century, inflation settles at about 4.4 percent. Strikingly, at lower unemployment rates, inflation is no higher. At 4.8 percent unemployment, the simulation shows inflation coming down to 3.6 percent. At 3.8 percent unemployment, inflation comes down to 2.9 percent. At 2.8 percent unemployment, inflation at the end of 1999 is down to 2.1 percent.

Eisner also argues the long-term rate of growth will increase with higher employment levels.

Over a longer period we should be educating and investing in human capital. . . . We should be bringing millions of workers who are essentially out of the labor force into the labor force. We can make them productive and get them off welfare. There is a lot of production that can take place because of that.

So, again, a completely contrary concept of what Mr. Greenspan is saying. Mr. Eisner, and others, through models that they have developed and simulations, show an alternative analysis—that through lower rates of unemployment—higher rates of full employment, you might say—that inflation actually comes down. Again, I believe there is so much pent-up energy and ability in the American work force that we can grow faster.

But regardless of future predictions of the effect of unemployment on inflation, it is clear, I believe, that the NAIRU is overestimated.

The 1996 economic report of the President stated that:

For over a year now the unemployment rate has fluctuated narrowly around 5.6 percent, yet the core rate of inflation has remained roughly stable rather than risen.

The economic report goes on to say:

This recent evidence strongly argues that the sustainable rate of unemployment has fallen below 6 percent, perhaps to the range of 5.5 to 5.7 percent. The Administration's forecast falls on the conservative end of this range by projecting the unemployment rate of 5.7 percent over the near term.

This same paragraph also states:

Wage inflation, as measured by the employment cost index, also remains stable.

It is entirely possible that the rate could be adjusted downward.

James Robinson, former CEO of American Express, echoes the words of Dana Mead.

Like that Nehru jacket, the NAIRU concept is outdated. In fact I would say that NAIRU is a jacket itself—it's like a straitjacket on our economy.

This is what Mr. Robinson had to say:

That frame of reference for growth, called maximum sustainable capacity by economists, was largely developed in the 1950's, 1960's, and 1970's. Today, the parameters of growth are substantially expanded. The deeper integration and breadth of competition that has come to the global economy on only the past decade have opened the way to more robust growth even among the developed Nations. The Fed has been cautious to a fault. It makes a tragic mistake by erring on the side of slow growth, denying Americans a more dynamic economy, diminishing living standards, and cutting off capital to emerging markets.

Prof. James Galbraith builds on this point when he argues:

In fact NAIRUvians—

I like that word.

NAIRUvians have never successfully predicted where the barrier would be hit.

That is a minimum level of unemployment.

The estimated NAIRU tracks actual unemployment.

Professor Galbraith says they do not know where that barrier is, that minimum level of unemployment. He says:

[Moreover] the estimated NAIRU tracks actual unemployment. When unemployment increases, conservative economists raise their NAIRU. When it decreases, they predict inflation, and if inflation doesn't occur, they cut their estimated NAIRU. There exists a long and not-very-reputable literature of such estimates.

For example, notable NAIRU supporter Paul Krugman:

Places present estimates of the NAIRU from about 5 to about 6.3 percent, with most estimates clustered between 5.5 and 6 percent.

Mr. President, I understand that the Senator from Florida wanted to get some housekeeping items done. I will yield to him whatever time he may consume for that.

The PRESIDING OFFICER (Mr. KYL). The Senator from Florida.

Mr. MACK. Mr. President, I inquire of the Senator from Iowa how long he intends to go beyond this point. The reason I inquire is because I do not want to inconvenience the Chair as well.

Mr. HARKIN. In the interest of comity—I understand that we have problems after 3:45. I will cut my comments short. I just want to finish one thing on NAIRU. It is now 3:40. I know that we have a problem here. I want to be accommodating. So I will just wrap up my remarks very shortly. In like 60 seconds I will yield to the Senator.

Mr. MACK. I thank the Senator.

Mr. HARKIN. Mr. President, I wanted to discuss NAIRU because I think it is very important, because I think it is acting as a straitjacket. I think that Mr. Greenspan and the economists at the Fed are looking at NAIRU and abusing it. And in so doing, they are abusing what I believe to be the capacity of our economy to grow. I believe there is an equal body of evidence and data to suggest that we can reduce unemployment and at the same time reduce inflation.

I believe it is worth the relatively small risk to go ahead and get these interest rates down, stimulate the economy. Let us have some growth. Why is it that we have to accept growth of 2 to 2.5 percent? That is like saying, "America, a C-average is fine." I believe America can do a B-plus, and A. We can do it without inflation. That is why I want to talk about NAIRU.

I will continue next Thursday on the Greenspan nomination. I will use my time at that time to finish my comments on NAIRU. I thank the Chair and I thank the Senator from Florida. I yield the floor.

The PRESIDING OFFICER. The Chair appreciates the courtesies of the Senator from Iowa.

The Senator from Florida.

Mr. MACK. I thank you, Mr. President. I too want to thank the Senator from Iowa for his consideration.

APPOINTMENT OF CONFEREES—H.R. 2977

Mr. MACK. Mr. President, I understand that the Chair has been authorized to appoint conferees to H.R. 2977.

The PRESIDING OFFICER appointed Mr. STEVENS, Mr. COHEN, Mr. GRASSLEY, Mr. GLENN, and Mr. LEVIN conferees on the part of the Senate.

SINGLE AUDIT ACT AMENDMENTS OF 1996

Mr. MACK. Mr. President, I ask unanimous consent that the Senate proceed to the immediate consideration of Calendar No. 401, S. 1579.

The PRESIDING OFFICER. The clerk will report.

The assistant legislative clerk read as follows:

A bill (S. 1579) to streamline and improve the effectiveness of chapter 75 of title 31, United States Code (commonly referred to as the "Single Audit Act").

The PRESIDING OFFICER. Is there objection to the immediate consideration of the bill?

There being no objection, the Senate proceeded to consider the bill, which had been reported from the Committee on Governmental Affairs, with amendments; as follows:

(The parts of the bill intended to be stricken are shown in boldface brackets and the parts of the bill intended to be inserted are shown in italic.)

S. 1579

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

SECTION 1. SHORT TITLE; PURPOSES.

(a) SHORT TITLE.—This Act may be cited as the "Single Audit Act Amendments of 1996".

(b) PURPOSES.—The purposes of this Act are to—

(1) promote sound financial management, including effective internal controls, with respect to Federal awards administered by non-Federal entities;

(2) establish uniform requirements for audits of Federal awards administered by non-Federal entities;

(3) promote the efficient and effective use of audit resources;

(4) reduce burdens on State and local governments, Indian tribes, and nonprofit organizations; and

(5) ensure that Federal departments and agencies, to the maximum extent practicable, rely upon and use audit work done pursuant to chapter 75 of title 31, United States Code (as amended by this Act).

SEC. 2. AMENDMENT TO TITLE 31, UNITED STATES CODE.

Chapter 75 of title 31, United States Code, is amended to read as follows:

"CHAPTER 75—REQUIREMENTS FOR SINGLE AUDITS

"Sec.
"7501. Definitions.
"7502. Audit requirements; exemptions.
"7503. Relation to other audit requirements.
"7504. Federal agency responsibilities and relations with non-Federal entities.
"7505. Regulations.
"7506. Monitoring responsibilities of the Comptroller General.
"7507. Effective date.

"§ 7501. Definitions

"(a) As used in this chapter, the term—

"(1) 'Comptroller General' means the Comptroller General of the United States;

"(2) 'Director' means the Director of the Office of Management and Budget;

"(3) 'Federal agency' has the same meaning as the term 'agency' in section 551(1) of title 5;

"(4) 'Federal awards' means Federal financial assistance and Federal cost-reimbursement contracts that non-Federal entities receive directly from Federal awarding agencies or indirectly from pass-through entities;

"(5) 'Federal financial assistance' means assistance that non-Federal entities receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, **[**donated surplus property,**]** food commodities, direct appropriations, or other assistance, but does not include amounts received as reimbursement for services rendered to individuals in accordance with guidance issued by the Director;

"(6) 'Federal program' means all Federal awards to a non-Federal entity assigned a single number in the Catalog of Federal Domestic Assistance or encompassed in a group of numbers or other category as defined by the Director;

"(7) 'generally accepted government auditing standards' means the government auditing standards issued by the Comptroller General;

"(8) 'independent auditor' means—

"(A) an external State or local government auditor who meets the independence standards included in generally accepted government auditing standards; or

"(B) a public accountant who meets such independence standards;

"(9) 'Indian tribe' means any Indian tribe, band, nation, or other organized group or community, including any Alaskan Native village or regional or village corporation (as defined in, or established under, the Alaskan Native Claims Settlement Act) that is recognized by the United States as eligible for the special programs and services provided by the United States to Indians because of their status as Indians;

"(10) 'internal controls' means a process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

"(A) Effectiveness and efficiency of operations.

"(B) Reliability of financial reporting.

"(C) Compliance with applicable laws and regulations;

"(11) 'local government' means any unit of local government within a State, including a county, borough, municipality, city, town, township, parish, local public authority, special district, school district, intrastate district, council of governments, any other instrumentality of local government and, in accordance with guidelines issued by the Director, a group of local governments;

"(12) 'major program' means a Federal program identified in accordance with risk-based criteria prescribed by the Director under this chapter, subject to the limitations described under subsection (b);

"(13) 'non-Federal entity' means a State, local government, or nonprofit organization;

"(14) 'nonprofit organization' means any corporation, trust, association, cooperative, or other organization that—

"(A) is operated primarily for scientific, educational, service, charitable, or similar purposes in the public interest;

"(B) is not organized primarily for profit; and

"(C) uses net proceeds to maintain, improve, or expand the operations of the organization;

"(15) 'pass-through entity' means a non-Federal entity that provides Federal awards to a subrecipient to carry out a Federal program;

"(16) 'program-specific audit' means an audit of one Federal program;

"(17) 'recipient' means a non-Federal entity that receives awards directly from a Federal agency to carry out a Federal program;

"(18) 'single audit' means an audit, as described under section 7502(d), of a non-Federal entity that includes the entity's financial statements and Federal awards;

"(19) 'State' means any State of the United States, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, and the Trust Territory of the Pacific Islands, any instrumentality thereof, any multi-State, regional, or interstate entity which has governmental functions, and any Indian tribe; and

"(20) 'subrecipient' means a non-Federal entity that receives Federal awards through another non-Federal entity to carry out a Federal program, but does not include an individual who receives financial assistance through such awards.

"(b) In prescribing risk-based program selection criteria for major programs, the Director shall not require more programs to be identified as major for a particular non-Federal entity, except as prescribed under subsection (c) or as provided under subsection (d), than would be identified if the major programs were defined as any program for which total expenditures of Federal awards by the non-Federal entity during the applicable year exceed—

"(1) the larger of $30,000,000 or 0.15 percent of the non-Federal entity's total Federal expenditures, in the case of a non-Federal entity for which such total expenditures for all programs exceed $10,000,000,000;

"(2) the larger of $3,000,000, or 0.30 percent of the non-Federal entity's total Federal expenditures, in the case of a non-Federal entity for which such total expenditures for all programs exceed $100,000,000 but are less than or equal to $10,000,000,000; or

"(3) the larger of $300,000, or 3 percent of such total Federal expenditures for all programs, in the case of a non-Federal entity for which such total expenditures for all programs equal or exceed $300,000 but are less than or equal to $100,000,000.

"(c) When the total expenditures of a non-Federal entity's major programs are less than 50 percent of the non-Federal entity's total expenditures of all Federal awards (or such lower percentage as specified by the Director), the auditor shall select and test additional programs as major programs as necessary to achieve audit coverage of at least 50 percent of Federal expenditures by the non-Federal entity (or such lower percentage as specified by the Director), in accordance with guidance issued by the Director.

"(d) Loan or loan guarantee programs, as specified by the Director, shall not be subject to the application of subsection (b).

"§ 7502. Audit requirements; exemptions

"(a)(1)(A) Each non-Federal entity that expends a total amount of Federal awards equal to or in excess of $300,000 or such other amount specified by the Director under subsection (a)(3) in any fiscal year of such non-Federal entity shall have either a single audit or a program-specific audit made for such fiscal year in accordance with the requirements of this chapter.

"(B) Each such non-Federal entity that expends Federal awards under more than one Federal program shall undergo a single audit in accordance with the requirements of subsections (b) through (i) of this section and guidance issued by the Director under section 7505.

"(C) Each such non-Federal entity that expends awards under only one Federal program and is not subject to laws, regulations, or Federal award agreements that require a financial statement audit of the non-Federal entity, may elect to have a program-specific audit conducted in accordance with applicable provisions of this section and guidance issued by the Director under section 7505.

"(2)(A) Each non-Federal entity that expends a total amount of Federal awards of less than $300,000 or such other amount specified by the Director under subsection (a)(3) in any fiscal year of such entity, shall be exempt for such fiscal year from compliance with—

"(i) the audit requirements of this chapter; and

"(ii) any applicable requirements concerning financial audits contained in Federal statutes and regulations governing programs under which such Federal awards are provided to that non-Federal entity.

"(B) The provisions of subparagraph (A)(ii) of this paragraph shall not exempt a non-Federal entity from compliance with any provision of a Federal statute or regulation that requires such non-Federal entity to maintain records concerning Federal awards provided to such non-Federal entity or that permits a Federal agency, pass-through entity, or the Comptroller General access to such records.

"(3) Every 2 years, the Director shall review the amount for requiring audits prescribed under paragraph (1)(A) and may adjust such dollar amount consistent with the purposes of this chapter, provided the Director does not make such adjustments below $300,000.

"(b)(1) Except as provided in paragraphs (2) and (3), audits conducted pursuant to this chapter shall be conducted annually.

"(2) A State or local government that is required by constitution or statute, in effect on January 1, 1987, to undergo its audits less frequently than annually, is permitted to undergo its audits pursuant to this chapter biennially. Audits conducted biennially under the provisions of this paragraph shall cover both years within the biennial period.

"(3) Any nonprofit organization that had biennial audits for all biennial periods ending between July 1, 1992, and January 1, 1995, is permitted to undergo its audits pursuant to this chapter biennially. Audits conducted biennially under the provisions of this paragraph shall cover both years within the biennial period.

"(c) Each audit conducted pursuant to subsection (a) shall be conducted by an independent auditor in accordance with generally accepted government auditing standards, except that, for the purposes of this chapter, performance audits shall not be required except as authorized by the Director.

"(d) Each single audit conducted pursuant to subsection (a) for any fiscal year shall—

"(1) cover the operations of the entire non-Federal entity; or

"(2) at the option of such non-Federal entity such audit shall include a series of audits that cover departments, agencies, and other organizational units which expended or otherwise administered Federal awards during such fiscal year provided that each such audit shall encompass the financial statements and schedule of expenditures of Federal awards for each such department, agency, and organizational unit, which shall be considered to be a non-Federal entity.

"(e) The auditor shall—

"(1) determine whether the financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles;

"(2) determine whether the schedule of expenditures of Federal awards is presented fairly in all material respects in relation to the financial statements taken as a whole;

"(3) with respect to internal controls pertaining to the compliance requirements for each major program—

"(A) obtain an understanding of such internal controls;

"(B) assess control risk; and

"(C) perform tests of controls unless the controls are deemed to be ineffective; and

"(4) determine whether the non-Federal entity has complied with the provisions of laws, regulations, and contracts or grants pertaining to Federal awards that have a direct and material effect on each major program.

"(f)(1) Each Federal agency which provides Federal awards to a recipient shall—

"(A) provide such recipient the program names (and any identifying numbers) from which such awards are derived, and the Federal requirements which govern the use of such awards and the requirements of this chapter; and

"(B) review the audit of a recipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to Federal awards provided to the recipient by the Federal agency.

"(2) Each pass-through entity shall—

"(A) provide such subrecipient the program names (and any identifying numbers) from which such assistance is derived, and the Federal requirements which govern the use of such awards and the requirements of this chapter;

"(B) monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means;

"(C) review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to Federal awards provided to the subrecipient by the pass-through entity; and

"(D) require each of its subrecipients of Federal awards to permit, as a condition of receiving Federal awards, the independent auditor of the pass-through entity to have such access to the subrecipient's records and financial statements as may be necessary for the pass-through entity to comply with this chapter.

"(g)(1) The auditor shall report on the results of any audit conducted pursuant to this section, in accordance with guidance issued by the Director.

"(2) When reporting on any single audit, the auditor shall include a summary of the auditor's results regarding the non-Federal entity's financial statements, internal controls, and compliance with laws and regulations.

"(h) The non-Federal entity shall transmit the reporting package, which shall include the non-Federal entity's financial statements, schedule of expenditures of Federal awards, corrective action plan defined under subsection (i), and auditor's reports developed pursuant to this section, to a Federal clearinghouse designated by the Director, and make it available for public inspection within the earlier of—

"(1) 30 days after receipt of the auditor's report; or

"(2)(A) for a transition period of at least 2 years after the effective date of the Single Audit Act Amendments of 1996, as established by the Director, 13 months after the end of the period audited; or

"(B) for fiscal years beginning after the period specified in subparagraph (A), 9 months after the end of the period audited, or within a longer timeframe authorized by the Federal agency, determined under criteria issued under section [7505] *7504*, when the 9-month timeframe would place an undue burden on the non-Federal entity.

"(i) If an audit conducted pursuant to this section discloses any audit findings, as defined by the Director, including material noncompliance with individual compliance requirements for a major program by, or reportable conditions in the internal controls of, the non-Federal entity with respect to the matters described in subsection (e), the non-Federal entity shall submit to Federal officials designated by the Director, a plan for corrective action to eliminate such audit findings or reportable conditions or a statement describing the reasons that corrective action is not necessary. Such plan shall be consistent with the audit resolution standard promulgated by the Comptroller General (as part of the standards for internal controls in the Federal Government) pursuant to section 3512(c).

"(j) The Director may authorize pilot projects to test alternative methods of achieving the purposes of this chapter. Such pilot projects may begin only after consultation with the Chair and Ranking Minority Member of the Committee on Governmental Affairs of the Senate and the Chair and Ranking Minority Member of the Committee on Government Reform and Oversight of the House of Representatives.

"§ 7503. Relation to other audit requirements

"(a) An audit conducted in accordance with this chapter shall be in lieu of any financial audit of Federal awards which a non-Federal entity is required to undergo under any other Federal law or regulation. To the extent that such audit provides a Federal agency with the information it requires to carry out its responsibilities under Federal law or regulation, a Federal agency shall rely upon and use that information.

"(b) Notwithstanding subsection (a), a Federal agency may conduct or arrange for additional audits which are necessary to carry out its responsibilities under Federal law or regulation. The provisions of this chapter do not authorize any non-Federal entity (or subrecipient thereof) to constrain, in any manner, such agency from carrying out or arranging for such additional audits, except that the Federal agency shall plan such audits to not be duplicative of other audits of Federal awards.

"(c) The provisions of this chapter do not limit the authority of Federal agencies to conduct, or arrange for the conduct of, audits and evaluations of Federal awards, nor limit the authority of any Federal agency Inspector General or other Federal official.

"(d) Subsection (a) shall apply to a non-Federal entity which undergoes an audit in accordance with this chapter even though it is not required by section 7502(a) to have such an audit.

"(e) A Federal agency that provides Federal awards and conducts or arranges for audits of non-Federal entities receiving such awards that are in addition to the audits of non-Federal entities conducted pursuant to this chapter shall, consistent with other applicable law, arrange for funding the full cost of such additional audits. Any such additional audits shall be coordinated with the Federal agency determined under criteria issued under section 7504 to preclude duplication of the audits conducted pursuant to this chapter or other additional audits.

"(f) Upon request by a Federal agency or the Comptroller General, any independent auditor conducting an audit pursuant to this chapter shall make the auditor's working papers available to the Federal agency or the Comptroller General as part of a quality review, to resolve audit findings, or to carry out oversight responsibilities consistent with the purposes of this chapter. Such access to auditor's working papers shall include the right to obtain copies.

"§ 7504. Federal agency responsibilities and relations with non-Federal entities

"(a) Each Federal agency shall, in accordance with guidance issued by the Director under section 7505, with regard to Federal awards provided by the agency—

"(1) monitor non-Federal entity use of Federal awards, and

"(2) assess the quality of audits conducted under this chapter for audits of entities for which the agency is the single Federal agency determined under subsection (b).

"(b) Each non-Federal entity shall have a single Federal agency, determined in accordance with criteria established by the Director, to provide the non-Federal entity with technical assistance and assist with implementation of this chapter.

"(c) The Director shall designate a Federal clearinghouse to—

"(1) receive copies of all reporting packages developed in accordance with this chapter;

"(2) identify recipients that expend $300,000 or more in Federal awards or such other amount specified by the Director under section 7502(a)(3) during the recipient's fiscal year but did not undergo an audit in accordance with this chapter; and

"(3) perform analyses to assist the Director in carrying out responsibilities under this chapter.

"§ 7505. Regulations

"(a) The Director, after consultation with the Comptroller General, and appropriate officials from Federal, State, and local governments and nonprofit organizations shall prescribe guidance to implement this chapter. Each Federal agency shall promulgate such amendments to its regulations as may be necessary to conform such regulations to the requirements of this chapter and of such guidance.

"(b)(1) The guidance prescribed pursuant to subsection (a) shall include criteria for determining the appropriate charges to Federal awards for the cost of audits. Such criteria shall prohibit a non-Federal entity from charging to any Federal awards—

"(A) the cost of any audit which is—

"(i) not conducted in accordance with this chapter; or

"(ii) conducted in accordance with this chapter when expenditures of Federal awards are less than amounts cited in section 7502(a)(1)(A) or specified by the Director under section 7502(a)(3), except that the Director may allow the cost of limited scope audits to monitor subrecipients in accordance with section 7502(f)(2)(B); and

"(B) more than a reasonably proportionate share of the cost of any such audit that is conducted in accordance with this chapter.

"(2) The criteria prescribed pursuant to paragraph (1) shall not, in the absence of documentation demonstrating a higher actual cost, permit the percentage of the cost of audits performed pursuant to this chapter charged to Federal awards, to exceed the ratio of total Federal awards expended by such non-Federal entity during the applicable fiscal year or years, to such non-Federal entity's total expenditures during such fiscal year or years.

"(c) Such guidance shall include such provisions as may be necessary to ensure that small business concerns *and business concerns* owned and controlled by socially and economically disadvantaged individuals will have the opportunity to participate in the performance of contracts awarded to fulfill the audit requirements of this chapter.

"§ 7506. Monitoring responsibilities of the Comptroller General

"(a) The Comptroller General shall review provisions requiring financial audits of non-Federal entities that receive Federal awards that are contained in bills and resolutions reported by the committees of the Senate and the House of Representatives.

"(b) If the Comptroller General determines that a bill or resolution contains provisions that are inconsistent with the requirements of this chapter, the Comptroller General shall, at the earliest practicable date, notify in writing—

"(1) the committee that reported such bill or resolution; and

"(2)(A) the Committee on Governmental Affairs of the Senate (in the case of a bill or resolution reported by a committee of the Senate); or

"(B) the Committee on Government Reform and Oversight of the House of Representatives (in the case of a bill or resolution reported by a committee of the House of Representatives).

"§ 7507. Effective date

"This chapter shall apply to any non-Federal entity with respect to any of its fiscal years which begin after June 30, 1996.".

SEC. 3. TRANSITIONAL APPLICATION.

Subject to section 7507 of title 31, United States Code (as amended by section 2 of this Act) the provisions of chapter 75 of such title (before amendment by section 2 of this Act) shall continue to apply to any State or local government with respect to any of its fiscal years beginning before July 1, 1996.

Mr. STEVENS. Mr. President, the Single Audit Act Amendments of 1996 provide a useful updating of an important law enacted 12 years ago. The original Single Audit Act of 1984 created a procedure by which a State or local government receiving funds from several Federal assistance programs would be subject only to one, comprehensive audit. A 1994 GAO report on the intergovernmental experience under the act indicates that it has resulted in both improved accountability over Federal assistance and strengthened financial management in all covered entities. It has done this while reducing the Federal audit burden on State and local governments.

The GAO report, however, also indicated that the process can be improved.

And here I want to acknowledge the fine work of my colleague, Senator GLENN, in having first requested the GAO study, and then having worked with GAO to develop these amendments to the act. I am pleased to have joined with Senator GLENN in cosponsoring his bill. It further reduces the Federal audit burden on small governments, while improving audit coverage and effectiveness by allowing auditors to focus on testing the riskiest programs that a government operates.

At the hearing I held on S. 1579, there was strong support for this legislation from the State auditors organization. The auditor from my own State of Alaska has indicated his own support, and I know this will be a real benefit to the local governments there, too. I urge my colleagues to join us in moving this very useful legislation forward today.

Mr. GLENN. Mr. President, I rise to urge my colleagues to support S. 1579, the Single Audit Act Amendments of 1996. This legislation amends the Single Audit Act of 1984. It is a bipartisan good government bill that will both improve financial management of Federal funds and reduce paperwork burdens on State and local governments, universities and other nonprofit organizations that receive Federal assistance. I am happy that the chairman of the Government Affairs Committee, Senator STEVENS, joined with me in cosponsoring the bill, as did Senators LEVIN, COCHRAN, PRYOR, COHEN, LIEBERMAN, BROWN and GRASSLEY. The legislation was reported unanimously by the Government Affairs Committee. And we have an identical bill moving through the House of Representatives—H.R. 3184, introduced by Representative STEVE HORN.

Over the last several years we have made great strides in reforming the sloppy and wasteful state of Federal financial management. The Chief Financial Officers Act of 1990, which I strongly support, was a major accomplishment in this regard. Much more remains to be done, however, to achieve greater accountability for the hundreds of billions of dollars of Federal assistance that go to or through State and local governments and nonprofit organizations. Much more also remains to be done to reduce the auditing and reporting burdens of the Federal assistance management process. The Single Audit Act Amendments of 1996 goes a long way toward achieving these goals.

The Single Audit Act was enacted in 1984 to overcome serious gaps and duplications that existed in audit coverage over Federal funds provided to State and local governments, which now amount to about $250 billion a year. Some governments rarely saw an auditor interested in examining Federal funds, others were swamped by auditors, each looking at a separate grant award. The Single Audit Act remedied that problem by changing the audit focus from compliance with individual Federal grant requirements to a periodic single overall audit of the entity receiving Federal assistance. The act also set specific dollar thresholds to exempt recipients that receive relatively small amounts of Federal assistance from regular audit requirements. In passing the original legislation, Congress considered the benefits and costs and developed criteria that exposed the vast majority of Federal assistance to State and local governments to audit coverage. This structured approach of entity-wide audits simplified overlapping audit requirements and improved grantee-organization administrative controls.

The Single Audit Act also served an important purpose of prompting State and local governments to improve their general financial management practices. The act encouraged the governments to review and revise their financial management practices, including instituting annual financial statement audits, installing new accounting systems, and implementing monitoring systems. The improvements represented long-needed and long-lasting financial management reforms. Studies by the General Accounting Office [GAO] confirmed these accomplishments. The success of the act also prompted the Office of Management and Budget [OMB] in 1990 to apply single audit principles to educational institutions and other nonprofit organizations that receive or passthrough Federal funds—OMB Circular No. A-133, "Audits of Institutions of Higher Education and Other Nonprofit Organizations," issued in March 1990, revised in April 1996.

During my tenure as chairman of the Governmental Affairs Committee, I requested that GAO study the implementation of the Single Audit Act and suggest any needed changes. The resulting report, "Single Audit: Refinements Can Improve Usefulness" (GAO/AIMD-94-133, June 1994), reviewed the successes of the act, but also pointed out specific modifications that could improve the act's usefulness. The legislation we bring to the Senate today is based on GAO's findings as well as studies by the President's Council on Integrity and Efficiency and National State Auditors Association. The bill was developed in cooperation with GAO and OMB. Moreover, OMB recently revised its Circular A-133 consistent with the purposes of this legislation. However, the circular continues to apply only to nonprofit organizations—State and local governments are not covered. With the passage of this legislation, OMB will be able to take the next step and consolidate its grant audit requirements in one circular. Finally, the bill also reflects comments received from State, local, and private sector accounting and audit professionals, as well as program managers. Altogether, the legislation will strengthen the act, while simultaneously reducing its burdens.

First, the legislation extends the act to cover nonprofit organizations that receive Federal assistance. Again, these organizations are currently subject to the single audit process under OMB Circular A-133. Broadening the act's coverage in this way ensures that all non-Federal grantee organizations will be covered uniformly by one single audit process.

Second, the bill reduces audit and related paperwork burdens by raising the single audit threshold from $100,000 to $300,000. This will exempt thousands of smaller State and local governments and nonprofit organizations that receive relatively small amounts of Federal assistance from Federal single audit requirements. It will still ensure, however, that the vast majority of Federal funds will be subject to audit testing. Needless to say, it will also reinforce the ability of Federal agencies to audit or investigate grantees when needed to safeguard Federal funds.

Third, the bill will improve audit effectiveness by establishing a risk-based approach for selecting programs to be tested during single audits for adequacy of internal controls and compliance with Federal program requirements, such as eligibility of participants and allowability of costs. The Single Audit Act has required audit testing solely on the basis of dollar criteria. Using a risk-based approach will ensure coverage of programs that present the highest risk to the Federal Government.

Fourth, the legislation improves the contents and timeliness of single audit reporting to make the reports more useful. Currently, auditors often include many different documents in a single audit report. These documents are designed to comply with auditing standards but leave users confused. A summary document, written in plain language, would greatly increase the usefulness of single audit reports. Report users would be able to quickly discern which entities are having problems administering Federal programs and consequently need additional oversight.

Shortening the reporting time frame will also make the single audit reports more useful. The current practice of filing reports 13 months after the end of the year that was audited significantly reduces their utility. An ideal period would be the Government Finance Officers Association's standard of 6 months for timely reporting by State and local governments. However, given the numerous audits that some State auditors have to perform, the legislation establishes a 9-month standard. Moreover, the legislation establishes a 2-year transition period for

entities to comply with the faster reporting and gives flexibility for extensions as needed. The overall goal, still, is to shorten the reporting time frame to make the single audit reports more useful to assess the stewardship of organizations entrusted with Federal funds and to prompt any needed corrective actions.

Fifth, the legislation increases administrative flexibility. OMB is authorized to issue rules to implement the act and may revise certain audit requirements, as needed, without seeking amendments to the act. For example, OMB will be authorized to raise even higher the $300,000 threshold. Auditors also will have greater flexibility to target programs at risk.

In these and other ways, the Single Audit Act Amendments of 1996 will streamline the underlying Single Audit Act, update its requirements, reduce burdens, and provide for more flexibility. This legislation builds on the significant accomplishments of the 1984 act and I am confident that my colleagues will agree that this legislation should be broadly supported by the Senate.

In December 1995, the Senate Committee on Governmental Affairs held a hearing on the status of Federal financial management, including the Single Audit Act. Charles Bowsher, the Comptroller General, and Kurt Sjoberg, the California State Auditor who represented the National State Auditors Association, strongly supported the legislation and recommended that it be enacted. Edward DeSeve, Office of Management and Budget Controller, also applauded the legislative effort.

The support of the Comptroller General and the State auditors is especially important. The Comptroller General was instrumental in advising the Congress when the original Single Audit Act was enacted. He followed the subsequent implementation of the act and has made the recommendations for improving the act that was the basis for the current legislation. I give great weight to his recommendations for amending the Single Audit Act. State auditors, for their part, are key players in the single audit process. They conduct or arrange for thousands of single audits each year. So, their views are also critically important. Following the December hearing, the National State Auditors Association met to discuss the legislation and decided unanimously to support its enactment. The President's Council on Integrity and Efficiency Audit Committee also submitted a letter in support of the legislation. I ask that their letters of support be included in the RECORD.

On April 18, 1996, the Committee on Government Affairs marked up S. 1579 and voted unanimously to send the bill to the floor for a vote. Again, this bipartisanship also extends to the House of Representatives, where an identical bill (H.R. 3184) was introduced on March 28, 1996 by Representative HORN and four cosponsors. The House of Representatives Committee on Government Reform and Oversight voted the bill out of committee on April 25, 1996. With this bipartisan support, I am sure that this good Government legislation can soon become law.

In closing, let me just say that good Government legislation such as the Single Audit Act Amendments of 1996 is often overlooked and discounted. It is unimportant to many, boring to most. But it is just this sort of nuts and bolts legislation that is needed to improve the efficiency and effectiveness of our Government. The end result of enactment of S.. 1579 will be a Government more accountable to its people.

To reach this point, we have had the help of colleagues on each side of the aisle, as I have said. We have also had the assistance of, and need to thank, the Comptroller General, Charles Bowsher, and his staff—most especially, Jerry Skelly—we would not be here today without Jerry's tireless work. I'd also like to thank Kurt Sjoberg, the California State Auditor, Woody Jackson, OMB's Deputy Controller, John Mercer with Senator STEVENS, Anna Miller on Representative HORN'S staff, and David Plocher on my staff—all have contributed greatly to this legislation.

I urge my colleagues to support this legislation.

Mr. President, again, I ask unanimous consent that letters of endorsement of S. 1579 from the National State Auditors Association and the Audit Committee of the President's Council on Integrity and Efficiency, as well as a summary of the legislation be printed in the RECORD.

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

NATIONAL STATE
AUDITORS ASSOCIATION,
Washington, DC, January 29, 1996.

Hon. JOHN GLENN,
Ranking Minority Member, Committee on Governmental Affairs, U.S. Senate, Washington, DC.

DEAR SENATOR GLENN: The National State Auditors Association has voted unanimously to support the proposed bill to amend the Single Audit Act of 1984. My state audit colleagues and I believe that the proposed legislation is an excellent measure that deserves to be passed into law as soon as possible.

The Single Audit Act amendments provide a unique opportunity to address the needs of federal, state and local government auditors and program managers. The original act is over 10 years old and the amendments address many of the changes that have occurred over the years in the auditing profession and in government financial management. The bill is the result of open and constructive dialog among the stakeholders. Over the last several months, we have worked closely with congressional staff as well as representatives of the General Accounting Office and the Office of Management and Budget. As currently drafted, the bill provides needed improvements to financial accountability over federal grant funds.

While there are several excellent provisions in the amended act, two are particularly noteworthy. First, the minimum threshold of receipts requiring an entity to have a single audit performed is raised in the bill to $300,000. Similarly, the thresholds for larger recipients are also adjusted. These modifications will relieve many state and local governments of unnecessary federal mandates and generate savings of audit costs. Second, the amendments allow federal and state governments to focus audit resources on "high-risk" grants where the potential for savings is the greatest. It makes good economic sense to concentrate audits where increased corrective action and recoveries are likely to result.

In summary, the National State Auditors Association is pleased to fully support the amendments to the Single Audit Act of 1984 and assist you in any way possible to facilitate its passage this year.

Sincerely,

ANTHONY VERDECCHIA,
President.

PRESIDENT'S COUNCIL ON
INTEGRITY AND EFFICIENCY,
Washington, DC, March 12, 1996.

Hon. JOHN GLENN,
Ranking Minority Member, Committee on Governmental Affairs, U.S. Senate, Washington, DC.

DEAR SENATOR GLENN: The Audit Committee of the President's Council on Integrity and Efficiency (PCIE) is pleased to extend its support for Senate Bill S. 1579, "Single Audit Act Amendments of 1996." We believe that the improvements to the Single Audit Act of 1984 contained in this bill will result in significantly more effective and efficient auditing of Federal program funds at State and local governments and non-profit organizations and we urge that it be passed as soon as possible.

The Single Audit Act of 1984 is over 11 years old. In 1993 the PCIE issued a report entitled, *Study on Improving the Single Audit Process*. In that report we concluded that while the Act was successful in achieving its objectives, changes were needed to further improve the auditing and financial management of Federal program funds. The report contained a number of specific recommendations for changes to the Single Audit Act of 1984, related Office of Management and Budget Circulars and other implementing guidance from the auditing profession. We are pleased to see that all of our recommendations that require legislative change have been addressed in the proposed amendments.

Of the many improvements contained in the bill, we believe the most far-reaching are the provisions for a "risk-based" approach to determining audit coverage. These provisions will allow auditors to concentrate their audits on the areas of highest risk, rather than auditing the same programs every year based solely on funding level, regardless of risk. We believe that these provisions, along with other provisions shortening the due dates for adults and providing additional

flexibilities, will result in much more effective audit coverage and more useful audit reports for Federal and grantee program managers.

In summary, the PCIE Audit Committee fully supports the bill and recommends that it be passed as soon as possible.

Sincerely,

VALERIE LAU,
Chair, Audit Committee.

SINGLE AUDIT ACT AMENDMENTS OF 1996 (S. 1579)

This bill amends the Single Audit Act of 1984 (P.L. 98-502). The 1984 Act replaced multiple grant-by-grant audits with an annual entity-wide audit process for State and local governments that receive Federal assistance. The new bill would broaden the scope of the Act to cover universities and other nonprofit organizations, as well. It would also streamline the process. Thus, the bill would improve accountability for hundreds of billions of dollars of Federal assistance, while also reducing auditing and paperwork burdens on grant recipients.

The bill was developed following GAO review of implementation of the Single Audit Act ("Single Audit: Refinements Can Improve Usefulness," GAO/AIMD-94-133, June 21, 1994). Major stakeholders in the single audit process were consulted during the drafting process. Support for the bill was confirmed at a December 14, 1995, hearing of the Senate Committee on Government Affairs. The bill was introduced on February 27, 1996, by Senator Glenn, and co-sponsored by Senators Stevens, Levin, Cochran, Pryor, Cohen, Lieberman, Brown, and Grassley. The bill was reported out of the Committee on Governmental Affairs on April 18, 1996. An identical bill (H.R. 3184) was under consideration at the same time by the House of Representatives Committee on Governmental Reform and Oversight.

Ten years' experience under the 1984 Act has been proven that the single audit concept promotes accountability over Federal assistance and prompts financial management improvements. Study also showed, however, that the process can be strengthened. This bill would (1) improve audit coverage of Federal assistance, (2) reduce burdens on non-Federal entities, (3) improve audit effectiveness, (4) improve single audit reporting, and (5) increase administrative flexibility.

Improve Audit Coverage—The bill would improve audit coverage of Federal assistance by including in the single audit process all State and local governments and nonprofit organizations that receive Federal assistance. Currently, the Act only applies to State and local governments. Nonprofit organizations are subject administratively to single audits under OMB Circular A-133, "Audits of Institutions of Higher Education and Other Nonprofit Organizations." Including nonprofit organizations under the Act would result in a common set of single audit requirements for Federal assistance.

Reduce Federal Burden—The bill would simultaneously reduce Federal burdens on thousands of State and local governments and nonprofits, and ensure audit coverage over the vast majority of Federal assistance provided to those organizations. It would do so by raising the dollar threshold for requiring a single audit from $100,000 to $300,000. While this would relieve many grantees of Federal single audit mandates, GAO estimated that a $300,000 threshold would cover, for example, 95% of direct Federal assistance to local governments. This is commensurate with the coverage provided at the $100,000 threshold when the Act was passed in 1984. Thus, exempting thousands of entities from single audits would reduce audit and paperwork burdens, but not significantly diminish the percentage of Federal assistance covered by single audits.

Improve Audit Effectiveness—The bill would improve audit effectiveness by directing audit resources to the areas of greatest risk. Now, auditors must perform audit testing on an entity's largest—but not necessarily the riskiest—programs. The bill would require auditors to assess the risk of the programs an entity operates and select the riskiest programs for testing. As the President of the National State Auditors Association said, "it makes good economic sense to concentrate audits where increased corrective action and recoveries are likely to result."

Improve Single Audit Reporting—The bill would greatly improve the usefulness of single audit reports by requiring auditors to provide a summary of audit results. The reports would also be due sooner—9 months after the year-end rather than the current 13 months. Interpretations of current rules lead auditors to include 7 or more separate reports in each single audit report. Such a large number of reports tends to confuse rather than inform users. A summary of the audit results would highlight important information and thus enable users to quickly discern the overall results of an audit. Federal managers surveyed by GAO overwhelmingly support the summary reporting and faster submission of reports.

Increase Administrative Flexibility—The bill would enable the single audit process to evolve with changing circumstances. For example, rather than lock specific dollar amount audit thresholds into law, OMB would have the authority to periodically revise the audit threshold above the new $300,000 threshold. OMB also could revise criteria for selecting programs for audit testing. By giving OMB such authority, specific requirements within the single audit process could be revised administratively to reflect changing circumstances that affect accountability for Federal financial assistance.

The Single Audit Act Amendments of 1996 (S. 1579) is "Good Government" legislation. Based on GAO studies and endorsed by the National State Auditors Association, the bill represents consensus reform legislation that will improve accountability over Federal funds and reduce burdens on State and local governments and nonprofit organizations.

Mr. LEVIN. Mr. President, as a cosponsor of the Single Audit Act amendments, I am pleased that the Senate is considering this legislation today. S. 1579 would improve accountability over Federal assistance provided to State and local governments.

The Single Audit Act of 1984 created a uniform requirement for Federal audits of individual State and local programs which received Federal assistance. It also provided a comprehensive, organizationwide approach to single audits. While the act has been a key factor in the improvement of government financial management practices, we have learned alot since the enactment of the act and the passage of time has revealed the need for changes.

This bill amends the 1984 act to further reduce unnecessary audit burdens on State and local governments and nonprofit organizations while ensuring accountability and oversight of the use of Federal funds.

The bill would place State and local governments, colleges and universities, and other nonprofit grantees under the same single audit process. This would allow the Office of Management and Budget to develop uniform guidelines and auditing requirements.

Second, the bill increases the dollar threshold that triggers the requirement for a single audit, from $100,000 to $300,000. This change would reduce audit costs while only minimally reducing audit coverage of Federal program expenditures. We would be able to still achieve the goal of 95 percent audit coverage, which was originally included in the 1984 act.

Third, the bill establishes a risk-based approach to determine which Federal programs should be audited to allow the Federal, State, and local auditors the discretion of focusing audit resources where the potential for return is the greatest.

Fourth, the bill improved the contents and timeliness of single audit reports by requiring a summary of audit findings and results and by reducing the report due-date from 13 to 9 months to improve the timeliness of report submission. A report prepared closer to the end of the reporting period together with the shorter reporting requirement to submit a summary of audit findings and results will increase the utility of the audit to senior management and Federal program officials.

Finally, the bill authorizes the Director of the Office of Management and Budget to expand and revise audit requirements to ensure continued effectiveness of the audit process. This change would allow the Office of Management and Budget to adjust auditing thresholds for future inflation, and also allow auditors to assess program and management performance.

Mr. President, I would like to thank Senator GLENN for his leadership on this issue and my colleagues for their support and cooperation in getting this bill to the floor. I would also like to thank the National State Auditors Association, the President's Council on Integrity and Efficiency, and the General Accounting Office for conducting the independent survey to assess the 1984 act and to determine how it could be improved. Their study results were instrumental in developing this legislation.

Mr. MACK. Mr. President, I ask unanimous consent that the committee amendments be agreed to, the bill, as amended, be deemed read three times, passed, the motion to reconsider be

laid upon the table, and that any statements relating thereto appear at an appropriate place in the RECORD as if read.

The PRESIDING OFFICER. Is there objection? Without objection, it is so ordered.

The bill (S. 1579), as amended, was deemed read the third time and passed, as follows:

S. 1579

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

SECTION 1. SHORT TITLE; PURPOSES.

(a) SHORT TITLE.—This Act may be cited as the "Single Audit Act Amendments of 1996".

(b) PURPOSES.—The purposes of this Act are to—

(1) promote sound financial management, including effective internal controls, with respect to Federal awards administered by non-Federal entities;

(2) establish uniform requirements for audits of Federal awards administered by non-Federal entities;

(3) promote the efficient and effective use of audit resources;

(4) reduce burdens on State and local governments, Indian tribes, and nonprofit organizations; and

(5) ensure that Federal departments and agencies, to the maximum extent practicable, rely upon and use audit work done pursuant to chapter 75 of title 31, United States Code (as amended by this Act).

SEC. 2. AMENDMENT TO TITLE 31, UNITED STATES CODE.

Chapter 75 of title 31, United States Code, is amended to read as follows:

"CHAPTER 75—REQUIREMENTS FOR SINGLE AUDITS

"Sec.

"7501. Definitions.

"7502. Audit requirements; exemptions.

"7503. Relation to other audit requirements.

"7504. Federal agency responsibilities and relations with non-Federal entities.

"7505. Regulations.

"7506. Monitoring responsibilities of the Comptroller General.

"7507. Effective date.

"§ 7501. Definitions

"(a) As used in this chapter, the term—

"(1) 'Comptroller General' means the Comptroller General of the United States;

"(2) 'Director' means the Director of the Office of Management and Budget;

"(3) 'Federal agency' has the same meaning as the term 'agency' in section 551(1) of title 5;

"(4) 'Federal awards' means Federal financial assistance and Federal cost-reimbursement contracts that non-Federal entities receive directly from Federal awarding agencies or indirectly from pass-through entities;

"(5) 'Federal financial assistance' means assistance that non-Federal entities receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, or other assistance, but does not include amounts received as reimbursement for services rendered to individuals in accordance with guidance issued by the Director;

"(6) 'Federal program' means all Federal awards to a non-Federal entity assigned a single number in the Catalog of Federal Domestic Assistance or encompassed in a group of numbers or other category as defined by the Director;

"(7) 'generally accepted government auditing standards' means the government auditing standards issued by the Comptroller General;

"(8) 'independent auditor' means—

"(A) an external State or local government auditor who meets the independence standards included in generally accepted government auditing standards; or

"(B) a public accountant who meets such independence standards;

"(9) 'Indian tribe' means any Indian tribe, band, nation, or other organized group or community, including any Alaskan Native village or regional or village corporation (as defined in, or established under, the Alaskan Native Claims Settlement Act) that is recognized by the United States as eligible for the special programs and services provided by the United States to Indians because of their status as Indians;

"(10) 'internal controls' means a process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

"(A) Effectiveness and efficiency of operations.

"(B) Reliability of financial reporting.

"(C) Compliance with applicable laws and regulations;

"(11) 'local government' means any unit of local government within a State, including a county, borough, municipality, city, town, township, parish, local public authority, special district, school district, intrastate district, council of governments, any other instrumentality of local government and, in accordance with guidelines issued by the Director, a group of local governments;

"(12) 'major program' means a Federal program identified in accordance with risk-based criteria prescribed by the Director under this chapter, subject to the limitations described under subsection (b);

"(13) 'non-Federal entity' means a State, local government, or nonprofit organization;

"(14) 'nonprofit organization' means any corporation, trust, association, cooperative, or other organization that—

"(A) is operated primarily for scientific, educational, service, charitable, or similar purposes in the public interest;

"(B) is not organized primarily for profit; and

"(C) uses net proceeds to maintain, improve, or expand the operations of the organization;

"(15) 'pass-through entity' means a non-Federal entity that provides Federal awards to a subrecipient to carry out a Federal program;

"(16) 'program-specific audit' means an audit of one Federal program;

"(17) 'recipient' means a non-Federal entity that receives awards directly from a Federal agency to carry out a Federal program;

"(18) 'single audit' means an audit, as described under section 7502(d), of a non-Federal entity that includes the entity's financial statements and Federal awards;

"(19) 'State' means any State of the United States, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, and the Trust Territory of the Pacific Islands, any instrumentality thereof, any multi-State, regional, or interstate entity which has governmental functions, and any Indian tribe; and

"(20) 'subrecipient' means a non-Federal entity that receives Federal awards through another non-Federal entity to carry out a Federal program, but does not include an individual who receives financial assistance through such awards.

"(b) In prescribing risk-based program selection criteria for major programs, the Director shall not require more programs to be identified as major for a particular non-Federal entity, except as prescribed under subsection (c) or as provided under subsection (d), than would be identified if the major programs were defined as any program for which total expenditures of Federal awards by the non-Federal entity during the applicable year exceed—

"(1) the larger of $30,000,000 or 0.15 percent of the non-Federal entity's total Federal expenditures, in the case of a non-Federal entity for which such total expenditures for all programs exceed $10,000,000,000;

"(2) the larger of $3,000,000, or 0.30 percent of the non-Federal entity's total Federal expenditures, in the case of a non-Federal entity for which such total expenditures for all programs exceed $100,000,000 but are less than or equal to $10,000,000,000; or

"(3) the larger of $300,000, or 3 percent of such total Federal expenditures for all programs, in the case of a non-Federal entity for which such total expenditures for all programs equal or exceed $300,000 but are less than or equal to $100,000,000.

"(c) When the total expenditures of a non-Federal entity's major programs are less than 50 percent of the non-Federal entity's total expenditures of all Federal awards (or such lower percentage as specified by the Director), the auditor shall select and test additional programs as major programs as necessary to achieve audit coverage of at least 50 percent of Federal expenditures by the non-Federal entity (or such lower percentage as specified by the Director), in accordance with guidance issued by the Director.

"(d) Loan or loan guarantee programs, as specified by the Director, shall not be subject to the application of subsection (b).

"§ 7502. Audit requirements; exemptions

"(a)(1)(A) Each non-Federal entity that expends a total amount of Federal awards equal to or in excess of $300,000 or such other amount specified by the Director under subsection (a)(3) in any fiscal year of such non-Federal entity shall have either a single audit or a program-specific audit made for such fiscal year in accordance with the requirements of this chapter.

"(B) Each such non-Federal entity that expends Federal awards under more than one Federal program shall undergo a single audit in accordance with the requirements of subsections (b) through (i) of this section and guidance issued by the Director under section 7505.

"(C) Each such non-Federal entity that expends awards under only one Federal program and is not subject to laws, regulations,

or Federal award agreements that require a financial statement audit of the non-Federal entity, may elect to have a program-specific audit conducted in accordance with applicable provisions of this section and guidance issued by the Director under section 7505.

"(2)(A) Each non-Federal entity that expends a total amount of Federal awards of less than $300,000 or such other amount specified by the Director under subsection (a)(3) in any fiscal year of such entity, shall be exempt for such fiscal year from compliance with—

"(i) the audit requirements of this chapter; and

"(ii) any applicable requirements concerning financial audits contained in Federal statutes and regulations governing programs under which such Federal awards are provided to that non-Federal entity.

"(B) The provisions of subparagraph (A)(ii) of this paragraph shall not exempt a non-Federal entity from compliance with any provision of a Federal statute or regulation that requires such non-Federal entity to maintain records concerning Federal awards provided to such non-Federal entity or that permits a Federal agency, pass-through entity, or the Comptroller General access to such records.

"(3) Every 2 years, the Director shall review the amount for requiring audits prescribed under paragraph (1)(A) and may adjust such dollar amount consistent with the purposes of this chapter, provided the Director does not make such adjustments below $300,000.

"(b)(1) Except as provided in paragraphs (2) and (3), audits conducted pursuant to this chapter shall be conducted annually.

"(2) A State or local government that is required by constitution or statute, in effect on January 1, 1987, to undergo its audits less frequently than annually, is permitted to undergo its audits pursuant to this chapter biennially. Audits conducted biennially under the provisions of this paragraph shall cover both years within the biennial period.

"(3) Any nonprofit organization that had biennial audits for all biennial periods ending between July 1, 1992, and January 1, 1995, is permitted to undergo its audits pursuant to this chapter biennially. Audits conducted biennially under the provisions of this paragraph shall cover both years within the biennial period.

"(c) Each audit conducted pursuant to subsection (a) shall be conducted by an independent auditor in accordance with generally accepted government auditing standards, except that, for the purposes of this chapter, performance audits shall not be required except as authorized by the Director.

"(d) Each single audit conducted pursuant to subsection (a) for any fiscal year shall—

"(1) cover the operations of the entire non-Federal entity; or

"(2) at the option of such non-Federal entity such audit shall include a series of audits that cover departments, agencies, and other organizational units which expended or otherwise administered Federal awards during such fiscal year provided that each such audit shall encompass the financial statements and schedule of expenditures of Federal awards for each such department, agency, and organizational unit, which shall be considered to be a non-Federal entity.

"(e) The auditor shall—

"(1) determine whether the financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles;

"(2) determine whether the schedule of expenditures of Federal awards is presented fairly in all material respects in relation to the financial statements taken as a whole;

"(3) with respect to internal controls pertaining to the compliance requirements for each major program—

"(A) obtain an understanding of such internal controls;

"(B) assess control risk; and

"(C) perform tests of controls unless the controls are deemed to be ineffective; and

"(4) determine whether the non-Federal entity has complied with the provisions of laws, regulations, and contracts or grants pertaining to Federal awards that have a direct and material effect on each major program.

"(f)(1) Each Federal agency which provides Federal awards to a recipient shall—

"(A) provide such recipient the program names (and any identifying numbers) from which such awards are derived, and the Federal requirements which govern the use of such awards and the requirements of this chapter; and

"(B) review the audit of a recipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to Federal awards provided to the recipient by the Federal agency.

"(2) Each pass-through entity shall—

"(A) provide such subrecipient the program names (and any identifying numbers) from which such assistance is derived, and the Federal requirements which govern the use of such awards and the requirements of this chapter;

"(B) monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means;

"(C) review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to Federal awards provided to the subrecipient by the pass-through entity; and

"(D) require each of its subrecipients of Federal awards to permit, as a condition of receiving Federal awards, the independent auditor of the pass-through entity to have such access to the subrecipient's records and financial statements as may be necessary for the pass-through entity to comply with this chapter.

"(g)(1) The auditor shall report on the results of any audit conducted pursuant to this section, in accordance with guidance issued by the Director.

"(2) When reporting on any single audit, the auditor shall include a summary of the auditor's results regarding the non-Federal entity's financial statements, internal controls, and compliance with laws and regulations.

"(h) The non-Federal entity shall transmit the reporting package, which shall include the non-Federal entity's financial statements, schedule of expenditures of Federal awards, corrective action plan defined under subsection (i), and auditor's reports developed pursuant to this section, to a Federal clearinghouse designated by the Director, and make it available for public inspection within the earlier of—

"(1) 30 days after receipt of the auditor's report; or

"(2)(A) for a transition period of at least 2 years after the effective date of the Single Audit Act Amendments of 1996, as established by the Director, 13 months after the end of the period audited; or

"(B) for fiscal years beginning after the period specified in subparagraph (A), 9 months after the end of the period audited, or within a longer timeframe authorized by the Federal agency, determined under criteria issued under section 7504, when the 9-month timeframe would place an undue burden on the non-Federal entity.

"(i) If an audit conducted pursuant to this section discloses any audit findings, as defined by the Director, including material noncompliance with individual compliance requirements for a major program by, or reportable conditions in the internal controls of, the non-Federal entity with respect to the matters described in subsection (e), the non-Federal entity shall submit to Federal officials designated by the Director, a plan for corrective action to eliminate such audit findings or reportable conditions or a statement describing the reasons that corrective action is not necessary. Such plan shall be consistent with the audit resolution standard promulgated by the Comptroller General (as part of the standards for internal controls in the Federal Government) pursuant to section 3512(c).

"(j) The Director may authorize pilot projects to test alternative methods of achieving the purposes of this chapter. Such pilot projects may begin only after consultation with the Chair and Ranking Minority Member of the Committee on Governmental Affairs of the Senate and the Chair and Ranking Minority Member of the Committee on Government Reform and Oversight of the House of Representatives.

"§ 7503. Relation to other audit requirements

"(a) An audit conducted in accordance with this chapter shall be in lieu of any financial audit of Federal awards which a non-Federal entity is required to undergo under any other Federal law or regulation. To the extent that such audit provides a Federal agency with the information it requires to carry out its responsibilities under Federal law or regulation, a Federal agency shall rely upon and use that information.

"(b) Notwithstanding subsection (a), a Federal agency may conduct or arrange for additional audits which are necessary to carry out its responsibilities under Federal law or regulation. The provisions of this chapter do not authorize any non-Federal entity (or subrecipient thereof) to constrain, in any manner, such agency from carrying out or arranging for such additional audits, except that the Federal agency shall plan such audits to not be duplicative of other audits of Federal awards.

"(c) The provisions of this chapter do not limit the authority of Federal agencies to conduct, or arrange for the conduct of, audits and evaluations of Federal awards, nor limit the authority of any Federal agency Inspector General or other Federal official.

"(d) Subsection (a) shall apply to a non-Federal entity which undergoes an audit in accordance with this chapter even though it is not required by section 7502(a) to have such an audit.

"(e) A Federal agency that provides Federal awards and conducts or arranges for audits of non-Federal entities receiving such

awards that are in addition to the audits of non-Federal entities conducted pursuant to this chapter shall, consistent with other applicable law, arrange for funding the full cost of such additional audits. Any such additional audits shall be coordinated with the Federal agency determined under criteria issued under section 7504 to preclude duplication of the audits conducted pursuant to this chapter or other additional audits.

"(f) Upon request by a Federal agency or the Comptroller General, any independent auditor conducting an audit pursuant to this chapter shall make the auditor's working papers available to the Federal agency or the Comptroller General as part of a quality review, to resolve audit findings, or to carry out oversight responsibilities consistent with the purposes of this chapter. Such access to auditor's working papers shall include the right to obtain copies.

"§ 7504. Federal agency responsibilities and relations with non-Federal entities

"(a) Each Federal agency shall, in accordance with guidance issued by the Director under section 7505, with regard to Federal awards provided by the agency—

"(1) monitor non-Federal entity use of Federal awards, and

"(2) assess the quality of audits conducted under this chapter for audits of entities for which the agency is the single Federal agency determined under subsection (b).

"(b) Each non-Federal entity shall have a single Federal agency, determined in accordance with criteria established by the Director, to provide the non-Federal entity with technical assistance and assist with implementation of this chapter.

"(c) The Director shall designate a Federal clearinghouse to—

"(1) receive copies of all reporting packages developed in accordance with this chapter;

"(2) identify recipients that expend $300,000 or more in Federal awards or such other amount specified by the Director under section 7502(a)(3) during the recipient's fiscal year but did not undergo an audit in accordance with this chapter; and

"(3) perform analyses to assist the Director in carrying out responsibilities under this chapter.

"§ 7505. Regulations

"(a) The Director, after consultation with the Comptroller General, and appropriate officials from Federal, State, and local governments and nonprofit organizations shall prescribe guidance to implement this chapter. Each Federal agency shall promulgate such amendments to its regulations as may be necessary to conform such regulations to the requirements of this chapter and of such guidance.

"(b)(1) The guidance prescribed pursuant to subsection (a) shall include criteria for determining the appropriate charges to Federal awards for the cost of audits. Such criteria shall prohibit a non-Federal entity from charging to any Federal awards—

"(A) the cost of any audit which is—

"(i) not conducted in accordance with this chapter; or

"(ii) conducted in accordance with this chapter when expenditures of Federal awards are less than amounts cited in section 7502(a)(1)(A) or specified by the Director under section 7502(a)(3), except that the Director may allow the cost of limited scope audits to monitor subrecipients in accordance with section 7502(f)(2)(B); and

"(B) more than a reasonably proportionate share of the cost of any such audit that is conducted in accordance with this chapter.

"(2) The criteria prescribed pursuant to paragraph (1) shall not, in the absence of documentation demonstrating a higher actual cost, permit the percentage of the cost of audits performed pursuant to this chapter charged to Federal awards, to exceed the ratio of total Federal awards expended by such non-Federal entity during the applicable fiscal year or years, to such non-Federal entity's total expenditures during such fiscal year or years.

"(c) Such guidance shall include such provisions as may be necessary to ensure that small business concerns and business concerns owned and controlled by socially and economically disadvantaged individuals will have the opportunity to participate in the performance of contracts awarded to fulfill the audit requirements of this chapter.

"§ 7506. Monitoring responsibilities of the Comptroller General

"(a) The Comptroller General shall review provisions requiring financial audits of non-Federal entities that receive Federal awards that are contained in bills and resolutions reported by the committees of the Senate and the House of Representatives.

"(b) If the Comptroller General determines that a bill or resolution contains provisions that are inconsistent with the requirements of this chapter, the Comptroller General shall, at the earliest practicable date, notify in writing—

"(1) the committee that reported such bill or resolution; and

"(2)(A) the Committee on Governmental Affairs of the Senate (in the case of a bill or resolution reported by a committee of the Senate); or

"(B) the Committee on Government Reform and Oversight of the House of Representatives (in the case of a bill or resolution reported by a committee of the House of Representatives).

"§ 7507. Effective date

"This chapter shall apply to any non-Federal entity with respect to any of its fiscal years which begin after June 30, 1996.".

SEC. 3. TRANSITIONAL APPLICATION.

Subject to section 7507 of title 31, United States Code (as amended by section 2 of this Act) the provisions of chapter 75 of such title (before amendment by section 2 of this Act) shall continue to apply to any State or local government with respect to any of its fiscal years beginning before July 1, 1996.

ANTICOUNTERFEITING CONSUMER PROTECTION ACT OF 1995

Mr. MACK. Mr. President, I ask unanimous consent that the Chair lay before the Senate a message from the House to accompany S. 1136.

The PRESIDING OFFICER laid before the Senate the following message from the House of Representatives:

Resolved, That the bill from the Senate (S. 1136) entitled "An Act to control and prevent commercial counterfeiting, and for other purposes", do pass with the following amendment:

Strike out all after the enacting clause, and insert:

SECTION 1. SHORT TITLE.

This Act may be cited as the "Anticounterfeiting Consumer Protection Act of 1996".

SEC. 2. FINDINGS.

The counterfeiting of trademarked and copyrighted merchandise—

(1) has been connected with organized crime;

(2) deprives legitimate trademark and copyright owners of substantial revenues and consumer goodwill;

(3) poses health and safety threats to United States consumers;

(4) eliminates United States jobs; and

(5) is a multibillion-dollar drain on the United States economy.

SEC. 3. COUNTERFEITING AS RACKETEERING.

Section 1961(1)(B) of title 18, United States Code, is amended by inserting ", section 2318 (relating to trafficking in counterfeit labels for phonorecords, computer programs or computer program documentation or packaging and copies of motion pictures or other audiovisual works), section 2319 (relating to criminal infringement of a copyright), section 2319A (relating to unauthorized fixation of and trafficking in sound recordings and music videos of live musical performances), section 2320 (relating to trafficking in goods or services bearing counterfeit marks)" after "sections 2314 and 2315 (relating to interstate transportation of stolen property)".

SEC. 4. APPLICATION TO COMPUTER PROGRAMS, COMPUTER PROGRAM DOCUMENTATION, OR PACKAGING.

(a) IN GENERAL.—Section 2318 of title 18, United States Code, is amended—

(1) in subsection (a), by striking "a motion picture or other audiovisual work," and inserting "a computer program or documentation or packaging for a computer program, or a copy of a motion picture or other audiovisual work, and whoever, in any of the circumstances described in subsection (c) of this section, knowingly traffics in counterfeit documentation or packaging for a computer program,";

(2) in subsection (b)(3) by inserting "'computer program'," after "'motion picture',"; and

(3) in subsection (c)—

(A) by striking "or" at the end of paragraph (2);

(B) in paragraph (3)—

(i) by inserting "a copy of a copyrighted computer program or copyrighted documentation or packaging for a computer program," after "enclose,"; and

(ii) by striking the period at the end and inserting "; or"; and

(C) by adding after paragraph (3) the following:

"(4) the counterfeited documentation or packaging for a computer program is copyrighted.".

(b) CONFORMING AMENDMENTS.—(1) The section caption for section 2318 of title 18, United States Code, is amended to read as follows:

"§2318. Trafficking in counterfeit labels for phonorecords, copies of computer programs or computer program documentation or packaging, and copies of motion pictures or other audio visual works, and trafficking in counterfeit computer program documentation or packaging".

(2) The item relating to section 2318 in the table of sections for chapter 113 of such title is amended to read as follows:

"2318. Trafficking in counterfeit labels for phonorecords, copies of computer programs or computer program documentation or packaging, and copies of motion pictures or other audio visual works, and trafficking in counterfeit computer program documentation or packaging.".

SEC. 5. TRAFFICKING IN COUNTERFEIT GOODS OR SERVICES.

Section 2320 of title 18, United States Code, is amended by adding at the end the following:

"(e) Beginning with the first year after the date of enactment of this subsection, the Attorney General shall include in the report of the Attorney General to Congress on the business of the Department of Justice prepared pursuant to section 522 of title 28, an accounting, on a district by district basis, of the following with respect to all actions taken by the Department of Justice that involve trafficking in counterfeit labels for phonorecords, copies of computer programs or computer program documentation or packaging, copies of motion pictures or other audiovisual works (as defined in section 2318 of title 18), criminal infringement of copyrights (as defined in section 2319 of title 18), unauthorized fixation of and trafficking in sound recordings and music videos of live musical performances (as defined in section 2319A of title 18), or trafficking in goods or services bearing counterfeit marks (as defined in section 2320 of title 18):

"(1) The number of open investigations.

"(2) The number of cases referred by the United States Customs Service.

"(3) The number of cases referred by other agencies or sources.

"(4) The number and outcome, including settlements, sentences, recoveries, and penalties, of all prosecutions brought under sections 2318, 2319, 2319A, and 2320 of title 18.".

SEC. 6. SEIZURE OF COUNTERFEIT GOODS.

Section 34(d)(9) of the Act of July 5, 1946 (60 Stat. 427, chapter 540; 15 U.S.C. 1116(d)(9)), is amended by striking the first sentence and inserting the following: "The court shall order that service of a copy of the order under this subsection shall be made by a Federal law enforcement officer (such as a United States marshal or an officer or agent of the United States Customs Service, Secret Service, Federal Bureau of Investigation, or Post Office) or may be made by a State or local law enforcement officer, who, upon making service, shall carry out the seizure under the order.".

SEC. 7. RECOVERY FOR VIOLATION OF RIGHTS.

Section 35 of the Act of July 5, 1946 (60 Stat. 427, chapter 540; 15 U.S.C. 1117), is amended by adding at the end the following new subsection:

"(c) In a case involving the use of a counterfeit mark (as defined in section 34(d) (15 U.S.C. 1116(d)) in connection with the sale, offering for sale, or distribution of goods or services, the plaintiff may elect, at any time before final judgment is rendered by the trial court, to recover, instead of actual damages and profits under subsection (a), an award of statutory damages for any such use in connection with the sale, offering for sale, or distribution of goods or services in the amount of—

"(1) not less than $500 or more than $100,000 per counterfeit mark per type of goods or services sold, offered for sale, or distributed, as the court considers just; or

"(2) if the court finds that the use of the counterfeit mark was willful, not more than $1,000,000 per counterfeit mark per type of goods or services sold, offered for sale, or distributed, as the court considers just.".

SEC. 8. DISPOSITION OF EXCLUDED ARTICLES.

Section 603(c) of title 17, United States Code, is amended in the second sentence by striking "as the case may be;" and all that follows through the end and inserting "as the case may be.".

SEC. 9. DISPOSITION OF MERCHANDISE BEARING AMERICAN TRADEMARK.

Section 526(e) of the Tariff Act of 1930 (19 U.S.C. 1526(e)) is amended—

(1) in the second sentence, by inserting "destroy the merchandise. Alternatively, if the merchandise is not unsafe or a hazard to health, and the Secretary has the consent of the trademark owner, the Secretary may" after "shall, after forfeiture,";

(2) by inserting "or" at the end of paragraph (2);

(3) by striking ", or" at the end of paragraph (3) and inserting a period; and

(4) by striking paragraph (4).

SEC. 10. CIVIL PENALTIES.

Section 526 of the Tariff Act of 1930 (19 U.S.C. 1526) is amended by adding at the end the following new subsection:

"(f) CIVIL PENALTIES.—(1) Any person who directs, assists financially or otherwise, or aids and abets the importation of merchandise for sale or public distribution that is seized under subsection (e) shall be subject to a civil fine.

"(2) For the first such seizure, the fine shall be not more than the value that the merchandise would have had if it were genuine, according to the manufacturer's suggested retail price, determined under regulations promulgated by the Secretary.

"(3) For the second seizure and thereafter, the fine shall be not more than twice the value that the merchandise would have had if it were genuine, as determined under regulations promulgated by the Secretary.

"(4) The imposition of a fine under this subsection shall be within the discretion of the Customs Service, and shall be in addition to any other civil or criminal penalty or other remedy authorized by law.".

SEC. 11. PUBLIC DISCLOSURE OF AIRCRAFT MANIFESTS.

Section 431(c)(1) of the Tariff Act of 1930 (19 U.S.C. 1431(c)(1)) is amended—

(1) in the matter preceding subparagraph (A), by inserting "vessel or aircraft" before "manifest";

(2) by amending subparagraph (D) to read as follows:

"(D) The name of the vessel, aircraft, or carrier.";

(3) by amending subparagraph (E) to read as follows:

"(E) The seaport or airport of loading.";

(4) by amending subparagraph (F) to read as follows:

"(F) The seaport or airport of discharge."; and

(5) by adding after subparagraph (G) the following new subparagraph:

"(H) The trademarks appearing on the goods or packages.".

SEC. 12. CUSTOMS ENTRY DOCUMENTATION.

Section 484(d) of the Tariff Act of 1930 (19 U.S.C. 1484(d)) is amended—

(1) by striking "Entries" and inserting "(1) Entries"; and

(2) by adding at the end the following new paragraph:

"(2) The Secretary, in prescribing regulations governing the content of entry documentation, shall require that entry documentation contain such information as may be necessary to determine whether the imported merchandise bears an infringing trademark in violation of section 42 of the Act of July 5, 1946 (commonly referred to as the 'Trademark Act of 1946'; 15 U.S.C. 1124), or any other applicable law, including a trademark appearing on the goods or packaging.".

SEC. 13. UNLAWFUL USE OF VESSELS, VEHICLES, AND AIRCRAFT IN AID OF COMMERCIAL COUNTERFEITING.

Section 80302(a) of title 49, United States Code, is amended—

(1) by striking "or" at the end of paragraph (4);

(2) by striking the period at the end of paragraph (5) and inserting "; or"; and

(3) by adding at the end the following new paragraph:

"(6)(A) a counterfeit label for a phonorecord, copy of a computer program or computer program documentation or packaging, or copy of a motion picture or other audiovisual work (as defined in section 2318 of title 18);

"(B) a phonorecord or copy in violation of section 2319 of title 18;

"(C) a fixation of a sound recording or music video of a live musical performance in violation of section 2319A of title 18; or

"(D) any good bearing a counterfeit mark (as defined in section 2320 of title 18).".

SEC. 14. REGULATIONS.

Not later than 6 months after the date of the enactment of this Act, the Secretary of the Treasury shall prescribe such regulations or amendments to existing regulations that may be necessary to carry out the amendments made by sections 9, 10, 11, 12, and 13 of this Act.

Mr. MACK. Mr. President, I ask unanimous consent that the Senate concur in the amendment of the House.

The PRESIDING OFFICER. Without objection, it is so ordered.

MESSAGE FROM THE PRESIDENT

A message from the President of the United States were communicated to the Senate by Mr. Thomas, one of his secretaries.

EXECUTIVE MESSAGE REFERRED

As in executive session the Presiding Officer laid before the Senate a message from the President of the United States submitting a nomination which was referred to the Committee on Foreign Relations.

(The nomination received today is printed at the end of the Senate proceedings.)

MESSAGES FROM THE HOUSE

At 12:23 p.m., a message from the House of Representatives, delivered by Mr. Hays, one of its reading clerks, announced that the House has passed the following bills, in which it requests the concurrence of the Senate:

H.R. 2754. An act to approve and implement the OECD Shipbuilding Trade Agreement.

H.R. 3610. An act making appropriations for the Department of Defense for the fiscal

year ending September 30, 1997, and for other purposes.

The message also announced that the House has agreed to the following concurrent resolution, in which it requests the concurrence of the Senate:

H. Con. Res. 187. Concurrent resolution expressing the sense of Congress with respect to recent church burnings.

MEASURES REFERRED

The following bills were read the first and second times by unanimous consent and referred as indicated:

H.R. 2754. An act to approve and implement the OECD Shipbuilding Trade Agreement; to the Committee on Finance.

H.R. 3610. An act making appropriations for the Department of Defense for the fiscal year ending September 30, 1997, and for other purposes; to the Committee on Appropriations.

PETITIONS AND MEMORIALS

The following petitions and memorials were laid before the Senate and were referred or ordered to lie on the table as indicated:

POM-595. A concurrent resolution adopted by the Legislature of the State of Arizona to the Committee on Environment and Public Works.

"SENATE CONCURRENT MEMORIAL 1002

"Whereas, it is essential that new federal highway reauthorization legislation be enacted before the expiration of the federal Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) to allow states to make transportation programming decisions based on solid estimates of federal highway trust funding; and

"Whereas, the current equity program ensures, at a minimum, a ninety per cent return to all states; and

"Whereas, a fundamental premise of ISTEA is that each state's authorized highway spending levels be fully funded; and

"Whereas, the Congress of the United States violated the premise of fully funded authorization levels by establishing obligation authority limits on states to artificially reduce the federal deficit; and

"Whereas, ISTEA was designed to give states greater flexibility in determining the distribution of federal highway monies for their transportation systems, but in practice, the federal program contains numerous funding "set-aside" mandates such as highway safety programs and enhancement programs that have considerably reduced the amount of actual monies available for significant surface transportation needs; and

"Whereas, ISTEA and annual federal appropriation bills have historically funded numerous demonstration projects that significantly reduced federal highway funds that this state and other states would have received under established highway funding formulas; and

"Whereas, a 1995 Federal Highway Administration report indicated that in federal fiscal years 1994–1995, congressional funding of transportation demonstration projects totaled over $2.7 billion, thereby reducing this state's share of federal highway funds by more than $29 million.

"Wherefore your memorialist, the Senate of the State of Arizona, the House of Representatives concurring, prays:

"1. That the Congress of the United States begin the process of establishing a new surface transportation act during the 1996 congressional session so that this vital legislation can be enacted before the expiration of ISTEA.

"2. That the President and Congress of the United States make the highway trust fund and the user fees accruing to it a permanent fund to ensure that reliable funding sources are available to the states for constructing, rehabilitating and otherwise improving the highways and bridges that are so essential to the vigor of the States of Arizona and the national economy.

"3. That the President and Congress of the United States protect the highway trust fund from legislative proposals that divert highway user revenues to programs entirely unrelated to the transportation purposes for which this fund was established.

"4. That the Congress of the United States remove the federal highway trust fund from the federal unified budget, release sequestered transportation fund and remove forever the specter of using dedicated highway funds for budget reducing measures, thus making these funds available for the purpose for which they were collected and intended, the nation's highway infrastructure.

"5. That the Congress of the United States not impose obligation authority limits in the future so that each state's highway authorization levels will be fully funded.

"6. That the Congress of the United States ceases to fund so-called demonstration projects and that all highway trust fund revenues be distributed to the states through an equitable and fair highway funding formula.

"7. That the Congress of the United States eliminate mandatory "set-aside" programs in the next surface transportation act, thereby giving states more monies for actual highway construction and maintenance projects.

"8. That the Congress of the United States ensure that all states receive at least a ninety-five percent return on payments made to the Federal Highway Trust Fund.

"9. That the Secretary of State of the State of Arizona transmit copies of this Memorial to the President of the United States, the President of the Senate of the United States, the Speaker of the House of Representatives of the United States and to each member of the Arizona Congressional Delegation."

POM-596. A joint resolution adopted by the Legislature of the State of Idaho; to the Committee on Environment and Public Works.

"HOUSE JOINT MEMORIAL NO. 6

"Whereas, during the settlement of what is now the state of Idaho and the years immediately following, grizzly bear and human interaction occurred to the extent that it became necessary to reduce the populations of grizzly bear in the interests of personal safety and the protection of private property; and

"Whereas, the natural result of these efforts, over time, has been the establishment of a de facto and maximum acceptable ratio of such bears to humans in areas where their populations remain; and

"Whereas, the reintroduction of grizzly bears to Idaho will disrupt this bear-to-human ratio to the detriment of humans resulting in injury, death, and loss of personal freedoms to the citizens of Idaho; and

"Whereas, our neighboring state of Montana has experienced unnecessary loss of human life, unacceptable land use restrictions and legal denial of the right to protect private property, which current reintroduction proposals for Idaho also threaten and echo; and

"Whereas, the United States Fish and Wildlife Service has elected to abdicate previously existing grizzly management agreements with one or more state game management agencies under pressure from special interest groups; and

"Whereas, the forced reintroduction of grizzly bears into areas of this state without citizen support represents unwarranted intrusion into the rights of our citizens; and

"Whereas, the Governor of the state of Idaho is vested with the supreme executive power within this state; Now, therefore, be it

"*Resolved by the members of the Second Regular Session of the Fifty-third Idaho Legislature, the House of Representatives and the Senate concurring therein*, That we urgently request the Congress of the United States to take immediate action to protect Idaho citizens from undue injury and loss of life, as well as unacceptable land use restrictions, that will occur under a federal grizzly bear reintroduction program. We specifically request that all funding and authorization for a forced grizzly bear reintroduction program be completely withdrawn from all federal agencies involved, be it further

"*Resolved*, That we urgently request the Governor of the state of Idaho to take any and all actions necessary to stop the reintroduction of grizzly bears into the state of Idaho by any federal agency or nongovernmental group; and be it further

"*Resolved*, That we encourage the Governor to make use of the Constitutional Defense Fund, in accordance with existing statutes, to defend the rights of this state and its citizens against any action or challenge regarding grizzly bear reintroduction by the federal government; and be it further

"*Resolved*, That the Chief Clerk of the House of Representatives be, and she is hereby authorized and directed to forward a copy of this Memorial to the President of the Senate and the Speaker of the House of Representatives of Congress, and the congressional delegation representing the state of Idaho in the Congress of the United States and the Governor of the state of Idaho.

POM-597. A concurrent resolution adopted by the Legislature of the State of Iowa to the Committee on Environment and Public Works.

"SENATE CONCURRENT RESOLUTION NO. 105

"Whereas, barges operating on United States inland waterways are the dominant carriers of United States grains to export port facilities; and

"Whereas, the barge share of grain movement to export ports increased from 43 percent in 1974 to 54 percent in 1991 and the majority of this barge grain traffic is on the Mississippi River system; and

"Whereas, the Upper Mississippi River is the dominant originator of grain barge traffic for export; and

"Whereas, 95 percent of the world's population live outside the United States; and

"Whereas, economies and populations continue to grow worldwide and these agricultural export markets are essential to the economic future of the upper Midwest including Iowa; and

"Whereas, barriers to increased international trade continue to decline making export markets even more likely to grow; and

"Whereas, international markets are very competitive and opportunities can be gained or lost based on very small differences in price; and

"Whereas, the United States Army Corps of Engineers projects Upper Mississippi River barge traffic to double between 1987 and 2020; and

"Whereas, increased barge traffic will continue to place a burden on the river transportation system which is more than 50 years old; and

"Whereas, the original design specifications for the locks and dams have been surpassed by modern barge technology resulting in delays because tows must be broken down to move through the locks; and

"Whereas, delays now costing $35 million per year are projected to rise as high as $200 million per year; and

"Whereas, shipping products by rail or truck would significantly increase costs and consumption of fuel and the emission of pollutants into the atmosphere; and

"Whereas, a consistent, economical, and reliable inland waterway system is critical to our economy; and

"Whereas, the national economic and public benefit of the Upper Mississippi River System is more than $1 billion per year and the maintenance costs are only $130 million; now therefore, be it

"*Resolved by the Senate, the House of Representatives concurring*, That the maintenance of the Upper Mississippi River system is essential to the economic well-being of Iowa and the Midwest; and be it further

"*Resolved*, That the Congress should continue full funding for the Upper Mississippi River—Illinois Waterway Navigation Feasibility Study; provide adequate funding for major rehabilitation efforts on the Upper Mississippi River; clearly recognize that transportation activities on the river must continue; and expedite the current study process being undertaken by the United States Army Corps of Engineers regarding the system's use through the year 2050; and be it further

"*Resolved*, That copies of this Resolution be sent to the President of the United States; the Chief of Engineers, United States Army Corps of Engineers, North Central Division; the United States Secretary of Transportation; the Speaker of the United States House of Representatives; and the members of Iowa's congressional delegation.

POM-598. A concurrent resolution adopted by the Legislature of the State of Michigan to the Committee on Environment and Public Works.

"SENATE CONCURRENT RESOLUTION NO. 265

"Whereas, an excellent highway network is vitally important to Michigan's economic well-being. All of the components of the State's economy are closely tied to the quality of the roadways used in transporting goods, services, and people throughout Michigan; and

"Whereas, Michigan's ability to maintain our transportation infrastructure is seriously impaired by the current policies of the federal government with regard to the federal gas tax each individual and business pays with every gallon of gasoline purchased. This unfair system costs the state hundreds of millions of dollars each year. The result is an increasing problem with the conditions of our roads and bridges; and

"Whereas, the largest element of the overall gas tax is the federal gas tax, which represents 18.4 cents of each dollar of gasoline sold. Of all of the states required to forward taxes to the federal government each year, Michigan ranks among the lowest in the ratio of gas tax revenues being returned to the citizens who paid the tax. In 1993, for example, $733.7 million was paid to the Federal Highway Trust Fund, and only $520.1 million was returned, a loss of $213.6 million, a loss that sets Michigan at a distinct disadvantage when making road improvements. Considering the inequitable manner in which this money is reallocated to the states of the union, it is clear that Michigan is bearing an oppressive burden through this taxation, a development of the tax structure that must be changed; and

"Whereas, adding to Michigan's tremendous burden, during the years 1990–1995, our state contributed $1.168 billion to federal deficit reduction, dollars that were initially collected to improve transportation routes in Michigan. This amount comprises approximately 20 percent of the total amount levied on Michigan citizens for the years 1990–1995. In addition, by 1999 Michigan's total contributions to deficit reduction are expected to total $2.099 billion, an amount that would certainly enable us to better maintain our roads and highways; and

"Whereas, clearly, Michigan is at a great disadvantage with states that receive far higher returns on their gas tax dollars marked for road improvements. In effect, we are subsidizing transportation maintenance and projects elsewhere when improvements are so desperately needed in our own state; and

"Whereas, with the new approaches to budgetary matters in Washington and a renewed willingness to examine the true costs of all spending policies, the time is right to remedy this unjust situation; now, therefore, be it

"*Resolved by the Senate (the House of Representatives concurring)*, That we urgently and respectfully request the Congress of the United States to return to Michigan all of the revenue from the federal gas tax collected in Michigan; and be it further

"*Resolved*, That copies of this resolution be transmitted to the President of the United States Senate, the Speaker of the United States House of Representatives, and to each member of the Michigan congressional delegation with the Request that each member review this issue and offer a formal response to this body, the Michigan State Senate.

POM-599. A resolution adopted by the Legislature of the State of New Hampshire to the Committee on Environment and Public Works.

"HOUSE CONCURRENT RESOLUTION NO. 27

"Whereas, certain aspects of the Safe Drinking Water Act require municipalities to make costly changes to municipal water supply systems; and

"Whereas, the municipalities pass these costs on to the ratepayers through water bills; and

"Whereas, certain requirements under the current Safe Drinking Water Act affect water quality and result in higher costs to citizens and businesses; now, therefore, be it

"*Resolved by the House of Representatives, the Senate concurring*, That the general court of New Hampshire hereby urges the United States Congress to pass S.1316, reauthorizing only certain aspects of the Safe Drinking Water Act which will attempt to make it less costly for municipalities to implement, while preserving water quality; and That copies of this resolution, signed by the president of the senate and the speaker of the house, be forwarded by the house clerk to the President of the United States, to the President of the United States Senate, to the Speaker of the United States House of Representatives, and to each member of the New Hampshire Congressional delegation."

EXECUTIVE REPORTS OF COMMITTEES

The following executive reports of committees were submitted:

By Mr. THURMOND, from the Committee on Armed Services:

John W. Hechinger, Sr., of the District of Columbia, to be a Member of the National Security Education Board for a term of four years.

(The above nomination was reported with the recommendation that he be confirmed, subject to the nominee's commitment to respond to requests to appear and testify before any duly constituted committee of the Senate.)

INTRODUCTION OF BILLS AND JOINT RESOLUTIONS

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

By Mr. MOYNIHAN:

S. 1879. A bill to amend the Internal Revenue Code of 1986 to provide for 501(c)(3) bonds a tax treatment similar to governmental bonds, and for other purposes; to the Committee on Finance.

S. 1880. A bill to amend the Internal Revenue Code of 1986 to correct the treatment of tax-exempt financing of professional sports facilities; to the Committee on Finance.

STATEMENTS ON INTRODUCED BILLS AND JOINT RESOLUTIONS

By Mr. MOYNIHAN:

S. 1879. A bill to amend the Internal Revenue Code of 1986 to provide for 501(c)(3) bonds a tax treatment similar to governmental bonds, and for other purposes; to the Committee on Finance.

THE SECTION 501(C)(3) NON-PROFIT ORGANIZATIONS TAX-EXEMPT BOND REFOM ACT OF 1996

By Mr. MOYNIHAN:

S. 1880. A bill to amend the Internal Revenue Code of 1986 to correct the treatment of tax-exempt financing of professional sports facilities; to the Committee on Finance.

THE STOP TAX-EXEMPT ARENA DEBT ISSUANCE ACT

Mr. MOYNIHAN. Mr. President, I rise today to introduce two tax bills. The first, the section 501(c)(3) Nonprofit Organizations Tax-Exempt Bond Reform Act of 1996, has been introduced several times previously by this Senator, with several of my distinguished colleagues as cosponsors. It would undo what ought never have been done: the classification of bonds of private nonprofit higher education institutions and other nonprofit organizations as those of a private activity. I reintroduce this legislation today because of its critical importance, and because we have found a particularly appropriate offset: The Stop Tax-Exempt Arena Debt Issuance Act, which I introduce today for the first time.

The Stop Tax-Exempt Arena Debt Issuance Act would close a gaping loophole. Recently, a spate of tax-exempt bonds have been issued to finance professional sports facilities, even though Congress acted to proscribe this practice in 1986. The bill would eliminate this tax-subsidized financing of professional sports facilities.

Taken together, these two bills correct a serious misallocation of our limited resources under present law: a tax subsidy that inures largely to the benefit of wealthy sports franchise owners would be replaced with increased funding for educational and research facilities at private colleges and universities.

Let me briefly describe the two measures:

THE SECTION 501(C)(3) NONPROFIT ORGANIZATIONS TAX-EXEMPT BOND REFORM ACT OF 1996

The first bill would remove the "private activity" label from the tax-exempt bonds of private, nonprofit higher education institutions and other organizations, and thereby eliminate the arbitrary $150 million cap on the amount of tax-exempt bonds that such an institution may have outstanding.

The Tax Reform Act of 1986 imposed the "private activity" label on bonds issued on behalf of nonprofit institutions, collectively known as section 501(c)(3) organizations, obscuring the longstanding recognition in the Internal Revenue Code of the public purposes served by these private institutions. Prior to that time, the tax law historically had treated private nonprofit colleges and universities essentially the same as governmental entities. Governmental units and section 501(c)(3) organizations were both classified as "exempt persons," and were afforded the benefits of tax-exempt bonds on the same basis. This was an explicit recognition in the Tax Code of the public purposes served by private nonprofit institutions of higher learning.

The 1986 act's elimination of the "exempt person" category and the classification of section 501(c)(3) organizations' bonds as "private activity" bonds was a serious error. It has relegated private higher education institutions to a diminished, restricted status. Most significant among the restrictions imposed in the 1986 act was the $150 million limitation on the amount of bonds that any nonprofit institution—other than a hospital—may have outstanding. We were successful in 1986 in keeping other "private activity" bond strictures from being imposed on nonprofits—the minimum tax and statewide volume caps, for example.

Now we must rectify our error, remove the "private activity" label, and restore equal access to tax-exempt financing. If we do not act soon, the vitality of our private institutions in higher education and research will be at risk. A distinguishing feature of American society is the singular degree to which we maintain an independent sector—"private universit[ies] in the public service," to paraphrase the motto of New York University. This is no longer so in most of the democratic world; it never was so in the rest. It is a treasure and a phenomenon that has clearly produced excellence—indeed, the envy of the world. We must insure the strength of the independent sector by restoring parity of treatment for tax-exempt finance. Otherwise, in 20 years, we will look up and find we have lost a unique feature of American democracy of inestimable value.

The sciences are now capital intensive undertakings. The need for capital for university research facilities is acute and critical. In 1990, the National Science Foundation estimated that for every $1 spent for maintenance of university research facilities, an additional $4.25 was deferred. As for new construction, the Foundation reports that for every $1 spent, another $3.11 in needed new construction was deferred in 1990.

The practical effect of the $150 million cap is to deny tax-exempt financing to large, private, research-oriented educational institutions most in need of capital to carry out their research mission. This will have a predictable, inevitable impact over a generation: the distribution of major research among the leading institutions in this country will profoundly change. If I may use an example from California: with this kind of differential in capital costs, we could look up one day and find Stanford to be still an institution of the greatest quality as an undergraduate teaching facility—with a fine law school and excellent liberal arts degree program—but with all the big science projects at Berkeley, the State institution.

This is not hyperbole. Already, 31 private colleges and universities are at or near the $150 million cap, and foreclosed from using tax-exempt debt. A few years ago, as the $150 million cap was beginning to take effect, 19 of the universities that ranked in the top 50 in research undertaking were private institutions. Now, only 14 of those 19 private institutions remain in the top 50, and all but 1 are foreclosed from tax-exempt financing as a result of the $150 million per institution limit.

This legislation will restore the status of private nonprofit institutions of higher learning, making their access to tax-exempt financing equal to that of their public counterparts. The legislation also reestablishes recognition in the Tax Code of the essential public purposes served by private nonprofit institutions.

Mr. President, the capital needs of private universities merit the very serious attention of this body. The cost of these changes is modest, given their importance. The staff of the Joint Committee on Taxation has estimated the revenue loss previously at $308 million over 5 years. The Senate has twice passed legislation to reverse the $150 million bond cap mistake—in the Family Tax Fairness, Economic Growth, and Health Care Access Act of 1992 (H.R. 4210) and the Revenue Act of 1992 (H.R. 11)—only to have both bills vetoed by President Bush. We should correct this error before it is too late. If we do not, we will soon not recognize the higher education sector.

THE STOP TAX-EXEMPT ARENA DEBT ISSUANCE ACT—A BILL TO CORRECT THE TREATMENT OF TAX-EXEMPT FINANCING OF PROFESSIONAL SPORTS FACILITIES

Mr. President, the second bill is an especially appropriate offset for the first bill and is an important piece of legislation in its own right.

This legislation will close a big loophole, a loophole that ultimately injures State and local governments and other issuers of tax exempt bonds, that provides an unintended Federal subsidy (in fact, contravenes congressional intent), and that contributes to the enrichment of persons who need no Federal assistance whatsoever.

I refer to the large number of professional sports facilities subsidized in recent years through the issuance of tax-exempt bonds. It seems that nearly every day, another professional sports franchise owner demands a new stadium, one subsidized by Federal, State and local taxpayers.

Why do owners want new stadiums? Our existing stock of stadiums is not functionally obsolete. Many stadiums are new, and our older ones generally can and will continue to serve, and serve well, for the exhibition of professional sports for years to come. In fact many older, historic stadiums are beloved by fans. The reason for new stadiums is economics—the team owners' bottom line. The owner can generate

more revenues with a new stadium replete with luxury skyboxes and other amenities.

Building new professional sports facilities is fine by me. Let the new stadiums be built. But, please, do not ask the American taxpayer to pay for them.

Prior to 1984, professional sports stadiums could be completely financed with tax-exempt, "private activity" bonds (or industrial development bonds as they were formerly known). In the Deficit Reduction Act of 1984, Congress stipulated that tax-exempt bond proceeds could not be used to finance the construction of luxury skyboxes. And in the Tax Reform Act of 1986, we fundamentally restructured the tax-exempt bond provisions of the Internal Revenue Code. As part of that effort, we repealed the "private activity" bond category for stadium bonds, intending to eliminate tax-exempt financing of professional sports facilities altogether.

Unfortunately, Congress did not address the issue of whether stadium bonds could be issued as governmental bonds because that possibility was too remote to have occurred to us. And in our silence, a loophole was born. Innovative bond counsel have devised aggressive schemes to finance stadiums with tax-exempt, governmental purpose bonds. So this legislation is corrective. It will put an end to a practice we thought we had stopped in 1986.

The history of the changes made by the 1986 act reveals why the use of tax-exempt financing for professional sports facilities is a loophole that should be closed. In May 1985, President Reagan issued a report recommending that tax-exempt bonds be limited to traditional governmental purposes. In December 1985, the House largely adopted the Reagan administration's recommendations for tax-exempt bond reform. The Senate was of course not inclined to go as far as the House. The 1986 act, as it emerged from conference, reflected a compromise between the House and Senate. We allowed States and local governments to continue to issue tax-exempt bonds for traditional governmental purposes, such as schools, roads, bridges. At the same time, we limited the issuance of tax-exempt bonds for private activities to a short list of projects with significant public benefits, even though carried out with private ownership. And we subjected private activity bonds to other significant limitations, chief among them being a unified, statewide volume limitation.

Why did Congress make these changes? Why did the Reagan administration propose curtailing the use of tax-exempt bonds? We were all concerned with the large and increasing volume of tax-exempt bonds, including an increasing percentage of industrial development bonds that were being issued at that time to subsidize private business activities.

The increasing proliferation of tax-exempt bonds led to a number of problems. First, it drove up interest costs. Larger interest costs drove up the cost of financing roads, bridges, and other items traditionally financed with tax-exempt bonds, and meant that State and local governments had to increase taxes or reduce services in order to pay for these improvements—or forego improvements.

Second, the proliferation of tax-exempt bonds led to mounting revenue losses to the U.S. Treasury. The Congressional Research Service recently reported that from 1980 to 1985, the annual amount of foregone tax revenue from tax exempt bonds had risen 236 percent to $18.2 billion.

Third, the use of taxpayer-subsidized financing for a rapidly growing number of private business activities resulted in an inefficient allocation of capital. Investment decisions were being made on the basis of which projects qualified for tax-exempt financing, rather than on the economic viability of the underlying project.

Fourth, taxpayers were able to shield a growing amount of their investment income from income tax by purchasing tax-exempt bonds. We had become very concerned with a number of tax sheltering activities during the 1980's and the undermining effect such activities had on our tax system.

So in 1986, we fundamentally restructured the tax exempt bond rules. And one of the things we did was prohibit the issuance of tax-exempt bonds to finance sports stadiums. Or so we thought.

Once again, under a loophole in the law, professional sports team owners are financing newer and more luxurious stadiums with tax-exempt stadium bonds. Cities are promising new stadiums, with dozens of luxury skyboxes, to entice professional sports teams to relocate. Should the taxpayers in the team's current home town be forced to pay for the team's new stadium in a new city? The answer is unmistakably no.

Mr. President, this is extraordinary. Particularly when compared to the limitations we place on private activity bonds, and these stadium bonds assuredly are private activity bonds in fact if not in name. Most States cannot issue more than $150 million of private activity bonds per year. However, no limit is imposed on the amount of bond financing that can be used to finance a professional sports facility. Where is the private activity bond prohibition against building luxury skyboxes with tax-exempt bond proceeds? Where is the private activity bond provision that subjects the interest on stadium bonds to the alternative minimum tax? Where are all of the other limitations on private activity bonds that we have judged are necessary? They apparently do not apply to these new stadium bonds.

And the situation is also unfair when compared to the restrictions we impose on the ability of our private, nonprofit educational institutions to issue tax-exempt debt. New York University can only issue $150 million in tax-exempt debt to finance its facilities in Manhattan. Stanford, Boston College, University of Miami, Northwestern University, Emory, Georgetown, University of Pennsylvania—these are a few of the institutions that can no longer issue tax-exempt debt to finance their laboratories, classrooms, and other facilities that are essential to our private institutions of higher education.

The Congressional Research Service issued a critical report late last month on the new stadium bonds, and concluded that the federal tax subsidy inherent in tax-exempt bond financing is not justified:

> Proponents argue that these stadium's economic benefits justify the subsidies. Economic analysis suggests this is not the case. One study found that a new stadium had no discernible impact on economic development in 27 of 30 metropolitan areas, and had a negative impact in the other three areas. The reason for this can be illustrated with the Baltimore football stadium proposal. Economic benefits were overstated by 236%, primarily because the reduced spending on other activities that enables people to attend stadium events was not netted against stadium spending. And no account was taken of losses incurred by foregoing more productive investments. The state's $177 million stadium investment is estimated to create 1,394 jobs at a cost of $127,000 per job. The cost per job generated by the state's Sunny Day Fund economic development program is estimated to be $6,250. The economic case against federal subsidy of stadiums is stronger. Almost all stadium spending is spending that would have been made on other activities within the United States, which means benefits to the Nation as a whole are near zero.

The report continues by citing several problems caused by the change in treatment of tax-exempt bonds for stadiums made by the Tax Reform Act of 1986:

> It continues stadium financing as an open-ended matching grant for which the magnitude of the federal subsidy in any given year is determined without the input of federal officials and federal taxpayers; it virtually requires state-local governments to offer more favorable lease terms to its professional tenants; and it requires state-local governments to finance their subsidy with general revenue sources rather than benefit-type payments such as stadium-related user charges and rents.

Finally, what makes the new spate of stadium bonds all the more egregious is the price that we paid to end this practice in the first place. The realities of the legislative process in 1986 required that we provide extraordinarily generous transition relief to those persons planning to build such facilities at

that time. We wrote special rules that allowed the tax-exempt financing of "virtually every stadium in the planning or gleam-in-the-eye stages," as described in the aforementioned Congressional Research Service report. First, we allowed all proposed sports stadiums with binding commitments to issue tax-exempt bonds, as they had planned. In addition, additional transitional relief was provided to allow the issuance of up to $2.7 billion in tax-exempt bonds for the construction and repair of 25 specifically described sports facilities that were too preliminary in their development to satisfy the transition rules.

Mr. President, the legislation I am introducing will do what we intended to do, and thought we did, in 1986. This legislation makes clear that professional sports facilities may not be financed with tax-exempt bonds.

There are a few technical issues on which I would like to solicit comments. First, the proposed effective date would be today. Perhaps it should be made effective on October 22, 1986, the day President Reagan signed the Tax Reform Act of 1986 into law and we prohibited the issuance of stadium bonds in the first place. After all, this bill is, in a sense, a "technical correction." Nevertheless, I would like to consider the need for equitable relief for stadiums already in the planning stages.

Second, a number of sports facilities that are not built for a professional sports franchise will be used for the occasional charitable or isolated sporting event. Thus, charitable or de minimis use exceptions to this legislation may be appropriate.

Mr. President, these two bills, taken together, would correct a serious misallocation of our limited resources. Should we subsidize professional sports franchises and underwrite bidding wars among cities seeking (or fighting to keep) professional sports franchises, or should we act to prevent a significant decline in the ability of our nonprofit, private research universities to attract capital for classrooms and research facilities? To my mind, this is not a difficult choice.

Mr. President, I ask unanimous consent that the two bills be printed in the RECORD, along with explanatory statements.

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

S. 1879

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

SECTION 1. SHORT TITLE.

This Act may be cited as the "Section 501(c)(3) Nonprofit Organizations Tax-Exempt Bond Reform Act of 1996".

SEC. 2. TAX TREATMENT OF 501(c)(3) BONDS SIMILAR TO GOVERNMENTAL BONDS.

(a) IN GENERAL.—Subsection (a) of section 150 of the Internal Revenue Code of 1986 (relating to definitions and special rules) is amended by striking paragraphs (2) and (4), by redesignating paragraphs (5) and (6) as paragraphs (4) and (5), respectively, and by inserting after paragraph (1) the following new paragraph:

"(2) EXEMPT PERSON.—

"(A) IN GENERAL.—The term 'exempt person' means—

"(i) a governmental unit, or

"(ii) a 501(c)(3) organization, but only with respect to its activities which do not constitute unrelated trades or businesses as determined by applying section 513(a).

"(B) GOVERNMENTAL UNIT NOT TO INCLUDE FEDERAL GOVERNMENT.—The term 'governmental unit' does not include the United States or any agency or instrumentality thereof.

"(C) 501(c)(3) ORGANIZATION.—The term '501(c)(3) organization' means any organization described in section 501(c)(3) and exempt from tax under section 501(a)."

(b) REPEAL OF QUALIFIED 501(c)(3) BOND DESIGNATION.—Section 145 of the Internal Revenue Code of 1986 (relating to qualified 501(c)(3) bonds) is repealed.

(c) CONFORMING AMENDMENTS.—

(1) Paragraph (3) of section 141(b) of the Internal Revenue Code of 1986 is amended—

(A) by striking "government use" in subparagraph (A)(ii)(I) and subparagraph (B)(ii) and inserting "exempt person use",

(B) by striking "a government use" in subparagraph (B) and inserting "an exempt person use",

(C) by striking "related business use" in subparagraph (A)(ii)(II) and subparagraph (B) and inserting "related private business use",

(D) by striking "RELATED BUSINESS USE" in the heading of subparagraph (B) and inserting "RELATED PRIVATE BUSINESS USE", and

(E) by striking "GOVERNMENT USE" in the heading thereof and inserting "EXEMPT PERSON USE".

(2) Subparagraph (A) of section 141(b)(6) of such Code is amended by striking "a governmental unit" and inserting "an exempt person".

(3) Paragraph (7) of section 141(b) of such Code is amended—

(A) by striking "government use" and inserting "exempt person use", and

(B) by striking "GOVERNMENT USE" in the heading thereof and inserting "EXEMPT PERSON USE".

(4) Section 141(b) of such Code is amended by striking paragraph (9).

(5) Paragraph (1) of section 141(c) of such Code is amended by striking "governmental units" and inserting "exempt persons".

(6) Section 141 of such Code is amended by redesignating subsection (e) as subsection (f) and by inserting after subsection (d) the following new subsection:

"(e) CERTAIN ISSUES USED TO PROVIDE RESIDENTIAL RENTAL HOUSING FOR FAMILY UNITS.—

"(1) IN GENERAL.—Except as provided in paragraph (2), for purposes of this title, the term 'private activity bond' includes any bond issued as part of an issue if any portion of the net proceeds of the issue are to be used (directly or indirectly) by an exempt person described in section 150(a)(2)(A)(ii) to provide residential rental property for family units. This paragraph shall not apply if the bond would not be a private activity bond if the section 501(c)(3) organization were not an exempt person.

"(2) EXCEPTION FOR BONDS USED TO PROVIDE QUALIFIED RESIDENTIAL RENTAL PROJECTS.—Paragraph (1) shall not apply to any bond issued as part of an issue if the portion of such issue which is to be used as described in paragraph (1) is to be used to provide—

"(A) a residential rental property for family units if the first use of such property is pursuant to such issue,

"(B) qualified residential rental projects (as defined in section 142(d)), or

"(C) property which is to be substantially rehabilitated in a rehabilitation beginning within the 2-year period ending 1 year after the date of the acquisition of such property.

"(3) SUBSTANTIAL REHABILITATION.—

"(A) IN GENERAL.—Except as provided in subparagraph (B), rules similar to the rules of section 47(c)(1)(C) shall apply in determining for purposes of paragraph (2)(C) whether property is substantially rehabilitated.

"(B) EXCEPTION.—For purposes of subparagraph (A), clause (ii) of section 47(c)(1)(C) shall not apply, but the Secretary may extend the 24-month period in section 47(c)(1)(C)(i) where appropriate due to circumstances not within the control of the owner.

"(4) CERTAIN PROPERTY TREATED AS NEW PROPERTY.—Solely for purposes of determining under paragraph (2)(A) whether the 1st use of property is pursuant to tax-exempt financing—

"(A) IN GENERAL.—If—

"(i) the 1st use of property is pursuant to taxable financing,

"(ii) there was a reasonable expectation (at the time such taxable financing was provided) that such financing would be replaced by tax-exempt financing, and

"(iii) the taxable financing is in fact so replaced within a reasonable period after the taxable financing was provided,

then the 1st use of such property shall be treated as being pursuant to the tax-exempt financing.

"(B) SPECIAL RULE WHERE NO OPERATING STATE OR LOCAL PROGRAM FOR TAX-EXEMPT FINANCING.—If, at the time of the 1st use of property, there was no operating State or local program for tax-exempt financing of the property, the 1st use of the property shall be treated as pursuant to the 1st tax-exempt financing of the property.

"(C) DEFINITIONS.—For purposes of this paragraph—

"(i) TAX-EXEMPT FINANCING.—The term 'tax-exempt financing' means financing provided by tax-exempt bonds.

"(ii) TAXABLE FINANCING.—The term 'taxable financing' means financing which is not tax-exempt financing."

(7) Section 141(f) of such Code, as redesignated by paragraph (6), is amended—

(A) by adding "or" at the end of subparagraph (E),

(B) by striking ", or" at the end of subparagraph (F), and inserting in lieu thereof a period, and

(C) by striking subparagraph (G).

(8) The last sentence of section 144(b)(1) of such Code is amended by striking "(determined" and all that follows to the period.

(9) Clause (ii) of section 144(c)(2)(C) of such Code is amended by striking "a governmental unit" and inserting "an exempt person".

(10) Section 146(g) of such Code is amended—

(A) by striking paragraph (2), and

(B) by redesignating the remaining paragraphs after paragraph (1) as paragraphs (2) and (3), respectively.

(11) The heading of section 146(k)(3) of such Code is amended by striking "GOVERNMENTAL" and inserting "EXEMPT PERSON".

(12) The heading of section 146(m) of such Code is amended by striking "GOVERNMENT" and inserting "EXEMPT PERSON".

(13) Subsection (h) of section 147 of such Code is amended to read as follows:

"(h) CERTAIN RULES NOT TO APPLY TO MORTGAGE REVENUE BONDS AND QUALIFIED STUDENT LOAN BONDS.—Subsections (a), (b), (c), and (d) shall not apply to any qualified mortgage bond, qualified veterans' mortgage bond, or qualified student loan bond."

(14) Section 147 of such Code is amended by striking paragraph (4) of subsection (b) and redesignating paragraph (5) of such subsection as paragraph (4).

(15) Subparagraph (F) of section 148(d)(3) of such Code is amended—

(A) by striking "or which is a qualified 501(c)(3) bond", and

(B) by striking "GOVERNMENTAL USE BONDS AND QUALIFIED 501(C)(3)" in the heading thereof and inserting "EXEMPT PERSON".

(16) Subclause (II) of section 148(f)(4)(B)(ii) of such Code is amended by striking "(other than a qualified 501(c)(3) bond)".

(17) Clause (iv) of section 148(f)(4)(C) of such Code is amended—

(A) by striking "a governmental unit or a 501(c)(3) organization" each place it appears and inserting "an exempt person",

(B) by striking "qualified 501(c)(3) bonds,", and

(C) by striking the comma after "private activity bonds" the first place it appears.

(18) Subparagraph (A) of section 148(f)(7) of such Code is amended by striking "(other than a qualified 501(c)(3) bond)".

(19) Paragraph (2) of section 149(d) of such Code is amended—

(A) by striking "(other than a qualified 501(c)(3) bond)", and

(B) by striking "CERTAIN PRIVATE" in the heading thereof and inserting "PRIVATE".

(20) Section 149(e)(2) of such Code is amended—

(A) by striking "which is not a private activity bond" in the second sentence and inserting "which is a bond issued for an exempt person described in section 150(a)(2)(A)(i)", and

(B) by adding at the end the following new sentence: "Subparagraph (D) shall not apply to any bond which is not a private activity bond but which would be such a bond if the 501(c)(3) organization using the proceeds thereof were not an exempt person."

(21) The heading of subsection (b) of section 150 of such Code is amended by striking "TAX-EXEMPT PRIVATE ACTIVITY BONDS" and inserting "CERTAIN TAX-EXEMPT BONDS".

(22) Paragraph (3) of section 150(b) of such Code is amended—

(A) by inserting "owned by a 501(c)(3) organization" after "any facility" in subparagraph (A),

(B) by striking "any private activity bond which, when issued, purported to be a tax-exempt qualified 501(c)(3) bond" in subparagraph (A) and inserting "any bond which, when issued, purported to be a tax-exempt bond, and which would be a private activity bond if the 501(c)(3) organization using the proceeds thereof were not an exempt person", and

(C) by striking the heading thereof and inserting "BONDS FOR EXEMPT PERSONS OTHER THAN GOVERNMENTAL UNITS.—".

(23) Paragraph (5) of section 150(b) of such Code is amended—

(A) by striking "private activity" in subparagraph (A),

(B) by inserting "and which would be a private activity bond if the 501(c)(3) organization using the proceeds thereof were not an exempt person" after "tax-exempt bond" in subparagraph (A),

(C) by striking subparagraph (B) and inserting the following new subparagraph:

"(B) such facility is required to be owned by an exempt person, and", and

(D) by striking "GOVERNMENTAL UNITS OR 501(C)(3) ORGANIZATIONS" in the heading thereof and inserting "EXEMPT PERSONS".

(24) Section 150 of such Code is amended by adding at the end the following new subsection:

"(f) CERTAIN RULES TO APPLY TO BONDS FOR EXEMPT PERSONS OTHER THAN GOVERNMENTAL UNITS.—

"(1) IN GENERAL.—Nothing in section 103(a) or any other provision of law shall be construed to provide an exemption from Federal income tax for interest on any bond which would be a private activity bond if the 501(c)(3) organization using the proceeds thereof were not an exempt person unless such bond satisfies the requirements of subsections (b) and (f) of section 147.

"(2) SPECIAL RULE FOR POOLED FINANCING OF 501(C)(3) ORGANIZATION.—

"(A) IN GENERAL.—At the election of the issuer, a bond described in paragraph (1) shall be treated as meeting the requirements of section 147(b) if such bond meets the requirements of subparagraph (B).

"(B) REQUIREMENTS.—A bond meets the requirements of this subparagraph if—

"(i) 95 percent or more of the net proceeds of the issue of which such bond is a part are to be used to make or finance loans to 2 or more 501(c)(3) organizations or governmental units for acquisition of property to be used by such organizations,

"(ii) each loan described in clause (i) satisfies the requirements of section 147(b) (determined by treating each loan as a separate issue),

"(iii) before such bond is issued, a demand survey was conducted which shows a demand for financing greater than an amount equal to 120 percent of the lendable proceeds of such issue, and

"(iv) 95 percent or more of the net proceeds of such issue are to be loaned to 501(c)(3) organizations or governmental units within 1 year of issuance and, to the extent there are any unspent proceeds after such 1-year period, bonds issued as part of such issue are to be redeemed as soon as possible thereafter (and in no event later than 18 months after issuance).

A bond shall not meet the requirements of this subparagraph if the maturity date of any bond issued as part of such issue is more than 30 years after the date on which the bond was issued (or, in the case of a refunding or series of refundings, the date on which the original bond was issued)."

(25) Section 1302 of the Tax Reform Act of 1986 is repealed.

(26) Subparagraph (C) of section 57(a)(5) of such Code is amended by striking clause (ii) and redesignating clauses (iii) and (iv) as clauses (ii) and (iii), respectively.

(27) Paragraph (3) of section 103(b) of such Code is amended by inserting "and section 150(f)" after "section 149".

(28) Paragraph (3) of section 265(b) of such Code is amended—

(A) by striking clause (ii) of subparagraph (B) and inserting the following:

"(ii) CERTAIN BONDS NOT TREATED AS PRIVATE ACTIVITY BONDS.—For purposes of clause (i)(II), there shall not be treated as a private activity bond any obligation issued to refund (or which is part of a series of obligations issued to refund) an obligation issued before August 8, 1986, which was not an industrial development bond (as defined in section 103(b)(2) as in effect on the day before the date of the enactment of the Tax Reform Act of 1986) or a private loan bond (as defined in section 103(o)(2)(A), as so in effect, but without regard to any exemption from such definition other than section 103(o)(2)(A)).";

and

(B) by striking "(other than a qualified 501(c)(3) bond, as defined in section 145)" in subparagraph (C)(ii)(I).

(d) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided in paragraph (2), the amendments made by this section shall apply to bonds (including refunding bonds) issued and capital expenditures made on or after the date of the enactment of this Act.

(2) EXCEPTION.—The amendments made by this section shall not apply to bonds issued before January 1, 1997, for purposes of applying section 148(f)(4)(D) of the Internal Revenue Code of 1986.

SECTION 501(c)(3) NONPROFIT ORGANIZATION TAX-EXEMPT BOND REFORM ACT OF 1996

PRESENT LAW

Interest on State and local governmental bonds generally is excluded from income if the bonds are issued to finance direct activities of these governments (sec. 103). Interest on bonds issued by these governments to finance activities of other persons, e.g., private activity bonds, is taxable unless a specific exception is included in the Code. One such exception is for private activity bonds issued to finance activities of private, charitable organizations described in Code section 501(c)(3) ("section 501(c)(3) organizations") when the activities do not constitute an unrelated trade or business (sec. 141(e)(1)(G)).

Classification of section 501(c)(3) organization bonds as private activity bonds

Before enactment of the Tax Reform Act of 1986, States and local governments and section 501(c)(3) organizations were defined as "exempt persons," under the Code bond provisions. As exempt persons, section 501(c)(3) organizations were not treated as "private" persons, and their bonds were not "industrial development bonds" or "private loan bonds" (the predecessor categories to current private activity bonds). Under present law, a bond is a private activity bond if its proceeds are used in a manner violating either (a) a private business test or (b) a private loan

test. The private business test is a conjunctive two-pronged test. First, the test limits private business use of governmental bonds to no more than 10 percent of the proceeds.[1] Second, no more than 10 percent of the debt service on the bonds may be secured by or derived from private business users of the proceeds. The private loan test limits to the lesser of 5 percent or $5 million the amount of governmental bond proceeds that may be used to finance loans to persons other than governmental units.

Special restrictions on tax-exemption for section 501(c)(3) organization bonds

Present law treats section 501(c)(3) organizations as private persons; thus, bonds for their use may only be issued as private activity "qualified 501(c)(3) bonds," subject to the restrictions of Code section 145. The most significant of these restrictions limits the amount of outstanding bonds from which a section 501(c)(3) organization may benefit to $150 million. In applying this "$150 million limit," all section 501(c)(3) organizations under common management or control are treated as a single organization. The limit does not apply to bonds for hospital facilities, defined to include only acute care, primarily inpatient, organizations. A second restriction limits to no more than five percent the amount of the net proceeds of a bond issue that may be used to finance any activities (including all costs of issuing the bonds) other than the exempt purposes of the section 501(c)(3) organization.

Legislation enacted in 1988 imposed low-income tenant occupancy restrictions on existing residential rental property that is acquired by section 501(c)(3) organizations in tax-exempt-bond-financed transactions. These restrictions require that a minimum number of the housing units comprising the property be continuously occupied by tenants having family incomes of 50 percent (60 percent in certain cases) of area median income for periods of up to 15 years. These same low-income tenant occupancy requirements apply to for-profit developers receiving tax-exempt private activity bond financing.

Other restrictions

Several restrictions are imposed on private activity bonds generally that do not apply to bonds used to finance State and local government activities. Many of these restrictions also apply to qualified 501(c)(3) bonds. No more than two percent of the proceeds of a bond issue may be used to finance the costs of issuing the bonds, and these monies are not counted in determining whether the bonds satisfy the requirement that at least 95 percent of the net proceeds of each bond issue be used for the exempt activities qualifying the bonds for tax-exemption.

The weighted average maturity of a bond issue may not exceed 120 percent of the average economic life of the property financed with the proceeds. A public hearing must be held and an elected public official must approve the bonds before they are issued (or the bonds must be approved by voter referendum).

If property financed with private activity bonds is converted to a use not qualifying for tax-exempt financing, certain loan interest penalties are imposed.

[1] No more than 5 percent of bond proceeds may be used in a private business use that is unrelated to the governmental purpose of the bond issue. The 10-percent debt service test, described below, likewise is reduced to 5 percent in the case of such "disproportionate" private business use.

Both governmental and private activity bonds are subject to numerous other Code restrictions, including the following:

1. The amount of arbitrage profits that may be earned on tax-exempt bonds is strictly limited, and most such profits must be rebated to the Federal Government;

2. Banks may not deduct interest they pay to the extent of their investments in most tax-exempt bonds; and

3. Interest on private activity bonds, other than qualified 501(c)(3) bonds, is a preference item in calculating the alternative minimum tax.

REASONS FOR CHANGE

A distinguishing feature of American society is the singular degree to which the United States maintains a private, non-profit sector of private higher education, health care, and other charitable institutions in the public service. It is important to assist these private institutions in their advancement of the public good. The restrictions of present law place these section 501(c)(3) organizations at a financial disadvantage relative to substantially identical governmental institutions, and are particularly inappropriate. For example, private, non-profit research universities are subject to the $150 million limitation on outstanding bonds, whereas State-sponsored universities competing for the same research projects do not operate under a comparable restriction. A public hospital generally has unlimited access to tax-exempt bond financing, while a private, non-profit hospital is subject to a $150 million limitation on outstanding bonds to the extent the bonds finance health care facilities that do not qualify under the present-law definition of hospital. These and other restrictions inhibit the ability of America's private, non-profit institutions to modernize their health care facilities and to build state-of-the-art research facilities for the advancement of science, medicine, and other educational endeavors.

Inhibiting the access of private, non-profit research institutions to sources of capital financing, in relation to their public counterparts, distorts the distribution of major research among the leading institutions, and over time will lead to the decline of research undertakings by private, non-profit universities. The tax-exempt bond rules should reduce these distortions by treating more equally State and local governments and those private organizations which are engaged in similar actions advancing the public good.

EXPLANATION OF PROVISION

The bill amends the tax-exempt bond provisions of the Code to conform generally the treatment of bonds for section 501(c)(3) organizations to that provided for bonds issued to finance direct State or local government activities, including construction of public hospitals and university facilities. Certain restrictions, described below, that have been imposed on qualified 501(c)(3) bonds (but not on governmental bonds) since 1986, and that address specialized policy concerns, are retained.

Repeal of private activity bond classification for bonds for section 501(c)(3) organizations

The concept of an "exempt person" that existed under the Code bond provisions before 1986, is reenacted. An exempt person is defined as (a) a State or local governmental unit or (b) a section 501(c)(3) organization, when carrying out its exempt activities under Code section 501(a). Thus, bonds for section 501(c)(3) organizations are generally no longer classified as private activity bonds. Financing for unrelated business activities of such organizations continue to be treated as a private activity for which tax-exempt financing is not authorized.

As exempt persons, section 501(c)(3) organizations are subject to the same limits as States and local governments on using their bond proceeds to finance private business activities or to make private loans. Thus, generally no more than 10 percent of the bond proceeds[2] can be used in a business use of a person other than an exempt person if the Code private payment test is satisfied, and no more than 5 percent ($5 million if less) can be used to make loans to such "non-exempt" persons.

Repeal of most additional special restrictions on section 501(c)(3) organization bonds

Present Code section 145, which establishes additional restrictions on qualified 501(c)(3) bonds, is repealed, along with the restriction on bond-financed costs of issuance for section 501(c)(3) organization bonds (sec. 147(h)). This eliminates the $150 million limit on non-hospital bonds for section 501(c)(3) organizations.

Retention of certain specialized requirements for section 501(c)(3) organization bonds

The bill retains certain specialized restrictions on bonds for section 501(c)(3) organizations. First, the bill retains the requirement that existing residential rental property acquired by a section 501(c)(3) organization in a tax-exempt-bond-financed transaction satisfy the same low-income tenant requirements as similar housing financing for for-profit developers. Second, the bill retains the present-law maturity limitations applicable to bonds for section 501(c)(3) organizations, and the public approval requirements applicable generally to private activity bonds. Third, the bill continues to apply the penalties on changes in use of tax-exempt-bond-financed section 501(c)(3) organization property to a use not qualified for such financing.

Finally, the bill makes no amendments, other than technical conforming amendments, to the tax-exempt arbitrage restrictions, the alternative minimum tax tax-exempt bond preference, or the provisions generally disallowing interest paid by banks on monies used to acquire or carry tax-exempt bonds.

EFFECTIVE DATE

The provision is generally effective with respect to bonds issued and to capital expenditures made after the date of enactment. The provision does not apply to bonds issued prior to January 1, 1997 for the purposes of applying the rebate requirements under Section 148(f)(4)(D).

S. 1880

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

SECTION 1. SHORT TITLE.

This Act may be cited as the "Stop Tax-Exempt Arena Debt Issuance Act".

[2] This limit would be reduced to 5 percent in the case of disproportionate private use as under the present-law governmental bond disproportionate private use limit.

SEC. 2. TREATMENT OF TAX-EXEMPT FINANCING OF PROFESSIONAL SPORTS FACILITIES.

(a) IN GENERAL.—Section 141 of the Internal Revenue Code of 1986 (defining private activity bond and qualified bond) is amended by redesignating subsection (e) as subsection (f) and by inserting after subsection (d) the following new subsection:

"(e) CERTAIN ISSUES USED FOR PROFESSIONAL SPORTS FACILITIES TREATED AS PRIVATE ACTIVITY BONDS.—

"(1) IN GENERAL.—For purposes of this title, the term 'private activity bond' includes any bond issued as part of an issue if the amount of the proceeds of the issue which are to be used (directly or indirectly) to provide professional sports facilities exceeds the lesser of—

"(A) 5 percent of such proceeds, or

"(B) $5,000,000.

"(2) BOND NOT TREATED AS A QUALIFIED BOND.—For purposes of this title, any bond described in paragraph (1) shall not be a qualified bond.

"(3) PROFESSIONAL SPORTS FACILITIES.—For purposes of this subsection—

"(A) IN GENERAL.—The term 'professional sports facilities' means real property or related improvements used for professional sports exhibitions, games, or training, regardless if the admission of the public or press is allowed or paid.

"(B) USE FOR PROFESSIONAL SPORTS.—Any use of facilities which generates a direct or indirect monetary benefit (other than reimbursement for out-of-pocket expenses) for a person who uses such facilities for professional sports exhibitions, games, or training shall be treated as a use described in subparagraph (A).

"(4) ANTI-ABUSE REGULATIONS.—The Secretary shall prescribe such regulations as may be appropriate to carry out the purposes of this subsection, including such regulations as may be appropriate to prevent avoidance of such purposes through related persons, use of related facilities or multiuse complexes, or otherwise."

(b) EFFECTIVE DATE.—The amendments made by this section shall apply to bonds issued on or after June 14, 1996.

THE STOP TAX-EXEMPT ARENA DEBT ISSUANCE ACT

PRESENT LAW

Interest on State and local governmental bonds generally is excluded from income if the bonds are issued to finance direct activities of these governments (sec. 103). Interest on bonds issued by these governments to finance activities of other persons, e.g., private activity bonds, is taxable unless the bonds satisfy certain requirements. Private activity bonds must be within certain statewide volume limitations, must not violate the arbitrage and other applicable restrictions, and must finance activities within one of the categories specified in the Code. The Tax Reform Act of 1986 repealed the private activity bond category for sports facilities; therefore no private activity bonds may be issued for this purpose.

Bonds issued by State and local governments are considered to be government use bonds, unless the bonds are classified as private activity bonds. Bonds are deemed to be private activity bonds if both the (i) private business use test and (ii) private security or payment test are met. The private business use test is met if more than 10 percent of the bond proceeds, including facilities financed with the bond proceeds, is used in a non-governmental trade or business. The private security or payment test is met if more than 10 percent of the bond repayments is secured by privately used property, or is derived from the payments of private business users. Additionally, bonds are deemed to be private activity bonds if more than 5 percent of the bond proceeds or $5 million are used to finance loans to persons other than governmental units.

REASONS FOR CHANGE

The use of tax-exempt financing for professional sports facilities provides an indirect and inefficient federal tax subsidy. Congress intended to eliminate this subsidy for professional sports facilities in the Tax Reform Act of 1986, by repealing the private activity bond category for sports facilities. The use of government bonds to finance the identical underlying private business use is an unintended and improper use of a federal subsidy, and an abuse of the government bond rules. In addition, the use of tax-exempt bonds to finance professional sports facilities is particularly inappropriate where the facilities to be built are used to entice professional sports franchises to relocate.

EXPLANATION OF PROVISION

The bill would provide that bonds issued to finance professional sports facilities are private activity bonds, and that such bonds are not qualified bonds. Therefore, professional sports facilities will not qualify for tax-exempt bond financing.

A professional sports facility is defined to include real property and related improvements which are used for professional sports exhibitions, games, or training, whether or not admission of the public or press is allowed or paid. In addition, a facility that is used for purpose other than professional sports will nevertheless be treated as being used for professional sports if the facility generates a direct or indirect monetary benefit (other than reimbursement for out-of-pocket expenses) for a person who uses the facility for professional sports. These benefits are intended to include an interest in revenues from parking fees, food and beverage sales, advertising and sports facility naming rights, television rights, ticket sales, private suites and club seats, and concessions.

The Secretary of the Treasury is authorized to issue anti-abuse regulations to prevent transactions intended to improperly divert the indirect Federal subsidy for traditional governmental uses inherent in tax-exempt bonds for the benefit of professional sports facilities or professional sports teams. It is intended that no tax-exempt bond proceeds may finance a ball park used for professional sports exhibitions, even if the ball park is made a part of a larger multi-use complex used 365 days a year for other purposes. In addition, it is intended that reciprocal usage of sports facilities by professional sports franchises that divide their usage among several facilities in order to avoid the 5 percent use test be aggregated for purposes of this provision.

No inference is intended regarding the rules under present law regarding the issuance or holding of, or interest paid or accrued on, any bonds issued prior to the effective date of this bill to finance sports facilities.

EFFECTIVE DATE

The provision is effective with respect to bonds issued on or after June 14, 1996.

ADDITIONAL COSPONSORS

S. 1460

At the request of Mrs. BOXER, the name of the Senator from Maryland [Mr. SARBANES] was added as a cosponsor of S. 1460, a bill to amend the Marine Mammal Protection Act of 1972 to support the International Dolphin Conservation Program in the eastern tropical Pacific Ocean, and for other purposes.

S. 1627

At the request of Mr. JOHNSTON, the names of the Senator from Louisiana [Mr. BREAUX], and the Senator from Hawaii [Mr. INOUYE] were added as cosponsors of S. 1627, a bill to designate the visitor center at Jean Lafitte National Historical Park in New Orleans, Louisiana as the "Laura C. Hudson Visitor Center."

S. 1632

At the request of Mr. LAUTENBERG, the names of the Senator from Hawaii [Mr. AKAKA], and the Senator from Hawaii [Mr. INOUYE] were added as cosponsors of S. 1632, a bill to prohibit persons convicted of a crime involving domestic violence from owning or possessing firearms, and for other purposes.

S. 1714

At the request of Mr. BURNS, the name of the Senator from North Carolina [Mr. FAIRCLOTH] was added as a cosponsor of S. 1714, a bill to amend title 49, United States Code, to ensure the ability of utility providers to establish, improve, operate and maintain utility structures, facilities, and equipment for the benefit, safety, and well-being of consumers, by removing limitations on maximum driving and on-duty time pertaining to utility vehicle operators and drivers, and for other purposes.

S. 1844

At the request of Mr. MURKOWSKI, the name of the Senator from Colorado [Mr. CAMPBELL] was added as a cosponsor of S. 1844, a bill to amend the Land and Water Conservation Fund Act to direct a study of the opportunities for enhanced water based recreation and for other purposes.

S. 1854

At the request of Mr. HATCH, the name of the Senator from Florida [Mr. MACK] was added as a cosponsor of S. 1854, a bill to amend Federal criminal law with respect to the prosecution of violent and repeat juvenile offenders and controlled substances, and for other purposes.

S. 1857

At the request of Mr. SMITH, his name was added as a cosponsor of S.

1857, a bill to establish a bipartisan commission on campaign practices and provide that its recommendations be given expedited consideration.

SENATE RESOLUTION 263

At the request of Ms. MOSELEY-BRAUN, the names of the Senator from Massachusetts [Mr. KENNEDY], the Senator from Delaware [Mr. BIDEN], and the Senator from Illinois [Mr. SIMON] were added as cosponsors of Senate Resolution 263, A resolution relating to church burning.

NOTICE OF HEARING

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

Mr. LUGAR. Mr. President, I would like to announce that the Senate Committee on Agriculture, Nutrition, and Forestry will meet on Wednesday, June 19, 1996, at 9:30 a.m. in SR–328A to mark up the committee's budget reconciliation instructions.

AUTHORITY FOR COMMITTEE TO MEET

SUBCOMMITTEE ON WESTERN HEMISPHERE AND PEACE CORPS AFFAIRS

Mr. MACK. Mr. President, I ask unanimous consent that the Subcommittee on Western Hemisphere and Peace Corps Affairs of the Committee on Foreign Relations be authorized to meet during the session of the Senate on Friday, June 14, 1996, at 1 p.m. to hold a hearing.

The PRESIDING OFFICER. Without objection, it is so ordered.

ADDITIONAL STATEMENTS

PRESIDENT CLINTON'S DECISION ON LANDMINE USE

• Mr. JEFFORDS. Mr. President, earlier this week, President Clinton missed an excellent opportunity to exert U.S. leadership in the worldwide movement to ban landmines. As an original cosponsor of S. 1276, the Landmine Moratorium Extension Act, and having long supported measures to prevent the proliferation of landmines, I regret that the President did not take a stronger stance on banning the use of landmines, but instead equivocated, and again put off the ultimate U.S. goal of eliminating landmines. These weapons effect mainly innocent civilians, and in the case of so-called dumb mines, remain dangerous and threaten civilian populations indefinitely, often long after hostilities in an area have stopped. Such weapons make agriculture dangers, and hence hinder economic reconstruction and development.

For the United States to play the role the President professes to seek, that of leading the world to negotiating an end to the use of landmines, the United States needs to match its rhetoric with actions. It is my hope that the U.S. Government will soon take action to do just that, and move quickly and concretely to rid the world of the scourge of landmines.•

ORDERS FOR TUESDAY, JUNE 18, 1996

Mr. MACK. Mr. President, I ask unanimous consent that when the Senate completes its business today it stand in adjournment until the hour of 10 a.m. on Tuesday, June 18, and, further, that immediately following the prayer, the Journal of proceedings be deemed approved to date, no resolutions come over under the rule, the call of the calendar be dispensed with, the morning hour be deemed to have expired, and the time for the two leaders be reserved for their use later in the day, and the Senate then begin consideration of S. 1745, the Department of Defense authorization bill as under the previous consent agreement.

The PRESIDING OFFICER. Without objection, it is so ordered.

PROGRAM

Mr. MACK. For the information of all Senators, the Senate will begin consideration of the DOD authorization bill on Tuesday. Senators may give opening statements on the bill beginning at 10 a.m.; however, no amendments will be in order prior to 2:15 on Tuesday. Also, the Senate will recess from the hour of 12:30 until 2:15 p.m. for the weekly policy conferences to meet. As a reminder, the Senate will resume debate on the Greenspan nomination on Thursday, June 20, with a vote to occur on the nomination at 2 p.m. on that day.

ADJOURNMENT UNTIL 10 A.M. TUESDAY, JUNE 18, 1996

Mr. MACK. Mr. President, if there is no further business to come before the Senate, I now ask that the Senate stand in adjournment under the previous order.

There being no objection, the Senate, at 3:42 p.m., adjourned until Tuesday, June 18, 1996, at 10 a.m.

NOMINATIONS

Executive nominations received by the Senate June 14, 1996:

DEPARTMENT OF STATE

A. VERNON WEAVER, OF ARKANSAS, TO BE THE REPRESENTATIVE OF THE UNITED STATES OF AMERICA TO THE EUROPEAN UNION, WITH THE RANK AND STATUS OF AMBASSADOR EXTRAORDINARY AND PLENIPOTENTIARY.