had all raised questions about social stability. Stocks had tumbled in recent weeks, and the peso was down 8.1% against the dollar this year.

As calls poured into the Finance Ministry and Banco de Mexico, the central bank, it became clear that there could be a full-fledged run against the peso.

Speculators were looking for ways to sell the peso short, a bet on its decline. Mexican banks, while friendlier to the government than foreign investors, would clearly dump pesos to protect themselves and make a profit, if they had to. In addition, the Finance Ministry knew that Japanese banks and corporations had already been unloading huge positions in peso securities to raise cash and dress up year-end financial statements. A currency crisis could spark further huge sales by the Japanese.

However, Hacienda, as the Finance Ministry is know, had a secret weapon.

Just before the North American Free Trade Agreement debate between Ross Perot and Vice President Al Gore, Hacienda's undersecretary of finance, Guillermo Ortiz, had quietly negotiated a $6 billion swap line with the U.S. Treasury. The idea was to give the Mexican central bank more dollars to use to support the value of the peso if Nafta failed to win approval. But the agreement—which had remained secret because it was never formally signed—was still around, and Mr. Ortiz hoped to invoke it now—Announcing the agreement would give Mexican authorities a crucial psychological boost with investors by showing that anyone attacking the peso would have to take on both Mexico and the U.S.

But it might take a day to get all the approvals from the U.S. government. Could the Mexican markets be shut down? Mr. Ortiz wondered.

By 11 p.m., with international investors nervous, and European markets about to open, Mexican financial officials were in discussions about shutting trading in stocks and the currency for a day, to let things settle down. But a full-scale argument broke out about the kind of signal the closings would show. The meeting split up into working groups and took until 2 a.m. to decide that at least the currency markets and the banks should be closed. Pedro Aspe, the finance minister, and Miguel Mancera, the central bank head, then left for President Carlos Salinas's offices.

With at least some decisions made, officials called Roberto Hernandez, the chief executive of Banamex-Accival, Mexico's largest bank, informing him of the bank and currency-market closure. The Hacienda officials said the banks would certainly be free to trade Friday—but they also warned that Hacienda would be watching closely for any speculative challenge.

At 3:30 a.m. in Boston, Robert Citrone, manager of Fidelity Investment Management's New Markets Income Fund, was back in the firm's warren-like offices. A few hours earlier he had stepped off the train in Acton, Mass., greeting his wife and newborn son.

''I have bad news,'' his wife had said.

The garage flooded with snow-melt again, Mr. Citrone thought. Then his wife told him Mr. Colosio had been shot.

At home through the evening, Mr. Citrone phoned central-bank contacts or anyone else who could give him a reading on the situation. A Mexican central-bank official at one point convinced him that it had enough currency reserves to defend the peso. That was true, but what if other investors panicked? Brokers were already talking about a 300-point decline in Mexican stocks, and that would also mean the currency would be in trouble.

At 4 a.m., Finance Minister Aspe returned to Arture Street with an answer from President Salinas: Thursday would be a day of mourning for Mr. Golosio. Banks and currency markets would close.

Now it was time to bring out the secret weapon, the $6 billion swap agreement. Mr. Ortiz, the undersecretary of finance, picked up the phone and dialed the home in Washington of Lawrence Summers, the undersecretary of international affairs for the Treasury. Mr. Summers thought he could secure the swap line.

The hope was to close the Mexican stock exchange, too, but Bolsa authorities wanted to make sure that there wouldn't be any trading of Mexican shares in New York, either. Mr. Summers said he would see if that could be done.

Later, Mr. Ortiz learned that Treasury had asked for a closure of Mexican stocks, but the U.S. Securities and Exchange Commission and the New York Stock Exchange were resisting the idea. It looked like the U.S. markets would open Mexican shares after only a short delay.

But trading of Mexican stocks in London was turning out to be disorderly, a sign of panic. Shares in bellwether Telafonos de Mexico were down more than 5 percent.

The Arturo Street team turned to Carlos Mendoza, a young Stanford Business School graduate who runs National Financiera's $1.5 billion Mexican stock fund. Mr. Mendoza had won the respect of international traders late last year when he managed to sell $1 billion of Telmex shares into the markets without anyone's noticing. Sleepless and worried, Mr. Mendoza called Mexican brokers in London, encouraging them to keep markets orderly. To keep things under control, while still not committing much of National Financiera's money, he gave the London trades an indication where he might buy or sell Telmex shares. That hint tightened the spread, or difference between the buying and selling price.

Less than an hour before the New York opening, Telmex shares had recovered.

With the Arturo Street meetings finally over as the sun was coming up in Mexico City, the finance officials began trying to win back investor confidence by calling everyone they could think of around the world from traders to chief executives. Judging by the calls, international investors were still scared. But the Mexicans began winning them back, one at a time.

''The performance was magnificent,'' says a Trust Co. of the West portfolio manager. ''Almost every investment bank and every investor in the U.S. was on the phones from 8 to 9 in the morning and had it all laid out for them by the Mexicans.''

By Thursday afternoon, the tide had turned. Stories burst across the news wires announcing the ''new'' $6 billion swap agreement, approved by President Clinton. Also, in a rare example of quick agreement, President Salines had managed to gather government, business and labor leaders to announce a re-signing of the country's basic economic pact.

Telmex shares finished just 5.6% lower on the Big Board, and they rebounded Friday once the Mexican Bolsa reopened. Investor confidence had been restored.

''The whole world was grading our ability to manage the unexpected,'' Mr. Curria says. ''Everybody at the Arturo Street meetings said, We have to make this work because we have to make Mexico work.''

CONGRESS NEEDS TO CAREFULLY CONSIDER CONSEQUENCES TO NATIONAL SECURITY ON ENACTMENT OF BALANCED BUDGET AMENDMENT

(Mr. DICKS asked and was given permission to address the House for 1 minute and to revise and extend his remarks and include extraneous matter.)

Mr. DICKS. Mr. Speaker, a few days ago the comptroller of the Department of Defense testified before the Committee on the Budget about the consequences of a balanced budget amendment on our country's national security. Let me tell the Members what he said.

He said:

This is one of the major reasons for the administration's opposition to the Balanced Budget Amendment. Unless legislatively exempted from reductions, defense spending could end up being the primary bill-payer to make Federal budgets balance. That would fundamentally undermine the security of our Nation. If the Balanced Budget Amendment were adopted, America's defense posture would be vulnerable to two different problems: the impact on defense to reach a zero deficit, and the effect on defense of the annual budget process under the budget amendment.

Depending on the final provisions of the Balanced Budget Amendment, Department of Defense budget cuts from FY 1996 to FY 2002 could range from $110 billion to $520 billion, or about 30 cents on the dollar. For national defense the best case scenario would have a serious effect on national security. The worst case would be a disaster.

I hope we will take a careful look to the consequences of our national security of a balanced budget amendment.

Mr. Speaker, I include for the RECORD the complete statement of Under Secretary of Defense John Hamre before the Committee on the Judiciary:

STATEMENT OF UNDER SECRETARY OF DEFENSE (COMPTROLLER) JOHN J. HAMRE

Mr. Chairman, members of the Committee, thank you for the opportunity to appear before you today to discuss the Balanced Budget Amendment, and the likely impact that it would have on America's defense posture.

The Balanced Budget Amendment (BBA) could severely jeopardize America's national security, and that is one of the major reasons for the Administration's opposition to it. Unless legislatively exempted from reductions, defense spending could end up being the primary billpayer to make federal budgets balance, and that would fundamentally undermine the security of our nation.

If the Balanced Budget Amendment were adopted, America's defense posture would be vulnerable to two different problems: the impact on defense to reach a zero deficit and the effect on defense of the annual budget process under the BBA.

IMPACT ON DEFENSE TO GET TO A ZERO DEFICIT

To illustrate the impact of getting to a zero deficit, several assumptions have to be made about the final date and provisions of the BBA. Let us assume that the year of BBA implementation is 2002, and make calculations based on the most recent deficit projections by the Congressional Budget Office. Balancing the budget on a phased basis—14 percent per year in 1996 through 2002—would require a total of $1,040 billion in spending cuts and/or revenue increases.

Exactly how much the Department of Defense (DoD) would have to contribute to achieving a zero deficit would depend on how much revenue would be increased and whether entitlements would be cut. Under the worst case scenario, there would be no increase in revenue and no cuts in the entitlement programs. This means the budget would have to be balanced by cuts in discretionary spending, of which national defense represents about one half. The best case scenario assumes half of the deficit would be offset by increases in revenue and the other half proportionately to spending for entitlements and domestic and defense discretionary programs.

Depending on the final provisions of the Balanced Budget Amendment, DoD budget cuts from FY 1996 to FY 2002 could range from $110 billion to $520 billion.

For national defense, the best case scenario would have a serious impact on national security. The worst case would be a disaster. Achieving these totals would entail substantial reductions to defense people and programs, which are already downsized to the minimum acceptable level deemed necessary in the Bottom-Up Review. Our forces would become hollow and we would have to give up our quality of life initiatives such as adequate compensation for military personnel, child care programs, decent barracks and family housing and other programs that provide a sense of community and support for military families. We would have to stop the modernization and recapitalization, which is needed and planned in our current five-year budget. We would have to cut back our emphasis on science and technology and technology reinvestment programs, and thereby risk the technological edge that has always given our forces an advantage over our adversaries.

Reductions such as these would fundamentally change the character of America's military posture, make our new strategy unsupportable, call into question our ability to fulfill U.S. commitments to our allies and to protect our interests worldwide, and undermine America's global leadership.

THE ANNUAL BUDGET PROCESS UNDER THE BBA

Let me now turn to the second problem: Life under a balanced budget amendment.

What about the affect on defense of the annual budget process under the Balanced Budget Amendment? The BBA annual budget process could routinely end up removing from our elected political leaders the decision about what level of defense spending is prudent. America's defense preparedness could get determined by economic shifts, cost growth in entitlements, and other non-defense factors. Even if threats to America's global interests were increasing or our forces deteriorating, the BBA could lead to deep defense cuts.

The fact that these consequences could be avoided with 3/5 approval of each house of Congress is scant reassurance. Preservation of an adequate defense posture would become dependent on exceptional political efforts. The BBA process would be heavily skewed in favor of cutting defense to compensate for whatever was escalating elsewhere in the budget. Even when a 3/5 majority minus one in either house believed that BBA cuts were unjustified, the minority view would prevail. Not exactly ideal for the world's most powerful democracy and best hope for future peace and stability.

The BBA would threaten frequent interruptions to the many long-term processes that are essential to maintaining a prudent defense posture. The quality and morale of our people must be continually nurtured, and would be devastated by rapid and deep cuts in end strength. Our military and civilian professionals require extensive training and experience. We cannot recruit and retain top-notch military and civilian professionals, if they are vulnerable to summary dismissal.

Repair parts must be ordered three years ahead of anticipated use, in order to ensure the readiness of U.S. forces. Many years of research and development are needed to ensure that our forces are never outgunned or outmaneuvered. The average major weapons procurement program requires 8 years of development and testing. Production lines are necessarily set up anticipating stable procurement rates; they cannot be stopped and started, in order to offset a downturn in revenues or surge in entitlements. Because of the long-lead times needed for our weapons systems, DoD is unique among executive departments in that we must have detailed five-year plans incorporating them. It would be extremely costly, and essentially unworkable, to turn on and off defense programs, when the BBA forced deep budget cuts.

In sum, budgeting under BBA would inject great uncertainty and chaos into defense planning, which needs to have stability and a long-term perspective.

Small changes in the U.S. economy would mean even bigger budget problems. Using the CBO rule of thumb, a one percent rise per year in interest rates would increase the federal budget deficit $5 billion in the first year and $108 billion over five years. A one percent fall per year in real growth in the economy would increase the deficit $9 billion in the first year and $289 billion over five years. Thus under the BBA, even modest changes in the economy could trigger sweeping cuts to federal programs.

CLOSING

The Balanced Budget Amendment addresses a very important issue, but it would dramatically complicate our ability to plan for and manage a strong Department of Defense.

Defense programs would be especially vulnerable under the BBA, because DoD accounts for about half of all discretionary spending. And that is critical because the BBA had no implementation details. Unless the BBA becomes a vehicle by which revenues are increased or entitlements cut, DoD could well have to pay for half of every dollar of deficit reduction.

DoD budget authority, in real terms, has been in decline since FY 1985. We have finally reached the end of our builddown. It would be dangerous to continue to downsize our forces at this time. The Balanced Budget Amendment would cut defense spending to whatever level its arbitrary formula dictated, and thereby displace the carefully considered judgments of Members of Congress, Presidents, and civilian and military leaders as to what spending is necessary and wise. I do not believe such an approach to questions of national security would serve America well.

IMPACT ON DEFENSE TO GET TO A ZERO DEFICIT

In order to assess the impact on DOD, assumptions have to be made about final date and provisions of the Balanced Budget Amendment:

	Assumption
Year of implementation	2002.
Projected deficit at implementation	Current budget projection.
Will revenue be increased?	If yes, 50%/50% revenue/spending.
Will entitlements be cut?	If yes, in proportion to outlays.

SMALL ECONOMIC CHANGES MEAN BIG BUDGET PROBLEMS

Modest changes in the economy would necessitate sweeping program cuts.

CBO RULE OF THUMB

	Deficit impact	
	First year	5-years
1% rise in interest rates	$5B	$108B
1% fall in real growth	9B	289B

A GLOOMY PICTURE WITHOUT THE BALANCED BUDGET AMENDMENT

(Mr. DUNCAN asked and was given permission to address the House for 1 minute.)

Mr. DUNCAN. Madam Speaker, former Senator Paul Tsongas wrote in the Christian Science Monitor a few months ago these very important words:

If you think sending a chunk of your hard-earned income to the Internal Revenue Service was tough this year, imagine the responses of future taxpayers who will face average lifetime tax rates of an incredible 82 percent.

Confronted with the burdens of a monstrous national debt, an aging population, and runaway federal entitlement programs, tomorrow's Americans will be turned into a generation of indentured servants. They won't stand for it. Without action today, we are likely to see generational political wars by the end of the decade.

We need to heed those words of former Senator Tsongas. That is why we need a balanced budget amendment. That is what this is all about. It is to give our children and grandchildren some hope for a good standard of living and for an economic future as bright as ours has been.

Madam Speaker, I am including at this point in the RECORD the complete article by former Senator Paul Tsongas, as follows:

[From the Christian Science Monitor]

JUST WHEN YOU THOUGHT THE DEFICIT WAS UNDER CONTROL—THE FINE PRINT IN CLINTON'S BUDGET PAINTS A GLOOMY PICTURE

(By Paul Tsongas and Jonathan Karl)

If you think sending a chunk of your hard-earned income to the Internal Revenue Service was tough this year, imagine the responses of future taxpayers who will face average lifetime tax rates of an incredible 82 percent.

Confronted with the burdens of a monstrous national debt, an aging population, and runaway federal entitlement programs, tomorrow's Americans will be turned into a generation of indentured servants. They won't stand for it. Without action today, we are likely to see generational political wars by the end of the decade.

It's a mess created by bipartisan fiscal irresponsibility in Washington. And far from addressing the problem, the politicians are insisting the deficit is ''last year's issue.''

The bad news can be found buried deep within President Clinton's 2,000-page, four-volume budget for 1995, which was recently passed by Congress.

SPECIAL ORDERS

The SPEAKER pro tempore. Under the Speaker's announced policy of January 4, 1995, and under a previous order of the House, the following Members are recognized for 5 minutes each.