to visit, only to have the visa approved a few days later, it caused a serious ''we-told-you-so'' backlash from the hardline conservative PLA leadership. In order to maintain credibility with the military, and continue to enjoy their support, the political hierarchy has decided to react strongly—one would almost say overreact—to President Lee's visit and other perceived threats.

Mr. President, although the Taiwan Government and people have shown remarkable restraint in calmly facing these latest antagonisms, I am sure that a continuation of the mainland's provocations cannot go unanswered for long. This is especially true in light of statements such as a recent pronouncement by Chinese Defense Minister Chi Haotian, reported by the Chinese official news agency Xinhua on July 31, that the PLA will not undertake to give up the use of force in settling the Taiwan issue. Certainly, as the perceived threat to Taiwan increases, so too will their reaction. The PRC's tests are clearly behind an August 2 statement by Lt. General Ju Kai-sheng, President of Taiwan's Army Artillery Training School, that Taiwan is ready to establish anti-missile systems to beef up its defensive capabilities. Toward that end, Taiwan has struck a deal with the Massachusetts-based Raytheon Corp. to purchase approximately $796 million worth of Patriot missiles.

If the Beijing Government continues in this antagonistic posture, it will only end up shooting itself in the foot. I would remind the Beijing Government that pursuant to the three joint communiqués and the Taiwan Relations Act, the United States can supply defensive military technology to Taiwan. While we have not been predisposed over the last few years to exercise that right, continuing threatening military displays aimed at Taiwan will, I am sure, have an effect on that posture that the PRC will likely not appreciate.

SAVINGS AND BENEFITS OF THE ''DIRECT LENDING'' REFORM FOR COLLEGE STUDENT LOANS

Mr. KENNEDY. Mr. President, 2 years ago, after a major battle with special interest groups, Congress enacted a far-reaching reform of the College Student Loan Program. We did so with strong bipartisan support, because the reform was so clearly beneficial to colleges and students alike.

The reform is called direct lending, because it permits college students to obtain their loans directly from the Federal Government through their colleges, rather than through assorted banks and guaranty agencies under the complex and costly Government Guaranteed Loan Program.

The 1993 reform brought major advantages to students. It cut student loan fees in half, reduced interest rates on all student loans, and created more flexible repayment terms. According to estimates by the Congressional Budget Office at that time for the 5-year period 1994 to 1998, direct lending as phased in by the 1993 legislation yields $2 billion in savings for the 4 million college students who rely on student loans to finance their education, and it yields $4.3 billion in savings to taxpayers over the same period.

Direct lending also addresses the need for a more efficient and streamlined Federal Government. The Guaranteed Loan Program—far from being a private sector enterprise—operates through a system of Federal subsidies and Federal loan guarantees to 7,000 lenders and 41 guaranty agencies, as well as 25 secondary markets, which are entities that buy loans in bulk from lenders and then process the loan payments made by the students. The guaranty agencies alone have over 5,000 employees—25 percent more than the entire Department of Education and 10 times more than the 450 Department employees who would manage a full Direct Lending Program. Taxpayers—not the private sector—pay for the gross inefficiencies of the complex Guaranteed Loan Program.

Despite the obvious advantages to students, colleges, and taxpayers of the direct loan system, there was a major battle in 1993 to enact this reform. Banks, guaranty agencies, and other middlemen in the Guaranteed Loan Program did not want to give up the profits they made.

The key to breaking the deadlock and enacting direct lending was the savings to the Federal budget. My own preference at the time would have been to use the full $6.3 billion in estimated savings to benefit students. But the compromise enacted—allocation of $2 billion to students and $4.3 billion to deficit reduction—was acceptable because it ensured the enactment of the reform.

Under the Student Loan Reform Act of 1993, direct lending is being phased in over a 5-year period—5 percent of student loan volume in the 1st year, 40 percent in this, the 2d year, 50 percent in the 3d and 4th years, and 60 percent in the 5th year. Beginning in 1996, direct lending is permitted to exceed these percentages if a larger number of colleges and universities decide to participate in the program. This gradual phase-in enables the Department of Education to implement the program in a sensible and efficient manner, and it permits all colleges and universities to decide whether to participate in direct lending.

The Direct Student Loan Program is now entering its 2d year of operation on college campuses across the country, and it is an outstanding success. Colleges and universities participating in direct lending are virtually unanimous in their praise for the program. As the financial aid director of the University of Idaho put it:

> How do we measure the success or failure of our program? It's obvious. The students. Our students continue to praise the program for its simplicity and ability to provide loan funds to them in a short period of time.

A college president in New York writes:

> With our first year of experience in direct lending behind us, I can say confidently that this is a system that works. It is more efficient for us, far better for the students, and it saves the taxpayers a significant amount of money.

But the banks, guaranty agencies, and other middlemen who profit from the Guaranteed Student Loan Program have never accepted the direct lending reform. They have constantly sought to undermine it and undo it in order to restore their special interest profits, even if it means higher costs and more redtape for colleges and students. Now they have found their opportunity—as part of the antieducation budget adopted by the new Republican majority in Congress.

This budget contains the largest education cuts in U.S. history. Federal aid to college students will be slashed by $30 billion over 7 years—a one-third cut by the year 2002. Individual students face an increase in their student loan debt of up to 50 percent.

The Republican budget resolution passed last spring also contained a special interest provision designed to lay the groundwork for eliminating direct lending. It orders the Congressional Budget Office to recalculate the cost of student loan programs under new guidelines intentionally skewed to make direct lending seem more expensive than guaranteed loans.

Congressmen GOODLING and KASICH released the new CBO estimates last month. Predictably, they assert that direct lending no longer saves taxpayers money. They claim taxpayers will save $1.5 billion over the next 7 years by eliminating direct lending and returning to the Guaranteed Loan Program that the banks and guaranty agencies prefer.

Nothing could be farther from the truth. CBO's 1993 estimates, showing that direct lending would save $2 billion for students and $4.3 billion for taxpayers over 5 years, were based on budget rules adopted on a bipartisan basis in 1990 and signed into law by President Bush as part of a comprehensive, congressionally mandated reform of Federal credit programs. These rules applied to all 60 loan programs of the Federal Government, not just the Student Loan Program.

The rules adopted in 1990 were designed to calculate the real costs of all Federal loan programs more accurately—including both direct loans and guaranteed loans. There was no intention to slant the figures one way or another. The goal was to provide greater accuracy in budget estimates for all Federal credit programs.

However, the 1993 estimates inadvertently disadvantaged the Guaranteed Loan Program compared to the Direct Loan Program in one respect—the manner in which the administrative costs of the programs are calculated. An adjustment was needed to provide a more accurate comparison of the costs of the two programs.

But the special rule prescribed in the Republican budget is not an honest adjustment—it is a rule designed to put the Direct Student Loan Program at a disadvantage when the costs are compared.

Under that rule, all Federal administrative costs related to specific loans in the Direct Lending Program are included in the cost of direct lending. These costs include default management, collection of loans, oversight, and printing and processing loan forms. These same costs, however, are not included in the new CBO estimate of the cost of guaranteed loans.

In addition, one of the major costs of guaranteed loans as compared to direct loans—administrative payments to guaranty agencies amounting to $175 million per year—is also excluded from the new CBO estimates of guaranteed loan costs.

In other words, the special rule adopted in the Republican budget resolution is a flagrant attempt to stack the deck in favor of guaranteed loans. I do not blame CBO for this slant. CBO is simply providing estimates required by the rule devised by the Republican majority. I do not know whether this devious rule was adopted innocently at the instigation of lobbyists for the Guaranteed Loan Program, or whether it was adopted intentionally in order to slant the estimates. But I do know that the rule must be changed, so that a fair comparison can be made between the two programs.

If the figures are adjusted honestly, the Direct Loan Program is still much cheaper to administer than the Guaranteed Loan Program and still brings substantial savings to students and taxpayers.

According to preliminary estimates I have obtained from the Office of Management and Budget, under a fair rule, the savings from direct lending are cut in half, but direct loans are still 20 percent cheaper than guaranteed loans. If direct lending is eliminated entirely, it will not save $1.5 billion over the next 7 years, as Congressmen GOODLING and KASICH claim. Instead it will cost the taxpayer $1.5 to $2 billion over that period.

I have asked the Department of Education and OMB to work with CBO to provide a fair estimate in time for the battle in Congress in September between direct loans and guaranteed loans. But the bottom line already seems clear. Direct loans save money compared to guaranteed loans, and are a major benefit to colleges and students.

In addition, included in the alleged Republican savings of $1.5 billion from the repeal of direct lending are excessive cuts in management and oversight functions for both the Guaranteed Loan Program and the Direct Loan Program. If enacted, these cuts would seriously strain the ability of the Department of Education to manage student loans—whether direct loans or guaranteed loans. Ultimately, the taxpayer will pay—in the form of increased loan defaults, and increased fraud and abuse by unscrupulous institutions. Preliminary estimates based on studies by the congressional General Accounting Office and the Inspector General of the Department of Education suggest that these oversight and management cuts could cost the taxpayer up to $4 billion over 7 years in increased defaults, fraud, and abuse.

Finally, in order to prepare its estimates under the special budget rule, CBO had to recalculate overall Federal spending to reflect $6 billion in additional costs assigned to direct lending for the period 1996 to 2002. In other words, for the banks and guaranty agencies to get their way, the Republican majority had to quietly add $6 billion to the Federal deficit for the next 7 years. This fact goes unmentioned in the distorted analysis used by Congressmen GOODLING and KASICH to compare direct lending and guaranteed loans. In their zeal to repeal the Direct Loan Program, they are willing to accept a $6 billion addition to the Federal deficit.

I intend to do all I can to see that Congress rejects this unseemly Republican assault on direct lending. If the assault succeeds, it will result in higher up-front fees for student loans and higher interest rates on the loans. Repayment conditions for students will be harsher. The debts of individual students will go up. Students and colleges will once again be forced to endure excessive redtape. Colleges will have to wait for tuition payments well into the semester while students try to obtain loans from various lenders.

Under direct lending, students and colleges are the clear winners. Under this misguided Republican attack, banks and guaranty agencies will win—and colleges and students will lose. It is unconscionable for the Republican majority to make the widely respected CBO an accomplice in this scheme by cooking the budget numbers. This attempted giveaway to banks and guaranty agencies is corporate welfare of the worst kind, and it ought to be soundly repudiated by Congress.

Mr. President, I ask unanimous consent that two graphs be printed in the RECORD.

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

WHAT'S FAIR AND WHAT'S UNFAIR ABOUT THE REPUBLICAN SPECIAL RULE FOR COMPARING COSTS OF DIRECT LOANS VERSUS GUARANTEED LOANS

FAIR

To calculate Direct Loan costs on the same basis as Guaranteed Loans.

UNFAIR

To include Federal administrative costs for specific loans in cost of Direct Loans and not in cost of Guaranteed Loans.

To exclude from cost of Guaranteed Loans Federal payments to guaranty agencies.

RESULT

Direct Loans appear more expensive than Guaranteed Loans, when in fact they are 20 percent less expensive.

WHO WINS ON PROPOSAL TO ELIMINATE DIRECT LENDING?

Republican claim: $1.5 billion savings over 7 years.

True cost to taxpayers over 7 years: $1.5 to $2 billion cost using fair budget rule; up to $4 billion cost in increased defaults, fraud, and abuse from cuts in oversight and management of guaranteed loan program; $6 billion cost from increase to deficit caused by special budget rule.

A MESSAGE TO CROATIA

Mr. PELL. Mr. President, I wish to encourage President Clinton to ensure that Croatia's recent military offensive in Krajina will not result in wide scale human rights violations or lead to a wider war.

At first glance, it may appear counterintuitive to criticize Croatia for its victory over the Serbs, who it is generally agreed, were the original aggressors. "Finally," it is natural to think, "someone is willing to stand up to the Serbs." While I am in no way questioning Croatia's legitimate right to the nearly one third of its territory that had been controlled by the Serbs, I do believe we need to look a bit deeper.

While I sympathize completely with Croatia's now fulfilled desire to recover its territory, I am deeply concerned and disappointed by Croatia's military foray into Krajina. Croatia eschewed diplomacy and pursued a military campaign instead of diplomatic negotiations which had a good chance of success. In so doing, the Croatian Army has apparently in some cases, abused civilians as well as U.N. personnel. This much is for certain: Croatia has unleashed the largest single refugee flow in the 4-year-old conflicts in former Yugoslavia.

I am equally concerned about what comes next. What will happen to the tens of thousands of newly created refugees? How will Croatia treat the civilians left behind? How solid is Croatia's commitment to its Bosnian allies? What are Croatia's intentions with regard to an overall peaceful settlement? I believe that we should make clear to Croatia that we expect their actions in these areas to be transparent, forthcoming, and respectful of human rights.

We do, after all, have significant leverage. Croatia's leaders want to integrate Croatia into the rest of Europe. They want to rebuild the parts of Croatia damaged by the war and to see Croatia thrive economically. That, of course, will require a good deal of international support. I believe that we should make it clear to Croatia's leaders that if they wish to achieve these goals, they will have to take on certain responsibilities. They will have to