

entire Federal Government at risk is incomprehensible.

One day we will weary of threats to shut Government down—and as a body rise up to defeat proposals supported by such threats. This proposal should also be defeated despite the threats, Mr. President, because the laws are already in place to protect any misuse of taxpayer moneys with respect to lobbying by tax-exempt organizations. The Senate should not give in to this thoroughly misguided piece of legislation; our conferees should hold fast.

I yield the floor.

The PRESIDING OFFICER. Under the previous order, the Senator from Pennsylvania [Mr. SPECTER] is recognized to speak for up to 30 minutes.

Mr. SPECTER. I thank the Chair.

THE BUDGET RECONCILIATION BILL

Mr. SPECTER. Mr. President, 1 year ago we Republicans won control of the Congress based on commitments to balance the budget, reduce the size of Government, and lower taxes. These commitments remain our basic goals. I have sought recognition this morning to speak on the reconciliation bill which will be coming up tomorrow.

I know that tomorrow time will be very precious, so I want to express some of my thoughts at this time. These reservations which I am about to discuss have been expressed to the leadership. There was difficulty in even coming to preliminary conclusions because much of the material had not been made available until very recently, some of the tables on the tax reductions only coming as late as yesterday.

As we address the reconciliation process in the next few days, I ask my colleagues to reconsider certain aspects of the proposed legislation. As much as I favor tax relief for Americans, I question tax cuts that may jeopardize our No. 1 priority, which is balancing the Federal budget.

As much as I want to reduce the size of Government, I question spending cuts directed so disproportionately against the elderly, the young and the infirm. And on a political basis, I suggest to my Republican colleagues that we all rethink support for a combination of tax cuts and spending cuts that may lead to the perception of the Republican Party as the party of wealth, power and privilege, and not the party of ordinary American working families.

Last fall we Republicans swept to historic victories in both Houses based on our responsiveness to the people's demand for less, not more Government, for a Government that lives within its means, and for a reduction of the tax burden on ordinary Americans.

I am fearful, Mr. President, that we will forfeit that political high ground in an instant if we adopt a budget that not only fails to end the deficit, but that, either in appearance or in fact,

makes the least affluent Americans bear the heaviest burdens while giving most of the tax benefit to the most affluent among us.

I am concerned, Mr. President, that these tax cuts threaten a balanced budget, which is by far the most critical aspect of the electoral mandate of 1994. Many of us have been working for a balanced budget for many years. And I have been making that effort for all of my 15 years in the Senate. But until this year, I have never seen legislation passed that actually had a likelihood of achieving that goal.

Finally, after years of shadowboxing, after years of spending restraint initiatives that were mere smoke and mirrors, not really substance, this Congress has been willing to make the painful changes necessary to achieve a balanced budget. We are moving toward real reform of entitlements, thereby for the first time giving us a real ability to restrain future spending in those programs. Painful though these actions are, we are willing to make these sacrifices in the name of future generations. And we do that in order to achieve a real balanced budget within the 7-year glidepath.

The Senate Appropriations Subcommittee on Labor, Health, and Human Services, which I chair, and where the distinguished Senator from Iowa, Senator HARKIN, serves as ranking member, has made very, very painful cuts on a budget which had exceeded \$70 billion in discretionary spending. These reductions totalled almost \$8 billion, down to somewhat more than \$62 billion in spending.

I would suggest to you, Mr. President, that we made these cuts with a scalpel and not a meat ax. But we had to pare back critical programs, difficult as it was, such as compensatory education for the disadvantaged, substance abuse treatment and prevention, drug-free schools, dislocated worker training—and we did so, I believe, in a way that left intact the basic safety net that protects America's neediest and most disadvantaged—and with a special concern for children and the elderly.

We were able to make these difficult spending cuts because of our commitment to a balanced Federal budget. But the current reconciliation bill may undercut that commitment while leaving those painful spending cuts in place. The largest spending cuts occur in the so-called outyears while many of the tax cuts occur at the outset. These savings may materialize, but there is no guarantee that they will.

Estimates of rates of economic growth, inflation, tax revenue generation are only estimates, and estimates invariably become less accurate the further out in time they occur. The proposed reconciliation bill offers the certain tax cuts right now paid for by spending cuts later and anticipated savings. That sounds too much like the approach which has put us in a predicament

with almost a \$5 trillion national debt.

Mr. President, I am very concerned that these tax cuts are unfair or at least give the perception of unfairness. I express this concern because much of the pain of the spending cuts goes to the elderly, the young, and the infirm while allowing tax cuts for corporate America and those in higher brackets.

I question, Mr. President, cuts in student aid, job training, low-income energy assistance, workplace safety, Head Start, childhood immunization, and mother and child health programs while we give corporate tax breaks such as accelerated depreciation for convenience stores and expanded equipment depreciation.

I am concerned, Mr. President, as I take a look at the cuts in Medicare and Medicaid. This is a subject that was highly controversial, leading many Republicans from my neighboring State of New Jersey to vote against the Medicare Program in the House of Representatives. I point specifically to Medicare part A disproportionate share payments relating to extra payments to hospitals that serve a high proportion of poor patients. This program is reduced by some \$4.5 billion over 7 years. This change impacts very, very heavily on many of the hospitals in my State of Pennsylvania and on many training institutions across the country.

And I point further to the Medicare part A indirect medical education payments, which are financial adjustments to teaching hospitals to cover excess costs due to training. This program is reduced by some \$9 billion. I also point to the change in the index for future payments to hospital providers, which will be reduced by some \$36 billion over the course of 7 years.

While it is admitted that Medicare changes are necessary in order to remain solvent and that we have to have a handle on Medicare, there are many questions being raised by senior citizens and the elderly all over America today as to the fairness of these reductions. I specify that they are not cuts, but we are trying to get a handle on Medicare so that as costs increase, we can reduce the rate of increase. But there are many questions legitimately being raised about these budget considerations on Medicare.

On Medicaid, there is a change from entitlements to block grants. We have bitten the tough bullet on changing the block grants on welfare payments, and we are in the process of making real reforms in the entitlement programs.

There is a particular concern as to what will happen in many of the States. There was a lead article in the New York Times in the last few days about what is happening and what may happen further. The State illustrated was Mississippi. A particular concern of my State, Pennsylvania, is the formula for the allocation of Medicaid funds under a block grant, with some

of the pending legislation hitting Pennsylvania very, very hard.

Mr. President, it is a herculean effort to rein in entitlements and balance the budget under the best of circumstances in a way that will be accepted as fair. I believe the American people are prepared to tighten their belts to balance the budget, so long as the sacrifices are fair and equitable.

We consistently hear constituents urge spending cuts except for their own pet projects. But leadership calls for the Congress to take the political risks on those hard votes to cut popular programs for the future economic stability of the country. It simply may be too much to cut about \$1.4 trillion, and that is an approximation—\$200 billion a year over 7 years—plus another \$245 billion for tax cuts, which at least gives the appearance of unfairness.

I further suggest that the reconciliation bill may well be bad politics as well as bad public policy. To balance the budget and reform entitlements are tough under any circumstance, but they are even more difficult along with the tax cuts and corporate benefits.

In the wake of Congress' proposed tax cuts, the lead story in the Sunday Philadelphia Inquirer of October 15, 1995, headlined, in the upper right hand corner: "Bearing the Brunt of GOP Cutbacks, Low-Income Families Would Lose Billions in Benefits. Tax Cuts Would Benefit the Affluent."

That story then details the cuts in popular programs. It is especially difficult, Mr. President, I suggest, to justify curtailments in the earned income tax credit at the same time the tax cuts are going to Americans in higher brackets.

The earned income tax credit was expanded in 1986 under President Reagan and again in 1990 under President Bush. President Reagan called the program the best antipoverty, the best pro-family, the best job creation measure to come out of the Congress.

What is the measure of fairness in eliminating facets of the earned income tax credit at the same time that we are adding tax breaks for those in higher brackets?

The specifics on this, frankly, have been difficult to obtain, but the Senate reconciliation bill would reduce funds for the earned income tax credit by some \$43.2 billion, which is substantially more than the House reduction of some \$23.2 billion over 7 years.

The Senate bill would eliminate the earned income tax credit for taxpayers without children, who now receive a limited credit up to \$324. The changes made in the Senate bill on the earned income tax credit tighten up eligibility and expand the income included for phaseout purposes.

Further, the credit would be entirely phased out for individuals with one child with income over \$23,730. The Senate proposal would also freeze the credit at 36 percent rather than allowing it to rise up to 40 percent under current law.

Mr. President, the reconciliation bill contains many credits which I like very much. I especially like the \$500 tax credit per child, but is there not a question as to extending that tax break to individuals in the \$75,000 bracket or \$110,000 for married couples, at a time when we are curtailing the earned income tax credit for people who earn \$23,730?

There is no doubt about the justification for giving a tax credit for families in middle-income America, but should we be doing it at the same time when the taxes are being increased or the earned income tax credit is being reduced for people in much lower brackets?

This legislation, the reconciliation bill, contains an increase on IRA's, independent retirement accounts, and that is a measure that I have long supported and fought for. I recall in 1986 we had a vote, 51 to 48, eliminating the IRA's. I very strongly opposed the elimination of the IRA's. But is it sound public policy to be increasing IRA availability for singles who earn up to \$85,000 and for families earning up to \$100,000, from the current limits of \$25,000 and \$40,000, at a time when we put limitations on the earned income tax credit?

I do not have absolute answers to these questions, but I think they deserve very, very careful thought.

Mr. President, these political problems have been candidly noted by many of our colleagues in the U.S. Senate. Our distinguished majority leader on a Sunday talk show a few weeks ago raised a question about having these tax cuts and quoted a number of Republican members on the Senate Finance Committee, and then, in the wake of objections, retreated from the questioning of these tax cuts.

I believe that if there were a secret ballot among the 53 Republicans, many would vote against the tax cuts in the context of balancing the budget and in the context of difficulties for others in lower brackets. One of my colleagues estimated that as many as 20 of our Republican Senators might oppose the tax cuts if we were to have a secret ballot.

I raise these issues in the context of having debate at the start of this bill, again saying that I do not have absolute answers but think that these issues have to be thought through very, very carefully.

Mr. President, I suggest that it is time to face the facts that the Emperor, as well as the poor, may well be wearing no clothes if the reconciliation bill passes in its present form.

I remind my colleagues about the political consequences back in 1986. Many who are now in the Senate, especially on the Republican side, were not here in 1986 when we faced a question about cutting Social Security benefits. Those benefits were cut. Later in 1986, Republicans lost control of the Senate. Those who voted in favor of the Social Security tax cuts were defeated at the polls.

I think that is something that has to be remembered, especially since, even though the Social Security tax cuts passed the Senate, they did not come into law. They ultimately were abandoned.

Many of the items we are going to be voting on here, as we seek to pass this reconciliation bill, are conceded not to be in final form—that this is a test run and that this reconciliation bill is highly likely to be vetoed by the President. He already announced his intention. Then it is going to come back for further consideration, again raising the question about making these votes which are so politically perilous and which really may not have any effect at all.

Mr. President, I further suggest that we can have all of the advantages in the reconciliation bill in terms of tax breaks for middle-income Americans and more. We can have not just a reduction in the capital gains rate but an elimination of the capital gains tax, and an elimination of tax on dividends if we move to the flat tax, which I introduced earlier this year, Senate bill 488.

I take second place to no one in this body when it comes to supporting tax relief for all Americans. But real tax relief cannot come from tinkering at the margins, by adding a new break here or a new loophole there. Breaks and loopholes are part of the problem, not the solution. The solution to tax oppressiveness is a completely new method of income taxation, a method based on the fundamental principles of fairness, simplicity, and growth. That solution, Mr. President, is the flat tax.

Our current Internal Revenue System is a mammoth bureaucracy requiring Americans to spend billions of hours each year to complete their tax forms and hundreds of billions of dollars in compliance, estimated as high as \$595 billion by Fortune magazine. It is reliably estimated that some 5.4 billion hours annually are spent by Americans on tax compliance.

Worse, our tax system is fundamentally antigrowth, diverting otherwise productive resources to compliance costs, promoting economic decisions based on tax avoidance rather than productivity, and discouraging savings and investment by the double taxation of dividends and capital gains.

My flat-tax proposal, Senate bill 488, was introduced in March of this year. It would scrap our current Tax Code and replace it with a simple 20 percent rate, keeping only two deductions—interest on home mortgages up to \$100,000 in borrowing, and charitable deductions up to \$2,500.

Individuals would be taxed at the 20 percent rate on all income from wages, pensions, and salaries. They would not pay tax on interest or savings and dividends because those would be taxed at the source. They would also not pay any tax on capital gains because the answer to encouraging investment and

growth is not simply to reduce capital gains tax but to eliminate it entirely.

Under my bill, a family of four earning up to \$25,500 would pay no tax. Low- and middle-income Americans would benefit from my tax cut because millionaires, who often pay little or no tax because of the myriad loopholes and shelters in the Tax Code, would have to pay tax at the 20 percent rate because these loopholes and shelters would be eliminated. It has been shown that under our current tax system, more than half of all personal income in the United States, or some \$2.6 out of \$5 trillion, escapes taxation entirely. A fair tax system, like my flat-tax proposal, taxes all income equally—and just once.

Businesses would also be taxed at a flat rate of 20 percent. My plan would eliminate the intricate scheme of depreciation schedules, deductions, credits, and other complexities that complicate business filing, and that in some cases permit tax evasion. Businesses would only deduct wages, direct expenses, and purchases. Businesses would be allowed to expense 100 percent of the cost of capital formation, including purchases of capital equipment, structures, and land, and to do so in the year in which the investments are made. Although the elimination of most deductions means that business taxes will increase in the aggregate—thus assuring that investment income is fully taxed before it is paid out—that extra cost to business will be offset by the elimination of their enormous tax compliance costs.

For both businesses and individuals, the hours and hours of tax-related recordkeeping, the litany of schedules, the libraries full of regulations and decisions, would be replaced by a postcard sized form that almost all Americans and business owners could complete in about 15 minutes.

But the most important reason for adopting a flat-tax system is in its potential to foster economic growth and job creation. With the elimination of taxation on interest, dividends, and capital gains, the pool of capital available for investment will grow dramatically. Conservative economic projections are that interest rates will come down two full points, and that renewed economic activity will add \$2 trillion to the gross national product over 7 years—an additional \$7,000 for every man, woman, and child in America.

My tax proposal has been carefully calculated to be revenue neutral, so that it will not add one penny to the national debt. My flat tax is based on the analyses done over a period of years by highly respected economic professors, Robert Hall and Alvin Rabushka, of Stanford's Hoover Institute. Hall and Rabushka's calculations show a national flat tax with no deductions and a 19 percent rate matching current tax revenues. My bill deviates from the Hall-Rabushka model by its retention of limited deductions for home mortgage interest on up to

\$100,000 of borrowing and charitable contributions up to \$2,500. While these modifications limit the purity of the flat-tax principle, I believe that these deductions are so ingrained in the financial planning of American families that they should be retained as a matter of fairness. Based on computations provided by the Joint Tax Committee, the additional 1 percent in my flat-tax proposal above the Hall-Rabushka proposal—a 20 percent rate instead of 19 percent—will fully cover the cost of these deductions.

In fact, there is every reason to believe that as the growth aspects of flat taxation take hold, and the economy expands, tax revenues will rise significantly—which will permit either a further lowering of tax rates or actual reduction in the national debt. However, since those savings are speculative, I have not included them in my calculations to set revenue neutral, deficit neutral rate.

I am obviously reluctant to vote against legislation that offers needed tax relief to some Americans. But we ought not be tinkering at the margins where some Americans benefit and others don't. Under a flat tax such as I have proposed, everyone benefits and everyone pays their fair share.

The current tax breaks are, at best, a Band-Aid. A flat tax is a cure for the cancer which retards the productivity of the American economic engine. The relevant committees have had hearings on the flat tax and are in a position to act on these proposals.

Mr. President, I make these comments because of my concern that the pending reconciliation bill may be going too far at a time when our primary objective is to balance the budget, and that Americans are prepared for those cuts if they are fair and if they are just.

At a time when we are tightening our belts, I question the wisdom of the additional tax cuts to people who are in much higher brackets and to corporate tax breaks at this particular time.

Again, I say I am not in concrete on this matter, but I urge my colleagues to carefully consider this matter before we move to the voting state and consideration of final passage of the reconciliation bill.

The Republican leadership has heretofore been advised of my concerns and reservations. While it is late in the process, there is still time to revise the reconciliation bill in the interest of fairness and sound tax policy. It is my hope that modifications can be made so that I and a broad coalition of Members can support this landmark legislation.

The PRESIDING OFFICER. Under a previous order, the Senator from Arkansas, Senator PRYOR, is recognized for up to 15 minutes.

MEDICARE MISINFORMATION AD CAMPAIGN

Mr. PRYOR. Mr. President, this morning I rise today to sound an

alarm, an alarm about a \$1 million television advertising campaign that supports the Republican plan to cut Medicare and is currently airing all over the United States.

I am here to explain to my colleagues why this commercial does not tell the whole story and why the public needs to know more about the organization that is actually paying for this TV commercial that advocates the Republican cuts in the Medicare program.

Mr. President, the organization paying for this television commercial is called the Seniors Coalition. We might not have heard a great deal about the Seniors Coalition because it has not been around all that long. It is an operation founded by Mr. Richard Viguerie.

The star of this ad is our colleague and good friend from Tennessee, Senator BILL FRIST.

Let me make it clear at the start that I mean no disrespect to Senator FRIST. I talked to him this morning, stating I was going to make this statement, and that I was not questioning his integrity in any way.

In fact, I sincerely doubt our colleague, Senator FRIST, is aware of the information that I will share with my colleagues this morning.

The ad, Mr. President, which features Senator FRIST talking about the Republican plan to cut Medicare, is not paid for by the Republican Party but by the Seniors Coalition.

First, some background on the Seniors Coalition. The Seniors Coalition is one of three so-called seniors organizations that have been working exclusively with the GOP leadership. It is working with the GOP leadership to push and help organize and in some cases to fund activities that support the Republican plan to cut Medicare by \$270 billion and to provide a \$245 billion tax break—most of it or a lot of it, Mr. President, going to the wealthiest in our society.

Here we see a chart that includes the Seniors Coalition. We also see 60-Plus here. And, we see United Seniors, or USA, here. These are all founded by Mr. Viguerie, who has control of perhaps some of the most sophisticated mailing lists in America.

The Coalition to Save Medicare was founded to support the House Republican plan to cut Medicare. As one columnist has recently put it, the Coalition to Save Medicare is "deliriously misnamed," and is a "coalition of huge corporations and insurance companies out to loot Medicare to pay for corporate tax breaks."

In fact, Mr. President, the Seniors Coalition, United Seniors Association, and 60-Plus, are all 501(C)(4) organizations. They pay no taxes whatsoever. They have use of a nonprofit mailing permit. They are being subsidized by the American taxpayer.

The other coalition, which is the Coalition for America's Future—and here is a letter of September 22—was created by the majority party, by the Republican leadership, to apply pressure