''They instructed us in the first phase to do those the team thought would have a high likelihood of being implemented and that were less controversial and would demonstrate we can get some of these projects done on the ground,'' he said.

''There's nothing to hide. There was no scrubbing. It was important to gain the confidence of both the industry and the environmental community that our forest health initiative was intended to improve the health of forest ecosystems and not simply to generate timber,'' Lyons said.

Some lawmakers have proposed exempting some salvage logging operations from the normal environmental requirements in an effort to expedite the cutting before the dead wood loses its market value.

Senator Larry Craig, R-Idaho, chairman of the Senate Agriculture subcommittee on forestry, is preparing a forest health bill that may adopt some of the team's recommendations, his spokesman David Fish said Tuesday.

The 5 million acres identified by the Forest Service team includes 1.3 million acres in need of fuel reduction and 1 million acres in need of ''vegetation treatments,'' including ''commercial harvest, salvage . . . commercial thinning, commercial thinning . . . firewood.''

The team also identified 1 million acres for soil and watershed work, 400,000 acres of ''combination treatments,'' which could include some prescribed burning, and another 1.1 million acres of other projects ranging from educational projects to seeding and fertilization.

In addition, the team addressed two other controversial areas that did not show up in the final initiative—reform of U.S. environmental laws and below-cost timber sales.

In addition to coming up with ways to reform the National Environmental Policy Act, the team recommended the Forest Service return the agency's administrative appeals process to exempt some salvage logging from the appeals that environmentalists have used to block such harvests.

The team warned that efforts to do away with so-called ''below-cost timber sales''—logging operations that cost more to offer than the revenue they return—could harm forest health programs.

Ann Bartuska, the Forest Service's director of forest pest management who led the forest health team, said the USDA plan ''was not intended to be a comprehensive look at forest health; it was a snapshot.

''It was a subset of the total package,'' she said. ''We thought it was important to get started on some of these.''

Bartuska said the 5 million-acre estimate was based on 1,900 project sites that regional and forest supervisors ''rapidly identified on the first go-round.'' The 330 projects in the USDA plan represent the supervisors' top priorities and will cover an estimated 1 million acres, she said.

Mr. BURNS. Mr. President, for the benefit of any interested Senators, I have a copy of the entire Phase I initiative in my office. I would be happy to let them read it.

I also thank the Senators and the managers of the unfunded mandates bill. It is a terrific day. I think it is a victory for not only the States but the people of America.

I yield the floor.

Mr. KERREY addressed the Chair.

The PRESIDING OFFICER. The Senator from Nebraska [Mr. KERREY] is recognized.

BIPARTISAN COMMISSION ON ENTITLEMENTS AND TAX REFORM

Mr. KERREY. Mr. President, I rise to talk at length about the Bipartisan Commission on Entitlements and Tax Reform, a subject that I believe eventually this body will be compelled to address. When it does, it will be, of necessity, a bipartisan effort. We will not get it done if Democrats take advantage of Republicans, or vice versa. With that in mind, I note with considerable pleasure, before talking at length, that at a critical point during the debate on the unfunded mandate bill, an effort was made to place an amendment on the constitutional amendment to balance budget that would have required us to, in the Constitution, separate Social Security from the rest of the budget. That may make good policy sense at one level, but I was happy to join many Republicans in opposing that effort, as I was happy to join in an effort to oppose but not defeat the sense-of-the-Senate resolution that followed.

It will take that kind of bipartisan effort if we are going to be able to address this issue. I note, for the record, that when the Republican leader earlier commented that perhaps this 10 days was a waste of time in debating this bill, I note for Americans that we are debating the health and safety and security of their lives. This is not a small issue. There is no economic imperative driving this legislation. The Government is not about to go broke if we do not pass this bill. I was proud to vote for this bill. I think it is a good piece of legislation. But the imperative to get it done right away is a political imperative, not economic.

I note as well, with great interest and concern, that out of 44 amendments with rollcall votes on this particular piece of legislation, there was only one time when a single Republican crossed the line and voted for a Democratic amendment. That was on Senator BOXER's amendment to exempt child pornography. Even in that case, only the Senator from Pennsylvania, Senator SPECTER, could cross the line and vote for a Democratic amendment.

I must say, Mr. President, if we continue in that kind of forum with the Republicans, joined by some people's measurement of admirable unity, while Democrats on almost every single amendment had to be persuaded to vote for the Democratic sponsor of an amendment, we are not likely to continue making successful efforts in this body. The reason the unfunded mandate bill passed was that there was bipartisan support for the underlying effort. It was a good effort.

I hope that the actions, at least as I witnessed them, of unprecedented unity, as I might point out, unprecedented willingness to basically say whatever you say, I will vote for it, do not continue as we take up other matters.

Mr. President, the American people have heard a lot of speeches this week about the future. I am here to add my voice to this clatter. I want to talk about the year 2013. It is a long way off. It is in a completely different decade, a separate century, and new millennium. I suspect most of us would rather think about matters that are more current. But unless we take action to the contrary, Mr. President, something very important will happen that year.

Somewhere in America, a senior citizen will find in his or her mailbox the first check the Treasury of the United States ever financed out of the Social Security trust fund, a pot of money that we will, until that day, have saved for a rainy day. By the year 2029, 16 years later, the drizzle of that first rainy day will have deteriorated into a downpour—that is, if adjustments are not continued to be made in that due date. It was just 7 years ago that that year 2029 was forecasted to be another 35 years later. In 17 years after the first check was cut with funds from the Social Security trust fund, another retiree will find in his or her mailbox the last check financed from the Social Security trust fund.

Then the Social Security system and its much flaunted trust fund will be bankrupt. Today a document will be delivered to the President of the United States and the leadership of Congress that describes that future—a future in which the Federal budget consumes nearly 40 percent of the economy, and every dollar we collect in taxes will go directly to fund entitlements and interest on the national debt. And our Government will be paralyzed and unable to do little but operate as an oversized ATM machine whose only function is to collect money and hand it back out.

One of the arguments that was made, Mr. President, during the debate about attaching a requirement that Social Security be funded as a separate budget was that if a private sector trust fund was operated in this fashion, the individual operating in the private sector would go to jail. Well, Mr. President, any private sector insurance company that operates the way we are operating two of the largest social insurance programs in the world—Social Security and Medicare—any private sector company that operated insurance companies in the fashion that we operate, essentially ignore what the trustees are saying, which is what we are doing.

In February of 1994, the trustees of the Social Security and Medicare fund delivered to the Congress and the President a report that said we should take action sooner and not later, because we have promises on the table that we simply cannot expect to be able to reasonably fund. That is the way insurance companies operate, Mr. President. That is the way they operate.

Well, if a private sector company operated in that fashion, we would also likely close them, shut them down.

That is the bad news. The good news is that in the same document, the final report, the Bipartisan Commission on Entitlement and Tax Reform describes a brighter and bolder future for our country, a future in which our economy is stronger, our senior citizens more secure, and our treasury more solvent. The difference, Mr. President, is up to us. I am here today because I find the challenge of building a stronger future an invigorating one, and because I see the road ahead as one paved not with problems but with opportunities—opportunities to modernize our retirement programs to meet the needs of a changed and changing population, and to address some fundamental defects in our economy.

Before getting to these changes, let me describe what necessitates them. The American population is aging in a way that requires us to rethink the structure of our entitlement programs, the two largest of which, retirement and health care, were designed as systems in which each generation of workers would pay taxes to support the generations of retirees that preceded it. In return, each generation expects its successor in the work force to support their benefits.

The system succeeds, provided that each generation has enough children to grow up and pay the taxes that support its benefits. Mine, Mr. President, did not. Today, there are nearly five workers paying taxes to support each retiree; when my generation retires, there will be fewer than three. And, as life expectancies continue to expand, Americans will collect more in lifetime benefits.

This is an unprecedented event, Mr. President. Those who caution that I am overstating the case, who say, ''Well, we have always waited until we reached a crisis and then we fixed the problem,'' are urging us to ignore the unprecedented nature of the baby boom population moving into retirement and the unprecedented nature, as well, of the changes that are going on in the underlying economy of the United States of America.

Quite plainly, Mr. President, the arithmetic, which not only our Commission has examined but the trustees of the Social Security and Medicare trust funds have said themselves, the arithmetic does not compute. We will be able to support the aging population without immediate consequences for three decades because we have built a massive surplus in the Social Security trust fund.

Because in 1983, for the first time, we ended a pay-as-you-go system, imposing larger taxes than were necessary to pay-as-you-go on people that are in the work force.

Now, one of the prevailing myths that always goes on—and we heard it again in the debate about whether or not to keep Social Security separate—is that Social Security is generating a surplus. I hear it all the time from people saying, ''Just keep your hands off of my Social Security.''

Mr. President, that money comes from people who are in the work force. And we, in 1983, imposed and, as a consequence of using that money, agreed to ask Americans in the work force, particularly those who are paid by the hour, to shoulder a disproportionate share of deficit reduction.

Our retirement entitlements, Mr. President, are in much better shape than our health care system.

I have already described a crucial historical moment in the year 2013 and another in the year 2029. Again, it is not only likely but almost assured that those times will be closer than 2013 and 2029. Let me describe a few that will occur before that.

The first is in the year 2001. Mr. President, you can reach out and touch that. That is not a long ways away, 2001. That is when the Medicare hospital insurance trust fund, the part A trust fund, soaked up by an aging population and escalating health care costs, goes bankrupt.

The second is in the year 2008, when the baby boomer generation begins to retire. In a single decade, beginning at that moment, in my State, the overall population will go up by less than 2 percent, while the retired population goes up by over 28 percent. That states the problem right there. That refutes the common argument that is made, ''Well, we faced this thing in the past. We will face it in the future. We will just do as we have done previously.''

We cannot do as we have done previously, Mr. President, because we are facing something the likes of which we have not seen before.

In 2012, spending on entitlements and interest on the national debt will consume every dollar we collect in taxes, leaving literally nothing for defense, infrastructure, law enforcement, or any other function of Government.

If those dates seem too distant to merit attention, consider a figure that is right here and now. In Nebraska, as is true with most of the Nation, the population for those who are retired over the age of 65 and the population for those who are in our primary and secondary schools, the K through 12 environment, is almost identical. There are 275,000 retirees in Nebraska, Mr. President, and another 275,000 children in kindergarten through the 12th grade. We spend $1.3 billion of revenue, of tax revenue—property and State sales and income taxes—about 8 percent of that comes from the Federal Government —on those kids. We spend $4.5 billion on retirees.

Mr. President, much more ominous than that, we are going to spend $50 million more incrementally on the kids and we are going to spend $400 million more on retirees.

I pause to say, I do not intend, nor do I urge on others, to engage in any intergenerational warfare. It is not necessary for us to exaggerate this problem, but it is unquestionably a problem. It is a problem that gets worse as you examine the demographics. We do not need to look for a demon, for an enemy, for something that is causing this. It is demographic. It is, in many ways, our own success.

The technology of health care gets more and more expensive, but the disparity in investment is stark. In my opinion, Mr. President, we will have dire implications for our future.

Fixing these problems and building a better future is a challenge because it requires those of us whose occupation teaches us to think in 2-, 4- and 6-year cycles to think, instead, in decades and generations. Many of the benefits of entitlement reform will take hold in our economy years after most of us leave this institution—if not this planet—as will the consequences if we fail to act.

If our political cycle teaches us to think in terms of 6 years at the most, the myopia of our budget cycle is worse. As families across America evaluate their finances over decades, planning for education, for retirement, for health care, their Government looks only 5 years into the future and then turns its eyes away after that. The most important recommendation of the Commission on Entitlement and Tax Reform may be the need to expand our budget cycle to include the consequences of our action 25 and 30 years out.

We just passed a piece of legislation that requires us to think about the costs that we impose upon States, Mr. President. It would be incumbent upon us, as well, to think about the costs that we impose upon future generations, not only with our current action but with our current neglect.

We hear time and again that entitlement reform must be done, but we always struggle to get the job done. And one of the reasons that that occurs, in my short and happy experience with dealing with this issue, is entitlements are typically not only misunderstood, but are highly charged politically. People are vested in this program and they get very upset and concerned and in an angry mood or hardly in the mood to listen to reason. In addition, politicians very often turn a cloudy situation downright muddy by intentionally describing entitlement programs inaccurately.

We hear on Social Security time and time again this quote: ''Social Security isn't a problem. It's self-funded.'' Well, yes, it is self-funded, but it is not self-funded by Saudi Arabia, it is not self-funded by current beneficiaries. It is self-funded with a 12 percent tax on every American worker. Tomorrow is a different story, Mr. President. Tomorrow 12 percent will not get the job done.

Now what the Entitlement Commission is saying is that by the year 2013, the entitlements and interest will consume every single dollar of available tax revenue and will nearly double, by the year 2029, payroll taxes if action is not taken soon to change these trends.

Further, Mr. President, we distort our health care entitlements. I do not exaggerate, nor do I consider it particularly funny, that I could have scored points in my recent reelection effort if I had asked my campaign consultant who did my television ads:

I would like you to produce a 30-second ad in which I will go face on the camera and say, ''If reelected, I promise to keep the Government out of your Medicare. I promise there will be no big Government takeover of your Medicare program.''

Time and time again, I have heard Members come to this floor and say, ''I'm against national health insurance. I oppose the Clinton plan, because the Clinton plan represents national health insurance.''

Then come back to the floor within an hour sometimes opposing any change in the Medicare Program, causing people to believe it is something other than what it is. Medicare is national health insurance but only those who are 65 years of age and older are eligible. That is what it is. It is not a program like Social Security; it is not anywhere nearly as self-funded.

As I indicated earlier, not only is the program going to be insolvent, part A, but over time we have required a larger and larger amount of general fund subsidies to pay for physician services, and increasingly, to pay for hospitalization as well.

Yet we continue to go out and pander to the audience. We do not want to antagonize the audience. They vote in large numbers, this audience, so we misrepresent the program. And it should not come as a surprise, therefore, that Americans are confused about their health-care entitlements.

While I do not accept the rhetoric of those who describe entitlement reform as a process of pain rather than an opening of opportunities, the fact remains it is also difficult because it requires the Senate on occasion to utter one of the most uncomfortable words to utter in this city—that is the word ''no.'' Particularly to those who are apt to vote against us because we use that dreaded word.

We have, Mr. President, all the excuses we need to postpone action. Let me give a few reasons for acting today. The first and most important is that it is relatively easy to fix the problem today. Tomorrow the fixes will be draconian. The Secretary of Health and Human Services, as the Secretary is required, every 4 years, has put together last year a 13-person Commission that is examining Social Security, examining Medicare, examining the disability insurance trust fund, examining on behalf of the Secretary, as required by the Social Security law, and will make recommendations as to what action is required.

The people who staff and work for that Commission say that unless we put action in place in 1997, unless we change the law at the latest by 1997, to take effect in 1998, we will begin—as our Commission says as well—we are going to begin to see the size of this thing grow so quickly that we will look back and people will wonder, Americans will wonder, ''Well, for gosh sakes, why did you not take action when it was relatively easy to fix?'' The answer will be, again, well, we budget for 5 years, Mr. and Mrs. Citizen, and we get reelected for 2, 4, and 6 years.

The second, taking action today means that we can fix the problems with little or no impact on current retirees.

The third reason for acting today, Mr. President, is that planning for our national future also means we can give American citizens, particularly workers who are not currently retired, time to plan for the changes.

Understanding the problem, what do we need to do to fix it? There are several options outlined in the report of our Commission. I would be remiss if I did not salute those who had the courage to submit their own ideas along with the distinguished Senator from Wyoming, Senator SIMPSON, who submitted a plan. I hope to be able to work to develop a piece of legislation that will give Americans an opportunity to say we support this specific piece of legislation. Most of the people who are on this Commission had much to lose, particularly those who were elected and holding office had very little to gain, given the political climate, by doing so.

I want to describe today some of the ideas that were laid out in this document by former Senator Jack Danforth and myself. Now I want to alert people, this is a proposal in motion. We hope to be able to make some changes in it. I will go through this thing so that citizens understand that when we talk about entitlement reform, at some point it gets tough. And it gets tough in a hurry. It stops getting tough after we deal with congressional retirement, which is one of the first things on my list. After that it goes downhill in a hurry. There are no easy choices. There are no choices that we can make where somebody is not finding themselves, saying ''Oh, my gosh, this will require a change in my life.''

Mr. President, we try to say we should lead by example. We tried to say we need to have it fair and balanced and everyone participating. I believe, in fact, that generalized efforts to reduce discretionary spending will be good news, as well. It should lay the groundwork to make entitlement reform easier, but it will not make entitlement reform in the end an easy piece of business.

We began with the premise that Congress must lead before asking the American people to accept entitlement reform. For that reason, the Kerry-Danforth proposal would cut in half the rate at which Members of Congress accrue pension benefits beginning in the year 1996. Also in this spirit, we would bring retirement programs for Federal workers more in line with private pensions. Other proposals offered in the spirit of putting the Government's house in order include raising the Federal retirement age to 62.

This proposal would gradually phase out eligibility for unreduced benefits for Federal workers before age 60. Beginning in 2000, for workers with at least 5 or fewer than 20 years of service, the retirement age for unreduced benefits for CSRS and FERS is increased by 4 months each year until age 62 in the year 2020. We have additional details with this proposal, Mr. President.

The second thing we do is adjust the CSRS to high-5 pay.

Third, reduce the rate which military retirement benefits accrue.

The next thing we do, Mr. President, is to adjust the Consumer Price Index calculation to better reflect inflation. I will spend a bit of time with this, Mr. President, because it is a very key provision that has gotten a great deal of attention in the news lately.

A number of Federal programs are adjusted annually, based on annual increases in inflation as measured by the CPI. The CPI is based on a marketbasket of goods and services purchased by a representative urban worker. Adjusted every 10 years, the current marketbasket was last revised in 1987 using data for the period 1982 to 1984. As a result, the CPI does not capture dynamic annual changes in the pattern of consumer preferences.

In addition, the CPI may not adequately measure the consumer benefit derived from improvement and quality of existing goods or the introduction of new goods. A number of economists have supported this change. Most individuals who have looked at it say it is a reasonable, fair change. It is also one of the easier changes that we have to deal with.

The next large category is an effort not just to preserve and strengthen Social Security, Mr. President, but to begin to consider the other sources of retirement income that very often are neglected. There are three major sources of income that Americans look to for their retirement years. The first is Social Security. Twelve percent of payroll tax, 12 percent of payroll is collected. We all know how it works. Comes into the Social Security trust. The trust is required to invest only in Treasury bonds. The average rate of return is somewhere between 1 and 2 percent in real terms inflation adjusted. That is source No. 1. Unfortunately, for many years, it is their only source of retirement, creating a real serious problem for individuals who are on fixed income, and that is their only source of retirement.

But the second large source of retirement, Mr. President, is private pensions. Unfortunately, it appears that in the 1980's we took action in tax and in regulation that may have had a counterproductive effect, because we see a decline in private pensions being offered to employees, particularly in small businesses, Mr. President. And though the Kerry-Danforth proposal did not make a recommendation in that regard, I, myself, am particularly interested in the context of reforming our retirement programs to better suit the changed and changing needs of our work force, to consider changing our tax and regulatory laws as they relate to private pensions.

The third source of retirement is individual savings. It has been noted, and I will note it later, there has been a decline of savings in the United States of America. There is a disproportionate amount of savings in certain sectors of the economy. Obviously, it is true that if you make some $130,000 a year, as 535 Members of Congress do, that you are apt to be able to save a lot more money than if you make $12,000 to $15,000 a year, as an awful lot of Americans do, or $8,000 a year as an American living on the generous $4.25 minimum wage we provide as a minimum standard for wages.

Those are the three sources of income that people have to consider.

I mention this lower income American, Mr. President, for a very specific reason. We tried to make our proposals as progressive as possible. I am open to suggestions as to how we can make them more progressive. They need to be. One of the blessings of living in the great State of Nebraska is that I have had the opportunity to acquire a friendship with a man by the name of Warren Buffett, a local businessman that has done pretty well in life. And Warren Buffett once said to me one of the problems you have in dealing with these kind of issues and others like it where you are concerned about what is going on in the work force is that at any point in time if you have 120 million people in the work force, which is approximately what we have today, 60 million will be above average, and 60 million will be below.

When you have a market, as we do today, that is international, and when you have technology ripping through the workplace increasing productivity but reducing the number of people who need to work, what happens is the market is bidding down large numbers of people and the services that they deliver into that market.

It is a reality. There are very few workplace environments, Mr. President—Congress may be the exception—where workers are protected from the forces of the market. What happens, therefore, is that we have a lot of people in this country who are in the work force who cannot afford health care, who are in the work force and even if we change our tax and regulatory policies simply are not going to have the resources to be able to save. It does not mean that tax change and regulatory change is not needed. It just means that those of us who get $135,000 a year in an environment where we are protected from the economic marketplace need to be sensitive to the dilemma faced by lower-income individuals.

The chief goal of the Kerrey-Danforth proposal is fulfilling our promises to today's retirees while ensuring the long-term health of Social Security. I have already described the challenges that face the system. Our proposal for redressing these problems is among the most exciting in our entire plan.

We propose to make changes in the Social Security Program that enable us to reduce the employee payroll tax by 1.5 percent in exchange for a revised long-term contract. It shifts more responsibility and control to the individual, provides opportunity for higher returns on investment, and allows us to return Social Security to its intended purpose, as a supplement to personal retirement savings.

Let me be clear, Mr. President—although there will be allegations to the contrary—no reductions in Social Security benefits affect anyone over the age of 50, and no Social Security reductions are used to reduce the deficit. The savings we propose to Social Security would go back into the trust funds and strengthen the program. We would require these younger workers to invest in the savings payroll tax cut in a mandatory IRA-type personal savings account.

Mr. President, I believe this simple and single change would alter the culture of savings in America. Every young worker, when their first job is taken, whether they are 16, 17, 18, would have to come home to Mom or to Dad and say, ''I have a 1½ percent decision to make.''

We were attacked by many when we put this proposal out. One of the things you will hear later is we proposed to move the normal retirement age to 70 while keeping the reduced benefit age at 62. We were attacked by the Washington, DC, Chapter of the NAACP as almost being racist because black Americans have a shorter lifespan than white Americans do.

We were attacked by many people in organized labor who said this is going to be bad for American workers. But I urge Senators and Members of Congress and Americans, in particular, before you buy that rhetoric, to examine what 1½ percent over the course of a working life in a safe individual retirement account would do. It not only provides a higher rate, but it provides the kind of flexibility that I think Americans want in their retirement program.

Mr. President, this proposal has a number of important economic benefits. Companies can save and invest more, grow faster, and have more rapid improvements in the standards of living of their citizens.

Private savings in the United States of America have fallen from more than 8 percent of the economy in the sixties to 5 percent today, and the trend line is down; it is not at a plateau, it continues to decline, perhaps because of tax and regulatory changes. But for whatever the reason, the savings rate continues to decline. The Kerrey-Danforth proposal takes an important first step towards reversing this trend.

More exciting, though, is the fact that this proposal gives workers more control over planning for their own retirements by transferring authority for these investments from the Government to the individual. The return on these savings provides workers the potential for far more lifetime benefits than they can expect from the Social Security system if it continues on its current course. Thus, those who attacked our proposals need to compare the current system as most reasonable people would expect is going to happen to it—and that is significant adjustments made out in the future—they need to compare the current system with the one that Senator Danforth and I are proposing.

Mr. President, this is a middle-class tax cut with both a purpose and a payoff. We also propose over a period of 30 years to raise the eligibility for full benefits from age 67 to 70, while still allowing partial benefits at age 62. This option accelerates the phasein to age 67 that is already in current law. The age for full eligibility will reach 70 for those under age 28 today.

So for one who is thinking of going out this evening and interviewing somebody and finding out, what do you think about this adjustment that Senators Kerrey and Danforth are proposing, please do not go out and interview somebody over the age of 50; it does not affect them. Go interview somebody under the age of 28. That is who this thing affects, and they are going to be affected mostly if no action is taken at all.

Mr. President, let me address a great misunderstanding about the previous two proposals. The term we use to describe the age at which Americans are eligible for full benefits, the term ''retirement age'' is very misleading. Americans do not want to retire at age 70. If anything, they want to retire early. They cannot do so, Mr. President. They cannot mathematically do so without a substantial pool of private savings.

The previous two proposals, therefore, are designed to increase an individual's control over when they retire. Make no mistake, the age at which Americans retire is set by genetics, economics, and personal preference, not by statute. A low statutory retirement age means nothing for those who lack the savings to enjoy, and that is true for the individual and it is also true for this Nation.

Our other proposal to restore solvency to the Social Security System is including State and local workers in the Social Security Program; indexing the Social security bend points for CPI instead of average wage growth; reducing growth of benefits to mid- and upper-wage workers using a third bend point; and adjusting the CPI formula to better reflect inflation.

Mr. President, I have run through four or five things here to change our

Social Security system. None of these are easy. All of them require us to think, first of all, in the context of an entire retirement program: of Social Security, of private pension, and of individual savings.

We need to make adjustments in all three, and it requires us, most importantly, to be able to look out 25 or 30 years to connect our action with our words. Rarely is there one of us who does not get up and give a speech and talk about our kids and grandchildren. If we do not take the trustees' advice and take action to restore the strength of this program, in particular, then those who hear our words will wonder why it is not accurate to describe us as hypocrites.

In the area of health care and other entitlements, there are many critics who oppose reform of Medicare and they point out correctly the fact that much of the increases in this program are due to escalating health care costs.

This concern is true enough, but it also ignores, at great peril, in my judgment, the fact that in addition to higher health care costs, our health care entitlements are growing because more Americans are retiring and taking advantage of them.

Again, there is no enemy. I am not pointing at seniors and saying: You are the problem. We have a big demographic change that is occurring, and the simple way of saying it is our generation did not have as many children as our parents thought we were going to have.

(Mr. FRIST assumed the chair.)

Mr. KERREY. Mr. President, the fact is that Medicare spending will continue to skyrocket due to an aging population, even in the miraculous event that Federal health care costs were held to the rate of inflation—highly unlikely. Any time anybody gets close to looking at that, I note with some disappointment, some considerable disappointment the President saying no Medicare reductions can be used for deficit reduction. But any time you get close to making changes that would keep Medicare, the Federal costs going at the rate of inflation, we get providers coming in—the distinguished occupant of the chair, I am sure, has heard his cohorts talk about what happens when we reduce reimbursements under Medicare. We get hospitals coming in here. We get all sorts of people coming in here telling us about the terrible things that happen. Even if it miraculously occurred that the growth of the Federal program stayed at the rate of inflation, it would still be a substantial increase in the program merely because, as I said, of the tremendous demographic change.

The Kerrey-Danforth proposal tries to fairly and evenly control the growth of entitlement programs. We allow Medicare beneficiaries to buy into risk-adjusted pools. We try to apportion the increase, the wedge that we see coming, between adjustments in what is paid to providers, adjustments in what the beneficiaries themselves pay in, and we say the general fund can pick up approximately a third of it, as well. We try to apportion the changes that are required between all three of those sources.

In the area of other entitlements, Mr. President, we use, as I indicated earlier, an adjustment in the CPI, a different CPI to better reflect inflation. This proposal would apply to all other entitlements including veteran's compensation. We take a rather difficult but I think correct action of means testing Medicare, veterans compensation, and unemployment insurance. It is phased in. It is difficult, I know, but I believe if Americans examine the details of this proposal, they will see that we are not taking away a benefit that is offered. A person like myself that was service-connected disabled, that was wounded and injured in the war in Vietnam, you do not take away my benefit. You merely say that if my income comes up, the size of the benefit, I think most appropriately, would be reduced.

In the third area, Mr. President, the area of tax expenditures, we make some recommended changes, as well. I note with some amusement and concern, every time we talk about entitlements, tax expenditures are a real favorite target. But when the rubber meets the road and it comes time to put them on the list, it is awfully difficult to find much enthusiasm for doing it because they do unquestionably have a historic impact upon people.

The Kerrey-Danforth plan suggested that we limit itemized deductions to 27 percent. The adjusted CPI that I described earlier would apply to income taxes, standard deductions and personal exemptions. We cap the employer-paid health insurance deduction, a proposal that is consistent with our belief that we ought to move in a direction where individuals are taking more responsibility for making price and quality decisions in the health care market as opposed to having the Government make those decisions for them.

Mr. President, these are the long and the short—a bit long—of the proposals that the Kerrey-Danforth solution has. They were extremely controversial at the time. They were greeted with almost unanimous opposition from most of the interest groups that were affected. We were described in not altogether complimentary terms by most of these organizations, many of which I think are doing an awfully good job and are trying to protect their programs. I say to them with great sincerity that I want to protect these programs as well. Inaction does not protect them. Our proposal is not a proposal that destroys Social Security. It strengthens Social Security. We are responding to the challenge of the trustees.

Now, there may be Members who want to come down here and raise taxes. Maybe that is the solution you want to propose. Well, propose the solution. You can come at this problem and solve it whether you are a liberal or a moderate or a conservative. Any ideology can solve this problem. You cannot solve the problem, though, if you are afraid of the consequences of proposing a solution.

So I say let the debate begin. But let us not stop the debate merely because there was strong and vocal opposition at the first proposal out of the box to solve it, Mr. President. I say again with great sincerity that if we delay on this and wait, we are going to be alarmed by the consequences.

Mr. President, I would also like to show—I will use one of the rare charts that I put up in the Chamber—the future as described by current law, which is what this chart over here is. And I do this for the purpose of saying to Americans who wonder what is in this for me, what is going to happen, we are proposing to make changes in retirement and health care, what happens in the future.

Mr. President, this is the future of current law. This the future of Kerrey-Danforth were it enacted just as it is. I do not hold any illusions it is going to be enacted just as it is. I have already had some suggestions made to me that I think are altogether good and reasonable, and I have indicated you can solve this with a liberal, moderate, or conservative ideology. And I suspect that those ideologies will be expressed when and if—and I hope it is soon—this floor and the House as well begin to engage in what ought to be done.

What it shows is that this future of current law becomes this future. This is very important, Mr. President. These bar charts are not just bar charts. They are our economy. This green line here represents the historical rate of taxation in America.

One of the few things that has remained constant in Washington, DC, is the approximate rate of taxation. Measured as a percent of our entire economy, it has stayed at about 19 percent. It has gone up to over 20 percent during World War II, spikes up a little bit during the war in Vietnam, but all the rest of the time it has stayed at about 19 percent.

Now, again, maybe someone comes down here and says, gee, I think the rate of taxation ought to be 25 percent. Let them argue that. That is fine. Let them argue. But let the majority decide what we think is the rate of taxation. And it appears that the majority, going from liberal to conservative Congresses—and we have been all over the place on this—it appears that the majority of Americans have kind of settled in, perhaps without intent, but they have settled in at about a 19 percent rate of taxation.

Here is where we are today, Mr. President, 1995, with a deficit of about 3 percent. The red line is entitlements; the blue line is net interest. And what you can see is the red and the blue line together begin to move up.

This is where I was saying earlier that in the year 2013, entitlements and net interest consume everything that is available.

Again, maybe in 2013 we are going to have a Congress saying we were elected on a promise to raise taxes. Maybe it will happen. I doubt it, but maybe it will happen. Maybe in 15 years Americans will say: They kept our taxes down 18 years; now we are really ready to raise them up again. Let's jack them up 5 percent of GDP and suck up these new entitlements out here and add a bunch of discretionary programs on top.

I think it is unlikely, Mr. President. What that means is you could eliminate all the discretionary spending, which we may end up doing. The discretionary spending went down last year. It is going to go down again, while entitlements are going to go up $50 billion and health care and retirement is almost the entire piece of that. We are going to whack the discretionary spending one more time, and that is going to continue until and unless we face it.

Under our proposal, this levels out, as I point out to Members and to citizens, if we do not even balance the budget. You still have to do more if that is what you want, to balance the budget. But we get within striking distance. You can do it with discretionary spending after that. It is not a discretionary spending commission. We did not address the problem of discretionary spending. The purpose of this commission was not to make recommendations to balance the budget but to get the two large insurance programs, the retirement and the health care programs, in balance so that we could say to the trustees that we in the Congress have taken action to bring these accounts into long-term balance.

This rather confusing chart shows what happens just with the Social Security trust funds. Again, this is the most controversial one of all. This is one the Speaker says we are going to leave off the table; the President says we will leave it off the table; everyone says we will leave it off the table. We will deal with it sometime out there in the future. Maybe in 2000, when the third millennium arrives, that is when we are going to deal with it.

There was a lot of wailing and gnashing of teeth earlier when we had that amendment on the balanced budget, but fortunately it was defeated. Here is the fact. This is what is going on out there in the future. So when you are out there talking about your kids, my kids are 20 and 18. My kids are 20 years old and 18 years old. And this is the kind of future they face. This is what they are looking at. It is fine for me. I am in good shape. It is fine for me until the year 2029. And mark my words, the trustees, in my judgment, are going to come back and say sometime later this year it is now not 2029; it is 2024. They have been moving this due date closer and closer since we recently fixed it.

That is the future under the Kerrey-Danforth proposal. You may have a more liberal proposal that says no, no, no, Senator; we want to raise taxes.

Bring it down here. Let us vote on it. Let us vote to consider some alternative to this. I do not mind that at all. But ignore this problem at not just your peril but our peril, and I predict that in 1997 or 1998, we are going to begin to hear some very, very serious statements made about what is going to happen by more and more people if we do not take action.

I hope that this entitlement commission report that we are delivering to the President and to the leadership will be given consideration because this kind of a future will change America as we know it today.

We will be able to say to our kids and our grandkids: Yes, Social Security will be there for you. Yes, Medicare will be there for you.

But just as important, ask an economist, ask Alan Greenspan, if you are on the Banking Committee or on the Joint Economic Committee, the next time he comes before you. Ask him directly what happens if this kind of future is enacted. What happens if the Kerrey-Danforth plan or some modification that achieves the same effect, what happens if that takes place? I will predict to you he is going to say that long-term interest rates go down at least 200 basis points, or 2 percent, and maybe as much as 4 percent.

It is this inflationary expectation that is causing the bond market still to bid up the long-term price of money. If we could get that kind of action taken quickly, we would continue the economic recovery. It would enable us to keep interest rates low, employ more people, allow us to build up our skills and our wages, and get the standard of living rising, as most Americans want, and probably, although we have not put a pencil to this and calculated it, probably produce the opposite of what we have right now, which is compounding interest working against us. We could probably get compounding interest working in our favor and find ourselves with good news, possibly able to adjust taxes down or make some other extension out there so that Americans would say: Gee, this is a payoff, a good payoff, for having made the tough decisions.

I will close by saying I am very grateful for the leadership that Senator DANFORTH put in on this and all the other members of this Bipartisan Commission on Entitlements and Tax Reform. I am very much appreciative and sensitive to the political problems surrounding this issue.

One of the things I have learned in this is it does not do any good, I believe, when you are discussing this, to hyperventilate and exaggerate the impact. We have attempted to present the facts. I have not said in any of this discussion: America is going to go bankrupt. We will not go bankrupt. We may devalue our currency, but we are not going to go bankrupt. We are just not going to be able to fulfill a generational promise we made.

We are not sitting here saying Social Security is broke. It is not a short-term crisis. We are saying we are operating a very large insurance fund and we ought, on behalf of future beneficiaries, to make adjustments today so they get the promises that are currently on the table and that we ought to make long-term planning a part of our thinking. As difficult as it might be, we ought to make that long-term planning a part of our thinking.

We have also suggested that we make incremental reform, incremental steps towards changing both our retirement and our health care programs. I have been more explicit on the retirement programs than I have on the health care programs. But as I see it, there are four large entitlement programs in America. By ''large''—I define large to be $200 billion plus. Three of them are Federal: That is Federal retirement, Federal health care, and Federal tax entitlements. There is a debate about whether or not taxes are entitlements. The fourth is K through 12 education. You are entitled to that as well, but that is a State and mostly local issue.

I am saying we should use this opportunity. As we solve this long-term structural problem—as we solve the long-term actuarial problem, as the insurance folks call it—we ought to consider making changes in our regulation in our taxes, particularly as it relates to retirement, so we will provide Americans with the opportunity to acquire more private pensions and a larger pool of private savings as well.

I intend to repetitively come and try to make the point. I hope Americans understand that there will be concerted effort in the U.S. Senate and in the House of Representatives to try to give Americans a legislative vehicle they can rally behind, a specific set of recommendations that are open to amendment, open to changes, open to any suggestions that might improve it, and change the future as we are currently heading upon it.

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

The PRESIDING OFFICER. The Senator from Idaho.

COMMENDATION OF SENATORS AND STAFF

Mr. KEMPTHORNE. Mr. President, after 11 days of debate we finally had passage of S. 1, a Senate bill which will curb unfunded Federal mandates. I think, as you can well appreciate, after 11 days and oftentimes 12 hours a day, we really have said quite a bit about S. 1, so in my closing comments, I would like to say what has not been said which are just some thank-you's for a lot of folks who worked very, very hard for this fundamental change in how this institution of Congress will operate under S. 1.