Let us assume that we were to guarantee $40 billion of the $50 billion and require that the holders of the debt stay in on the balance, that other $10 billion. In other words, we would have been first out with a guarantee; the holders would have been last out. The explanation given as to why that was unworkable is we did not know who the holders of the debt were. I do not totally accept that. I think, had we waited, we could have forced the holders of that debt to come forward and make a proposal that they would stay in for a portion of their participation in return for the U.S. Government guarantee.

So that was my suggestion, which was recognized but rejected under the explanation that it was impossible to know who the holders of the debt were and, therefore, they could not proceed with that kind of an arrangement.

So time will tell, Mr. President, just what the risk to the U.S. taxpayer is. But this Senator is very concerned about the agreement that was made, and I felt an obligation to present my views to my colleagues.

I yield the floor.

The PRESIDING OFFICER (Mr. BENNETT). Under the previous order, the Senator from North Dakota [Mr. DORGAN] is recognized to speak for up to 10 minutes.

RECOGNITION OF THE FEDERAL RESERVE BOARD

Mr. DORGAN. Mr. President, there is almost nothing in Government worse than to have people do significant work and get almost no credit for it. So today, as the Federal Reserve Board once again closets itself in its concrete temple, locks its door, goes in the secret room, and makes decisions about interest rates that every single American will pay, I figured maybe we ought to give credit to those who are going to do the work and cast the votes. I do not know what is going to be announced in the next couple of hours, but I am told by almost everybody who thinks they know that the Federal Reserve Board will increase interest rates for the seventh time in less than a year; for the seventh time in less than a year they will increase people's mortgage rates.

I met a fellow the other day who said, ''I am paying $115 more now for my home mortgage now because of the Fed.'' In the past year, the Federal Reserve has increased people's interest rates on credit cards and has increased the Federal Government's deficit by $125 billion over 5 years just to pay the interest on the debt.

So they take action that has a significant impact on this country. I want to tell the American people who they are. Lord, it seems to me if you are doing work this important, you at least need to get credit for it. Let me tell the American people who is going to do this today. This is the Federal Reserve Board on this chart, the top line of pictures. These people are all appointed by the President and confirmed by the Senate. So they go through the Senate for confirmation. But they are joined in that room—which the public is kept out of, by the way—by presidents of the Federal Reserve banks in the country, the regional Federal banks.

These people are not appointed by the President. They are not confirmed by the Senate. But they are going to go into the room on a rotating basis. There will be five of them in that room today who will actually cast votes on monetary policy and interest rates. They are not appointed by anybody, not confirmed by anybody. They owe their jobs to the regional Federal Reserve bank boards of directors, the majority of whom are their local bankers. These folks will go into the room representing the local bankers' interests. They will take action to increase interest rates for this country.

The four, today, who will vote—it is a rotating vote—are Mr. McDonough from New York, Kathy Minehan from Boston, Michael Moskow from Chicago, Tom Melzer from St. Louis, and Tom Hoenig from Kansas City. They will, with the Board of Governors, cast votes.

Let me, without being disrespectful, say this—and I emphasize that I am not being disrespectful. I do not have any idea what is in their heads down at the Federal Reserve Board. I would like to have those heads examined to find out what facts are rattling around in those heads that persuade these people that there is a new wave of inflation somewhere on the horizon. What persuades them to put the brakes on the American economy? Who has appointed them to become human brake pads to decide to slow down the American economy? And whose divine notion is it that unemployment in America should never fall below 5 percent, and economic growth should apparently never go above 2½, 3 percent. Where on Earth did these notions come from?

If this country faced credible inflation problems, I would not be here at all criticizing the Federal Reserve Board. We have had four successive years of decreasing inflation. There is no—I emphasize no—credible evidence that we have a new wave of inflation on the horizon. Yet, today, and again, if the pundits are correct, the Federal Reserve Board will take one more step that most surely will put the brakes on the economic progress we have seen and probably move this country toward a recession.

This is not a newfound concern of mine. The Federal Reserve Board operates by itself, in secret, and no, I am not saying let us put politics in monetary policy. I am not saying give to it the Senator from Utah to handle or the Senator from North Dakota or my colleagues in the Senate or the House. But here is a copy of the Constitution. The copy of the Constitution begins with these three words: ''We the people''—not we the bankers, the central bankers or we the Federal Reserve, but ''We the people.'' A question this important, that affects economic growth in this country and the pocketbook of every single American, and especially coming at a time when all of the credible evidence would seem to me to imply that the Fed's policies are wrong, leads me again to ask the question: Why does this continue? By whose authority does this continue?

I hope one day soon that we will discover a Federal Reserve Board that understands that you have two twin economic goals in America. Yes, two: price stability, absolutely, which has been a goal in this country for decades. Price stability and full employment. Price stability and economic growth are the twin economic goals in this country, only one of which this board cares much about. And even at that, when it cares about price stability, it fights the wrong fight at the wrong time.

I have young children who look for dragons under their bed at night because they hear noises and they wonder where does it come from, where does it lurk? Then they read books like Tony the Dragon. When you look at all of the credible evidence, where are the dragons this board looks for? What fights does the Fed wage, that it wins because it has no opponent?

I hope one of these days the American people will get better news from that Federal agency, that dinosaur that still operates in secret when the watchword of American democracy is ''openness.'' Maybe one day there will be enough of us here who care and enough of us here who think alike to believe that reform—yes, reform—ought to touch this institution as well.

A CALL FOR REFORM

Mr. DORGAN. Mr. President, let me turn to one other quick item. I am going to speak about this at greater length later. But I want to touch on it today, because I have watched with amazement in recent days reformers, people who say let us tip everything upside down and shake it, let us change it, let us reform it.

Among that call for reform, joined by many Governors in our country, is a plea by those folks that what we ought to do is decide the Federal Government cannot do anything right, and State governments do everything right, and we ought to have a massive transfer of money, a substantial transfer of resources between the States and the Federal Government, moving, of course, from the Federal Government to the States.

I am willing to concede that the Federal Government has too much waste; it is too bureaucratic, too big. The Clinton administration has taken action to downsize it. One hundred thousand people who used to work for the Federal Government are not working for the Federal Government anymore. At the end of 2 more years, it will be 250,000 people; 250,000 jobs will have been eliminated. That is downsizing in a real way.

I reject the notion somehow that is being thrown around by the reformers, especially by Governors, who come out with press conferences and television lights and put on a big brassy show and say, ''Here are 250 programs you ought to abolish. Throw all the funding for these programs into a block grant and send us a check.'' These are the very same Governors who are back home busting their buttons, boasting about all the tax cuts back home. They have the gall and brass to come to Washington and say all the things you have done and all that money—send us the money and with no directions. Put it in something called a block grant, and we will take care of it.

Is there no priority for child nutrition in this country? Is that not important? They are asking us to put funding for things like WIC, and other programs dealing with children, in a block grant and send it back to the Governors. We're supposed to let the Governors work with local business interests on economic development grants. If the Governor wants to use the money to help a company from another State build a manufacturing plant in his State, that is, we are told, just fine. Let us let them make those decisions there, because we do not have a national priority on the subject or the issue of child nutrition.

Well, the fact is we do have a priority. We have established a priority over a long period of time. And I am one who does not believe that we ought to decide that get rid of those priorities that have been priorities for a long, long time. We should not just load them up into one big block to send to Governors and say, ''We will make you a deal. We will raise the taxes and then we will send money to you and you figure out how you might want to spend it, while all the while you are boasting back home you are cutting State taxes.''

You want the real conservative answer, Governors, the real answer, then raise the money yourself and spend it yourself.

There is no better way to create fiscal irresponsibility than for one level of Government to raise the money and another level of Government to spend the money.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. DORGAN. I ask unanimous consent for 1 additional minute.

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

Mr. DORGAN. We need to talk through this at some length, Mr. President. Because I wonder whether I am the only one that thinks that it is a little strange to have people rush into town to say, on the one hand, that the Federal Government cannot do anything right, and on the other that they would like to continue to have our money. People are telling us to just send the money to the States and let them spend it.

The whole principle of the unfunded mandates bill, which we just passed here on the Senate floor, was that those who raise the money should decide how to spend the money. Governors and mayors were complaining mightily that we in Washington violate this principle.

Even as we dealt with the unfunded mandates bill, it was interesting to me that in many jurisdictions they were busy hooking their hose to the Federal tank, siphoning money out of here with bogus plans, such as the provider tax under Medicaid and others.

Well, reform works both ways. Responsibility works both ways. And I hope one of these days we can have a thoughtful discussion about who does what better, which things are important, which must be saved, which must take priority. I think there is room for all of us to have a thoughtful discussion about this, and I intend to say more about it in the days ahead.

Mr. President, with that, I yield the floor.

Mr. BRADLEY addressed the Chair.

The PRESIDING OFFICER. The Senator from New Jersey, under the previous order, is recognized to speak for up to 15 minutes.

THE MEXICO CRISIS IN CONTEXT

Mr. BRADLEY. Mr. President, anyone attuned to the news over the past 6 weeks has been subjected to a daily barrage of articles and statements on Mexico's economic crisis. We read of devaluations, floats, and market slides. We hear of lines of credit, loan guarantees, IMF programs, and conditionality. We follow the daily barometers of President Clinton, Secretary Rubin, Majority Leader DOLE, and Congressman LEACH.

What we have not been getting, however, is an adequate sense of the social and political context for Mexico's troubles. But Mexico is not just an economist's case history. Mexico is a country, with people and history. Unless we understand how the current financial crunch grew out of and, in turn, affects Mexico's political and social dynamics, we will not be capable of developing a response that works for Mexico or in the Congress for us.

The financial dimensions of the Mexico problem are well understood. Like many developing countries—such as the United States in the 19th and early 20th centuries—Mexico imports foreign capital to finance growth. However, because of its relatively low domestic savings rate, Mexico's appetite for foreign capital is exceptionally high. In a sense, Mexico is similar to the United States in the 1980's, financing investment from the savings of foreigners. In 1994, for example, Mexico imported a net $28 billion in foreign capital, 8 percent of its GDP.

Less than half of that $28 billion was invested in productive assets, such as plant and machinery. The rest was volatile portfolio investment, known with justification as hot money. What made this money even hotter was the fact that much was invested in short-term debt that matures in bunches. As a result, the Mexican Government must find the resources to redeem or rollover around $52 billion in debt in 1995.

Mexico, like any other country, can attract capital from abroad only as long as investors remain confident that the return compensates for the perceived risk. This requires investor confidence in Mexico's economic, political, and social stability. It also requires relatively high interest rates, declining inflation, and a stable currency—in other words, relatively high return for relatively low risk.

The Salinas government in the late 80's cut their internal budget deficit by the equivalent of three Gramm-Rudmans. Inflation plummeted, privatization exploded. Protectionist barriers and government subsidies came tumbling down. Mexico pursued a strong peso policy both as an end in itself and as a symbol of the new Mexico. This led the Salinas government to resist the economic forces that threatened to push the peso down and, in the short run, it was successful.

Just over a year ago, the North American Free-Trade Agreement came into force and gave a huge boost to investor confidence in Mexico. However, on the very day NAFTA took effect—January 1, 1994—the Zapatista revolt began in Mexico's Chiapas State. That revolt was an attack on democratic forces from the left. Thus began a year in which social and political, as well as economic, events undermined investor confidence in Mexico. As the year unfolded, we witnessed the assassination of the ruling party Presidential candidate, and the assassination of the ruling party secretary-general amid allegations of involvement by party dinosaurs. These were attacks on democratic forces in Mexico from the right.

At the same time, the peso came under increasing economic pressure as the PRI-dominated Government turned on the fiscal and monetary taps for the elections to win the first really contested election in Mexico's history.

There was another joker in the pack, one the Mexican Government could not control. That was the Federal Reserve's decision to raise United States interest rates. The higher yields made American securities more attractive relative to Mexican securities. Because a high percentage of the capital flowing into Mexico came not from banks, as in the 1970's and 1980's, but from mutual funds and pension funds, the impact of higher American rates was magnified.

According to a study by Guillermo Calvo, professor of economics at the University of Maryland, much of the mutual fund money that flowed into Mexico came more as a response to lower interest rates in the United