My concern is that in this body we are getting avalanched to the point where we are going to be encapsulated in ice and not be able to act and do anything on this balanced budget amendment, and when we wake up it will not be as happy a world as what the Encino Man faced. When we wake up, we may have desperation, despair, and economic collapse in this country because we simply chose to cool things off.

We cannot afford to cool things off any more. The more we cool things off here, the hotter it gets out there. We have an obligation to act.

Do not talk about minority vetoes. We have seen plenty of that around here on this issue. And I suspect the Senator from West Virginia likes that fact, of having that minority veto. As the Senator from Kansas, Mrs. KASSEBAUM, said, maybe it is a bad idea whose time has come, but it is a necessary evil that we have to put on to this country to get our financial act in order for the next generation of Americans.

I do not want to be the first generation of American leaders to leave the next generation worse off than we are and worse off than my grandparents were, and that is what we are standing on the precipice of if we do not act today.

I am hopeful we will. I am confident we will. I do trust the better angels of our nature in this place. I know there is a lot of activity going on that is trying to cloud this issue, but I fundamentally believe that people in this Chamber will do the right thing when called upon and they will stand up for the future of this country.

I yield the floor.

Mr. BENNETT addressed the Chair.

The PRESIDING OFFICER. The Senator from Utah.

Mr. BENNETT. Mr. President, I ask unanimous consent that I be allowed to proceed as if in morning business for no more than 10 minutes.

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

DEVALUATION OF THE MEXICAN PESO

Mr. BENNETT. Mr. President, I thank my colleagues for indulging me in this matter and I will attempt to be as brief as I can.

Yesterday, at this time, the chairman of the Banking Committee, my friend, AL D'AMATO from New York, took the floor and made a strong statement with respect to the peso situation in Mexico and the proposed solution to that situation from our Government. I wish to take the floor and respond and expand upon the statements made by my distinguished chairman.

I agree basically with the position that he took. I do not share some of the outrage that he expressed with respect to the administration's action. I took the floor after the administration had announced their action and generally praised it because I do believe that if we had not taken some kind of action the Mexican economy in an atmosphere of panic would, indeed, have spun out of control and the Mexican Government would have been in default on their bonds within some 48 hours of the time the administration acted.

However, I do not want to leave the impression that with my support of the administration's actions I support the notion that the Mexican Government acted wisely when they devalued the peso in the first place. And the outrage suggested by the chairman of the Banking Committee was appropriately placed when it goes to the question of those who planned this devaluation, those who approved of the devaluation, and those who took the position that the devaluation was inevitable and that it was proper.

In the Wall Street Journal yesterday, Robert Bartley, the editor of the Journal, wrote a somewhat lengthy but in my view very perceptive summary of this situation called ''Mexico: Suffering the Conventional Wisdom.'' I ask unanimous consent that this article be printed in the RECORD at the conclusion of my remarks.

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

(See exhibit 1.)

Mr. BENNETT. The reason I praised the administration action when it was announced was that unlike the original proposal, the administration action called for entry into the circumstance of the Federal Reserve Board. I have enormous respect for Alan Greenspan, the Chairman of the Federal Reserve Board, who has an understanding of the evils of devaluation that I think goes beyond that held by some policymakers at the International Monetary Fund and the World Bank.

Devaluations are not inevitable. Devaluations are not good policy. Devaluations are usually an attempt on the part of one government to, in the phrase that's become known, beggar thy neighbor—punish another government on their borders, either physically or by trade.

We went through the circumstance of passing NAFTA in this body and in the other body. I was a strong supporter of NAFTA for a variety of reasons that I will not review here.

One of the fundamental pillars of NAFTA was that we would establish free trade between these nations, and the assumption was very specific that this free trade would continue on a dependable exchange rate between countries. For Mexico, once the free trade zone was established, to violate that assumption and say, ''Well, now we have free trade in our countries but we are going to try to make our goods more attractive in your country by devaluing the peso and thereby making our exports cheaper,'' was a violation of that agreement, certainly of its spirit if not its letter.

The fact that the markets reacted so violently to the devaluation, catching the experts at the IMF by surprise with that violence, demonstrates the fact that moving away from the 3.5 relationship between the dollar and the peso was, indeed, a violation of the whole spirit of the NAFTA debate and represented a betrayal of those who had supported NAFTA.

Conventional wisdom, as Mr. Bartley points out, says ''No, no, you can devaluate a little bit and everything will be fine.'' The reaction in this circumstance said you cannot devalue a little bit when the devaluation is a betrayal. You have destroyed the whole relationship that existed between the two countries. That, in my view, was what was wrong.

Now, in the package put together by the administration, there is the opportunity for Alan Greenspan and his opposite number in Mexico, Miguel Mancera, to get together and say we will use these funds that are now available to us by virtue of the decision of the President of the United States, not to bail out investors in Mexico but to start to extinguish pesos. We can acquire pesos by virtue of the money that we have and then extinguish them—tear them up, if you will—and reverse the monetary policy that flooded the Mexican economy with too many pesos, which is what led to the devaluation in the first place.

We can use this money, these two gentlemen can, because they have the expertise, they have the ability, and if the Treasury Department will back them, they will have the support they need to say we can use this money over time to reverse the betrayal of the devaluation. And if that is the approach, I am convinced we will see the Mexican crisis resolve itself happily.

Unfortunately, if that is not the approach, if the money is used in the conventional wisdom fashion of trying to see to it that all of the investors in Mexico are made whole, then I think the dire predictions that we have heard on this floor will indeed come true.

So, I salute the chairman of the Banking Committee. I am a member of that committee, and I look forward to the hearings that he has told us he will schedule. I think it is very appropriate for him to take on this watchdog role that he outlined for us in his floor statements yesterday.

But I hope the administration will recognize that those of us who supported what they proposed are looking to them to try to move to undo that which triggered the crisis in the first place, which was the act of betrayal, the devaluation.

It was not the trade deficit. This country had a trade deficit, the United States, until 1914. The part of the country from which I come, the West, was built by trade deficits. The railroad that linked the West to the East and created all of the economic opportunities that came in its wake was built with British money, not American.

Trade deficits are normal and healthy in developing countries. No, this devaluation was caused by overprinting of pesos, and it can be solved by using the breathing time purchased for it by the administration to extinguish those pesos and move back to the time where two trading partners who have joined hands in good faith under the umbrella of NAFTA can once again say: We can trust each other. There will be no future betrayal. We will stand as we have stood in the past.

It cannot be done overnight. But it can be done if it is announced as a goal, if it is announced as an open target, and the two central bankers, Mr. Greenspan and Mr. Mancera, then set about to find a program to have it come to pass in a legitimate, orderly and proper fashion.

This is the way to get the Mexicans back on their feet and this is the way to protect the American taxpayer. I salute Chairman D'AMATO in his vigilance to hold hearings to see to it that this is carried out in that fashion.

I yield the floor.

EXHIBIT 1

[From the Wall Street Journal, Feb. 8, 1991]

MEXICO: SUFFERING THE CONVENTIONAL WISDOM

(By Robert L. Bartley)

Confusion number one is that the best exchange rate is one that produces the ''right'' trade balance. With the collapse of the Marxism now behind us, this has become the most pernicious idea loose on the earth today.—''Dollar Turmoil,'' Review & Outlook, The Wall Street Journal, May 23, 1989.

So some 93 million Mexicans are learning to their sorrow. But perhaps there is something to be redeemed from their misery. Just possibly the debacle will spell the end of devaluation as a policy instrument, not only in Mexico but around the world.

The initial conventional wisdom is quite the opposite, of course. With the peso devaluation providing an utter calamity, financial sophisticates have decided the mistake was not doing it sooner. To the untutored, this logic may not be intuitively obvious. Indeed, taxpayers who've poined up some $50 billion in guarantees may be relieved to discover there is another view: that the Dec. 20–22 devaluation was a dreadful mistake, though one in which the Mexicans merely followed prevailing conventional wisdom.

That wisdom holds, for example, that Mexico was ''forced'' to devalue, which is myth number one. A collapsing currency is usually the sign of a economy with an inflationary spiral and an uncontrolled fiscal deficit. But the Mexican budget was nearly in balance, and the ratio of its debt to GDP was below the OECD average. Inflation has subsided to single digits. Exports were surging, up 35% to the U.S., scarcely the sign of an ''overvalued'' currency. Growth, while not as vigorous as some developing nations, was picking up in the wake of the North American Free Trade Agreement. The real sector of the economy was not sick but healthy.

FOREIGN EXCHANGE LEGACY

In the financial sector, the incoming Zedillo administration did inherit a problem: Foreign exchange reserves were declining. As recorded in the graphs Bank of Mexico Governor Miguel Mancera published on this page Jan 31, adapted alongside today, they'd fallen from a peak of nearly $30 billion before the March assassination of Presidential nominee Donaldo Colosio to about $12 billion at the Zedilo inauguration Dec. 1.

In dealing with this problem, however, the incoming administration had a choice. The road not taken was simply to tighten monetary policy. In the conventional view, this means raising interest rates to attract dollar inflows and thus stabilize reserves. In the more modern and more helpful monetary approach to the balance of payments, the same actions would be viewed as reducing the supply of pesos. A lower supply of pesos relative to the supply of dollars would increase the value of the peso, and a higher exchange rate would reduce the incentive to cash peso for dollars. Reducing the supply of pesos would also be likely to boost short-term interest rates, though this is a side-effect, and long-term rates might actually benefit.

Instead the Mexicans chose to devalue, widening the bands on the exchange rate on Dec. 20 and going to a freely floating rate on Dec.22. The latter decision really was forced because the earlier one collapsed investor confidence in the peso. Widening the bands clearly presaged devaluation and led to a massive flight from the peso, and the loss of half of the remaining reserves in one day. Judging by their public economic plans, the Mexican authorities had in mind an exchange rate of 4.5 pesos to the dollar, a 22 percent devaluation from the earlier 3.5 floor. But with confidence imploding, the peso dropped immediately to 5.5 then as low as 6.33, a 45% devaluation. With more than $50 billion in guarantees from the U.S. Exchange Stabilization Fund, international financial institutions and commercial banks now announced, the peso recovered to 5.335 yesterday, devalued 35%.

Meanwhile, interest rates surged. In the wake of devaluation, the rate on 28-day cetes, peso-denominated Treasury bills, reached 39%, up from 13.75% in the Dec. 14 action. Even with the support package, the 28-day cetes rate was 32.75% at the most recent auction Feb. 1. Foreign exchange reserves were almost exhausted before the bailout package, and the Mexican economy is visibly collapsing into recession. The argument that Mexico was ''forced'' to devalue rests on the notion that otherwise it would have vanished foreign exchange reserves, a recession and soaring interest rates. With devaluation more than doubling interest rates, it' absurd to suggest that the same rates would not have been enough to defend a 3.5 peso exchange rate when the former level of confidence still prevailed.

What's more, in all likelihood the damage has only begun. Mexican living standards already are plunging. The devaluation will surely result in a major surge of inflation, which will offset any imagined trade advantages to a lower exchange rate. The combination of inflation and recession will throw the government budget into chaos. The economic turmoil, especially the devastation of the nascent middle class, will in turn produce political turmoil. Much of the hard-won progress of the last 12 years will be reversed.

The Mexican outcome provides a particularly clear empirical test of a set of conventional wisdoms about economic policy, trade and exchange rates. For this was not some backwater decision. The key decision-makers in Los Pinos (the White House) and Hacendia (the Treasury) boasted Ph.D.s in economics from Yale and Stanford. Devaluation has long been urged by important business sectors in Mexico, and advocated/predicted by various commentators on Mexico, in particular journalist Christopher Whalen and MIT economist Rudiger Dornbush. When the action was taken, U.S. Treasury Secretary Lloyd Bentsen immediately said it ''will support the healthy development of the Mexican economy.''

The arguments of this illustrious group are familiar: Exchange rate pressures are caused and cured by trade deficits. Thus the Mexican authorities thought their fundamental problem was not purely monetary, but rather a high current account deficit. And further that the deficit could be cured by devaluation; a lower exchange rate would make Mexican goods cheaper north of the Rio Grande and U.S. goods more expensive south of the border. So Mexicans would sell more and buy less, and the trade account would come into balance, or at least to a ''sustainable'' level. Many economists and such institutions as the International Monetary Fund have long given the same advice to every troubled economy in the world. It was the conventional wisdom preached even to the U.S. in the 1980s, the occasion of the ''Dollar Turmoil'' editorial quoted above.

Yet in fact trade deficits are perfectly normal, if not indeed a sign of health. The international balances are an accounting identity, and trade deficits and investment inflows are two sides of the same coin. So any developing nation that succeeds in attracting capital must by definition run a trade deficit. Or to put it another way, a rapidly growing economy will attract more than its share of the world's investment and require more than its share of the world's goods.

The key, then, is not to balance the current account with the rest of the world, but to balance trade deficits with voluntary investment inflows. Mexico ran current account deficits of $25 billion in 1992 and $23 billion in 1993, and during this time not only maintained the peso at around 3.1, but accumulated large foreign reserves. In 1994, the current account deficit was only slightly higher—$27 billion after 11 months. The problem came with the inflows, as political turmoil shook investor confidence.

The biggest shock was the Colosio assassination. The Salinas administration responded by devaluing the peso to 3.4 from 3.1, within the previously announced bands. It also used some of its foreign exchange hoard to buy pesos and engineered a sharp boost in interest rates, taking 28-day cetes to around 18% from 9.6%. This mix succeeded in stabilizing foreign reserves from April to November, with a blip over the threatened but ultimately aborted resignation of Jorge Carpizo McGregor, widely seen as the Mexican government's badge of integrity. In November, reserves resumed their fall with the angry resignation of Deputy Attorney General Mario Ruiz Massieu, who had been investigating the assassination of his brother, Jose Francisco Ruiz Massieu, secretary general of the ruling Institutional Revolutionary Party (PRI) who had tried to fight party corruption. The resigning official repeated his suspicions that drug dealers were working with elements of the PRI, and charged that high party officials had obstructed his probe.

Clearly these political events were shocks to monetary policy and the exchange rate, as Governor Mancera argued in his article here. He added, however, that in line with standard central bank practice around the world, the resulting foreign exchange transactions had been ''sterilized,'' or offset with domestic transactions. The idea is to insulate domestic monetary policy from the impact of international markets (though in fact both turn on the same money supply). So the central bank would sell its dollar reserves, thus withdrawing pesos from circulation, but then would buy domestic notes and bonds, putting the same pesos back in circulation.

So internal measures of ''the money supply,'' the monetary base for example, displayed their usual growth path with their usual seasonal variations. But the point was that the political shocks changed the demand for money; the supply was not allowed to adjust. In effect, the central bank created the pesos used to buy away its dollar reserves. With a large stock of reserves and a store of credibility earned with the Salinas reforms, the sterilized interventions did buy time for a monetary correction, but instead the new administration decided to devalue. The $50 billion support package has restored some stability, but without policy changes Mexico could sterilize its way through $50 billion as it just sterilized its way through $30 billion.

A CONTRARY PRINCIPLE

It would be quite another matter if some of the $50 billion were used for unsterilized intervention, buying pesos and extinguishing them. And while sterilization is indeed standard policy under the international conventional wisdom, it is not the only possible one. Indeed, the currency board policies adopted in Hong Kong, Argentina and Estonia operate on a contrary principle. Local currency is issued only when new foreign exchange reserves are earned, and is extinguished when reserves fall. Interestingly, Argentina reacted to the Mexican crisis by eliminating its remaining bands, not widening them. Finance Minister Domingo Cavallo clearly has not adopted the conventional wisdom; indeed, he consummated his currency board by inviting IMF advisers out of his nation.

The currency board arrangement is reminiscent of the classical gold standard before World War I, when the domestic monetary base automatically rose or fell with the gain or loss of gold reserves. The currency boards use foreign currency instead of gold, of course. This means that while all nations could use the gold standard, with currency boards one central bank, presumably the Federal Reserve, would have to use some other outside signal in setting the pace of money creation.

The new Republican Congress is gearing up for hearings about what went wrong in Mexico, which promise to become a reexamination of the prevailing conventional wisdom. Clearly the Republicans recognize the devaluation as a mistake, as Senate Majority Leader Bob Dole has plainly stated. What advice, Republican committees want to know, did the Mexicans get from the IMF and U.S. Treasury? And what advice will they give the future Mexicos?

When the GOP won in November, who would have guessed that one of the first effects would be a far-reaching examination of international monetary policy? Even for us who thought its arcane mysteries were as dangerous as they've now proved in Mexico, it seemed too much to hope.

BALANCED BUDGET AMENDMENT TO THE CONSTITUTION

The Senate continued with the consideration of the joint resolution.

AMENDMENT NO. 236

Mr. HEFLIN. Mr. President, I rise in support of the amendment to the resolution offered by Senator REID which would protect the Social Security system. I am a cosponsor of the amendment to balance the budget and a strong believer in it. But I feel the Social Security program is such that it ought to be off budget and that we ought to have truth in regard to budgeting.

I am a cosponsor of the Reid amendment, which is designed to ensure that the budget is not balanced on the backs of hard-working Americans who have contributed toward their retirement with a portion of each paycheck. This is not only a protection for retirees but also a protection for all Americans who pay into the program.

The amendment is simple. It protects the Social Security system by excluding the receipts and the outlays of the Social Security program from the budget. The present system of collecting FICA payments from employees' paychecks, as well as a matching contribution from employers, is used to fund a Social Security trust fund. Currently, the payments to the Social Security recipients out of this trust fund are less than the amount taken in through the FICA payments. This surplus in contributions to the fund was created by Congress in the early 1980's to account for the increase in the payout which will occur in the future as the baby boomers begin to retire and draw upon Social Security, and was also done for the purpose of making the Social Security system at that particular time stable, and to try to make it actuarially sound for a great number of years.

We can liken the Social Security trust fund to the traditional savings account most Americans have in the bank. By putting a little money into a savings account each month, and forgetting it is there, it will eventually build up and become substantial by the time it is needed. We do not include the savings account in our monthly operating budget in our checking account, which is used to pay monthly bills and expenses. As I read it, under the language in the balanced budget resolution now pending here in the Senate, this Social Security savings account would no longer be completely safe to build up the surplus which will be needed to pay retiring baby boomers in the 21st century.

Next, I will turn to what are potential problems, which may arise under the current language of the balanced budget resolution.

If at some time the payments to Social Security beneficiaries should be greater than the receipts from the FICA tax revenues, a deficit would occur. According to figures supplied by the Social Security Administration this should occur starting in the year 2013. At this point it is not clear what effect this deficit would have on Social Security payments. As part of a unified budget, would the deficit which would begin to occur with respect to Social Security tax funds require a drastic cut in other non-Social Security programs to make up the trust fund deficit? Or would Congress change the formula for benefits and thus reduce those benefits?

A scenario, which could occur under the balanced budget amendment as currently drafted, concerns the ability of the Government to repay to Social Security trust fund the interest owed from its Government investments. It seems that the intent of section 7 of the amendment is to exempt from total outlays the repayment of debt principal. Those words seem to be carefully chosen of ''debt principal.'' The unintended consequence—I hope it is unintended; it may not be unintended—to Social Security may be that should outlays exceed receipts from the general Treasury funds then, according to section 7, no interest payments would be made to the Social Security trust fund.

What happens is that under the Social Security trust fund, we invest in Government securities. Those Government securities are not transferable. Those Government securities are particularly Social Security trust fund investments. They draw interest. That is part of the effort that was made to make the Social Security fund actuarially sound. But pursuant to the definitions under section 7 of outlays and of receipts, the definition of receipts, includes all receipts except those obtained from borrowing.

The Social Security funds are in effect invested in Government securities and, therefore, they are borrowed money.

Then we find that in the outlays, the definition is that it includes all outlays that the Government is obligated to pay with the exception of the payments to the debt principal. Therefore, it does not include the payments which we classify as interest. Since interest payments will be on budget, that causes a problem relative to whether or not interest payments will be paid back.

The result of this nonpayment of interest due on principal debt could substantially affect the stability of the bonds, which secure the debt and the trust fund. If this should happen the bonds would probably go into default and thus have little value. This would cause a destabilization in the funds invested with Social Security trust fund dollars, and a loss of faith by the American people.

To show what could happen, we look ahead and see what is the amount of money we are referring to and what could possibly be involved with this amendment. According to the Social Security Administration, they anticipate that by the year 2003 there will be $1,151,300,000,000 in assets of the Social Security fund. And, under the law, those assets, a surplus, will be invested in Government securities. If the interest could not be paid on those because of the operation of on-budget activity, then you would have $1 trillion that is in some bonds in which the Government has invested with no interest paid, and therefore causing serious problems, and certainly this would deprive the Social Security funds of the interest that has been accrued in the event that the on-budget does not pay them back.

This could be averted through challenges in courts, but that raises questions of interpretation under the principles of constitutional construction.