Mr. DOLE. Mr. President, as I understand it, the Senator from Illinois wanted to speak in morning business.

Mr. SIMON. That is correct.

MORNING BUSINESS

Mr. DOLE. Mr. President, I ask unanimous consent there now be a period for the transaction of routine morning business not to extend beyond the hour of 6:30 p.m., with each Senator to be allowed to speak for 5 minutes—or whatever.

Mr. SIMON. I would like to take about 20 minutes?

Mr. DOLE. OK, you can give him the whole 20 then.

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

The Senator from Illinois.

THE DOLLAR, THE YEN, AND THE DEFICIT

Mr. SIMON. Mr. President, this is the third in a series of commentaries I am making on our Nation's condition, a series suggested to me by President Clinton after I announced my future retirement from the Senate.

One of the major economic events of this year is the recent decline of the dollar against the Japanese yen and the German mark. Though this slippage was arrested temporarily a few days ago, the long-term trend is clear. We know that the drop in the value of the dollar will affect our future, but we are not sure how. We know that we should do something about it, but we are not sure what.

At a White House press conference on Tuesday evening, April 18, a reporter asked President Clinton about the sinking dollar, and the President responded: ''In the present climate, the ability of governments to affect the strength of their currency . . . in the short run may be limited.'' If that is an excuse for inaction, it is wrong. But the President was right in saying:

> So what you have to do is work over the long run. The United States does want a strong dollar. We believe in the importance of fundamentals in our economy. We believe in getting the deficit down, getting jobs up and pursuing a responsible course.

The Washington Post had an editorial that observed:

> Anger and frustration in their voices, Japanese and German officials have been calling on the United States publicly to do something about the [falling] dollar * * * The United States is likely to offer sympathy but little more. There's nothing useful that the United States can do.

The Post is wrong.

A few blamed our $20 billion loan guarantee to Mexico, and while it could have altered behavior slightly in an uneasy market, a $20 billion multiyear loan guarantee is not something major for a nation that has a $6 trillion national income, if it has its economic house in order.

There are two basic questions: What does the fall of the dollar mean? What can we or should we do about it? I shall address both.

What does the fall of the dollar mean?

It is significant, both for our Nation and the world. Since two-thirds of the world's trade is carried on in dollars, the erosion of the dollar can destabilize economies far from us. But the British publication, the Economist, is correct:

> In the long run, the biggest loser from the neglect of the dollar will be America itself.—April 15, 1995.

A Journal of Commerce columnist accurately noted on April 17: ''The weak dollar will decrease U.S. political influence abroad.'' Peter Passell wrote in the New York Times, on May 7: ''No indicator of the American economic decline stands out like the fallen dollar.'' Paul Volcker, former chairman of the Federal Reserve Board, is quoted in the New York Times on May 2: ''If you think American leadership is important, then erosion [of the dollar] is a negative.'' Time magazine, in its March 20 issue, quoted financial analyst Felix Rohatyn: ''We are gradually losing control of our own destiny. The dollar's decline undercuts American economic leadership and prestige. It is perhaps the single most dangerous economic threat we will face in the long term because it puts us at the mercy of other countries.'' Van Ooms, economist for the Committee for Economic Development and former chief of staff of the House Budget Committee, said on the pages of the Chicago Tribune on April 13 that Europeans will take this country less seriously on foreign policy ''when it can't run a credible economic policy.'' As if to underscore all of this, the April 12th Wall Street Journal had a heading about the fastest growing economic part of the world: ''Asia's Central Banks Unloading Dollars in Shift Toward Yen as Trade Currency.''

Short-term, Americans will see little change. Yes, if we are traveling in other nations, we will be hurt a little by the foreign exchange rates. Our balance of trade with other nations may be helped a little, because U.S. products can be secured for less money, though foreign businesses—like their American counterparts—rarely immediately drop their prices, both because they want to make some additional profit and because there is a reluctance to adjust prices until the currency market stabilizes. Our balance of trade is helped because U.S. businesses that buy component parts from overseas producers will suddenly find them more expensive and will shift to a U.S. manufacturer of the same product, if one is available. But that is not always the case. The VCR, for example—invented, developed and, at one time, entirely manufactured here—now has no U.S. manufacturing source.

Little-noticed economic consequences will gradually affect us. For example, securing a patent in Japan will now be more expensive for a United States firm or individual. Factors like that have a limited, short-term impact but a much greater long-range impact.

Long-term, the dollar decline has more serious consequences.

First, the increased cost of foreign goods will have a gradual inflationary impact on our economy. That will not only cause the consumer dollar to shrink and discourage savings, it eventually will put pressure on the Federal Reserve Board to raise interest rates to discourage inflationary pressures—and that will hurt our economy.

The financial markets will also push interest rates up. We know that approximately 16 percent of our deficit—or about $700 billion—is publicly known to be held outside the United States. But many nations outlaw holding bonds from another nation—the United States once did—and there is additional ownership that is not publicly disclosed, hidden usually through a third party holding the bonds. If the dollar continues its decline, U.S. bonds denominated in dollars will become less and less attractive. We will have to raise interest rates to sell this huge chunk of our deficit.

Less widely known is that 14 percent of our corporate bonds are held by people who live beyond our borders. That money has financed a huge chunk of our industrial expansion and modernization. If the dollar continues to decline, we will either lose this source of capital, or interest rate payments will have to be raised to make these bonds attractive enough to sell.

In addition, there are sizable foreign deposits in savings and checking accounts in our banks, and foreign-held certificates of deposit. Indirectly, these help to finance both our government sector—because the banks buy Treasury bonds—and the private sector, because the banks are able to make loans to U.S. businesses with these resources. If all of this shrinks because of a fall in the dollar, the only way to salvage the situation is with higher interest rates.

In the long term, higher interest rates discourage industrial investment and reduce productivity. Our economy is hurt, and the phenomenon of a lower dollar is not healthy for our Nation. From time to time, minor adjustments will occur and frequently are healthy. But the fairly consistent pattern of the drop in our dollar against the yen and the mark has major long-term consequences for our citizens that are not good.

I read an exchange that took place between two economists some years ago when the dollar brought 262 yen. In 1968, incidentally, 1 dollar equaled 360 yen. Here we can see in this graph what has happened to the dollar versus the yen. The one discussant predicted that if our policies were not altered, the dollar would eventually slide to 180 yen. The other economist predicted, confidently, that this would never happen. A few days ago, the dollar fell to 82 yen and today the dollar is worth 84 yen. Recently the Washington Post published a column noting the opinion of an economist and an economic observer who suggest we may have to think about issuing U.S. Treasury notes in yen rather than dollars to attract buyers and save on interest. The reasoning is simple: The financial markets want a stable currency for their investments, particularly long-term investments. The yen has shown itself much more stable than the dollar. To continue to sell in dollars will require higher interest rates. Therefore, they argue, we should issue our bonds in yen and pay less for interest. It would be politically unsettling to many Americans to see our bonds being sold in yen, but that is where we are headed.

There are better alternatives.

What can we do about the fall of the dollar?

It is not difficult to diagnose much of the problem. But once the illness is diagnosed, the patient has to take the medicine, and that is much more difficult with a patient that is not accustomed to taking distasteful medicine.

The basic problem is that the confidence in the dollar has diminished. Neither cheerleading by United States officials nor salvaging efforts by the central banks of Japan, Germany, and other countries will do more than temporarily heal the wound. Confidence-building measures have to be substantial. Those who now hold U.S. dollar-denominated financial certificates, who are uneasy, are not going to be assured by cosmetic actions.

Four steps can strengthen our economy and solidify the dollar.

First, get rid of our Government deficit. This is, by far, the most important of the four actions, and it will help the next three. It is no accident that the most recent slide of the dollar began the day after the Senate rejected the balanced budget amendment by one vote.

The Federal Government has been in a deficit situation for 26 years, and for 25 years, the dollar has been in a slide against the yen and mark. It does not take an Einstein to understand there is a relationship. But it is not a straight line, and other factors are also present. Sometimes when the deficit was high, interest rates were high, increasing the value of the dollar. It is an over-simplification to attribute all of the dollar decline to the deficit. But it is a major cause.

''The Germans and the Japanese say the basic problem is America's budget deficit,'' the New York Times reported on April 25. A month earlier, the Los Angeles Times reported Federal Reserve Board Chairman Alan Greenspan telling the House Budget Committee that ''last week's Senate defeat of the balanced budget amendment [can be blamed] for the sudden plunge in the value of the dollar and pointedly warned Congress that the currency will remain under long-term pressure until Washington tackles the deficit.'' The newspaper called his comments ''extraordinary because he so rarely gets involved in political disputes over tax and budget policies.''—March 9, 1995.

Business Week, in its March 2 issue, commented on the dollar slide: ''What the [international] market wants is simple: less debt or higher interest rates.'' The same article noted ''that sense of unease [caused by] the narrow defeat in the Senate of the balanced budget amendment. Now, investors are worrying that talk of tax cuts will continue despite the amendment's failure. 'The optimism that something would be done on the long-standing U.S. budget deficit problem has disappeared,' argues Jonathan H. Francis, head of global strategy at Boston's Putnam Investments.'' The story concludes: ''Unless the U.S. * * * catches on, even more trouble lies ahead.'' Paul McCracken, economist at the University of Michigan and former chairman of the Council of Economic Advisors under President Nixon, had a guest column in the Wall Street Journal of April 13, titled: ''Falling Dollar? Blame the Deficit.'' In the article, he says that the deficits have caused a decline in productive capital investment and that this ''is not trivial. If gains in real income had continued at a pace more in line with our long history, average family income today in real terms would be almost 25 percent higher than our economy is now delivering.'' The bipartisan Concord Coalition recently issued a study suggesting that family income would be $15,000 higher today if we had not had years of deficit. On April 17, Trudy Rubin wrote prophetically in the Journal of Commerce: ''If there were signs that Washington were cutting the deficit, the dollar would probably stabilize.'' Lawrence Thimerene, chief economist for the Economic Strategy Institute, wrote in the New York Times on March 23 that, to stabilize the dollar, Congress and the President must ''demonstrate real seriousness on deficit reduction.'' To the credit of President Clinton, he did that with his budget of 1993. It cost him politically, but it benefited the Nation. To the credit of our colleague, Senator PETE DOMENICI, chair of the Budget Committee, he has proposed that we balance the budget by the year 2002. While I differ strongly with his way of getting there, I applaud his courage in proposing this. The Senate and the House now have passed different budget blueprints. During the Senate debate, several of us on the Democratic side of the aisle proposed a different budget plan which would balance the budget but with significantly different priorities. We need bipartisan efforts in the that direction.

But our task is made more difficult by the one vote we failed to get in the Senate for a balanced budget amendment. I hope that 1 of the 34 Senators who voted against it—DALE BUMPERS, DAVID PRYOR, BARBARA BOXER, DIANE FEINSTEIN, CHRIS DODD, JOE LIEBERMAN, DAN AKAKA, DANIEL INOUYE, WENDELL FORD, BENNETT JOHNSTON, BARBARA MIKULSKI, PAUL SARBANES, EDWARD KENNEDY, JOHN KERRY, CARL LEVIN, PAUL WELLSTONE, BOB KERREY, HARRY REID, BILL BRADLEY, FRANK LAUTENBERG, JEFF BINGAMAN, PAT MOYNIHAN, KENT CONRAD, BYRON DORGAN, JOHN GLENN, MARK HATFIELD, CLAIBORNE PELL, FRITZ HOLLINGS, TOM DASCHLE, PAT LEAHY, PATTY MURRAY, ROBERT BYRD, JAY ROCKEFELLER, and RUSS FEINGOLD—will reexamine the issue in light of what has happened to the dollar and in light of the action taken by Senator DOMENICI and the Budget Committee.

Even Budget Committee action alone toward fiscal balance has had an impact. The heading on the New York Times story of Friday, May 12, was: ''The Dollar Surges On New Plan To Cut Deficit.'' The story, written by Peter Truell, begins:

> The dollar staged its biggest one-day rally in nearly four years, rebounding against the German mark and the Japanese yen on speculation that Washington might do more than in the past to cut the federal budget deficit.

The difficulty with the Budget Committee acting alone, much as its goal is to be applauded, is that the financial markets will remain somewhat skeptical, as I am, about whether Congress will follow through in the remaining 6 years. Financial savings from interest that could be applied to things like social programs and Medicare, and should be applied there rather than for a tax cut, will not be fully achieved. On the basis of estimates made by Data Resources and other forecasters, my guess is that with the same goal of balancing the budget and the firm wall of a constitutional amendment, there would be an additional interest savings of at least 1 percent. That would mean an extra $170 billion over 7 years for needed programs like education and a stimulated U.S. economy in areas that are interest-sensitive, such as home construction, car purchases, and industrial investment.

Washington Post columnist James K. Glassman recently had a column under the heading, ''Year of the Balanced Budget.'' While whoever wrote the headline for the column may not have intended it, there is fear on the part of many that the use of the singular, ''year,'' is what will happen. We need ''Years—plural—of the Balanced Budget.'' Our experience with legislative solutions, such as Gramm-Rudman-Hollings, an earlier balanced budget try, is that they have an impact for a year or two, but when the public squeeze is felt, it is much easier politically to create additional deficits than to make the tough decisions.

That's where the constitutional amendment would help.

But unless we confront our fiscal problems, the day will come when we will look back with longing to the day when the yen was 84 to a dollar.

Second, our trade imbalances must be addressed. A report from the Congressional Research Service says that studies show 37 to 55 percent of our trade deficits are caused by the budget deficit.

But there are other causes, varying from our neglect to aggressively market, to our weakness over the decades in trade negotiations. The latter deficiency is caused in part by not having a cadre of professionals handling our negotiations, particularly when compared to Japan. Too often it has been long-term professionals against changing teams of U.S. negotiators, and I don't mean that disrespectfully to fine, competent people of both political parties who have been thrust into these positions of responsibility.

The firm stance of President Clinton and Trade Ambassador Mickey Kantor in negotiating with Japan on automobiles and car parts is sound. I am optimistic that the problems can be satisfactorily resolved, but we should not be too eager. It is also worth noting that our firmer stance with Japan on trade matters has come since Japan has been a declining factor in purchase of our treasury notes. It is difficult to get tough with your banker.

The United States also must build products that can accommodate the cultures of other nations; we must learn to sell in their languages, not ours; and tens of thousands of U.S. corporations that do not consider marketing in other nations must change course.

We are gradually getting better, but it we can hasten the process, we will reduce the trade deficit that troubles the international currency markets.

But any serious look at trade policy must return to fiscal policy. Last month, Judith H. Bello, former general counsel to the U.S. Trade Representative, wrote in the Washington Post:

> The United States will continue to run trade deficits, no matter what happens in trade negotiations, so long as we run federal budget deficits. If Japan and every other trading partner opened their markets completely, we would still run a trade deficit if our savings rate remained inadequate.
>
> There is little that trade negotiators can do about a trade deficit. The power to reduce the U.S. deficit lies with Congress and those within the administration responsible for the federal budget. No matter how many markets any trade representative opens, the effect on the U.S. trade deficit in isolation is peripheral.
>
> U.S. trade negotiators have relatively little power to affect the weakness or strength of the U.S. dollar through their market-opening negotiations. As long as the United States remains heavily dependent on foreign capital to fuel our economic growth, and fails to save more and spend less, the dollar is likely to be relatively weak despite our fundamental competitiveness.

Third, our savings rate must be increased. Again, the biggest impediment to our savings rate is the deficit. But it is more than that.

The United States culture is not dramatically different from that of Canada and other Western industrialized nations, but our savings rate is significantly lower. We save only 4.8 percent of our gross national product, Canada saves 9.1 percent, Germany 10.7 percent, and 19.7 percent in Japan. Because of the low savings rate, the United States is much more dependent on others buying our debt paper.

By making some changes in our Tax Code, we can reward savings rather than debt. Our Tax Code, for example, rewards businesses that create debt to finance growth, rather than financing growth through savings or equity financing. A corporation that buys another corporation by borrowing money can write off the interest payments even through the debt may create hazards for the purchasing company. But if that same corporation more prudently issues stock, the dividends are not deductible. If we changed the tax laws to permit 80 percent of interest to be deductible and 50 percent of dividends to be deductible, the net result would be a wash in Federal revenue, but many corporations would have a more solid base, and our corporate debt base would decline. Similarly, we should create tax incentives for individual Americans to save that would not add to our Nation's debt but would add to our productivity by making investment capital more available. Our people do not have the incentives to save that citizens of many nations have.

Shifts in our culture will not be brought about quickly, but we must work to bring about change.

Fourth, we must do more long-term thinking and face our deficiencies frankly. The fiscal deficiency is an example I have already discussed. We have ducked telling people the truth because it is politically more convenient to duck.

But there are many more examples.

Can we expect to build the kind of a nation we should have if we continue to have 23 percent of our children living in poverty? Can we expect to build a nation that can lead and compete in the future if we continue to neglect the need for quality education in all of the nation?

Financial markets look at our deficits and worry about long-term inflationary pressures. When our fiscal policy does not address the deficits, the Federal Reserve Board is forced to look at the long-term implications of inflation. That is why the quality of appointments to the Federal Reserve Board are so significant. If we in Congress and the Clinton administration addressed our long-term fiscal problems more directly, the pressure would be removed for Federal Reserve Board action.

Germany and Japan are far ahead of the United States on nondefense research—and probably even further ahead of us in applying their research to productive purposes.

Governmental America tends to live from election to election and, even worse, from poll to poll. Corporate America too often lives from quarterly report to quarterly report. Unless we do more long-term planning and acting in both the public and private sectors, our future performance as a nation will be less than outstanding.

Others understand this about us. We must understand this about ourselves.

If we were to address these four areas with courage, not only would the dollar continue to rebound, our hopes and spirit would rebound also. The cynicism and negative attitudes that concern many of us are not caused only by the haters and those who see only the worst in our Government and public officials. The depth of public concern that results in hostility rather than activity is also caused by good, decent public officials of both political parties who do not have the courage to face our fundamental problems or who see an opportunity for partisan advantage rather than an opportunity to lift the Nation.

Yes, we can save the dollar.

We can also save the Nation.

Mr. President, if no one else seeks the floor, I question the presence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. DOLE. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

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

Mr. DOLE. Mr. President, I understand morning business has ended?

CONCLUSION OF MORNING BUSINESS

The PRESIDING OFFICER. The time for morning business has closed.

COMPREHENSIVE TERRORISM PREVENTION ACT

The PRESIDING OFFICER. The clerk will report the pending business.

The legislative clerk read as follows:

A bill (S. 735) to prevent and punish acts of terrorism, and for other purposes.

The Senate continued with the consideration of the bill.

Mr. DOLE. Mr. President, can I just indicate to my colleagues on both sides, I thank the managers of the bill. They have been spending the last hour or so trying to work on some amendments. They are ready to accept a number of amendments. There will probably be a vote on the amendment about to be offered by the Senator from Connecticut. We hope to get a short time agreement on that amendment and finish all the amendments, except the habeas corpus amendments, tonight. So there will be votes tonight. I advise and urge my colleagues, if they have to leave the Capitol, to take their beepers so we can notify them when the votes will occur.

Mr. HATCH addressed the Chair.

The PRESIDING OFFICER. The Senator from Utah is recognized.

Mr. HATCH. Mr. President, as I understand it, I believe there is a Senator Robert Kerrey amendment pending; is that the pending business?