and the political fallout, obviously, will make such cuts unacceptable.

The other realization, Mr. President, is that regardless of the outcome of the Presidential election, President Clinton will not be in office when those cuts arrive in 2001 and 2002. Nor will he bear any responsibility as a President in office.

So what the President has sent us is basically a proposal that amounts to a charade because, as you and I both know, if you are going to be realistic, you are going to have a proportionate reduction in each of those 7 years so you can reach a balanced budget in the seventh year. It just points up another instance where we will do anything or go to any length to ensure that we do not have to make the tough decisions up front, take the tough medicine and address the cure up front.

I think it is fair to say we all know from our own personal experience if we have a tough situation, you make the decisions early and do not put them off. That is just what has happened with the President's proposal, where in the 7-year so-called balanced budget, all the cuts are basically in the last year.

Now, Mr. President, we are going into a situation on January 26 where we will have to address the merits of reauthorizing the extension of Government to operate. And then, by probably in March, we will have to face the reality that we will have to increase the debt ceiling.

As we reflect in the extended debate and discussion in this country over the balanced budget on the one hand, and then find that in order to keep Government from being in default, when one thinks of the merits of that, the Federal Government being in default, by increasing the debt ceiling from the current authorization of $4.9 trillion, it really marks the reality of the seriousness of the problem.

Make no mistake about it, Mr. President: We are in dire straits. It is one thing to talk about the $4.9 trillion debt, which is the maximum debt ceiling; the other is to recognize we will be asked to increase that to $5.3, $5.4, or $5.6 trillion.

That is not the end of it, Mr. President. The realization is we have to pay interest on that debt, and the interest, Mr. President, currently is more than our annual deficit. Think about that. The interest on the $4.9 trillion is more than our annual deficit, and our annual deficit is a consequence of spending more than we generate in revenue.

A member of my staff is expecting a child in May. It is estimated that this child will inherit approximately $158,000 as his or her portion of that accumulated $4.9 trillion. Now, if we do not turn this thing around now, Mr. President, at some point in time it will be too late.

I know there are many Members here who feel very strongly that they are not going to vote for an increase in the debt ceiling unless there is a commitment from the administration to address a balanced budget that is attainable and that is real.

Mr. President, as we enter this week where the President will be giving his State of the Union Message, and as we enter this week, further, where we are asked to reauthorize an extension of Government because the continuing resolution is voted, I point out a few things relative to cause and effect, because when I was home there was concern about why Government was shut down and who bore that responsibility. Some suggested it was the responsibility of Congress alone.

I remind the President that this body and the House passed a series of appropriations bills. About 12 of those appropriations bills were passed, and the President vetoed about half of them. In vetoing, the President bore the responsibility of basically not funding those particular agencies. The consequences of this, Mr. President, are a difference of opinion between the administration and the Congress as to the adequacy or inadequacy of those various appropriations bills. To suggest it was all the fault of Congress is unrealistic. Congress did its job.

When you look at the vote on the welfare reform bill, Mr. President, I think it deserves particular examination because many of us assume that we have negotiated with the administration to a point that was acceptable. I think it passed this body, Mr. President, about 87 to 12. It is fairly significant that those on the other side of the aisle felt we had a pretty good bill, but the President saw fit, kind of in the dark of night, to veto that bill. One has to wonder just what the objection of that veto message was. I never did quite understand it.

Now, we have heard time and time again from the White House that this is the fault of an unresponsive Republican-controlled Senate and House who are proposing to balance the budget on the backs of the elderly and on the backs of the low-income groups, on the backs of children; it will affect education and it will affect the environment. Yet, the President's own members of his Cabinet, several members of his Cabinet, earlier did an evaluation of the Medicare Program and found that the Medicare Program would be in default, it would be broke, if it was not addressed at this time.

In 7 years we would not be able to meet our obligations with regard to Medicare. After an extended discussion with the leadership of both the House and the Senate, negotiations took place, and the only alternative available to address the runaway increase in Medicare was simply to reduce the rate of Medicare's growth. It had been growing at a rate of almost 10 percent. The agreement finally came down to reducing that rate of growth from approximately 10 percent to just under 6 percent.

How did the administration respond to this? ''Draconian cuts,'' they called it. But it was not a cut; it was a reduction of the rate of growth. Those recipients of Medicare would receive an increase this year over last year and next year over this year. Yet, the American people, the elderly and those dependent on Medicare, I think, were frightened by the misleading statements from the White House and the inability of the national media to address the alternative, Mr. President. The alternative was that if we did not reduce the rate of growth, the system would be bankrupt, and then what is the capability of the system to meet its obligation for those who are recipients of Medicare? That was simply excluded from the discussions, excluded from the conversations, and of course excluded from the wire stories, blaming the Republicans for this dilemma.

Mr. President, it has been said time and time again on this floor that this is the opportunity to redirect America, to reduce Government control, to reduce Government spending, and bring Government back to the people.

Now, the Republicans have dug in and said if we do not do it now, it probably will not be done. Our children and grandchildren are going to share the increasing burden. At some point in time, somebody will have to take that medicine, Mr. President, because as you go back and reflect on that 4.9 trillion dollars' worth of accumulated debt and the realization that we cannot afford to put this Nation in default, the only alternative is to reduce the rate of growth of that debt and that simply mandates a balanced budget.

That is what this is all about. It is redefining the direction of our Government to make it simple, to make it smaller, to make it more responsive, to put control back where it belongs, back to the States, back to the people.

I urge my colleagues as we address the significance of several events taking place this week that we keep our eye on our objective and the realization, Mr. President, that if we do not do it now, then the question is, When? If it is not now, it may be too late.

I suggest the absence 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 (Mr. KYL). Without objection, it is so ordered.

(The remarks of Mr. DOLE pertaining to the introduction of S. 1519 are located in today's RECORD under ''Statements on Introduced Bills and Joint Resolutions.'')

The PRESIDING OFFICER (Mr. COVERDELL). The Senator from Utah.

KEMP TAX COMMISSION REPORT

Mr. BENNETT. Mr. President, last year, I delivered a rather lengthy speech on the issue of taxes. I talked about flat taxes. I talked about capital gains taxes. I talked about the relationship of tax revenue to tax rates and mentioned at that time the work of the Kemp Commission that was studying all of these issues. In the time that we have been in recess the Kemp Commission has reported, and I wish to make a brief comment now, perhaps reserving the right to make a longer comment at some point in the future.

I salute the Kemp Commission for the work that they have done. I note with some degree of pride and satisfaction that in my statement on the floor I talked about four basic principles that should guide our tax system: neutrality, simplicity, stability, and fairness. In its report, the Kemp Commission incorporated all four of those but added a fifth that I wish I had thought of, and that is visibility. That is, they pointed out that people should know how much taxes they are paying. Taxes should be visible so that the average American will be aware of what is happening.

The Kemp Commission did another thing that I find salutary. They talked about the impact of payroll taxes on the lives of Americans. In all of our discussion, both here and out on the campaign trail, among those who are seeking the Presidency of the United States, the entire focus is on the income tax. I wish to talk a little bit about that this afternoon and point out the wisdom of the Kemp Commission's focus not only on the income tax but also on the payroll tax.

If you were to draw a line between all Americans at roughly 50 percent, you could with fairness say everyone above that line in terms of his or her earning power pays income taxes, and everyone below that line does not. Now, it is not exactly that clear, but roughly 97 percent of the taxes paid as income taxes are paid by people in the top 50 percent of our wage earners, which means that the bottom 50 percent of our wage earners pay virtually no income tax at all. That means then that if you focus all of your attention on the income tax and the various flat tax proposals that are out there, you are leaving out any kind of tax relief for roughly 50 percent of America's wage earners and that 50 percent that are doing the most poorly in terms of the amount of money they are bringing home.

Now, let us talk about the tax burden of the payroll tax on that bottom 50 percent. Some will say, well, the payroll tax is only 7.5 percent or some such number, depending on where you fall. It may be a little more when you add the Medicare taxes to it. The other is paid by the employer. The fact, of course, is, Mr. President, all of that money is paid by the employee. I have run a business. I know that when the time comes to decide whether or not you are going to hire a new employee, you look at the total cost of that employee. If this is an employee that is going to be earning $20,000 a year in pay that shows up on that employee's W–2 form, you as the employer know that he is actually going to cost you $30,000 a year because you have to pay these payroll taxes, unemployment compensation taxes to the State, Medicare taxes, et cetera, on behalf of that employee. So you never think in terms of a $20,000 employee. You think in terms of a $30,000 employee.

That means that in order for you to hire him, he has to produce at least $30,000 worth of economic benefit to your firm. If he cannot generate at least $30,000 benefit to you, you cannot afford him, even though his paycheck stub shows that he is earning $20,000. So if he is earning $30,000 for your company, clearly the employer's share is really money that he has earned and it is deposited in his name in the various trust funds that are set up around here to handle the entitlements.

So that means in the economic value that employee is generating not 7.5 percent, 8 percent, whatever is taken out of that value for taxes, but twice that amount—the amount he puts in and the amount the employer puts in in his name. This means that for our lowest paid workers in this country, they are sending to Uncle Sam and to State legislatures and State tax collectors approximately 25 percent of the gross economic value that their earnings represent—25 percent. Yet none of that is dealt with when we are talking about income tax reform because none of those payments are income tax payments.

What are they for? It is interesting, the debate we are having on the floor about slashing Medicare—I should put "slashing" in quotation marks because, of course, everyone knows that every proposal dealing with Medicare proposes increasing the spending on Medicare—but in all of this discussion about Medicare, where does the money come from? The money going into Medicare does not come from the income taxpayer; it comes from the payroll taxpayer.

It is payroll taxes that support the Social Security trust fund, so when Ross Perot starts to draw Social Security, on top of the benefits and blessings that he has by virtue of being a billionaire, that will be paid for by someone in the lowest half of the earnings scale making his or her payroll tax contributions to the Government every pay period.

That is why I say it is salutary that the Kemp Commission not only focused on income tax, but spent some time talking about the payroll tax, saying that the payroll tax should be made deductible for the individual as it now is for the corporation or the employer.

Yet there is a problem with that, Mr. President, because, as I say, it is only the top 50 percent that pay any income taxes at all. So, if your payroll taxes are deductible from your income tax but you are not paying any income tax, the deductibility of payroll taxes, while a nice concept, does not do you any good.

So, Mr. President, on this occasion I rise to commend the Kemp Commission for the work they have done. I think they have done a first-class job of opening the debate and laying out basic principles. I rise to commend them on their adoption of the five basic principles: that taxes should be neutral, simple, stable, fair, and visible. I rise to commend them on their opening wedge, if you will, on the issue of fairness of payroll taxes.

But I make the point that we have in fact just opened the door to deal with payroll taxes, and, if we are going to truly start with a clean sheet of paper and build a tax system in this country that makes sense, we are not only going to have to toy with the idea of abolishing the IRS and the present income Tax Code, we are also going to have to address the question of what we do about payroll taxes that have become so burdensome and, in many ways, so unfair in the way they operate in the lives of the people who live below that center line that divides the income taxpayers from the other half of the country.

This, I think, is perhaps the source of greatest anger on the part of people who recognize that the tax burden is crushing and unfair, and they feel a sense of helplessness as they deal with it.

If you are a person living below that 50 percent line, you have absolutely no options. If you are above the 50 percent line and someone comes along and changes the tax law, you are earning enough money that you can change your behavior to take advantage of the changes in the tax law.

I pointed out here on the floor before a study by Dr. Feldstein—and it has been placed in the RECORD—that the tax increase supported by President Clinton and pushed through the Congress in 1993 has in fact produced only one-third of the amount of revenue that was promised at the time it was formed.

Why? Clearly because the people in the top 50 percent changed their behavior in reaction to that bill, did other things with their money, and avoided paying taxes, an activity which the Supreme Court of the United States says is perfectly appropriate and legal. Tax avoidance, they have said, is not illegal. Tax evasion is. That is a different thing. But changing the way you handle your money to avoid taxes has become a time-honored American activity.

The bill was passed on this floor. President Clinton signed it with great fanfare. "Now we're going to get this additional revenue to deal with the budget deficit."

The study by Dr. Feldstein says they only got one-third as much revenue as they projected. That makes the people who live in that top 50 percent feel kind of smart that they were able to do different things with their investments and avoid the taxes. But the people at the bottom 50 percent have no such options. Their taxes are entirely payroll taxes. If they get a raise, their taxes go up automatically because it is a percentage of everything they earn up to the level in which they can cross the line into the top 50 percent. That is where much of the anger is coming from. That is where much of the frustration is. And, frankly, it is appropriate anger and frustration.

So I hope as we deal with this issue in our debates here on the floor, we will include, as I have not done but the Kemp Commission has opened the door for us to do, the people in the lower 50 percent as well as the people in the upper 50 percent.

Mr. President, it is very clear we will not have a structural reform of the tax system in either area, income taxes or payroll taxes, in this Congress. We do not have time for it. The Finance Committee calendar is jammed. We have long since learned that this kind of legislation is very complex and requires a great deal of study and work. All we can do is open the dialog, begin the debate in this Congress, and look for the time in the next Congress when we will have an opportunity for genuine tax restructuring.

I was asked by a newsman today, will we have serious restructuring of the tax system in 1997? Well, my crystal ball is as cloudy as everybody else's. I cannot make a prediction of that kind with any sort of accuracy. But I did make this comment, and I repeat it here, debate over the tax structure, I believe, will be a central issue in the 1996 Presidential and congressional campaigns. It will become one of the defining issues in that debate.

If I may, should the Republican nominee prevail in the 1996 election, then a serious attempt to restructure the tax system will indeed begin in January 1997. Should President Clinton prevail in the elections this fall, then I believe that conversation about restructuring the tax system will remain conversation and nothing will happen beyond that which we have seen for the last 40 years, which is tax reform by name, tinkering around the edges, in fact, with the basic tax system that we currently have remaining intact, except for those marginal changes for the remainder of President Clinton's second term, should he receive one.

This is a fundamental issue. We have a tax system now that is clearly unfair, that has spun out of control to the point where it is unpredictable in terms of Government policy and which creates tremendous antagonism and anger on the part of the citizens who are subjected to it.

The time has come to begin the serious debate of restructuring it, top to bottom, not just income taxes, but also payroll taxes. And while we are at it, we might as well look at the user fees we charge and the tariff structure.

Let us take a completely clean sheet of paper for every way in which the Government raises revenue and see if we are not smart enough, as we look forward to the next century, to put together a system that works better than the one that was crafted roughly 70 years ago.

So, Mr. President, again, I commend the Kemp Commission for the contribution that it has made in prying open these issues and the principles it has laid down and look forward to the time when we can have this debate through this Congress, and, as a partisan, if I may say so, I look forward to the time when a new President will help us tackle this in a very serious legislative way in January 1997.

I yield the floor.

Mr. KYL addressed the Chair.

The PRESIDING OFFICER. The Chair recognizes the Senator from Arizona.

Mr. KYL. Mr. President, I would like to begin by complimenting the Senator from Utah for presenting, I think, a very erudite discussion of the need for revisions in our tax policy and for his comments on the so-called Kemp Commission for the report which it released last week.

I think he indicated the reasons why it is time to begin this debate. I will not repeat those. But he also showed his extensive knowledge in the area, and I appreciate the experience and the expertise which he brings to the Senate on this important topic and look forward to his continued counsel as we debate these issues during the next year and, hopefully, begin actual legislative work in fundamentally changing the Tax Code beginning in 1997.

I thank the Senator from Utah.

Mr. BENNETT. Mr. President, if I may, I thank the Senator from Arizona for his kind words.

FUNDAMENTAL TAX POLICY AND BALANCING THE FEDERAL BUDGET

Mr. KYL. Mr. President, let me discuss in the context of the budget impasse, with which we are currently faced, both the Kemp Commission report and a few items with respect to this budget impasse, because, frankly, they represent two sides of the same coin. I do not think we have adequately identified the relationship between fundamental tax policy on the one hand, as addressed by the Kemp Commission, and on the other hand our efforts to balance the Federal budget. There are some people who spend, I think, most of their time focusing on the need for a balanced budget, and that is important, but that is only half of the equation. The other half is the revenue side of the equation.

As we, as families, look at how we can continue to sustain our standard of living, to pay our bills, to make sure we come out right at the end of the year and to make decisions with respect to savings and investment, we really look at two separate things.

First of all, we look at how much income we are making in the year, and then we also look at how much we are going to spend. Much of the balanced budget debate, Mr. President, has focused on the spending side at the Federal level, watching our pennies, how can we reduce the growth in spending each year, how can we begin to save money at the Federal Government level so that we get our budget into balance. We are focused on the savings side there, primarily.

We also need to focus on the revenue side of it. For those of us who do not support new tax revenues, tax increases, we look at what kind of fundamental changes might not only produce a simpler and fairer tax system but also one which, ironically, might bring in more Federal revenue without raising taxes.

One thing that the Senator from Utah did not mention but I know he knows is that for the last 40 or 50 years, whether we have had Republicans or Democrats in power, war or peace, good times or bad times economically, the Federal Government has collected about 19 percent of the gross national product in revenues to the Federal Treasury. In other words, what the American people are willing to contribute to the Government has remained virtually static as a relationship or percent of the gross national product or the gross domestic product. The reason is, as the Senator from Utah pointed out, because people make changes in their behavior to adjust to tax policy.

When the Government decided to collect more revenue on raising the luxury tax on yachts, furs, and cars, it did not bring in more revenue, it brought in less, because people adjusted their behavior and they stopped buying the fancy fur coats and the yachts. The result was, not only did the Federal Government lose the revenue they made before, they did not make more revenue. People lost their jobs and paid less in the way of taxes.

So changing tax rates up has not produced more revenue. By the same token, as John F. Kennedy learned in the early 1960's and as Ronald Reagan confirmed in the 1980's, a tax cut can actually produce just as much revenue as a higher level tax rate, because when tax rates are reduced, let us say capital gains tax, for example, the commercial intercourse which raises the money increases to the point that even with a lower rate, the Federal Government makes the same or more revenue. It is a lot like a sale at the holiday time. The retailer does not intend to lose money when he puts all of his items on sale. He knows he will make up in volume what he may lose in terms of the price for each particular item. That is much the way with tax rates. So we know reducing tax rates can actually produce more revenue.

As we begin to look at how we are going to fundamentally revise the Tax Code, as the Kemp Commission did, I think we can anticipate that we can produce as much or more revenue with lower tax rates than is currently being produced with our current rates.