

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 to-

gether 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.

That is why the Kemp Commission concludes that if we can provide for a simpler and fairer single rate kind of tax, and if we can eliminate, as it recommends, the tax on estates, the tax on capital gains and provide a deduction for the payroll tax, it is likely that the economy will grow substantially and that we can, in effect, at a relatively low income tax rate produce at least the same amount of revenues.

That is why I think it is important, Mr. President, as we look at the opportunities for growth and economic expansion in the future, that we not just focus on balancing the Federal budget. That has been pretty much what we have been talking about in the last 3 or 4 months in the House and Senate, but it is really only half of the equation. The other half is how we can continue to produce at least as much revenue with lower tax rates, a simpler and fairer tax rate structure. I hope that debate will continue throughout the Presidential campaigns and actually take root in the congressional action that we will engage in in the early part of 1997.

I said I want to talk about both subjects, because we not only have the issue of the Kemp Commission report and what it begins in terms of a debate—and I think that will dominate much of the Presidential campaign—but we also have the probable failure of the budget negotiations, and I want to present the second half of my remarks on that point.

I think it is very unlikely now that there will be a budget agreement, because the congressional negotiators have conceded about all that they can concede, as a recent article in the Wall Street Journal noted, and the President has come very little distance toward the Republican position, with the result that it is not likely that there is going to be a successful conclusion to the budget talks.

What does that mean for America for the next year? Why is it so important that we get to a balanced budget, that we do that in 7 years using honest numbers? What do we give up if we do not do that? And what are some of the myths that surround this debate?

I think it is important for us to understand that, because then as we begin to point fingers of blame—and inevitably that will happen because we are not going to have a budget deal—at least our colleagues and the American people will appreciate the direction in which that finger ought to point.

It will not come as any surprise that I think that finger needs to be pointed at the President. I am hoping if enough public pressure is applied to the White House that the President might relent and actually sit down and seriously negotiate with the Speaker and the majority leader. That really has not occurred up to this point.

As the Wall Street Journal article noted on January 10, the Republicans have moved about \$390 billion toward the President's position. He has moved

about \$8 billion further away from our position. The net result is about a \$400 billion movement by the Republicans and very little movement by the President.

So as I say, that represents very little opportunity, it seems to me, for a negotiated settlement at this point unless the President is willing to sit down and say, "All right, you met me halfway, now I'll do the same." From the President's rhetoric, it does not appear he is willing to do that.

So what is the consequence of not reaching a budget agreement this year? First of all, the four or five key areas of reform, of policy, which are embodied in the budget will not be translated into public policy, into legislation and, therefore, America will forgo the benefits of those policy changes over the course of the next year, and depending upon how the elections, perhaps for a long, long time.

The President campaigned saying he would like to end welfare as we know it. The Senate passed a bill ending welfare as we know it with 87 votes, with Democrats and Republicans alike supporting welfare reform. Yet, the President vetoed the bill. So failing to arrive at a budget agreement will mean that we will not have reformed welfare and we will extend for another year a system which most people in this country believe is broken and is desperately in need of fixing; we will not have made the fundamental changes necessary to preserve and strengthen and save Medicare. Again, almost all of us recognize the need to do that, including the President. His ideas are, in many respects, not substantially different from ours. Nonetheless, he says that that is veto bait, and he does not support our fundamental reform of Medicare in order to save that program and keep it from going bankrupt, which his own trustees say will happen within the next 7 years unless we take action today.

We need fundamental reforms like more choice to be offered to seniors, such as the Medisave account, physician-hospital networks, and other things, creating products, creating competition, and keeping the costs down. That is another consequence of the failure to reach a budget agreement.

A third area is Medicaid. My State of Arizona has handled the Medicaid Program through a program it calls Access from virtually the very beginning, through waivers from the Federal Government to provide for managed care for those needy in our population that qualify for Medicare. Yet, this fundamental change will also fail to be put into effect. We will not be block granting the Medicaid funds because that is part of the overall budget reform.

A fourth area is in the area of tax relief for working families. Again, the President had assured the American people that he wanted tax relief for working families. We provided for that in our budget. The CBO said we can do

both tax relief and balance the Federal budget in 7 years. Yet, that, too, remains a substantial area of disagreement between the White House and congressional negotiators. So this, too, will fail to take place.

Now, what does that mean? The President has been fond of saying that the Republican plan is a "tax cut for the rich." Here is one thing that it means. The \$500 per child tax credit means that in the State of Arizona over 47,000 low-income taxpayers will not have to pay any more income tax because that \$500 child tax credit is just enough to take them from the position of taxpayer to the position of being able to deduct enough not to pay any taxes. It is about 3.5 million people in the United States. A tax cut for the rich, when 3.5 million low-income families in this country will literally have their income tax liability eliminated as a result of the Republican tax relief? That does not sound like tax cuts for the rich to me, Mr. President. That sounds like Republicans trying to do something for the low-income people in this country, who have children and who can really use that \$500 child tax credit.

In fact, about three-fourths of the tax relief benefits go to families making less than \$75,000 a year. With two-income families in this country today, I do not think there are a lot of people in this country that think if you are making \$75,000, you are necessarily rich. In any event, about three-fourths of the benefits go to families making less than that.

I think, too, most people realize that since, as the Senator from Utah was just pointing out, the wealthy in our society pay most of the taxes, it is pretty hard to design a tax relief program that does not benefit those who pay most of the taxes, and that is the wealthier in society. Is that bad for people that are less well off? No, because it takes capital and it takes money to invest in our free enterprise economy in order to promote growth in businesses, to provide job opportunities. That is what John F. Kennedy referred to when he said that "a rising tide lifts all boats." In other words, if you have the entrepreneurs, capitalists who can create a business and provide job opportunities, that helps everybody, including those looking for a job or greater job opportunities.

So if we fail to reach a budget agreement, we will have failed to reform welfare, Medicare, Medicaid, our tax structure, and the Republican plan will clearly help the poor in our society. Also, we will fail to create about 2 million jobs, which is the estimate that can be created by capital gains tax relief.

On the negative side, Mr. President, we will have consigned ourselves to yet another year of payment for more and more interest on the national debt—money that could be used to spend on other things. There will be \$233 billion in interest payments on the Federal

debt this year. It is money that could be spent on job training, education, or medical relief for needy citizens, or even tax relief, or reducing the Federal debt. But, no, that is money that we have to pay as interest on the ever-increasing debt. It is a lost and missed opportunity. Yet, it is one more year we will have to make those kinds of payments.

It also means something else. My grandson, Jonathan, was born last year and, in effect, we handed Jonathan a credit card and said, "You owe \$187,000 to the Federal Government." That is how much he is going to have to pay in his lifetime to just pay the interest on the Federal debt that exists today. It does not count what he will have to pay for defense, Medicaid, Medicare, Social Security, education, or anything else. The debt is even getting bigger. That is just what he owes today as his share of interest on the national debt. It is not fair to Jonathan or our other two grandchildren, or all of the children and grandchildren in this country who, in effect, are being handed the credit card bill for what we run up in obligations.

We also know that we are missing out on a wonderful opportunity that we can begin to pocket, literally beginning tomorrow. There are an awful lot of people in this country who have home mortgages, a student loan, or a car loan, and who appreciate what interest costs them. By most experts' analyses, if we are able to pass a balanced budget in the next 7 years, interest costs will go down at least 2 percent. One of the estimates is about 2.7 percent. DRI-McGraw/Hill, one of the economic forecasters, provided data to the Heritage Foundation, which made estimates. According to the estimates, that kind of rate reduction would, in my own State of Arizona, save the average Arizona homeowner about \$2,655 every year. The average home mortgage in Arizona is a little over \$98,000. Therefore, that kind of an interest rate reduction would save over \$2,600 for the average Arizona homeowner. That is a lot of money, Mr. President. For the average student loan, it is like \$547 in my State. This is money in your pocket, money that you would not have to pay if the Federal Government can balance the budget, because interest rates would go down if we do that. When interest rates go down, it reduces everybody's cost of living.

Lawrence Lindsey, one of the Federal Reserve Board Governors, said, "We can bring interest rates down to where people today could have 5.5 percent mortgage loans like we used to have." My first mortgage loan was 5¾ percent. That may tell you how old I am, but it may also suggest what would happen because that is about 2.5 percent below where you could get a 30-year fixed-rate home mortgage for today. Think about what that would save in terms of money.

So we are forgoing a tremendous opportunity for a higher standard of liv-

ing, beginning today, beginning tomorrow, if we cannot commit to a balanced budget over the next 7 years. That is why, Mr. President, I think it is a very sad and disappointing thing that the President has not been willing to negotiate in good faith with the congressional Representatives. We are trying very hard to get him to commit to some of these fundamental reforms and agree to a 7-year balanced budget. We are forgoing so much that would improve our lives and our children's lives. It is not fair, it is not right, and it does not support the values that the President purports to support and which we have all committed ourselves to here. I think that, as a result, it will be a very sad day if we finally conclude that we are not able to reach a budget agreement with the President.

In conclusion, Mr. President, as President Clinton gives his State of the Union speech tomorrow night—and I am sure challenges America to a greater tomorrow, since most of us believe that our best days are ahead of us as a country and as a people—and we respond, as I am sure we will, to a very positive message of the President, we also ought to be asking him what he can do to help today to provide a better tomorrow by sitting down and seriously negotiating with the congressional negotiators for a budget agreement that reaches a balanced budget in 7 years, which commits us to true welfare reform, Medicaid, Medicare, and tax relief for working families in America.

If we do that, we will truly be able to say that our best days are ahead of us. 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. SPECTER. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

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

#### CONCERN OVER FAILED BUDGET TALKS

Mr. SPECTER. Mr. President, during the course of the past several weeks, there has been an opportunity to talk to constituents at home to discuss the problems in Washington, DC, and, as many of my colleagues have reported, I have found great concern about the inability, the failure, of the negotiators to come to an agreement on the budget talks.

I urge the negotiators to continue to talk. As I have reviewed the details as to what has been undertaken, talking to my colleagues in the Senate and the House, talking to administration officials, it is my view that the parties are not too far apart. I believe that the absence of an agreement is a lose-lose situation for everyone in Washington. There is no real opportunity, as I see it, for political advantage, and the American people watch what goes on in

Washington, DC, with amazement and frequently revulsion at our failure to come to some terms.

I go back to a wise statement made by the former distinguished Senator from Maine, Margaret Chase Smith, who said, "We have to distinguish between the compromise of principle and the principle of compromise," and when we are talking about the budget issues, we are talking really about compromising mostly on a dollars-and-cents basis.

There are some structural issues which have to be addressed, and it is my sense that they can be solved as well, but we are not talking about first amendment issues, freedom of speech, or freedom of religion, so we are not compromising principle. We do have to have the principle of compromise and accommodation in Washington, DC, to come out of this matter.

As I look at the figures overall, the parties have come much closer together than they were at the original stage. With respect to Medicare, initially the conference report adopted by the Congress called for cuts in Medicare of \$270 billion, with the administration at one point insisting that the cuts—rather it is not cuts, but it is a reduction in the growth of increase. That is a characterization which is very, very hard to avoid.

Before going further on that point, Mr. President, let me cite some statistics which are very, very frequently overlooked as too often the Medicare situation and the Medicaid situation has been characterized as proposals, especially by the Republican Congress, for cuts when the fact of the matter is that there are very, very substantial increases. What we are really talking about is slowing the rate of increase.

In fiscal year 1996, for example, Medicare expenditures will be \$193 billion. These are figures from the Congressional Budget Office which have been rescored as recently as last month. After an expenditure of \$193 billion in 1996, the figures are as follows: 1997, \$207 billion; 1998, \$218 billion; 1999, \$229 billion; the year 2000, \$248 billion; 2001, \$267 billion; 2002, \$289 billion. So that from 1996 until the year 2002, on Medicare expenditures it is projected to move from \$193 to \$289 billion for a 50-percent increase.

Similarly, in Medicaid, where there is frequently talk about cuts, there are, in fact, not cuts but there are increases. What we are dealing with is trying to slow the rate of increase. In fiscal year 1996, Medicaid expenditures totaled \$97 billion; 1997, \$104 billion; 1998, \$109 billion; 1999, \$113 billion; the year 2000, \$118 billion; the year 2001, \$122 billion; the year 2002, \$127 billion, for a total increase from 1996 to the year 2002 of some 31 percent.

I think it is very important to focus on that basic fact. There are not cuts, but what we are talking about are ways to slow the rate of increase. As the negotiators have discussed the matters, they have come much closer together.