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## Senate

The Senate met at 9 a.m., and was called to order by the President pro tempore [Mr. THURMOND].

The PRESIDENT pro tempore. Today's prayer will be offered by our guest Chaplain, the Reverend Ron Mehl, Beaverton Foursquare Church, Beaverton, OR, invited by Senator MARK HATFIELD.

We are pleased to have you with us.

### PRAYER

The guest Chaplain, the Reverend Ron Mehl, offered the following prayer: Let us pray:

Dear Father, we come before You this morning to express the deep need we feel as a nation to be touched by Your mighty power and sustained by Your sovereign grace. We thank You for the gifted leaders You have placed in positions of authority in our land. We know that great leaders are first good followers, so teach us to hunger for wisdom from above, that we may know what is the right thing to do, and give us the courage to do it. Resurrect in us a deep hunger for revival, and awaken in us a passion for righteousness to rule and reign in our land. This day we pray for our leaders, their families and friends, and ask that You might reward them for their faithfulness, sacrifice, and service. Give us a revelation of Yourself. Open our eyes to the truth that the task You have called us to is greater than we are. Today we acknowledge our utter dependence upon You and the need we feel to seek Your counsel daily, for You are the fountainhead of all truth, the truth that truly makes us free. In Your holy and mighty name, we pray. Amen.

The PRESIDENT pro tempore. The able senior Senator from Oregon, Senator HATFIELD, is recognized.

Mr. HATFIELD. Thank you, Mr. President.

### WELCOME TO REV. DR. RON MEHL

Mr. HATFIELD. Mr. President, it is my great pleasure today to introduce

to my colleagues Rev. Ron Mehl, pastor of Beaverton Foursquare Church. Over the past several years, I have joined the ranks of Reverend Mehl's admirers. Uncompromising leadership and commitment to God have enabled him to embody the Biblical mandate to "speak the truth in love."

Reverend Mehl pastors Oregon's Beaverton Foursquare Church. Twenty-three years under his gifted teaching have made this one of Oregon's healthiest and most dynamic churches. Thousands sit in the pews of Beaverton Foursquare weekly. There are three services on Sunday, perhaps going to a fourth because of the tremendous turnout that holds some 2,500 or 3,000 people in the church sanctuary.

When I am home, I count myself privileged to be one of many to hear Reverend Mehl's Biblical preaching.

A man dedicated to pursuing God's calling, he has served in many ways over the years. Besides being a gifted preacher and counselor, Reverend Mehl is a celebrated author of three books, one of which, "God Works the Night Shift," recently won the Evangelical Christian Publisher's Gold Medallion Award in the category of "inspirational."

The Reverend Billy Graham, whom we recently honored, once said, "The greatest form of praise to God is the sound of consecrated feet seeking out the lost and helpless." Reverend Mehl has spent the majority of his life doing just that—reaching out with the message of Christ and encouraging others to do the same.

In I Peter, the apostle writes, "Each one should use whatever gift he has received to serve others, faithfully administering God's grace in its various forms.—I Peter 4:10. Reverend Mehl is a faithful steward of the gifts he has received and is an able administrator of God's grace.

He has also been blessed by his wife Joyce and their two sons, Ron, Jr., and Mark. I had the pleasure of getting to

know Mark 3 years ago when he participated in my internship program. Mark's strong character shone through during his brief tenure in my office, a great tribute to his parents in their rearing.

Again, on behalf of my Senate colleagues we are privileged that Reverend Mehl is willing to fulfill the duties of Senate Chaplain today, and I would like to officially welcome him to this Chamber.

I yield the floor.

### SCHEDULE

Mr. HATFIELD. Mr. President, the Senate will immediately resume consideration of Senate Concurrent Resolution 57, the concurrent budget resolution. There are 8.5 hours of debate time remaining on the resolution with that time equally divided. When all time has expired or is yielded back, Senators can expect a large number of consecutive rollcall votes on or in relation to amendments to the budget resolution. Those votes could begin as early as this afternoon, or, if necessary, be ordered to begin on Wednesday morning.

I now ask unanimous consent that the Senate stand in recess between the hours of 12:30 p.m. and 2:15 p.m., in order to accommodate the weekly party conferences, and that the time during recess be deducted from the remaining debate limitation.

The PRESIDING OFFICER (Mr. CAMPBELL). Without objection, it is so ordered.

### RESERVATION OF LEADER TIME

The PRESIDING OFFICER. Under the previous order, Senate leadership time is reserved.

• This "bullet" symbol identifies statements or insertions which are not spoken by a Member of the Senate on the floor.



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CONCURRENT RESOLUTION ON  
THE BUDGET

The PRESIDING OFFICER. The Senate will resume consideration of Senate Concurrent Resolution 57, which the clerk will report.

The assistant legislative clerk read as follows:

A concurrent resolution (S. Con. Res. 57) setting forth the congressional budget for the U.S. Government for fiscal years 1997, 1998, 1999, 2000, 2001, and 2002.

The Senate resumed consideration of the bill.

Pending:

Boxer amendment No. 3982, to preserve, protect, and strengthen the Medicaid program by controlling costs, providing State flexibility, and restoring critical standards and protections, including coverage for all populations covered under current law, to restore \$18 billion in excessive cuts, offset by corporate and business tax reforms, and to express the sense of the Senate regarding certain Medicaid reforms.

Wyden/Kerry amendment No. 3984, to express the sense of the Senate regarding revenue assumptions.

Wellstone amendment No. 3985, to express the sense of the Senate on tax deductibility of higher education tuition and student loan interest costs.

Wellstone/Kerry amendment No. 3986, to express the sense of the Senate that funds will be available to hire new police officers under the Community Oriented Policing Service.

Wellstone amendment No. 3987, to express the sense of the Senate that Congress will not enact or adopt any legislation that would increase the number of children who are hungry or homeless.

Wellstone amendment No. 3988, to express the sense of the Senate with respect to maintaining current expenditure levels for the Low Income Home Energy Assistance Program for fiscal year 1997.

Wellstone amendment No. 3989, to express the sense of the Senate with respect to the interrelationship between domestic violence and welfare.

Kerry amendment No. 3990, to restore proposed cuts in the environment and natural resources programs, to be offset by the extension of expired tax provisions or corporate and business tax reforms.

Kerry amendment No. 3991, to increase the Function 500 totals to maintain levels of education and training funding that will keep pace with rising school enrollments and the demand for a better-trained workforce, to be offset by the extension of expired tax provisions or corporate and business tax reforms.

Kyl amendment No. 3995, to express the sense of the Senate regarding a supermajority requirement for raising taxes.

Kyl amendment No. 3996, to providing funding for the Low Income Home Energy Assistance Program through fiscal year 2000.

Kennedy amendment No. 3997, to express the sense of the Congress that the reconciliation bill should maintain the existing prohibition against additional charges by providers under the medicare program.

Kennedy amendment No. 3998, to express the sense of the Congress that the reconciliation bill should not include any changes in Federal nursing home quality standards or the Federal enforcement of such standards.

Kennedy amendment No. 3999, to express the sense of the Congress that provisions of current Medicaid law protecting families of nursing home residents from experiencing financial ruin as the price of needed care for their loved ones should be retained.

Kennedy amendment No. 4000, to express the sense of the Senate relating to the protection of the wages of construction workers.

Byrd amendment No. 4001, to increase overall discretionary spending to the levels proposed by the President, offset by the extension of expired tax provisions or corporate and business tax reforms.

Lott/Smith amendment No. 4002, to express the sense of the Congress regarding reimbursement of the United States for the costs associated with Operations Southern Watch and Provide Comfort out of revenues generated by any sale of petroleum originating from Iraq.

Simpson/Moynihan amendment No. 4003, to express the sense of the Senate that all Federal spending and revenues which are indexed for inflation should be calibrated by the most accurate inflation indices which are available to the Federal government.

Graham amendment No. 4007, to create a 60 vote point of order against legislation diverting savings achieved through medicare waste, fraud and abuse enforcement activities for purposes other than improving the solvency of the Medicare Federal Hospital Insurance Trust Fund.

Ashcroft modified amendment No. 4008, to provide for an income tax deduction for the old age, survivors, and disability insurance taxes paid by employees and self-employed individuals.

Gramm amendment No. 4009, to express the sense of the Congress that the 1993 income tax increase on Social Security benefits should be repealed.

Brown amendment No. 4010, to express the sense of the Senate that there should be a cap on the application of the civilian and military retirement COLA.

Harkin amendment No. 4011, to provide that the first reconciliation bill not include Medicaid reform, focusing mainly on Welfare reform by shifting Medicaid changes from the first to the second reconciliation bill.

Harkin (for Specter) amendment No. 4012, to restore funding for education, training, and health programs to a Congressional Budget Office freeze level for fiscal year 1997 through an across the board reduction in Federal administrative costs.

Bumpers amendment No. 4013, to establish that no amounts realized from sales of assets shall be scored with respect to the level of budget authority, outlays, or revenues.

Bumpers amendment No. 4014, to eliminate the defense firewalls.

Thompson amendment No. 3981, to express the sense of the Senate on the funding levels for the Presidential Election Campaign Fund.

Murkowski amendment No. 4015, to prohibit sense of the Senate amendments from being offered to the budget resolution.

Simpson (for Kerrey) amendment No. 4016, to express the sense of the Senate on long term entitlement reforms.

Snowe amendment No. 4017, to express the sense of the Senate that the aggregates and functional levels included in the budget resolution assume that savings in student loans can be achieved without any program change that would increase costs to students and parents or decrease accessibility to student loans.

Chafee/Breaux amendment No. 4018, in the nature of a substitute.

Domenici (for Dole/Hatch/Helms) amendment No. 4019, to express the sense of the Senate that the Attorney General should investigate the practice regarding the prosecution of drug smugglers.

Feingold amendment No. 3969, to eliminate the tax cut.

Mr. HATFIELD. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. Without objection, the time will be charged equally, and the clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. EXON. 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. EXON. Mr. President, I ask unanimous consent that the pending amendment before the Senate be temporarily set aside so that we can entertain two amendments by previous agreement, the first to be offered by the Senator from Michigan, the second to be offered by the Senator from North Carolina. Both have been cleared, and we can move ahead on them. I would appreciate very much if the Chair would see fit to recognize the Senator from Michigan at this time for his statement and the introduction of the amendment.

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

The Senator from Michigan [Mr. LEVIN] is recognized.

Mr. LEVIN. I thank the Chair. I thank my good friend from Nebraska.

AMENDMENT NO. 4020

Mr. LEVIN. Mr. President, the sense-of-the-Senate amendment which I will offer in a moment will put the Senate on record in support of sufficient funding in order that the National Institute on Drug Abuse, or NIDA, be able to continue to increase the pace of discovery of an antiaddiction drug, or drugs, in order to block the craving for illicit addictive substances.

This sense-of-the-Senate amendment expresses our sentiment that amounts that are appropriated to the National Institutes of Health should be increased by amounts above the fiscal year 1996 appropriations for this form of NIDA research. This effort is to discover antiaddiction drugs so that the craving which exists for them can be blocked. The amounts in this sense-of-the-Senate resolution are based on meetings and discussions with NIDA officials about what resources would be necessary to expedite the development of these illicit drug blocking agents, and the increase that would be recommended here in the sense-of-the-Senate amendment would be \$33 million in fiscal year 1997, \$67 million for fiscal year 1998, and \$100 million for each of the fiscal years 1998 through 2002.

There have been some significant breakthroughs already by NIDA. NIDA researchers have recently shown that activation in the brain of one type of dopamine receptor suppresses the drug-seeking behavior, whereas activation of another triggers drug-seeking behavior. Another significant finding in this past year is the successful immunization of animals against the psychostimulant effects of cocaine. In 1993, NIDA announced the FDA approval of a medication called LAAM for heroine addiction. One of LAAM's

advantages over methadone is that it does not need to be taken daily.

These are but a few of the exciting discoveries in drug abuse research that have been made over the past several years.

Stemming the tide of drug addiction by trying to find these anticraving substances is in the best interests of all of us, particularly the innocent victims of drug-related offenses. We spend at the State and local level and at the Federal level billions and billions and billions of dollars to incarcerate people who commit drug-related offenses.

A 1992 report by the Bureau of Justice revealed that three out of four jail inmates reported illicit drug use in their lifetime and more than 40 percent had used drugs in the month before their offense, with 27 percent under the influence of drugs at the time of their offense. A significant percentage also said that they were trying to obtain money for drugs when they committed their crime.

More than 60 percent of juveniles and young adults in State-operated juvenile institutions reported using illicit drugs once a week or more for at least a month during some time in the recent past and almost 40 percent reported being under the influence of drugs at the time of their offense.

The National Institute on Drug Abuse has presented us with some unprecedented opportunities to understand and to treat addiction and to block craving. We should support that effort and the progress which has been made with a funding level which will enhance the efforts of NIDA to achieve these breakthroughs. We will all benefit. We will benefit in terms of our safety. We will benefit in terms of the Nation's resources if we can finally discover agents which will block the craving for cocaine and for other illicit drugs. NIDA does the majority of research in this area in the world.

So I hope that this sense-of-the-Senate amendment will be adopted which will put us on record as encouraging these additional funds so as to promote the efforts of the National Institute on Drug Abuse. I now will send this amendment to the desk.

The PRESIDING OFFICER. The clerk will report the amendment.

The assistant legislative clerk read as follows:

The Senator from Michigan [Mr. LEVIN] proposes an amendment numbered 4020.

Mr. LEVIN. Mr. President, I ask unanimous consent that reading of the amendment be dispensed with.

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

The amendment is as follows:

At the appropriate place, insert the following new section:

**SEC. . SENSE OF THE SENATE REGARDING THE NATIONAL INSTITUTE OF DRUG ABUSE.**

(a) FINDINGS.—Congress finds the following:

(1) The National Institute on Drug Abuse (hereafter referred to in this section as "NIDA") a part of the National Institutes of

Health (hereafter referred to in this section as "NIH") supports over 85 percent of the world's drug abuse research that has totally revolutionized our understanding of addiction.

(2) One of NIDA's most significant areas of research has been the identification of the neurobiological bases of all aspects of addiction, including craving.

(3) In 1993, NIDA announced that approval had been granted by the Food and Drug Administration of a new medication for the treatment of heroin and other opiate addiction which breaks the addict of daily drug-seeking behavior and allows for greater compliance because the patient does not need to report to a clinic each day to have the medication administered.

(4) Among NIDA's most remarkable accomplishments of the past year is the successful immunization of animals against the psychostimulant effects of cocaine.

(5) NIDA has also recently announced that it is making substantial progress that is critical in directing their efforts to identify potential anti-cocaine medications. For example, NIDA researchers have recently shown that activation in the brain of one type of dopamine receptor suppresses drug-seeking behavior and relapse, whereas activation of another, triggers drug-seeking behavior.

(6) NIDA's efforts to speed up research to stem the tide of drug addiction is in the best interest of all Americans.

(7) State and local governments spend billions of dollars to incarcerate persons who commit drug related offenses.

(8) A 1992 National Report by the Bureau of Justice Statistics revealed that more than 3 out of 4 jail inmates reported drug use in their lifetime, more than 40 percent had used drugs in the month before their offense with 27 percent under the influence of drugs at the time of their offense. A significant number said they were trying to get money for drugs when they committed their crime.

(9) More than 60 percent of juveniles and young adults in State-operated juvenile institutions reported using drugs once a week or more for at least a month some time in the past, and almost 40 percent reported being under the influence of drugs at the time of their offense.

(10) This concurrent resolution proposes that budget authority for the NIH (including NIDA) be held constant at the fiscal year 1996 level of \$11,950,000,000 through fiscal year 2002.

(11) At such appropriation level, it would be impossible for NIH and NIDA to maintain research momentum through research project grants.

(12) Level funding for NIH in fiscal year 1997 would reduce the number of competing research project grants by nearly 500, from 6,620 in fiscal year 1996 to approximately 6,120 competing research project grants, reducing NIH's ability to maintain research momentum and to explore new ideas in research.

(13) NIH is the world's preeminent research institution dedicated to the support of science inspired by and focused on the challenges of human illness and health.

(14) NIH programs are instrumental in improving the quality of life for Americans through improving health and reducing monetary and personal costs of illnesses.

(15) The discovery of an anti-addiction drug to block the craving of illicit addictive substances will benefit all of American society.

(b) SENSE OF THE CONGRESS.—It is the sense of the Congress that amounts appropriated for the National Institutes of Health—

(1) for fiscal year 1997 should be increased by a minimum of \$33,000,000;

(2) for fiscal year 1998 should be increased by a minimum of \$67,000,000;

(3) for fiscal year 1999 should be increased by a minimum of \$100,000,000;

(4) for fiscal year 2000 should be increased by a minimum of \$100,000,000;

(5) for fiscal year 2001 should be increased by a minimum of \$100,000,000; and

(6) for fiscal year 2002 should be increased by a minimum of \$100,000,000;

above its fiscal year 1996 appropriation for additional research into an anti-addiction drug to block the craving of illicit addictive substances.

Mr. LEVIN. I yield the floor.

Mr. EXON addressed the Chair.

The PRESIDING OFFICER. The Senator from Nebraska [Mr. EXON] is recognized.

Mr. EXON. I thank my good friend and colleague from the State of Michigan, Senator LEVIN, for the amendment that I had indicated earlier has been cleared on both sides. This is an important sense-of-the-Senate resolution, and I appreciate the cooperation we have had from Senator LEVIN and his staff on this matter.

We are about ready to have proposed in behalf of Senator HELMS from North Carolina an amendment that likewise has been cleared on both sides. Then we can move the adoption of those by voice vote. Awaiting the arrival of one Member on the Senate floor, I suggest the absence of a quorum.

Mr. LEVIN addressed the Chair.

Mr. EXON. I withhold.

Mr. LEVIN. If the Senator will withhold, let me simply thank my good friend from Nebraska and his staff and the staff on the Republican side who have worked with us to clear this amendment. As always, I have had great response from my friend from Nebraska and the Republicans on this issue. It is an important issue for all America. I am grateful for their help.

Mr. EXON. I thank the Senator.

Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

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

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

AMENDMENT NO. 4018

Mr. BROWN. Mr. President, I wanted to add a word of support for the very diligent effort of the Senator from Rhode Island and the bipartisan group he has gathered together to offer a budget alternative. I am very mindful of the remarks made by the distinguished Senator from New Mexico when he observed yesterday that such a change in budget, to be enacted, would literally require the President's help and support. Certainly we have learned this last year; that, indeed, progress for reconciliation has to include the President. But I intend to vote for the Chafee amendment. I think it brings two factors to it that are worth considering.

First of all, it is bipartisan. It is the only major bipartisan proposal that is here and, I think, as such, has a chance of making it all the way through reconciliation.

Second, I am going to support it because, of the alternatives, it has the strongest impact long term, that is beyond the 6-year window or the 7-year window. Long term, it is significantly better in deficit reduction.

For those two reasons I salute the efforts of Senator CHAFEE, and I will probably vote for it.

Mr. President, I yield the floor.

The PRESIDING OFFICER. Who yields time?

Mr. EXON addressed the Chair.

AMENDMENT NO. 4020

The PRESIDING OFFICER. The Chair will inform the Senator that the pending amendment is the amendment offered by Mr. LEVIN.

Mr. EXON. Mr. President, I am back to see if possibly we could at this time clear the two amendments agreed to earlier. Has the amendment by the Senator from North Carolina been offered?

I am prepared to yield back time on the Levin amendment, which we will agree to by a voice vote. I likewise assume we will move forward with the amendment of the Senator from North Carolina, which I assume has been cleared on both sides.

I yield back the remainder of the time on the Levin amendment.

Mr. DOMENICI. Do I have the time in opposition? I yield back the time in opposition to the Levin amendment.

THE PRESIDING OFFICER. If there be no further debate, the question is on agreeing to the amendment.

The amendment (No. 4020) was agreed to.

AMENDMENT NO. 4021

(Purpose: To express the sense of the Senate regarding the extension of the employer education assistance exclusion under section 127 of the Internal Revenue Code of 1986)

Mr. DOMENICI. Mr. President, I send an amendment to the desk on behalf of Senator HELMS. I ask for its immediate consideration.

The PRESIDING OFFICER. The clerk will report.

The assistant legislative clerk read as follows:

The Senator from New Mexico [Mr. DOMENICI], for Mr. HELMS, proposes an amendment numbered 4021.

Mr. DOMENICI. Mr. President, I ask unanimous consent that reading of the amendment be dispensed with.

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

The amendment is as follows:

At the appropriate place insert the following:

**SEC. . SENSE OF THE SENATE REGARDING THE EXTENSION OF THE EMPLOYER EDUCATION ASSISTANCE EXCLUSION UNDER SECTION 127 OF THE INTERNAL REVENUE CODE OF 1986.**

(a) FINDINGS.—The Senate finds that—

(1) since 1978, over 7,000,000 American workers have benefited from the employer edu-

cation assistance exclusion under section 127 of the Internal Revenue Code of 1986 by being able to improve their education and acquire new skills without having to pay taxes on the benefit;

(2) American companies have benefited by improving the education and skills of their employees who in turn can contribute more to their company;

(3) the American economy becomes more globally competitive because an educated workforce is able to produce more and to adapt more rapidly to changing technologies;

(4) American companies are experiencing unprecedented global competition and the value and necessity of life-long education for their employees has increased;

(5) the employer education assistance exclusion was first enacted in 1978;

(6) the exclusion has been extended 7 previous times;

(7) the last extension expired December 31, 1994; and

(8) the exclusion has received broad bipartisan support.

(b) SENSE OF THE SENATE.—It is the sense of the Senate that the revenue level assumed in the Budget Resolution accommodate an extension of the employer education assistance exclusion under section 127 of the Internal Revenue Code of 1986 from January 1, 1995, through December 31, 1996.

Mr. HELMS. Mr. President, this sense-of-the-Senate resolution calls for the extension of a critical education tax provision that enables American workers to further their education and better provide for their families. I have vigorously supported this education tax credit since its initial authorization in 1978. This provision has allowed millions of American men and women to acquire new skills and pursue their educational goals.

Our Government, being a republic, relies on the promotion of a moral and principled citizenry, education is central to the continued vitality of America. President Thomas Jefferson put it this way: "If a nation expects to be ignorant and free, in a state of civilization, it expects what never was and never will be."

The Federal Government has promoted education and individual choice through the educational assistance exclusion, codified at section 127 of the Internal Revenue Code, a provision that allows employees to receive up to \$5,250 a year, tax-free, in educational benefits from their respective employers.

When this provision expired on December 31, 1994, it left many workers and companies uncertain about the Federal Government's commitment to the promotion of worker education and retraining. That uncertainty increased last year, when President Clinton vetoed the Balanced Budget Act that would have extended the credit through December 31, 1996.

Mr. President, over the years, this provision has enjoyed wide bipartisan support, resulting in its reauthorization seven times. I hope Senators will once again support extension of this education tax credit which has done so much to help our Nation's workers and employers alike. Accordingly, I offer today a sense-of-the-Senate resolution

that provides that Congress should include, in any appropriate tax legislation, an extension of this critically needed tax credit.

Neither the need for education nor the need for acquiring new skills stops when a young person receives a high school diploma. Increasingly, education and worker training have become lifelong pursuits.

My home State of North Carolina has been hit hard by plant closings during the last few years. The textile industry in my State has been particularly hard hit as thousands of workers have lost their jobs. I could cite eye-popping statistics as to the number of lost jobs but what is important to realize is that each one of these lost jobs represents an individual man or woman, often the lone breadwinner in a family.

Many workers are understandably concerned about job security. They worry about the possibility of losing their job and wonder how they would provide for their loved ones if they did suddenly become unemployed. If this education provision is not reauthorized then many more workers and their families, across the country, will suffer needless anxiety and uncertainty.

Mr. President, while the Federal Government cannot set up programs to guarantee that every American has a job, we can act to ensure our Tax Code encourages workers and companies to act in their own interest by promoting education and training.

Without this exclusion, many employers may choose to end these benefits for their employees. Those employers who do offer these benefits will subject their employees to additional Federal and State taxes. A fortunate few may be able to meet a complex IRS test to demonstrate that the benefits are sufficiently job-related so as to be deductible. These additional taxes can easily exceed 40 percent of the amount paid by the employer. This enormous tax burden can be decisive in preventing an employee from pursuing an education to improve his or her career prospects and earning ability.

I support reauthorization of this provision because it empowers individual employees and businesses by encouraging and promoting education not through a monolithic Government bureaucracy but through the removal of a harmful and destructive hurdle to the pursuit of an education.

Over the years, this provision has helped more than 7 million working Americans to further their education and to acquire additional skills. While the importance of this achievement to those individuals, their families and their companies cannot be overstated, it is also true that this accomplishment has served our Nation well.

Last week, the House Ways and Means Committee included an extension of the tax credit for employer provided education assistance in its markup of the Small Business Job Protection Act.

Mr. President, I do hope Senators will demonstrate their support for the

continuation of this important provision and vote for this sense-of-the-Senate resolution to reaffirm the Congress' commitment to improving the education of American workers.

Mr. DOMENICI. Mr. President, I understand this amendment is acceptable to Senator EXON, as the Levin amendment was to us; is that correct?

Mr. EXON. It is, and I yield back any time in opposition that we may have on this side.

Mr. DOMENICI. And I yield back time Senator HELMS has on the amendment and ask for its adoption.

The PRESIDING OFFICER. Is there objection? Without objection, it is so ordered. The amendment is agreed to.

The amendment (No. 4021) was agreed to.

Mr. EXON. Mr. President, I move to reconsider the vote by which the amendment was agreed to.

Mr. DOMENICI. I move to lay that motion on the table.

The motion to lay on the table was agreed to.

Mr. EXON. Mr. President, I ask for a vote on the Levin amendment that is now the pending amendment.

Mr. DOMENICI. We have adopted it.

Mr. EXON. Did we adopt that?

The PRESIDING OFFICER. The Levin amendment was adopted.

Mr. DOMENICI. I move to reconsider the vote by which the Levin amendment was agreed to.

Mr. EXON. I move to lay that motion on the table.

The motion to lay on the table was agreed to.

Mr. DOMENICI. Mr. President, how much time do we have on the Chafee-Breaux amendment?

The PRESIDING OFFICER. There is 1 hour of debate equally divided.

Mr. DOMENICI. I yield the floor.

Mr. CHAFEE addressed the Chair.

The PRESIDING OFFICER. The Senator from Rhode Island, [Mr. CHAFEE], is recognized.

Mr. CHAFEE. Mr. President, I ask that the half-hour this side has been divided in half, with half to me and the other half to the Senator from Louisiana.

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

AMENDMENT NO. 4018

Mr. CHAFEE. I will take such time as I need.

Mr. President, in the years 1931 to 1938, the people of England failed to heed the warnings that their nation and, indeed, their lives were in peril. They dismissed voices, such as that of Winston Churchill, crying the alarm. They dismissed him as a warmonger and a scaremonger. Despite clear proof that Hitler was building a fierce war machine, the people of Great Britain preferred to ignore such evidence. John F. Kennedy described that in his book, "Why England Slept." And in his history of World War II entitled "The Gathering Storm"—that was the first volume—Churchill gave the theme of that volume as follows:

How the English-speaking people through their unwisdom, carelessness and good nature allowed the wicked to rearm.

Mr. President, a clear analogy can be drawn between the financial peril of the United States in the immediate years ahead and the military peril of Great Britain in the years referred to, with one major difference.

No one disputes—no one disputes—the fiscal danger our Nation faces if we do not control these entitlements.

We hear a whole series of siren-like voices, gentle voices saying, "Don't do anything now. Let's have more study. Isn't there an easier way of correcting the situation? It's an election year, let's wait. We can't do anything because we don't have the President's support."

Mr. President, we can follow all that kind of advice, but it will not cure the situation one iota, and the only way to solve the financial problem that this Nation faces is to do something about it now. Oh, sure, we can postpone it. Every year we postpone makes the solution that much more difficult.

The solution of the centrist group has been, first, a realistic budget that we do not have any savings that really cannot be achieved. We do not say we are going to make these \$300 billion savings out of discretionary accounts. We know that will not occur. Every Senator knows that will not happen.

So what we have done is said the solution to this is to state the CPI, the Consumer Price Index, in a realistic fashion, and we have not taken the high side of the recommendations. Many of the witnesses that came before the Finance Committee said the CPI is overstated by 1 percent at least and as high as 2 percent. But, no, we have gone to one-half of 1 percent because that can be thoroughly justified.

Has there been criticism of that? Oh, yes, there has been criticism: "Savings from the CPI adjustment should not be used except to shore up the Social Security fund." That is what we do, Mr. President. We have a statement from the Social Security's chief actuary that the solvency of the Social Security trust fund, as a result of the CPI changes recommended by the centrist group, will extend the solvency of the Social Security fund.

Some say that if you change the CPI or go to a realistic correct tabulation of the CPI that you are going back on promises made to Social Security recipients. That is absolutely inaccurate. Nothing in the centrist plan affects commitments we have made to Social Security recipients. Congress promised to provide cost-of-living adjustments to beneficiaries, and we continue to do that under our plan. All our plan does is make the CPI correct.

Mr. President, I notice there are others waiting to speak, so I will reserve the remainder of my time.

Mr. BREAUX addressed the chair.

The PRESIDING OFFICER. The Senator from Louisiana, [Mr. BREAUX] is recognized.

Mr. BREAUX. Mr. President, it is my understanding we have 30 minutes for the proponents and 30 minutes for the opponents.

The PRESIDING OFFICER. That is correct.

Mr. BREAUX. And we have agreed to divide 15 and 15 to each side?

The PRESIDING OFFICER. That is correct.

Mr. BREAUX. I yield 5 minutes to the Senator from Florida.

The PRESIDING OFFICER. The Senator from Florida, [Mr. GRAHAM] is recognized for 5 minutes.

Mr. GRAHAM. Mr. President, I thank my friend from Louisiana. It is a pleasure to have worked with the centrist coalition in the last several months in an attempt to develop a balanced budget based on a realistic set of principles.

In my limited time, I would like to make two points. First, if this Congress is serious about achieving what is stated to be its No. 1 priority, which is to develop a multiyear balanced budget plan that would reduce the Federal deficit to zero at the earliest practical date and then to keep that deficit at zero for the foreseeable future, I suggest that the vote that we are about to take on this centrist coalition will be the ultimate test of our fidelity to that principle.

There is no other opportunity to pass a balanced budget in 1996 other than that which is presently before the Senate. The reality is a balanced budget will not be passed which is totally written by Democrats. We established that fact in the early 1990's. A balanced budget proposition will not be passed which is written and supported totally by Republicans. We validated that truth in 1995.

We now have an opportunity to vote on a plan which represents a moderate centrist perspective with support from significant numbers of Senators from a variety of philosophical and regional and economic backgrounds which does have a meaningful chance to be adopted. That is the fundamental question: Are we going to reject the good because it falls somewhat short of our own personal view of the perfect, or are we to say that this good is so much better than the alternative, which is to continue to have these enormous Federal deficits and all of the damage that they do to our Nation and to our individual lives? Are we going to miss the opportunity to get the benefits of a balanced budget, including the very substantial benefits of a lower interest rate over the next decade than that which we will have if we do not exercise this act of discipline?

I believe, Mr. President, that the course of action which commends itself to this Senate is to adopt the centrist budget.

I would like to speak to one element of the budget which has received some comment which I think is illustrative of the principles that underlie the centrist approach. And that is that it is pragmatic, it is compassionate and it

builds in structural changes that will help keep a budget once brought to balance in balance for the foreseeable future.

Our Medicare Program is in two parts. One part relates to hospitals and is financed through a trust fund supported by payroll taxes. The other part relates to physician's payments, and it is supported by a premium paid by the beneficiaries voluntarily.

If they do not wish to receive those physicians' services, they can elect not to do so and not to pay the premium. The balance is paid by the general tax revenue of the Federal Government.

That premium has been set for most of the 1990's to be 31.5 percent of the cost of providing the physicians' services. Today it has dropped back to its pre-1990's level of 25 percent of the cost. That 31 percent, or today's 25 percent, is applied to all of the some 35 million-plus Medicare beneficiaries, the most affluent to the most indigent.

Our plan is based on, first, that we should raise from the part B premium, the premium for physicians' payments, the equivalent of 31.5 percent if that amount were applied to all of the 35 million beneficiaries. But we should not distribute the premium across all beneficiaries equally. Rather, it should be affluence tested.

We propose to have those Social Security beneficiaries who are under 200 percent of poverty, which represents approximately 70 percent of the beneficiaries, pay the current—

The PRESIDING OFFICER. The Senator has used his 5 minutes.

Mr. BREAU. I give 1 additional minute.

The PRESIDING OFFICER. The Senator has 1 additional minute.

Mr. GRAHAM. Pay the current 25 percent. Those who are between 200 percent of poverty and \$50,000 for an individual or \$75,000 for a couple will pay the 31.5 percent, which had been the premium level for the first half of this decade. Those above the \$50,000 or \$75,000 per couple, will pay a higher premium based on their income.

Mr. President, I believe that is fair, equitable, and compassionate and makes an important structural change in the Medicare system which will help to preserve the long-term solvency of our Medicare system.

I cite this one example as illustrative of the approach that has been taken throughout the centrist coalition budget. But the fundamental thing that recommends it is its bipartisan nature, the fact that it is reality, both economically and politically. This has a chance to actually pass, become law and make a difference in the lives of Americans. I urge its adoption.

The PRESIDING OFFICER. Who yields time?

Mr. BREAU. Mr. President, I yield 4 minutes to the Senator from Wisconsin.

The PRESIDING OFFICER. The Senator from Wisconsin has 4 minutes.

Mr. KOHL. Mr. President, with this week's debate on the budget resolution,

I believe the Senate has moved a giant step closer to implementing a balanced budget. We are no longer debating whether we should balance the budget. We are actually choosing between three separate, complete balanced budget proposals: the Republicans' budget resolution, the President's balanced budget submission, and the centrist coalition's bipartisan budget plan now pending as an amendment.

The President's plan has already been defeated in a party line vote—not a surprising result in an election year. We now have to decide whether to adopt the Republicans' budget or the only bipartisan balanced budget plan presented in the Senate.

If we are serious about setting the course for a balanced budget this year, I think we must choose the centrist plan. The Republicans' budget, as Yogi Berra said, is "deja vu all over again." It is virtually identical to last year's vetoed budget bill.

The Republican budget puts forth the same plan that was rejected last year by the public and the President. This is the plan that guided us through a year of vetoes, gridlock, Government shut-downs, and stopgap spending measures.

Mr. President, we have a chance to redeem ourselves in the eyes of the American public. They have seen 2 years of partisanship, bickering, and gridlock. In one vote we can send a message that we can work together in the spirit of bipartisanship, that we can bridge our differences and pass a budget that is honest, balanced, and fair.

That plan is the centrist budget now before us as an amendment. First, and most important, this is the only plan on the table that is bipartisan. It has been developed over the last half year by 11 Democratic Senators and 11 Republican Senators. We have worked in a way that I believe the American people want us to work. We have put aside our own political needs and party positions. We have compromised. Our primary goal was a balanced budget—not a partisan victory. And the result is an equitable budget plan that can win the support of a majority of the American people.

The budget the centrists present today contains \$679 billion in proposed savings over 7 years. Those savings are spread across almost every group in society and almost every Government program. Our plan has lower Medicare cuts than either the Republican or Democratic plans but enough cuts to guarantee the longrun solvency of the program. Our plan contains a modest tax cut—\$130 billion—that will allow us to do some targeted tax credits for children and give businesses some capital gains relief. Our plan caps the out-of-control growth of entitlements through an adjustment in the CPI. And, most importantly, our plan achieves real and sustainable deficit elimination.

Mr. President, the centrists have put together a solid, bipartisan balanced

budget plan. I believe it is the best—and perhaps the only—choice for those Members who want to see a balanced budget enacted this year.

Mr. President, we know partisanship does not work. If we go down that road again with a budget that only gets Republican votes, then we may see some interesting campaign ads, but we will not see a balanced budget.

We have a clear choice before us today. Vote for the centrist amendment, and vote for bipartisanship, honest budgeting, shared and fair sacrifice, and the last, best hope for a balanced budget in this Congress. I yield the floor.

The PRESIDING OFFICER. Who yields time?

Mr. CHAFEE. Mr. President, I yield 3 minutes to the Senator from Washington.

The PRESIDING OFFICER. The Senator from Washington [Mr. GORTON], is recognized for 3 minutes.

Mr. GORTON. Mr. President, the remarks beginning the debate this morning on the part of the Senator from Rhode Island were directly on point. Now is the time and this is the place for the oratory to end and the true work in balancing our budget and building a brighter future for our own generation, for our children and our grandchildren, is to begin. There are no longer any real excuses.

A year ago, for the very first time for 20 or 30 years, this Congress actually passed a balanced budget that was then vetoed by the President. But that balanced budget changed the entire nature of the debate. The President himself proposed a budget that was balanced, as inadequate as it was unfair, but nonetheless lip service to this proposition.

Again, this year we have before us from the Budget Committee, with my support, a budget that is truly balanced, but the execution of which will almost certainly receive another veto from a President in an election year.

This group, for the first time in a decade, two decades, three decades, has gotten together, on a bipartisan basis, to solve the greatest problem facing the United States of America, Democrats and Republicans working together. It has a proposal that in the long run creates a greater degree of financial stability and security for the people of the United States than do any of the other proposals. Most Members in this body would like to vote for it if they only believed that it would become law.

But, Mr. President, we cannot tell whether or not it will pass the House of Representatives unless we pass it here in the Senate. We do not know whether a President would respond to the dynamic of it passing both Houses until it has passed both Houses. So the ball is in our court. If this is simply a good try that fails, we will be debating the same issues over and over and over again, but we will not have done what we were supposed to do for the people of our country.

If we pass it, maybe it will be defeated in some future place in this political debate in this election year. But maybe it will not. Perhaps it will build its own dynamic. Let us give it that opportunity, Mr. President. That is what we were elected to do.

The PRESIDING OFFICER. The time has expired.

Mr. BREAUX. Mr. President, I inquire of the Chair how much time our side has.

The PRESIDING OFFICER. The Senator from Louisiana has 6 minutes left.

Mr. BREAUX. I yield myself 2 minutes.

Mr. President, yesterday a great deal of discussion was held about the CPI adjustment. I just want to make a couple comments because many Members said, "We like your budget, but the CPI is something that we can't handle. We don't think it's the right thing to do."

We have had three hearings in the Senate Finance Committee—March 13 of last year, April 6 of last year, and June 5 of last year—we had a parade of economists before the Finance Committee. Every one of them to a person said that we are making a mistake as a country. The distinguished Senator from North Dakota said that yesterday.

Every year we make a mistake. Every year we give every person who is on an entitlement program more than they should get, by every economist's professional judgment. They say we overestimate what their increase should be from anywhere between 0.7 and 2 percent.

So we have had the courage to make a decision that we will fix the problem. We will correct the mistake. We will say that every person in America who is entitled to an entitlement increase—Social Security, railroad retirees, Federal retirees—we will give you a more accurate increase in your benefits. For instance, in Social Security it says instead of getting a \$20-a-month increase, you will get a \$16-a-month increase. They still get an increase, a substantial increase. It is \$4 less than they would have gotten under the incorrect formula, but everybody knows the formula is wrong. The formula has made a mistake.

Are there not enough people in this Congress to say that when we make a mistake, we should correct it and recognize it? That is what we do in CPI.

I think everybody should enthusiastically stand up and say we want to guarantee everybody in this country gets an accurate increase based on inflation. When the formula is wrong, Congress should have the courage to at least correct the mistake. That is the only thing we do. It is supported by a Republican economist, by a Democratic economist, and by everybody who has testified before the Senate Finance Committee. I think it should be adopted.

I reserve the balance of my time.

The PRESIDING OFFICER. Who yields time to the Senator from North Dakota?

Mr. BREAUX. I inquire, Mr. President, how much time do we have remaining?

The PRESIDING OFFICER. The Senator has 4 minutes.

Mr. BREAUX. Senator LIEBERMAN requested some time.

Mr. CHAFEE. Mr. President, I am happy to give the Senator some of my time.

Mr. BREAUX. We will give 3 minutes to Senator CONRAD.

Mr. CONRAD. I thank Senator CHAFEE and Senator BREAUX for this time.

Mr. President, what can be more clear? We are headed for a cliff. Everyone who has examined this question tells us we are headed for a circumstance in which if we do not change course, we will either face an 82-percent tax rate in this country or a one-third cut in all benefits. That is where we are headed. Make no mistake.

There are many things that must be done in order to prevent that calamity from occurring. We must generate savings out of the various entitlement programs. We must cut other spending. All of those things must be done.

Mr. President, with respect to the CPI that was criticized on the floor last night, the technical correction in the Consumer Price Index that our group has advocated on a bipartisan basis, this is a question of a mistake—a mistake. The Consumer Price Index is being used to adjust for cost-of-living increases, not just with respect to entitlement programs but also with respect to the revenue base of this country.

The economists have come to us and said, overwhelmingly, "You are overcorrecting by using the Consumer Price Index. It is not a cost-of-living index." Even the people who draw it up at the Bureau of Labor Statistics will tell you it is not a cost-of-living index. Yet, that is what we are using it for. The economists tell us, because we are doing that, we are making a mistake. They say the mistake is between 0.7 and 2 percent a year, with the most likely overstatement being 1 percent.

What does that mean? Over 10 years, that means we are spending \$600 billion by mistake—by mistake. If we cannot correct a mistake around here to address preventing the calamity that is going to occur, what can we do? If this body and the other body and the President of the United States cannot correct mistakes to prevent a fiscal calamity, what can we do?

Mr. President, I think the question has to be, if not now, when? If not us, who? If we cannot correct a mistake to prevent a financial calamity, then we fail in our responsibility.

Mr. BREAUX. Mr. President, I yield the remaining time we have, 4 minutes, to the Senator from Connecticut, Senator LIEBERMAN.

Mr. LIEBERMAN. I thank my friend and colleague from Louisiana. I thank my friend from North Dakota, who I am pleased to see this morning para-

phrasing the words of the Talmud, which come strongly from his lips. I appreciate that sentiment.

Mr. President, I want to thank Senators CHAFEE and Senator BREAUX for convening this so-called centrist coalition. Frankly, it has been one of the most satisfying experiences I have had in the 8 years I have been in the Senate, because we did what I thought we came here to do, which was to forget that we are Democrats or Republicans, focus on the responsibility that we have as Americans, elected by people from all parties in our State, and deal with central and obvious problems—and, in this case, most especially, the imbalance in our budget.

Sometimes when I look at the course that both parties are taking here, frankly, on matters such as the budget, it seems to me it has become so highly politicized that we might as well have our press secretaries staffing us on budget questions.

This centrist coalition attempted to find a third way. The group was driven by the knowledge that if we truly want to balance the budget, it is going to take Members of both parties, working cooperatively, to do so.

Our group understands, I think, the first rule of compromise. It means you cannot always have your way, or, put more eloquently, as the junior Senator from Utah, Senator BENNETT, did in quoting his father, "It means that you attempt"—and I love this expression—"to legislate at the highest level at which you can obtain a majority." That is perfect. That is just what we attempted to do in this group.

What does this proposal have? It faces the big problem in the budget which is that the so-called entitlements are skyrocketing. If we let them go, they will eat up our Government and make it impossible for us to continue to do what people want us to do without grossly overtaxing them. It approaches entitlement reform not in a weak and defensive way, but by understanding that there is another side to this question.

Yes, as Medicaid and Medicare go up, people are benefiting, but people are paying for them. Just to state it briefly in the time I have, how can we explain to a worker, how can I explain to a factory worker in Connecticut making \$30,000 a year that through his paycheck he is paying for part A and through his tax bills, 75 percent of part B Medicare for a senior citizen retired, making \$30,000 a year, with no kids to send through college or feed and clothe; or forget the \$30,000—a senior citizen making \$50,000 or \$100,000 or \$1 million. It is unfair to the people.

We have a reasonable number on discretionary spending, the most reasonable of any of the budget packages. Mr. President, we have a sensible tax cut program that will create growth, that stimulates savings and investment through capital gains cuts and through some very creative programs to encourage people to save more. Also, to

help the middle class in targeted areas, such as offering a deduction and help in sending their kids to college, which, at least in Connecticut, is the greatest burden I find the middle class is shouldering as I talk to them when I go around the State.

This is a solid, balanced, thoughtful program. Mr. President, 22 of us—11 Democrats, 11 Republicans—have put it together. I hope a lot of our colleagues surprise us and join us in getting this moving in the right direction toward balanced growth for our country.

I yield the floor.

Mr. CHAFEE. Mr. President, I yield myself 2 minutes.

I have listened to the presentation of our amendment, and I must say I want to congratulate every Senator who has spoken on behalf of this amendment. I think the arguments, really, are overpowering.

Here is the problem: If we continue on the path we are on now in this country, every one of the entitlement programs is going to be in a very, very severe situation.

What did the entitlement commission say when they reported 2 years ago? This is what they found: By the year 2010—how far away is that? Mr. President, 2010 is 14 years away. Spending on entitlement programs—Social Security, Medicare, Medicaid, welfare, all of the entitlement programs—where they are locked in, unless we do something, the payments on those programs, plus the interest on the national debt, will exceed all the Federal tax revenues. All the money that comes into the Federal Government will be inadequate to cover those entitlement programs; not a nickel left for the Park System or for maintaining our highways or for building them or the FBI, the State Department, the Justice Department, whatever it is.

Mr. President, obviously, something has to be done. I find the arguments of the opponents difficult to understand. One of the arguments is, "Well, the President has not said he is for this thing, so we should not vote for it." What are we hired for? We are hired, it seems to me, to do what is best for the country, and whether the President is for it or is against it does not make any difference. He cannot vote here on the floor of the Senate. We can. It seems to me to make our vote depending on whether this is going to pass or not and whether the President is for it or not is hardly the route to go.

So I plead with my colleagues to come forward and support this amendment.

Mr. President, I ask for the yeas and nays on the amendment.

The PRESIDING OFFICER. Is there a sufficient second?

There is a sufficient second.

The yeas and nays were ordered.

Mr. CHAFEE. Mr. President, I will take 1 more minute.

The PRESIDING OFFICER. The Senator has 1 more minute.

Mr. CHAFEE. Mr. President, here we have a chance to do something. In my

opening remarks, I mentioned the situation in England in the 1930's which John F. Kennedy described in his book "Why England Slept." As Winston Churchill said in his four-volume history of the war, "The Gathering Storm," he said the English people through their nonwisdom and carelessness allowed the wicked to rearm.

We have a similar situation, not a peril from abroad militarily but a peril from within financially. The good news is we can do something about it. What we can do now is the smartest; but, if we wait, it becomes that much more difficult.

All we are saying is one-half of 1 percent correction, as it should be and as every economist that has come before the Finance Committee has told us the correction should be made. Let us seize the opportunity, Mr. President.

Mr. SIMPSON. Mr. President, I am so very proud to join my colleagues in the centrist coalition in declaring my support for this bipartisan budget resolution. Everyone in this Chamber should take a close look at our amendment. Reading this plan will be a frustrating and vexing experience for the critics who are always anxious to label legislation as "extreme" or "timid" or "too conservative" or "too liberal." None of those tired old labels apply to this budget resolution.

This is truly a blueprint for a mainstream budget. It is the product of many weeks and months of compromise and negotiation and good old-fashioned "give and take." On issue after issue, Republicans and Democrats in the centrist coalition have resolved areas of disagreement by "splitting the difference" or "meeting each other halfway." That is what legislating is all about.

For every element of this plan that Republicans don't like, there is another provision that is equally troubling to Democrats. Under this budget resolution, neither party would score a clear "political win"—but the Congress as a whole and, more importantly, the American people would benefit tremendously if we adopt this mainstream approach to balancing the budget.

The most striking feature of our plan is that we do not shy away from correcting the inaccuracies in the Consumer Price Index [CPI]. We now have almost universal agreement that the procedures currently used for calculating the CPI are flawed, thereby resulting in a CPI that overstates inflation, according to the "experts," by at least seven-tenths of a percentage point and perhaps as much as 2 percentage points. Yet neither Republicans nor Democrats want to be the first to include a CPI correction in its budget.

By advancing such a correction in a bipartisan budget, neither party will receive the full blame or the full credit, depending on how the public responds, for addressing this issue. It is no secret that the American Association of Retired Persons [AARP] and

other seniors groups are almost violently opposed to a correction of the CPI. But we haven't heard yet from the masses of working people who will continue to "pick up the tab" for as long as we continue to use an overstated CPI.

We may well be pleasantly surprised by the public's reaction when they find out that we can save \$126 billion—as this centrist coalition plan proposes—by adopting a modest five-tenths of a percent reduction in the CPI over the next 7 years. This reduction is well below the official range, which extends from 0.7 to 2.0, by which the experts tell us the CPI is overstated. We adopt this modest figure precisely because we want to make clear that our motivation is to have an accurate CPI—and that our actions are not driven solely by budgetary pressures.

Nonetheless, it is impossible to ignore the fact that this step would save \$126 billion over 7 years and, furthermore, that this represents \$126 billion we would not have to cut from education, child care, health care, transportation, infrastructure, and other important priorities as we work to balance the budget.

It seems to me that all 100 Members of the Senate would leap in unison at the chance to embrace this provision, as well as the broader package we are proposing. Being a realistic creature, however, I would be satisfied if only 51 of us do so on this particular vote. I urge my colleagues to join us in this bipartisan effort.

The PRESIDING OFFICER. The Senator's time has expired.

Who yields time?

Mr. DOMENICI addressed the Chair.

The PRESIDING OFFICER. Senator DOMENICI is recognized.

Mr. DOMENICI. I yield myself 5 minutes off the resolution.

The PRESIDING OFFICER. Is there objection? Without objection, it is so ordered.

Mr. DOMENICI. I want to give a report to the Senate about where we are and what things look like.

When we started this morning, we had 8½ hours on the resolution.

How much of that have we used this morning?

The PRESIDING OFFICER. Fifty-seven minutes.

Mr. DOMENICI. So essentially we are now down to about 7½ hours. Assuming that time runs uninterrupted throughout the day, all time will have expired pursuant to the unanimous consent request at 5:30 p.m. today. Pending at the start of today were 33 amendments that have been laid aside. We have disposed of 15 amendments either by roll-call vote or voice. Therefore, as of this morning, we have considered 48 amendments.

The consent agreement for first-degree amendments of last Thursday night listed about 75 amendments. Therefore, there could be as many as 27 first-degree amendments still to be considered. I am not at all sure, nor do



I in any way hold Senators to the amendments that they listed, but I think we still have to find out a little more about them.

So I encourage Senators who have first-degree amendments left on this list as of last Thursday night which we have not acted on yet to let the managers know this morning if you still intend to offer the amendments. I assume Senator EXON would join me in urging that they try to let us know this morning if they are going to call up amendments.

Mr. EXON. If we are going to have any order at all, we will have to have that.

Mr. DOMENICI. So as I look down this list of amendments that have not yet been brought up, I conclude that after removing the duplicative amendment—this is my own assessment—there are only 10 or 12 first-degree amendments left. But I cannot reach that conclusion without the help of some Senators who are on that list.

Not counting any second degrees that may be considered, this should give us hope that we can finish discussing all the amendments in the 50-hour time period and maybe even start voting late this afternoon. That depends upon whether it will be more accommodating to the Senate to vote all day tomorrow rather than to start tonight.

We need some guidance from Senators whose names and amendments are still on this list. I think I can say as of now that there are very few Republican amendments that are going to be called up off the list.

So I urge that the Democrat Senators that have amendments listed to let us know. We are going to stay here during the funeral of Admiral Boorda right up until 12 o'clock when we recess for the policy, and we will be in recess until 2:15. During that time, we will obviously do nothing here on the Senate floor. We are back in at 2:15.

If I have not used my 5 minutes off the resolution, I yield back whatever time remains and yield the floor.

Mr. EXON addressed the Chair.

The PRESIDING OFFICER. Does the Senator from Nebraska yield time on the pending amendment?

Mr. EXON. The Senator from Nebraska seeks time off the amendment.

Mr. DOMENICI. I yield the Senator as much time off that as he needs. I am in charge of the opposition time. I will give him as much time as he wants.

The PRESIDING OFFICER. The Senator from Nebraska.

Mr. EXON. I am about ready to yield 15 minutes to the Senator from Massachusetts, half of the time.

I will be allotted the half hour remaining on the pending matter. Is that correct?

Mr. DOMENICI. If you want Senator KENNEDY to have 15 minutes in opposition, I yield him 15 minutes.

Mr. EXON. Maybe we could settle something right now. I am not sure that we should be in session during the important matter that is going to be

taking place at the Washington Cathedral. I was just wondering if I might have the attention of my colleague. I am wondering if it might be better for us to recess during the time of the memorial service with the time being charged along the lines just outlined by the chairman of the committee. I just say let us take that under advisement for now.

With that, if the Senator from Massachusetts could be recognized at this time as previously arranged.

Mr. DOMENICI. Let me take a minute off the resolution to respond.

I will be glad, in the next 10 minutes or so, to discuss this issue with you. I think it is probably more important to your side than ours because we do not have very many amendments left. But if you want to use time while the Boorda funeral is going on and charge it equally rather than a few of us remaining in the Senate, if you think that through and want to offer it to us, I am thinking I will probably agree to that.

Mr. EXON. We will visit about it. I hope the Senator from Massachusetts could be recognized at this time for 15 minutes.

The PRESIDING OFFICER (Mr. SANTORUM). The Senator from Massachusetts is recognized.

Mr. KENNEDY. Mr. President, I thank my friend, Senator EXON, for yielding 15 minutes. I yield myself 12 minutes.

Mr. President, during the course of this budget debate, there have been several proposed amendments expressing a fundamentally bad idea, and that is legislating a change in the Consumer Price Index. These amendments have been offered as stand-alone, sense-of-the-Senate amendments and as part of the centrist coalition budget. In fact, 20 percent of the total cuts in this budget come from a legislative reduction in the CPI.

That kind of arbitrary action by Congress would break faith with the elderly and make a mockery of the commitment of both parties not to cut Social Security. It would raise taxes on low-income, working families qualifying for the earned-income tax credit and other working families as well. It would lead to lower wage increases for millions of workers throughout the country at a time when one of the most serious challenges our society faces is the decline in the living standards for all but the wealthiest families. Such a change would be harshly regressive in its impact. It would be unprecedented political meddling of what has been an impartial factual determination of the CPI.

Reducing the CPI would reduce cost-of-living adjustments for millions of Americans receiving Social Security benefits, military pensions, veterans pensions and civil service retirement. It would reduce the amount of supplemental security income payments to the needy, and because of indexing of tax brackets, it would raise income

taxes for most taxpayers and reduce the earned-income tax credit.

Some may see a cut in the CPI as a magic bullet to balance the budget and avoid other painful choices, but it is a bullet aimed at millions of Americans who need help the most and who do not deserve this added pain. It makes no sense to fight hard to save Medicare and then attack Social Security. Legislating an arbitrary reduction in the CPI would clearly break the compact of Social Security. That compact says work hard, play by the rules, contribute to the system, and in turn you will be guaranteed retirement security when you are old.

An essential part of that compact is a fair Social Security COLA so that senior citizens can be sure that their hard-earned Social Security benefits will not be eaten away by inflation. Overall, more than three-quarters of the lower spending under the change would come from cuts in Social Security alone. Nearly all the rest would come from other Federal retirement programs. It is the elderly who pay heavily if Congress adopts this change.

Over the next 10 years, a half-percent cut in the COLA would reduce the real value of the median income beneficiary Social Security checks by \$2,650. By the 10th year, the real purchasing value of that check would be 4.5 percent lower, making it even harder than it is today for senior citizens to stretch their limited incomes to pay the bills for housing, food and medical care, and other necessities.

Under the centrist budget, the median Social Security beneficiary will see the value of the benefits they have earned cut by \$1,200 over the next 7 years. Let me repeat that. Under the centrist budget, the median Social Security beneficiary will see the value of the benefits they have earned cut by \$1,200 over the next 7 years.

Reducing the Social Security COLA is a direct attack on the retirement benefits that senior citizens have earned. If Congress is to respect family values, it has to value families, especially the millions of elderly families all across America.

Changing the CPI also affects the deficit by increasing taxes because income tax brackets and the earned income tax credit are indexed to inflation. If the tax brackets are not adjusted for inflation, taxes go up and the earned income tax credit goes down.

Failing to adjust the tax bracket hits middle-income families the hardest. A family earning \$36,000 would face a tax increase that as a percent of income would be more than four times as large as the tax increase faced by a family earning \$100,000. Hardest hit are the low-income, hard-working families; 13 percent of the total tax increase, \$6 billion, would be paid by these low-income, hard-working families under the centrist budget. Has not income inequality grown enough without legislating another tax increase that disproportionately harms working families?

The impact of cutting the CPI reaches well beyond the Federal budget. It is also a direct attack on the wages of working families. Many workers have CPI adjustments in their collective bargaining contracts, but every pay increase is affected by CPI. If the CPI is reduced by Congress, wages will be lower, too, for virtually all workers across the country.

There is no greater source of dissatisfaction in American families than the continuing erosion of their living standards. Except for the wealthy, the story of the past two decades has been, work harder and earn less. Cutting the CPI will make a bad situation even worse by putting even greater downward pressure on the wages of every American.

One argument made by the proponents of this idea of lowering the CPI is that it is merely an overdue technical correction that should be supported as a matter of good government. This claim cannot pass the truth-in-advertising test. The technical argument for lowering the CPI has been made by the Boskin Commission, which was appointed by the Senate Finance Committee to examine the issue. The commission issued a report in September of 1994 which identified several biases in the calculation. The commission asserted that the CPI had overstated inflation by 1.5 percent a year. For the future, the commission predicted the CPI would be 1 percent a year too high.

The major problem with the commission's analysis is that the sources of bias it identifies are also identified by the nonpolitical, professional economists at the Bureau of Labor Statistics in the Department of Labor. They have the responsibility for setting the CPI each year. They do so fairly and impartially. They make periodic corrections to take account of any biases up or down that affect the index. The Bureau already plans to reduce the CPI by about two-tenths of 1 percent in 1997. This reduction is already assumed in the budget projections for the next 7 years.

The issue is not whether there should be changes in the CPI but who should make them and how large they should be. The Boskin Commission's work is a poor basis for changing the CPI. As the Commission itself acknowledged, it did little original research. The Commission's membership was stacked with economists who believed that the CPI was overstated. According to Dean Baker, an economist at the Economic Policy Institute, all five members had previously testified they believed the CPI was overstated. Economists who gave contrary testimony were excluded.

According to Joel Popkin, another expert on the CPI, the Commission comprised five of the six witnesses before the full Finance Committee who gave the highest estimates of bias. As Mr. Popkin also pointed out, the interim report of the commission falls far short of presenting adequate jus-

tification for its conclusions, and therefore provides no basis for Congress to change tax policies or entitlement policies such as Social Security.

In fact, for the elderly, the group most affected by any change, the most authoritative study by the Bureau of Labor Statistics suggests that the CPI may understate rather than overstate the true increase in the cost of living because of the rapid increase in the medical costs for the elderly.

To legislate an arbitrary change in the CPI would be unprecedented. In the entire history of the CPI, the Congress has never tried to impose a politically driven adjustment, and there is no excuse for imposing one now. Senior citizens and working families across the country depend on a fair CPI, and Congress should keep it that way.

Mr. President, I believe that that provision is unwise and unjustified. It provides, according to their own proposal, total cuts of \$126 billion over 7 years. That will be a Social Security cut of some \$47 billion. It is going to amount to \$1,205 for the median Social Security recipient, and it is going to reduce the value of the earned-income tax credit by \$6 billion.

Who are these people? They are men and women who are working, making \$25,000 to \$28,000 a year. That is where it is gradually being phased out. It is going to take \$6 billion out of their resources.

The Democrats are over here talking about increasing the minimum wage. That is \$3.2 billion a year. They are talking about taking \$6 billion out of families with children that are on the lower economic ladder. To believe that these families are part of the problem in terms of what we are facing in this country, I think is unjustified and unwise.

Mr. President, I think the basic concept of legislating an adjustment in the CPI, that some are willing to accept and interject based upon the Boskin Commission, which was basically flawed, is sending a very powerful message to our seniors. The elderly in this country are going to have a very real reduction in terms of their income over a period of years.

It is sending a message to workers who are below the average median income in this country that it is OK if they are going to lose some of the protections they have now primarily focused on their children. It is going to send a general message to all workers across this country that it is OK that they will see a reduction in their wages because most of the contracts that are signed are tied to the CPI. Here we are in the Chamber of the Senate with just some votes effectively saying to workers all across this country that their incomes are going to go down.

So this is a very, very important aspect of what is allegedly the compromise proposal. It is unwise. It is unjustified. I hope for that reason as well as others that the Senate will not accept that proposal.

I yield the remainder of my time.

The PRESIDING OFFICER. The Senator from Rhode Island.

Mr. CHAFEE. Mr. President, we have had a wonderful presentation just completed about why this Nation does nothing about facing up to the problems that confront us. Sure it is easy to trash any proposal that comes before us. That is what we see. Not one word—not one word about what to do about the crisis our country faces in these entitlement programs in the future years. I find it terribly disappointing that the Senator from Massachusetts chose this opportunity to go out of his way to trash all the proposals that we presented but not a word about doing something about it. Right here we had presented why the Congress of the United States refuses to face up to the problems we have before us.

Mr. KENNEDY. Mr. President, may I reclaim time to be able to respond for 3 minutes? May I have 3 minutes to respond to the assault that the Senator from Rhode Island made upon me?

Mr. EXON. Reserving the right to object, we are trying to get something done here before 10:30. I thought we had an orderly process going on. But the Senator from Massachusetts, I think, is entitled to reclaim the time he yielded back, given the insertion of the remarks by the Senator from Rhode Island.

The PRESIDING OFFICER. Who yields time?

Mr. KENNEDY. How much time did I yield back?

The PRESIDING OFFICER. The Senator yielded back 3 minutes.

Mr. KENNEDY. Mr. President, I reclaim that time.

Mr. President, with all respect to my good friend from Rhode Island, in the various Republican proposals they had \$4.4 trillion in, effectively, tax breaks for the wealthiest corporations and companies in this country. And, instead of finding that \$100 billion over the period of the next 7 years from corporate welfare, from tax breaks that go to the wealthiest individuals and corporations and drive American jobs overseas, he is taking it out on the elderly and workers in this country. So I do not yield to those words of the Senator from Rhode Island. When you start to get after corporate welfare, Senator, when you start to support even what the administration talked about, \$60 billion, when we start having, in your proposal, something that is reducing that corporate welfare, then you will have some credibility in speaking about that. Your proposal eliminates a minuscule \$25 billion in corporate tax loopholes—\$25 billion versus a tax cut of \$100 billion. In total, your proposal cuts over \$270 billion in spending for the elderly and the less well off through the Medicare, Medicaid, welfare, and EITC programs. I have not heard you speak about these particular issues and I reject the criticisms of the Senator from Rhode Island.

Several Senators addressed the Chair.

Mr. CHAFEE. May I have 30 seconds?

The PRESIDING OFFICER. The Senator from Nebraska.

Mr. EXON. Mr. President, much has been said about CPI. I ask unanimous consent that at this point an article by Mr. Jim Klumpner on CPI bias be printed in the RECORD.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

FACT AND FANCY: CPI BIASES AND THE FEDERAL BUDGET

(By Jim Klumpner<sup>1</sup>)

Does the consumer price index have an upward bias? The author believes that, while substitution and formula biases exist, together they might amount to 0.3 to 0.5 percentage points. Other alleged causes of bias are not considered significant. The budget negotiators already have incorporated substitution and formula adjustments in their baseline assumptions. To go beyond this is an attempt to camouflage an increase in taxes and a cut in Social Security, which could be regressive and call for excessive sacrifice by the elderly.

On January 10, 1995, Federal Reserve Chairman Alan Greenspan suggested that adjusting the Consumer Price Index (CPI) for alleged upward biases might produce federal budget savings measures in hundreds of billions of dollars. Understandably, politicians and political commentators found this very exciting, being largely unencumbered by technical knowledge about it. Gobs of free money? Why didn't we notice this before.

Within days, Speaker of the House Newt Gingrich let loose with a typically vesuvial outburst: "We have a handful of bureaucrats who, all professional economists agree, have an error in their calculations. But we can't tell these people to get it right? If they can't get it right in the next thirty days or so, we zero them out, we transfer the responsibility to either the Federal Reserve or the Treasury and tell them to get it right."<sup>2</sup> Like his colleagues, the Speaker was untroubled by subtleties, such as the conflict of interest posed by having the nation's primary inflation fighter control the data by which its performance is judged. No matter; the quality of federal statistics had hit the bigtime.

The situation to which this has now led holds rich ironies for me. Both at the Senate Budget Committee and at the Joint Economic Committee where I served previously, I have worked with a few far-sighted Democratic members of Congress to promote the integrity of the federal statistical system. By and large, this effort consisted of defending agencies like the Bureau of Labor Statistics (BLS) from penny-wise but pound-foolish budget cuts. We were privileged to have the National Association of Business Economists as allies in this effort, even though most NABE members probably wouldn't count themselves as Democrats. Now all of a sudden, the cause of quality statistics seems to have acquired a horde of new allies, many of them Republican politicians. It reminds me of a response that Robert Redford once gave when asked what it was like to have gorgeous women flock to him: "Where were they before I became rich and famous?"

Unfortunately, the new allies of statistical integrity are pursuing their cause with zeal and urgency typical of recent converts. Politicians and journalists have been hazing wild, research-free guesses about the size of CPI bias and proposing nonsensical ways to

apply their new enthusiasm to the budget. In this murky atmosphere, it is important that economists at least see the issues clearly. As someone who worked to address the problem of CPI bias before it became so fashionable, I offer in this paper one view of the technical issues, as well as some thoughts about how COLA adjustments might figure in a deal to balance the budget.

HOW BIG IS THE BIAS?

Various reputable analysts have made guesses about the size of possible CPI biases, and their guesses span a rather broad range. The BLS, which not only produces the CPI but also has pioneered much of the research on potential biases, tends to be at the low end of the range. They estimate very small effects for the individual components of the overall bias, which in their view totals about a half percentage point of the annual inflation rate. This is similar to the conclusions of the Congressional Budget Office (CBO), which argued for a range of 0.2 to 0.7 percentage points in early 1995. Other economists have advanced much higher estimates. Most noteworthy is the 0.7 to 2.0-percentage-point range proposed last September by a commission headed by Michael Boskin who, I hasten to note, has long been an ardent advocate for quality statistics.<sup>3</sup>

It should not be too surprising that respected economists cite such a large plausible range for CPI biases, going from almost nothing to 2.0 percent per year. After all, we are trying to estimate the extent of our ignorance. This is the classic boot-strap problem in philosophy. How can you measure what you don't know, when you don't know what you don't know? Of course, this uncertainty among the experts does little to temper the certitude of others.

I tend to line up with the smaller bias estimates endorsed by the BLS and CBO, and I find the very high estimates of the Boskin commission implausible. Fortunately, there is fairly wide agreement on what kinds of biases might exist. By going through these components one by one, we at least can isolate where differences in opinion lie.

SUBSTITUTION BIAS

The substitution bias is one component of this problem on which most analysts can agree. When the CPI is used as a measure of the cost of living, it fails to capture consumers' ability to change the "market basket" of things that they buy. If the price of entertainment rises, for example, consumers can offset the impact of this on their well-being by purchasing more of something else, like food. A price index with fixed expenditure weights like the CPI will overstate the impact of rising prices for some items because it fails to account for consumers' substitution of other items whose prices have risen slowly or fallen.

When prices change by relatively small amounts over short periods of time, substitution bias isn't much of a problem. Over long periods of time, however, prices can drift substantially up or down, leading to correspondingly large changes in consumers' purchasing patterns. Thus, the substitution bias grows over time. A widespread consensus exists that the substitution bias averages about 0.2 percentage points over the course of a decade.

BLS argues that they never intended the CPI to be a cost-of-living index and that they are well aware that a fixed-weight index suffers from substitution bias when used as a cost-of-living proxy.<sup>4</sup> Nonetheless, they have accommodated the problem in the only way possible, i.e., with periodic revisions of the expenditure weights to reflect more current purchasing patterns. In the past, this was part of the BLS' regular decennial rebenchmarking of the CPI.

Unfortunately, funds were not appropriated in a timely fashion for the most recent rebenchmarking. As a consequence, the new index will not be ready until 1998 rather than this year, when it normally should have been introduced. Perhaps, the newly found urgency concerning quality price statistics will lead to more frequent and more regular rebenchmarking in the future. For now, all of the participants in the budget debate are assuming that the reported CPI will rise at least 0.2 percentage point less than it otherwise would have after 1998.

FORMULA BIAS AND OUTLET BIAS

Formula bias results from the sample rotation procedures used by BLS. The Bureau updates 20 percent of its surveyed outlets each year in an effort to keep their mix of both outlets and items more current. Past BLS procedures, in combination with fixed expenditure weights, gave improper weights to items whose prices are especially volatile. For instance, if an item happened to be on sale when the update was made, its fixed expenditure share corresponded to a temporarily overstated number of units, because of its temporarily depressed price. When the item's price returned to a more "normal" level, the impact of that price increase was overstated because it was multiplied by an inflated number of units. Similarly, items whose prices were temporarily high were undervalued, as was the subsequent fall of that price to a "normal" level.

The BLS became aware of the formula bias some time ago and has been working to correct it for the past couple of years.<sup>5</sup> They are replacing their previous procedures with a "seasoned" sample, which should more accurately distinguish short-term price volatility from enduring price change. BLS expects that this work will be complete by January 1997. When the budget negotiators became aware of this, Senators Dole and Domenici and Congressman Gingrich and Kasich officially requested that BLS predict what the future results of their current research would show. Though somewhat uncomfortable with the request, BLS responded that they guessed the formula bias was between 0.1 and 0.3 percentage points, and the budget negotiators have now built this assumption into their baselines as well.

The Boskin commission's September report also argued that there is an outlet bias, distinct from formula bias, that they believe adds another 0.2 percentage points to reported inflation. As noted above, the sample rotation procedure is intended partly to ensure that the outlets surveyed are those at which consumers actually shop. BLS is confident that there is no outlet bias independent of the formulas bias. Indeed, it seems unbelievable that the price division at BLS could remain ignorant of K-Mart, Price Club and CompUSA when these firms spend millions of advertising dollars to make certain that the rest of us are aware they exist.

The commission's incorrect ideas about outlet bias and somewhat higher estimate for formula bias probably are the inadvertent results of the haste with which the September report was put together. It is unfortunate that the commission had time for only the briefest of briefings from the BLS analysts who work full-time on the CPI. Greater familiarity with what the Bureau actually is doing might have avoided these misunderstandings, as well as some of the unrealistic notions about quality adjustment discussed below.

QUALITY CHANGE BIAS AND NEW PRODUCTS BIAS

Most of the differences between economists' estimates of CPI bias stems from different views about quality change bias and new products bias. For instance, the Boskin commission's September report claimed that

<sup>1</sup>Footnotes at end of article.

these two effects probably accounted for about 0.5 percentage point of bias and might account for as much as 1.3 percentage points. I would argue that the effect of these two factors is close to zero.

The basic concept underlying these two effects is quite straightforward. Quality change bias occurs when the characteristics of an item change at the same time that its price changes. Some of the price change should be attributed to the new characteristics, but some should be interpreted as a change in the price of the old characteristics. If the new item is in some sense twice as good as the old item and its price is also twice as high, the item's quality-adjusted price should not change.

The issue of new products bias is conceptually similar because consumers face a new range of offerings in the marketplace, just as they do when product quality changes. For instance, the proper way to analyze the introduction of a new drug that replaces a surgical procedure might be to compare the characteristics of these two treatments, both of which are expected to have the same therapeutic result. With both quality adjustment and new products, we need to distinguish "pure" price change from the part that reflects consumers' enhanced welfare due to new market options.

One notable paper argues that the flux of new offerings available in the marketplace is itself a significant contributor to consumer welfare, even if the items are not all that new.<sup>6</sup> The paper arrives at this conclusion by examining the case of Apple-Cinnamon Cheerios. The conclusion seems to derive from estimating the considerable surplus generated by marching down the demand curve from its intersection with the price axis to the place where it intersects the supply curve.

What appears to drive the analysis, however, is the assumption of imperfect competition, which implies that increased purchases of Apple-Cinnamon Cheerios don't merely displace other cereal purchases and the consumer surplus associated with them. It seems unreasonable to believe that households stock an ever-increasing quantity of breakfast cereal to accommodate the dizzying variety of new offerings. Most people can only eat just so much cereal.

Discussion of quality adjustment and new products bias raises a similar metaphysical puzzle to the one mentioned earlier in this article. After all, "quality" is usually distinguished from "quantity" because it is essentially nonquantifiable. How then should we measure something that we already have defined as essentially unmeasurable? For example, one of the most striking aspects of Windows software is the fact that its prettier than DOS. There is no obvious way to attribute a specific portion of the program's price to this improvement in quality.

In addition, economists like to believe that everything can be reduced to market prices, even though this clearly is untrue for a wide range of public goods for which markets fail. For instance, the required installation of smog controls on autos raises their price. It is doubtful that individual consumers perceive this as an improvement in the quality of their cars, though all of us may benefit from the cleaner air that results. How does one put a value on the improvement in air quality when there is no private market for clean air? How should we evaluate new antitheft devices on cars that compensate for rising fear of crime?

As a practical matter, BLS already makes a serious attempt to adjust for quality changes where they believe them to be a problem.<sup>7</sup> If both the old and new models of some item exist in the market at the same time, the difference between the prices can

be used to estimate the proper quality adjustment. For some other items, the BLS attempts to measure directly the additional cost of added attributes, as they did with smog equipment on autos. Neither of these procedures is perfect, but the imperfections necessarily result from the inherent unmeasurability of quality itself.

One procedure for handling quality adjustment that BLS sometimes employs and that appeals to most economists is called the "hedonic" technique. This involves regressing past prices of an item on past changes in its characteristics. The coefficients from such a regression are then used to attribute some of the item's current price change to current changes in characteristics, with the residual being "pure" price change. It is fairly tricky to decide on a comprehensive set of independent variables so that the results do not suffer from omitted variables bias. This is a particular danger because any important unmeasurable factors necessarily will be omitted by their very nature.

Another serious practical difficulty in making quality or new product adjustments, whether hedonic or not, is cost. Large quantities of auxiliary data must be collected for each adjusted item, and highly trained econometricians must be hired to do the analysis. Furthermore, it is hard to know where to stop, short of comprehensive quality adjustment for every item in the CPI. It is safe to say that BLS does as much quality adjustment as their appropriations allow. The political process should provide the necessary funds if there now is a burning desire for more.

#### ARGUING FROM ANECDOTE

Because there hasn't been a comprehensive research effort to adjust a broad range of items in the CPI or to account for newly introduced goods, arguments in these areas usually rely on anecdote. The danger in arguing from anecdote, of course, is that an anecdote may seriously misrepresent the more general case. I believe that this is the source of error in the very high estimates for quality adjustment and new product biases of the Boskin commission and others.

The commission's September report explicitly notes that most of the evidence for upward price bias due to these two factors comes from nonauto consumer durables. The report cites VCRs, televisions, microwave ovens and PCs as hallmark examples. However, Table 1 shows that nonauto consumer durables account for only 4.2 percent of the expenditure weights in the CPI. House furnishings, which can hardly be said to show rapid increases in quality, account for 3.5 percent of spending, leaving only 0.7 percent of monthly expenditures for the whiz-bang stuff. This very low weight stems not from low prices for these items but from the fact that they are infrequently purchased.

Such tiny expenditure weights for the goods with which we typically associate quality improvement must imply astronomical rates of improvement in order to justify the quality bias assumed by the Boskin commission and others. For example, if goods imparting quality bias to the CPI represent only 1 percent of the index, then their quality would have to improve at 100 percent per year in order to arrive at a 1.0-percentage-point bias. The new PC that I bought this year certainly is better than the one I bought six years ago, but it's not sixty-four times as good. Advertisers' gaseous claims notwithstanding, the new PC has not revolutionized my life nor had an important impact on my well-being.

The problem of small expenditure weights is especially important for new products bias. Newly introduced items necessarily have tiny expenditure weights because they

are novelties. The Boskin commission's report complains that "the microwave oven was introduced into the CPI in 1978 and the VCR and personal computer in 1987, years after they were first sold in the marketplace."<sup>8</sup> Even now, however, these items have weights measured in hundredths of a percentage point and properly so. Many households do not even own PCs, microwaves and VCRs, let alone Salad-Shooters. Those who do own such items purchase them only infrequently. It is this that gives them a tiny weight compared to things like rent and food, which loom large in the average consumer's budget. BLS must make a judgment about when new items comprise a sufficiently large proportion of expenditures to justify inclusion in the CPI. The evidence for these high-profile examples suggests that the Bureau's judgment has been correct.

Table 1.—CPI expenditure weights, 1995

Durable Goods .....	10.6
New Vehicles .....	5.1
Used Vehicles .....	1.3
House Furnishing .....	3.5
Other Durables .....	0.7
Nondurable Goods .....	32.8
Food and Beverages .....	17.4
Apparel .....	5.1
Other nondurables .....	10.3
Services .....	56.6
Shelter .....	28.0
Utilities .....	7.0
Medical Care Services .....	6.0
Other Services .....	15.6

Source: Bureau of Labor Statistics.

I have focused my arguments about quality adjustment and new products bias on the 0.7 percent of the CPI that the proponents of large bias adjustments usually cite. Perhaps there are other components of the CPI with larger expenditure weights that have had significant quality improvements but have been ignored. Let's see.

new motor vehicles account for 5.1 percent of the CPI. The Boskin report itself notes that the case for quality adjustment bias here is murky. They cite the ambiguity of balancing the negative quality adjustment for decreasing auto size with the positive adjustment for improved fuel efficiency, itself a function of the (declining) price of gasoline. Used vehicles, which make up 1.3 percent of the index, probably did show some upward drift in quality in the past, but BLS has taken steps to account for this since 1987. As mentioned above, household furnishings (3.5 percent of expenditures) probably haven't shown appreciable quality improvements, and new furniture in particular seems to have become cheesier in my opinion.

What about nondurables? Food and beverages account for 17.4 percent of the index. Staples like meat, poultry, fish, eggs, milk, cheese, fruits, vegetables, sugar, flour, etc. may have seen some improvements in freshness and selection, although rising salmonella contamination should give pause. Prepared foods may have shown some quality improvements but not much. Other nondurables are mainly apparel (5.1 percent) and various other goods like fuels, tobacco and school supplies (10.3 percent), for which quality improvements would seem trivial.

What about services, which account for 56.6 percent of expenditures? A whopping 28.0 percent of the typical consumer's budget is taken up with shelter. Here, the Boskin report acknowledges that there was a serious downward price bias in the past that resulted from BLS' inadequate adjustment for aging and depreciation. This downward bias in the CPI's largest single item has been corrected by the Bureau. Utilities account for 7.0 percent of spending, and there certainly has been little improvement here except for phone service.

Medical care services are another 6.0 percent, and the situation here is a bit ambiguous. Services for medical crises clearly have improved, although these expenditures are infrequent by their very nature, and the out-of-pocket costs for the average consumer are rather small on a monthly basis. On the other hand, routine visits to the doctor have become pretty annoying. Certainly, if there has been progress in the quality of medical care, it has had only marginal effects on mortality, morbidity and lost work time.

The anecdotal evidence for the remaining 15.6 percent of spending that goes to other services suggests deterioration as often as improvement. Declining test scores certainly aren't reassuring to consumers wondering if they're getting their money's worth for out-of-pocket education expenses. Smaller airplane seats and deteriorating public transportation also suggest declining quality. Shoe-box movie theaters with dinky screens and stale popcorn have not brightened the movie-going experience. The shopping experience itself is less pleasant, and haircuts are about the same. Of course, there are improvements in the quality of some consumer service, notably ATM banking.

The point here is not whine nostalgically that nothing is as good as it used to be. Rather, I am arguing that once we get away from a few high-profile examples related to infrequently purchased household appliances, even the direction of quality adjustment is ambiguous at best. There is no question that modern market economies produce a great deal of flux in the range of products offered, but many of the offerings are meretricious rather than meritorious. To say that all of this change represents an inexorable improvement in the average consumer's quality of life is panglossian.

Once one looks at the relative importance of different items in the CPI and the actions that BLS already has taken to address quality adjustment and new products problems, the very high estimates of these biases become unbelievable. I would argue that, if these factors do impart an upward bias, it is a couple tenths of a percentage point at most. The most important spending for the average household still has to do with basic human needs: shelter, food, clothing, transportation and basic health care. The great quality improvements in these areas were achieved long ago. Current quality advances largely are limited to items that clearly are accessories to our lives or to situations that occur only rarely.

In sum, then, I believe that the very large overall bias that some analysts allege distorts the official CPI is about one-third science and about two-thirds virtual reality. A firm consensus exists regarding the substitution and formula biases, both of which BLS already is working to eliminate. With regard to the alleged outlet bias, some analysts appear to be misinformed about what BLS actually does. And with regard to quality adjustment and new products bias, large

effects appear to result from overly enthusiastic extrapolation, if not wishful thinking.

THE CPI'S EFFECT ON THE FEDERAL BUDGET

As noted at the beginning, the whole reason that these issues have come to popular attention is that small changes in the rate at which government spending programs and taxes are indexed can have huge effects on the federal deficit. The great attraction of fiddling with the CPI is that it can be used to extract money from literally millions of taxpayers and benefit recipients. Table 2 shows CBO's official estimates of the budget savings that would result from reducing CPI indexing by a full percentage point. Seven-year cumulative savings amount to \$281 billion, with an impact of almost \$82 billion in FY 2002. About a third of the money comes from higher income taxes, another third comes from Social Security, almost a fifth comes from reduced debt service and the rest comes from other federal retirement programs, EITC and SSI.

It is easy to see how attractive it is for budget negotiations to scale back indexing under the guise of statistical integrity. The budget negotiators already have incorporated baseline changes corresponding to a 0.4-percentage-point adjustment to account for BLS's existing efforts to eliminate substitution and formula biases. The arguments above suggest that going beyond this is scientifically questionable. However, this is exactly what is being debated as this is being written in December 1995: an additional ad hoc adjustment to account for purported (though unmeasured) quality and new product bias. This seems to be an attempt to use statistical subtleties as a figleaf for increasing income taxes and cutting retirement benefits.

TABLE 2.—REDUCTION OF DEFICIT FROM 1.0 PERCENTAGE POINT CPI ADJUSTMENT

[In billions of dollars]

	1996	1997	1998	1999	2000	2001	2002
Revenues .....	1.8	5.5	9.8	13.1	17.7	23.0	27.1
Outlays .....	3.1	8.4	14.1	20.2	26.5	32.7	39.8
SS, RR retirement .....	2.6	6.2	10.1	14.1	18.4	22.8	27.4
Other retirement .....	0.3	1.2	2.1	3.1	3.8	4.7	5.6
SSI, EITC .....	0.2	1.0	1.9	3.0	4.3	5.2	6.8
Offsets .....	0.0	-0.1	-0.2	-0.4	-0.7	-1.0	-1.4
Debt service .....	0.2	0.8	2.0	4.0	6.7	10.2	14.7
Total deficit reductions .....	5.0	14.7	25.9	37.3	50.9	65.9	81.6

Source: Congressional Budget Office.

That's not to say that reducing indexing should be considered a totally unacceptable tool for deficit reduction. It does mean that we should be honest about what we are doing. What is being proposed this year used to be called a "diet COLA," a catchy term that distinguishes nicely between ad hoc changes and those based on scientific research. Scaling back indexing is not a "correction" of the CPI and does not "reduce" the CPI. One Republican senator offered and then withdrew an amendment to this year's Budget Resolution that BLS "shall reduce the annual percent change in the consumer price indexes by 0.7 percentage points." (emphasis added) No mention here about just how that might be done, but plenty of confidence that science was on his side.

THE EFFECTS OF A DIET COLA ON THE INCOME DISTRIBUTION

Whether or not a diet COLA ought to be included in a comprehensive budget deal depends upon the same criteria as any other deficit reduction tool: How is the burden of deficit reduction apportioned across society, and will there be collateral effects that are unpalatable? Thus, we don't ask that the budget be balanced by eliminating the Defense Department, because it would be unfair to ask the defense sector to bear the entire

burden of deficit reduction and because it would leave the nation without defenses.

In this regard, it is important to note that the diet COLA is regressive on balance, extracting relatively large budget savings from low-income households and relatively small amounts from the well-to-do. Table 3 shows CBO's estimates of a diet COLA's impact. It is important to note that the adjusted family income concept used in the table includes the employer's share of payroll taxes for Social Security and unemployment insurance as well as CBO's attribution of the corporate income tax by income class. As a consequence, the income concept also is adjusted for family size, but that has a much smaller impact on the distributional conclusions.

TABLE 3.—DISTRIBUTIONAL EFFECTS OF REDUCED CPI INDEXING

Adjusted, pretax family income <sup>1</sup>	Share of revenue change (percent)	Share of spending change (percent)	Share of total change (percent)	Number of families (millions)
Less than \$10,000 .....	0.9	10.5	6.0	14.6
\$10,000 to \$20,000 .....	7.7	20.1	14.2	18.5
\$20,000 to \$30,000 .....	11.6	17.5	14.7	16.6
\$30,000 to \$40,000 .....	9.5	14.4	12.1	13.5
\$40,000 to \$50,000 .....	7.7	10.3	9.1	10.8
\$50,000 to \$75,000 .....	18.3	14.3	16.2	17.7
\$75,000 to \$100,000 .....	16.1	6.0	10.8	8.6

TABLE 3.—DISTRIBUTIONAL EFFECTS OF REDUCED CPI INDEXING—Continued

Adjusted, pretax family income <sup>1</sup>	Share of revenue change (percent)	Share of spending change (percent)	Share of total change (percent)	Number of families (millions)
\$100,000 to \$200,000 .....	17.0	5.4	10.9	7.0
Over \$200,000 .....	11.3	1.2	6.0	1.0

<sup>1</sup> Adjusted income is the sum of wages, salaries, self-employment income, rents, taxable and nontaxable interest, dividends, realized capital gains, and all cash transfer payments. Income also includes the employer share of Social Security and federal unemployment insurance payroll taxes, and the corporate income tax.

Source: Congressional Budget Office.

The table shows that, even with this inflated income measure, more than a third of the diet COLA's total burden is borne by families below \$30,000 per year, or about 45 percent of all families. Fully 56 percent of the burden falls on families below \$50,000 per year, who constitute 57 percent of all families. The table also shows that the effect on the tax side is mildly progressive, but this is offset by both the regressivity and larger impact of the spending side.

Clearly, this creates problems for those politicians who care about the income distribution. It is one thing for the diet COLA to be included as one part of a deficit reduction plan that is progressive in its overall profile. However, it is quite another thing to

add a diet COLA to a budget plan that already is regressive in its overall effect.

As this is being written, a group of fiscally conservative Democrats, known as the Coalition or Blue Dogs, has proposed a clever device that mitigates the regressive effect of the diet COLA on the spending side. As with other diet COLAs, they suggest that the cost-of-living adjustment for various spending programs be keyed to the official CPI minus some specified factor, like 0.5 percent. However, they would also stipulate that the reduced COLA received by all individual beneficiaries of a program be equal to the dollar amount for the average beneficiary. This means that those beneficiaries who are better off would receive a diet COLA that also was a smaller percentage adjustment than otherwise. Some beneficiaries well below the average would actually come out ahead.

#### THE EFFECTS OF THE DIET COLA ON THE AGE DISTRIBUTION

Part of the reason that the diet COLA has such a severe effect on very low income families is that the indexed spending programs are almost entirely retirement programs and elderly households tend to have low incomes. This highlights another distributional issue for those who care about such things: the impact of the diet COLA on the age distribution. Here again, the question is not just its effect on the elderly but whether that effect compounds sacrifices called for elsewhere in the deficit reduction plan.

The proposals being offered in the budget negotiations already get the bulk of their savings from Medicare and Medicaid. All Medicare spending and about a third of Medicaid spending goes to support health care for the elderly. In fact, about half of all nursing home expenditures are paid for by Medicaid. The most severe budget plans propose sharp cuts in service at the individual level because projected program growth would be insufficient to cover increases in the medical costs and the number of beneficiaries.

Adding a diet COLA, with its heavy impact on retirement programs, to any budget plan with large Medicare and Medicaid cuts would be doubly severe for the elderly. These are citizens who have few options with regard to working longer or harder to offset the effect of cuts. They also tend to have fewer health care options, because the medical attention that they usually need is acute care and it often is too late for preventive care. Expecting the elderly to take a leading role in medical cost containment through individual choice also seems unrealistic, because they may see choice as threatening and confusing rather than liberating. Using a diet COLA to get additional budget savings on top of the sacrifices from the elderly already being contemplated strikes me as unjust.

There is another important reason to think that price indexing should not be scaled back for retirement programs. Research suggests that these programs actually have been underindexed in the past because spending patterns for the elderly differ from those of consumers in general. Two years ago, the BLS reformulated the raw data underlying the CPI to take account of the different expenditure weights in the "market basket" of the typical older consumer.<sup>9</sup> The results shown in Table 4 indicate that this reconfigured index for the elderly increased by 4.1 percentage points, or 8.2 percent, more than the official CPI between December 1982 and December 1993. This resulted from the greater weight of out-of-pocket medical expenses for the elderly and the smaller weight for transportation, apparel, and restaurant meals. Of course, out-of-pocket medical expenses for the elderly would become an even larger item in the household budgets of the

elderly under most of the deficit reduction plans being discussed.

TABLE 4.—DECEMBER TO DECEMBER CHANGE IN OFFICIAL CPI AND EXPERIMENTAL PRICE INDEX FOR THE ELDERLY

	CPI-U (percent)	Experimental price index for the elderly (percent)
1983 .....	3.8	3.7
1984 .....	4.0	4.1
1985 .....	3.8	4.1
1986 .....	1.2	1.8
1987 .....	4.4	4.5
1988 .....	4.4	4.5
1989 .....	4.6	5.2
1990 .....	6.3	6.6
1991 .....	3.0	3.4
1992 .....	3.0	3.0
1993 .....	2.7	3.1
1982-93 .....	49.7	53.8

Source: Nathan Amble and Ken Stewart, "Experimental price index for elderly consumers," Monthly Labor Review, May 1994.

The BLS researchers stressed that one would need a much more comprehensive effort to create a reliable CPI for the elderly. In particular, one would have to discern whether they shop at the same kinds of outlets as younger consumers and whether they purchase the same kinds of items. Anecdotal evidence suggests that they don't and the divergence between the CPI and the cost of living for the elderly might be even greater if these factors were taken into account. It appears that the elderly tend to shop more at neighborhood stores rather than discount outlets and that they have limited options to save by buying in bulk.

#### CONCLUSION

As a longtime proponent of better statistics, the sudden awakening of interest in price measurement issues is gratifying. However, I am dismayed that this has not been accompanied by an equal commitment to fund or even to acknowledge the analytical effort needed to address these issues sensibly. The public discussion of the CPI's biases has been carried away on a tide of outrageous claims that have little scientific basis. Most disturbing is the apparent willingness to make arbitrary adjustments to one of our most important economic indicators rather than improve it with more frequent updates and careful research.

Very large estimates of CPI bias that range as high as two percentage points appear to result from ignorance about what the CPI actually contains and what the BLS actually does. Full-time professionals responsible for properly surveying the mix of outlets certainly are aware of the giant discount chains familiar to the rest of us. Claims that BLS has not addressed the most important quality adjustment issue are patently false. Speculations about huge quality bias seem to result from extrapolating the characteristics of household appliances that average consumers buy once every few years to the much larger and more prosaic spending that they do every month. Arguing that the CPI ignores the great benefits of new product introductions probably fails to note that most such "new" products are merely new styles.

A solid scientific consensus does exist regarding substitution bias and formula bias. Not surprisingly, BLS already is moving to correct these biases. The Bureau also attempts to correct for quality adjustment and new product biases within the constraints of their budget. Although there is no convincing evidence that quality biases are large for items that they do not adjust, BLS undoubtedly would welcome additional resources for more extensive and sophisticated research. Presumably, they also would be happy to have funds for more frequent

rebenchmarking and more frequent sample rotation.

The budget negotiators already have incorporated adjustments in their baseline assumptions to account for the two most firmly established components of the CPI bias; substitution and formula bias. Going beyond this is not justified by firm evidence. To do so while claiming a scientific justification amounts to an attempt to camouflage an increase in taxes and a cut in Social Security. A diet COLA should not be adopted as part of a deficit reduction plan that already is likely to be fairly regressive unless some effort is made to counter the regressive effects. In addition to remediating the income regressivity of the diet COLA, one also would need to ensure that it was not part of a deficit reduction plan that called for excessive sacrifice by the elderly, whose retirement benefits may well have been underindexed in the past.

#### FOOTNOTES

<sup>1</sup>Jim Klumpner is chief Minority Economist, U.S. Senate Budget Committee, Washington, DC. The opinions expressed in this paper are those of the author and do not necessarily represent official positions of the Democratic members of the Senate Budget Committee.

<sup>2</sup>Quoted in Washington Post, January 18, 1995.

<sup>3</sup>Michael J. Boskin, Ellen R. Dulberger, Robert J. Gordon, Zvi Griliches, and Dale Jorgenson, "Toward a more accurate measure of the cost of living," September 15, 1995, Senate Finance Committee.

<sup>4</sup>Bureau of Labor Statistics (BLS), "Report from the Bureau of Labor Statistics for the House Budget Committee," House Budget Committee, p. 13.

<sup>5</sup>BLS, op. cit., p. 14.

<sup>6</sup>Jerry A. Hausman, "Valuation of new goods under perfect and imperfect competition," NBER Working Paper No. 4970, December 1994.

<sup>7</sup>BLS, op. cit., pp. 21-23.

<sup>8</sup>Boskin et al., op. cit., p. 21.

<sup>9</sup>Nathan Amble and Ken Stewart, "Experimental price index for elderly consumers," Monthly Labor Review, May 1994.

Mr. EXON. Mr. President, I hope we could move ahead now, if we might, with the agreement.

Mr. CHAFEE. I wonder if I might have that 30 seconds?

Mr. KENNEDY. Then I would ask for 30 seconds, too.

The PRESIDING OFFICER. Who yields time?

Mr. CHAFEE. Mr. President, I ask the Senator look at our proposal. He will see there is \$25 billion of corporate welfare cuts that he is discussing. Perhaps if he became more familiar with it we would all be better off.

Mr. LOTT addressed the Chair.

The PRESIDING OFFICER. The Senator from Mississippi.

#### HONORING ADM. JEREMY M. "MIKE" BOORDA

Mr. LOTT. Mr. President, I ask unanimous consent the Senate proceed to the immediate consideration of a Senate resolution I now send to the desk.

The PRESIDING OFFICER. The clerk will report.

The legislative clerk read as follows:

A resolution (S. Res. 255) to honor Admiral Jeremy M. "Mike" Boorda.

The PRESIDING OFFICER. Is there objection to the immediate consideration of the resolution?

There being no objection, the Senate proceeded to consider the resolution.

Mr. LOTT. Mr. President, today a grateful nation pays its final tribute to a true patriot and hero, Admiral Jeremy "Mike" Boorda, who died on