

jobs. That assumes there will be something in your savings account when you leave your job—and that won't be true for anyone with significant health problems. With hospital costs running \$1,000 a day or more, no one can afford the cost of care without insurance. The Kassebaum-Kennedy bill is designed to guarantee access to coverage to people who leave their jobs—but it won't become law if medical savings accounts are attached to it.

Advocates also say that MSA's increase choice, but the American people know better. The choice to pay thousands of dollars for health care you need but cannot afford because of a high deductible is no choice at all.

In addition, Republican proponents of medical savings accounts note that some Democrats have changed their position since the last Congress. The fact is that MSA's have received much more analysis in recent years, and the pitfalls are better understood. I voted against them both times they were offered in the Labor and Human Resources Committee. In the past, President Clinton said that they are something we might explore and experiment with but he has never supported their widespread adoption. Democrats who supported them in the context of comprehensive health reform understood that they would be an add-on to comprehensive coverage with effective cost-control, not a substitute. In fact, the sense of the Senate resolution approved by the Labor and Human Resources Committee on the Health Security Act in 1994 specifically said that they were to be used "in conjunction with the comprehensive benefit package" established by the bill.

Few respectable health policy analysts support medical savings accounts under today's conditions. Editorials in the Washington Post, the New York Times, the Los Angeles Times, and the Boston Globe have condemned them.

Most important, the people who need good coverage are strongly opposed to this program. The major organizations representing consumers, the elderly, the disabled, and working families have vehemently condemned them. Who is best capable of speaking for the interests of American families and who need health care—these organizations, or the Golden Rule Insurance Company?

Most Republican leaders know that Americans want the consensus reforms in this bill and have little interest in medical savings accounts. That is why Representative KASICH said, on March 24, "We will not let medical savings accounts destroy the ability to give people portability and eliminate pre-existing conditions." He made a similar statement yesterday.

On March 29, Speaker GINGRICH said he would not let medical savings accounts stand in the way of a Presidential signature.

But actions speak louder than their words. The House Republican leadership has been unwilling to accept the

fair compromise that the President and Democrats have offered on medical savings accounts. And now Republican House Majority Leader ARMEY has made it clear that the Republican strategy is to force the President to veto the legislation, and then try to blame him for the failure to enact the consensus reforms the American people need and deserve.

Whether the issue is tax fairness, preservation of comprehensive health insurance for the vast majority of Americans, or the special interests versus the public interest, medical savings accounts are bad medicine for our health care system. They are a poison pill that will kill health insurance reform. The President has offered a reasonable compromise—but he cannot fulfill his obligation to protect the health and welfare of the American people by swallowing this Republican poison pill.

Senator DOLE understands the importance of insurance reform. Two years ago, on August 17, 1994, he stated on the floor of the Senate, "We will be back. . . . And you can bet that health care will be near the top of our agenda. . . . We ought to take all the common parts of these plans, put them together and pass that bill." A week later, he identified the components of reform that he thought were most important. He said, "My second suggestion is one that I have made for almost a year and a half. That we pass into law provisions to help those Americans who cannot afford insurance, who cannot get insurance because of pre-existing conditions, or who cannot keep insurance due to a job change."

Medical savings accounts were not on Senator DOLE's list then, and they should not be on his list now.

Senator DOLE is planning to leave the Senate tomorrow. But he can do the American people an immense service if he will put off his departure for a few days and help pass this bill. He knows how important this bill is. He knows that his participation is essential if House Republicans are to be persuaded to accept a reasonable compromise. I hope he will act now to end this shameful gridlock and give the American people the health reforms they deserve.

The ACTING PRESIDENT pro tempore. The Senator from South Carolina.

Mr. HOLLINGS. I thank the distinguished Chair.

BALANCED BUDGET

Mr. HOLLINGS. Mr. President, let me revise my original topic. Because the distinguished majority leader is leaving, I want to talk in that context.

When Senator DOLE first came to the U.S. Senate, I had recommended Clement Haynesworth for the U.S. Supreme Court. My distinguished senior colleague had recommended another individual for that post, and I was looking to the Republican side for leadership in

support of the Haynesworth nomination. The then distinguished junior Senator from Kansas, who had recently arrived in the Senate, was very, very helpful to this Senator from South Carolina.

Let me get right to the point, Mr. President. I have the greatest respect for Senator DOLE. The fact is that when we had the recent Republican primary in my State of South Carolina, I was asked to give my thoughts regarding who I thought was the best candidate in the Republican field. I categorically replied that of those vying for the Republican nomination, the distinguished Senator from Kansas, Senator DOLE, could handle the job, and there is no doubt in my mind that he could.

I think his difficulties arise from the crowd he has to carry with him, which gets right to the point of this so-called balanced budget amendment to the Constitution.

On last week, the distinguished majority leader said:

We tried to reach out to those Senators to ensure Social Security surpluses can never again be used to mask deficit spending. I believe that after a suitable phase-in, the Federal budget could be balanced without counting the surpluses in the Social Security trust funds.

Mr. President, that is a remarkable statement, in light of the history of Social Security and the Social Security trust fund.

Specifically, in 1983, the distinguished majority leader served on the Greenspan Commission which was charged with rescuing Social Security. The Greenspan Commission recommended that after a certain period of time—which later that year was agreed to be 1992—Social Security should be off budget. We now talk in the context of Presidential campaigns and children and grandchildren. But the same was true some 13 years ago, when the majority leader, himself a member of the Greenspan Commission, issued its report and said, "Let's put Social Security off budget."

Thereafter in 1990, I offered a resolution before the Senate Budget Committee that removed Social Security outlays and receipts from deficit calculations. By a vote of 20 to 1, the Budget Committee adopted my amendment.

When it reached the floor, I teamed up with the former distinguished Senator from Pennsylvania, Senator John Heinz, and on October 18, 1990, saw the full Senate adopt our amendment by a vote of 98 to 2. We said, Social Security should not be used to obscure the size of the deficit, that it should be off budget and that it should never be included in any reporting of the deficit whether by the President or by Congress.

The distinguished Senator from Kansas voted for that amendment. And on November 5, 1990, President George Herbert Walker Bush signed it into law. Today it stands as section 13301 of the Congressional Budget Act. So much

of the confusion over the budget is brought about by the failure of politicians to respect this law. This is true even though the continuing validity of the law has since been reconfirmed several times, by Senator DOLE and Senator HOLLINGS and others.

So I say when the distinguished majority leader says, "We tried to reach out to those Senators to ensure that the Social Security surplus can never again be used to mask deficit spending"—that is already the law. It is required. They act like the constitutional amendment would give us something new. The truth is, Mr. President, that the constitutional amendment trumps and repeals the existing law. That is why we did not get the votes for the balanced budget amendment.

Here is House Joint Resolution 1. The language in section 7 clearly includes Social Security trust funds in deficit calculations. It states, "Total receipts shall include all receipts of the United States Government except those derived from borrowing."

But the Government not only borrows from the public markets but also from the Social Security trust fund. As a result, at least five Senators have said, "You have got our votes if you spell out the exclusion of Social Security trust funds from deficit calculations." If we had included such language, we could have easily passed the amendment.

But the majority leader paints a different picture. That somehow or other we need a constitutional amendment that repeals the protection that we already have in the law. That is where I differ with the distinguished leader. He knows and I know that there are three stages of denial with respect to the Social Security trust fund, as my distinguished friend, Senator DORGAN, has pointed out. First, the statement is made that there is no Social Security trust fund; second, that there is one, but we are not spending it; and, third, there is one, we are spending it, but we will stop in the future.

Therein is the source of the intentional confusion that is being perpetrated on the American public. They know it, and I know it. That is why I wanted to come and correct the record, particularly with respect to the statements made by the chairman of the Budget Committee, Senator DOMENICI, and recent statements made in the press.

Let me just allude to "Clinton's Budget Game," by David S. Broder in the Washington Post, dated Sunday, June 9, 1996.

Mr. President, I ask unanimous consent that this particular editorial be printed in the RECORD in full.

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

[From the Washington Post, June 9, 1996]

CLINTON'S BUDGET GAME

(By David S. Broder)

A recent exchange between Sen. Christopher (Kit) Bond (R-Mo.) and Secretary of

Veterans Affairs Jesse Brown casts a clear light on the reality behind the partisan rhetoric of the past week's budget debate.

Bond is chairman of the appropriations subcommittee that handles the VA budget. He was grilling Brown on President Clinton's budget proposal for veterans' health care and hospitalization. For next year, Bond noted, Clinton is urging a level of spending for this politically important constituency more than \$1 billion higher than it was in 1995. But in the following two years—after the election—Clinton's budget would cut that spending from \$17 billion down to \$14 billion, and then slice it further.

How can you meet your obligations to veterans under that budget? Bond asked. "Sen. bond, we cannot," Brown replied. If funding were to remain flat (as Republicans have proposed), "it would force us to deny care to about a million veterans and it would force us to close the equivalent of 41 hospitals. So obviously . . . we will not be able to live with the red line" showing the postelection cuts suggested by Clinton.

And then Brown made this eyebrow-raising statement: "The president understands that. I talked with him personally about it and . . . he gave me his personal commitment that he was going to make sure that the nation honors its commitments to veterans and that he will negotiate the budget each and every year . . . with the veterans of the nation."

Bond: "So you are saying that these out-years mean nothing. It is all going to be negotiated in the future, so we should not worry about the president's budget plan. . . . You are not planning to live with that budget?"

Brown: "I am not planning to live with it. I am not planning to live with your budget . . . nor am I planning to live with the president's line."

Bond: "You do not work for us. You work for the president. You are saying that you do not like our budget, but you know that his budget does not mean anything."

After this remarkable exchange, Bond made similar inquiries of the director of another huge agency, Dan Goldin of NASA. He too said that White House budget officials had told him to make no plans based on the sharp cuts indicated for future years in Clinton's budget. As Goldin put it, "the White House has instructed us to take no precipitous action on out-year budgets, and we are taking them at their word."

To Bond and other Republicans, this looks suspiciously like a shell game. The president has told Congress and the country that he can achieve a balanced budget by 2002, without the serious savings in Medicare and Medicaid that Republicans have proposed. At the same time, he has said that he can keep spending in five or six priority areas at least even with inflation.

He can do all that, he has said, by cutting "less important" spending. Veterans and space budgets are not on his priority list. But the men running these programs say they have assurances that the numbers the White House has given Congress are just paper figures—not mandates to prepare for belt-tightening.

White House Budget Director Alice Rivlin has assured Bond and his colleagues—and then tried to convince me—that there is no contradiction. "Simply put," Rivlin wrote Bond, "the president is committed to the discretionary savings needed to help reach balance in 2002 . . . but will continue to revisit decisions about specific programs one year at a time."

"Nobody is cheating," Rivlin insisted in an interview with me.

"I don't think it washes," Bond said. "It's not an honest budget."

Two things are going on here. Clinton, in his desire to dodge serious cuts in politically popular programs such as Medicare and Medicaid, while promising more spending for education, the environment and law enforcement, is projecting cuts in other programs that are so severe they will be very hard to achieve. That is why people like Brown and Goldin say the cuts are unimaginable.

And second, in order to postpone the pain, Clinton is telling not just the constituents of the endangered programs but their managers that they will have plenty of opportunities in future years to stave off the cuts.

That may not be "cheating," as Rivlin says, but it is playing a game that is too clever by half. Balancing the budget means making tough choices. Clinton is postponing those choices and—by giving people the sense that the goal can be reached without giving up anything that is important—making it that much harder when the crunch comes.

Mr. HOLLINGS. The most objective, most analytical journalist and editorialist that we have writing talks about a budget game. He argues that the "President's budget is suspiciously like a shell game," quoting the distinguished Senator from Missouri, Senator BOND as saying, "It is not an honest budget."

Then let me quote Mr. Broder's words further down.

That may not be cheating, as Rivlin says, but it's playing a game that is too clever by half. Balancing the budget means making tough choices. Clinton is postponing those choices, and by giving the people the sense that the goal can be reached without giving up anything that's important.

Heavens above. Have we just discovered these budget games? Is the Clinton budget the only one deserving of blame? Just look at the Republican budget. Look at the Bush budgets. Look at the Reagan budgets. Look at the Carter, Ford, and Nixon budgets. We have not had anything but a shell game since Senator Lyndon Baines Johnson balanced the budget back in 1968-1969.

The press—Mr. Broder and others—continually refer to the Republican budget as balanced, but the facts say otherwise. I have in my hand the document itself, the fiscal year 1996 budget resolution conference report. That is what Mr. DOLE says is balanced. "Last year we passed the first balanced Federal budget in a generation." Absolutely false. And they know it.

On page 3 of their own conference report, it shows in black and white that the expected deficit in the year 2002 is \$108,400,000,000. And over on page 4, the debt increases in the year 2002—the year of supposed balance—by \$185,100,000,000.

How can they talk about a balanced budget when on the face of the document itself it shows a \$108 billion deficit? The distinguished majority leader has to know better when he says, "Last year we passed the first balanced Federal budget in a generation." It is absolutely false.

Let me take one other particular statement, because the distinguished leader is, of course, the Republican candidate for President. We are so

quick to accuse the other of not leading. In fact, Senator DOLE says that the balanced budget amendment demonstrates that the President lacks leadership. I quote again:

President Clinton's opposition continues to be the single largest obstacle standing in the way of a balanced budget amendment to the Constitution.

I have not heard anything from President Clinton or the White House concerning the balanced budget amendment. But then again I happen to know that the single greatest obstacle to a balanced budget amendment is the intransigence of the Republican leadership with respect to not protecting the Social Security trust fund.

Because my time is limited, let me say a word about deficits and refer immediately to another article.

Mr. President, I ask unanimous consent to have printed in the *RECORD* the article in full, the "Ace in the Hole" by John Cassidy in the recent *New Yorker* magazine dated June 10, 1996.

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

[From the *New Yorker*, June 10, 1996]

ACE IN THE HOLE

(By John Cassidy)

It was James Carville, Bill Clinton's fast-talking political consultant, who in 1992 put up a now famous handwritten sign at the Little Rock campaign headquarters saying, "The Economy, Stupid." Actually, as Carville reminded me recently, the sign also contained two other statements—"Change vs. more of the same" and "Don't forget health care"—but it was the first one that captured the moment. Indeed, were it not for the economic malaise that gripped the country in late 1991 and early 1992 we might now be discussing a Quayle-Gore Presidential race.

This time around, the economy looks different, which is excellent news for the White House, although it tends to be overshadowed by more dramatic stories, such as the recent Whitewater convictions. A glance at history confirms the point. Of the sixteen occasions over the past century in which sitting Presidents have run for another term, just five incumbents lost: Taft, Hoover, Ford, Carter, and Bush. The elections of 1912 and 1976 must be seen as anomalies—thanks to Teddy Roosevelt's Bull Moose campaign and Richard Nixon's Watergate coverup, the incumbent Republican Party self-destructed in those years—which leaves 1932, 1980, and 1992, all years of financial gloom. In 1932 and 1980, the economy was actually in a slump, and in 1992 it was just emerging from a recession the previous year.

Despite some suggestions to the contrary—notably by the Heritage Foundation, a conservative think tank—this year cannot be compared with 1992, let alone 1980 or 1932. In the first quarter of 1996, inflation-adjusted growth in national output, which is the broadest index of economic performance, was 2.3 per cent on an annualized basis; over the full course of the Clinton Administration, such growth has averaged around 2.5 per cent a year. This record is about average for the post-1973 era but well above the growth rate of 1.6 per cent eked out during the Bush Presidency. A number of other measures also suggest that the economy is doing significantly better than it was four years ago: two of the most widely followed are the "misery index," which is the rate of inflation added

to the rate of unemployment, and the size of the federal budget deficit.

At the moment, the unemployment rate is 5.4 per cent, and the inflation rate is 2.9 per cent. Added together, these numbers produce a misery index of 8.3, which is an extremely low number. The last year it was lower was 1968, when the unemployment rate was 3.6 per cent and the inflation rate averaged 4.2 per cent. For much of the nineteen-seventies and eighties, the misery index was well into double digits. As recently as 1992, it stood at 10.4.

Perhaps the most important, and least heralded, achievement of the Clinton Administration is the improvement it has wrought in the national finances. According to the Congressional Budget Office, the federal budget deficit for the 1996 fiscal year, which began last October, will be about \$145 billion. This is a large number, but it is only half the size of the deficit that the federal government recorded in 1992, which was \$290 billion. And these raw numbers don't tell the full story. In ranking budget deficits, economists usually look at them in relation to the size of the economy. Measured in this way, the federal deficit this year will be about 1.9 per cent of the gross domestic product, according to the C.B.O. This figure is down from 4.9 per cent in 1992; indeed, it is the lowest such figure recorded since 1979, the year before Ronald Reagan was elected, when the budget deficit was just 1.7 per cent of G.D.P.

Statistics like these are what prompted President Clinton to make the recent claim, which had all the earmarks of election-year hyperbole, that the United States economy is "the healthiest it's been in three decades." Surprisingly, the President is not the only one making such apparently outlandish statements. In March, DRI/McGraw-Hill, a leading firm of economic consultants, issued a report saying that "normal economic indicators" suggest that the economy "is in its best shape in decades." When I asked David Wyss, the Harvard-trained economist who is the research director of DRI/McGraw-Hill, how he came to make that statement, he explained, "If you look at the economy during the Clinton Administration, you have to say that it's been a success. We have low inflation, full employment, and steady growth. This is really just about the best of all macroeconomic worlds."

To understand how the present economic situation came about, we must go back to a winter morning in Little Rock thirteen days before the Inauguration. On that day, January 7, 1993, the President-elect's entire economic and political team gathered in the Arkansas Governor's Mansion. Leon Panetta, the prospective White House budget director, presented the Bush Administration's final forecast, which had just been released in Washington. It predicted a budget deficit of \$305 billion for 1997, an increase of \$70 billion over previous estimates. Panetta believed the actual figure could be as high as \$360 billion.

By the end of that January day, after six hours of discussions, the nascent Administration had agreed on a course of action that would define the forty-second Presidency. Clinton had been elected on a potentially contradictory platform of tax cuts for the middle class, faster economic growth, and budget-deficit reduction; in Little Rock he decided to sacrifice the first promise and prejudice the second in order to achieve the third.

The result of this decision, following eight months of intense political struggle, was the Omnibus Budget Reconciliation Act of 1993, which pledged to reduce the budget deficit by a total of about \$500 billion over four years. This would be achieved through a program of about \$250 billion in spending cuts and about \$250 billion in tax increases.

Given the centrality of the 1993 budget act to the Clinton Administration's record, it is surprising how little attention has been paid to its results. Even some people in the White House are reluctant to discuss the subject, for fear of reminding voters of the 1993 tax increases. This is odd, because the story that has not been told is that the deficit-reduction policy turned out to be far more successful than even its authors had dared hope—a point made to me by Alan Blinder, a Princeton economics professor and a former vice-chairman of the Federal Reserve Board, who was a White House economic adviser during 1993 and 1994. "The real story is that a calculated risk was taken, and in this case it turned out far better than anybody had any reason to expect," Blinder said. "There are plenty of gambles in life that don't turn out well. This is one that turned out extremely well."

It is easy to forget how controversial the deficit-reduction policy was in 1993, even within the White House. Two books about the first year of the Clinton Administration—Bob Woodward's "The Agenda" and Elizabeth Drew's "On the Edge"—portrayed a government driven by internal dissension. At various points during that year, Hillary Clinton, George Stephanopoulos, Paul Begala, Stan Greenberg, and Mandy Grunwald all expressed serious doubts about the deficit-reduction strategy. Begala, in particular, complained repeatedly that the White House was "obsessed" with the budget. Even the President himself had mixed feelings. According to Drew, he considered deficit reduction a "rich man's issue," and Woodward says he several times referred to his own budget plan as "a turkey."

The Woodward and Drew books were solid works of reporting, but both essentially stopped at the end of 1993, when the budget act had become law. In terms of how the deficit-reduction policy actually affected the economy, the story only begins then.

The biggest danger back in early 1993 had been that the budget package would tip the economy into another recession. As anyone who suffered through Econ 101 will recall, raising taxes and reducing government spending both tend to reduce the overall level of demand for goods and services in the economy. President Clinton is a lawyer, not an economist, but he knew enough about the dismal science to see a potential fiasco in the making. "You have to remember that the economy was perceived to be very fragile back then," Gene Sperling, a senior White House economic adviser, recalls. "There was lots of talk about the possibility of a double-dip recession. The President's initial reaction was: If I call for a major fiscal contraction, won't there be a recession?"

At the same time, Republican leaders in Congress were warning of imminent disaster. "I believe this will lead to a recession next year," Newt Gingrich declared following the House vote on the budget package, which ended in a nerve-racking 218-216 victory for the President. "This is the Democrat machine's recession, and each one of them will be held personally accountable."

Even some of the President's economic advisers were worried about the possible impact of the planned spending cuts and tax increases. The economic models they relied on suggested that another slump was unlikely, but the models could not rule out a "growth recession" of the sort that so damaged the Bush Administration. Despite their private fears that history might repeat itself, the economic advisers argued that deficit reduction was the right thing to do—on both theoretical and practical grounds.

The theoretical argument was one that mainstream economists had been making ever since 1981, when Ronald Reagan's tax

cuts put the economy on the path to fiscal chaos: budget deficits lead to higher interest rates and lower business investment, and lower investment, in turn, restricts productivity growth and technical progress, which are the keys to future prosperity. Laura D'Andrea Tyson, the Berkeley professor who headed the White House Council of Economic Advisers, repeated this argument to Clinton but coupled it with a more immediate argument: budget deficits not only do long-term damage but can lead to disastrous financial panics in the short or medium term, and these panics, which have stricken many developing countries, occur when investors lose faith in the political system.

From the perspective of mid-1996, it may sound unrealistic to suggest that the United States Treasury could ever experience such a crisis of confidence, but back in 1992 perceptions were different. In the twelve years since Reagan's election, the amount of outstanding federal debt had risen, from \$909 billion to more than \$4 trillion. Even allowing for growth in the economy, that rise was dramatic. The total federal debt as a percentage of G.D.P. had risen between 1980 and 1992 from 34.4 per cent to 67.6 per cent, and it seemed to be on an inexorable upward trend. "We all attached some not insignificant probability to a scenario of financial-market instability if we didn't take a credible position on the deficit," Tyson told me. "Given the growth of total debt relative to output, there really was a danger that at some point—nobody could know when—the United States could hit a confidence problem."

Bill Clinton didn't need much convincing that budget deficits were bad, but he did need a good deal of reassurance that doing something about them wouldn't wreck his chances of reelection. In making a practical case for deficit reduction, his advisers relied primarily on one of the institutions that the Democratic candidate had railed against in his populist attack on the Reagan-Bush years: the Wall Street bond market.

Their argument was that deficit reduction needn't necessarily be a drag on the economy, as Econ 101 models suggest, because these simple models ignore the effect a credible fiscal plan can have on the bond market. If bond traders could be persuaded that the planned budget cuts were real, they would bid down long-term interest rates, and the decline in rates would provide a boost to the economy which would at least partly offset the proposed higher taxes and lower government spending. The key thing to understand, as the experts explained to the President-elect, was that the long-term interest rate is determined not by the government but by the bond market; in fact, it is basically equal to the nominal coupon on a thirty-year bond divided by the bond's market price, so anything that raises bond prices also reduces long-term interest rates. There was a sequel to the story. If, in addition to the favorable bond-market reaction, the Federal Reserve's response to the budget package was to cut short-term interest rates, which are under its control, then deficit reduction might not slow the economy at all.

When this scenario was laid out for the President-elect in Little Rock, it did not go down well, as Woodward recorded: "At the President-elect's end of the table, Clinton's face turned red with anger and disbelief. 'You mean to tell me that the success of the program and my reelection hinges on the Federal Reserve and a bunch of ——— bond traders?' he responded in a half whisper. Nods from his end of the table. Not a dissent."

Clinton's advisers were well aware that relying on the bond market was a high-risk strategy: traders might ignore the budget package, or dismiss it as another Wash-

ington gimmick. "We all believed in the direction of the argument, but even the models themselves were uncertain about the size of the effects and how fast they would occur," Tyson recalls. "There was a range of estimates."

In order to provide an alternative short-term stimulus to the economy, the White House proposed an immediate \$16 billion program of public investments. "People called it old-fashioned Democratic spending, but it was really done as an insurance policy," Sperling explains. Congress killed the stimulus package, however, leaving the advisers in the White House even more beholden to Wall Street, a place few of them knew well.

The one senior official who knew a lot about bond markets was Robert Rubin, the head of the newly created National Economic Council, for he had only recently left Goldman, Sachs, the highly profitable investment-banking and securities firm, after twenty-six years. Rubin, who later succeeded Lloyd Bentsen as Treasury Secretary, was a passionate believer in deficit reduction; indeed, he saw it as a "threshold issue," which had to be dealt with before anything else positive could happen to the Administration. But even he was far from certain how his former colleagues would react to the budget package. "We'd seen a long period during which the political process had not dealt with the deficit," Rubin explained to me recently. "Given the very high level of skepticism in the markets about the willingness of the system to make tough decisions, it was unclear how long it would take before the market gave us credit for deficit reduction. There was at least the possibility that the skepticism would last much longer than we projected, in which case it could have upended our program."

In the event, the bond market's reaction to the Clinton fiscal plan was remarkably positive. In the twelve months following Clinton's election, long-term interest rates tumbled from 7.75 per cent to a low of 5.78 per cent—the lowest level since the Treasury started selling thirty-year constant-maturity bonds, in 1977. After spiking up sharply in 1994, as the Fed raised short-term rates, long-term rates fell back down, and they have stayed low ever since. At the moment, they are still under seven per cent, which is remarkable for an economy that is in its fifth year of recovery, with unemployment at 5.4 per cent.

It is one of the richest ironies of recent years that the much maligned bond traders, acting entirely in their own interest, bailed out a Democratic Administration that was fighting to raise their marginal tax rates sharply. In the White House, officials watched the action on Wall Street with surprise and delight. "The markets gave credibility to this program more rapidly than folks had expected—and, frankly, more rapidly than I had expected," Rubin says. Even Blinder, who had presented the bond market argument to the President-elect in Little Rock, was stunned. "I never thought we'd get the bond rate down to 5.8 per cent," he now admits. "I don't think any of us thought it would get that low. If you'd polled economists back then and said we're going to drive the long-term interest rate below six per cent, I don't think one in a thousand would have believed you."

With interest rates so low, the economy grew at a rate that made a mockery of the Republicans' dire predictions. In 1994, the first year the deficit package started to bite, the economy expanded by a healthy 3.5 per cent. In 1995, growth fell back to two per cent, but current indications are that it will be back around 2.5 per cent this year.

The easiest way to trace the impact of the falling interest rates is to look at the path of

investment, the type of spending most responsive to the cost of credit. Business investment has grown by eleven per cent a year since 1993, which, as Tyson points out, is the highest rate of growth since the Kennedy Administration. As a percentage of G.D.P., investment rose from 12.7 per cent in 1992 to 14.8 per cent in 1994. Much of this extra capital spending has gone into high technology, and especially into computers and telecommunications equipment—areas in which American companies now lead the world. Whether this upturn in investment will lead to a higher rate of productivity growth throughout the economy is unclear—the results so far are somewhat disappointing—but it is precisely what economists of all political hues have been recommending for more than a decade. "I remember saying very clearly in the first year that what this is all about is shifting resources toward interest sensitive private spending," Tyson says. "That is exactly what has happened."

Bob Dole's difficulties in constructing an effective critique of Clinton's economic policies are obvious. (After building a considerable reputation for fiscal rectitude in the Senate, he is now said to be mulling throwing it away by proposing an across-the-board reduction in income-tax-rates.) As a matter of logic, the Republicans have only two alternatives: to say that things are not as good as they seem or to say that things are as good as they seem but Clinton has nothing to do with it. Earlier this year, Dole seemed to be veering toward the first approach. Speaking in New Hampshire on February 13th, he said, "Corporate profits are setting records, but so are corporate layoffs. And middle-class families feel less and less secure about the future. There is a wide and growing gap between what the government's statistics say about our economy and how American families feel about it."

It struck me that these words could have been spoken by Carville, by his colleague Begala, or by Labor Secretary Robert Reich. All of them have put a similar argument to me in recent months, and there is clearly some truth in it. Wage for middle-income households have been stagnant since the mid-nineteen-seventies, and the over-all inequality of income and wealth has risen sharply. These long-term problems have not been solved by the Clinton Administration, and they will continue to plague the country long after November's election. The sad fact is that they are so deeply rooted in the way capitalism is evolving that no Presidential candidate—and certainly not a Republican believer in laissez-faire—is in any position to offer a credible remedy in just four years.

Thus, it was always going to be problematical for Dole to pursue a Reichian line for long. Predictably, once a Pat Buchanan was safely in his rearview mirror he eased up on the populist pedal. There may be sound political as well as personal reasons for his switch of tactics. Although the country does face serious problems, there is evidence that most Americans are more upbeat about the economy than Buchanan believes they are. This spring, Frank Newport and Lydia Saad, two top editors of the Gallup poll, published a little-noticed article in *The Public Perspective* addressing the widespread belief that the electorate is still in a funk about the economy. Their conclusion: "When compared to four years ago, Americans' current take on the economy and their personal finances is noticeably bright and certainly suggests that . . . incumbent Bill Clinton is in a much better position vis-a-vis reelection than was George Bush four years ago."

At least three of Gallup's findings are worth mentioning. In January of this year, just fourteen per cent of those polled—down from forty-two per cent in 1992—identified

the economy as the most pressing problem facing the country. In March, when Gallup asked people to describe business conditions in their own community, seventy-one per cent said local conditions were "good" or "very good"—a number as high as any recorded since 1961. In the same poll, fifty per cent said they were financially better off than a year previously—up from twenty-nine per cent in June of 1993. In interpreting this finding, Newport and Saad wrote, "Americans are as likely to claim that they are 'better off financially' than they have been at any point at which the comparable questions have been asked since 1976."

If doom and gloom won't work against Clinton, what will? One person who might have the answer is Martin Feldstein, a Harvard professor of economics who was the chairman of the Council of Economic Advisers under Ronald Reagan. Feldstein, who is acting as an informal adviser to Dole, recommends the second option open to the Republican candidate: admit that the economy is doing well but tell the voters that Bill Clinton has nothing to do with it. Shortened to two words, Feldstein's argument could be expressed like this: Alan Greenspan.

"I think that the good performance of the economy can be attributed primarily to the Federal Reserve," Feldstein told me recently from his home, in Belmont, Massachusetts. "Having set the goal of low inflation back in the early nineteen-eighties, they have really stuck to it. That is the principal reason interest rates have come down, and why we have had this long recovery. If you put Saddam Hussein aside, we've been in recovery since 1982. That's where I put the credit, rather than in the tax bill of 1993."

According to Feldstein, whose ideas are likely to figure prominently in Dole's campaign, the lower interest rates induced by Greenspan's policies can also explain most of the budget-deficit reduction that has taken place in the past three years. "If you take the reduction from \$290 billion to \$145 billion this year, Bill Clinton can indeed say he cut the deficit in half as promised," Feldstein said. "But you can actually explain most of that by the recent decline in unemployment and the rise in economic activity. Only about forty billion of the deficit reduction has been structural."

To support his case, Feldstein and a colleague recently published a research paper arguing that the 1993 tax increase on high-income earners raised less than half as much revenue as the Treasury Department had predicted. The paper covered only the 1993 fiscal year, and the Treasury responded by arguing that the tax shortfall was only temporary, but Feldstein says he is confident that when the data become available the same result will hold up for later years. "In my experience with tax changes, people who don't want to believe the results always say they are temporary," he said.

Feldstein's arguments are open to question, particularly his explanation for the sharp fall in interest rates. It is true that the Fed has been pursuing a counter-inflation policy since the early years of Paul Volcker's reign as chairman (1979-87), but long-term interest rates did not dip below seven per cent until early 1993, when the Clinton deficit-reduction package appeared likely to become a reality. At that point, Greenspan had not altered short-term interest rates in almost two years.

Alan Blinder, the former Clinton adviser, points out that when the President's deficit-reduction program was being discussed, long-term interest rates fell by two percentage points even as the Fed was holding steady. "Furthermore," he adds, "you could see that the cadence of the fall had to do with the budget package. In the late spring and early

summer, when the budget looked shaky, interest rates stopped falling. Then the budget passed in August and interest rates plummeted."

Officials in the White House were well aware of how closely their actions were being monitored in the bond market. On one occasion, Lloyd Bentsen suggested on "Meet the Press" that the deficit-reduction package might include an energy tax, as it eventually did. The very next day, bond prices soared, and interest rates dropped to a six-year low. Bensten was so impressed by the market reaction that he clipped a report from the Wall Street Journal and read it aloud at a meeting of the National Economic Council, in the Roosevelt Room.

Feldstein's dismissal of the budget deficit as not being "structural" is also questionable. When professional economists speak of "structural budget deficits," they are not referring to the deficit number that dominates public discussion. The publicly discussed deficit number goes up during economic downturns, when tax payments fall, and down in boom times, when tax payments rise. Structural deficits, by contrast, are calculated by stripping out these cyclical effects, so that the underlying relationship between taxes and spending can be seen regardless of where the economy is positioned in the economic cycle. According to Feldstein, the structural deficit has dropped by at most \$40 billion since 1992, and most of the \$145 billion fall in the over-all deficit is due to the economic upturn.

An independent arbiter, the Congressional Budget Office, which regularly estimates the structural deficit, found otherwise. According to the C.B.O.'s latest calculations, published last month, the structural deficit fell from \$224 billion in 1992 to \$154 billion in 1996. These numbers imply that \$70 billion—or slightly less than half—of the total fall in the budget deficit since 1992 was caused by the 1993 deficit-reduction package, and slightly more than half was due to the economic recovery.

While the \$70 billion estimate is much larger than Feldstein's \$40 billion figure, it may actually understate the real impact of the Clinton package—a point I was reminded of the independent economic forecaster David Wyss. According to his calculations, if the 1993 deficit-reduction bill had not been passed the structural deficit would have grown and would now be about \$100 billion higher than it actually is.

Wyss also made another point that is often overlooked in the current debate about the budget deficit. "We complain about it, and we should complain about it, but the fact is we now have the lowest budget deficit relative to G.D.P. of any of the major industrial nations," he said. When I looked up the official figures in the semiannual O.E.C.D. Economic Outlook, published by the Paris-based Organization for Economic Coöperation and Development, I found that Wyss was correct. According to the O.E.C.D. projections, the United States structural deficit in 1996 will be about 1.7 per cent of G.D.P. The estimated deficits for Japan, Germany, and the United Kingdom are 2.7 per cent, 2.4 per cent, and 2.5 per cent, respectively. The biggest developed economy I could find with a lower structural deficit than that of the United States was that of Australia.

There is yet another important statistic that is rarely mentioned in the public debate. For the past two years, the United States Treasury has been collecting more money in revenue than Congress has been spending, not counting interest payments on the national debt. Economists refer to this situation as the government running a "primary surplus." What it means is that if we didn't have to service the vast debts run up

during the past fifteen years the budget would now be balanced.

Both Alan Greenspan and his predecessor, Paul Volcker, have gone on the record to praise the 1993 package. "I don't think there is any doubt that the package was part of an honest effort to reverse the trend of the budget deficit," Volcker told me. "I wouldn't call it particularly structural, in the sense that it didn't involve any constructive changes in the tax system, and it certainly didn't resolve the entitlements problem, but it was an honest-to-goodness attempt to come to grips with the budget deficit."

One of the minor mysteries of the current political constellation is why, when deficit reduction is the unquestioned mantra of the moment, President Clinton doesn't get more public credit for reducing the deficit. Unsurprisingly, this infuriates James Carville. "The people who are never called to the bar of justice are all those who said when the President's economic program was passed that it was going to be a disaster!" he shouted on the phone to me. "If people were put on trial for economic stupidity, these people who said the plan would cause hardship would all be felons!"

Of course, as I mentioned earlier, one of those criticizing the budget package was Begala, a former colleague of Carville's. Begala no longer works for the White House, but when I tracked him down, in Texas, he was unapologetic about his stand back in 1993. "If reduced to their core, the arguments were these," he said. "The economic advisers saying, 'Do this, because it will be good for the economy.' The political advisers saying, 'If you do this it will hurt us politically.' I think history has proved us both right." Given the disastrous results for the Democrats of the 1994 midterm elections, even some of President Clinton's economic advisers concede the point. Gene Sperling said, "The Republicans, by being so repetitious with their 'largest tax increase in history' line, were able to reinforce a definition which people already had of Democrats. So it's hard to look back and say the political advice had no merit."

On the other hand, as Sperling and others point out, the 1993 deficit-reduction package produced a variety of long-term benefits that are only now paying off. "We are going into 1996 with a level of achievements that we could never have had if we had not done this," Sperling said. "Also, the fact that we have brought down the budget deficit puts us in a far better position to protect ourselves against the more severe kind of stuff that the Republicans can throw at us."

One of these will be the charge that the President, through his political maneuvering during the past twelve months, scuttled the chances of a bipartisan agreement to balance the budget by the year 2002. Another will be that he had done little to head off the mother of all fiscal crises, which is due to arrive in about fifteen years, when the baby boomers start to turn sixty-five. Both points have merit, and Paul Volcker, for one, believes the President's heart is no longer in deficit reduction. "They're now playing it politically," he said. "You get into this silly business about whether you balance the budget in ten years or eleven years or seven years. It's all never-never land."

These criticisms, while important, do not detract from the policy decisions taken by the President during his first year in office; without the 1993 deficit-reduction package, balancing the budget would not be even a remote possibility. In fact, as Robert Rubin pointed out, without the 1993 package the whole political and economic landscape would look quite different. "We would have continued to have abnormally high interest rates, and that would have choked off the recovery," he told me.

When I asked Rubin why, with all his Wall Street experience, he thought the markets had reacted so positively, his reply was a modest one. "I don't know the answer, other than that I know that the President was totally committed to doing this, and he managed to convey that commitment to the American people—and, more important in this case, to the markets—in ways that they believed," he said. Volcker made a similar point. "I think the market had some confidence and satisfaction that this guy came in and took on the budget deficit as a major priority," he said. "The feeling goes beyond the particular budget numbers."

Rubin's image of Bill Clinton as a commanding leader who makes tough decisions and sticks with them through good times and bad is not one that gels in the popular imagination, but it was also evoked by Alan Blinder and Gene Sperling. "I was amazed at how committed he was to going for a substantial deficit reduction, even when he saw some of the ugly things that you had to do to the budget to get there," Blinder said. "Basically, he didn't flinch."

Sperling praised the President even more highly. "For us on the economic team, we will always think of him as a good decision-maker," he told me. "When he had hard choices to make, on both the deficit and NAFTA, he listened to everybody for a few days, then he made the call and never looked back."

I reminded Sperling of the passages in Woodward's book where the President berated his own advisers and complained about turning the government over to Wall Street interests. Surely these stories were true, I suggested.

"Yes," Sperling conceded. "Just like any of us, he felt pain at times when things weren't going his way. But Woodward missed the bigger picture, which was that Clinton did what virtually no President had done before. The real issue is that it was a very good, effective deficit-reduction plan."

After talking to Sperling, I reread Woodward's description of a meeting between Clinton and his economic advisers on April 7, 1993. It goes as follows: "Where are all the Democrats' Clinton bellowed. 'I hope you're all aware we're all Esienhower Republicans here, and we are fighting the Reagan Republicans. We stand for lower deficits and free trade and the bond market. Isn't that great?'"

No, not great, but perhaps it's what the country needed after a decade of Reaganomics.

Mr. HOLLINGS. Remember, the entire sing-song and chant, Mr. President, on the other side of the aisle has been "When is the President going to do something?"

So I quote from this particular article.

There is yet another important statistic that is rarely mentioned in the public debate. For the past 2 years the United States Treasury has been collecting more money in revenue than Congress has been spending, not counting interest payments on the national debt. Economists refer to this situation as the Government running a primary surplus. What it means is that if we didn't have to service the vast debt run up during the past 15 years, the budget would now be balanced.

Imagine that. The very crowd that is accusing the President of not wanting a balanced budget and not doing anything about the deficit, is the very crowd that has caused the deficit.

Bill Clinton did not cause it. He was down in Arkansas during that 10-year

period actually balancing budgets. He comes here with these inherited interest costs, and what does he do? He reduced deficits by \$500 billion, cuts over 200,000 Federal employees, taxes gasoline, cuts Medicare \$57 billion.

Here is a man that has done something being accused of not wanting to do anything. Instead of commenting on the facts, we're treated to tax and spend and liberal Democrats. It is all sloganism. It is all symbols. It is all pollster politicking. It is not the facts. They ought to have ashes in their mouths. We who have been here the past 15 years can be accused of causing this fiscal cancer, but you cannot accuse William Jefferson Clinton of causing any deficit.

I read further from Mr. Cassidy's article, Mr. President.

Both Alan Greenspan and his predecessor, Paul Volcker, have gone on the record to praise the 1993 package. "I don't think there's any doubt that the package was part of an honest effort to reverse the train of the budget deficit," Volcker told me. "I wouldn't call it particularly structural in the sense that it did not involve any constructive changes in the tax system, and it certainly didn't solve the entitlements problem, but it was an honest-to-goodness attempt to come to grips with the budget deficit."

That was none other than Paul Volcker. Yet, the constant refrain is that the President is dishonest, that he lied, that he is not following his pledge to the people, that he does not care about deficits. Yet he is the only person that has done anything about them.

Now, quickly, with respect the recent statements of Senator DOMENICI, I had to go back, Mr. President, to his talk on June 6, included in the CONGRESSIONAL RECORD. I refer to page S5879. Here, Mr. President, I finally got him to admit that you cannot truly balance the budget without increasing taxes. He explains that if Social Security surpluses are protected, there are few remaining options:

Frankly, some would get up and say, "No. We're going to do it another way." How? There is only one other way, and that is to dramatically increase taxes. I do not mean a little bit—a huge amount.

Now, Mr. President, I challenged the distinguished chairman of the Budget Committee, last year. I said, "If you can present to me a balanced budget over the 7-year period that excludes Social Security surpluses and does not increase taxes, I would jump off the Capitol dome." Now we have confirmation that it cannot be done. It took us almost a year to get it, but better late than never.

Someone should tell Mr. Broder that the President's budget and the Republican budgets have all been backloaded. This particular balanced budget that Senator DOLE is likewise backloaded. Look at it. Most of the cuts happen after the Presidential election in the year 2000.

I read here, quoting Senator DOMENICI, "Over the next 6 years, from 1997 until 2002, the cumulative unified budg-

et deficit, that is the total receipts less total outlays, a simple proposition, will be \$1.1 trillion, according to CBO. Over that same period, Social Security will run a surplus of \$525 billion, including \$104 billion in the year 2002."

Now, here is the confusion, the misunderstanding, or the categorical fallacy. In reality, whether we owe it to the private markets or to future Social Security retirees, it is still an obligation. When the bill comes due, our children and grandchildren will end up having to make good on \$1.563 trillion of Social Security IOU's by the year 2006. Our failure to pay back the \$522 billion that we already owe Social Security is the height of irresponsibility.

On paper, we should be accumulating a surplus. In reality, we are spending these funds to finance current consumption. By the year 2006 we will owe Social Security \$1.563 trillion. I repeat, by the year 2006, under the best case scenario of the Republican plan, \$1.563 billion would be owed Social Security.

It should be of little surprise as to why I, or the Senator from North Dakota, or the Senator from California, or others voted against such a resolution.

They are all crying "Jefferson, Jefferson," and "children and grandchildren." But there is a conspiracy of silence when it comes to the \$1.563 trillion bill that the Republican plan leaves in the Social Security trust fund. The best way to protect Social Security is to quit decimating it. The distinguished Senator and the chairman of our Budget Committee continued in his speech last week, "I am concerned about the looming and massive Social Security deficits that are on the horizon."

But, Mr. President, looming and massive deficits are not on the horizon; they are here. It is not children and grandchildren, it is us. We wrap ourselves in glowing rhetoric about our children and grandchildren and then do nothing. The truth of the matter is, since posterity can do nothing to us, we see no reason to do anything for posterity. We look to the next election and not the next generation.

Entitlements are continually blamed for our current deficit woes. Yet, Social Security, is in surplus to the tune of \$522 billion. Medicare has \$130 billion surplus in it this minute. They are not causing our current deficits. Thus, the shell game continues. It is one of the longest running games in town and we all take part in it.

The distinguished chairman of the Budget Committee, who has the next hour and a half, refers to the exclusion of Social Security surpluses in the balanced budget amendment as a smoke-screen. I can tell you here and now that we are in trouble when the fire chief in the firehouse cannot only smell the smoke and see the fire, but starts the fire with these misleading statements.

We are in desperate circumstances. We have deficits and debt going

through the ceiling. We are spending \$1 billion a day just on the interest costs to the national debt, but we continue to fail to face up to this particular problem.

Republicans charge that President Clinton does not care about the deficit, has not done anything about it. But Paul Volcker, the former Chairman, says he is the only one who has made an honest try. Find that statement by Paul Volcker about anybody else's budget. President Clinton made an honest-to-goodness effort in 1993. And the facts show that it is working. I voted for it. But not a single Republican did. They caused the deficits. And if they had not caused this horrendous cost of \$1 billion a day, we would not be talking about deficits but would be in surplus under President Clinton's budget.

Mr. President, since nobody is here, let me complete the thought. I use as my text none other than the daddy rabbit of the budget in Reaganomics in back in the 1980's. I quote Mr. David Stockman, the former Director of the Office of Management and Budget, dated March 1993.

I ask unanimous consent that this article be printed in the RECORD.

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

[From *New Perspectives Quarterly*, March 1993]

AMERICA IS NOT OVERSPENDING
(BY DAVID A. STOCKMAN)

President Clinton's economic plan deserves heavy-duty criticism—particularly the \$190 billion worth of new boondoggles through FY1998 that are euphemistically labelled "stimulus" and "investment" programs. But on one thing he has told the unvarnished truth. There is no way out of the elephantine budget deficits which have plagued the nation since 1981 without tax increases.

In this regard, the full-throated anti-tax war cries emanating from the GOP since February 17 amount to no more than deceptive gibberish. Indeed, if Congressman Newt Gingrich and his playmates had the parental supervision they deserve, they would be sent to the nearest corner wherein to lodge their Pinocchio-sized noses until this adult task of raising taxes is finished.

The fact is, we have no other viable choice. According to the Congressional Budget Office (CBO) forecast, by FY1998 we will have practical full employment and, also, nearly a \$400 billion budget deficit if nothing is done. The projected red ink would amount to five percent of GNP, and would mean continuing Treasury absorption of most of our meager net national savings through the end of the century. This is hardly a formula for sustaining a competitive and growing economy.

The root problem goes back to the July 1981 frenzy of excessive and imprudent tax-cutting that shattered the nation's fiscal stability. A noisy faction of Republicans have willfully denied this giant mistake of fiscal governance, and their own culpability in it, ever since. Instead, they have incessantly poisoned the political debate with a mindless stream of anti-tax venom, while pretending that economic growth and spending cuts alone could cure the deficit.

It ought to be obvious by now that we can't grow our way out. If we should happen to realize CBO's economic forecast by 1998,

wouldn't a nearly \$400 billion deficit in a full employment economy 17 years after the event finally constitute the smoking gun?

To be sure, aversion to higher taxes is usually a necessary, healthy impulse in a political democracy. But when the alternative becomes as self-evidently threadbare and groundless as has the "growth" argument, we are no longer dealing with legitimate skepticism but with what amounts to a demagogic fetish.

Unfortunately, as a matter of hard-core political realism, the ritualized spending cut mantra of the GOP anti-taxers is equally vapid. Again, the historical facts are overwhelming.

Ronald Reagan's original across-the-board income tax cut would have permanently reduced the federal revenue base by three percent of GNP. At a time when defense spending was being rapidly pumped up, and in a context in which the then "conservative" congressional majority had already decided to leave 90 percent of domestic spending untouched, the Reagan tax rate cut alone would have strained the nation's fiscal equation beyond the breaking point. But no one blew the whistle. Instead, both parties succumbed to a shameless tax-bidding war that ended up doubling the tax cut to six percent of GNP—or slashing by nearly one-third the permanent revenue base of the United States government.

While delayed effective dates and phase-ins postponed the full day of reckoning until the late 1980s, there is no gainsaying the fiscal carnage. As of August, 1981, Uncle Sam had been left to finance a 1980s-sized domestic welfare state and defense build-up from a general revenue base that was now smaller relative to GNP than at any time since 1940!

In subsequent years, several "mini" tax increase bills did slowly restore the Federal revenue base to nearly its post-war average share of GNP. The \$2.5 trillion in cumulative deficits since 1981, however, is not a product of "over-spending" in any meaningful sense of the term. In fact, we have had a rolling legislative referendum for 12 years on "appropriate" Federal spending in today's society—and by now the overwhelming bi-partisan consensus is crystal clear.

Cash benefits for Social Security recipients, government retirees and veterans will cost about \$500 billion in 1998—or six percent of prospective GNP. The fact is they also cost six percent of GNP when Jimmy Carter came to town in 1977, as they did when Ronald Reagan arrived in 1981, Bush in 1989 and Clinton in 1993.

The explanation for this remarkable 25 years of actual and prospective fiscal cost stability is simple. Since the mid-1970s there has been no legislative action to increase benefits, while a deep political consensus has steadily congealed on not cutting them, either. Ronald Reagan pledged not to touch Social Security in his 1984 debate with Mondale; on this issue Bush never did move his lips; and Rep. Gingrich can readily wax as eloquently on the "sanctity" of the nation's social contract with the old folks as the late Senator Claude Pepper ever did.

The political and policy fundamentals of the \$375 billion prospective 1998 cost of Medicare and Medicaid are exactly the same. If every amendment relating to these medical entitlements which increased or decreased eligibility and benefit coverage since Jimmy Carter's inauguration were laid end-to-end, the net impact by 1998 would hardly amount to one to two percent of currently projected costs.

Thus, in the case of the big medical entitlements, there has been no legislatively driven "overspending" surge in the last two decades. And since 1981, no elected Republican has even dared think out loud about

the kind of big changes in beneficiary premium costs and co-payments that could actually save meaningful budget dollars.

To be sure, budget costs of the medical entitlements have skyrocketed—but that is because our underlying health delivery system is ridden with inflationary growth. Perhaps Hillary will fix this huge, systemic economic problem. But until that silver bullet is discovered, there is no way to save meaningful budget dollars in these programs except to impose higher participation costs on middle and upper income beneficiaries—a move for which the GOP has absolutely no stomach.

Likewise, the "safety net" for the poor and price and credit supports for rural America cost the same in real terms—about \$100 billion—as they did in January, 1981. That is because Republicans and Democrats have gone to the well year after year only to add nickels, subtract pennies, and, in effect, validate over and over the same "appropriate" level of spending.

On the vast expanse of the domestic budget, then, "overspending" is an absolute myth. Our post-1981 mega-deficits are not attributable to it; and the GOP has neither a coherent program nor the political courage to attack anything but the most microscopic spending marginalia.

It is unfortunate that having summoned the courage to face the tax issue squarely, President Clinton has clouded the debate with an excess of bashing the wealthy and an utterly unnecessary grab-bag of new tax and spending giveaways. But that can be corrected in the legislative process—and it in no way lets the Republicans off the hook. They led the Congress into a giant fiscal mistake 12 years ago, and they now have the responsibility to work with a President who is at least brave enough to attempt to correct it.

Mr. HOLLINGS. Mr. President, I quote:

The root problem goes back to the July 1981 frenzy of excessive and imprudent tax cutting that shattered the Nation's fiscal responsibility. A noisy faction of Republicans have willfully denied this giant mistake of fiscal governance and their own culpability in it ever since. Instead, they have incessantly poisoned the political debate with a mindless stream of anti-tax venom, while pretending that economic growth and spending cuts alone could cure the deficit. It ought to be obvious by now that we cannot grow our way out.

Mr. President, there it is. Someday, somehow, David Broder and these other columnists will pick up the truth and quit ipso facto reporting balanced budgets. We have do not have a balanced budget plan; all plans use the trust funds. We owe the Social Security trust fund; we owe the Medicare trust fund; we owe the highway, airport, and Civil Service trust funds. We have been borrowed well over a trillion dollars from these trust funds.

In addition, other sleights of hand include factoring in speculative interest dividends for budgetary savings. Mr. President, we started that back in 1990. You know what the projection was? In the 1990 budget, we said we would not only have a balanced budget by 1995, but a \$20 billion surplus. Can you imagine that? Instead, there is a \$277 billion deficit. That is how far off these are. Yet, Mr. Broder comes up alleges that, "This is too clever by half." Tell him to wake up. He should know better than that.

Mr. President, I am watching history repeat itself. I joined in the opposition to Reaganomics and what Stockman says was the worst mistake we ever made. I joined in the tax increases to try and reverse it. I joined in Gramm-Rudman-Hollings. When they write now, as Senator RUDMAN has, that Senator Hollings wanted a divorce, they should be clear about the facts. Instead of using the automatic cuts as a spear to urge and require fiscal discipline, they started to use it as a shield for fiscal irresponsibility, and I wanted no part in that. I voted for the tax increases here in 1993. At the time, my colleagues on the other side of the aisle said, "Well, you cannot trust that Washington crowd. If they increase the taxes, that means all they will do is increase the spending." False.

In 1993, we increased taxes and cut spending to the tune of \$500 billion. In direct result, we have an economy with low unemployment, low interest rates, steady growth, and low inflation. And they say that the President is "too clever by half," and is "postponing choices."

Once again, Mr. President, when they say the President did not make any honest try, perhaps we should remember Mr. Volcker's words on the 1993 package:

I don't think there is any doubt that the package was part of an honest effort to reverse the trend of the budget deficit.

I yield the floor and suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The bill clerk proceeded to call the roll.

Mr. DOMENICI. 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. DOMENICI. Parliamentary inquiry; what is the order of business before the Senate?

The PRESIDING OFFICER (Mr. GRASSLEY). We are in morning business. The Senator from New Mexico has control of the time from 1 o'clock until 3:30.

Mr. DOMENICI. Mr. President, I yield myself 5 minutes.

THE BUDGET RESOLUTION

Mr. DOMENICI. Mr. President, I am disappointed that we could not work out an agreement with the minority that would allow us to complete action on the conference agreement on the budget today. I had hoped we could do that so our distinguished majority leader would have an opportunity before he left the Senate to cast his vote in favor of this budget resolution and a balanced budget by the year 2002. The conference agreement on the 1997 budget resolution was completed last Thursday evening and filed Friday morning. Copies of the conference report have been available since early this morning. The House of Represent-

atives Rules Committee will act this evening to report a rule that will allow the House to act on the conference report tomorrow morning and complete action by noon.

Normally, we would simply call up the conference report, discuss the conference report, since it would not be subject to amendment, yield back the statutory 10 hours of time and vote on final passage. Without consent to the contrary, however, here in the Senate, if we were to act on a conference report before the House has acted, the conference report would be subjected to unlimited recommittal motions, and the minority is aware of this opportunity to subject the Senate, and I say Leader DOLE, to an unlimited number of such motions. Therefore, they have not been willing to grant us consent that would allow us to do what we are going to do tomorrow. Once the House sends us this, we will take it up, and obviously there will be no recommittal motions in order, as I understand it, at that point.

We were trying to get the minority to let us start that process today and perhaps complete this before the leader leaves sometime tomorrow, around 12 or 1 o'clock. It means he will not have a chance to vote on it. It does not mean that there will be anything happen to the budget resolution. I assume we will have his successor Senator voting with us, as we have had him.

I will have more opportunity tomorrow to discuss the significance of this budget resolution and what it does. I might just start with one concept for everybody to understand. On the discretionary appropriations, which has been the subject of an awful lot of debate last year which caused many appropriations bills to be vetoed by the President and caused the closure of Government from time to time during that long process of trying to get appropriations completed, we have resolved our differences between the House and Senate.

We have produced a budget resolution that, essentially, has all of the domestic discretionary programs combined at a freeze—same level as last year, according to the Congressional Budget Office. That is the number that we agreed upon. That means if we take all the riders off those appropriations bills, and I understand that there is some movement in that direction, we can clearly be sending to the President appropriations bills that he ought to sign. Clearly, the American people will understand it very easily. The Republicans do not want to reduce spending. They want to freeze it. They are not out there to close down Government. They just want to say, in a very difficult year, we should freeze the expenditures of the appropriated accounts at last year's level. That is what we will be doing. That is what the appropriations bills are going to reflect in the next 5, 6, 7 weeks.

Hopefully, if we get those done, we can finish our work early or even ahead

of time with reference to the appropriations bills which caused so much commotion last year and so much ill-will and ill-feeling between many people in the country and this various series of vetoes and closures. That will be the essence of the Republican approach. Obviously, big savings come in the entitlement reform programs. We will move those through in due course. Once again, we believe we are on the right path. We will discuss what we think the President's approach to Medicare has been. Clearly, he is playing a major shell game with this big program that the senior citizens need so desperately to have attended by way of reform.

We will get into those details tomorrow. I have not sought approval from any of the leadership here to make this statement, but, frankly, I am very hopeful when we finally get on this budget resolution tomorrow, that even though there are 10 hours of debate equally divided, we will finish tomorrow. No motions are in order, no amendments are in order. I see no reason why we cannot finish it tomorrow, even if we take it up sometime in the middle of the afternoon tomorrow. That ought to be plenty of time to debate it and finish tomorrow to get on with other Senate work.

Mr. GRASSLEY addressed the Chair.

The PRESIDING OFFICER. The Senator from Iowa.

THE BUDGET RESOLUTION

Mr. GRASSLEY. Mr. President, Senator DOMENICI opened debate on the 1997 budget conference committee report, the agreement that has been ironed out on the differences between the House and the Senate, for presentation to the Senate for final passage, so that the 1997 budget will be behind us and we can start making changes in the programs that will fit these programs into the budget that balances by the year 2002, 6 years from now.

CBO has scored it that way. CBO is a nonpartisan agency that rules on whether or not budgets are balanced and what programs cost and how much income is coming in. They said that this will balance by that time.

The year 2002 is the year that we selected last year to balance the budget by. Our bill was presented to the President last year, and he vetoed it. We are not going to take an extra year to balance the budget when we do it this year. We are going to do it in 6 years now because that is all we have left between now and the year 2002. I hope that my colleagues will vote for that.

In a sense, as the famous baseball player said, "It's *deja vu* all over again." It is kind of that way with the Balanced Budget Act that we are dealing with today, tomorrow and the next day until it is passed. Because last year we worked for 8 months in 13 committees to pass this 1,800-page Balanced Budget Act of 1995. This was a bill that 13 committees worked on to produce