

countries will take their rightful place as members of Europe.

NATO played an important part in securing this freedom. It has been the most successful defensive alliance in history. It is an alliance that helped us win the cold war. It deterred war between the super powers, and it helped prevent confrontations between member states.

But if NATO is to survive, it must adapt to meet the needs of the post-cold-war-World—or it will become irrelevant.

NATO has evolved since we created it in 1949. We have enlarged NATO on three different occasions. Each new member strengthened NATO and increased security in Europe.

Today, we are facing very different threats to security and stability in Europe. We have hot spots caused by ethnic and regional tensions. We have civil wars—as in Bosnia. And we have international crime, drugs, and terrorism. NATO must change and expand to meet these new threats.

The countries of Central and Eastern Europe want to help us address these new threats. How many times has the Senate discussed burden sharing in Europe? How often have we complained that European countries were not willing to pay their fair share for their own defense?

Now we have countries that are asking to share the burden. They are asking to pledge their troops and equipment for the common defense. They are asking to share the burden of peacekeeping—in fact they are doing it right now in Bosnia where thousands of troops from Poland, Hungary, the Czech Republic, the Baltics, Ukraine, and others are helping to secure the peace.

These countries are not asking for a handout. They are not asking for our protection. They are asking to be full partners in the new Europe. By transforming their countries into free market democracies, they have earned this right.

Mr. President, NATO is moving toward enlargement. In July President Clinton will join the leaders of our NATO partners in naming the first countries to be asked to join NATO.

This resolution states that the U.S. Senate stands with our President as he leads our effort to prepare NATO for the 21st century. I urge my colleagues to join us in supporting this resolution.

#### SENATE RESOLUTION 50—RELATIVE TO COST-OF-LIVING ADJUSTMENTS

Mr. ROTH (for himself and Mr. MOYNIHAN) submitted the following resolution; which was referred to the Committee on Finance:

S.RES. 50

Whereas the final report of the Senate Finance Committee's Advisory Commission to Study the Consumer Price Index, chaired by Professor Michael Boskin, has concluded that the Consumer Price Index overstates

the cost of living in the United States by 1.1 percentage points;

Whereas Dr. Alan Greenspan, Chairman of the Board of Governors of the Federal Reserve System, has testified before the Senate Finance Committee that "the best available evidence suggests that there is virtually no chance that the CPI as currently published understates" the cost of living and that there is "a very high probability that the upward bias ranges between ½ percentage point per year and 1½ percentage point per year";

Whereas the overstatement of the cost of living by the Consumer Price Index has been recognized by economists since at least 1961, when a report noting the existence of the overstatement was issued by a National Bureau of Economic Research Committee, chaired by Professor George J. Stigler;

Whereas Congress and the President, through the indexing of Federal tax brackets, Social Security benefits, and other Federal program benefits, have undertaken to protect taxpayers and beneficiaries of such programs from the erosion of purchasing power due to inflation;

Whereas Congress and the President intended the indexing of Federal tax brackets, Social Security benefits, and other Federal program benefits to accurately reflect changes in the cost of living; and

Whereas the overstatement of the cost of living increases the deficit and undermines the equitable administration of Federal benefits and tax policies: Now, therefore, be it

*Resolved*, That it is the sense of the Senate that all cost-of-living adjustments required by statute should accurately reflect the best available estimate of changes in the cost of living.

Mr. ROTH. Mr. President, today, my friend PAT MOYNIHAN and I are submitting a sense-of-the-Senate resolution regarding the accuracy of the Consumer Price Index. Last week the Finance Committee kicked off our first hearings of the 105th Congress with a very distinguished panel of experts in the field of economics and Dr. Alan Greenspan, Chairman of the Board of Governors of the Federal Reserve System.

Mr. President, probably the most significant issue that faces Congress this year is the accuracy of the Consumer Price Index, and I believe that Congress and the President need to seriously address the economic ramifications of an accurate CPI.

One of the roles in government is to protect American families from inflation. In doing so, it is important that we are able to precisely measure inflation.

I cannot emphasize too greatly—that is what these discussions are all about—the accurate measurement of inflation. If the index is too high, it overcompensates retirees and others and undertaxes many taxpayers. If it is too low, it undercompensates retirees and overtaxes the taxpayer. What we want in fairness to all is as accurate an index as possible.

Obviously, this is a very sensitive issue, affecting retirees and taxpayers directly as well as wage earners and others.

In the spring of 1995, the Senate Finance Committee appointed a blue ribbon commission, headed by Dr. Michael Boskin, to study the methodology used

to compute our current measure of inflation, the CPI. The panel also included leading experts in the field of price indexes, they include:

Dr. Dale Jorgenson, Harvard University; Dr. Ellen Dulberger, IBM Personal Computer Company; Dr. Zvi Griliches, Harvard University; and Dr. Robert Gordon, Northwestern University.

In their interim report, released in September 1995, the Boskin Commission concluded that the upward bias using changes in the Consumer Price Index to estimate changes in the true cost of living is about 1 percentage point per year.

Dr. Boskin and the other four commission members have now completed their final report and have concluded that this critical government statistic is not as accurate as possible. Since this report suggests that the Consumer Price Index has an annual upward bias of about 1.1 percent, clearly this is a significant finding and should be taken seriously.

Dr. Boskin and his colleagues have also suggested to the Finance Committee that a new measure of the true cost of living may be needed.

Inaccurate government statistics—particularly one as important as the CPI—are unacceptable. Steps should be taken to change the procedures so that the measure of the CPI is as accurate as possible.

I want to stress that any action we take on this report must be broadly and deeply bipartisan.

We must also have the full cooperation of and leadership by the Clinton administration. I hope the President will not miss an opportunity to address this issue in his fiscal year 1998 budget he submits to the Congress this week. Clearly this reform will not be successful without the President's leadership.

Mr. MOYNIHAN. Mr. President, might I first take the opportunity to congratulate the chairman for this initiative. It is characteristic of his leadership of the Finance Committee, which is bipartisan whenever that is possible, which is factual, which seeks evidence and answers.

This sense-of-the-Senate resolution recognizes the mounting evidence that, contrary to the intent of the Congress and the President, Federal tax provisions, Social Security benefits, and other Federal program benefits are being overadjusted for inflation.

The resolution expresses the sense of the Senate that:

\*\*\* all cost-of-living adjustments required by statute should accurately reflect the best available estimate of changes in the cost of living.

In its final report issued on December 4, 1996, the Advisory Commission to Study the Consumer Price Index—the Boskin Commission concluded that:

While the CPI is the best measure currently available it is not a true cost of living index. . . .

The Boskin Commission concluded that the CPI overstates the cost of living in the United States by 1.1 percentage points.

The Commission's findings are very much in line with the prevailing professional judgment of economists as to the size of the upward bias in the CPI. In October 1994, in a memorandum to the President entitled "Big Choices", then-OMB Director Alice Rivlin stated that the "CPI may be overstated by 0.4 percent to 1.5 percent." And in testimony at a joint hearing of the Senate and House Budget Committees in January 1995—and reinforced in testimony last week before the Senate Committee on Finance—Alan Greenspan, Chairman of the Board of Governors of the Federal Reserve System, estimated the range of plausible values at 0.5 to 1.5 percentage points.

The standard objection to correcting the Consumer Price Index has been, to cite one such statement, "The right way to adjust the CPI is to allow the experts at the BLS to continue doing their jobs and keep politics out of it."

We now have the definitive response from Alan Greenspan, Chairman of the Board of Governors of the Federal Reserve System. In testimony last week before the Finance Committee, he reported that the Federal Reserve Board had made its own study of this issue and had come to roughly the same conclusions as those of the Boskin Commission. He recommended a two-track procedure. First, let the BLS improve the CPI by as much as can be done and as quickly as it can be done. And second, establish an independent national commission to correct for the remaining upward bias. He then said:

There has been considerable objection that such a second track procedure would be a political fix. To the contrary, assuming zero for the remaining bias is the political fix. On this issue, we should let evidence, not politics, drive policy.

To say again, to do nothing in the face of overwhelming evidence would be a political decision. Wrong-headed and shortsighted, with large long-term implications

And to do nothing until we have a more precise estimate of the bias—as if estimating changes in the cost of living is equivalent to measuring atomic weights—recalls the wise admonition of Lord John Maynard Keynes who said:

It is better to be approximately right than precisely wrong.

There is some history here.

It happens that this Senator's association with the statistical system in the executive branch began over three decades ago. I was Assistant Secretary of Labor for Policy and Planning in the administration of President John F. Kennedy. This was a new position in which I was nominally responsible for, *inter alia*, the Bureau of Labor Statistics. I say nominally out of respect for the independence of that venerable institution, which as I noted earlier long predated the Department of Labor itself. The then-Commissioner of the BLS, Ewan Clague, could not have been more friendly and supportive. And so were the statisticians, who undertook

to teach me to the extent I was teachable. They even shared professional confidences. And so it was that I came to have some familiarity with the field.

Upon our arrival in Washington with the new administration in 1961, we had waiting for us a report on price indexes from a committee led by George J. Stigler, who later won a Nobel Prize in economics. The committee noted that:

If a poll were taken of professional economists and statisticians, in all probability they would designate (and by a wide majority) the failure of the price indexes to take full account of quality changes as the most important defect in these indexes. And by almost as large a majority, they would believe that this failure introduces a systematic upward bias in the price indexes—that quality changes have on average been quality improvements.

Through indexation of Federal tax brackets, Social Security, and other Federal programs, Congress and the President have undertaken to protect taxpayers and beneficiaries from the erosion of purchasing power due to inflation.

Based on over 35 years of mounting evidence, it is clear that the current formulas for indexation overstate the true cost of living. Over 12 years the upward bias increases outlays and reduces revenues, for programs tied to the CPI, by a cumulative \$1.07 trillion.

The actuaries of the Social Security system estimate that a 1.1 percentage point correction would eliminate about two-thirds of the long-run deficit in the Social Security Program. The trust fund exhaustion date would be extended by more than 20 years, from 2029 to 2052.

Somewhat more than one-half of the 1.1 percentage bias can be eliminated rather quickly if the BLS would develop a cost-of-living index [COLI] and factor into their calculations research on quality improvements. Members of the Boskin Commission think it can be done within a year. Over time, some of the remainder of the bias could be reduced by further research on measuring quality improvements. Any residual can be dealt with by an independent national commission, as suggested by the Boskin Commission and by Federal Reserve Chairman Greenspan.

The computational procedures that would be used by BLS for a new cost of living index [COLI] are now used by the Bureau of Economic Analysis [BEA] in the calculations of GDP and its components—consumption, investment, and so on. BEA uses a Personal Consumption Expenditures [PCE] deflator to estimate changes in real consumption. For the 12 months ended November 1996, the CPI increased by 3.3 percent. Yet over roughly the same period, the PCE deflator increased by only 2.5 percent. BEA's use, in the PCE deflator, of more up-to-date consumption patterns and of adjustments for quality, lowers the reported inflation rate by 0.8 of a percentage point relative to the CPI. And this is consistent with what you would get if BLS developed a COLI

with adjustments for quality improvements; that is, it is close to the 1.1 percentage point estimate of the bias.

I hope we will have broad support for this resolution on both sides of the aisle, and that we will do the Republic some good today. Mr. President, thank you for your courtesy. I yield the floor.

Mr. ROTH. Mr. President, let me thank the Senator from New York for his continuing leadership in this matter. I would like to underscore two things that he said.

One is that all we seek to do is to make the measurement of inflation as accurate as possible. That is just good government.

Second, we are anxious to have the support of our colleagues on both sides of the aisle and we will be sending a letter to our colleagues, signed by the two of us, urging them to join us in this good government venture.

Mr. MOYNIHAN. Good government venture.

Mr. ROTH. I thank very much the distinguished Senator for his able leadership.

#### AUTHORITY FOR COMMITTEES TO MEET

##### COMMITTEE ON ARMED SERVICES

Mr. HATCH. Mr. President, I ask unanimous consent that the Committee on Armed Services be authorized to meet at 2 p.m. on Wednesday, February 5, 1997, to receive testimony on the nomination of Federico F. Peña to be Secretary of Energy.

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

##### COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

Mr. HATCH. Mr. President, I ask unanimous consent that the Committee on Banking, Housing, and Urban Affairs be authorized to meet during the session of the Senate on Wednesday, February 5, 1997, to conduct a hearing on the following nominee: Janet Louise Yellen, of California, to be Chairman, Council of Economic Advisers.

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

##### COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION

Mr. HATCH. Mr. President, I ask unanimous consent that the Senate Committee on Commerce, Science, and Transportation be authorized to meet on February 5, 1997, at 10 a.m. on pending committee business.

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

##### COMMITTEE ON ENERGY AND NATURAL RESOURCES

Mr. HATCH. Mr. President, I ask unanimous consent that the Committee on Energy and Natural Resources be granted permission to meet during the session of the Senate on Wednesday, February 5, 1997, for purposes of conducting a full committee hearing which is scheduled to begin at 9:30 a.m. The purpose of this hearing is to consider S. 104, the Nuclear Waste Policy Act of 1997.