

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.

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

#### COMMITTEE ON FINANCE

Mr. HATCH. Mr. President, I ask unanimous consent that the Committee on Finance be permitted to meet Wednesday, February 5, 1997, beginning at 9:30 a.m. in room SH-215, to conduct a markup to extend the airport and airway trust fund excise taxes.

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

#### COMMITTEE ON RULES AND ADMINISTRATION

Mr. HATCH. Mr. President, I ask unanimous consent that the Committee on Rules and Administration be authorized to meet during the session of the Senate to receive testimony from committee chairman and ranking members on their committee funding resolutions for 1997 and 1998 on Tuesday, February 4, Wednesday, February 5, and Thursday, February 6, all at 9:30 a.m.

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

#### SELECT COMMITTEE ON INTELLIGENCE

Mr. HATCH. Mr. President, I ask unanimous consent that the Select Committee on Intelligence be authorized to meet during the session of the Senate on Wednesday, February 5, 1997, at 10 a.m. to hold an open hearing on intelligence matters.

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

#### SUBCOMMITTEE ON ADMINISTRATIVE OVERSIGHT AND THE COURTS

Mr. HATCH. Mr. President, I ask unanimous consent that the Subcommittee on Administrative Oversight and the courts of the Senate Committee on the Judiciary, be authorized to meet during a session of the Senate on Wednesday, February 5, 1997, at 2 p.m., in Senate Dirksen room 226, on "conserving judicial resources: considering the appropriate allocation of judgeships in the United States Court of Appeals for the Fourth Circuit."

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

#### SUBCOMMITTEE ON CLEAN AIR, WETLANDS, PRIVATE PROPERTY, AND NUCLEAR SAFETY

Mr. HATCH. Mr. President, I ask unanimous consent that the Subcommittee on Clear Air, Wetlands, Private Property and Nuclear Safety, be granted permission to conduct a hearing Wednesday, February 5, at 9:30 a.m., hearing room SD-406, on ozone and particulate matter standards proposed by the Environmental Protection Agency.

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

#### ADDITIONAL STATEMENTS

##### AIRPORT AND AIRWAY TRUST FUND

• Mr. GORTON. Mr. President, last Thursday, I joined my colleague from Arizona, the new Chairman of the Senate Commerce Committee—Senator McCain, the ranking member of the full committee, Senator Hollings, and

the ranking member of the Aviation Subcommittee, Senator Ford, in sponsoring the Airport and Airway Trust Fund Taxes Short Term Reinstatement Act. This legislation will extend the existing system of aviation excise taxes through September 29, 1997, and give the Internal Revenue Service authority to transfer previously collected aviation excise taxes into the airport and airway trust fund.

The airport and airway trust fund is funded by a 10-percent passenger ticket tax; a 6.25-percent cargo waybill tax; a \$6 per person international departure tax; and certain general aviation fuel taxes. In 1997, this fund is expected to provide 62 percent of the Federal Aviation Administration's [FAA] fiscal year 1997 budget. More specifically, the trust fund is expected to provide \$5.3 billion of the FAA's \$8.6 billion total fiscal year 1997 budget. Of this \$5.3 billion, \$3.6 billion will provide 100 percent of the resources necessary to fund the FAA's capital programs, while \$1.7 billion will provide 34 percent of the fiscal year 1997 budget for FAA operations. But this fund, so critical to the operation and improvements of our aviation system, is no longer being funded.

When the authority to collect the aviation excise taxes lapsed on December 31, 1996, officials from both the General Accounting Office [GAO] and the FAA predicted that the \$4.35 billion in uncommitted balances in the fund at that time would be available to fund the FAA's capital programs through June 30, 1997. By July 1, 1997, however, they predicted that the trust fund would become insolvent. Accordingly, if Congress did not reinstate the taxes, it was predicted that the Office of Management and Budget [OMB] would have to reduce the FAA's capital accounts, which are totally funded out of the trust fund—including both the facilities and equipment [F&E] account and Airport Improvement Program, to account for the \$1 billion shortfall between the trust fund's fiscal year 1997 expected contribution of \$5.3 billion and the actual contribution of \$4.35 billion.

According to the FAA, this reduction in the facilities and equipment account could force the FAA to issue stop work orders on all major F&E contracts, which include upgrades of the current air traffic control system throughout the country. The Airport Improvement Program would suffer an even greater impact. Under the original projections, if the aviation taxes were not reinstated, funding for the Airport Improvement Program would have to be reduced by as much as \$300 million in fiscal year 1997. Existing funding agreements under the AIP would be maintained, but no new, discretionary funding would be provided for high-priority safety and security projects, capacity projects, and important noise mitigation programs.

Quite simply, this is unacceptable. If delays in the implementation of safety and security initiatives, as well as construction of capacity enhancement

projects, are caused by lack of funds, then we in Congress will be responsible for weakening the safest aviation system in the world.

From a Washington State perspective, fiscal year 1997 funding for noise mitigation is particularly important. Seattle-Tacoma International Airport has been a national leader in noise mitigation programs and was the first to implement a local housing insulation program to reduce the impact on houses near the airport. The current program, which is partially funded through the AIP's discretionary noise mitigation grants, is scheduled to run through the year 2003.

Under these original projections, it was clear that reinstating the taxes as quickly as possible was the appropriate action for Congress to take to ensure that the U.S. aviation system continues to be the best system in the world.

Last Wednesday afternoon, however, this situation became more dire when the Treasury Department announced that because of an accounting error, the airport and airway trust fund could be insolvent as early as March or April.

Let me explain the events, as I understand them, which led to accounting Error made at by the Treasury Department. Each airline deposits the ticket taxes it collects to the IRS every 2 weeks. Under the look-back provisions of the IRS safe harbor rule, however, an airline can base the amount of that payment on the amount of excise taxes it collected in a 2-week period from the second preceding quarter before the current quarter. In other words, in making a 2-week tax payment in the third quarter of the year, an airline can deposit the amount it collected in a 2-week period during the first quarter of that year. If the taxes it deposits are less than what the airline actually took in during the third quarter, the airline can make up that underpayment when it files its quarterly return. The quarterly return date is approximately 2 months after the close of the quarter.

The 10 percent ticket tax was in place during the fourth quarter of 1996. The airlines' semimonthly tax payments for that quarter, however, were based on the second quarter of 1996, during which time no excise taxes were collected. The airlines, in essence, did not remit any excise taxes during the fourth quarter of 1996, even though they were collecting these taxes from passengers at that time. The airlines will have to make up for these tax underpayments by the time they file their fourth quarter returns, which are due on February 28, 1997. These taxes, however, will not be deposited into the aviation trust fund, since the general-fund-to-trust-fund transfer authority expired along with the aviation excise taxes on December 31, 1996.

It appears that the Treasury Department did not account for the complex