AUTHENTICATED U.S. GOVERNMENT INFORMATION GPO

United States of America

Congressional Record

PROCEEDINGS AND DEBATES OF THE 105th CONGRESS, FIRST SESSION

Vol. 143 WASHINGTON, THURSDAY, APRIL 17, 1997 *No. 46*

Senate

The Senate met at 10 a.m., and was called to order by the President pro tempore [Mr. THURMOND].

PRAYER

The Chaplain, Dr. Lloyd John Ogilvie, offered the following prayer:

Almighty God, without whom we could not take a breath or think a thought, we are accountable to You for the way we live the precious days of our lives. Often we hear people who have escaped from some accident or some life-threatening illness say, ''God must have some reason for saving my life. I want to find out what it is and get on with it.'' May all of us be no less grateful for life or no less intentional in living out the special purpose You have for us.

Suddenly, we feel differently about the relationships and responsibilities of the day ahead. You have plans for us and we don't want to miss them. There are things You have appointed us to do and if we don't do them, they will not be done. Help us not to procrastinate by putting off to the day after tomorrow what needs to be done today.

Lord, fill us with Your spirit and give us an enthusiastic, positive attitude for today. Help us to express delight in the people of our lives. They have enough burdens to carry; may we not be one of them. We can choose whether we will drag our feet today or walk with a spring in our step because You are the unseen, but loyal Friend who holds our hands. Through our Lord and Saviour.

RECOGNITION OF THE ACTING MAJORITY LEADER

The PRESIDENT pro tempore. The acting majority leader is recognized, Mr. BENNETT.

SCHEDULE

Mr. BENNETT. Mr. President, today the Senate will be in a period of morning business until the hour of 2 p.m. to accommodate a number of Senators who have requested time to speak. It is my hope an agreement will be reached this morning to begin consideration of S. 495 regarding the unlawful use or transfer of chemical weapons. If an agreement is reached, Senators can expect a couple of hours of debate beginning probably around 2 p.m. on the bill, with a vote later this afternoon.

Therefore, Senators can expect rollcall votes during today's session of the Senate. As always, of course, the majority leader will notify Senators as agreements are reached.

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

The PRESIDING OFFICER (Mr. SMITH of Oregon). The clerk will call the roll.

The legislative clerk proceeded to call the roll.

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

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

MORNING BUSINESS

The PRESIDING OFFICER. Under the previous order, there will now be a period for the transaction of morning business not to extend beyond the hour of 2 p.m, with each Senator permitted to speak therein for up to 5 minutes.

The Senator from Utah is recognized to speak for up to 1 hour.

Mr. BENNETT. I thank the Chair.

THE BUDGET

Mr. BENNETT. Mr. President, this time of year is budget time. Since it is budget time, it is a time when the Senate Chamber has been filled with speeches about budgets, debt, the economy, taxes, and all the rest of the subjects that have to do with our joint effort—joint, meaning Members of both parties, Members of both Houses, Members of both branches, the executive as well as the legislative—to achieve a balanced budget by the year 2002. That is a very laudable goal, one that has been put off for too long. I am delighted to be here representing the State of Utah as the Congress launches itself in this effort.

However, as I have listened to these speeches on both sides of the aisle, it has occurred to me that there is more political sloganeering than analytical analysis that leads toward a better understanding of the problems we face. Therefore, I take the floor today in an effort to lay out what I think is a clear understanding of where we are and what we are looking at with respect to the budget, our deficit, and our future.

One of Washington's most thoughtful and capable political reporters, David Broder, did a column on this subject in which he addressed the issue of whether or not we should have tax cuts in the middle of the debate over balancing the budget. He coined a magnificently succinct phrase. He lauded those who said we must put off tax cuts until the budget is balanced, stating it this way: ''In other words, eat your spinach before you get the dessert.''

It is a great phrase and worthy of Mr. Broder's skill as a journalist. It also happens to be wrong.

It implies that tax cuts are without nourishment and have no contribution to the meal. They are a reward for doing your job rather than an integral part of doing your job. Much as I respect Mr. Broder and those who have echoed this sentiment in this Chamber, I think that they are in error. We must examine the whole circumstance of where we are in order to understand the role that proper tax policy can play.

Now, in this Chamber, one very familiar image has been with us during this debate which, like David Broder's phrase, is very compelling and very easy to understand. The image is drawn by people on both sides of the

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

aisle, of a family, sitting around the table in their kitchen, going over the family budget. The father says to the members of the family, ''We cannot balance our family budget. Our income is not sufficient to cover the expenses.'' Then the father says to the mother, and solemnly to the gathered children, ''We have only two choices. We can either somehow convince the boss down at the factory to give us a raise or we can cut our expenditures. Since the boss is not inclined to give us a raise, we will have to tighten our belts, do the right thing, and cut back on our expenditures.''

After we conger that image to mind, those in this Chamber are told the Government is the same way. We must tighten our belts, stop the spending, cut down on the expenditures just like that family. Again, it is a powerful image. It is easily remembered. It surrounded by a great deal of emotion, and it is wholly wrong, just like the spinach and the dessert.

In the process of hearing about the families, we always see this chart. It is displayed by people on both sides of the aisle. This is the chart showing what is happening to the national debt. The national debt is so low it did not show up on the chart in the years prior to 1941, and then gradually it starts creeping up and stays about level and then suddenly it explodes and people point to this chart and remember the family, and say a family that is going into debt this rapidly is headed for absolute disaster.

I want to ask you to consider a different image, a different table, and a different group sitting around the table, that will help us understand, in my view, what is really going on in the economy. Instead of a family sitting around the table talking about their finances, let us consider a group of business people sitting around a boardroom table of a company. The chief executive officer of the company, we will give him the title of chairman of the board, the chairman of the board calls his people together and says to them, ''We have a deficit in this company of about $1 million a month. If we cannot solve that deficit problem we will go bankrupt. What can we do to deal with a deficit of $1 million a month?''

His first expert steps up and says, ''Mr. Chairman, I have examined this issue very carefully and I can tell you what it is we need to do. Without question, we can solve our problem if we simply raise our prices. We are selling $50 million a month worth of our products. So if we raise our prices 2½ percent, we will make enough money to cover our $1 million a month deficit.'' Case closed. All you need to do is raise your prices.

The next expert stands up and says, ''Mr. Chairman, I have been considering this. Raising prices is absolutely the worst thing you could do. As a matter of fact, I know the answer to our problem. We must cut prices. Yes, our problem is that our competition is cutting into our market share. We are losing sales right and left because our prices are too high. If we simply cut our prices by 5 percent across the board, the increased volume will do two things for us. No. 1, our total sales will go up; and No. 2, our cost of sales will come down as we get economies to spread over a larger number of units. So I disagree absolutely with the first expert. He says raise prices, and I say cut prices.''

Then the third expert stands up and addresses the chairman in our boardroom and he says, ''No, they are both wrong. The price structure is just fine. What we must do is spend more money on plant and equipment. Our factory is outmoded, our costs are enormously high in the factory. If we spend another $50 million on the factory and retooling and new equipment, we would cut our overall cost of manufacturing by more than $1 million a month, and we would get out of the deficit circumstance.''

When he sits down, the fourth expert stands up and she says to the chairman of the board, ''Mr. Chairman, they are all wrong. We do not need to raise prices or cut prices. We certainly do not need to increase spending. All we need to do is cut spending, cut the overhead. Our overhead is running about $11 million a month, and if we cut it 10 percent that would give us the $1 million a month we need to come to a break-even position.''

So there sits the chairman of the board. He has four groups advising him. The four groups are saying to him, ''raise prices, cut prices, increase spending, cut spending.'' He thanks them all for their efforts. They leave. He is there, left alone with his assistant who does not have a great deal of experience in the business, and looks at the chairman of the board and says to him, ''OK, you have four options. Which one are you going to take?'' Because we are dealing with a wise chairman who has a great deal of experience in the free market system, he smiles at his assistant and says, ''All four.''

Yes, Mr. President, all four. When you manage a business that is constantly changing from day to day, as every business is, and you realize that you cannot put in a static pattern and then leave it forever, you realize that you have some products that are not price sensitive, and you can raise the price and thereby increase your margins without having any punishment in the marketplace. You have some products that are, perhaps, overpriced or need a lower price in order to increase their hold on the market, so you cut the prices on those products.

Yes, you have some increased spending for plant and equipment, research and development. It is the future of your business that depends on your increased spending in those areas. Of course, there are always areas where you have to cut spending.

In Government terms, what we are saying with this pattern is, if this were the Government sitting around that table instead of a business, there would be some areas where you would cut taxes, some areas where you would raise taxes, some areas where you would cut spending, and some areas where you would raise spending. It is not the simple either/or circumstance of the family sitting around the kitchen table. It is the very challenging management problem of a business sitting around the board table and trying to figure out how to maximize its profits and, at the same time, make the right kind of investments for the future.

With that new image in our minds, let's address what is, I think, the fundamental question here: How do we manage the economy intelligently? Particularly, the challenge is, how do we manage an economy—think of it in business terms—that is doing $7 trillion worth of business every year? Just think of this. If you were the chief executive officer of a business that was doing $7 trillion worth of business every year, how would you manage that challenge? You obviously would have to look at all four of the options I have outlined.

Well, in order to understand how to manage this economy, we start by asking ourselves, where are we? You cannot manage a business without accurate data, without accurate information and reports. In other words, we can't do the business of the country without accurate information.

I submit to you, Mr. President, that while this chart is enormously popular and enormously emotional in the message that it sends, like the vision of the family sitting around the kitchen table, it is not adequate. No, the numbers are not inaccurate; the numbers are correct. But the question is: Debt compared to what?

If I may repeat an example I have given on the Senate floor before to illustrate this point, I will take you back to my own business career. When I was hired as the chief executive officer of the Franklin Institute in Salt Lake City, that company had debt of $75,000. When I left, prior to my run for the U.S. Senate 6½ years later, the company had debt of $7.5 million. If you were to put that on a chart like this, your reaction would be: BENNETT is a really irresponsible executive. When he took over the company, the debt was way down here at $75,000, and when he left, it was way up here at $7.5 million. Aren't we glad to be rid of him? But you have to ask yourself ''the debt compared to what?''

When I took over as CEO of the company, it had four employees, it had sales about $250,000 to $300,000 per year. At the $300,000 figure, the debt was 25 percent of sales. And we were not getting a margin of 25 percent of sales on our profit. The debt of $75,000 threatened the very existence of that company. When I left the company and the debt was $7.5 million, the sales were over $80 million. We had more than $7.5 million in cash on the balance sheet.

The only reason we didn't pay the debt off is there were prepayment penalties built into some of the mortgages we had signed, and it was financially more beneficial to keep the cash than to pay the prepayment penalties. So the mere size of the debt had nothing to do with the measurement of my stewardship as CEO of that company.

I will say, as an aside, that since I have left the company, the sales have now gone to over $400 million. It is a very clear cause and effect that getting rid of me caused the company to more than triple.

Let us, therefore, in the Government context, take this chart down and put up another one relating to the example I have given from the business world—debt compared to the size of the company, or, in this case, the size of the country. What is the size of the country? Here we have a chart that shows gross domestic product, GDP, or the size of the Nation's economy. Back in the 1940's, the economy was about a trillion dollars in inflation-adjusted dollars, 1992 dollars. You can see the steady growth up, so that now, in 1996, as I say, we are a $7 trillion economy, headed toward $8 trillion by 2002.

Under those circumstances, this chart is suddenly going to look a little different when you compare it to gross domestic product. This is the result that you get on this chart. Federal debt, as a percentage of our gross domestic product, looks a little different than Federal debt in nominal dollars. We reached the highest point of debt in our history during the Second World War, at 130 percent of gross domestic product. As soon as the war was over, it started coming down and continued to come down until it leveled off at around 30 percent of gross domestic product in the 1970's. It started back up in the mid-1970's and dramatically back up in the mid-1980's.

This is a comforting chart in that it says that the previous chart is not wholly accurate when you compare debt to GDP, and a discomforting chart when you realize that our debt is rising as a percent of our economy for the first time in peacetime in our history. Always before, the debt has been tied to a war. And when the war is over, debt as a percentage of GDP comes down. For the first time in our history, it has started to go up in peacetime; that is a very disturbing trend. I will deal with that in just a moment.

Now, the question is, why? Why is the debt starting to come up? There are those on the other side of the aisle who have a very quick answer, summarized in two words: Ronald Reagan. Ronald Reagan is the one who caused all of this to happen. Look how the debt exploded during the Reagan years; it is all because of the disastrous Reagan tax cuts. It seems to me that we cannot, in this body discuss the tax cut that happened in terms of the marginal rate in the 1980's, without automatically adding in front of the phrase ''tax cut,'' the words ''disastrous Ronald Reagan,'' as the words to describe it—as if it is all one word, a legal term of art.

I want to discuss whether or not the ''disastrous Reagan tax cuts'' are responsible for this rise in the national debt. Let's take a look at who pays the income taxes in this country and, also, what the history has been of the tax rate. Here is the history of Federal tax receipts and personal tax rates on this chart. The red line on the bottom is Federal tax receipts expressed, again, as a percentage of gross domestic product. This is what we are measuring everything against, this chart showing the lines going up.

Do you notice a clear trend, Mr. President? Virtually from the end of the Second World War until now, Federal tax receipts have remained rock solid, within a narrow band, no lower than 18.5 percent and no higher than 19.5 percent of gross domestic product, averaging around 19 percent year after year. That is where it was, 19 percent, when the top marginal rate under Harry Truman was 91 percent. Then we had a tax cut. The rates went down slightly. John F. Kennedy recommended that it come down to 70 percent, and many people in this body were scandalized, saying we can't afford that heavy a tax cut, we can't afford to lose the revenue. So it came down from 90 percent to 70 percent. What happened to the receipts? They didn't change.

Well, you had this one blip that Lyndon Johnson put through to help pay for the Vietnam war in the tax rate, and it showed up with an upward blip in the tax revenue. But quickly the tax revenue went back to the 19 percent line and the tax rate stayed at 70 percent until the time came to drop it to 50. When the tax rate dropped from 70 percent to 50, what happened to the tax revenues? They stayed solid. As a matter of fact, they went up a little when the drop of 70 percent to 50 percent happened as the marginal rate.

Then Ronald Reagan convinced the Congress to pass the ''disastrous Reagan tax cuts.'' The marginal rate came all the way down to 28 percent. What happened to the revenues? They stayed right solid at 19 percent. Bill Clinton said, ''We have to get more revenue to balance the budget,'' and he forced the marginal rate, with Congress' help, back up to close to 40 percent. Actually, when you add Medicare on top of it, it is more than 40 percent. What happened to the revenue? Nothing. It stayed around 19 percent.

You cannot blame the ''disastrous Reagan tax cuts'' for the increase in the debt as a percentage of gross domestic product, because they had little or no effect on the tax receipts as a percentage of gross domestic product. Those are the facts.

Now, I said in my example that the businessman will be asked both to raise prices and cut prices. One of the interesting debates we have around here is that Members of the Republican Party stand up and accuse Bill Clinton of pushing through the ''largest tax increase in history.'' Then the Members of the Democratic Party stand up and say, ''That's not true, the largest tax increase in history was put through by''—the same two words, Mr. President—''Ronald Reagan.''

Who is right? Well, if you take nominal dollars, the Republicans are right. The Clinton tax increase was the largest in history. If you take constant dollars, adjusted for inflation, the Democrats are right. Ronald Reagan's tax increase was the largest in history. Now, he didn't call it a tax increase; he called it ''revenue enhancements,'' which infuriated conservative groups around town that looked upon him as their hero.

Reagan did exactly the thing that the businessman in my example did. He both raised prices on some products and cut prices on others. He raised taxes on gasoline, for example, while cutting tax rates on incomes. And what happened to the economy in the Ronald Reagan years? Let's go back to this chart.

As I say, this chart is the inflation-adjusted gross domestic product. The reason for all the fancy colors is not just to help keep you awake, Mr. President, but to demonstrate the differences in the various administrations. Understand that something that is done in one President's administration doesn't necessarily produce a result in that administration. Many times, the effects are felt years later. Nonetheless, to give us some guidance, here we have the growth of the economy during President Eisenhower's administration. It started up more vigorously in John F. Kennedy's administration. Why is that? That is the period of time we came down from 90 to 70. I don't know whether there is a direct cause-and-effect correlation, but it is certainly a significant enough issue to look at. We dropped the top marginal rate, and the rate of growth in the country goes up through Kennedy and remains through Johnson. Then you get a recession. It is flat in the last year of Johnson's administration and in the first year of Nixon's administration. Incidentally, Mr. President, that is the only year on this chart where we had a balanced budget—1969. It is an interesting correlation. It was flat. Then it starts to go up. But you get a recession that hits you; Nixon-Ford. Here is this recession, and Jimmy Carter becomes President. As we come out of that recession and get the advantage of the recovery out of that recession in his first 2 years, hits the 3d year, and gets another recession, and it becomes flat again. Ronald Reagan was President while we had what the economists called the ''double dip.'' The Carter recession; then they came out of it in 1981, and then the more serious recession that followed, and seriously it came down. But once that recession was over, the rate of growth that came out of those years for the balance of

Reagan term in the first 2 years of Bush's term was historically one of the finest we have ever had. Is there any reason for that? Well, that just happens to coincide with ''the disastrous Reagan tax cuts.'' This line that says percentage of GDP, unchanged by the change in tax rates and corresponds with the GDP that is going through the roof. Nineteen percent of this kind of growth produces a whole lot more revenue to the Government than 19 percent of a recession.

We cannot blame the tax policy relating to the top marginal rates for the deficit and our problems. It is very clear that the deficit is not driven by income tax policy.

If I might digress for just a moment, I would like to explain one of the reasons why the change in the income tax marginal rate does not produce a change in the percentage of income that comes in. This next chart demonstrates that because it tells us who pays the income taxes in this country.

The top 1 percent of households produce 13.8 percent of the income in this country. Many people say that is very unfair and they want to do something about it. But that is where we are. The top 1 percent of households produces 13.8 percent of the income. They pay 28.7 percent of the income taxes, or more than twice the percentage of the income that they receive. If you go to the top 5 percent, they get 27.8 percent of the income and pay 47 percent of the income taxes. In other words, the taxes that are paid on this chart, nearly half of them are paid by people in the top 5 percent of our wage earners. If you go down to the top 10 percent, this goes to 60 percent of the income taxes. What that means is that when you change this rate, the people who earn the most income, over here, have options as to what they will do with their money, and they will change their investment pattern to adapt to the Tax Code, consequently avoiding things that are high tax and moving into areas that are low tax, the result being that the percentage that they pay remains constant as measured in terms of GDP.

So what you want to do, again back to this chart, is make sure that the GDP is going up as rapidly as it was during the Reagan years in order to maximize your income because your income is going to remain a constant percentage of that GDP by virtue of who it is that pays the income tax.

Back to this chart, briefly. The bottom 50 percent pay virtually no income taxes at all. The bottom 50 percent gets roughly 15 percent of the Nation's wealth and they pay less than 5 percent of the Nation's income taxes. They, however, pay payroll taxes. They don't pay income taxes, but their payroll tax burden is inordinately high.

At this point, Mr. President, I would call the Senate's attention to a piece that appeared in the Washington Post on the 15th of April written by our colleague from Nebraska, BOB KERREY, and ask unanimous consent that it appear at the end of my remarks.

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

(See exhibit 1.)

Mr. BENNETT. Senator KERREY has summarized the problem for the people in the bottom half of income earners superbly well, and pointing out that they actually pay a higher effective rate on their income than people who pay income taxes down in this particular area of the chart. They do it in the form of payroll taxes, and that, as I have said on this floor many times before, is just one of the reasons why a complete restructuring of the Tax Code is absolutely necessary. But this is not the time. I don't have the time today to discuss that issue all over again. I am sure I will have a speech on that subject when we get into that later on.

If the deficit is not caused by tax policy, the tax policy is producing roughly the same amount of income regardless of what we do with it, and indeed, if the tax policy causes the gross domestic product to increase rapidly, let's look at the spending side. That is the only other place that the deficit can come from.

There are those in the Chamber who say, ''Well, it is all defense spending.'' Back to Reagan again, ''He is the problem because of his runaway spending for defense.''

Let's look at defense spending again by our same measure as a percentage of gross domestic product. The defense spending—we left these years out because this is the Second World War and the aftermath of the Second World War. Here is the Korean war. The green bars are Eisenhower, Kennedy, Johnson, and so on all at the way through different colors. Here is what we are spending in the defense budget in the Korean war. When the Korean war was over it dipped off, and then, starting here in the mid-1960's, the Vietnam war. Again there was a peak in 1968, the last year of Lyndon Johnson's Presidency. And then the spending tapered off and went down still further in the Carter years, and then Ronald Reagan did, indeed, call for a cold war buildup in his attack on the Soviet Union, and you got a bulge. But notice at the highest point of spending for the cold war buildup, it was substantially lower than at any time in the Vietnam war and less than half the spending in the highest year of the Korean war.

Now with the result of the cold war buildup having produced the destruction of the Soviet Union, we are reaping the peace dividend that people have been talking about for so many years. And the spending came down during President Bush's administration, and continues to come down during President Clinton's. It is now, as you go across the chart, at the lowest level it has been since 1940 as a percent of gross domestic spending.

Spending on defense even in the years of Ronald Reagan's buildup could not be responsible for the budget gap. It simply wasn't that significant. You put it in historic context and it is below historic levels in the other conflicts we have been examined. So, if it is not defense spending, it must be nondefense spending—nondefense discretionary spending—that has done this. Let's look at that.

Here is nondefense domestic discretionary spending from 1962, to 2002 projected. Notice where it hits its highest point. It hits its highest point during the Carter years. 1976 is the year Jimmy Carter is elected; 1977 his first year, 1978; the highest point in 1978 tapers off a little bit. If we go back in history, we find that this was a time of great domestic spending expansion. Again it started in the Nixon-Ford years, carried over into the Carter years, and then began to come down. It is back up—1992, 1993, 1994, 1995, the Clinton years. While not competing with the Carter years, his spending is coming back up after having gone down. But this is not the picture of disaster. This is a picture of some stability in spending in this area.

So if it is not defense spending, and it is not nondefense spending, what is it?

Now let us put up the chart that deals with entitlements. Here are entitlements as a percentage of GDP. The yellow portion of the chart shows actual entitlements. The pink portion is the baseline projected for the years ahead through the year 2007. You will notice there is a serious increase right here—late 1970's. This again was a period when Congress significantly expanded Social Security SSI and Medicaid. It was at the same time, a period of recession, when you come over to this chart and find that the GDP is shrinking.

So Congress is authorizing more spending while the economy is shrinking, and that produces these spikes. When the economy recovered, it starts to come down. But then you get another recession, and now it becomes even more serious in this recession that shows up in the first part of the Reagan term. Then the Reagan growth takes off, and you get that rapid growth period and you get a period where entitlement spending as a percent of GDP begins to come down.

But when the growth slows down and you get into the recession that hits in the end of the Bush Presidency, beginning of Clinton, what happens? Entitlement spending goes up. Then you realize what is built in, and what is happening to our demographics. And you see the baseline that the Congressional Budget Office says is going to occur from here on in, and you are into historic highs.

This is where the problem lies. It is not in defense spending. It is not in nondefense discretionary spending. It is in entitlements. And here is where it is showing up.

We will put up another chart that shows the contrast between discretionary spending as represented by the red line and entitlement spending as represented by the gray line. In this gray line, we have added another component that has not been in any of these figures up until now, and that is interest on the debt.

It is interesting. Here in the 1960's, John F. Kennedy is President. The amount of mandatory spending is substantially less than half the amount of discretionary spending. No big deal. The lines cross just about the time that we have been talking about in the mid-1970's when the debt started to go up as a percentage of gross domestic product. They stayed pretty much the same. And then with the recession that hit in the early 1980's, the gray line starts to take off, leaving the red line somewhat constant, going up but not all that much. Clearly the problem is in the gray line. Clearly the challenge that is creating the deficit is not on the tax side, not on the spending for normal Government activities represented by the red line, and clearly the problem of the deficit is the gray line which is mandatory expenditures combined with interest which is in and of itself a mandatory expenditure.

So that is where we are. Our challenge is to get the economy growing as rapidly as it did during the Reagan years, and then on the other hand begin to turn that gray line down so it can become a little bit flat. And that combination can bring us a balanced budget.

How do we do that? Get the gross domestic product growing more rapidly, and get expenditures under control. Those are our twin challenges.

I take you back to the image that we had at the beginning of this presentation, back into the boardroom where the CEO is sitting with his experts and they are telling him what he can do to manage his company more intelligently and solve the company's deficit problem. Remember the first recommendation he had, ''Raise prices.'' At the risk of offending some of the Members of my own party, I think there are places in this Government where we can raise prices. I think there are things we can do—if we want to use the Reagan euphemism, revenue enhancements—where we can charge more for the services we are rendering. That is heresy to people who say never ever raise taxes. I am one who says I won't ever vote for an increase in the marginal tax rate, but there are, all around the Government, things that could be raised, raised prices on those products that are not price sensitive and get a little more revenue into the Government.

Then, the second expert told the CEO, ''Cut prices.'' We are being told, no, if you try that in the Government, that is dessert, not spinach. There is no nourishment to that. I think we have shown clearly that, properly done, cutting tax rates in the right places in the right way can do what we need to do to increase the revenue of the Government by increasing the gross domestic product. Where is the best place to start on that? Clearly, for me it is capital gains.

Oh, says somebody, if you cut the rate on capital gains, you are going to benefit the rich because only the rich have capital gains.

As I have shown you, Mr. President, the rich pay most of the income taxes, period. The issue is not: Are you going to benefit the rich? The issue is how are these people going to allocate their capital in the way that will produce the greatest benefit to the economy as a whole? I say to any Member of this body, go back home, gather the venture capitalists, the real estate investors, people who are involved with moving capital around in your home State, and ask them this question: Are there deals that should be done that would improve the economy in this State that are not being done because of the current capital gains tax rate? If you ask that question, as I have asked it in my State, the answer will be: Every day deals that should be done are not being done because of the capital gains tax rate.

You have capital locked into mature investments which, if the capital gains tax rate were to come down, would immediately flow into entrepreneurial investments, thus creating new jobs. Alan Greenspan, who has been praised by Members of both parties for his deft handling of the monetary policy in this country, has said repeatedly on the record that the best capital gains tax rate for maximum benefit to the economy is zero. I would be happy to see that, but I am not going to put that proposal on the floor because I realize it will not pass. But if we were to do something about the capital gains tax rate, we would see the proper allocation of capital into the economy to produce the kind of growth that we need.

People say, ''Oh, no, the stock market is going crazy and a capital gains tax adjustment would simply drive the stock market still farther and still higher and the only people that get rich are the rich.'' Some portions of the stock market are going up. The Dow is going up. The Dow consists of 30 stocks. The NASDAQ, which consists of substantially more, is not going up nearly as rapidly as the Dow, and the Russell 2000, which consists of 2,000 companies down at the lower level, companies that are not in the Dow, they are not in the Standard & Poor's 500, they are down below that. The companies where the entrepreneurs are investing their money, and where the real new job growth in the future is going to come, is down substantially.

The Russell 2000 index, which hit its peak in January of this year at around 370, is now down to 340. If that drop were on the Dow rather than the Russell 2000, we would have financial analysts jumping out of windows, saying look how much trouble we are in. What that tells us is people are taking their money out of entrepreneurial activity and putting it into the huge stocks that they think can weather the coming storm. If we were to do something about the capital gains tax rate, people would be willing to put their money into the entrepreneurial sector of the economy and we would be building a base for future growth in the gross domestic product that would be enormously beneficial for us in the long run.

So back to my example. The first person said to the CEO, ''Raise prices.'' I say yes, there are places where we can raise revenue in the Government even now. The second person said to the CEO, ''Cut prices.'' I say yes, there are areas where we can cut tax rates and get benefit, where it is not dessert. It has just as much nourishment as spinach and probably tastes a good bit better. Then, of course, you will remember the third expert said to the CEO, ''Increase your spending, because you have an aging plant and aging equipment.'' The fact is, we need to increase spending in the Government in some areas.

Our highways are in trouble; our airport and airway system could use some infrastructure spending. We are taking the money that is in the trust funds for both of those functions and we are spending it for something else. I think we need to take a long look at places where we are being penny-wise and pound-foolish in the long term, as far as some spending initiatives are concerned. I know that to some this sounds like heresy, coming from someone on the Republican side, but it is sound management and for the best of our country.

Finally, we come to the final recommendation that was given to our CEO and that we hear around here a great deal, ''You have to cut spending.'' The answer is clearly, yes, we have to cut spending. Here is a chart that is not the past but the future, that demonstrates the challenge that we face. Like every estimate, it can be wrong, but it is the best estimate that we have. This is dealing with the two largest entitlement programs that we have, Medicare and Social Security. In the first 1996 set of bars, you see that Medicare, the red, is between 2 and 3 percent of gross domestic product; Social Security, the green, between 4 and 5. Ten years later, in 2005, Social Security remains stable, right about the same place. But Medicare, if nothing is done to deal with it, will have grown significantly. Then go out 10 years more. Social Security has now grown fairly significantly and Medicare has caught up with it. In 2025, Social Security has grown again very dramatically, but Medicare has outstripped it. And, in the year 2035, Social Security has grown some more and Medicare is going way past it.

This will not be of any concern to me. I will not be here in 2035. I may be here in 2025—my genes are such that I can expect to live to that year. But these young pages who are here on the floor will be in the height of their earning years in 2035, and they will be facing entitlements, in these two programs alone, which will eat up 15 percent of gross domestic product.

If you remember, what was the line on revenues on the previous chart? It was 19 percent of gross domestic product is all we get with our tax system. If 15 percent of gross domestic product goes to two programs alone, that means there will be nothing left for anything else. And, as the debt goes up as a percent of GDP, interest becomes an increasing problem and you quickly will be at the point in these years, the years when these pages will be looking for jobs or hoping to support families, when the Government will not have any money for anything other than entitlements. That is the future if we do not do something to get this under control.

My time has almost expired. This was not a speech to lay out detailed solutions. It was an attempt to put the debate in the right context, get it out of the context of the family sitting around the kitchen table. It is to understand that this economy operates more like a business and that it is a major economic entity that has to be managed intelligently. But it is very clear that entitlements have to be managed, along with the tax problem, and the other spending problems. We must get entitlements under control or we cannot solve this puzzle.

I suggest I would be willing to vote for means testing of entitlements; changing the definition of an entitlement, if you will, to this: You are entitled to this money if you need it. Absolutely the Government has it there for you. They are holding it for you, and as soon as you need it, the Government will give it to you. Instead of saying, ''You are entitled to Social Security payments, Ross Perot. You are entitled to Medicare, Donald Trump.''

I say, ''Ross Perot, if you ever fall on evil times, Medicare will be there for you. Donald Trump, if you ever go back into bankruptcy, you can draw your Social Security check, absolutely. You are entitled to it if you need it.''

The other issue we have to face, of course, is the question of cost-of-living adjustments. Built into this projection is the assumption that the present cost-of-living adjustment formula is accurate and fair. The Boskin commission has looked at that and said, no, the cost-of-living adjustments are overstated by at least 1.1 percent. We are going to have a debate about that on this floor. There are many people on both sides of the aisle who say, politically it would be crazy to try to do something about the way cost-of-living adjustments are calculated, let us just leave it as it is. I say to you the numbers say we cannot leave it as it is. We have to deal with reality.

Social Security is a wonderful program. It was put in place in the 1930's. Medicare is a wonderful program. It was put in place in the 1960's. We now live in the 1990's in an entirely different economy facing an entirely different kind of future. I suggest that ultimately what we want to do, as we deal with the challenge of our budget and our Nation's fiscal sanity in the future, is take a clean sheet of paper and say, ''The tax system that was designed 60 years ago no longer meets our needs. Let us write a new one. The retirement program that we put in place for our senior citizens 60 years ago no longer meets our needs. Let us write an entirely new one. The health care plan we put in place for our senior citizens 30 years ago no longer meets our needs. Let us write an entirely new one.'' And see if we cannot, as good managers, devise a system that will take care of the poor, take care of the elderly, deal with the challenges of the flow of capital in our country, and at the same time see to it that we get back to the rate of growth that we enjoyed during the Reagan years while holding the spending down.

All we need to do is see that the economy grows more rapidly than the Government does. That is all we need to do. That has to be our lodestar. We do not have to freeze the Government. We do not have to dismantle the Government. All we need to do is say we will follow policies that show that the economy will grow more rapidly than the Government will grow. When that happens—let's go back to the chart on debt as a percentage of GDP—we can see the bars start going in the right direction again. Once we get the discipline where the economy grows more rapidly than the Government, this trend will turn into this trend. The debt will start to come down as a percent of GDP in peacetime as it historically has, and our children can have confidence that we will have discharged our governmental stewardship intelligently.

Mr. President, I recognize that this has been lengthy. I do not apologize for the length because of the importance of the subject. I felt that all of this information which is counter to much that has been said on this floor on both sides of the aisle is important to put into this debate. I hope my colleagues who disagree with me will come to the floor and respond. But I hope the responses will be in terms of intellectual analysis and fact rather than political sloganeering on both sides. The issue is too important to be left to sloganeering. The issue is too important to be left to posturing for the 1998 elections, in which I have a rather strong personal interest myself. The issue has to do with generations yet to come of our children and our grandchildren. We owe it to them to do more than shout political slogans to each other but to see to it that we address this issue on the basis of the reality of where we are and where it is that we can go.

With that, Mr. President, I thank you for your time and attention and yield the floor.

EXHIBIT 1

[From the Washington Post, Apr. 15, 1997]

THE FORGOTTEN TAX

(By Bob Kerrey)

Today the income tax comes due for its annual flogging. April 15 is the day we reserve for outpourings of frustration about taxes. But the fact is that for average American families, the biggest tax burden is felt not on this day but on every single pay day, when 12.4 percent of their wages are taken to provide retirement income for senior citizens and operating revenue for government. This tax, known as FICA (the Federal Insurance Contributions Act), funds the most popular and successful government program in America today: Social Security.

FICA is forgotten when tax-cutting time arrives. But because of the way the income and the Social Security payroll taxes are structured FICA is often the biggest tax burden. A household is likely to pay 15 percent income tax, with large chunks of earnings shielded from it, but the 12.4 percent payroll tax applies flatly to all wages up to $65,400.

Consider: In 1995, the median U.S. household earned $34,076, placing it in the 15 percent tax bracket. Because standard exemptions and deductions shielded more than half its earnings, a family of four earning that amount paid just over $2,600 in income tax.

But because the payroll tax—6.2 percent paid by the employee and 6.2 percent more by the employer—was assessed against the family's entire income, it paid more than $4,200 in FICA. This disparity holds true for a family of four making as much as $56,600 or an individual making $30,000. I include the employer's share in those figures because that 6.2 percent represents lost potential earnings and bears at least partial responsibility for stagnating wages. But for a large number of Americans—particularly the self-employed—the payroll tax is larger even without an employer match.

The payroll tax to be sure, is collected for good purpose. By providing income for current retirees, Social Security has drastically reduced the rate of poverty among the elderly. It deserves its distinction at the most popular and successful government program in America.

But as tax policy, FICA also imposes serious burdens on working families. It is not just regressive, it's super-regressive. Because income above $65,400 is exempt, individuals earning more than that amount actually pay less as a percentage of income than those making less. It has economic flaws as well: All of FICA's proceeds go to consumption, either by current retirees or the government. None of the money is invested; to the contrary, the fact that these wages are being taxed means they are unavailable for families to invest for their own retirement and reap the benefits of the soaring value of capital in a global economy.

Most important, without reforms, the social contract on which Social Security rests—that each generation allows its wages to be taxed to provide retirement income, in return for a promise that it will receive retirement income from the next generation's taxes—is threatened by the program's looming insolvency.

There is a way to address each of these problems—Social Security's insolvency and the tax burden on working families—while strengthening the basic income-transfer premise of the program. I have proposed reform under which families would invest two percentage points of what they now pay into Social Security—2 percent of their total income—in Personal Investment Plans under their own control. These plans would provide a vehicle for building retirement wealth. By adjusting the age of eligibility for full benefits, correcting the consumer price index and other reforms, my proposal would shore up Social Security's solvency to ensure it continues to provide retirement income as well.

Because my proposal diverts income currently being paid in taxes to individual accounts owned by the taxpayer, it constitutes a tax cut that totals $300 billion over five years—50 percent bigger than even the most lavish ambitions of the Republican leadership of Congress.

Under this proposal, the hypothetical four member family described above would see its payroll tax burden reduced from $4,200 to just over $3,500, with the difference invested for the family's retirement. At 8 percent return—which is less than the historical long-term performance of the stock market—over the course of a 45-year working life, the family would build more than $300,000 in wealth.

And it would build a stake in America's success in a global economy. It is often lamented that the principal beneficiary of the globalizing economy has been corporate wealth, which is more readily shared with shareholders than employees. Employees with advanced skills prosper, those who lack skills are left behind, and the gap between the two is growing.

Just as troubling—more bothersome is some ways—is the gap in wealth. Skilled workers prosper in a global economy. So do owners of capital. The millions of middle-class Americans who own mutual funds and whose wealth is growing as corporate America thrives know this.

But the gap between those who own capital—and therefore a stake in America's success in the world—and those who do not is fast becoming a chasm. to take just one measure, a recent survey found that among households earning $35,000 or less—51 percent of all households and those most likely to pay more in payroll tax than income tax—only 18 percent own mutual funds. This is compared with 41 percent of households earning $35,000 to $49,000, 58 percent of those making $50,000 to $74,000 and 73 percent of households earning $75,000 or more.

Thus some households not only lack a stake in America's global success; they are often the ones most threatened by it. These are the families that see their wages stagnate and their jobs downsized while corporate profits—and the wealth of those who own a stake—rise on each report of their misery. Part of the solution is ensuring they have the skills to climb the income ladder; another is ensuring laws are written so workers are treated fairly. The other part of the solution—just as vital—is ensuring those workers own a stake in America's success.

Mr. REID addressed the Chair.

The PRESIDING OFFICER. The Chair recognizes the Senator from Nevada.

PRIVILEGE OF THE FLOOR

Mr. REID. Mr. President, I ask unanimous consent that privileges of the floor be extended to Maj. Gregg Kern, a congressional intern from the U.S. Air Force, during the pendency of the chemical weapons matter.

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

Mr. REID. I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The bill clerk proceeded to call the roll.

Mr. REID. 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. REID. Mr. President, I yield myself such time as I may consume of the time under the control of the minority leader.

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

RATIFICATION OF THE CHEMICAL WEAPONS CONVENTION

Mr. REID. Mr. President, I rise today to address this body on a most important issue, an issue which may affect our country and, of course, the citizens of our country. The Chemical Weapons Convention, when ratified by this body, will mark the beginning of a new arms control era.

I first stood before the Senate December 11, 1995, and urged that we bring the Chemical Weapons Convention to the floor for debate. I urged that this be done expeditiously and without partisanship. After many unsuccessful attempts, we are now in a position to debate the treaty on the Senate floor.

This treaty was negotiated and signed during the administration of President George Bush. The Clinton administration, after making its own assessment of the treaty, submitted it for the Senate's advice and consent pursuant to our Constitution in November of 1993. The Chemical Weapons Convention is truly a bipartisan effort and is now enjoying support from both sides of the aisle. The Chemical Weapons Convention has been signed by 161 countries and ratified by 68 of these countries and many more will ratify the convention once the United States does.

The Chemical Weapons Convention is not about eliminating our chemical weapons. The United States is already committed to eliminating our chemical weapons. We have done that unilaterally and have been doing that since 1985 because in 1985 we passed legislation requiring the unilateral destruction of all of our chemical weapons inventory. The only question since then has been how and where we do the destruction of the chemical weapons.

The convention will hold other nations to the same standards which we hold ourselves. How can this be viewed as anything but beneficial to the citizens of this country. The Chemical Weapons Convention requires signatory nations to destroy their chemical weapons inventory. The security of this Nation and our allies will be improved when the Chemical Weapons Convention enters into force on April 29 of this year.

Secretary Madeleine Albright, our Secretary of State, has said, among other things:

> The convention will make it less likely that our Armed Forces will ever again encounter chemical weapons on the battlefield, less likely that rogue states will have access to the material needed to build chemical arms, and less likely that such arms will fall into the hands of terrorists.

That is what our Secretary of State said, and I agree with her.

This treaty reduces the possibility that our Armed Forces will encounter chemical weapons on the battlefield by preventing signatory nations from producing and, also importantly, possessing chemical weapons.

Ratification does not prevent our military from preparing for chemical attacks, nor does the ratification diminish the ability of our military leaders to defend against a chemical attack. In fact, as I speak, our national laboratories are working on programs to test how we can defeat terrorist activities using chemical weapons. We need to have a program where we determine how we can eliminate rogue states that have these materials in their possession and terrorists obtain them. A lot of this will be going on at the Nevada test site in the deserts of Nevada.

Ratification does not prevent our military, as I have indicated, from preparing for chemical attacks. The Department of Defense is committed to maintaining a robust chemical defense capability. The defense capability will be supported by aggressive intelligence collection efforts and also the research and testing that I have indicated that will likely take place at the Nevada test site. The Department of Defense will continue to prepare for the eventual possibility of chemical attacks, and they will continue to train on systems which can be used to defend against such an attack.

The Chemical Weapons Convention requires other countries to destroy their weapons, I repeat, weapons that may someday threaten American citizens.

Gen. Norman Schwarzkopf, who became an American folk hero because of his activities during the Gulf war, has said:

> I'm very, very much in favor of ratification of the Chemical Weapons Convention. We don't need chemical weapons to fight our future wars. And frankly, by not ratifying that treaty, we align ourselves with nations like Libya and North Korea.

The 1925 Geneva Protocol does not—I repeat, does not—restrict possession and production of chemical weapons. The Chemical Weapons Convention fills that void by further rolling back the threat of chemical weapons.

The Chemical Weapons Convention prohibits the development, production, acquisition, stockpiling, retention, transfer and use of these weapons. It enforces these basic prohibitions through the use of a multinational economic and political sanction network.

I stress, the Chemical Weapons Convention makes it less likely that our Armed Forces will face these horrible instruments of power on the battlefield by prohibiting the production and the stockpiling of these chemical weapons. The convention also protects Americans at home from deadly terrorist attacks such as those that occurred at the Tokyo subway. It does not eliminate them but it adds to the protection that we in America have.