

our demands both for fundamental change in the way the tobacco industry operates and for financial compensation from the industry in a magnitude commensurate with the harm its misconduct has caused.

The tobacco industry strategy is now to entice its adversaries into negotiations by making a series of quick concessions—especially their acquiescence in public health regulation. What is striking about their concessions is that most of them are within the power of the Federal Government to impose tomorrow. We do not need industry consent to implement most of these public health protections. All Congress needs is the will to act. What the industry is offering to do is merely call off its lobbyists.

According to those participating in the negotiations, the tobacco industry will agree to abide by the current FDA rule, and will agree in principle to significant further restrictions on their marketing practices. As part of a settlement, the industry has said it is ready to accept the following things:

First, much stronger warnings about the addictiveness and health dangers of smoking on each pack of cigarettes;

Second, full disclosure of cigarette ingredients;

Third, elimination of vending machines sales;

Fourth, additional restrictions on the advertising it can engage in; and

Fifth, expanded FDA jurisdiction over tobacco.

In essence, after years of opposition, the industry has conceded that all of these restrictions are reasonable. These concessions will stand on the public record regardless of the outcome of the talks. The industry cannot credibly return to its former position. It is within Congress' power to enact each of these reforms now—and we should do so. Congress does not need the tobacco industry's consent before we legislate to protect the public health.

What the tobacco industry has not agreed to—and what is essential to the public health—is full authority for the FDA to regulate nicotine as an addictive drug. Such authority would give the FDA the power to order cigarette manufacturers to reduce the level of nicotine in their products.

The evidence strongly suggests that tobacco companies have been deliberately manipulating and strengthening the level of nicotine to make cigarettes more addictive. It is time to reverse the process and reduce nicotine levels. This too is within Congress' power to enact today.

For a generation, the tobacco industry has been remarkably successful in evading such restrictions. No current settlement can anticipate every marketing trick the industry will use in the future.

Therefore, Congress should accept no restriction on the authority of the FDA or State government agencies to impose additional restrictions on the industry as warranted by future events.

If the tobacco industry is sincere in its promise not to target children, it should agree to a results test. Substantial financial penalties should be imposed on the industry each year that tobacco use by minors does not decline by a specific percentage. Industry dollars should be used to fund a national education campaign to publicize the addictiveness of tobacco and the health risks of smoking.

The financial settlement reportedly offered by the tobacco industry—\$300 billion over 25 years—sounds enormous at first blush. People hear the \$300 billion and don't register the 25 years. They are offering \$12 billion a year. That number pales in comparison to the harm the industry causes. According to the Congressional Office of Technology Assessment, cigarettes cost the United States \$68 billion a year in health care costs and lost productivity.

Some 419,000 Americans die each year due to smoking-related illnesses. Smokers lose an average of 15 years of their life. At current smoking rates, 10.5 million people will die prematurely due to tobacco during those years. Collectively, they will have lost 157 million years of life. Suddenly the industry's settlement offer does not sound large anymore.

If a financial settlement to compensate for past injuries is ever agreed to, payment should be made from the tobacco companies' profits, including the profits from their nontobacco subsidiaries. That would be the source of payment for any court judgment. It should similarly be the source of payment for any settlement. Compensation should come from the pockets of the wrongdoers.

Any increase in the tax on tobacco products—and I believe there should be a substantial one—should be used to fund needed initiatives to improve the Nation's health. No settlement proposal should seek to limit or cap, either directly or indirectly, Congress' authority to enact future tobacco tax increases. The cost of treating smoking-related diseases and the cost of lost productivity caused by those illnesses amount to \$2.59 for each pack of cigarettes sold in the United States. We have a long way to go to recover those costs.

Such a tobacco tax increase should be large enough to discourage children from starting smoking. Higher tobacco taxes are one of the most effective weapons in reducing smoking amongst young people.

For generations, tobacco companies have targeted teenagers for a lifetime of addiction. It is especially appropriate therefore that revenue from a tobacco tax increase should be used to provide affordable health insurance coverage for the Nation's 10 million uninsured children. Senator HATCH and I have proposed a plan to do that, and we intend to do all we can to see that this Congress enacts it.

We also hear that the industry wants blanket immunity from suit for its dec-

ades of willful wrongdoing as the price of a settlement. If that is the price, there will be no settlement. It would be unconscionable to deny people poisoned by tobacco their day in court. Each year, millions of Americans learn that they have diseases caused by smoking. In too many cases, it is beyond our power to restore their health. We must never permit the tobacco industry to extinguish their right to justice as well.

The industry's current settlement proposals are utterly inadequate. Whether measured by the scope of regulation to protect the public health or the amount of financial compensation for past wrongs, tobacco company proposals fall far short of a reasonable offer. I am confident that those representing the public interest will never accept such a lopsided settlement. Certainly, no one should think for even a moment that Congress will put its stamp of approval on such an outrageously inadequate plan.

MEDICARE

Mr. THOMAS. Madam President, we want to take some time this morning to talk a little bit about an issue that is very current, is always current, but particularly current because the trustees of Medicare have given their annual report. So we want to take some time and talk a little bit about an issue that all of us are very much interested in. I think, universally, we want to keep health care for the elderly. But the difficulty has been in facing up to some of the realistic changes that have to be made if, indeed, we are going to continue to have Medicare.

The conflict has always been a political one, frankly, between those who say Medicare is the third rail of politics—touch it and you are dead. So nobody wants to talk about it. At the same time, there is a growing recognition, a growing certainty, that unless you make some changes, this program will not be available for the elderly in years to come. So there will be several of us talking about that.

First, I would like to yield to my friend, a very strong spokesman on this and other issues, the Senator from Idaho.

The PRESIDING OFFICER. The Senator from Idaho [Mr. CRAIG] is recognized.

Mr. CRAIG. Madam President, I thank my colleague from Wyoming for bringing this special order to the floor and to the attention of our colleagues.

For those who are watching this morning, yesterday, the Medicare trustees issued a report that was no surprise but, clearly, once again, reaffirmed to the administration and to the Congress of the United States that there is no good news when it comes to the strength and stability of the Medicare trust funds. What we had hoped for was just news. Knowing that it wasn't going to be good, the question was how bad was the bad news going to be?

Two years ago, the trustees forecasted that the Nation's Medicare Program would be bankrupt, out of money, by the year 2002. Just last year, the trustees revised that prediction, saying bankruptcy would come sooner, in the year 2001. CBO has also predicted that the trustee fund would be broke by 2001, that it would run a deficit. It is now running a deficit. It did for the first time this past year, and it will run a \$10 billion deficit this year. In other words, more money is being pulled from the trust fund than is now flowing into the trust fund to make it safe and secure.

So let's face it. Our Medicare system is in critical condition, and it deserves to be treated as a patient with an illness. In this instance, we—the Congress of the United States and the President—are the doctor. Or, another way to say it, Madam President, is we sit on the board. We are the board of trustees, and the President is the chairman of the board.

It is our responsibility to fix the problems that are now very, very clear, and which have been repeated for 5 years in a row by the trustees of Medicare. Two-thirds of these trustees are appointed by the President—this President. It is their job to report to him, as they did yesterday, and to the Congress on the health of Medicare. And they have reported that the health is not good at all. So, for 5 years running, not only have we received these reports, but the administration has received the identical reports.

Last year, recognizing that, we dealt with it. We looked at a 30-year-old health insurance program that provides health insurance coverage for 35 million Americans and said, in that 30-year history, it really hasn't had major overhaul or reform to fit modern health care needs and to fit modern seniors; therefore, we ought to do something about it. And we did.

That reform went in the balanced budget down to the White House, and the President vetoed it. For a year after that we saw television ad after television ad saying that the Congress of the United States had been irresponsible, that somehow they were trying to destroy Medicare as we know it for the stability and the security of our seniors when, in fact, we had offered a variety of modern options that would not only provide seniors with adequate health care and health care coverage but would address the deficit that, once again yesterday the trustees, appointed by this President, said, "Mr. President, Congress, we report to you that this sick patient called 'Medicare' is growing sicker by the day and that it is still a 2001 bankruptcy, but it is not going to be late in 2001 now. It is going to be early in 2001."

My guess is, if we do nothing this year, the trustees will come back next year and say, "Well, it is not going to be early 2001 now. It is going to be late 2000."

What is the point of our discussion here today? The point is that we are

prepared, as a Congress of the United States, to work with this President to reform Medicare, to save it, to secure it, to strengthen it, and to modernize it for the senior citizens of this country.

I mentioned 35 million Americans being covered. By the year 2001, it is going to be 38 million Americans. So there is always a growing and greater dependency on this program. It clearly is our responsibility to address it, and to address it in the right and appropriate fashion. That is a bipartisan approach. That is the President and the Congress of the United States sitting at the same table. That is not one party trying to lead over another. I am sorry, the House and the minority leader of the House, it is not a political game anymore. You are not going to get any more mileage by demagoging or by pulling the programs out and sticking them under the general fund and allowing them to increase beyond the rate of private health care in this country.

It is time that we must come together as a group—the board of trustees, those responsible for the strength and security of Medicare—and address it in the appropriate fashion.

THE GOVERNMENT SHUTDOWN PREVENTION ACT

Mr. CRAIG. Madam President, I want to address one other issue briefly. It is going to become one that all of us will be increasingly involved in as this month plays out and as the House works on it. The Senate will soon deal with the supplemental appropriations.

My colleague from Texas, Senator HUTCHISON, has just entered the Chamber. She, I, and the leader all have recognized the importance of this supplemental appropriations. But we also recognize the importance of avoiding the kind of budget battles in the future that allowed the shutdown of Government a couple of years ago.

So the Senator from Texas has introduced what I call—and I believe she calls—a "safety net" funding mechanism for 1998 that will disallow Government shutdowns. We call it a "continuing resolution." We simply say the budget process goes on and the appropriating process goes on, and, while we work out our differences with this administration, let us pass a continuing resolution that is 98 percent of 1997 levels so that we continue to gain our savings toward a balanced budget, but we can turn rationally to the Government itself and say, "We are not going to hold you out as hostage. It is important that we work cooperatively together."

I hope that we will continue to look at this. It is time that we deal with it directly. The bill is clearly about politics as usual, and it would change the whole dynamics of the debate. It would allow us to work in a timely and appropriate fashion on the necessary appropriations bills. Twenty-seven days of Government shutdown in December 1995 and January 1996 furloughed over 800,000 Federal employees. There was a lot of political posturing. But in the

end nobody gained, and a good number of people got hurt. The Congress of the United States and the President weren't doing what they should have done.

The Government Shutdown Prevention Act as a continuing resolution coupled with the supplemental will build that very kind of safety net so we can go ahead to continue to work together in a bipartisan manner as we work to resolve our budget differences, strike a budget that is balanced by the year 2002, and deal with the Medicare crisis impending by the reports of the trustees of just this past day.

These are important issues that the Senate of the United States and this President must come together on. I hope we can do that in the next month, especially on supplementals. But I also hope the President recognizes that Medicare really doesn't deserve to be tinkered with nor nibbled around the edges anymore as a way of solving the problem.

We don't need a 1-year or a 2-year fix. We really need a long-term reform approach that strengthens, maintains, and offers a variety of options for the seniors of our country so they can have the understanding that this Congress has dealt with their concerns in a way that should not alarm but assures them a strong and a safe program.

I thank my colleague from Wyoming for establishing this special order. And I yield the floor.

Mr. GRAMS addressed the Chair.

The PRESIDING OFFICER. The Senator from Minnesota.

Mr. GRAMS. Madam President, thank you very much.

(The remarks of Mr. GRAMS pertaining to the introduction of S. 652 are located in today's RECORD under "Statements on Introduced Bills and Joint Resolutions.")

Mr. THOMAS addressed the Chair.

The PRESIDING OFFICER. The Senator from Wyoming.

Mr. THOMAS. Madam President, I would like to return to our conversations about Medicare, and I am very pleased to have my fellow Senator from Texas here. Senator GRAMM has been chairman and continues to be chairman of the task force on health care, and I am particularly pleased he has joined us this morning to talk about Medicare and Medicare reform.

Mr. GRAMM addressed the Chair.

The PRESIDING OFFICER. The Senator from Texas is recognized.

Mr. GRAMM. Madam President, I thank Senator THOMAS for his leadership today by asking people to come talk about Medicare. I am the chairman of the of the Finance Committee's Health Care Subcommittee, which has jurisdiction over Medicare. I wanted today to come over and talk about Medicare in light of the report issued yesterday afternoon at 4 o'clock which reaffirmed that Medicare is in the red for the first time in its history and that the trust fund which funds the hospital care portion of Medicare will

be totally insolvent in 4 years. The cumulative debt that will be imposed on the American people by the existing Medicare program in the next 10 years will rise to \$1.567 trillion—that is “trillion” with a “T.” Obviously, a lot of people were alarmed by this report. I agree with virtually everything that the Secretary of Health and Human Services, Secretary Shalala, said, except one comment. That one comment was when she sought to reassure people that there was no current crisis in Medicare. Madam President, if this is not a crisis, I would like to know what a crisis looks like.

What I would like to do today, very briefly, is to outline the crisis. I am a firm believer in the old Biblical admonition, you shall know the truth and the truth will make you free. So I want to start with the bad news, because if we do not understand this problem, there is no way we can fix it. Then I would like to conclude with the good news. The good news is that as bad as the problem is, we can fix it. We can strengthen Medicare for existing beneficiaries, and more importantly, we can restructure Medicare to guarantee that it is going to be there for our children and our grandchildren. But we cannot do any of these things if we are not willing to make tough decisions.

Part of the problem we face is that the Medicare has been too politicized with fear. It has been used as a partisan issue. The President has probably been more irresponsible than any public official on this issue. What we are going to have to do—and by “we,” I mean all Members of the Senate, but specifically I mean Republicans—is set aside all of the partisanship on Medicare. We are going to have to forget the bitter experience of the last election where the President, in essence, said to the American people, “There is no problem, this is simply Republicans who want to cut your benefits.” We can pout about it, but pouting will not solve the problem. What we have to do is to get on with the solution.

Let me try to define the problem. If this sounds overwhelming, it is because the problem is overwhelming.

First, Medicare was enacted in 1965, and when it started, it was to be funded by a 0.7-percent tax on the first \$6,300 of earnings of all American workers. That was going to pay for Medicare. In fact, the cost projection for Medicare made in 1965 for the year 1995 was only off by a margin of 100 to 1. In other words, the program turned out to be 100 times more expensive than was originally predicted when Medicare went into effect.

We started with a 0.7-percent tax on the first \$6,300 a year you earned to pay for Medicare, but have since raised that tax on a continuing basis. Today it is 2.9 cents out of every dollar of income earned by every American worker. Yet, despite that massive increase in taxes, the Medicare trust fund is still exhausted; it is in the red. The trust fund is not only in the red, but all

of the existing assets will be depleted in 4 years.

When you add up the both parts for Medicare, the part that pays for hospitals and the part that pays for doctors, according to the Congressional Budget Office, the nonpartisan accounting branch of the Congress that looks at these numbers, we are looking at roughly \$1.6 trillion of debt in Medicare within a decade. That is the crisis.

Unlike a lot of crises that we talk about in Congress, this is not something that is going to happen in sweet by-and-by. This is something that is happening right now.

I have a chart that shows the estimates that are made by HCFA, a part of Health and Human Services and obviously, part of the Clinton administration. This chart shows the financial health of the Medicare trust fund beginning in 1995, where we had a very slight surplus. That now is virtually exhausted, and unless we make dramatic changes in Medicare, this exploding red chart shows what is going to happen in terms of the debt of the Social Security trust fund.

For example, 32 years from today, the debt of Medicare, simply the hospital part of the program, will be over \$11.5 trillion. I don't know how to define a trillion dollars, but I have a constituent who knows what a billion dollars is, Ross Perot. I may have a few constituents who know what a million dollars is, and most of us know what a thousand dollars is. But not many of us know what a trillion dollars is.

Let me put it another way. In 32 years, unless we do something, the debt of one-half of the Medicare program will be over twice as big as the whole current national debt. Needless to say, whether you are a Democrat or Republican, liberal or conservative, whether you work for the Urban Institute think tank or whether you work for the Cato conservative think tank, everybody who has looked at this problem with any degree of scientific basis concludes one thing: This is not sustainable. Twenty-five years from now, if we don't change this program, we are going to have to triple the payroll tax in order to pay these benefits.

I want to remind you that the average American family now is paying over 15 cents out of every dollar they earn in payroll taxes and, at the margin of the last dollar they earn, 28 cents out of every dollar in income taxes. If such an explosion in the tax rate at a moment where we have the highest tax rate in American history, as we do today, doesn't frighten you, it should.

What is causing this problem? There are really two causes. The first one is an explosion in Medicare per capita costs. It is easy looking back at 1965—when many of us were not in the Senate and when some of us were in college and not worried about this problem—and criticize people who wrote the Medicare program. But in retrospect, the structure of the system

makes no sense. I will give you only one example.

On hospital care, a big component of Medicare critical to our seniors, if you are in a hospital for up to 60 days, you have no copayment. Every penny of the hospital bill, except for a deductible, is paid by the taxpayer, but on the 61st day, you become responsible for a copayment of \$190 a day. On the 91st day, it goes up to \$380 a day, and on the 150th day, they throw you out in the street. If you have been in a hospital for 61 days, you are sick. If you have been in a hospital 61 days, the presence of a copayment is not going to change your behavior, because you are already very, very ill.

What this irrational structure has done is it has forced our seniors to dig into their pockets and pay between \$1,100 and \$1,300 for what is called medigap insurance. My mother pays about \$1,100 a year for a medigap policy that fills up all these gaps in Medicare so she doesn't have to worry about losing her home if she ends up in the hospital for an extended period of time. But once she has paid for this medigap policy, she then has no copayments and no deductibles on anything other than prescription drugs.

So what we have done is set up a system where the copayments are at the end of the system, inducing people to have great risk, but they do not change anybody's behavior. Instead, force people to spend a lot of money to guarantee against it, but once they spend the money, health care to them is free.

There are a lot of reforms we need in Medicare, but two are obvious to a blind person. No. 1, we need to give our seniors the ability to pick and choose among competing alternatives, not just an HMO in places where one is available. They need to have a whole range of other options that people can choose. The Federal Government needs to do something in Medicare which long ago everybody else started to do, and that is bargain. The Federal Government with Medicare is the largest consumer of health care in America, and it is the only consumer that does not bargain on the basis of price.

The second thing we need to do is reform the current Medicare policy to put the deductibles and copayments up front. I know this sounds extraordinary, but I want to mention it today. As the debate unfolds, I will talk a great deal more about it. We could take the amount that the average senior is now spending on health care, including what they spend on medigap insurance, copayments, deductibles, and pharmaceuticals—which is not covered, and instead have a simple deductible of \$1,000 and copayments of 20 percent, with a cap on those copayments of \$1,000. Doing this would change the system in a way where the average senior would not be spending 1 penny more than they are currently spending. But by changing the incentive, we could save enough money to pay for pharmaceuticals for all of our seniors. The

cost of such a drug benefit is \$62 billion over the next 5 years. That is how inefficient the system is.

So we want to defend the benefits and defend the seniors, but we have to be willing to fix a system that is broke. If we do those things, we can stop the explosion of per capita costs, and we can actually improve the system, in my opinion.

That is only part of the problem. The next part of the problem is a demographic time bomb, and let me explain how it came about and how big the problem is and then talk about how we fix it.

When Medicare was written, something extraordinary was going on in America. It was 1965, and what we call the baby boomer generation was just beginning to enter the labor market. This chart I have shows the birth rate in America from 1930 to 1985. It is a pretty extraordinary chart. What happened is that the birth rate was relatively low in the Depression. There was a little spike during the war. But when Americans came home from the war—while economists were worried about whether we were going back into the Depression or what the future was going to look like—Americans decided the future was going to be great. One of the things they started doing was having babies at an unprecedented rate since the colonial period.

In fact, a number of Members of the Senate today were born as part of this baby boom generation.

When Medicare was written, it was the first year a baby boom group had entered the labor market. In fact, these first baby boomers, born in 1946—causing this big spike—came into the labor market the same year that Medicare was written. That year four times as many new workers came into the labor market as had come in just 2 years before, and as far as they could see, it did not look like it was ever going to end.

However, had they actually gone over to the Census Bureau and looked at the data, they would have seen it had already ended. But, when you are spending money and making people happy, you do not want bad news; you want good news. The good news was we were about to have this explosion of new American workers, and so Congress decided that we could fund Medicare by simply using a transfer payment, almost like a chain letter, and I do not intend to be critical. They decided that these workers are so numerous—and wages immediately after the war had grown twice as fast as they had grown in the modern era—that we can simply tax them and begin providing medical benefits for retirees immediately, funding this as a transfer payment.

Now, this system worked great until these baby boomers started to near retirement. This chart is an extraordinary chart because you can see where we are. The people who are retiring today were born in 1932. You can see from this chart the birth rate in 1932—in fact, here it is, 65 years ago. The

birth rate in 1932 was relatively low, and in fact this year only 200,000 people are going to retire. This is as good of a year as we are going to get.

In fact, these should be the best years in the history of Medicare. These are really the fat years since there are relatively few retirees and every baby boomer is still in the work force.

Let me just use a story from the Bible. Remember Joseph, Jacob's son, who was the favorite son of his father because he was real smart. His father bought him a multicolored coat. You remember the story. His jealous brothers kidnaped him, hid him in a well and sold him into slavery in Egypt. One day the Pharaoh of Egypt dreamed of seven fat cows and seven skinny cows. The seven skinny cows ate the seven fat cows. Nobody could interpret the dream. Then he hears about Joseph, this guy who can interpret dreams. He sends for Joseph, and he interprets the dream. He explains that there will be 7 years of plenty followed by 7 years of drought. The Pharaoh commissions Joseph to set up stores of grain during the years of plenty. He stores the grain, and then the drought comes, and the people are happy.

Now, today we are in the fat years. We have all these baby boomers still working. We have the lowest number of people retiring that we have had in the recent past or that we will ever have again in the history of the country. Yet in the midst of the fat years we are broke. In the midst of the fat years there is no grain being stored. We have guaranteed benefits to a whole generation of Americans, and we have not set aside a penny to pay for them.

Whereas only 200,000 people are going to retire this year, 15 years from today 1.6 million people are going to retire, and that number is not going to change for 20 years. The impact of that is cataclysmic—cataclysmic.

Now we are beginning see apologists write letters and say, OK, look, people like this guy GRAMM and a lot of other people are saying we have this terrible problem. We are going from 5.9 workers when Medicare started per retiree to 3.9 workers per retiree today to 2.2 workers per retiree by 2030. People who say, don't worry about it might agree that we are about to have this huge number of people retire and claim a benefit for which we cannot pay. But, they say, we can rejoice in the fact there are fewer children, and since the average family spends \$110,000 on things for their children before they are 18, we could get them to give us that money so that we could spend it on somebody else. We might be able to solve this problem with additional taxes.

Well, look, here is the problem. We do spend mammoth amounts of money on our children, but we are joyful givers in doing giving to our children. People do not feel the same way about paying taxes. We are pretty efficient in spending money on our children most of the time, yet our Government is not terribly efficient.

That is the problem. I do not care how you try to gloss over it, this is a big problem. Solving this problem is going to cost more money in real, inflation-adjusted dollars than it cost to win World War II.

So what is the good news? The good news is the following. No. 1, today, the average 22-year-old worker, who is paying 2.9 percent of their income into Medicare, and is paying for Social Security benefits, unless we do something and do it quickly, will never get the kind of benefits I would. It would not be possible to get the kind of benefits their parents are getting today. But if they simply took 1.3 percent of their wages and invested that in an annuity that earned a 3.0-percent real rate of return—a pretty conservative rate of return—they would have assets when they retired at 65 big enough to fund a private health policy that would cover everything Medicare covers.

Now, think about it. The average 22-year-old today is paying over twice what they would have to pay if they could simply set aside part of their income to pay for their own retirement health care. In fact, the average 39-year-old worker, if allowed, could put that 2.7 percent into a real investment, instead of giving it to Medicare, and could fund their health care in retirement.

Now, what we are going to have to do to fix Medicare is the following. We are going to have to, first of all, set up a system where young workers can put at least part of what they are paying into Medicare today in a real trust fund that will guarantee them some health care benefits. If we do not do that, we are simply going to have a generation that is going to pay for benefits that they never get.

So the first thing we have to do in dealing with this long-term structural problem is to take at least part of the tax for Medicare being paid by young people and set up a real trust fund for them.

Second, we are going to have to admit that we have an unfunded liability on Medicare of \$2.6 trillion. Now, swallow hard and think about that number. That is the number that we owe because we guaranteed these benefits, and we never set aside any money to pay for it.

What we are going to have to do is take part of the premiums of young people and invest them to guarantee their benefits. Over the next 50 years we are going to have to come up with \$2.6 trillion to pay off this debt we have. That is a lot of money, but let me tell you, if we set up a transition program, we could do it.

Let me conclude with this point. We are in the midst of a budget debate. You are going to hear in the next few weeks debate on the floor of the Senate about the budget, and you are going to hear people talking about cutting Medicare or politicizing the Consumer Price Index to cut Social Security to pay for balancing the budget or to pay for tax cuts.

We are not going to make money by saving Medicare. We are not going to make money by saving Social Security. Anybody who thinks that by saving Medicare we are going to enable ourselves to spend money on other things simply does not understand the problem. It is going to cost money to save Medicare. It is going to, 20 years later, cost money to save Social Security. And if we want to balance the budget, we are going to have to do it by having less bureaucracy and less Government. Every penny we save in reforming Medicare has to go to save Medicare. If we ultimately, as a result of decisions by economists and not politicians, change the Consumer Price Index and we save money on Social Security, every penny of that money has to go to strengthen Social Security. We cannot let Congress go out and spend it on something else because the problem is already a severe problem, and every day we put it off it gets worse.

Let me conclude with the Fram oil filter argument. If today we decided to fix Medicare and change the system to stop the explosion in per capita cost, then get Medicare benefits purchased by the Government as purchased as efficiently as medical care purchased by the private sector, then we set up a 50-year transition program that allowed us to pay off the money we owe to provide the benefits to current beneficiaries of Medicare, it would cost us about \$2.6 trillion, which is about half of the existing Federal national debt. We owe the money we committed. We are going to have to pay it. But if we wait 10 years to do anything, that unfunded liability is going to rise to \$3.9 trillion. And if we wait 20 years to do anything, it is going to rise to \$6.1 trillion, which is bigger than the current national debt.

So what we have to do in Medicare is this. First, we have to admit that we have a terrible problem, and it really boils down to two things. No. 1, we do not have a system that is efficient and that encourages economy, and we have to change it. No. 2, we have a huge unfunded liability because Congress has guaranteed all these benefits year after year. At the very moment when we ought to be piling up big surpluses to pay for these benefits, the system is going broke.

So we have all these guarantees and we have not a penny to pay for them. And we are going to have to pay for them. Nobody is arguing that we forfeit on these commitments we made.

Now, I know, as we get into this debate, there will be people on the floor of the Senate and there will be many professional advocate groups that will say, my goodness, you are talking about these big debts. Don't you realize this is Medicare, and it is wonderful and it is great? That is like when you are trying to call the fire department because the house is on fire, and somebody says, well, it is burning, but isn't it a beautiful house? Isn't it great and don't we want to keep it the way it is? Well, the point is it is on fire.

The second thing we have to do is to come up with a long-term funding mechanism. All these issues can be demagogued. All of them can be very rich politics for somebody who wants to exploit them. But look at the cost of doing that. The cost is dramatically changing the real income of our children and grandchildren.

If we do not deal with Medicare now, if we do not deal with Social Security 15 years from now, we are going to have the first generation in American history that is going to have lower living standards.

I am not saying these problems are easy to deal with. When you guarantee a benefit and you do not set aside money to pay for it, when people start claiming it, there is no easy out. But the point is, there are things we can do. And we have been putting off and putting off and putting off doing something about Medicare. The time has come to start making some tough decisions.

And it seems to me, Mr. President, that on the day when we have just gotten another report from the Social Security trustees and from the Medicare trustees basically saying, "Alert. Medicare is going to be insolvent in 4 years," and it is going to have a cumulative debt for the hospital and physician portions of about \$1.6 trillion over the next 10 years, the time has come to do something.

I hope we can do it on a bipartisan basis. As chairman of this subcommittee, whether we have a budget or not, my goal is going to be to try to do something about Medicare. This is not a budget problem. This is not about the deficit. This is about maintaining the viability of a program that is critically important.

As I said yesterday at a press conference, there are a lot of things I am going to do in my life that I do not want to do. But I am never going to pick up the phone and call my 83-year-old mother, and say "Momma, Medicare went broke today. It went broke because Congress didn't want to tell anybody that there was a problem, and we didn't have enough courage to do something about it."

I am going to talk about this problem a lot because 4 years from now all America is going to know about it. And 4 years from now every Member of the Senate who is still here is going to have to answer the question: Where were you when all this happened? Where were you when all this was going on? Why didn't you say something about it? Why didn't you do something about it?

I am going to say a lot about it. I hope to do something about it.

I want to thank the Chair for giving me this opportunity today to come over.

This is a speech that is going to have to be given many, many times. The first reaction, when you get news like this, is denial. I guess it is sort of like going in to see the doctor, and the doc-

tor says, "Well, I hate to tell you this, but you've got a debilitating disease that can ruin your life." I mean, the first thing we all want to do is say, "No. You have messed up this test. This is somebody else's test. This can't be me. I am a guy that works out. I run. I say my prayers. It's not me."

But in my concluding remark, let me say that while this is the doctor saying, "You've got a debilitating disease and it can ruin your life," the important thing is that the doctor also is saying, "but I can cure this disease. I can cure this disease. But the cure involves you changing your lifestyle. You're going to go on a diet."

Now it is up to us. I am ready to do both. And I am confident ultimately Congress will—ultimately we will fix this problem. If we do it now, the burden is going to be heavy but it is going to be bearable. If we delay it we are going to end up ultimately denying some benefits and we are ultimately going to lower the living standards of the next generation. Both those things can be avoided. I hope we can avoid them.

I yield the floor.

Mr. KYL addressed the Chair.

The PRESIDING OFFICER (Mr. THOMAS). The Senator from Arizona.

Mr. KYL. Mr. President, I want to, first of all, thank Senator GRAMM of Texas for his leadership in dealing with this Medicare funding crisis that faces our country. The comments that he just made ought to illustrate to us why it is incredibly important for the Senate and the House to work very quickly to address the challenge set forth in the report issued yesterday by the President's trustees on Medicare.

As Senator GRAMM pointed out, and I will quote from the trustees' report:

The Part A Hospital Trust fund will be able to pay for benefits for only about four years [until 2001] and is severely out of financial balance in the long range. The trustees urge enactment of legislation this year to further control program costs and extend the life of the trust fund.

Clearly, Mr. President, the time is upon us. We cannot wait any longer. What I am going to talk about briefly today is the fact that we have some proposals that are very short range and very minor in their improvements, while Senator GRAMM is taking a longer look at the problem here toward the end of fixing it for a long time so that we do not have to keep putting these Band-Aid, short-range approaches into effect.

The primary problem is caused by the aging of the baby-boom generation. Instead of this generation providing the workers who are supporting, with taxes, a relatively smaller number of people in retirement, those baby boomers are going to be the retirees who need the medical care, and they will not be supported by as large a group of workers as exists today.

The Medicare part A hospital program is already starting to feel this baby-boom bulge. As I said, it is caused

by the rapidly aging group of baby boomers turning 65 and becoming eligible for Medicare.

Medicare will hospitalize 200,000 more seniors this year than last year. And the net increase will get larger and larger until it plateaus somewhere between the years 2012 and 2032. During that 20-year period, the system will experience a steady net increase of 1.6 million new seniors per year. Think of that, Mr. President, 1.6 million baby boomers retiring each year for 20 years, creating this huge bulge of retirees that are going to be eligible for Medicare benefits.

And at the same time, during this same period, the relative number of workers is going to be decreasing so the payroll tax revenues will dramatically decline. Without prompt congressional action and Presidential support—it is obvious; and the trustees made this point yesterday—Medicare will soon be unable to fulfill its commitment that our Federal Government has made to our retiree population.

Let me discuss briefly the two plans of the parties. Neither the Republican plan or Democratic plan, frankly, were sufficient last year to deal with this problem.

The Democratic plan relied primarily on provider reimbursement reductions to reduce costs. That means we just pay the hospitals and doctors less money to do the same thing. Well, there is a point beyond which that does not work. Obviously, the hospitals and doctors do not have to treat these patients and they will conclude after a point that it simply is not cost efficient for them to do so and they are not going to do so.

Unfortunately, the Republican plan also relied, to a certain extent, on reductions in reimbursement to providers though less heavily than the Democratic plan.

The Republican plan also had another feature which was good and that was that there had to be some real reform in the system. And competition was the centerpiece of that reform. The idea was that you controlled costs by having increased competition among those who were providing the benefits to the Medicare patients. You create different products—products that have names like PPO's, preferred provider organizations; PSO's, provider sponsored organizations; and Medicare savings accounts, MSA's; to go along with the HMO's, the hospital managed organizations; and others that provide the care to the seniors through different mechanisms, different combinations of hospitals and physicians, sometimes in what are called capitating plans, sometimes in other kinds of plans, but all of which are competing with each other and therefore through that competition costs are kept in line.

The Republican plan also included medical malpractice reform to curb the high costs of defensive medicine practiced by physicians and hospitals as a means of avoiding liability lawsuits.

The Congress and the President have acknowledged the need to slow the rate of increase in Medicare costs. According to the Congressional Budget Office, the President's current proposal would save about \$89 billion over 5 years. The Republican plan last year would have saved about \$105 billion over the same period, along with the savings attributed to increased competition. But the key point here is that no one contends that either of these plans will achieve long-term solvency. More is needed to save Medicare than just greater reductions to reimbursement providers.

As I said, the overload of the system begins in about the year 2010 when the first wave of this baby-boom generation begins to retire. And the President's plan does not even make it to that year. The President's savings only work to about the year 2007. Then you would have to start all over. The Republican alternative is better but it staves off bankruptcy only until about the year 2012. So clearly, before this baby-bulge meltdown occurs we have to have longer-range reform.

Regardless of the reimbursement to provider reductions or product competition structural reforms something more will have to be done because there just are not enough workers that will support the growing number of retirees.

To put it in perspective, Mr. President, in 1964 there were 3.5 workers for every beneficiary. And the total has grown to 37 million beneficiaries. The Medicare trustees estimate that by the year 2030 when the last baby boomer turns 65 there will be only 2.2 workers per beneficiary. So the current system which functions on a transfer-payments basis made directly from worker to beneficiary is clearly unsustainable. That 2.2 workers cannot possibly pay all of the expenses to run the Federal Government, all of the retirement benefits for Social Security and in addition to that support this growing group of seniors for their health care needs.

It is time to investigate whether an investment-based health care system may be part of the solution to this approaching meltdown. This is the subject that Senator GRAMM was talking about a few minutes ago. His investigation is into several proposals that would ensure the long-term solvency of the Medicare Program.

And one of those proposals would allow workers to create their own medical IRA, an individual retirement account, for medical purposes by redirecting some or all of their payroll tax—it is now 2.9 percent—into a savings account for medical purposes. His idea is that each employee's account would grow over his or her working life and would pay for health care after retirement.

A series of studies have been done here at Texas A&M. And economists there in studying this have reached some interesting conclusions. For example, assuming a real rate of return of 3 percent—a very low rate of return

on investment—a 22-year-old person could direct 1.3 percent rather than the current 2.9 percent of their payroll tax into a medical IRA, and at age 65 this person could purchase a policy that would provide roughly the same coverage that Medicare provides today. So you could put much less money that you are earning into this payroll tax and still come out the same place when you retire.

If the real rate of return were the Standard & Poor's average over the last 70 years of 6.5 percent, a 22-year-old would have to invest only 0.4 percent of his or her wages to achieve the same result. So you can see that a real investment in an IRA-type investment by people would provide the same benefit at far less cost if the rate of return were even no better than the average that has existed over the last 70 years.

Obviously, this kind of proposal would have to address some transition costs, the costs of converting from the current system to an investment-based system as well as Medicare's unfunded liability which is estimated today to be \$565 billion. Without reform, this amount is projected to reach \$3.9 trillion in 10 years, and in 20 years \$6 trillion.

Clearly, we cannot allow this system to continue. We are going to go bankrupt taking care of our Medicare population if we do not invoke fundamental reform.

So the Congress and the President, both, must heed the trustees' warning, work together to protect current beneficiaries, while also working to provide a secure retirement for today's workers who are going to need something better than the Medicare system that is in existence today. We are going to need some kind of innovative program, such as that suggested by Senator GRAMM, to enable them to invest a small amount today, which over time will grow to an amount that will take care of them in their retirement years.

Increased Medicare product competition and medical IRA's funded by investing the payroll tax represent two of the many potential components of reform. We need to develop a consensus on these reforms on how to protect the current beneficiaries and the new group of baby boomers. If we begin doing it today, by the time the problem is really upon us, we may have a system in place that will provide this protection. If all we do today is support another short-range solution, we are going to find ourselves in true bankruptcy by the time the baby-boom generation retires.

I commend the efforts of Senator GRAMM of Texas in bringing this to our attention, in bringing innovative solutions to the floor. I hope my colleagues and I will be able over the next several weeks to put this into legislative form so in the long run we will have solved the problem, and future generations here will not have to worry about it the way we have to struggle with it today.

Mr. ROTH. Mr. President, yesterday, the Medicare and Social Security trustees released their annual reports on the actuarial status of both trust funds—a report which is actually due on April 1 of each year. The board of trustees has six members: the Secretaries of Treasury and Labor; the Commissioner of Social Security, and two public trustees appointed by the President.

As expected, there are no surprises in yesterday's reports, and there is no good news.

As most Americans know by now, the Medicare hospital insurance [HI] trust fund is close to bankruptcy. In fact, the trustees' report confirms that the expected bankruptcy date remains just 4 years away—in 2001. The problem is pretty basic—more money is flowing out of the HI trust fund than is flowing in. Trust fund assets are quickly being depleted. In 2001, they're gone.

Although most attention is focused on the impending bankruptcy of the HI trust fund, the trustees report that the supplemental medical insurance [SMI] trust fund (Medicare part B) is also a serious problem. SMI spending is a blank check on the Treasury. Over the past 5 years, SMI spending has grown 14 percent faster than the economy. Without savings in part B, we cannot say we have affectively tackled the problem of fixing Medicare. In the words of the public trustees, part B growth is unsustainable over time.

In bringing about a lasting solution that will protect and preserve the Medicare Program, all the Medicare stakeholders will have a role to play—hospitals, doctors, nursing homes, beneficiaries, and others. The public trustees appointed to represent the public expressed this challenge. They stated that, "Medicare cannot stay exactly as it is and it is misleading to think that any part of the program—beneficiary premiums, providers payments, controls on utilization, covered service or revenues—can be exempt from change."

I agree with the trustees' recommendation that a bipartisan advisory group should be put together to craft a long-term solution to Medicare's fiscal crisis. In fact, in February, with Senator PAT MOYNIHAN, I introduced a bill to address Medicare long-term challenges by establishing a national bipartisan commission on the future of Medicare. This Medicare commission would serve as an essential catalyst to congressional action, consolidating bipartisan support, and ultimately lead to a solution that will preserve and protect the Medicare Program for current beneficiaries, their children, and grandchildren.

Although the financial plight of the Medicare Program is urgent, we must also be mindful of the longer term—but no less serious—problems of Social Security. Beginning about 2012, payroll taxes will no longer cover benefits. We must surely act sooner than later if we are to avoid a crisis in Social Security.

We need to assure the trust in the trust funds remains, not just for today's beneficiaries, but also for tomorrow's. We must ensure that Medicare and Social Security will be there for our children and grandchildren.

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

The PRESIDING OFFICER. The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

(Mr. KYL assumed the chair.)

Mr. THOMAS. 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. THOMAS. Mr. President, I want to thank my colleagues for coming this morning to talk about Medicare. I want to take a couple of minutes to sum up and make some comments with respect to my views on Medicare.

First of all, I cannot think of a more important issue to deal with, one that is more difficult to deal with, one that has been put off politically because of the difficulty of dealing with it. But certainly the time has come to which we have to face up to doing it. I think it is likely that we will.

Over the last several years, particularly in the last election, it was used as an election issue. The President and the administration generally said those Republicans simply want to do away with Medicare, want to cut it. That is not the point at all. I think most everyone knew at the time that was not the point at all. Some very unfactual things were said. Now most anyone who has paid any attention at all to the system, to the status, has to say, "Look, we have to make some changes. If we do not make changes we will not have the results we need." And the results we have seen are an increasing challenge to the validity of the program, and the fact that the program will not last over another 4 years.

So the report of the trustees is there—trustees appointed, most of them, by the President—who have laid out the facts, who have said the good news is that it still will expire in 2001, the same year it was said to expire last year. The bad news is that it is no better than it was and we are 1 year closer to it. That report is there. It is projected that the program will go broke in 4 years. This confirms what we have known over a period of time. Now the time has come to do something. We ought to take advantage of this opportunity. We can make some changes. I think both the Senator from Arizona and the Senator from Texas indicated we have a difficult issue, but we can make some changes. The longer we wait, the more difficult it will be to rectify the problem.

We have already begun to move into the area of giving some choice to seniors. I think that is a great idea. If we are going to have choice of managed care, for example, which has brought down the costs in many cases, we have

to do something about the payments that are made currently. The payments for Medicare, HMO's in some counties in New York are \$750 a month. Those same payments in Wyoming, and in North and South Dakota are \$220. We do not have the opportunity in our States to use managed care. Furthermore, those high payments have allowed the benefits in this New York county to be greater than the benefits in Wyoming for a program that has all been financed by the same payments from everyone—2.9 percent. That is unfair. We need to change it. There are aging and disabled persons who depend on it. We need to do something. We need to give some flexibility. We need to be able to use some managed care plans.

We also need to take a long look at fraud and abuse. We had some hearings a couple of years ago, and I am sure things have not changed, where nearly 10 percent of this enormous fund was lost in fraud and abuse. We can do something about that.

Mr. President, I simply again want to thank my friends for coming here. I think we have to focus on this program. The sooner we find some solutions, the less severe any changes will have to be. We can, indeed, do that.

I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The assistant legislative clerk proceeded to call.

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

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

THE CHEMICAL WEAPONS CONVENTION

Mr. KYL. Mr. President, I ask unanimous consent to have printed in the RECORD various op-ed pieces that relate to yesterday's debate on the Chemical Weapons Convention.

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

[From the New York Times, Apr. 22, 1997]

ON MY MIND—MATTER OF CHARACTER

(By A.M. Rosenthal)

For collectors' of flips, flops, mistakes and outrages in the conduct of American foreign policy, last week was a treasure trove, pure heaven. For the national interest it was a pure mess.

Three times the Clinton Administration floundered or double-talked itself into loss of credibility—and on three of the more important international issues facing the country: the treaty on banning chemical weapons, the struggle against state-sponsored terrorism and the war on drugs.

The most immediate issue is the treaty prohibiting production, storage and use of chemical weapons.

This should have been a breeze. Americans could normally be counted on to support international outlawing of chemical weapons, which the U.S. has already forsworn. But a lack of candor at home and of political courage with our allies has made it a tossup as to whether it will pass when it comes up for a Senate vote on Thursday.